



ALPHA

09 JAN 2023

Tube Investments of India Ltd. – Murugappa Group

Market Data	
CMP	Rs. 2722
Date	09-Jan-23
Target Price	Rs. 3230
Upside Potential	19.00%
52 Week High/Low	3046/1442
Market Cap	Large Cap
NSE Code	TIINDIA
Sector	Auto Components & Equipments
Rating	Buy

Tube Investments of India Ltd (TIINDIA) is a flagship Company of the renowned Murugappa Group, India's leading business conglomerate. Established in 1900, with its Headquarters in Chennai, the Group has 29 businesses, with ten listed companies traded in NSE & BSE. TIINDIA is one of India's leading manufacturers of a wide range of precision engineered and metal formed products for major industries such as Automotive, Railway, Construction, Mining, Agriculture, etc. The Company is also a leading manufacturer of bicycles in India, with a range of iconic brands and a strong market presence. The acquisition of CG Power and Industrial Solutions Limited, a major manufacturer of Motors, Transformers, Switch Gears and Railway parts, marked a major step-up for the Company, amplifying its scale and scope of operations.



Products & Services: The company is well diversified with various products.

Engineering – This segment caters 70% to Auto segment and 30% to non-Auto segment. The products consist of Tubular Components, CRSS precision tubes, etc.

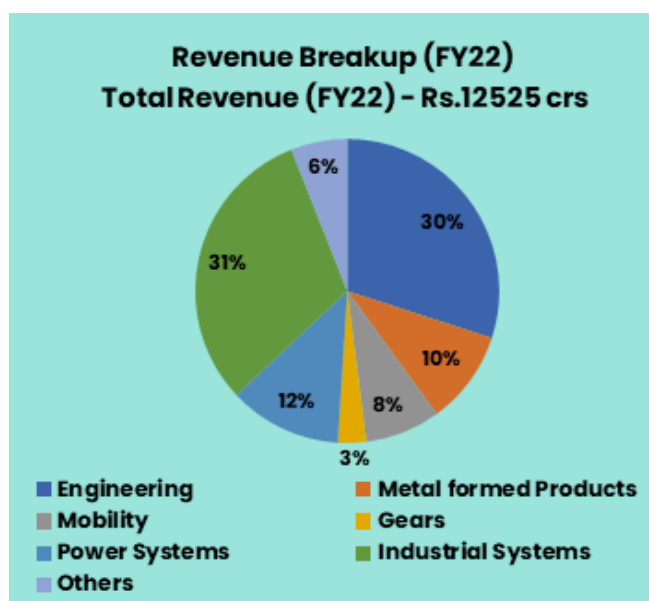
Metal Formed – This segment caters to Autos, Non-Autos and Railways. The products are Fine Blanked parts, Roll Formed parts, Auto chains, Agri segments, etc.

Mobility – The Mobility business currently consists of just cycles. Strong brands like BS, Hercules, Ladybird, Montra in domestic market manages forefront across channels while it sells international brands like Bianchi, Schwinn, Cannondale, Ridley, GT and Mongoose through its exclusive retails.

Others – The company caters to new businesses like EV (EV autos, trucks), Power systems, Gears through its subsidiaries.

SHP	Sep - 22 (%)	Jun - 22 (%)	Change
Promoters	46.45	46.45	0.00
FPI	26.30	25.90	0.40
DII	14.08	14.70	-0.62
Public & Others	13.18	12.95	0.23
Pledged	0.11	0.11	0.00

Subsidiaries: The Company has 6 subsidiaries, 1 joint venture company, 1 Associate company and 22 step down subsidiaries as on Mar'22.





Key Rationale

- **Diversified Revenue Streams** – TIINDIA has a strong presence in the bicycle manufacturing (8% of consolidated revenue in fiscal 2022), engineering (30%) and metal forming (10%) businesses. Besides CG Power (44% of revenues) and gear and gear products (3%) have also helped revenue grow besides adding diversity to revenues. The company is among the top-three players in most of the business segments it operates in. For instance, Shanti Gears Ltd. enjoys a leadership position in the special gears and gearboxes segment. With the acquisition of CG Power, TIINDIA has also emerged as the market leader in the switchgear segment.
- **Q2FY23** – Revenue in Q2FY23 was at Rs.3789 crs (16% YoY) compared with Rs.3263 crs of same period previous year. EBITDA Margin has improved from 12% in Q2FY22 to 14% in Q2FY23. The engineering division, Metal formed products, Mobility, Gears, power systems, Industrial systems and others registered a YoY growth of 16%, 13%, -14%, 51%, 32%, 11% and 41% respectively in Q2FY23. The Profit After Tax (PAT) has risen 19% YoY from Rs.232 crs in Q2FY22 to Rs.277 crs in Q2FY23. The quarter also witnessed the commercial launch of the electric three-wheeler in September 2022.
- **EV Segment** – TIINDIA has made a few acquisitions and investments in fiscal 2022 in new businesses. The company forayed into 3 wheeler Electric Vehicle (EV) space through a 100% subsidiary, TI Clean Mobility Pvt Ltd (TCMPL). The company also acquired majority stakes in Cellestial E- Mobility Pvt Ltd and IPLTech Electric Pvt Ltd through TCMPL. Cellestial is in the business of manufacturing electric tractors, while IPLTech manufactures electric heavy commercial vehicles. TIINDIA have also launched their electric 3 wheelers in the market. Besides, the company has also taken stakes in Moshine Electronics Pvt Ltd and Aerostrovilos Energy Pvt Ltd.
- **Financial Performance** – The company has a strong balance sheet with a low debt/equity ratio of 0.25x and a huge cash and cash equivalents of Rs.1500 crs as on Sep'22. The company's Revenue and PAT CAGR stands at 23% and 37% between FY18-22. The company generated an overall free cash flow of ~Rs.1100 crs for the period of 3 years from FY20-FY22. EBITDA Margin for company is hovering around 11-12% and the for the first time the company achieved a consolidated EBITDA Margin of 14% in the Q2FY23.

Margins - FY22

Gross	34%
EBITDA	12%
PAT	8%

**Ratios - FY22**

ROE	32%
ROCE	28%
Div. Yield	0.13%
PE Ratio	68.00
Face Value	1.00
EPS	Rs. 39.85

Industry Analysis

India's Auto components industry is important in driving macroeconomic growth and employment. The Auto components industry accounted for 2.3% of India's GDP and provided direct employment to 1.5 million people. By 2026, the automobile component sector will contribute 5-7% of India's GDP. The automobile component industry turnover stood at Rs. 4.20 lakh crore (US\$ 56.5 billion) between April 2021-March 2022. The industry had revenue growth of 23% as compared to FY20-21. In FY22, exports of auto components went up 43% to Rs. 1.41 lakh crore (US\$ 19 billion). As per the Automobile Component Manufacturers Association (ACMA) forecast, auto component exports from India are expected to reach US\$ 30 billion by 2026. The auto component industry is projected to record US\$ 200 billion in revenue by 2026.

Growth Drivers

The Government of India encourages foreign investment in the auto components sector and has allowed 100% foreign direct investment (FDI) under the automatic route.

The Production Linked Incentive (PLI) Scheme for Automobile and Auto Component successful in attracting proposed investment of ₹74,850 crore against the target estimate of investment ₹42,500 crore over a period of five years.

The Foreign Direct Investment (FDI) inflow into the Indian automotive industry between April 2000-March 2022 stood at US\$ 32.84 billion as per the data released by the Department for Promotion of Industry and Internal Trade (DPIIT).



Peer Analysis

Competitors: Uno Minda Ltd, Samvardhana Motherson International Ltd, etc.

There are no close peers, as the company plays in multiple segments. Since the major part of the TIINDIA products serves to auto sector, we can take few big Auto component players like Samvardhana Motherson and UNO Minda for comparison.

Company	CMP	Mcap.	ROE	ROCE	P/E	EPS
TI INDIA	2722	52536	32.00%	28.00%	68	39.85
Samvarthana Motherson	77	52145	6.00%	8.00%	60	1.29
Uno Minda	534	30609	12.00%	14.00%	86	6.23

Outlook

The TIINDIA's way of growth has three components: TI-1 (existing businesses), TI-2 (a venture capital style model) and TI-3 (a private equity style model based on acquisitions). The underlying philosophy is to invest cashflows of the existing businesses (TI-1), which does not need much capital for growth, to: a) seed several new platforms for long-term growth (under TI-2; e-3Ws, e-tractors, Optic lens, TMT bars and Truck body building), and b) acquire stressed assets (under TI-3; acquired CG Power in Nov'20). According to the management, the existing business profits would clock 8-10% CAGR in the long term, driven by 6-9% revenue CAGR and supplemented by margin expansion. The key drivers of strong revenue growth in core businesses would be a) ramp-up in exports in all the three businesses, b) large diameter tubes in Engineering, and c) fine blanking & Railways in Metal Formed. Under TI-2, company plans to invest at least Rs.200 crs p.a. to seed new businesses that will lay down the foundation of the future growth.



Valuation

TIINDIA offers a robust growth story driven by: a) reasonable growth in the core business and b) leveraging strong cashflows of the core business (TI-1) to systematically incubate future growth platforms (TI-2) and opportunistic acquisition of stressed assets (TI-3) at attractive prices. Hence, we recommend a BUY rating in the stock with the target price (TP) of Rs.3230, 50x FY24E EPS.

Risks

- **Cyclical Risk** – Company's operations are closely linked to automotive cycle as well as capex cycle. Any sharp slowdown impacts business volumes as well as operating leverage, which in turn impacting profitability margins as well. The slowdown in automobile sector and capex cycle restricted the company's growth in fiscals 2020 and 2021.
- **Execution Risk** – The TI-2 growth strategy (VC model) of incubating new businesses beyond existing area of expertise calls for seamless execution along with desired evolution of the underlying industry (e.g., electrification in 3Ws, tractors etc.).
- **Acquisition Risk** – The TI-3 strategy is dependent on getting stressed assets in either existing businesses or new areas. This strategy would need: a) obtaining stressed assets at reasonable price and b) capabilities to turnaround such assets, like it did for CG Power. Any wrong acquisition will be a key risk.

Source – Tickertape, Company's Website, BSE Website.

Thanks & Regards

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