

Conference Call Transcript

Titagarh Wagons

Q2FY19 Results

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Corporate Participants

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Group CFO

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Group Finance Controller

Group Finance Controller

GM - Strategy & Finance

Questions and Answers

Moderator: Good morning ladies and gentlemen, welcome to the Titagarh Wagons Limited Q2 FY2019 Results Conference Call hosted by Edelweiss Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Parvez Akhtar Qazi from Edelweiss Securities Limited. Thank you and over to you Sir!

Parvez Akhtar Qazi: Good morning friends. On behalf of Edelweiss Securities, I welcome you all to the Q2 FY2019 conference call of Titagarh Wagons. Today, we have with us from the management side Mr. Anil Agarwal, Group CFO of the Company, Mr. Saurav Singhania, Group Financial Controller and Mr. Vivek Goel - GM (Strategy & Finance). I would now hand over the call to the management for their opening remarks. Over to you Sir!

Anil Kumar Agarwal: Thank you Parvez. Good morning everyone. We are now out with the results for the quarter ended September and you might have noticed that there is a slight improvement in the overall performance of the company. The turnover of Titagarh on a standalone basis has increased to Rs.183 Crores as against Rs.131 Crores in the June quarter and around Rs.80 Crores in Q2 September quarter for the previous year, so this quarter we had profit of around Rs.7 Crores profit before tax as compared to Rs.3 Crores in June quarter and Rs.2 Crores in September 2017.

Overall the performance has improved, and as I mentioned in my last call also, things are looking better and quarter-to-quarter we can expect improvement in overall performance as well as the profitability of the company.

Cimmco, of course is still under pressure and in spite of increase in turnover from Rs.29 Crores to Rs.48 Crores, the losses were almost like Rs.7.5 Crores as compared to Rs.7 Crores in the June quarter. This is primarily because of very low execution and also the execution of non-remunerative wagons of Indian Railway. Cimmco got an order of around 1191 wagons from Indian Railway in December 2017 and in this 1191 there are five types of wagons, so while some of the wagons are remunerative, few wagons are not remunerative, so the entire profitability will depend on the product mix and which kind of a wagon we are executing.

Anyway for the Cimmco we have done some management restructuring and I am pleased to inform you that the Board of Directors of the parent company has shown faith on me and I have been appointed as the Managing Director and CEO of Cimmco last Saturday and I would now personally be looking after the operations of the Cimmco from today onwards, so half of my time would be

mainly for the Cimmco and half of the time would be going towards the Titagarh wagons financial activities.

We are trying our best to improve overall situation of the Cimmco. Order book is not a constraint for the Cimmco. Execution is a big challenge and that is primarily because of non-availability of the critical components, so we are trying our best to improve the overall situation of Cimmco and hopefully may be fourth quarter onwards things would be much better for Cimmco.

In terms of order book for standalone Titagarh is around Rs.900 Crores and for Cimmco it is around Rs.425 Crores and good thing is that most of the orders, we are not only dependent on the Indian Railways for the order, so substantial order is also from the private customers, so just to give you an idea as on date around 1300 wagons order is from private customer worth around Rs.361 Crores and similarly in the Cimmco we have around Rs.100 Crores orders from the private customers.

As you all might be aware that there was a tender for around 22000 wagons from the Indian Railways, so the reverse auction process is now complete and we hope that the decision on that particular tender should be taken in next month or so, so we expect that by December 15, 2018 Railway should finalize that tender and as we mentioned in the past that Titagarh and Cimmco jointly have a market share of roughly around 22- 23%, so we can expect a substantial order for the Indian Railway against this tender whenever it is getting finalized.

Another thing about the metro opportunity in India, we are pleased to inform you that we participated in the tender floated for the Mumbai Metro Project that was for 378 cars and good news is that we also got ourselves technically qualified and finally our price bid was also opened, so this is a big achievement because in a tender of such a large size if we are able to be technically qualified, so that give such enough confidence to be sure that whenever there is a metro tender in India, we would be able to get ourselves technically qualified. We expect that in next six months, there should be around 6 to 7 more metro tenders should be coming in, which includes the Pune metro, Bhopal, Indore and all that, so Pune tender is already out, which right now is due to on November 30, 2018 and we are aggressively pursuing that opportunity.

The other advantage which we got from the Italian Company, which we mentioned in our previous call also was the propulsion system, so today as on date we have an order book of almost Rs.70 Crores for the propulsion from various PSUs and the government undertakings of the Indian Railways and you might have noticed in today's newspaper in the ET about another tender for which we have requested for sometime and also in that the BHEL has complained about certain thing, but that is again is a big opportunity and that also we are aggressively pursuing, so this is a good business opportunity for us going forward, we have the annual recurring demand would be around Rs.2000 Crores, Rs.2500 Crores per annum and even if you expect a market share of 10% to 15% that gives you a reasonable turnover.

In terms of defence vertical you might be aware that we have successfully

launched two ships to the Indian Navy and one ship has already reached the final port of destination, which is Mumbai, which is a place called Karwar near Mumbai, so during this week the formal delivery of that particular ship to the Indian Navy would get completed and pleased to inform you that this delivery to the Indian Navy is ahead of time and also all other ships, which the company is producing are ahead of time and we are quite confident that we would be able to deliver the balance three ships also well ahead of time and we are also targeting few more opportunities in terms of the ship building, we have participated in few more tenders and we believe that this ship building vertical going forward would be able to contribute both in topline as well as bottomline.

In terms of the bridge business wherein we are manufacturing and supplying bailey bridges and also the Matiere Panel touch Bridges and Unibridge, as we mentioned in our previous calls that we have few orders from Government of Nepal, right now which we are executing and execution is going well, so the delivery has already started, in fact last month we delivered around five bridges to Nepal and hope to complete this order by December end or may be January mid and plus there is enough opportunity for Unibridges and Matiere Panel touch Bridges in India as well. This Unibridges is a replacement to the concrete flyover and there is enough opportunity, which the company is trying to tap.

In terms of this passenger coach, as of now we have order for the six trains, which includes three EMU and three MEMU, which was against an option quantity, so the execution of same has already started and hopefully by March we would be able to execute the entire quantity of six trains. As of now there are no further tenders by the Indian Railways, but discussions are on to float a very large tender and as and when these tenders are floated, so Titagarh because of its historical performance would be eligible to qualify and participate and try to get a maximum order out of that.

Cimmco like we mentioned last time that we got an order from Bharat Petroleum, which was around Rs.90 Crores, so the execution of same has already started and by September 2019, hopefully we would be able to complete that order. That is something about Indian operation.

In terms of the foreign operation the situations are not so good, but again the opportunity is huge. I will start with an Italian company, Italian company last year we incurred substantial losses because of the one time provision of the penalty and some provision towards onerous contract which we taken over at the time of acquisition and after our acquisition we got few orders, but most of these got executed, so right now we have an order book of around 100 to €110 million, which is supposed to be executed by June or September 2019, but the issue is that most of this order is non-remunerative and will not contribute significantly in the bottomline, so things are under bit of stress, but in terms of the opportunity today the company has participated in twotenders and each tender is worth almost like an €150 million to €200 million and I can say we are well placed in both these tenders and the decision on these tenders is expected by December end and if we get this order or may be one of that, so that will change the fortune of the company and will give us confidence and will have a

lot of opportunity to participate in few more big tenders like this.

For the French company, we have an order book of around €34 million, last year again we incurred substantial losses, but the good thing is that now we have been able to curtail down on the past, improved the productivity, reducing the procurement prices and everything so after taking lot of steps, now the company is more or less on track, but again because of the substantial damages done in the last year, so it is taking lot of time to be on the normal situation, so we believe that this year FY2019 should be of course substantially better as compared to the previous years, but the real situation for the French company we can expect in FY2020 wherein we can reasonably expect to do a topline of almost like €45 million with a normal EBIT of around 8% to 10%.

In terms of our debt position in Indian operation in Titagarh we have a debt of around Rs.51 Crores and in Cimmco we have a net debt of around Rs.123 Crores. This is all from my side and now I would be happy to take for the questions.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Dhruv Agarwal from Crescita Investments. Please go ahead.

Dhruv Agarwal: Good morning Sir. My question is that for Titagarh and Cimmco, you have combined annual capacity to produce 8400 wagons correct?

Anil Kumar Agarwal: Correct.

Dhruv Agarwal: What is the breakup between the two for Titagarh and Cimmco?

Anil Kumar Agarwal: Titagarh is 6000 and Cimmco is 2400.

Dhruv Agarwal: Okay and Sir in the last concall you were optimistic about the scenario that we will be able to do 4000 wagons production in this current year, so for the first half what has been the produced quantity for wagons?

Anil Kumar Agarwal: As I mentioned, the things have started improving, so if you see in June quarter, in Titagarh we produced around 264 wagons, in September quarter we produced around 445 wagons, so quarter-to-quarter if you see execution is increasing and hopefully this 4000 number we would be able to achieve by may be I would say first quarter of the next financial year and in terms of Cimmco also June quarter we did around 100 odd wagon and in September quarter we did around 180 wagons, so things are improving.

Dhruv Agarwal: Okay, this is the number for us and you expect a similar run rate or if the number should improve for the rest half of the year?

Anil Kumar Agarwal: Definitely it will improve, because we know whenever you get some orders generally it takes three to four months to organize all the materials, before that it was totally dormant because there was no order from the Indian Railway, so the first large order we bought from Indian Railway was in the month of December and that was end of December 2017 and after that the execution started from almost like mid of May or end of May, so now if this the new order of 22000 wagons gets finalized which I am expecting and hoping

to get finalized by mid of December, so there would be a continuity in production and that will help us and not only I would say help us and every wagon builders to improve their productivity.

Dhruv Agarwal: One last thing, last year I think Titagarh and Cimmco has won an order of 2338 wagons, so is that the same order you are talking about December 2017 order?

Anil Kumar Agarwal: Correct.

Dhruv Agarwal: Okay, so execution is going on well for that?

Anil Kumar Agarwal: That is exactly what I am saying that quarter-to-quarter if you compare, things are improving.

Dhruv Agarwal: Okay and Sir what is the deadline to produce all of these wagons to the Indian Railway?

Anil Kumar Agarwal: Contractually the deadline was December 31, but since in the initial part of the year there was lot of issues both from the Indian Railway side and from the supplier of the major component side, so I think the delivery period will get extended without any liquidated damages for may be two to three months.

Dhruv Agarwal: You want to have to pay any penalty on that as well right?

Anil Kumar Agarwal: I am expecting that because this delay was not attributable to us.

Dhruv Agarwal: Thank you so much. I will come back in the queue for further questions. Thank you.

Moderator: Thank you. The next question is from the line of Ritika Garg from Equitas Investments. Please go ahead.

Ritika Garg: I wanted to know about Rs.900 Crores order book of Titagarh Wagons, how much is executable in FY2019?

Anil Kumar Agarwal: Out of Rs.900 Crores, I would say around 50% is executable by FY2019. I would say 50% to 60%.

Ritika Garg: What are the EBITDA margins for our contracts with the Indian Railways?

Anil Kumar Agarwal: Again, even in the Indian Railways, as you know we are into the different product segments and we mentioned in the past also that we would be able to have an EBITDA of around 10% to 11% on a blended basis so may be on a particular quarter it might go down, but on a blended basis we should be able to maintain that and it completely depends on which kind of a product we are manufacturing in a particular quarter. So hopefully in the December quarter and also in the March quarter, the EBITDA should be better because of execution of the large quantity first thing and second thing because of the execution of some high margin orders.

Ritika Garg: Okay and could you give us the performance for the Italy and the French subsidiary for the first half?

Anil Kumar Agarwal: As I mentioned so things are not very good in France and Italy. This we mentioned in our previous calls also, so right now as far as the Italian company is concerned, the idea is to minimize the losses which is relating to the onerous contract which we acquired at the time of acquisition and also to focus on the order booking, so good thing is that as I mentioned in my speech that we have participated in two large tenders and the result of which is expected by December end plus we are also targeting to participate a few more tenders in the next coming months, so we are quite confident that by December or may be by March we should get a complete clarity about the inflow of the orders for the Italian company and that will give us a clear direction where this company is going forward. So as of now the idea is to curtail down the cost and to reduce the losses whatever best we can do. In terms of France, we have been able to take various steps and things are under control, but again because of the substantial damages, which happened last year, it is taking sometime and that is the reason I am saying FY2020 should be a year when the French operation would again go back to the normalcy.

Ritika Garg: Okay, so in H1 how much did Italy contribute to our losses?

Anil Kumar Agarwal: We are not publishing the consolidated results, so it would be very difficult for me to give you any idea, but just to give you a ballpark, I can say the overall losses should be more or less I would say may be 50% to 60% of the last year losses for the entire year, it would be around that number, but again that this is only a ballpark number, so we are working on that and as I said we have taken lot of steps in terms of the reducing the cost and everything, so by December end we would be able to give a clear picture about the Italian operation and right now my team is going to Italy to look after the entire thing in terms of the business plan and everything and by December we would be able to give you clarity.

Ritika Garg: So 50% to 60% of my last year H1 losses would be Italian operation losses right?

Anil Kumar Agarwal: I am not talking about H1. I am talking about the whole year.

Ritika Garg: In FY2019, 50% to 60% of full year's losses will be...?

Anil Kumar Agarwal: I am just giving a ballpark number, as I said the team is still working on the final numbers, so we will get a complete clarity by December end.

Ritika Garg: Okay and what are the margins for the private wagon?

Anil Kumar Agarwal: In India?

Ritika Garg: Yes.

Anil Kumar Agarwal: In India, the private wagon margins are better as compared to the Indian Railway, but again the issue with the private orders of that, all these orders are the fixed prices contract, so for some of the contracts, the margins are under pressure even for the private customer, but the new order whatever we have booked at is at good EBITDA margin.

Ritika Garg: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Thank you for the opportunity. I had three questions. One is once we ramp up post this 22000 wagon order and presumably next year onwards, you will start seeing repeat orders on the normal railway system and also on the DFC, so once the full ramp up happens for the company, two constraints that come to mind, our working capital and second is the supply chain. You mentioned that Cimcco is also struggling because of non availability of critical components and one of your largest competitors has also mentioned that that the supply chain is kind of disrupted especially on the SME and MSME side because of so many years of low activity levels, many of them have gone bankrupt, so what is our situation there in terms of supply chain? How are our ancillary units positioned to ramp up as we ramp up, because as you said the situation is improving in terms of activity levels every quarter, so your comments on that Sir? Similarly on the working capital side, what do you expect, how much will our balance sheet swell up its working capital requirements. Again I am pretty sure within a year's time we will be operating at levels that we have operated for sometime now. So how do you see things panning out and what will be terms of payments and my final question is there is quite a lot of news on the DFC now which is coming in and I believe part of the DFC is getting commissioned pretty soon. So when can we see orders specifically for DFC? Thank you Sir.

Anil Kumar Agarwal: Sure as we have rightly mentioned there is a substantial trace up on the working capital and also the supply chain issue, so first I would discuss about the working capital so right now at this point of time the working capital requirement is at peak, which is almost 20%-25% of my turnover so it is may very high but what we have is able to achieve in that, we have been able to negotiate with our supplier in terms of payment terms, like most of the suppliers of payment term is now 90 days, some are backed by LC, some are being credit and even in case of the LCs, the interest cost is very low, which is almost like 8% and 8.5% so that applies to all the major supplier like Steel Authority, Timken, Rail Wheel Factory and all that, going forward when we operate at our full capacity of 6000 for the Titagarh Wagons then definitely there will be a huge, huge requirement on the working capital, but good thing is that we have been able to take up the issues with our bankers and availability would not be a concern in my opinion, but definitely the additional cost would be a concern, but while making our cost estimate we have now started considering the impact of the additional financial cost in our costing.

Agastya Dave: Sir at the PBT level you are still comfortable, you are seeing good return ratios even after the current environment their liquidity is a concern and funding of working capital could be a problem so even in such a situation you are comfortable with the projected PBT margins that you are taking in your estimation and your bidding, right?

Anil Kumar Agarwal: First thing is that I am not foreseeing any liquidity

pressures as such because as I said that whatever additional working capital requirement is there we have been able to tie up with our working capital bankers and even in future whatever increase requirement is there we would be doing the same with the bankers. As far as the cost is concerned, as I mentioned the cost we have now started taking into our cost estimation while making out price bid to the Indian Railway or to their any other customers so I am quite hopeful that the additional interest cost because of the substantial working capital requirement will not substantially impact my bottomline.

Agastya Dave: Sir, okay and then the supply chain and DFC?

Anil Kumar Agarwal: In terms of the supply chain again, as we mentioned our competitor also are complaining of the same issue and we are also facing the same problem, but I think now the issue is that whoever has the cash available so there are very limited supplier for each of the items so if you have the substantially cash available you have always have a better bargaining power in terms of your supply chain so we have been able to resolve the supply chain issues to a large extent like in terms of all time of support to our vendors or our small vendors, I am not talking about the large vendors like Steel Authority or Rail Wheel Factory where they follow a totally different thing and again any delay on supply from their side will definitely impact the performance, but as far as the small supplier and the medium scale suppliers are concerned, we have been able to enter into a lot of kinds of arrangement with them, we are in both all the suppliers are acting as our partners and we have already increased their production and more or less are now supplying on a timely basis.

Agastya Dave: Okay, and so finally on DFC?

Anil Kumar Agarwal: DFC as of now, the order is for 22000 wagons, which in this of course there are no higher axle load wagons but again what would be the requirement of the DFC after this tender gets finalized it is not very clear but again everyone has now started complaining about the huge shortage of wagons and maybe one once this tender get finalized, there might be another tender for the requirement of the DFC, but as of now the situation is not very clear.

Agastya Dave: Thank you very much and Happy New Year. Thank you Sir, See you in the New year.

Moderator: Thank you. The next question is from the line of Pratik Giri from Vallum Capital. Please go ahead.

Pratik Giri: Good Morning Sir. Sir my questions are regarding this supply chain actually supply chain issue so you just mentioned that we are giving support to the small vendors and all Sir, still we are not achieving our desired and we should be achieving in terms of production of wagons so if we see we have an order book of, I mean, we should produce really 600 wagons a quarter, there is still nowhere close to that?

Anil Kumar Agarwal: Even if you provide all kind of a support to your vendors, small vendors, but they definitely need some time to ramp up their production, so one year back you were operating a 10% capacity and suddenly if you want

to increase it to 100% that time definitely is going to take some time so I mentioned that Q to Q if you compare my overall performance situation has improved and it will continue to improve that has happened primarily because of all these initiatives in terms of setting up the proper supply chain teams and giving support to the small vendors to increase their productivity because every thing is interlinked so now the benefit of that should start flowing in.

Pratik Giri: I got your point Sir, normalisation has started at the end of this quarter and some coming quarters we can see the things picking up very fastly?

Anil Kumar Agarwal: I say yes, but again there are some issues like in terms of the different type of the wagons like as of know Titagarh and Cimmco both put together as producing almost like 10 different types of the wagons so for each different types of wagon you need to have a totally different kind of setup in terms of the suppliers and while for some of the products, some of the wagon type we have been able to ramp up the supply chain, few were still under process so it would be a mixed situation in the December quarter and much better situation going forward.

Pratik Giri: I got your point Sir. Sir your second question is on gross margins, if you see gross margin which are not up to the mark, because this quarter it is on gross margins it is in the range of 30% to 35%, whereas in the earlier quarter it was in the range of 40%, 42% so what is the reason that our gross margins are coming down and secondly in shipbuilding, if we see large quarter we have made profit of 6 Crores on a topline of Rs.22 Crores whereas this quarter we have made in this segment, we have made a profit of 2.5 Crores on a topline of 21 Crores.

Anil Kumar Agarwal: So even in the bridge business it is not only one particular contract, which we are executing so there are multiple contracts so last quarter, there was a particular contract in this margin where gone a bit higher side, so in this quarter we have executed part quantity from two different contracts where the margins are not exactly the same, some time margins are higher, some time margins are lower and final result is the combination of these contracts.

Pratik Giri: This is a last question from my side. So if we see going forward, even from here onwards for the next four quarters, we are having our order book to the fullest, up to the brim, so when we will start making substantial money in wagon business because it is the core business of our company, so I just wanted to get a sense on this that when is the operating leverage going to kick in, in this business because since last seven quarters we have been waiting for orders and in the last few quarters we were having our order books comparatively good, but still the operating leverage has yet not kicked in. So when do you see the operating leverage being kicked in our business particularly in wagon business?

Anil Kumar Agarwal: If you see these are the quarter-to-quarter performance is improving and as I said it is impossible for anyone just to switch on the button and go from 10% to 100% that practically is impossible so if you

compare this quarter results with the last September 2017 results, you will see it is almost like 100% growth so we have been able to achieve that and as I said we are working very hard to set all the things right now with the finalization of the new order of 22000 which we are expecting to be done very soon so that will give us an enough work load and we would be able to ramp up the production to a very high level.

Pratik Giri: Sir last question from my side. In Cimmco, you just mentioned some of the wagon orders were not that remunerative, so this could be a bit indigestible, so I mean, if the order is from Indian Railways and we have been a market leader for this, so how can we adjust this point that some of the wagon orders are unremunerative Sir?

Anil Kumar Agarwal: So again in the Indian Railways the prices does not depend completely on you, it is the prices depends on the other competitors because the Indian Railways places order only on the L1 prices, that is the lowest bit prices so as I mentioned the Cimmco is executing right now five different types of wagons for the Indian Railways and in some particular wagon if I am saying unremunerative, it does not mean that we are incurring losses so I am saying unremunerative means, the margins are lower as compared to other types of wagons so the overall margin of the company would depend on this particular type of wagon you are executing in that particular quarter.

Pratik Giri: Thank you. I will join back the queue.

Moderator: Thank you. The next question is from the line of Ashish Kumar from Infinity Alternatives. Please go ahead.

Ashish Kumar: Thank you for giving me an opportunity to ask the question. Couple of things, one is on the wagons and coaches, look at the division of profitability we are still below 4% EBIT level on wagons and coaches, which is the large portion of our business when do you think we can hit a 10% EBITDA level in this division in another one or two quarter or at volume do you think we can hit that?

Anil Kumar Agarwal: So the first thing is that while the segment is the wagon and coaches, but in this particular quarter there was no contribution from the coach side. Of course in the coach business the margins are pretty good as compared to the wagons business and even 20% contribution of the coach business of this segment will have substantial impact on the overall margins for this segment. As far as the wagon business is concerned, whatever orders we have as I said the margins are totally different in the order from the Indian Railways vis-à-vis order from the private sector so and overall the margin will depend upon how much quantity of private wagons I am producing how much quantity of Indian Railways I am producing so right now the focus is mainly on to execution of the Indian Railways orders where the margins are not very high and once this order gets completed whatever new orders, which we expect from the Indian Railways. I think that will improve the overall margin of the company and also of this particular segment, which you can expect may be by first quarter of the next financial year.

Ashish Kumar: Okay so basically what you are saying is that the current EBITDA margins probably for this division will continue for another couple of quarters?

Anil Kumar Agarwal: I would not say continue, but definitely you will see some improvement, but the number which you are talking about that number it will take sometime.

Ashish Kumar: That will take another three or four quarters okay?

Anil Kumar Agarwal: I would not say three to four quarter as I mentioned from June quarter onwards we can expect that.

Ashish Kumar: Second question was in terms of our exposure at the holding company to the Italian operations how much is the debt exposure, which has equity that we have already put in into that asset?

Anil Kumar Agarwal: In the Italian company we have an equity of around €25 million and debt exposure of €50 million.

Ashish Kumar: But that is with recourse to Titagarh balance sheet?

Anil Kumar Agarwal: That is with recourse.

Ashish Kumar: €50 million and you said by December will get to have full understanding of the asset?

Anil Kumar Agarwal: As I said by December we expect few orders to get finalized and as I said we are well placed in these two tenders so we are quite hopeful and if things goes well so may be it could be turnaround thing for Italian company.

Ashish Kumar: Thanks a lot Sir and all the best going forward.

Moderator: Thank you. The next question is from the line of Ranjith Sivaram from ICICI Securities. Please go ahead.

Ranjith Sivaram: Sir congrats on a good set of numbers. Couple of things, Sir just gross debt can you help us what is the consolidated gross debt and how much is that in Italian and the French company if you can throw some light?

Anil Kumar Agarwal: As I mentioned in Titagarh we have around Rs.52 Crores, in Cimmco we have around Rs.123 Crores, in Italy we have around €50 million so which is almost like Rs.400-odd Crores and in France we have around €5 million.

Ranjith Sivaram: How do you see our target for the full year? Are there any chances of increase in the debt because execution is increasing and so that the working capital also is increased?

Anil Kumar Agarwal: Working capital will increase for the Indian operation, but as far as foreign operations are concerned, I do not see any increase any further increase in the debt exposure, but Indian operation definitely different due to increased production, the working capital has requirement would increase.

Ranjith Sivaram: How is the pricing for this new wagon orders because last

time we have seen aggressive pricing and because of that margins were not that remunerative and if you can also add to it what will be the total value of these orders, will it be in the range of around Rs.5000 to Rs.6000 Crores this 21000 wagons?

Anil Kumar Agarwal: If you see the average price per wagon is roughly around Rs.27 lakhs, Rs.26 lakhs so Rs.26 lakhs x 22000 so that is the number.

Ranjith Sivaram: Okay but in the newer contracts the free supply is not there right?

Anil Kumar Agarwal: That was also not there in the last contract.

Ranjith Sivaram: Okay so the pricing you feel that it has improved or it is still under competition?

Anil Kumar Agarwal: Again right now this tender yet to be finalized by the Indian Railways. I would not like to comment on that because there is different steps involved in the overall tender finalization so first was submission of price bids, then was reverse auction and Railways also have the authority to renegotiate the price and would be before concluding the contract so I am not sure just wait for sometime may be a month or so and you will get complete clarity.

Ranjith Sivaram: Is there any other reason for the delay because last time also we were confident that 1Q it should be completed so what is the thing which is causing the delay in the overall finalization?

Anil Kumar Agarwal: The reverse auction process again when you are finalizing such a high value tender, they are lot of steps are involved in that and this was first time the Railway has started the reverse auction process and it went out very well and in the reverse auction process prices have gone down to the benefit of the Indian Railways and after the reverse auction process most of the time I think it was a holiday period because I think the reverse auction got concluded on October 31 roughly so October 31 so that the reason that in next month or so it should get finalized.

Ranjith Sivaram: Is there any change in terms of allocation to the different companies for previously we had L1 getting 25%?

Anil Kumar Agarwal: No, it is completely changed. We mentioned in the last call that it is a complete new principals on the quantity will get allocated, something linked to your overall capacity, something linked to your the highest production done in the last five years so there is concept of bucket filling actually.

Ranjith Sivaram: In the metro, we got to hear that we were something in range of L3 in the Mumbai metro so is that again a worry for us because surprisingly in Nagpur, also we closely missed out so will be have to rework on our pricing strategy in metros?

Anil Kumar Agarwal: Definitely, wherever whenever you try to enter to a new kind of business or new products so it is not necessary that in the first stroke you hit a six, so it is a learning experience for us and we are working thoroughly

on our costing and hope that we would be able to get one metro project very soon as and when this like Pune metro tender is already out and hopefully next three to six months few more metro projects would be there. I am expecting more metro projects tender to come in and since the company has been technically qualified in the Mumbai metro so the company expect that we would be able to qualify all other balance metro projects as and when the tender is out and then based on our pricing strategy, which we are working thoroughly now, we hope we would be able to with some contracts.

Ranjith Sivaram: Okay and lastly in that propulsion are we supplying propulsion for the metros or is it for the passenger some other application?

Anil Kumar Agarwal: Right now is only for passenger side, not for the metro and like as I mentioned today the order book of the propulsion is almost like Rs.70-odd Crores so I see it a good opportunity for the company wherein the company has been able to create a new market and going forward it would be significant contributor to the topline and the bottomline.

Ranjith Sivaram: Okay is it largely imported or we have some production in-house?

Anil Kumar Agarwal: Initial quantity of ports will be produced in Italy, but parallelly we are creating a setup in India so through the transfer of the technology the production will take this in India, but not for the first two lots going forward.

Ranjith Sivaram: Thank you and all the very best.

Moderator: Thank you. The next question is from the line of Pawan Parakh from Renaissance Investments. Please go ahead.

Pawan Parakh: Good morning Sir. Sir what was the price difference between you and BEML for this Mumbai metro order?

Anil Kumar Agarwal: The price difference was quite substantial actually so it was very, very large difference, I would say.

Pawan Parakh: Okay because the reason I asked because what I want to understand is that even BEML's price was something 23% lower than MMRDA estimates so what is your estimate belief of the profitability in metro orders even this is bid base kind of model wherein people are very aggressive?

Anil Kumar Agarwal: Again, if you see the price, which BEML has quoted for Mumbai Metro I do not know how they are going to earn anything out of that because as we have already mentioned that it was much, much below even the MMRDA estimate so again on what logic that prices was quoted, but anyway as I mentioned price difference between BEML and our prices were quite substantial.

Pawan Parakh: Sir so far apart from Mumbai and Nagpur which are the other metro whether that you qualified so far?

Anil Kumar Agarwal: After acquisition these are the only two tenders, which have come out and we got qualified in both these tenders and now this Pune metro tender is already out which is due on as of now due on November 30 so

that is the third metro projects and may be few more like 5-6 metro project tender will come in.

Pawan Parakh: Specification in Mumbai metro project was quite different from other projects or they are largely the same?

Anil Kumar Agarwal: Now it would be completely same for all metro projects because of guidance issued by the Ministry of Urban Development and it has to be on that line only, but as I am saying this Mumbai metro 378 car was highest number so if you are qualifying in the highest number project so you will definitely get qualified in the lower quantity projects so like all other metro project would be in the range of around 100 to 120 metro cars whereas Mumbai was 378 cars so I am quite confident that we would be qualifying in all other metro projects going forward.

Pawan Parakh: Just one thing lastly Sir number of bidders in this metro projects, how many of them are prequalified and generally how many bidders per contract per tender?

Anil Kumar Agarwal: Again the Mumbai metro was the last metro where there was nothing for Make in India due to which seven companies are participated in this tender, but going forward with Make in India thing, the competition will get restricted to four players mainly, which includes like BEML, Titagarh, Bombardier and Alstom, who have facility in India.

Pawan Parakh: And who are the other three who do not have facility in India?

Anil Kumar Agarwal: CRRC, Hyundai Rotem and CAF.

Pawan Parakh: So if in case there is no make in India requirement precondition then there can be several more bidders?

Anil Kumar Agarwal: No it cannot be now, no Make in India. It is mandatory.

Pawan Parakh: Thank you so much.

Moderator: Thank you. The next question is from the line of Arvind Joshi from Bataleur Advisor. Please go ahead.

Arvind Joshi: I just wanted to reconfirm this Make in India thing there were some conflicting reports, which says it could be varying on case-to-case basis? Are your very sure orders subsequent to Mumbai Metro will all be with the 75% Make in India clause?

Anil Kumar Agarwal: In Pune Metro, already there is this clause of Make in India so as of now this is the only metro tender, which is out and since this guideline has been issued by the Ministry, so hopefully all the Metro Corporation will follow it.

Arvind Joshi: I think the shorts are being called by the funding agencies and not the directives from the government? Even for the Mumbai Metro initially it was on similar basis, but later on due to the funding agencies it was withdrawn, so do you see this as a major weak link in this whole mechanism and eventually Make in India could get diluted very seriously?

Anil Kumar Agarwal: I cannot comment on that at this point of time, but I am

quite confident that all the metro corporations should follow that Make in India policy. Again this is a pet project of the Honorable Prime Minister and also in the Pune Metro it is already included, so going forward also I am quite confident all the metro projects would have this Make in India, but again this makes only difference in respect of the competition, so whether it is Make in India or not we always have the chance to participate, but the only thing if it is Make in India the competition gets restricted.

Arvind Joshi: One more request. Why is Mr. Choudhary not in the call? It would be nice to have him on the call? Could you please extend our request?

Anil Kumar Agarwal: Mr. Choudhary always loves to be in the call, but because of some other engagements like right now he has gone out of town for some urgent work and that is the reason he is unable to join and unfortunately last time I think he was down with a fever, but before that he joined this call and he loves to attend this call, but because of some compulsion, he missed this today.

Arvind Joshi: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Harsh Desai from Vallum Capital. Please go ahead.

Harsh Desai: I just have a couple of questions in terms of our interest and tax rate. Firstly is the interest cost has gone up? Is it mainly due to the increase in working capital requirement and second question was on the tax rate? We have seen the tax rate of about 20%? It is slightly lower you think that tax rate is sustainable and why is it only 20%? These are the couple of questions I have?

Anil Kumar Agarwal: The first thing is about the interest rate this is because of the increased working capital requirement and overall situation is that the interest rate is on the upper trend so most of the bankers have increased their interest rate, MCLR rate and because of that the interest cost had increased. As far as the tax rate is concerned, last year or last to last year, I think there was some merger of some old companies like Titagarh Marines etc and they have some accumulated loss and the company had taken the benefit of that, but now I think most of that carry forward losses have already been exhausted, so the company would again go back to the normal rate of 30% or 32% whatever.

Harsh Desai: Sir this is from the coming quarter that will go back to 30% odd right?

Anil Kumar Agarwal: Yes.

Harsh Desai: You said in your Titagarh order book of Rs.900 Crores around 50% to 60% was executable this year? Similarly last year for Cimmco out of the Rs.425 Crores order book how much do you think will be executable this year?

Anil Kumar Agarwal: Cimmco of this Rs.425 Crores, I think roughly around Rs.250 Crores to Rs.300 Crores contractually is executable by this financial year, so I am talking about the contractual obligation, so now how much we can produce or not that will depend on lot of factors.

Harsh Desai: I just wanted to ask you that for 22000 wagons whatever order

we get assuming it comes at the end of December all that revenue booking will start in the financial year?

Anil Kumar Agarwal: If the contract gets finalized by I would say mid of December, so may be the execution might start for that particular contract by March onwards.

Harsh Desai: Thank you.

Moderator: Thank you. The next question is from the line of Prateek Giri from Vallum Capital. Please go ahead.

Prateek Giri: Sir my question is regarding shipbuilding; recently we heard the name of TWL in the assets of Bharati Shipyard or somewhere Sir? Am I right Sir?

Anil Kumar Agarwal: That news was not correct actually. It has been wrongly interrupted by someone, basically there is yard in Kolkata in which dry dock is there so there was some dispute going on with Bharati because we claimed that dry dock as our own property where as Bharati claimed that as their property and in order to settle the issue a small proposal was given I think Ernst & Young was the IP at that point of time, but somehow it was wrongly interrupted as Titagarh is interested in the entire takeover and all that, so that is incorrect news.

Prateek Giri: We are not into any acquisition in the near future in terms?

Anil Kumar Agarwal: No as of now no such mood and also no such funds are available and also not so much of bandwidth available, so as of now rather we would focus on our utilizing our existing facilities to the fullest.

Prateek Giri: Fair point. Sir secondly there is going to be a tender from Mathura to Vadodara, which is a large ticket size project Rs.800 Crores and we have a JV with MERMEC I guess it is full, so it completed so are we going to participate in that tender Sir?

Anil Kumar Agarwal: I would not be able to right now tell you about that particular tender as such, but one thing is correct that the arrangement, which the MERMEC is fully complete and right now the team of MERMEC and our internal team are aggressively looking into the various opportunities and they are participating in a number of tenders. This particular tender to be very frank I am not aware. I need to check with my team.

Prateek Giri: Sir if such opportunities in India so where are we trying to get the business from in this particularly signaling segment, so I just wanted to understand we are saying that we are trying to explore opportunities, but on this particular tender we are not aware and how are you trying to get business then?

Anil Kumar Agarwal: I am not saying we are not aware. I am saying I am personally not aware about this tender because I am not keeping a day-to-day track of this operation of the JV with MERMEC, so the team is working on that first thing. The second thing is that MERMEC is not only onto the signaling equipment. They are into the diagnostic equipment, so there are lots of

requirements under the DFC, which the team is aggressively pursuing.

Prateek Giri: Got your point. Last question is Delhi Metro is out at 120 metro coaches tender so are we participating in that and how optimistic are we for that project because it is in line with our strategy of small tenders Sir?

Anil Kumar Agarwal: Delhi Metro to the airport line project is not for 120 that is for around 34 to 35 metro cars, if I remember correctly.

Prateek Giri: Apart from that they and if you go on their website and we look at rolling stock tenders, so they are 80 plus 40 metro coach tenders are there Sir?

Anil Kumar Agarwal: As I said, we are aggressively looking into all the metro projects, which are getting floated in India and the team would be working on that.

Prateek Giri: Fair point Sir. Got your point. Congratulations for a good set of numbers. We are very optimistic for the coming quarters. Thank you very much. Happy New Year in advance.

Moderator: Thank you. The next question is from the line of Praveen Nagda who is an individual investor. Please go ahead.

Praveen Nagda: You have said that 22000 wagon the prices have gone down so what impact would have on the profitability Sir?

Anil Kumar Agarwal: I have not said that the prices have gone down. What I have said that the basic objective of the reverse auction is that whenever you submit a financial bid and after that the reverse auction is conducted, so there all competitors try to reduce the prices in order to become L1, so there have been a decrease in the prices during the reverse auction process, but again after that the Railways has the option to further renegotiate with the eligible supplier and once the contract is finalized then only we would be able to say what kind of a margin we expect from that particular contract.

Praveen Nagda: Sir you expect profitability to be good in the various large contracts?

Anil Kumar Agarwal: As of now, whatever prices have come through the reverse auction process I would say at that prices, it would be a reasonable margin, but since the volume would be very high so the EBITDA percentage will improve.

Praveen Nagda: Sir on your foreign subsidiaries they have been incurring losses do you need to put equity in this foreign subsidiary?

Anil Kumar Agarwal: Like the parent company, we already put in 25 million, so as of now, there are no further plans of further infusion in the Italian company. As far as the French subsidiary is concerned we have plans of converting some loan into equity of €2 to €2.5 million so that after doing that the revised equity of that company would be around €11.1 million.

Praveen Nagda: Sir you have said that the Italian subsidiary will be participating in the South African nations and what about that tender?

Anil Kumar Agarwal: As I said, the Italian company has already participated in two tenders and we are I would say better placed and the decision on those two particular tenders should be there by December end.

Praveen Nagda: Thank you Sir.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Parvez Akhtar Qazi for his closing comments.

Parvez Akhtar Qazi: We thank all the participants for taking out time to attend this call. Anil Ji, do you have any closing comments to make?

Anil Kumar Agarwal: Thanks everyone for joining this call and I hope that I have been able to answer all your questions properly, but in case if anyone wishes to connect if they have further questions, they can reach out separately with Saurav Singhanian who is Group Financial Controller and he would be happy to answer any further questions if you people have. I can say that the thing is that while overseas subsidiaries are on a bit of challenge, Indian companies both the Indian Titagarh and the Cimco have starting picking up and we see a lot of opportunity going forward, not only in the wagon business but also in all other businesses in which the company operates and we expect a very good future for the company. That is all. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Edelweiss Securities Limited that concludes this conference call. Thanks for joining us. You may now disconnect your lines. Thank you.

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