



“Titagarh Wagons Limited  
Q1 FY2022 Earnings Conference Call”

August 13, 2021



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**Moderator:** Ladies and gentlemen, good day and welcome to the Titagarh Wagons' Q1 FY2022 Earnings Conference Call hosted by ICICI 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 now hand the conference over to Mr. Renjith Sivaram from ICICI Securities. Thank you and over to you Sir!

**Renjith Sivaram:** Thanks Kathy. I welcome you all to the Q1 FY2022 results conference call of Titagarh Wagons Limited on behalf of ICICI Securities. We have with us the management represented by Mr. Umesh Chowdhary - Vice Chairman & Managing Director; Mr. Anil Agarwal - Director (Finance) & Chief Financial Officer and Mr. Saurav Singhania - Group Financial Controller. We will have initial presentation by the management post which will go for Q&A. I hand over to Mr. Umesh Chowdhary for the initial remarks and the presentation. Over to you Sir!

**Umesh Chowdhary:** Thank you Renjith. Very good afternoon and welcome to the Q1 FY2022 earnings conference call. As you would note the quarter has been pretty much in line with what we had expected when I last connected during the investor call of Q4 FY2021 results. I had mentioned that the company would continue to deliver in the same manner as Q4 and we would try to improve upon both on the margin side and on the revenue side. We are happy to report that we have been able to do that. The quarter had certain important milestones, number one on a standalone basis this is probably the highest revenue quarter in the history of our company, second is in terms of the Metro contract, the company was able to roll out its first train from its facility in Italy, the first Pune Metro train was ready and was flagged off by the Indian Ambassador in Italy and Italian Ambassador to India and the client representative that is Maharashtra Metro, so these have been important milestones, which happened during the quarter.

The order book remains healthy in all the divisions that is freight rolling stock division, passenger rolling stock division, and other divisions which include the shipbuilding defence, etc., and we hope to maintain a similar on a quarter-to-quarter basis. However, there can be variations for example in the current quarter there have been certain disruptions, in one of the critical key components which is wheel sets in the month of July and the beginning of August there was almost no production of wheel sets by Rail Wheel Factory, which is the related producer for wheel set but now the production has restarted. We will be trying to make up the lost ground in the start of the quarter, but we are really



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confident that we are able to recover that during the financial year, so in a nutshell that has been as far as the Indian operation is concerned.

In the Italian side business, post-COVID we have tried to recover the operation. The revenue for the first quarter was about €23 million which was slightly less than what we had budgeted but with vast improvement of over what we have done in the corresponding quarter last year. Last year quarter was not a very good comparison because it was affected by COVID, but the important thing is we also turned EBITDA positive in Q1 FY2022. The order book remains decent although for the size of business that the Italian subsidiary is we believe that we need to book some more big ticket orders. We have participated in some tenders and we are trying for some big ticket tenders there, but on the whole we expect that in the current financial year barring uncertainties relating to COVID, hopefully they do not hit again, but otherwise we should be able to be EBITDA positive in the Italian subsidiary as well. In a nutshell, this has been the performance and I happy to take any questions that may be there. Thank you.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of Sreeram Ramdas from Green Portfolio. Please go ahead.

**Sreeram Ramdas:** Mr. Chowdhary the Italian unit reported EBITDA positive after five quarters like you just mentioned is the main reason the end of legacy orders or are there any other efforts that were taken to reduce costs and do you think it is sustainable going forward?

**Umesh Chowdhary:** Thank you, yes, we did EBITDA positive lastly in December 2019 after that the five quarters have been very bad quarters, but on a mixture of COVID as well as part of the legacy contracts that were getting executed. As of now I would say about 90% of the legacy contracts have been executed, 85% to 90%, some of them are still remaining which will get executed over the current year, and again I would not speak on a quarter-by-quarter basis, but on a full year basis we are fairly confident of being EBITDA positive during the current year.

**Sreeram Ramdas:** I believe the main reason why we were EBITDA positive is because the legacy contracts were coming to an end correct?

**Umesh Chowdhary:** That is right and also one is the legacy contracts coming to an end and the second is the overall performance improved in the sense of revenue, etc.



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**Sreeram Ramdas:** Understood and secondly on the tie up with Hitachi for utilization of capacity it was told that it would help us in tenders relatively, any further potential in this end and any progress we have seen so far?

**Umesh Chowdhary:** As far as the Hitachi tie-up was concerned that is for outsourcing some of the work for Hitachi so that we can maintain our workload. Yes we are doing some outsourcing work for Hitachi we will continue to do that, of course our preference is to build our own new trains, but this was only a measure so that we can balance the workload availability from the capacity.

**Sreeram Ramdas:** Any revenues from this side?

**Umesh Chowdhary:** Yes, absolutely we have been able to generate actually from that side as well.

**Sreeram Ramdas:** Any rough figures that you can provide?

**Umesh Chowdhary:** We have not been able to give contract by contract revenues, sorry.

**Sreeram Ramdas:** Alright and the contract with ABB how is that coming?

**Umesh Chowdhary:** So, that is for development of propulsion systems in India, they are partnering with us in designing technology and that is going on well. We are expecting to deliver the prototype propulsion systems to the Indian Railways in Q4 of this financial year.

**Sreeram Ramdas:** If we look at Q3 FY2021 the shipbuilding and bridges order book was at 102 Crores and now the same segment the order book is at 486 Crores so can you provide me with the major order wins that we have had in the segment during these past two quarters?

**Umesh Chowdhary:** It is about 480 Crores, I will ask Mr. Anil Agarwal our CFO to answer.

**Anil Agarwal:** Basically we got some orders from Indian Navy that we got during the last quarter, that is the reason primarily because of the orders which we received for the shipbuilding and some small contracts for the Indian Defence and the bridges.

**Sreeram Ramdas:** The 175 Crores is from the Indian navy and the others from the defence correct?

**Umesh Chowdhary:** Again, we will not able to break up on a contract-by-contract basis, but in terms of the business segmentation we are now following the segmentation, one is the freight rolling stock, the other is our transit and propulsion and the third is shipbuilding and defence which



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we have clubbed together. So between the three divisions one should note that the whole operations and management of the company are also structured in a way of managing these divisions as the business units and all the three business units are having a decent order book in terms of being able to grow the individual business units in the future.

**Sreeram Ramdas:** Great and update on the 606 Crores worth Mumbai Monorail rakes tender, which is mentioned on the media, do you have any update for us on this end?

**Umesh Chowdhary:** We had clarified to the stock markets that time also when it came in article published in the media, we have participated in the tender, but we have not received any final approval, the contract is still under evaluation it has still not been awarded by the MMRDA.

**Sreeram Ramdas:** We are the L1 bidder for this I believe?

**Umesh Chowdhary:** Yes, according to the tender opening results we were the L1 bidder, detailed evaluations that are going on and till we are awarded we will not be able to comment anything on that apart from when we had participated and during the tender.

**Sreeram Ramdas:** How many orders are we targeting to bid this year if all goes well and approximately how many orders are we L1 bidder for?

**Umesh Chowdhary:** Sorry, I would also like to clarify that there is some evaluation differences that are there in MMRDA, which is only to complete that so when the tender was open we were the L1 bidder, but there have been certain evaluation criteria that MMRDA has introduced subsequently, which we have represented and that is still under evaluation of MMRDA.

Coming back to the other question that you asked about other tenders that we are L1 at any point of time there are many tenders that are ongoing where some of them we are L1 and some of them we are not, we would not be able to comment on each one of them, but as soon as an important tenders fructify and we are able to win an important contract we will definitely come back to the market and inform.

**Sreeram Ramdas:** But how many projects are we targeting to bid for this particular financial year?

**Umesh Chowdhary:** We are going to participate in several tenders again as I mentioned that I would not refrain from going to a contract-by-contract details but there are at least five or six metro tenders that are going to be issued or that have been issued in India itself and if not all definitely most of them we are likely to bid.



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- Sreeram Ramdas:** Alright, thank you so much.
- Moderator:** Thank you. Mr. Renjith Sivaram from ICICI Securities you may go ahead with the questions if you have.
- Renjith Sivaram:** Sir, couple of question from my side. If we can look at the overall Indian railway ordering front what is the status out there especially with the DSP do we expect some DSP related specialized wagon orders from them, what is the status there?
- Umesh Chowdhary:** As far as the DSP related orders are concerned, as we all know that the DSP implementation has been slightly delayed and as a result of which the ordering cycle has also been delayed, so we expect that the ordering for DSP will start at the end of this financial year or beginning of next financial year.
- Renjith Sivaram:** The normal ordering from Indian Railways anything from there?
- Umesh Chowdhary:** The tender has been recently published, it has still not been closed we still have to bid for it.
- Renjith Sivaram:** From the private logistics companies like Gateway Distriparks and CONCOR and others?
- Umesh Chowdhary:** Yes, in the private sector wagon requirement or procurement has been there, maybe from time-to-time overall on the whole the requirement for private wagon has been very healthy. I would say in this financial year, we have executed substantial private orders and we are having with us a few orders in hand.
- Renjith Sivaram:** The current increase in commodity prices is there any impact because of that or are we able to pass on the majority of this commodity increases to the end customer and protect our margins?
- Umesh Chowdhary:** Majority of our contracts that we have are with price variation clause so we are able to pass on the commodity price to the final customer, having said that there are a few tenders or few contracts that we have which are on fixed price basis but they are not substantial and company has put together the best possible risk mitigation strategy in order to not allow the contract to become the concern. In the price variation that we have is on our wholesale price index variation so there might be a quarter-to-quarter lag in terms of being able to recover the peak of price, but if you normalize it over a period of a fiscal we are able to pass on the bulk of the prices.



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**Renjith Sivaram:** In the Italian subsidiary what is the current utilization level and what is the outlook there in terms of growth from the European market substantial activity there?

**Umesh Chowdhary:** The growth outlook in Europe is quite healthy because of the new norms that are being discussed and contemplated in terms of pan India standard capacity for coach and so and the European business is into manufacture of passenger train, so we believe that the demand for the wheels is likely to be quite healthy and good. The company subsidiary has full integrated capability to realign and manufacture train and we do believe that the outlook of the business can be quite good. Having said that there are current challenges. of course due to multiplicity of factors coming out of COVID and as you all know Italy was one of the worst affected countries so we are trying to overcome those challenges and beyond that we believe that the company could have a very bright future.

**Renjith Sivaram:** What is the utilization out there?

**Umesh Chowdhary:** The capacity over there is quite large; the company has in the past done revenue what we had acquired, so the highest revenue that it was able to achieve was about €275 million, so if we look at in terms of if that was close to capacity then we can consider that as a capacity.

**Renjith Sivaram:** In the Indian unit what is our capacity utilization level?

**Umesh Chowdhary:** For the freight basis our total capacity is about 8500 wagons, of course if the demand picks up we are able to produce that, but we are doing, the last year we did about 4900 and we have about the same run rate now last to last year the year before COVID. In terms of the passenger coach segment we are building a capacity for 200 metro coaches a year.

**Renjith Sivaram:** What is your outlook like is there any possibility that we can increase our utilization and there can be some operating leverage out there or you feel that you need to move this capacity to somewhere else?

**Umesh Chowdhary:** In both the units we have adequate capacity our target now and going forward at least for the next three to four years is going to fund raise in means of utilizing our capacity.

**Renjith Sivaram:** Last question from my side is that we had planned to engage in this propulsion, so what is the status out there in terms of assignment, can we hear something positive regarding the propulsion systems?

**Umesh Chowdhary:** I did mention to the gentleman before who asked the same question that first prototype is likely to be delivered from us in the Q4 of the current financial year.



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- Renjith Sivaram:** Okay Sir and all the very best.
- Moderator:** Thank you. The next question is from the line Vasudev from Edelweiss. Please go ahead.
- Vasudev:** Thank you for the opportunity Sir. If possible could you give us some details about the balance sheet items like the gross and the net debt, inventory, debtors, creditors, cash balance and those things?
- Anil Aggarwal:** We have not published the balance sheet and which is not required so it would be not possible for us to share the number, but yes definitely I can indicate that more or less the Titagarh in line with the March numbers and in line with the estimate which we have done.
- Vasudev:** Just can you give the debt figures if possible in India and in the Italy business?
- Anil Aggarwal:** As I mentioned even in India the debt level whatever we were having as on March 31, 2021 we are maintaining at that level barring some maybe some working capital limits and small limits for day-to-day working capital, but otherwise as far as the long-term basis is concerned so that is exactly on the same line as that of in the month of March.
- Vasudev:** If you can give us the split of the wagon order book between private and the public sector and like what is the wagon order book in number and value term?
- Anil Aggarwal:** Average realization for the wagon is roughly around Rs.30 lakhs and the total order book we have in the freight business is around 840 Crores odd so you can just calculate the number of wagons and the breakup between private and the public we are not publishing so it would not be possible for me to share that particular data.
- Vasudev:** No problem and how many wagons were dispatched in Q1 FY2022 you can give that number?
- Anil Aggarwal:** It would be again you need to just make some simple calculations by dividing the total turnover by Rs.30 lakhs you will get the number of wagons.
- Vasudev:** Got it and lastly what was the capex that we did in Q1 and what do we expect for the remaining part of the year?
- Anil Aggarwal:** The overall capex what we had planned for the creation of the entire facility along with the new capex for the metro project and the propulsion was something around 80 Crores odd and out of that roughly around 20 Crores to 25 Crores we have incurred in the last year. In





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the first quarter we did almost around 15 Crores to 20 Crores and the balance we will be doing in the balance part of the year, so maybe by March 2022 all our capex will be complete.

**Vasudev:** Got it and lastly in the last call I think you had mentioned about a new design center in Hyderabad so is there any update on that?

**Anil Aggarwal:** New design center is working very well, they are working in close coordination with our Italian team and working on lot of projects particularly like the Pune Metro project and also the propulsion equipment project and also some design for the Italian company as well, so they are working very well and in fact we are in the process of increasing the overall size of the design center.

**Vasudev:** Got it. That is it from side. Thank you.

**Moderator:** Thank you. The next question is from the line of Bhagyesh Kagalkar from HDFC Mutual Fund. Please go ahead.

**Bhagyesh Kagalkar:** Can you throw more highlight, the actual issue from the rail factory keeps on recurring or occurring again and again essentially, so what is the way out in between the imports from China, etc., what is the way out, we will be scaling up to 200 metro coaches, are those access coming from Italy for the wagons it makes two to three years obviously the company will scale up in both private and government wagon, so what is the way out for this?

**Umesh Chowdhary:** For the transit business for the metro coaches the wheels do not have to come from railways actually that is coming from different sources there is a check in German company which is present in India also they supply those wheel sets and there are other international companies that will supply those wheel sets. For the freight wagon it is part of the contractual condition, it is not that there is no wheel set available globally, wheel sets are available globally so we have been representing to the government and probably if the tender is going forward they will change this and they will allow for wheel sets to be imported, but because these are tenders that have been finalized on the basis of wheel sets to be given or to be taken from the Rail Wheel Factory at predetermined contractual prices and conditions therefore they cannot be altered in the existing contracts. Having said that, I would also like to add that Rail Wheel Factory was shut down for one-and-a-half months almost primarily because they were expanding capacity so they have started their production this week, the week that we are in now and they will start rolling out the wheel sets from August 16, 2021 at almost 1.5 times the capacity, so we believe that with that happening the capacity constraint with the Rail Wheel Factory will also be taken care of.



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**Bhagyesh Kagalkar:** The newer wagon orders that are going to come for the government or private sectors, but the steel prices are also up, so what is the strategy that you were employing in getting orders and protecting the margin?

**Umesh Chowdhary:** That strategy worked out on a tender-to-tender basis depending on what is our capacity, loading, etc., as you can see that what I always maintain that on the wagon business contribution the margin can be between 8% to 10% of EBITDA, in some contracts we also go below that, some contracts we are able to get above that, our pricing strategy is always done as a fine balance between capacity utilization and margin protection so that on a blended basis we can stay within that 8% to 10 of EBITDA range.

**Bhagyesh Kagalkar:** Finally your view on the DSP kept on getting delayed now the deadline is September for one session, so your feeling is that the order actually will come 5 to 6 months down the line is that correct?

**Umesh Chowdhary:** Yes, I would put it differently that now the DSP, the question is not whether it will come or not the question is how much will be the delay. So while, I understand that the railways have or the DSP Corporation has set a certain timeline in the project of this magnitude and with the COVID being so unprecedented even if it is delayed by, it will not be I am not even suggesting for a minute that it will be, but let us see even if it is delayed by 12 more months the fact is that such a mammoth infrastructure has been created, so the latent demand for this has to come, this is basically capacity creation, the capacity has been created by the railways, the capacity utilization can only happen when they have wagons. Otherwise they cannot earn revenue out of such a huge investment that has been made, so my personal take is that at end of this year or beginning of next year they will start buying the wagons for the DSP, but even if it is preponed or postponed by one or two quarters it does not really matter too much because even for the traditional Indian Railways now we are talking of the railways are talking about going 3x in terms of traffic, they have already gone quite a bit but now they are talking about I saw a statement from the minister somewhere that we are looking at 300% growth of the railway traffic, so things like that are the intentions of the railways then the only way they can achieve that is by making a quantum change in the wagon procurement.

**Bhagyesh Kagalkar:** On the defence sector announcement that below Rs.200 tenders and orders Indians will be given preference so further scope for us to do something in this space?

**Umesh Chowdhary:** On the defence side we have not got lot of traction neither on the order booking nor on the revenue side of it, we have received some orders for shelters and so on. From navy we have got some orders, but not too much on the defence side and that is the reason what I had



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mentioned a few minutes before we have restructured the whole vision at the management structure of the company wherein we have tried to create these three business units with the management structure focusing on the three where we have merged the bridges, shipbuilding and the defence into all.

**Bhagyesh Kagalkar:** Thanks and all the best from my side.

**Moderator:** Thank you. The next question is from the line of Rahul Jagwani from PGIM India Mutual Fund. Please go ahead.

**Rahul Jagwani:** My question is more on the margin improvement we are showing so basically what is driving this improvement and what is the outlook?

**Umesh Chowdhary:** The margin improvement again as I mentioned the price variation clause that we have is generally has a quarter-to-quarter impact because it is linked to the wholesale price index. So sometimes depending on the inventory of the steel that we carry for the low price and thereafter the wholesale price index moved and the price of wagon we deliver and the contract against which we deliver the wagons the margins can vary from a quarter-to-quarter basis. I just mentioned to Mr. Bhagyesh about the tender quoting strategy also, wherein in the quote in tenders based on the capacity utilization and our necessity to get that order so it can vary from a quarter-to-quarter basis but I do not want to indicate here that there is change in our overall margin expectation, we still maintain that our EBITDA levels are likely to be around 8% to 10% on a blended basis.

**Rahul Jagwani:** Thanks.

**Moderator:** Thank you. As there are no further questions from the participants I now hand the conference over to the management for their closing comments. Over to you Sir!

**Umesh Chowdhary:** Thank you very much for the very insightful questions. As I mentioned the different businesses of the company now in terms of the three business verticals that we have identified as the growth drivers for the company, all three of them are moving forward. Freight business is more stable, we are already perhaps the largest player in this segment in the country. Our focus in the future would be towards developing international markets for the freight business and this is going to be one of the key areas over the next six to eight quarters, while on the Indian side we will continue to take advantage of the buoyancy in the commodity market and we would continue to tag along with the railways the target to grow the traffic share we would also look at internationalizing our freight business.



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As far as passenger business of the transit and propulsion it is going to be a very important year for us because our facility in Kolkata will roll out its first metro coach, we expect that by the end of the year the first metro coach from our Kolkata plant should be ready end of the calendar year or beginning of 2022. The propulsion is likely to come out in the first quarter of next calendar year or the last quarter the current financial year. So all of these are going to be very important milestones and historically the only division that has contributed to the top and bottomline of the company has been the freight. Going forward while the freight would continue to grow on its own accord the other two divisions are also likely to become substantial bidders to both the top and bottomline.

One more thing which I must add here is on the balance sheet side which was the question was asked and I would like to come in and make one observation that we have informed the markets and you must be aware that we were the company was given a double upgrade in its credit rating by CRISIL from being BBB straightaway we went to A minus, which is reflective of the improvement in the balance sheet quality of the company, so one of the key target areas for ourselves is to continue to maintain this improvement in the balance sheet quality while on the other side continuing to grow on all the segments of the business. With those comments, I will once again thank you for the continued support for the investment community.

**Moderator:**

Thank you very much Sir. Ladies and gentlemen, on behalf of ICICI Securities that concludes this conference. Thank you for joining with us. You may now disconnect your lines.

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