

Conference Call Transcript

Titagarh Wagons

Q1FY19 Results

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Corporate Participants

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Group CFO

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Group Finance Controller

Mr. Vivek Goel

GM (Strategy & Finance)

Questions and Answers

Moderator: Ladies and gentlemen, good day and welcome to the Titagarh Wagons Limited Q1 FY 2019 Earning 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 an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Parvez Akhtar Qazi from Edelweiss Securities Limited. Thank you and over to you Sir!

Parvez Akhtar Qazi: Good afternoon friends. On behalf of Edelweiss Securities, I welcome you all to the Q1 FY2019 results 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 Agarwal: Thank you Parvez. Good afternoon everyone and thanks for joining this call. First of all sincere apologies from Mr. Chowdhary; he could not attend this call because he is down with high fever, but definitely I would like to update you all about the performance of the company.

So this quarter, there has been a good growth both in terms of turnover as well as the profitability in Titagarh Wagons standalone basis and as we mentioned in the previous calls, we believe that this growth is just the starting point and the next few quarters of the company would be very good in terms of turnover as well as profitability. So for this quarter, we did a topline of around Rs. 132 Crores with a PBT of around Rs. 3 Crores and good thing was that all the different verticals of the company have contributed both in topline as well as in the bottomline. While the EBITDA margin for Wagon division was not up to the mark primarily because of lower execution because our Indian Railways order we got only during the last week of December and the execution of those orders started only by end of May and now the production is in full steam and hope we would be able to produce large quantity of wagons going forward.

As far as the other divisions are concerned like the specialized equipment and bridges, we got some orders from Nepal which we already mentioned in our previous call. So good news is that we have got another repeat order from Government of Nepal that was the standard Bailey type of bridges that is not very large order that order is only around Rs. 28 to Rs. 30 Crores order but the good thing is that we have been able to make our presence feel in Nepal as a country and getting good repeat orders.

In terms of the ship building, the work is going as per schedule and in fact ahead of schedule and both the ships on account of Indian Navy are more or less ready and one has already been launched and delivered and the second

hopefully by next one, one and a half month would be ready and will be delivered. The other two ships from NIOT is also ahead of schedule and last week the high-profile team of NIOT visited and they are very appreciating the quality of the work and also the timing of the execution.

As far as Cimmco is concerned, our subsidiary, we have incurred some losses. The loss is around Rs. 7 Crores as against Rs. 16 Crores, we have incurred in quarter ending March 31, 2018 so while Cimmco also got the order at the same point of time when Titagarh got this order from the Indian Railways, however because of non-availability of certain critical inputs, the execution could not start in full swing, but now things are more or less stable and now Cimmco is also producing a good quantity of wagons. So we believe that with the good execution plan going ahead, Cimmco should be able to curtail its losses and maybe would be able to turn around and start making profits. While this quarter, we have decided not to publish the consol results and we have published only the standalone results both for Titagarh and Cimmco.

Just to give you an update about both of our subsidiaries, first we start with the French subsidiary so whatever problem which we faced during the last two quarters in France, we have been able to more or less able to resolve lot of issues and now the work is going well and hopefully by the end of this year most of the problem or I will say all the problems should be resolved and the company in next year meaning FY2020 would be able to again go back to the normal position of having a topline of something around 40 to 45 million euro with an EBITDA of around 7% to 8%.

As far as the Italian subsidiary is concerned again the biggest challenge right now, which we have in the Italian subsidiary, is the further order booking. While we have participated in various large tenders, the results of which we are expecting to come by end of September. So once we win some of the tenders then we will have clear visibility in terms of performance of TFA after June 2019. Right now the order book of Italian entity is sufficient till June 2019 and based on data available, based on the management estimates, we do not foresee a major loss or profit while executing this contract.

In terms of order book the company has been able to book good number of orders in this quarter and today the consolidated order book stand at around Rs. 2800 Crores out of which India is around Rs. 1400 Crores and the foreign operation are Rs. 1400 Crores. Out of India 1400 Crores, Titagarh is around Rs. 850 Crores and Cimmco is around Rs. 500-550 Crores and the good thing is that this order book in Titagarh standalone is widely distributed among different products. So while Indian Railways order book is only Rs. 260 Crores and the balance is from the private customer as well as the passenger coaches, shipbuilding, bridges, defence and all that. In Cimmco out of Rs. 550 Crores order book, the Indian Railways is Rs. 300 Crores and the balance is from the private customer.

In France we have an order book of around 40 million euro and in TFA, the Italian company we have an order book of around 125 million euro. A few good things which I would like to share is that as we mentioned in our previous call

that there is a good opportunity for the metro business in India and there is already a tender out by Mumbai Metro which is due very soon and this is a very large tender the approximate value of this tender is around Rs. 5000 Crores and we in consortium with our Italian company are now eligible to participate in this tender. So there is another tender from Pune Metro also which will be due roughly in the month of October or November, that tender value approximate cost would be around Rs. 1200 to Rs. 1300 Crores.

So now we see some light for metro business, metro opportunity for us and definitely, we would be targeting to book few orders from metro business in India. Another good thing, which has taken place in this quarter, is that we have got a developmental order for propulsion system from ICF. This we got due to our acquisition of Italian subsidiary because Italian company already has the credential for manufacturing of propulsion system and this is a very prestigious order and once we successfully develop and dispatch this order, then we will become a regular supplier and the opportunity for these kind of equipment would be roughly around Rs. 2500 to Rs. 3000 Crores per annum for the industry as a whole and just for your information last quarter we mentioned about one BTPGLN type of wagon in which we mentioned that we are L1, I am please to inform you that we have now got the final order from customer and this order value is around Rs. 90 Crores in Cimmco. So going forward I feel the overall revenue as well as the profitability will improve on a standalone basis both in Titagarh as well as Cimmco.

So this is all from my side for the time being and I am happy to take any questions.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. We would take the first question from the line of Ritika Garg from Equitas Investments. Please go ahead.

Ritika Garg: Could you repeat the order that you got from the Indian Railways, I missed it.

Anil Agarwal: So Indian Railways the last order we got that was around 1200 wagons for Titagarh and 1200 wagons for Cimmco but another tender for 22000 wagons which is due by the end of this month. So once that tenders get finalized, we expect a large quantity from Indian Railways.

Ritika Garg: So this 1200 wagons that we have is part of that Rs. 260 Crores order that we have from Indian Railways.

Anil Agarwal: That is correct.

Ritika Garg: And are we seeing an uptake in the order from the private sector.

Anil Agarwal: Yes there has been a very high demand from the private sector for wagons and we have been able to book large quantity of orders from the private customer in the past in last three, four months, things have changed quite substantially and there we are seeing lot of traction for wagons like from wagon leasing companies or from the container train operators or even from the bulk consumer of the wagons while the WIS Wagon Investor Scheme policy has

been re-launched but the demand under that policy is yet to come and we believe that in next three to six months, there would be huge demand of Wagons under the WIS scheme. So as of now the demand is primary from under the Wagon leasing scheme and the container train operator scheme.

Ritika Garg: So could you tell me how much is the private sector orders that we have in this India business of Rs. 1400 Crores.

Anil Agarwal: It is roughly around Rs. 450 odd Crores.

Ritika Garg: So we execute it by?

Anil Agarwal: Like in the most of the order book India will get executed by FY2019. I would say roughly around 80% of the existing order book should get executed by this fiscal itself.

Ritika Garg: And our margin is better for private sector orders?

Anil Agarwal: Yes compared to the Indian Railways, margins are better in the private orders but in few of the orders which we had taken in the past, there the margins are not so good but going forward once we start executing the new order book then definitely the margins will improve.

Ritika Garg: And could you tell me the quarterly performance from the subsidiaries for this quarter?

Anil Agarwal: As I mentioned you know we have not published the consolidated results so I can only give you a rough idea like for this entire financial year, we have estimated topline of around 40 million euro for our French subsidiary and around 100 million euro for our Italian subsidiary and with the breakeven activity level and as of now we have been able to – we are more or less in line with our estimate. There has been some shortfall in both but which we believe we would be able to recover in the balance nine months.

Ritika Garg: And what is the capacity utilization in India business?

Anil Agarwal: India business you know today we have a capacity... both Titagarh and Cimco put together we have around 8400 wagons per annum. So right now based on our execution plan for the current fiscal, we believe that we would be doing something around 4000 wagon roughly I am talking 3800 to 4000 wagons. So it would be like 50% roughly.

Ritika Garg: And what did we do in FY2018?

Anil Agarwal: FY2018 was very low, FY2018 the total number of wagons, I do not have readily available with me but I think it was very, very low.

Ritika Garg: Okay so we see, and how do we see it for FY2020?

Anil Agarwal: FY2020 as you know, the new tender of 22000 wagons should get finalized in next two to three months. So once that order gets finalized so we will have a clear visibility for FY2020.

Ritika Garg: So these 1200 wagons order that you have received in Titagarh and 1200 in Cimco that is to be executed can I say in FY2019 we will get the revenues for that?

Anil Agarwal: Yes.

Ritika Garg: And how much is one wagon approximately sold for?

Anil Agarwal: Depends on the type of wagons, it ranges from 25 lakhs to 35 lakhs it, depends on the different type of wagons.

Ritika Garg: Okay. Alright thank you so much.

Moderator: Thank you. We take the next question from the line of Arvind Joshi from Bataleur Advisors. Please go ahead.

Ritika Garg: I had a couple of questions on understanding our competitive positioning in the metro business and also the possibility of getting LHB orders, how do we see them and any other defence business rightly in the next few quarters?

Anil Agarwal: First thing is that to be if you see the metro business, I think the in real basis we are the only Indian company who are eligible to participate in the metro tenders opportunity in India like apart from us if you see the other competitor are like Bombardier, Alstom, BEML. And Titagarh is the only Private Indian Company as such. So these are the four main players; apart from that there are lot of global players but with the change in the policy of the Indian Government which focusses on Make in India wherein 75% has to be produced in India and all that, so I think the competition would more or less get restricted between these four players.

Ritika Garg: You think we have a good opportunity there?

Anil Agarwal: Yes definitely we have been mentioning in the past in the various con calls and various forum that yes for Titagarh the metro business is a very, very big opportunity and the real growth of the company would come from the metro business going forward.

Ritika Garg: And LHB and additional defence business?

Anil Agarwal: Additional?

Ritika Garg: No LHB, we were anticipating some order eventually coming from the railways for LHB coaches.

Anil Agarwal: Yes so right now the changes for the LHB has not yet been finalized that some of the tenders which came in for the LHB were mainly for the refurbishment of the coaches and not for the new supply of the LHB coaches and all these refurbishment was supposed to be done at the railway workshop. So we were not very keen on tapping those opportunities. We would always prepare to participate in the supply of the new LHB coaches or maybe new passenger coaches. It is not necessary that the LHB we can supply even much improved version of the coaches or maybe the refurbishment if we can do at our own factory we might be interested, but not doing the labor contract work at the railway premises as of now.

Ritika Garg: And one more small question, we have initially had some plans to get into Tractors and Earth Moving Machinery which we had about mothballed some capacities are also I believe available, any idea of getting and reentering

those segments?

Anil Agarwal: As of now first thing about the mining equipment I think that business more or less we have downsized to a very, very negligible level almost two three years back and of course we continue to supply the spares for the machine which we have already sold in the past. So it is very negligible business. As far as the tractor business is concerned I think for the last one, one and a half years, we are not focusing on that business at all and as of now, we do not have any plans to restart that business because we believe that in the existing business of wagon and railway business and the defence business and other related business, we have a very big, big opportunity.

Ritika Garg: Okay. Thank you and all the best.

Moderator: Thank you. We take the next question from the line of Ravi Nagda, Individual Investor. Please go ahead.

Ravi Nagda: Sir you have said that Rs. 5000 Crores of metro tender, Mumbai Metro tender. Sir, do you have the capacity to build that type of wagons, that quantity and type of wagons in India or you will import from Italy?

Anil Agarwal: No so as of now the plan is to participate under a consortium arrangement between Titagarh India and Titagarh Italy. Of course this is a very, very large quantity 378 cars and I think this is a highest ever procurement by any metro rail corporations in India and as of now, I would say we have not yet produced any metro cars in India. So it would be really a big challenging task but going by the credentials of Titagarh Italy and also with the work which we have started doing in India. Once we get this order, so definitely we would be able to execute this kind of a contract also. But since it is a very large tender, a large quantity, it would always be a very, very, very challenging.

Ravi Nagda: And Sir I want to ask some of the recent business have you participated in like FICV tender?

Anil Agarwal: So FICV right now I think it has been put on hold by the Indian Government and no progress is taking place there so we definitely participated in that opportunity in joint venture in consortium with another company but now I think there is no progress at all by the Indian Government but some other items of the Indian defence like the missile canister, missile launcher and which we have manufactured in the past on a standalone basis, we continue to receive some small orders from them and which are under execution.

Ravi Nagda: And Sir my last question is about this subsidiary company Firema in Italy. Sir do we see this year will be profitable year for these two companies at tier-2 level?

Anil Agarwal: I already mentioned this year both this Italian subsidiary as well as the French subsidiary would be more or less breakeven.

Ravi Nagda: And they will need funding from Titagarh or not?

Anil Agarwal: So apart from the funds which we have already invested till now I do not see a major fund requirement from India in both these subsidiary, but may be for the temporary mismatch in the working capital, some short-term

loans may might be required but as of now I do not foresee such kind of a situation.

Ravi Nagda: And Sir these companies will help you in high speed train project?

Anil Agarwal: In Titagarh Italy we already have the credential for high speed trains in fact in the past we have manufactured and supplied the semi-high speed train and also have designed the high speed trains so as and when these kind of opportunity comes in definitely in consortium with Titagarh Italy we would be able to target.

Ravi Nagda: Okay. Thank you.

Moderator: Thank you. We take the next question from the line of Neerav Vasa from B&K Securities. Please go ahead.

Neerav Vasa: Sir can you please help me with the outstanding debt number as on 1Q FY2019 on consolidated basis?

Anil Agarwal: The consolidated debt position is more or less at in line with the March numbers. So as of now the net debt would be around the 500 Crores on a consol basis but as you know most of these debts are short-term debts and we hope that once the working capital cycle improves, which already started so this number will go down.

Neerav Vasa: Sir I get your point. Sir now coming to execution of the order which we have received from Indian Railways, as I understand, in this order, steel, wheels and bearings are not going to be provided by Indian Railways. So can you please help us as to how we have set up a supply chain for the procurement of these kind of equipments and how can it be beneficial going forward as we are expecting large tenders to come up for wagon procurement?

Anil Agarwal: For these three items while railway has done away with these supplies concerned but there are standard suppliers approved by the Indian Railways from whom only we can purchase like for the wheel set, there is only one supplier in India which is Rail Wheel Factory. So as far as the Rail wheel factory is concerned the prices are being fixed by the Indian Railways themselves and we just need to manage the supply chain. Initially we had lot of issues with Rail Wheel Factory in terms of not accepting the LC, only taking advance payment, not delivering in time but fortunately last couple of months we have been able to set the system very, very properly and now we do not foresee any major challenges in getting all these items from the approved sources. Bearing is never a problem, and steel of course initially we faced some problem with Steel Authority but now it is more or less stable and I do not foresee any major challenges.

Neerav Vasa: Sir in the 22000 wagon tender from Indian railway any timelines which the railways has set by which we are expecting to finalize this order and what would be the payment term? Is the advance which we are going to get for this order would be interest bearing?

Anil Agarwal: Yes the railway generally had stopped giving any advanced payment and if a wagon builder wants an advance payment it will come with a

huge rate of interest. So definitely we would not be looking to take that, maybe some small wagon builders would like that but definitely we are not interested in taking advance. So that is the reason of this our working capital requirement has gone up. First thing they have done away with the free supply and second they have done away with the advance but as per the timelines are concerned as of now this tender is due during this month itself and hopefully in next two months thereafter Railways should finalize this tender.

Neerav Vasa: Sure I get your point. Sir my last question Sir if I see in the number that we have reported in FY2018, we had reported consolidated numbers on consistent basis but for 1Q FY2019 only standalone numbers were reported so going forward can we expect that consolidated numbers would also be reported on quarterly basis?

Anil Agarwal: No again from next year I think the SEBI has made it mandatory to publish the consolidated results. So we do not have any choice and we have to publish from FY2020 onwards but as far as the FY2019 is concerned since we have opted for standalone so we continue to publish the standalone results every quarter and the consol will be published only once in a year at the end of the year.

Neerav Vasa: Sir my final question sir any wagon requirement that has come from dedicated freight corridor, any kind of testing or because Indian Railways was doing some kind of research and development for updating the quality of wagons. So any new wagon designs have been approved and I believe because of our technological strength, we were also proposing certain wagon designs to Indian Railways, any major success on that front?

Anil Agarwal: Very good point you made Neerav, I just forgot to mention that the one design of wagon which we were working for last couple of years has finally been approved by the RDSO. So after meeting all test criteria, we should be getting the final approval letter very soon maybe in next month or so. Once that in place, this is a much improved version for car carrying wagon. Railways already have a design for car carrying wagon but our design of wagon is a much improved version in terms of wagon design in terms of higher pay load and all that. So that is a big achievement for us. And as far as the DFC demand is concerned as of now there is no separate demand coming from the DFC and whatever demand is coming that is a part of the annual procurement by the Indian Railways.

Neerav Vasa: And last question Sir any update on the passenger coach refurbishment tenders.

Anil Agarwal: No as I mentioned, as of now no big tender has been finalized and some small tenders, which are mainly for the refurbishment work to be done at the railway workshop which we are not very keen has been finalized. So as and when the tender for the new coach requirement comes, we would be very aggressive in terms of our participation.

Neerav Vasa: Thank you very much for answering my queries Sir.

Moderator: Thank you. We will take the next question from the line of Jayant M from Care Portfolio Managers. Please go ahead.

Jayant M: Sir can you tell me what will be the expected topline for the FY2018-2019 and the operating margins.

Anil Agarwal: It would not be proper on my part to give you any indication but as I already mentioned about the order book and I also informed you that the majority of the order book are executable during the current year, so anyone can work it out what would be our expected topline and as far as margins are concerned as you know we have been mentioning in the past that we would be able to do something around 10% of EBITDA if we do a reasonable topline and when I talk about reasonable topline it means something beyond Rs. 700 odd Crores.

Jayant M: Sir can you tell me the orders under pipeline for which we have made a bid as far as domestic market is concerned?

Anil Agarwal: So as of now we do not have any major tender which we have already bid and the results are pending but there are a lot of large tenders which are in pipeline for which we will submit our bid in next one or two months. So the total value of all these tenders is very, very high like the Mumbai Metro I mentioned the value is around Rs. 5000 Crores. Now there is an Indian Railways tender of 22000 wagons and each wagon is roughly around Rs.25 to Rs.30 lakhs. Now there is another tender which we expect from Container Corporation of India which is for around 100 rakes of BLC wagon. So there are a large number of tenders coming forward.

Jayant M: Sir as you said we are become eligible to participate in Mumbai Metro tender so what was the criteria to get eligibility?

Anil Agarwal: Right now, there were a lot of restrictive eligibility criteria in any metro opportunity in India but now with the intervention of the government all the eligibility criteria has been standardized and today based on our credential, based on our past performance, we believe we would be able to participate in each and every metro tenders in India. So the basic restriction towards what in terms of you must have supplied some trains outside the country of manufacture or some large quantity of metro, you must have supplied which have no linkage with the current inter-quantity. So all these things have been standardized and today since 378 cars which is the largest ever procurement of the metro cars by any metro rail corporation and since we are eligible to participate in this tender, so we believe that going forward we should be able to participate in all tenders of metro.

Jayant M: Sir when this tender is expected in Mumbai and Pune and whether that tender will go to one vendor or it will be spread among two, three vendors?

Anil Agarwal: Generally the metro tenders are always finalized on one particular bidder because of the design and because of the same type of trains they require. So the Mumbai Metro the bid is due this month itself. The Pune Metro as of now the due date is October. So once the bids are submitted then they generally take six months to nine months to finalize the tender.

Jayant M: Sir suppose if we get this Rs. 5000 Crores what would be the timeline of supply and how we will fulfill that and what kind of capex will be required on our side?

Anil Agarwal: It is like the execution time is around four years for Mumbai metro and since it is a large quantity and as far as the capex is concerned we would be needing something around Rs. 100 Crores in India for the balancing item.

Jayant M: So we will be participating in Pune Metro also?

Anil Agarwal: Yes definitely why not?

Jayant M: Sir who are the bidders for Nagpur Metro which we lost and we were L2 in that?

Anil Agarwal: Nagpur Metro there were two bidders only, who got technically qualified - one was our self and second was the Chinese company CRRC.

Jayant M: Sir the Alstrom and Bombardier was not there?

Anil Agarwal: No.

Jayant M: Sir can you tell me the domestic order book bifurcation among railway and among private sector coaches or railway bridges?

Anil Agarwal: Sure so my colleague Saurav will just give you the entire breakup right now.

Saurav Singhania: The total order book in Titagarh Wagons is around Rs. 850 Crores which has total wagons of around Rs. 500 Crores and coaches of round Rs. 75 Crores and the total for the bridge segment is bridge and defence taken together is something around Rs. 80, Rs. 85 Crores. Shipbuilding is around Rs. 125 Crores. So these are the basic the large ones in Titagarh and with the breakup between the wagons for Indian Railway and private out of the Rs. 500 Crores is something like 50/50 in that and in Cimco Limited, the total order book is around Rs. 550 Crores which includes Indian Railway wagons for around Rs. 300 Crores and private wagons for around Rs. 173 Crores and then the remaining loco shells and the other items.

Jayant M: Sir in case of Titagarh Firema whether all the inherited contracts are over or is there any yet to be completed?

Anil Agarwal: No, so as of now the execution is mainly of the inherited contracts. As of now we have around 125 million euro of the order book in Firema out of which around 65% to 70% would be of inherited contract and the balance is of the new contract, but like we mentioned in the past in concall that whatever are the expected losses as per the management estimate that has already been provided and that was the reason of the losses in last two quarters like December quarter and the March quarter and we do not expect any further losses on these inherited contracts as of now based on all the data available with us.

Jayant M: Sir can you tell us something about this Titagarh, MERMEC Private Limited joint venture we have entered recently for this signaling system.

Anil Agarwal: Yes so MERMEC is an Italian company and basically they have various sophisticated products which are used in the diagnostic, signaling system and all that and for those products we have a big, big market in India like the rough estimate says that the total market size could be around \$2, \$2.5 billion going forward. So as of now this JV had just been incorporated at the 50/50 in both Titagarh and the MERMEC. Now we are just in the process of creating the set up in India. This JV would be primarily a marketing company, which will focus only on the marketing and the production of the equipment, the base equipment would be done by Titagarh and the initial supply of sophisticated equipment will come from Italy but going forward idea would be to create a manufacturing setup in India. So that the product which right now are being manufactured by MERMEC in Italy, those products can be manufactured in India at a lower cost and can be supplied not only in India but also into the neighboring countries if needed.

Jayant M: Sir what is our share and what would be the investment required?

Anil Agarwal: As I stated, this is purely a marketing company so as of now we do not foresee any capex requirement. Since our focus would be only on the base equipment so base equipment is mainly like fabrication-related work. So we do not foresee any capex but going forward when we decide to start manufacturing the items which right now MERMEC is manufacturing, so we might require the capex but as of now the figure is not estimated, but that will be done maybe three, four years down the line, not immediately.

Jayant M: Sir with the present order book position of around Rs. 850 Crores, what will be our capacity utilization?

Anil Agarwal: So like Titagarh we have the wagon production capacity of around 6000 wagons, so out of 6000 wagons in this 850 Cr, the wagon is only 2000 in number. So it is basically around 30%, 35% of capacity utilization.

Moderator: We would take the next question from the line of Pratik Giri from Vallum Capital. Please go ahead.

Pratik Giri: I just wanted to know that can we get mono rails as we have so many cities coming with such projects?

Anil Agarwal: Sorry I did not get your voice property, can you repeat please?

Pratik Giri: Sir can we make mono rails as there are so many cities coming with such projects like Gurgaon and all?

Anil Agarwal: As you know like the TFA in the past has supplied some metro trains, some high speed trains and mono rail, we have not yet manufactured till now, but it is more or less in the same line. So I do not see any challenges in targeting mono rail segment going forward. So we have a very strong design team based out of Italy and the team is quite capable of designing and helping us to produce any kind of either it is a mono rail, metro rail, high speeds, semi high speeds and all that.

Pratik Giri: So Sir are we targeting any tender any mono rails to enter that segment?

Anil Agarwal: As of now I do not see any tender is there. So as of now there is no tender but as and when these tender comes definitely we should be targeting that.

Pratik Giri: And with standard gauge and broad gauge I wanted to understand is it a standardized norm in India or are all metro tenders are either standard gauge or broad gauge Sir?

Anil Agarwal: So metro almost everything is standard gauge except Calcutta Metro, I think Calcutta Metro is in the broad gauge but apart from and that also only on the first line, but the new metro project which are also coming the new lines of all our standard gauge.

Pratik Giri: And Sir are we comfortable making both standard gauge and broad gauge?

Anil Agarwal: Yes so that does not have any – that does not make any difference, specifically the difference is in terms of the designing first when you design the product, so the design has to be change based on the broad gauge or the standard gauge. So after that the manufacturing is not much of difference.

Pratik Giri: And Sir this 328 metro coach tenders which we have been talking about is basically released by DMRC for Mumbai Metro, am I right Sir?

Anil Agarwal: Correct.

Pratik Giri: And there are several other lines as well which are under construction in Mumbai, so are we seeing any new tender from there as well?

Anil Agarwal: As we mentioned, there are lot of metro tenders in pipeline but unless and until these tenders are out in the public domain, it would be difficult to predict when these are going to come. So as of now there are only two tenders one is of the Mumbai Metro and second is of the Pune Metro but there are a lot in pipeline so maybe in next three to six months, we will see a large number of tenders coming in.

Pratik Giri: Sir we are L1 in one Rs. 450 Crores diagnostic vehicle tenders from Indian Railways so any update on that Sir?

Anil Agarwal: They are not yet finalized but the Indian Railways it is right now pending. So we do not know how much more time Railway is going to take to finalize that but again you know we already have a huge order book from the Indian Railway in terms of the wagon and we see lot of opportunity going forward in wagon as well as the rolling stock, metro rolling stock. So I think we need to discuss internally whether we would really be willing to take that order or not.

Pratik Giri: Okay Sir and Sir last question from this high speed rail corridor which will be set up in India probably in Golden Quadrilateral. So Sir right now ICF is developing some train sets

Anil Agarwal: Yes.

Pratik Giri: And Sir what are we getting form the Railway Board that how many such train sets will be required and how many train sets will be given to private, is there any rough idea Sir?

Anil Agarwal: There was a tender for the high speed, I would not say high speed but semi-high speed train set by ICF in the last year. So the initial estimate of that was around Rs. 3000 Crores but again in that also the eligibility criteria was very restrictive and finally the tender got discharged. So hopefully maybe next three to six months they should come out with that tenders with revised eligibility criteria and maybe of different quantity. If I remember correctly the total it was at least 60 train sets or something like that I do not remember to be very frank it is almost one, one and a half year old tender which has been discharged.

Moderator: Thank you. We would take the next question from the line of Amit Doshi from Care Portfolio Managers. Please go ahead.

Amit Doshi: Sir you mentioned that on the overseas level you expect or anticipate that to breakeven can you clarify would it that be at EBITDA level or the ultimate bottomline level?

Anil Agarwal: No I think I have mentioned it would be at a PBT level.

Amit Doshi: Sir this 22000 wagon order that is expected in about a couple of months which is roughly Rs. 6000, Rs. 6600 Crores so would the same policy would be followed like that L1, L2, L3 and that seems 22:18 is the ratio or because I understand from newspapers that it is going to be bucket filling method whereby...?

Anil Agarwal: That is correct, so this is the first time railways will do with the reverse bidding process and on a bucket filling basis but again this tender size is quite large. If you see 22000 wagons is very large quantity and if you see this total capacity in India is between 24000, 30000 wagons and all the wagon makers are suffering because of the low margins. So as of now the policy has been changed so there is no fixed allocation in terms of like which used to be in the past between L1, L2, L3 it is a bucket filing, it is reverse option but again in spite of all these things we hope that the prices could improve because the quantity is quite large.

Amit Doshi: But would it be awarded only to one person, when you say reverse...?

Anil Agarwal: No it will ultimately link to the past five years' performance or your excess capacity. So the Railways is not going to allot the entire quantity to one particular bidder even if you take the L1 and now the wagon type. So it is basically the maximum allocation could be up to your excess capacity or your last five years' peak production.

Amit Doshi: And this metro contract that we spoke about anything on the margin front what kind of margins one can expect?

Anil Agarwal: Since this is the first time we would be participating in a metro train so it would be premature to comment anything on the margins because

everything is on the estimate basis while we as a corporate policy would definitely like to maintain our 10% margin but again it would be very difficult for me to comment on the metro opportunity as of now because we are yet to build any metro cars.

Amit Doshi: Thank you that is all from my side.

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

Harsh Desai: Just to reiterate going forward in the next two quarters, our margins from the Indian Railway business will be in the range of 9% to 11%.

Anil Agarwal: No, due to overall increase in the volume and also in the recent past, there has been substantial increase in the input cost while we have our price variation clause from the contract of the Indian Railway but the timing of the sales realization getting changed because of the price variation generally takes some time. So while input prices have already increased the sales price is yet to get change because of the Ind-AS so hopefully due to these two factors the overall margin of Indian Railways orders should improve going forward.

Harsh Desai: In what range it would be, if you can give that?

Anil Agarwal: No as I said it is always very difficult to break the margin into different, different product level and to give you an idea but on a blended basis it has been maintained that roughly around 10% is quite achievable and hopefully it should be in that range.

Harsh Desai: And a question on loco shells there could be any update on loco shells or any orders coming in from locomotive shells for Cimmco or any progress on that front?

Anil Agarwal: We have received two big orders for the loco shells, one from the CLW and one from the DLW, which are under execution. So here the overall margin is better as compared to the margin from the wagon business and as of now, the execution is at I would say good level.

Harsh Desai: And going ahead you expect any orders in this segment and how big an opportunity can be this be?

Anil Agarwal: Overall requirement could be around I would say maybe 500 to 1000 loco shells roughly I am talking about and each loco shell is roughly around Rs. 1.4 Cr, Rs. 1.5 Crores. So this is the opportunity in the market and in terms of the competitor as of now there are only three approved suppliers so I think the opportunity is quite large.

Harsh Desai: And have we started making the double-decker wagon I think that Texmaco has been made one, any update on that?

Anil Agarwal: Sorry double-deckor wagons?

Harsh Desai: Yes.

Anil Agarwal: No we have not yet.

Harsh Desai: Alright. That that is it from my end. Thanks.

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

Ashish Kumar: Sir the Mumbai Metro tender you said is going to be decided in the next couple of months...

Anil Agarwal: No I said the Mumbai Metro tender is view within this month and generally they take six to nine months to finalize these kind of tenders.

Ashish Kumar: Thank you thanks for the clarification. And Sir this 22000 wagons order we have been bidding about in since last couple of months that it is going to come out next week but if you can give some more colour that what is kind of leading to the delay in the whole tender coming out or is that only a process kind of a thing, then you are confident...?

Anil Agarwal: Actually if you see the last tender which was finalized by the Indian Railways was only in the last week of December. So first I think the issue of this tender from the Indian Railways was too early because when the industry is already having a work load of almost 10000 wagons and again coming out with a new tender of 20000 wagons was a bit early but now the situation is that hopefully by the end of this month, the bids need to be submitted and thereafter they would take another two to three months to finalize this tender.

Ashish Kumar: So the bids are due for submission at the end of this month?

Anil Agarwal: Yes.

Ashish Kumar: Okay. Thanks a lot sir.

Moderator: Thank you. We take the next question from the line of Sheersh Jain from NVS Brokerage. Please go ahead.

Sheersh Jain: Good afternoon Sir apologies for reiterating this question I am sure this has been asked before but I have joined the con call late. If you could repeat the order book and the amount of which you are willing to execute in FY2019?

Anil Agarwal: So today the order book for Indian operation is around Rs. 850 Crores for the Titagarh standalone and Rs. 550 Crores for Cimmco and we expect to execute something around 80% of the order book by this financial year.

Sheersh Jain: Execution on a consolidated basis?

Anil Agarwal: Yes.

Sheersh Jain: Thank you Sir.

Moderator: Thank you. We take the next question from the line of Manu Pandey from Infinity Alternative. Please go ahead.

Manu Pandey: Just wanted to know what could be your average cost of debt and where do you see the debt position at the end of the year?

Anil Agarwal: The total net debt is around Rs. 500 odd Crores and out of this Rs. 500 Crores around 30%, 35% is in India and others in overseas. So our average of Indian borrowing is around 9.5% and for the overseas it is around

2.5% and I would not expect the same level to go further by the end of this fiscal. In fact we expect this level to go down.

Manu Pandey: Okay. Thank you.

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

Pratik Giri: Sir I just wanted a follow-up on this ICF tender.

Anil Agarwal: Are you talking about the propulsion?

Pratik Giri: No Sir the train set which you were talking about?

Anil Agarwal: Yes.

Pratik Giri: So these train sets will be manufactured at ICF campus or it will be manufactured at our Kolkata facility Sir?

Anil Agarwal: No it is a combination so the initial the first lot had to... we can import also. Then the some portion has to be manufacturing in anywhere in India. Then the balance has to be manufactured within the ICF premises. It is a combination but now the tender is discharged now so I do not see any point in discussing further about this tender.

Pratik Giri: And Sir these train sets will be of aluminum or steel?

Anil Agarwal: Sorry.

Pratik Giri: Sir these train sets will be of aluminum or steel?

Anil Agarwal: This train set I think was stainless steel if I remember correctly but I do not to be very frank I do not remember right now.

Pratik Giri: And Sir we are comfortable making both the stainless steel and aluminum as well?

Anil Agarwal: Yes, there is no issue at all.

Pratik Giri: That is from my side. Thank you very much Sir and best of luck for future.

Moderator: Thank you. Ladies and gentlemen this seems to be the last question for today. I would now like to hand the conference over to Mr. Parvez Akhtar Qazi for his closing comments.

Parvez Akhtar Qazi: We thank all the participants who are attending this call and we also thank the management of the company for allowing us to organize this call. Anil Ji, do we have any closing comments to make.

Anil Agarwal: No thanks everyone for join in this call and I hope I have been able to answer most of the questions to their satisfaction. The one thing which I would like to just reiterate in fact in the past in the last two three years we were discussing about the growth opportunity in terms of the railway business and at least today we can see yes there are huge opportunity going forward and this company is in a good position to tap on those opportunity and to capitalize on that. Thanks everyone.

Moderator: Thank you. Ladies and gentlemen, on behalf of Edelweiss Securities Limited, we conclude today's conference. Thank you all for joining us and you may disconnect your lines now.

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