

## Conference Call Transcript

Titagarh Wagons

Q4FY18 Results

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### *Corporate Participants*

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**Mr. Umesh Chowdhary**

*Vice Chairman And Managing Director*

**Mr. Anil Agarwal**

*Group CFO*

**Mr. Saurav Singhania**

*Group Finance Controller*

**Mr Vivek Goel**

*GM (Strategy & Finance)*

## Questions and Answers

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**Moderator:** Ladies and gentlemen, good day and welcome to the Titagarh Wagons Limited Q4 FY 2018 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 Qazi from Edelweiss Securities. Thank you and over to you Sir!

**Parvez Akhtar Qazi:** Good afternoon friends. On behalf of Edelweiss Securities, I welcome you all to the Q4 FY2018 results conference call of Titagarh Wagons. Today, we have with us from the management side Mr. Umesh Chowdhary – Vice Chairman and Managing Director of the Company, 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!

**Umesh Chowdhary:** Good morning. Thank you Parvez. This is Umesh Chowdhary. Thank you for joining this call. The year gone by has been a tough year particularly for the overseas subsidiaries of the company for host of reasons. We have done consolidated revenues of about 1271 Crores last year out of which the standalone revenue is about some Crores 310 Crores or so and the rest is between Cimco 140 Crores and the balance is the overseas subsidiary, which is Italian and French subsidiary.

The overseas subsidiaries have been under huge pressure on account of few reasons. As far as the Italian subsidiary is concerned, we had inherited number of contracts when we took over so when we took over the company, there was that the total acquisition cost was 1.5 million for the business and 10 million for the real estate and the part of the deal was that we have to takeover certain onerous contracts and the each contracts has a accumulated penalties. There was all the qualification from the auditor in the last results about these penalties, which are still under negotiation with the customers. We are trying to reduce this amount; however in order to remove the qualification we have decided to make a provision for these penalties although these penalties have not been deducted or being taken away by the customers as yet, a bulk of it has not been taken by the customers as yet, but as a matter of prudence and precaution, we have provided for this amount; however, the overall acquisition cost of the company including these penalty losses and the potential losses that have been accounted for is well within the market value of these assets i.e. the current market value of the assets that we have acquired and also by and large within the original estimates of the acquisition. We have in our press release

given the exact numbers in terms of the money invested in the Italian subsidiary and the total exposure both for direct investments as well as guarantees given by India to the Italian subsidiary.

The opportunity of the subsidiary remains large. We have participated and have been prequalified in very large tenders including within Europe and outside Europe and very importantly with the financials of Italian subsidiary, we will be able to participate in the different metro and modern coach tenders that will be coming out in India. We are expecting that these tenders should start getting published over this year. We were expecting last couple of months these tenders to come out; there has been one tender that has come out from Mumbai Metro but a number of that would be coming out in the next few months as we are expecting and as have get from the media reports.

This is as far as the Italian subsidiary is concerned. The French subsidiary has had a host of issues. One of course was a strategic move that we took at much subdued price for re-entering the stainless steel wagon segment, which I had reported in the quarterly earnings call earlier, but the problem of that contract aggravated as there was an increase in the stainless steel prices and this was a fixed price contract and during the execution there was an increase in the stainless steel prices by almost 30% to 40% so that in fact increased the losses and they have an onerosity in these contracts, coupled with this there was as I had reported in the last quarterly call also, there was a problem with the bogies. This problem is still being resolved. We had expected that this would be completed in the last quarter in the December quarter but the investigation and the resolution has taken longer although the company has restarted supply of wagons after a gap of few months where we could not supply the wagon the customers were not taking new deliveries that had started but we are sure that this problem will be resolved over the next two quarters.

We had put in place a number of steps and number of actions in the French subsidiary to bring back the French subsidiary into the original shape wherein it was able to deliver about 8% to 10% of EBITDA, we are very confident that in this year the situation will be made much better and will reach normalcy within the next financial year. We do not see any major challenges and we will be able to achieve the normal 7-8% or 10% EBITDA margins by FY2020.

As far as the Indian operations are concerned, the focus is on the order book building. The order book building has gone well as per plans; the railways have floated the largest ever tender about two or three weeks ago for 24000 wagons. This has been something that we have been expecting to happen for the last few years, finally it has started happening. The railways have also reopened the wagon investment scheme, which was the flagship scheme of the railways and which had benefited us a lot in the past in the between 2007 and 2011 with bulk of the revenues and growth coming from the wagon investment scheme.

Unfortunately in 2011-2012 the scheme was withdrawn by the railways and now the railways have realized that this is a good scheme and this is a win-win scheme for everyone in the wagon and the railway industry. So they have reopened it just a few weeks ago. There is a huge amount of the action from

potential buyers for these wagons.

We have a consolidated order book of about 1200 Crores in the Indian operations, most of this will be converted into revenue in FY2019 and this is without taking into account the new tender of 24000 wagons. As is known our market share has been between 20% and 25%, last year we got about 24% of the market share. Of course in a tender it needs to be seen it is a dynamic situation as to what would be the market share going forward but we, because of our capacity and our competitiveness and all of that we do expect that we should be able to get a high market share.

This tender has one uniqueness in terms of the way that the tender has been structured. It is on a reverse auction basis and what the railways has is on a bucket filling basis; while the tender has been issued, the exact mechanism of how that bucket filling will be done has not been mentioned or not been issued by the railways. The railways are still deliberating and that should be issued in the next few weeks; however, considering the overall quantity and the capacity of the industry we believe that the capacities of the industry overall, not only us should be utilized almost to a full capacity utilization level.

The company also on the defence side had launched its first naval vessel on the 17<sup>th</sup> of May this year. This vessel has been delivered ahead of schedule. The company is under the process of building three more vessels - one for the Navy and two for National Institute of Ocean Technology. We are expecting that all the three vessels also should be able to be delivered ahead of time. The vessel delivered has been very well accepted and appreciated by the Indian Navy. This opens up large window of opportunity for the midsized - up to the midsized vessels up to 110 meter or so vessels for the Indian Navy, which the company is qualified to bid for.

This is the overall picture. As far as the order book is concerned, the Indian operations have a consolidated order book of approximately 1200 Crores and the overseas have consolidated order book of about 1300 Crores.

I am happy to take any questions at this time.

**Moderator:** Thank you very much. Ladies and gentlemen we will now begin with the question and answer session. We take the first question from the line of Amit Doshi from Care PMS. Please go ahead.

**Amit Doshi:** Sir this is regarding the domestic order book of about 1200 Crores can you share execution timeline on the same and anything on the margins if at all?

**Umesh Chowdhary:** The execution timeline of the domestic order book is going to be primarily in FY2019. I would say that almost 80% of these contracts should get executed over the FY2019. There would be some additional contracts that we have bid for. For example in Cimico we are one of the very few companies in India who are qualified and approved to make pressurized gas carrying wagon DTPGL as it is called and there has been a tender for about 90 Crores or so from Hindustan Petroleum where we are L1.

So there will be additional orders that we have tenders that we have participated some of them might get actualized in to revenue this year, but on a ballpark I would say the opening order book that we have about 80% give or take a few percent discounts here or there should get converted into revenue this year.

Margins for the contracts are varying from contract-to-contract. On an average, I would say that we should be able to maintain an EBITDA margin of around 10%, again give or take a couple of percentage points depending upon the nature of the contract and fluctuation of the prices in steel the way they have increased, but the prices of the wagons in the last particularly in the private wagons have shown a very healthy trend of improvement. We have been able to pass through almost 10% to and in some cases more than 10% to 15% price increase to our customers and that has been accepted by the customers. So that going forward would offset all the input price increases and improve our EBITDA margins, which is essentially a question of capacity utilization so if you see the total domestic capacity of wagons it is between 24000 and 30000 wagons theoretically, the total capacity and the total demand for wagons has been hovering between 5000 and 7000 so there has been a huge glut. Now the capacity is likely to be equal to the demand if not lesser than the demand so with that situation the prices are expected to improve.

**Amit Doshi:** Sir the overseas order there are carry forward orders at a time of acquisition you said there are 62 million which are still pending to be executed. Do you believe or some sort of a something likely provision, which has been made so far, is expected out of that order as well of that 62 million?

**Umesh Chowdhary:** Based on the entire knowledge available to us today because these are contracts that were as we had mentioned in our press release these contracts were signed by the erstwhile Firema when it was under the government administration, some of them date back to more than ten years ago, which we are now executing. So there are technological challenges because there have been few changes in technologies so based on the best estimates available to us as of now, we have made the provisions for all the potential losses on these contracts. We should not be having further potential losses in these contracts but even if there are some additional costs that will come I do not believe that they would be substantial because majority of it has been factored in.

**Amit Doshi:** Any comment on the specialized equipment division's weak performance I believe that would include the Matiere JV and such other capabilities that we have acquired by overseas acquisition so anything on that on the specialized equipment?

**Umesh Chowdhary:** The Matiere JV is a new venture so we received the first two contracts for the Matiere JV that has definitely a very good potential but it is a new concept. We are selling modular bridges instead of a concrete and the permanent bridges, lot of clients have found large degree of merit in this, but if you really look at the investment that has been put into this venture this joint venture is essentially a design cum marketing company. The manufacturing of

that will be subcontracted to Titagarh Wagon's existing facility, which will not require any substantive capex apart from some jigs and fixtures. So this is essentially a joint venture that has been created to further increase existing capacity utilization and that objective will definitely be not based on this.

**Amit Doshi:** So specialized division weak performance any comments on that?

**Umesh Chowdhary:** If you look the orders, so the specialized equipment was basically the defence equipment, the shelters etc., we had executed the orders last year. There have been no tenders coming in from the defence for these kinds of shelters so there have been no sales. We have been expecting that there would be tenders from the defence but the defence offtake has been little slower than what overall the industry and the markets expected. We do we hope that things will improve in terms of defence procurement and today the order book that we have does not have a very large portion of the specialized equipments it has apart from the navy ships, primarily it is an order book constituting of the railway values.

**Anil Agarwal:** Sorry to interrupt. We also have the order from Nepal government which falls under the special project division and the bridge division so which is around 60 Crores so that will executed this financial year.

**Amit Doshi:** Thank you I will join in for follow up question.

**Moderator:** Thank you. We take the next question from the line of Jayant Mamania from Care Portfolio. Please go ahead.

**Jayant Mamania:** Good afternoon Mr. Chowdhary. Sir of the domestic order of 1200 Crores, 560 Crores they are relating to the railway wagons so can you tell us about the balance orders from which segment they are?

**Umesh Chowdhary:** Vivek Ji if you could give the exact numbers.

**Vivek Goel:** Yes sure. So out of 1200 Crores Indian order book, we have the wagon order book of 400 Crores in Titagarh and around 350 Crores in Cimco and the balance order mainly consists of the ship building of around 130 odd Crores, the bridges of around 60 odd Crores, coaches we have around 80 odd Crores and some loco sales and some defence equipment in Cimco and Titagarh put together around 60, 70 Crores.

**Jayant Mamania:** Sir can you tell us about the tenders in which we have participated and expected orders from that as far as domestic business is concerned?

**Umesh Chowdhary:** We had participated in several private and institutional tenders, some of them the price bids have opened, some of them the price bids have not yet opened. They are in the technical evaluation space to give the numbers. The total value of tender that we had participated within India and are going to participate including the 24000 wagon tenders that has been floated we would be valued to almost about 7000 Crores but obviously we are not expecting to receive all of these orders some of them are divided between different players to give a number of the orders expected would be speculated, we would not like to do that. We would only report the numbers once we have

been able to bag the contracts.

**Jayant Mamania:** Sir in case of this Titagarh Firema Adler during 2017-2018?

**Umesh Chowdhary:** It is not Adler anymore it is Titagarh Firema.

**Jayant Mamania:** Yes, so how much tenders we participated and how much we won?

**Umesh Chowdhary:** Since we have acquired the company we have bagged new contracts worth about 150, 160 million Euros in the tenders that we have participated. We participated in a tender for about 1.5 billion Euros unfortunately we are not priced L1 in that, but there are two more tenders one is about 1.6 billion, which is going to be closed in the next few months, we are prequalified for that, we are evaluating our chances whether to participate or not in that. We had participated in another tender for about 800, 900 million Euros, that bid is yet to be open. So there are several tenders that we have been participating, the passenger train business tender participation is a very complex process, even to participate in a tender in calls for a very large investment in terms of the pre-design activity so it is not possible for or feasible for us to participate in each tender. We need to do very careful evaluation on the visibility of the tenders that we participate and what we can share with you is that there are tenders that we have been prequalified today and or we have participated is valued at about 2, 2.5 billion Euros. How many we will be participating in that is something which will be decided as we go along.

**Jayant Mamania:** Sir we have the capacity to produce the LHB coaches; how are the prospects in that business as far as the Indian Railway is concerned.

**Umesh Chowdhary:** Not only the LHB coaches we have the prospect of doing so in Titagarh Firema we had done the high speed trains which is running at the speed of 300 kilometers in a hour we had done several and we own the intellectual property of several 160, 180 kilometers for our trains of double deck trains, train sets and all of that. So we have proposed to the Indian Railways to the Metro Authorities to get that technology into India and manufacture these trains in India. The Government of India has been very supportive under the Make in India initiative because in the past most Indian companies were not able to qualify for any of these tenders for the reason that they did not Make it in India before and it was becoming a chicken and egg situation. The public procurement policy or public procurement order, which were issued last year and all the ministries including the DIPP, the NITI Aayog have ensured that the Indian companies like ourselves in the Prime Minister Office that Indian companies like ourselves are able to participate in these tenders. So now it is a question of the railways deciding whether they would like to buy these coaches from the trade or they would like to make them in their existing units and I am sure considering the growth plans of the railways the capacity in the existing units is going to fall short. So it is only like I had mentioned always for the wagons in the past that is only a matter of time that this business is going to come to the private sector and when it comes we would be ready as a front-runner to accept it.

**Jayant Mamania:** Sir in case of this Titagarh Firema the value of the asset acquired during acquisition is more than the purchase price we paid plus the one time provision that we made so why do not we capitalize that to the balance sheet, one-time provision?

**Umesh Chowdhary:** I do not know whether that it is possible on accounting treatment I would leave that for our CFO.

**Jayant Mamania:** Saurav can throw any light on that.

**Saurav Singhania:** No we have examined the same but of course the IFRS or that Ind-AS does not permit the capitalization of such expenses and that was the reason we could not, but as Mr. Chowdhary has already explained the overall cost, which we incurred, the loss which we incurred on account of the penalty provision or the actual consideration which we paid so everything is well within our expectation.

**Jayant Mamania:** Sir what is the possibility of reduction of penalty the negotiations are going on the 49 Crores expected penalty?

**Umesh Chowdhary:** The amount of expected penalty that we have provided for is actually a little more than that because it is also done in the past. This is the final amount the balancing amount that we have provided, but to give an answer to this question would be premature at this stage. We have been having these meetings regularly. My level also I have met with the decision making authorities in the government several times and again be having meeting in next week. The authorities have seen merit in what we are saying. It is a question of because it is again public contracts so we need to wait and watch what happens. We do not know as a company we are hopeful because we believe we have a very strong meritorious case but we do not know what would be the final outcome. Of course there is also in it the certain question markets in terms of some instability in terms of the government formations so the process of the negotiation does get delayed because these are all government contracts till the proper government formation is completed.

**Jayant Mamania:** Sir last question in case of this French subsidiary we incurred a loss of 24 Crores in case of steel wagon business where we want to get in so what benefit did we derive after getting into that business?

**Umesh Chowdhary:** This amount is not entirely on account of that. This amount is also on account of the bogie problem that we had. The advantage that we will be able to achieve is that the stainless steel wagon business would be about 60% of the wagon business in Europe where we were completely out of so we would be able to also be present in this 50% potential market so we will not be able to get a benefit over few months or even few years it is a question of a perpetual advantage. Titagarh Wagons AFR in the past used to be making stainless steel wagons may be more than a decade ago and had completely gone out of this market we are at least now able to get back to the market which is almost 50% of the wagon market near or better side.

**Jayant Mamania:** So what will be the total market for your steel wagon globally?



**Umesh Chowdhary:** It is not globally I am only talking of Europe Titagarh Wagon AFR concentrates on the European market.

**Jayant Mamania:** Yes what would be that size?

**Umesh Chowdhary:** The total size of the European market for wagon has shrunk to about the total purchase it had shrunk to about 6000, 7000 wagons in the last year or a year before last. It is expected this year to improve in 2018 it is expected to go to about 8000, 9000 wagons. These are all estimates there are no certain figures. These are all market intelligence estimates based on the feedback that one receives from the various players in this field and it is expected to go back to about 12000, 13000 in the next couple of years, about of I would say anything between 30% to 40%, 50% of this would be stainless steel as we are expecting.

**Jayant Mamania:** What is the French subsidiary's wagon manufacturing capacity?

**Umesh Chowdhary:** The French subsidiary has capacity which is much larger but considering the French cost we believe that the right numbers the sweet spot if I can call it of the production is between 600 to 800 wagons.

**Jayant Mamania:** Thanks a lot that is all from my side.

**Moderator:** Thank you. We take the next question from the line of Vikram Sharma from Niveshaay. Please go ahead.

**Vikram Sharma:** Sir what is the effect of higher steel prices on existing order book we may expect lower margins in all steel prices is high?

**Umesh Chowdhary:** Yes. In terms of the railway orders, lot of our order book about 500 Crores or about 50% of the total order book is from the railways and I am talking of all combined that is all with the price variation clause. From the private wagon orders what we normally do is we do a back-to-back contracting of the steel as soon as we finalize the order so of course in some cases there has been an impact on the margin but when I have given my EBITDA estimates I had factored that increase already. I also mentioned that we have been able to pass through some price increases in the new contracts that have been booked on the from the clients so with that we will be able to come back to the normalized EBITDA margins so there might be pressure for a few wagons or few contracts that we are executing but it is not going to be substantial and it is going to be offset by the higher margin contracts that we are taking now.

**Vikram Sharma:** Inside of railway order book?

**Umesh Chowdhary:** I am sorry I could not get that question.

**Vikram Sharma:** Inside of railway order book all contracts are fixed?

**Umesh Chowdhary:** Railways are with price valuation clause. Your question is whether the railway orders are with the price variation clause? Yes.

**Vikram Sharma:** Are you expecting ship orders from private segment?

**Umesh Chowdhary:** If you could just speak a little louder because your voice is not clear.

**Vikram Sharma:** Are you expecting ship orders from private segment?

**Anil Agarwal:** You are talking about the accepting ship order from private or what?

**Vikram Sharma:** Yes private segments.

**Umesh Chowdhary:** What is the question Anil Ji?

**Anil Agarwal:** Whether we are expecting the ship contract from any private parties or customers?

**Umesh Chowdhary:** No we are not booking any private ship orders. They are primarily institutional customers.

**Vikram Sharma:** Thank you.

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

**Nirav Vasa:** I would like to first ask you about the upcoming opportunity from DFC wagon so Sir can you just share as to what exactly is happening for those wagons and by what time are expecting tendering activity for DFC wagons to pickup?

**Umesh Chowdhary:** On the DFC wagon, there have been a few small tenders that have been floated by some Japanese consortium but these are primarily for the maintenance of the DFC corridor. We are expecting that the DFC new wagon demand should start getting I had mentioned this also in the last conference call by end of this year this calendar year maybe beginning of the next calendar year the DFC procurement should start happening we are still not certain whether the dedicated freight corridor itself is going to buy the wagons or it is primarily going to be private investment of wagon but considering that the wagon investment scheme has been relaunched we are expecting that the DFC wagons would come under the private investment schemes so third party operators which is something which we would prefer also because we have a competitive advantage in terms of the private wagon market it is not a tender oriented business and there can be differentiators other than prices that will be valued by the clients.

**Nirav Vasa:** Sir other question is pertaining to debt because as I see your consolidated balance sheet your debt equity has increased to almost 0.7 times and now if we are talking of getting more orders when our working capital requirement might increase considerably so how do you try to either lower our debt requirement and get growth capital or is it like some kind of money stuck up in GST maybe with railways because of GST?

**Umesh Chowdhary:** There is money that is stuck up in GST but that is not a very large amount. It is not the primary reason for the debt. There is a problem in the GST structure wherein in the railway industry and we have presented this number of times. We hope that the government will address this. Our input GST is higher than our output GST. We pay at the rate of 16% or 18% GST and our final product is at 5% GST but this apart bulk of the debt is coming out of the overseas subsidiaries wherein we have put in only about form our own side from

our own capital we have put in some amount but there is also a working capital that is stuck up there that should start getting liquidated when we start completing the old contracts. So if you really see the amount of debt overall bulk of that debt so in Titagarh standalone we do not have any long-term debt there is only working capital debt. In France we have some debt and in Italy we have some a larger portion of the debt. In Cimmco we have debt of about 70, 75 Crores of 81 Crores of long-term debt and that is not at all high for company of Cimmco's magnitude of course the operations of Cimmco has been very badly affected because of the non availability of orders but now we have about 430 Crores of orders in Cimmco alone so Cimmco should be able to reduce its debt going forward. What we do need to do is the Italian subsidiary because in a passenger train business, the working capital cycle is always large so if we compare it to any of the passenger train manufacturers globally, we do not have a very high debt ratio in Italy also. We cannot look at the complete debt scenario by averaging it out we need to see it segment to segment passenger train industry will require higher working capital for the wagon industry we do not require very large working capital facilities except for the new railway contracts wherein there is no free supply and there is no advance but we are bring able to manage that very effectively.

**Nirav Vasa:** I will join back thank you.

**Moderator:** Thank you very much. Next question is from the line of Giriraj Daga from KM Visaria. Please go ahead.

**Giriraj Daga:** Couple of questions from my side so what you are mentioning is that the 80% of the domestic order should flow into FY2019 so should it be fair to assume roughly the revenue of about 900, 950 Crores versus combined revenue of 450 Crores what we achieved in FY2018 is this right thought process?

**Umesh Chowdhary:** What I did mention is that there would be some contracts that we would be signing that could also get converted into the revenue of the current year so I would not give any revenue estimate for the current year what I would only say is that yes we are expecting 80% of the existing order book to flow into revenue in the current year.

**Giriraj Daga:** Second if you can also give some guidance on the Italian and French subsidiary in terms of revenue?

**Umesh Chowdhary:** In terms of the Italian subsidiary, we have an order book of about 138 million Euros, some of these contracts I would say again about 60%, 70% of each contract should get executed this year. In France we have an order book of about 24 million euros. This should entirely get actualized and there would be some more additional contracts that we are trying to negotiate in France.

**Giriraj Daga:** On margin wise like Italian how much margins we are looking at?

**Umesh Chowdhary:** Italian we are that the old contracts that we are executing as I had mentioned that they are without any margins. In fact they were onerous contracts and hit on that has already been provided for. The new

contracts are with some margins but we do not expect very it is the Italian subsidiary as we have maintained will take maybe a couple of years to get to normalcy of operations. This year should be much better than the last year but it is in terms of getting to normalcy or positive results we expect that it should happen over the next year.

**Giriraj Daga:** Just a follow-up sir what is the normal margin which you are taking in calculation like is it what 10%, 12%, 15%.

**Umesh Chowdhary:** In the railway industry normally we consider contract to contract and the complexity of the contract wise and the passenger train business I am saying it is anything between 8% and 15%.

**Giriraj Daga:** Next question is if you can give the debt number of Italian and French subsidiary, you mentioned about Cimmco 81 Crores long-term debt but what is the debt we are having in Italy and French?

**Umesh Chowdhary:** In Italy we had declared in the press release we have about 41 million Euros of debt in Italy and in France is about 8 to 10 million Euros.

**Giriraj Daga:** Last question on the reverse auction side is the understanding that by reverse auction the entire billing will compare price and from that it will be distributed among the players or over percentage of?

**Umesh Chowdhary:** It is not yet clear. As I had mentioned in my opening remarks that we are still waiting for the final procedure to be announced by the railways but yes this is what we are expecting what you said because this will be a logical option.

**Giriraj Daga:** Thanks a lot and all the best.

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

**Harsh Desai:** Sir my question was relating to your domestic wagon orders if I understand correctly, you said you have the Indian Railways floated a tender of around 24000 wagons plus and if I am not mistaken as per what you have achieved in the previous tender in January of this year between you all and Cimmco you all got an average of around 25% of that order correct?

**Umesh Chowdhary:** That is right.

**Harsh Desai:** So can we assume something similar which is your up down of around 6000 wagons from that?

**Umesh Chowdhary:** It is very difficult to say that because in a tendering process it can vary from a tender-to-tender basis. Historically yes we have got between 20% and 25% market share in every year for us to speculate what we will get in the next tender in terms of market share would be difficult at this stage and inappropriate but yes what I can say is that we have been leaders in this field and we would definitely put all our endeavor to keep our leadership position.

**Harsh Desai:** Assuming that you have get that 24% approximate number and

around 6000 wagon then would our EBITDA margin look better somewhere in the range of 12%, 15%?

**Umesh Chowdhary:** Again that is something, which we need to see because it depends on host of factors in terms of the selling price. The selling price is not something that we can determine. Competition of the entire process that will determine the selling price so it is very difficult to predict how much would be EBITDA in the future contracts but what I did mentioned in that based on the current contracts that we have in hand and execution we should be around 10% plus or minus percent or two depending on the different contracts of EBITDA.

**Harsh Desai:** Just one second question; in terms of Coal India we heard that they wanted to procure 1 lakh wagons, have you going on anything from Coal India regarding the private wagon order?

**Umesh Chowdhary:** No Coal India, no private wagon orders have been ordered for the general-purpose wagon. The wagon investment scheme for purchasing the general-purpose wagon was announced only about two three weeks ago. Now there are some clarifications that various potential buyers of wagons have sought from the railways there since it is a scheme that has been relaunched after almost six, seven years, there are number dotting the eyes and crossing the teas that is happening. A lot of discussions happening between the investors or potential investors or buyers of wagon and the railways so this is going to mean a paradigm shift for sure. I think it is a very forward-looking very positive move by the railways. It would not only help the wagon industry but the industry at large in terms of the consumers and mostly the railways because the railways without making investments will be able to grow their revenue, which will straightway hit their bottomline positively. So we do expect that there should do a very large traction. We have been hearing in the news that the coal availability has been very difficult for non availability of wagons so and Coal India sits on a pile of cash so we do hope that Coal India will go ahead and buy substantial quantities of wagon in the future but this is something which is our market estimate our best estimate we do not have any confirmed communication from them accurate.

**Harsh Desai:** I will come back in the queue for more.

**Moderator:** Thank you. We take the next question from the line of Manish Bhandari from Vallum Capital. Please go ahead.

**Manish Bhandari:** Good afternoon. Sir I have one question regarding the metro coaches and this is regarding can you tell me how much is the industry capacity because most of the orders have been bought by Bombardier or some any Chinese players so is there a space for us or do they have any competitive advantage of, is the industry running on significantly lower capacity utilization so if you could throw some light on this?

**Umesh Chowdhary:** When we look at the metro coach manufacturing capacity we have to clearly demarcate the domestic capacity and the global capacity. The global capacity particularly with the Chinese is large once the merger of all the Chinese companies happens to give you an order of magnitude Chinese that is

the CRRC is the largest manufacturer of railway coaches and the next three which Alstom, Siemens and Bombardier combined are smaller than CRRC. So the capacities of the Chinese manufacturers are not published, not known so cannot be commented upon. As far as the domestic capacity is concerned and why I am saying the segregation or differentiation between the two capacities is because of the Make in India policy and the public procurement policy of the government which has been enacted only last year, which mandates two things number one it mandates that minimum 75% of the coaches must be manufactured in India that cannot be imported and second there will be a price preference of up to 20% of domestic manufacturers compared to imports. So with that we believe that anybody wanting to be in the Indian metro coach or Indian coach business needs to have a manufacturing facility in India. As of now Alstom, Bombardier and BEML are the three who have their metro coach manufacturing facility and we will be the fourth. Bombardier, Alstom and BEML as we understand have the order books for the next two, three four years completely full. Bombardier is also exporting some coaches from India so we believe that the overall market size compared to the capacity available or the capacity, which is expected to be in the pipeline, the demand is much larger than the capacity.

**Manish Bhandari:** Sir my last question is regarding your efforts on the defence sector so you have this navy ships 110 meter and then you have the Bailey bridges, which is maybe sometimes they produce and railways as well as in defence how do we define the market size opportunity for these two is slightly challenging for me to understand that how big is the size of opportunity and who could be a competitors and what advantage you would have? Thank you.

**Umesh Chowdhary:** As far as the bridges are concerned, Bailey bridges are a niche market. It is primarily with some of the state governments and it is for temporary bridging purposes and as far as the other bridges which is the Uni Bridge the Matiere bridges they are bridges that can be used for permanent roadways and they are basically going to be the replacement of steel or somewhere concrete bridges. So if we look at the market size of Matiere, the joint venture partner that we have now they supply to about 60, 65 countries and they do a revenue of give or take about a couple of 100 million Euros a year and there are three four more other companies of similar sizes in the market so there is a sizable market for these kind of bridges also in India but it is a concept selling that we are having to make right now because intrinsically it was not considered that the modular bridge can be a permanent bridge because we were always thinking about the Bailey bridges as temporary bridges. So we believe that this business can grow about 300, 400 Crores over a period of time but it will take some time. As far as the defence opportunity is concerned, everybody in the market including ourselves thought that this could be an opportunity that will come up in the last two, three years in a very large way and as it known many people invested substantive amount of money in efforts in to this unfortunately defense is a very complicated market in terms of technology, in terms of the sectors in terms of trial so it taking some time for that business to develop so sitting here today I am not able to give a number to

that the timeline to that opportunity of how that will get converted into order books or execution but we still are maintaining our focus on that business.

**Manish Bhandari:** And your Tata Power joint ventures holds true?

**Umesh Chowdhary:** We do not have any joint venture with Tata Power. We have a consortium with Tata Power for one project, which we have participated. That project is not yet been finalized.

**Manish Bhandari:** Thank you. Thanks a lot.

**Moderator:** Thank you. We take the next question from the line of Rita Tahilramani from SBICap Securities. Please go ahead.

**Rita Tahilramani:** Sir what is your status as of our coach order of about 80 Crores?

**Umesh Chowdhary:** Sorry your voice is not clear madam.

**Rita Tahilramani:** Coach order which we have received of around 80 Crores?

**Umesh Chowdhary:** You are talking about the coach order of 80 Crores?

**Rita Tahilramani:** Yes Sir.

**Umesh Chowdhary:** Okay this is for the standard EMU and the local trains the EMU and the MEMU, which we have been supplying to the railways. This is an option quantity that we have received for our ongoing contracts which we have been floated over the last year so the railways have a option quantity that is the one that we are execute we will be executing this.

**Rita Tahilramani:** But when do we expect execution on this particular order?

**Umesh Chowdhary:** I am sorry I could not get that.

**Rita Tahilramani:** When do we expect execution on this particular order?

**Umesh Chowdhary:** Some of it would be executed I would say about 60% of that would be executed this year itself and the balance will be in the coming year.

**Rita Tahilramani:** Sir second question is on this WIS, the Wagon Investment Scheme we have seen that even in the past there were some issues in the scheme in terms of receiving approvals from the RDSO so how do you think this scheme would pan out going forward and implementation of this particular scheme?

**Umesh Chowdhary:** There are always teething troubles in any scheme that is launch but in the past also the scheme was hugely popular. It did have teething troubles in the beginning but they were all sorted out. The railways are very proactive to make sure that this scheme is successful as we see it is being monitored at the top most level by the Chairman himself and of course the minister, so I do not see that the teething troubles while there can be certain they could be delayed by some of these processes by a few days, few weeks or few months but we do not see the problem in implementation of this scheme at all.

**Rita Tahilramani:** Sir then how do you see the market size currently in terms

of price as and currently and with this launch this new scheme how do you see the market size increasing which will give us a small quantum?

**Umesh Chowdhary:** We have always maintained that if you look at a macro level picture the total railway share of the logistic sector, the transportation sector in the country is about 30% give or take and the railways operate at with a 250000 fleet of freight wagons, which have a average life of 25 years so if we just take simple arithmetic 10000 wagons are required for replacement. The GDP growing 7%, additional 7% of 250000 are required for just carrying the additional GDP and one on one in GDP to transportation ratio even if the railways do not gain market share, which they have targeted to gain to 50%. So on a very, very thumb rule back of envelop calculation basis, we believe that the market for wagons and this is also in the vision 2020 document should be anything between 25000 and 29000 wagons a year. Having said that the numbers that we have seen over the last ten years have been a fraction of that and we do hope that there will be a catching up that will happen in the years to come.

**Rita Tahilramani:** Thank you Sir and congrats for future.

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

**Prateek Giri:** Sir we are the only RDSO certified company, which are, allowed to make car carrying wagons?

**Umesh Chowdhary:** Pardon.

**Prateek Giri:** Sir we are the only RDSO certified company, which are, allowed to make car carrying wagons?

**Umesh Chowdhary:** No we are not the only company. Every wagon manufacturer is authorized to make car-carrying wagons. It is a general certification that is there. We are the only company, which have our own design for car carrying wagons. That wagon trial has been over it is waiting the final returns from RDSO we are hoping that we should be able to receive that final results from RDSO in the next few weeks, which will we believe that the design that we had done which is being done also with help and inputs from our French subsidiary is a superior design to what is the design available in the market today. The customers have also found it to be much better and this will put up in a unique position in the car carrying wagon market.

**Prateek Giri:** So are we getting any scheme from players like Maruti Suzuki and Honda for these wagons?

**Umesh Chowdhary:** As I said that for our design of wagons we are awaiting the final approval. We will be able to get the business only after we get the final approvals for our design. As far as the RDSO designs of the car carrying wagons it is Maruti had purchased the rakes of these which we had supplied all three of them but after that the automobile companies themselves had not been buying wagons. There are third party logistic operator there is something called AFTO scheme Automobile Freight Train Operator Scheme under which these wagons



are purchased and there has been a huge amount of traction there have been in fact two or three new automobile AFTO applicants who have got free licenses very recently.

**Prateek Giri:** Sir my second question is on is there any railway PSU which makes bridges for railway projects because if you look at the kind of investment Indian Railway has been making in northeastern India so can we expect some good order book from Indian railway in our Bailey bridges segment and two and any update on the 800 Crores Nagpur project and the CLW project which we have been executing proposition system Sir?

**Umesh Chowdhary:** Now to give your answer in parts, number one is the bridge. As we have seen in the media recently that there has been the first application of Bailey bridges to construct the foot over bridge in the Mumbai railway station, Bailey bridge is of course a very good solution for these foot over bridges but the design of the bridges that we have with Matiere the Titagarh Matiere joint venture is a far superior design that are Bailey bridge for foot over bridges. We have received one contract for a foot over bridge is not from the railways but from a state government and this would be erected over the course of this year and we believe that this could be an opportunity. In terms of railways PSUs, IRCON does make bridges but they are concrete bridges or they are steel corridor bridges they are not modular bridges so there is an opportunity and this is what I had referred to as the opportunity of the bridges in the past question that were asked. As far as Nagpur I do not think there is any Nagpur project that is pending that was already awarded to the Chinese we have lost that tender.

**Prateek Giri:** I am sorry in Pune.

**Umesh Chowdhary:** Pune the tender is not yet published. Pune tender should be published in the next week so it can be published any day so you do not know when. We have read in the papers that cabinet and everything is cleared. The funds have been tied up so we are waiting for the tender to be launched any day and your last question was on the CLW. Very recently we have the capacity as a capability assessment conducted by CLW and just about three weeks ago we received a registration or approval certificate for our Indian facilities for manufacturer of the propulsion systems so after this we will be receiving the final contract and we expect that the prototype should be delivered to CLW for the first propulsion system in by April or May 2019.

**Prateek Giri:** And we will be using that propulsion system in metro or in where EMU?

**Umesh Chowdhary:** This is for the locomotive but our plan is to make propulsion system initially for EMU, MEMU and locomotive and then go for the metro for our own metro coaches we would like to use our own propulsion system like we have done in Italy.

**Prateek Giri:** I leave in the queue for next question.

**Moderator:** Thank you. Well ladies and gentlemen that seem to be the last question, I would now like to hand the floor over to Mr. Parvez Qazi for his

closing comments.

**Parvez Akhtar Qazi:** We thank all the participants for attending this call and we would also thank the management of the company for allowing us to organize this call. Mr. Umesh do you have any closing comments to make?

**Umesh Chowdhary:** Thank you very much Parvez. Thank you to all the participants for all the very valuable questions, some of them gave us an insight of some ideas. All I can say is that we on a overall basis, we see that the Indian operation for the freight wagons etc., are turning swinging back as what we expected. The passenger coach segment, metro segment with the recent developments on the policies of eligibility, which have been announced by the government and the Make in India policy, we believe that this is a great opportunity, we have been waiting for this opportunity, one of our main reasons for acquisition of the foreign subsidiary was with the Indian metro and coach opportunity. We now see that turning into reality. The challenge in the European subsidiaries, particularly in the Italian subsidiary to bag some good contracts. We are working very hard and we are working very aggressively to do that. It has been a very challenging year last year. This year I do not say that the problems will be completely over in terms of the European subsidiaries but definitely it will be substantially better than last year as we hope and we are fairly confident that by next year we should be able to turnaround the European subsidiaries as well.

**Moderator:** Thank you very much. Ladies and gentlemen on behalf of Edelweiss Securities Limited that concludes this conference. Thank you all for joining us. You may now disconnect your lines now.

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