

Retail Equity Research

Tube Investments of India Ltd.

Auto Ancillary

Sell

BSE CODE : 540762

NSE CODE: TIINDIA

BLOOMBERG CODE: TIINDIA: IN

SENSEX : 64,934

12 Months Investment Period

Rating as per Large Cap

CMP Rs 3,167 TARGET Rs 2,855 RETURN -10% ↓
(Closing: 13-11-2023)

KEY CHANGES:

TARGET ↓

RATING ↓

EARNINGS ↓

Slow ramp in the electric vehicle business

Tube Investment of India Ltd. (TII) is a flagship company of the Murugappa group. It is one of the leading product manufacturers for major industries such as Automotive, Railway, Construction, Mining, etc.

- Q2FY24, consolidated revenue grew by 14.0% YoY, driven by Industrial, Metal Forming and Engineering segments. However, bicycle demand continue to witness negative growth.
- TII's margin contracted by 61bps YoY owing to deleveraging and increase in employee cost.
- Sales for e-3Ws have commenced with an annual capacity of 19,000 units. Sales started for 3-W at a moderate space and currently concentrating on the southern states. Whereas, E-tractor & E-trucks at its homologation stage.
- Foreseeing government infrastructure spending, TII is expanding its capex on large diameter tubes with an estimated value of Rs140cr and expects to generate a revenue of Rs400cr.
- We believe most of the positivity's have been factored in the price and expect consolidation in the valuation for near term. We value TII on 43x FY25E EPS recommend sell rating at CMP.

Revenue supported by superior product mix.

In Q2FY24, consolidated revenue grew by 14% YoY, driven by the Power & Industrial, Metal Forming, and Engineering segments. However, commodity pass through and sluggish cycling division restricted the full benefit on a standalone. TII's margin contracted by 61bps YoY owing to high employee cost and operating leverage, while improved QoQ due to superior product mix and export. The company reiterated that due to the fag end and some inventory pile up, there was a little bit of de-stocking at the global level. However, at a broader level, export share in the engineering business (the larger pie) is currently 20% and likely to grow to 30% in 2 years. For industrial businesses, 40% comes from export, targeting an overall 30% share in the export business. PAT grew by 15%YoY

Long term growth strategy intact

TII's long term strategy to insulate itself from the cyclical nature of the auto sector through inorganic growth and entering more into engineering and industrial is benefiting the company. As of now, capacity utilization is at its optimum level. Foreseeing the infrastructure spend by the government, TII is expanding its standalone or T1 capex on large diameter tubes with an estimated value of Rs140cr and expects to generate a revenue of Rs400cr. The growth in industrial power, or T3 business, is consistently delivering strong double digit growth and holds 45% of the overall revenue pie. The company is well positioned to take advantage of CG Power's market leadership globally. To expand more on the T2 venture strategy with an objective of future GDP growth, the recent foray into the pharma business through the acquisition of Lotus Surgical and CMDO businesses will result in a more diversified business in the long run.

Delay in expansion from new products.

The technology and the prototype of Montra e-3Ws have already been approved. There was a delay in the launch due to new battery safety standards introduced by the government and supply side. While, having an order book of 1.5 months. Currently, TII is planning to launch in the southern states, where it has appointed 42 dealers, and planning to expand to 72 dealers by FY24. Secondly, the agreement with JB Auto for manufacturing the E-Truck segment is running as per schedule, and the initial homologation is expected by Q1FY25 with an annual capacity of 2,500 E-Trucks. Additionally, expansion in e-Tractors and E-3w -by 19,000 & 25,000, respectively.

Valuations

TII's has a diversified revenue stream with strong growth in the core sector, and industrial segments like railways & power through inorganic form continue to support long term revenue visibility. However, delay in the EV ramp up is not supporting the current valuation. We value TII on a long term avg. basis, with a P/E of 43x FY25E EPS, and recommend sell rating with a target price of Rs.2855 at CMP.

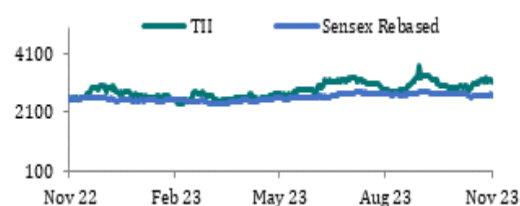
Company Data

Market Cap (Rs.cr)	60,690
Enterprise Value (Rs.cr)	60,440
Outstanding Shares (cr)	19.3
Free Float	53.9%
Dividend Yield	0.1%
52 week high Rs.	3,737
52 week low Rs.	2,375
6m average volume (cr)	0.02
Beta	1.00
Face value (Rs.)	1

Shareholding (%)	Q4FY23	Q1FY24	Q2FY24
Promoters	46.4	46.1	46.1
FII's	28.8	29.4	30.3
MFs/Insti	10.8	12.3	11.5
Public	14.2	12.2	12.0
Total	100.0	100.0	100.0
Promotor pledge	0.1	0.1	0.1

Price Performance	3 Month	6 Month	1 Year
Absolute Return	9.4%	15.9%	22.0%
Absolute Sensex	-0.6%	5.6%	5.2%
Relative Return*	10.0%	10.4%	16.8%

*over or under performance to benchmark index



Consolidated (cr)	FY23A	FY24E	FY25E
Sales	15,126	16,911	19,186
Growth (%)	20.7	11.8	13.5
EBITDA	1,837	2,165	2,628
EBITDA Margin (%)	12.1	12.8	13.7
Adj. PAT	866	1,054	1,281
Growth (%)	18.6	21.7	21.5
Adj. EPS	46.1	54.6	66.4
Growth (%)	18.6	18.4	21.5
P/E	61.8	52.2	43.0
P/B	13.9	11.2	9.0
EV/EBITDA	29.4	24.7	19.8
ROE (%)	24.7	23.8	23.2
D/E	0.2	0.1	0.1

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Research Analyst

Quarterly Financials (Consolidated)

Profit & Loss

Rs cr.	Q2FY24	Q2FY23	YoY Growth (%)	Q1FY24	QoQ Growth (%)
Sales	4306	3789	13.6	3898	10.5
EBITDA	562	518	8.5	467	20.4
EBITDA margins (%)	13.1	13.7	-62bps	12.0	108bps
Depreciation	118	94	26.4	109	8.3
EBIT	444	518	-14.3	467	-4.9
Interest	13	10	31.1	109	-88.0
Other Income	62	24	154.1	48	27.1
Exceptional Items	-3	-19	0.0	-6	0.0
PBT	490	417	17.4	389	25.8
Tax	149	140	-	105	41.0
Share of profit from associates	0	-4	0.0	0	0.0
Minority interest	78	63	0.0	69	0.0
Reported PAT	263	214	23.1	215	22.5
Adjustments	3	19	0.0	6	0.0
Adj PAT	266	232	14.5	221	20.2
No. of Shares	19	19	0.1	19	0.0
Adj EPS (Rs)	14.2	12.4	14.5	11.8	20.2

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change(%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	17,365	20,636	16,911	19,186	-2.62	-7.03
EBITDA	2,257	2,738	2,165	2,628	-4.09	-4.00
Margins (%)	13.0	13.3	12.8	13.7	-20bps	43bps
Adj. PAT	1,055	1,439	1,054	1,281	-0.11	-11.00
EPS	54.7	74.6	54.6	66.4	-0.16	-11.02

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E
Revenue	4,752	6,088	12,534	15,126	16,911	19,186
% change	-17.7	28.1	105.9	20.7	11.8	13.5
EBITDA	558	599	1,436	1,837	2,165	2,628
% change	11.8	9.8	11.5	12.1	12.8	13.7
Depreciation	185	251	349	396	443	453
EBIT	373	348	1,087	1,441	1,721	2,175
Interest	30	46	58	42	54	64
Other Income	45	61	94	115	237	192
PBT	409	418	1,161	1,767	1,899	2,308
% change	4.9	2.2	177.9	52.2	7.4	21.5
Tax	95	113	167	423	560	681
Tax Rate (%)	23.3	27.1	14.4	23.9	29.5	29.5
Reported PAT(Post MI)	313	305	769	1,119	1,049	1,286
Adj*	20.5	54.7	38.6	253.5	-5.0	5.0
Adj PAT	293	250	730	866	1,054	1,281
% change	19.7	-14.6	192.1	18.6	21.7	21.5
No. of shares (cr)	19	19	19	19	19	19
Adj EPS (Rs.)	15.6	13.3	38.9	46.1	54.6	66.4
% change	20	-15	192	19	18	22
DPS (Rs.)	5.2	2.0	3.5	3.5	4.2	4.2
CEPS (Rs.)	25	26	56	65	78	90

* Not Comparable

CASH FLOW

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E
Net inc. + Depn.	478	501	1,079	1,262	1,492	1,739
Non-cash adj.	109	163	179	416	1049	1066
Other Adjustments	-119	-97	-111	-233	-560	-681
Changes in W.C	116	-316	-521	-343	-1111	-131
C.F. Operation	585	251	626	1,102	870	1,994
Capital exp.	-276	-367	-499	-922	-339	-1174
Change in inv.	0	0	0	0	11	5
Other invest.CF	30	287	419	51	0	0
C.F - Investment	-246	-80	-79	-871	-339	-1,174
Issue of equity	47	72	72	72	0	0
Issue/repay debt	-214	-753	-911	-515	-160	-164
Dividends paid	-106	-42	-72	-169	-81	-81
Other finance.CF	129	824	153	277	0	0
C.F - Finance	-273	29	-831	-407	-241	-246
Chg. in cash	66	200	-283	-176	290	574
Closing cash	49	617	573	954	1243	1818

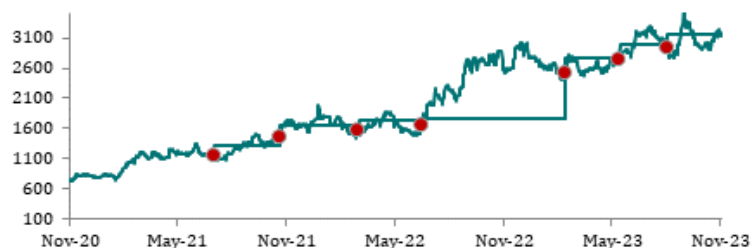
BALANCE SHEET

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E
Cash	49	617	573	954	1243	1818
Accounts Receivable	537	1428	1958	2254	2085	2365
Inventories	559	1106	1327	1353	1801	2059
Other Cur. Assets	91	722	554	649	695	578
Investments	198	381	554	741	927	1577
Gross Fixed Assets	1962	3271	3488	3620	4087	4550
Net Fixed Assets	1183	2262	2245	2252	2276	2285
CWIP	58	152	128	191	180	175
Intangible Assets	320	1152	1068	1360	961	971
Def. Tax (Net)	31	496	514	335	185	210
Other Assets	102	513	141	289	386	442
Total Assets	3,127	8,829	9,061	10,378	10,739	12,481
Current Liabilities	969	4709	4509	4213	3450	3738
Provisions	1	28	31	46	23	26
Debt Funds	312	1384	773	726	626	526
Other Liabilities	111	396	677	1042	1322	1668
Equity Capital	19	19	19	19	19	19
Reserves & Surplus	1715	2293	3052	3931	4899	6103
Shareholder's Fund	1734	2312	3071	4351	5318	6522
Total Liabilities	3,127	8,829	9,061	10,378	10,739	12,481
BVPS (Rs.)	92	95	138	177	249	311

RATIOS

Y.E March	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E
Profitab. & Return						
EBITDA margin (%)	11.8	9.8	11.5	12.1	12.8	13.7
EBIT margin (%)	7.9	5.7	8.7	9.5	10.2	11.3
Net profit mgn.(%)	6.2	4.1	5.8	5.7	6.2	6.7
ROE (%)	18.2	12.4	27.1	24.7	23.8	23.2
ROCE (%)	11.7	6.7	16.4	15.4	14.2	14.6
W.C & Liquidity	0.0	0.0	0.0	0.0	0.0	0.0
Receivables (days)	47.1	58.9	49.3	50.8	46.8	42.3
Inventory (days)	52.7	49.9	35.4	32.3	34.0	36.7
Payables (days)	107.7	141.3	98.9	85.1	78.9	71.9
Current ratio (x)	1.1	0.8	1.0	1.2	1.6	1.9
Quick ratio (x)	0.5	0.4	0.5	0.7	0.8	1.0
Turnover & Leverage	0	0	0	0	0	0
Gross asset T.O (x)	2.6	2.3	3.7	4.3	4.4	4.4
Total asset T.O (x)	1.5	1.0	1.4	1.6	1.6	1.7
Int. coverage ratio (x)	12.3	7.6	18.6	33.9	31.6	33.9
Adj. debt/equity (x)	0.2	0.9	0.3	0.2	0.1	0.1
Valuation	0.0	0.0	0.0	0.0	0.0	0.0
EV/Sales (x)	11.6	9.2	4.4	3.6	3.2	2.7
EV/EBITDA (x)	98.8	93.4	38.1	29.4	24.7	19.8
P/E (x)	182.8	214.1	73.3	61.8	52.2	43.0
P/BV (x)	30.9	23.8	17.9	13.9	11.2	9.0

Recommendation Summary (Last 3 years)



Dates	Rating	Target
02.11.2021	Buy	1,660
14.03.2022	Accumulate	1,746
27.06.2022	Accumulate	1,768
24.02.2023	Buy	2,768
26.05.2023	Hold	2,983
14.08.2023	Hold	3,127
15.11.2024	Sell	2,855

Source: Bloomberg, Geojit Research.

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral	-	-	-

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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