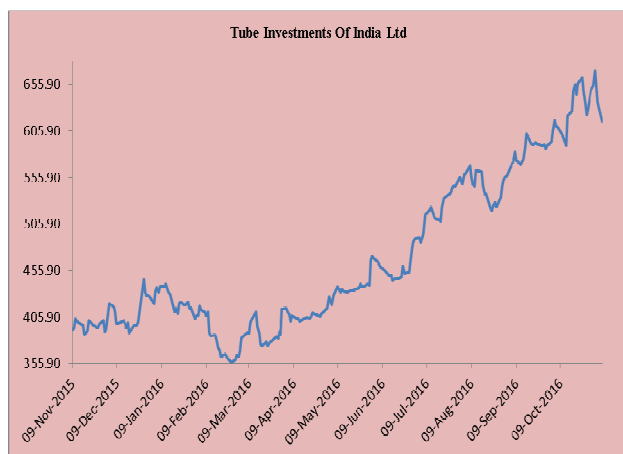


Tube Investments of India Ltd.(TIIL)	
INDUSTRY	Cycles
No. of Shares (Cr.)	18.74
Face value (Rs)	2.00
Mkt. Cap (Rs. Crore)	10857.63
Price (30/11/2016)	579.35
Book Value (Rs) (Cons.)	177.38
P/BV	3.27
BSE Code	504973
NSE Code	TUBEINVEST
Bloomberg	TI IN
Reuters	TUBE.BO
Avg. Weekly Volume	42813
52 W H/L (Rs)	685.00/352.00
<b>Shareholding Pattern</b>	
	<b>%</b>
Promoters	49.93
DIIs	13.37
FIIIs	13.73
Body Corporate	4.29
Total Public	18.68
<b>Total</b>	<b>100.00</b>
<b>( As on September 30, 2016)</b>	
<b>Recommendation</b>	
BUY	



## Company Background

**Tube Investments of India Limited (TIIL)** is engaged in manufacturing of bicycles, fitness equipment, electric scooters in the cycle segment; tubes, strips and tubular components in the engineering segment; car doorframes & channels, automotive and industrial gears in the metal formed products segment. TIIL offers two well established brands of bicycles- 'BSA' & 'Hercules' and indigenously developed Montra. The company has 25 manufacturing plants throughout India.

## Investment Rationale

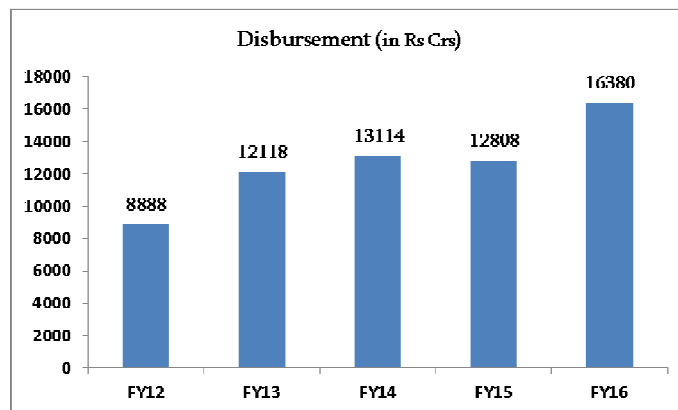
- TIIL also has a presence in financial services through its two subsidiaries – Cholamandalam Investments & Finance which is into financial services focused in the rural and semi-urban area with a market capitalization of Rs. 15158 crores and Cholamandalam MS General Insurance Co Ltd (CMSGICL) where its holding stands reduced to 60% after selling 16% stake to its joint venture partner Mitsui Sumitomo Insurance Co Ltd (Japan) for Rs. 882.67 crores in FY16.
- The company has reduced its debt from Rs.1421. crores in FY15 to Rs.1374 crores in FY16 by focused cost management and fiscal prudence.
- TIIL holds strong brand in industrial gears through its subsidiary Shanthi Gears which was acquired in FY12. TIIL holds 70.12% stake in the company. The company holds strong order book and is planning to foray into areas like defence and infrastructure related gearing systems.
- TIIL has multi local servicing for cycles with more than 10000 touch points across India. It is the second largest cycle manufacturer (~34% market share). This segment accounted for 39% of total sales in FY16.
- A new manufacturing unit for cycles has been established in Rajpura, Punjab at a capex of Rs.105 crs & capacity of 2.5 lakh bicycles per month. It will cater to the markets of northern and eastern India. This segment recorded a CAGR growth of ~11% over FY14-FY16.
- The metal formed business had exhibited growth above 20% for the first two quarters in FY17. Growth in the share of the Railways in the transportation of goods will lead to increased demand for wagons and passenger coaches thereby benefiting the company which is the preferred supplier for wagon sets.
- TIIL being dominant in each of its segments and having long standing relationship with all the major automobile players stand to benefit from the ever increase in demand for its products. Changing concept of bicycles and increasing acceptance of electric scooters augurs well for the company. We have valued the company using SOTP method based on the valuation of its core business at Rs 194 (15x FY18e EPS) and 46.26% stake in Cholamandalam Investment and Finance at Rs. 262, 70.12% of stake in Shanthi gears @ Rs.25 and 60% stake in Cholamandalam MS General Insurance @ 239 per share and arrived at a target price of Rs 719, implying a potential upside of 24% from current levels over a period of 12 months. We therefore recommend a BUY on Tube Investments of India.

Particulars (in Rs.Crs)^	H1FY17	H1FY16	Variance (%)	FY13	FY14	FY15	FY16	FY17e	FY18e
Net Sales(Includes OOI*)	2054.10	1966.67	4.45	3565.54	3525.57	3827.77	3940.97	4256.25	4681.87
Operating Profit (Excl OI)	204.37	177.17	15.35	300.49	302.48	321.00	351.94	421.37	479.89
Net Profit	96.20	43.23	122.53	103.96	94.07	120.86	729.89*	203.43	241.70
Operating margin (%)	9.95	9.01	10.44	8.43	8.58	8.39	8.93	9.90	10.25
Net Profit Margin (%)	4.68	2.20	113.06	2.92	2.67	3.16	18.52	4.78	5.16
EPS (Rs)	5.13	2.31	122.08	5.57	5.03	6.46	38.96	10.86	12.90

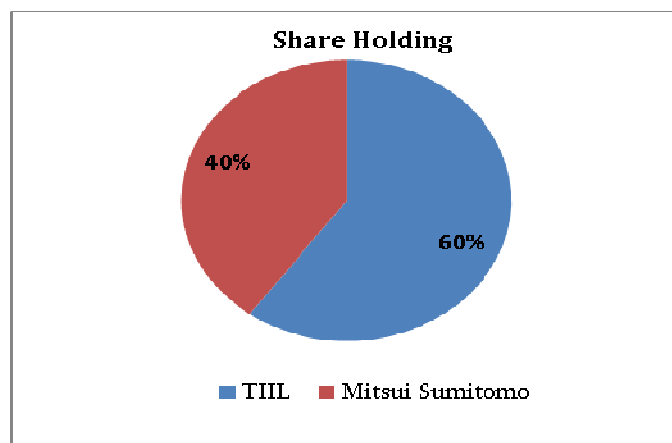
\*Net profit includes exceptional gain from sale of investments, ^ above data are standalone numbers.

## Business Review Associate & Joint Ventures

**Cholamandalam Investment and Finance Company Ltd** (CIFCL), established in 1978, one of India’s leading NBFC’s focused in the rural and semi urban sector with market cap of (15158 crores , as on 30 Nov 2016). The company’s operation is spread across vehicle finance, business finance, home equity loans, stock broking and distribution of financial products. The company operates from 534 branches across 25 states and 90% of branches are located in Tier II, Tier III and Tier IV towns. The company has AUM of Rs.33700 crores with Net NPA of 2.1% and healthy ROA of 3.8%. Disbursement of CIFCL increased to Rs 16380 crores in FY16 from Rs.12808 crores in FY15.



**Cholamandalam MS General Insurance** is one the fastest growing general insurance companies in India and ranks 7th among the private general insurance company in India. The company is in joint venture with M/s Mitsui Sumitomo Insurance Company Ltd., Japan (MS) which held 40% stake. The product portfolio comprises of accident, engineering, health, liability, marine motor, property, travel and rural insurance for individuals, SMEs and corporates. The Gross Written Premium (GWP) registered a growth of 30% to Rs. 2466 crores in FY16. (Previous Year Rs.1896 crores). The company has high rural penetration through 105 branches and over 9000 agents.



Rs Crores	YTD June 16	FY15-16
GWP	652	2466
PAT	49	148

## Demerger Details

The Board of TIIL approved the demerger of manufacturing business into TI Financial Holdings Ltd (TIFHL), whereby each shareholder of TIIL will receive one share of the manufacturing business for every share held in TIIL. The current TIIL will carry on financial services business which is Cholamandalam Investment and Finance Company Ltd and Cholamandalam MS General Insurance. Manufacturing business would be carried on under TIFHL which will comprise of business of manufacturing tubes, strips, tubular components, bicycles, industrial gears etc. and 70% stake in Shanti Gears.

<b>Tube Investments of India Ltd. (Figures in Rs. Crs)</b>						
<b>Description</b>	<b>Q2FY17</b>	<b>Q2FY16</b>	<b>YoY%</b>	<b>H1FY17</b>	<b>H1FY16</b>	<b>YoY%</b>
Net Sales	981.75	962.68	1.98	2054.10	1966.67	4.45
Total Expenditure	883.12	871.81	1.30	1849.73	1789.5	3.37
Operating Profit (Excl OI)	98.63	90.87	8.54	204.37	177.17	15.35
Other Income	18.41	8.99	104.78	28.71	11.02	160.53
EBIDTA	117.04	99.86	17.20	233.08	188.19	23.85
Interest	16.73	35.52	-52.90	41.26	70.15	-41.18
Extraordinary item	0.00	0.00	0.00	0.00	0.00	0.00
EBDT	100.31	64.34	55.91	191.82	118.04	62.50
Depreciation	29.40	27.19	8.13	57.29	53.85	6.39
Tax	17.11	11.93	43.42	38.33	20.96	82.87
Reported PAT	53.80	25.22	113.32	96.20	43.23	122.53
EPS (Rs)	2.87	1.35	112.59	5.13	2.31	122.08

<b>Standalone Income Statement (Figures in Rs. Crs)</b>				
<b>Y/E March</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>
Net Sales	3565.54	3525.57	3827.77	3940.97
Total Expenditure	3265.05	3223.09	3506.77	3589.03
Operating Profit (Excl OI)	300.49	302.48	321.00	351.94
Other Income	36.97	48.11	37.14	34.41
EBIDTA	337.46	350.59	358.14	386.35
Interest	106.67	125.19	139.98	136.95
EBDT	230.79	225.40	218.16	249.40
Depreciation	79.77	84.24	97.01	110.60
Extraordinary item	-3.81	0.06	34.00	784.98
Tax	43.25	47.15	34.29	193.89
Reported PAT	103.96	94.07	120.86	729.89
EPS (Rs)	5.57	5.03	6.46	38.96

Note:\* Extraordinary income from investment

<b>Unaudited Standalone Balance Sheet (Figures in Rs. Crs)</b>				
<b>Y/E March</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>
<b>SOURCES OF FUNDS</b>				
Share Capital	37.33	37.38	37.43	37.47
Reserves	1144.01	1201.46	1283.10	1901.81
<b>Total Shareholders' Funds</b>	<b>1181.34</b>	<b>1238.84</b>	<b>1320.53</b>	<b>1939.28</b>
<b><u>Non-Current Liabilities</u></b>				
Long-term borrowings	630.36	638.04	781.13	375.00
Other long-term liabilities	0.00	0.00	0.00	0.00
Long-term provision	0.00	0.00	0.00	0.00
<b>Total Non-current liabilities</b>	<b>1811.70</b>	<b>1876.88</b>	<b>2101.66</b>	<b>2314.28</b>
<b><u>Current Liabilities</u></b>				
Short-term borrowing	303.17	302.93	339.61	265.82
Trade payables	485.41	584.51	625.00	612.44
Other current liabilities	441.42	516.50	395.90	826.23
Short term provisions	43.93	42.15	44.46	117.62
<b>Total Current liabilities</b>	<b>1273.93</b>	<b>1446.09</b>	<b>1404.97</b>	<b>1822.11</b>
<b>Total Equity &amp; Liabilities</b>	<b>3085.63</b>	<b>3322.97</b>	<b>3506.63</b>	<b>4136.39</b>
<b><u>Non-current assets</u></b>				
Gross Block	1299.75	1433.19	1732.20	1795.36
Less: Accumulated Depreciation	668.14	738.91	827.95	926.71
Impairment of Assets				37.05
<b>Net Block</b>	<b>631.61</b>	<b>694.28</b>	<b>904.25</b>	<b>831.60</b>
Capital work in progress	159.73	197.06	36.39	56.06
Non Current Investments	1444.01	1505.69	1523.18	1461.29
Long Term Loans & Advances	78.69	65.00	61.45	51.92
Other Non Current Assets	0.00	0.00	0.00	0.00
<b>Total Non-Current Assets</b>	<b>2314.04</b>	<b>2462.03</b>	<b>2525.27</b>	<b>2400.87</b>
<b><u>Current Assets, Loans &amp; Advances</u></b>				
Current Investments	0.02	0.02	0.01	0.00
Inventory	356.77	370.21	468.23	458.31
Sundry Debtors	394.40	445.94	477.94	490.85
Cash and Bank	33.27	30.27	25.73	734.55
Loans and Advances	35.47	63.30	61.90	87.69
Other Current Assets	3.95	3.24	4.25	6.08
<b>Total Current Assets</b>	<b>823.88</b>	<b>912.98</b>	<b>1038.06</b>	<b>1777.48</b>
<b>Net Current Assets</b>	<b>-450.05</b>	<b>-533.11</b>	<b>-366.91</b>	<b>-44.63</b>
Deferred Tax Assets / Liabilities	-52.29	-52.04	-56.7	-41.96
<b>Total Assets</b>	<b>1811.70</b>	<b>1876.88</b>	<b>2101.66</b>	<b>2314.28</b>

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