

Transcript

Conference Call of Titagarh Wagons Limited

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Presentation Session

Moderator: Good morning ladies and gentlemen, I am Pavithra, moderator for the conference call. Welcome to Q4FY19 earnings conference call of Titagarh Wagons Limited hosted by B&K Securities. At this moment, all participants are in listen-only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the floor to Mr. Kunal Seth from B&K Securities. Thank you and over to you sir.

Kunal Seth: Thank you. I would like to welcome the management of Titagarh Wagons on the call. From the management team, we have Mr. Umesh Chowdhary, Vice Chairman and Managing Director, Mr. Anil Agarwal, Director-Finance, and Mr. Saurav Singhanian, Group Finance Controller. I would request the management to give us some opening remarks, post which we will open the floor for a Q&A. Over to you sir.

Management: Good morning everyone, thank you. We have Mr. Umesh Chowdhary, the Vice Chairman and Managing Director.

Umesh Chowdhary: Good morning everybody. Hello? Okay, good morning everybody. I am Umesh Chowdhary and I would like to welcome everybody to this conference call for sharing the highlights and answering any questions on the financial results announced two days ago for the year FY19.

Just a few brief comments, as you would have seen from the press release that has been issued, it has been a year wherein we have been able to turnaround the Indian operations pretty well, in fact the standalone operations of Titagarh India has reported a highest ever top line and although the EBITDA numbers did not grow in proportion to the top line, that is primarily because there are contracts of the past that also has been executed in this year. We believe that the EBITDA numbers would grow with the new contract that are currently under execution. The order book in India remains healthy for the main business, which is the railway wagon business. We have also started bidding very actively in the metro coach business and have participated as of now in one of the tenders where we are expecting the results to be announced in the next few weeks.

Cimmco, once again, the top line has improved backed by a better order book and some change in management, and as you would have seen from the announcement, we believe that it was the right time to integrate the operations of both the companies because of the complementarity that exists and the cost savings that it will drive, both operationally and financially.

In Italy, again, we have been able to reduce the fixed costs in terms of both number of employees, in terms of fixed cost in terms of the number of sites, which were not effective, and have been able to report a positive EBITDA...small positive EBITDA, but nevertheless positive EBITDA this year. We believe that we should be able to continue this trend in the current year, wherein it should be almost on a breakeven basis at EBITDA level, or maybe slightly positive. And, the new order that we have received in Italy, will start execution from the Q1 of FY21 that is March-April 2020. So, the real benefit of the new contract at the Italian subsidiary has bagged will start coming in from next year.

The French subsidiary continued to be the trouble in the group. The company had several operational, technical, and managerial difficulties. As a result of which, early this year, in January, we decided to change the entire management there, and put into place a new management. The new management has taken up a complete restructuring, and we have, from India, been more actively involved in the management of the company and in restructuring the company. We have filed for restructuring of the company, which includes changing of the number of working hours, in terms of the employees are concerned, in order to drive down the costs, some financial support from the regional and the state government, and so on and so forth. We do not know the final outcome of this restructuring package. While we have got very positive indications and the order book in France is very healthy and the European Wagon market is even healthier, but the future of the French company would essentially depend upon the positive outcome of this restructuring package, which includes, as I said, cost cutting measures in terms of increasing productive hours, as well as financial concessions and support from the government. The outcome of this would be known in the next maybe eight to 12 weeks. If that happens, then we believe that this coming year onwards, not this financial year, but coming financial year onwards, this company can get back to profit. As can be seen from the press release, the company did in the past make an EBITDA of almost 4 million Euros, when it was doing well.

So, this is in a nutshell the overall picture of the group. The focus has been, again, as I had mentioned in the last call, to continue to grow the top line, so the order book on a consolidated basis is quite healthy at about Rs.5,500 crores, which is more than double of what it was the same time last year. The tender pipeline has increased quite a bit. So, we are expecting the momentum to continue. And, the other focus is on consolidation. So, we are wanting to merge Cimmco and one of the 100% owned subsidiaries into Titagarh, in order to consolidate the operation. The other mergers that the board has proposed is, Titagarh Enterprise, which is basically the bulk of the land that Titagarh Wagons operates in, both for wagon manufacturing and for the ship-building, is owned by this company. And, as of now, we have been paying rentals to Titagarh Wagons, so the merger would save on the rentals, and also increase the flexibility to increase or to take advantage of the increased volumes of wagons that we are producing in Titagarh. So, this is in a nutshell the overview of the company, and I am happy to take any question.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your

telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

First question comes from Mr. Ashish Kumar from Infinity Alternatives. Please go ahead.

Ashish Kumar: Thank you sir. Just wanted to understand a little bit more on the French subsidiary. It seems that you have provided for the entire investment that we have in the French subsidiary. Is bankruptcy an option, which is on the table, assuming the restructuring fails, or is that not an option? And, secondly sir, is that, how much is the loans outstanding in the French subsidiary, and do they carry any guarantees from the holding company or immediate holding company?

Umesh Chowdhary: Sure. In a restructuring process, as per the French Law, in case the restructuring is not approved by the different stakeholders, then yes, the company is referred into bankruptcy. So, while we believe...we have all the reasons to believe that the restructuring should be sanctioned, because the government and all the other stakeholders are very keen. Yesterday also we had a meeting with the unions about the number of hours, as you know, that that's a big issue in France, which drives up the cost, and having said that, if the restructuring does not get sanctioned, then yes, the company does have the possibility to go for bankruptcy. As regards the loans are concerned, there is a loan of about 3 million Euros, which is backed by TWL or the parent, but this is the first charge of that is the land of the plant itself. There is already a letter from the local municipality, an offer to buy this land from the bank, at more than 3 million, at about 4 plus (not clear), which is almost close to 5 million Euros. So, we do not believe that the 3 million Euro liabilities would devolve on the parent. Whatever investments were there that were made in the French company, as a matter of abundant precaution, we have provided for that. So, there should not be any additional...even if the worst needs to happen...if the worst needs to happen in terms of the company going into bankruptcy, there is no additional hit that should come into the parent.

Ashish Kumar: Yeah. And the second one was on the Italian subsidiary. I see you have also restructured and closed down two locations there. Is there plan to liquidate some of the real estate holdings there? We had indicated about that possibility a couple of quarters back. And where I am coming from, is that, today at a consol level, we have a 850-900 crore debt, which is pretty large compared to the current EBITDA of the company. So, is there plan to kind of sell that out as well?

Umesh Chowdhary: So, as far as the Italian subsidiary is concerned, the site that we have closed down, one was a rented premises, which we have shut down, because it was a small premise, which was loss making, and the other one was again a small premise, which we have closed down, employing hardly 15-20 people. Those sites would not really have much of market value. We are looking at other measures of reducing debts. So, if you really look at the debt level, apart from the short term working capital debt, which is also on account of increase...if you see the revenue in the standalone has gone up by three times, so obviously the working capital requirement has gone up to that extent. In terms of long-term debt, the only long-term debt we have is in Cimcco, which is about 100 crores and in Italian subsidiary or related to the Italian subsidiary, which is about 50 or 60 million Euros. So, yes, we will be looking at trying to find ways of reducing debt by surplus asset sale, but primarily for a unit of that size, not considering today's EBITDA, but the potential EBITDA, it is not a very high debt. If you

look at the peers...we are competing with companies like Alstoms or Siemens or Stadlers of the world, which have very, very different leveraging ratio. So, it is not...I would not consider the debt to be very high.

Ashish Kumar: Sir, my concern is that we just got a new order, but you have seemed to have indicated an EBITDA breakeven kind of a or marginal EBITDA at the Italian subsidiary level. So, if I were to, let's say, look at the three times EBITDA, you would need a 10-15 million Euro kind of an EBITDA to support a 50-60 million Euro debt on a standalone basis. The new contract that we have got, what kind of margins can we expect to get, if you can provide some guidance somewhere around that?

Umesh Chowdhary: Just to explain to you, that in a train business, from the day you get a contract, the designing, and prototyping, and the approvals takes 18 months to 24 months. So, the contract that we have received, as I mentioned, the revenue will really...the first train will get delivered in the end of 2020, but the revenue booking will only start in the beginning of 2020-2021 financial year. So, the EBITDA of that contract is really not going to...in our current year we are not estimating any EBITDA or any revenue from that contract at all.

Ashish Kumar: So, what kind of a EBITDA would the new contract, let's say, be contracted at...what do you expect on the new contract?

Umesh Chowdhary: The contracts in this segment are normally at EBITDA level of about 9%, 10%, 11%, between 9% and 11%; I would not be able to give you the exact EBITDA number of the contracts...

Ashish Kumar: Perfectly appreciate that. So, 9% to 11% will be a fair estimate for FY21, for example?

Umesh Chowdhary: For this industry, that's right.

Ashish Kumar: Okay. And you think Italian subsidiary will get to that normalized level in FY21.

Umesh Chowdhary: That's right.

Ashish Kumar: Okay. And this contract is to be executed over what 12 months or longer?

Umesh Chowdhary: No, it is longer; it is about three or four years. But there would be other contracts. So, normally, it is a mixture of contracts that are executed in this business. It is a very different business from the conventional railway wagon business that the company has been in.

Ashish Kumar: Okay, so what kind of a book-to-bill ratio should we assume, or what kind of...

Umesh Chowdhary: Normally, the book-to-bill ratio...normally the order book backlog in our industry should be at least three years.

Ashish Kumar: Okay. And coming to the India level, if you can give a little bit more color on the order book that we have, and the EBITDA margins that you look forward on the entire order book currently, if you can give some data points around that?

Umesh Chowdhary: So, the order book has already been declared, and EBITDA margins is again the normal EBITDA margin...different businesses have different EBITDA margins. But, of course, I would say that the current competition being high, we are now...earlier we used to operate and also, because of the free supply of freight at a 15% EBITDA margin level, I would say now we are operating at more or less 8% to 10% EBITDA margin levels. In terms of the order breakup is concerned, the bulk of the orders that we have is for railway wagons, which is the conventional business of the company, which is, on a standalone basis, we have an order book of about Rs.2200 crores, out of which about Rs.1800 is for wagons.

Ashish Kumar: And second is again a data question, after the merger, how much will the total paid up capital be, because you have given the ratios, but we don't know the exact capital outstanding of Titagarh Capital?

Management: So, it is given in the press release. So the impact of the increase in the equity capital will be around 4.03 crores, something like that.

Management: He is asking for CIMMCO merger.

Management: CIMMCO is 0.61 crores.

Umesh Chowdhary: 0.61 crores is...if you see the press release, all the merger increase in capital has been elaborated there. So, for CIMMCO merger it is 0.61 crores, for Titagarh Capital merger, it is nil, and for Titagarh Enterprise merger it is 3.5 crores.

Ashish Kumar: Okay. And, coming back to the standalone order book, would you expect bulk of it to be executed during this year, or some of it will flow through...what...

Umesh Chowdhary: A good part of it will get executed this year.

Ashish Kumar: 80%-90%?

Umesh Chowdhary: I would not like to give the numbers, but yes, a bulk of it, it would be...meaning a substantial part of it will be getting executed this year, but some of it will flow through to the next year as well.

Ashish Kumar: Okay, thanks a lot.

Umesh Chowdhary: Thank you.

Moderator: Thank you sir. Next question comes from Rithika Garg from Equitas Investments. Please go ahead.

Rithika Garg: Hello? Good morning sir. Sir, I wanted to know, out of this 1800 crores, India order wagon order book, how much is pertaining to the new orders with higher margins?

Umesh Chowdhary: All the old orders have been executed, so these are all orders that have been booked in the last six months.

Rithika Garg: Okay. And, what could be the margins that we expect for these new orders.

Umesh Chowdhary: As I just mentioned in the previous question that the standard margins in wagon industry now has come to between 8% and 10% in India.

Rithika Garg: Okay. And, what about the balance 9600 wagon order that the Railways was supposed to give out? Have we won anything in that?

Umesh Chowdhary: The tender is due to be opened up later this month, so we will have to see what happens.

Rithika Garg: Okay. And, would it be possible that Titagarh Wagons India would be infusing any further money into the France subsidiary?

Umesh Chowdhary: We do not know as of now, but definitely we are very cautious about whatever we do, and that's the reason we have been very prudent in terms of providing for the entire investment. So, even if the board decides, it will be deciding on a very, very prudent and in a very conservative basis.

Rithika Garg: Okay. What could be the maximum infusion that the India Company could do into France this year?

Umesh Chowdhary: As I said, that there is nothing which has been finalized, there is nothing which is certain. Even if there is infusion, it will be only fraction of whatever has been put in order to save the entire investment, but not substantially higher.

Rithika Garg: Okay. And, is the India Company for the wagon business operating at full capacity?

Umesh Chowdhary: We have been increasing capacity, so if you can see quarter-on-quarter, we have increased our revenues also. In the last quarter also we have reported the highest ever revenue, so we believe that Q2 onwards, for the current year, we should again be able to increase it slightly more.

Rithika Garg: Okay, alright. Thank you.

Umesh Chowdhary: Thank you.

Moderator: Thank you ma'am. Next question comes from Raj Kumar from Green Advisor Private Limited. Please go ahead.

Raj Kumar: Hello ma'am.

Umesh Chowdhary: Hello?

Moderator: Please go ahead with your question sir.

Raj Kumar: Yes. Thanks for giving me this opportunity. Sir, I just want to know, that you have got order for Italian subsidiary for 52 units of metro train. So, when this contract... is in the execution or it is to be executed?

Umesh Chowdhary: No, we just got the contract, so this will have to be executed, as I just mentioned a little while ago, in this business, the first train, the designing and the first prototype train does get completed over a period of 18 to 24 months, and thereafter the contract execution typically is anything between two and four, four-and-a-half years.

Raj Kumar: So, sir, I think it will take two years, to design, manufacture the prototype, na?

Umesh Chowdhary: 18 months, yes.

Raj Kumar: Okay sir. The cost is escalating too much in this quarter I have seen, so what is the measure you are taking to control the rising cost?

Umesh Chowdhary: Which cost are we talking about?

Raj Kumar: The cost of raw materials, the raw material cost.

Umesh Chowdhary: Raw material cost on the standalone Indian operation?

Management: You are talking of the raw material cost on the Indian operations or on the foreign operations you are talking about?

Raj Kumar: Indian operations.

Management: In the Indian operations, the ratios, if you see for the raw material cost, it is basically in line, because increasing of the steel prices and also for that we have a back to back contract that we have entered with the suppliers like SAIL and TATA. So, now you would see the softening of the prices going forward.

Raj Kumar: Because now expecting the prices are also softening, so I can expect the cost will reduce?

Management: Yes.

Umesh Chowdhary: See, there is not much of an impact that is going to happen on cost. I just mentioned the EBITDA margin levels, because many of our contracts have a price variation clause, some of them which were on fixed prices basis, they were the ones that we had executed in the last year. Now, seeing the steel volatility, we are trying to see whatever is possible, particularly on the Railways side the contracts are with PVC, but I would say that on a blended basis, we should be able to maintain the 8% to 10% margin levels EBITDA.

Raj Kumar: Okay sir. Sir, my next question is the specialized equipment and bridges division, and the ship-building division, is also down by 47%, 46% on Q-on-Q basis, so what are you doing to revive these two divisions?

Umesh Chowdhary: These are all contract-based performances, so we had received contracts for the ship, which was launched in the previous quarter. The new contract is from the defense have not been finalized, nor have been the coast guard contracts been finalized in the last 12-18 months. The contract finalization overall have been very slow. Now, we hope with the new government, we are sure that the whole process will be faster, and as soon as...our capacities are already there, and we have already established our credentials by delivering the ships before schedule, so we should be in a good position to get contracts. But the tender finalization is something which we have very little control over.

Raj Kumar: You mean to say, you have some contracts in pipeline for these, or you will get new contracts?

Umesh Chowdhary: No, we don't have much order book on these. As I mentioned that out of 2000 crore or 2200 crore, almost 1800 crore is only for the wagons. And there is another about 100 odd crores, 150 crores for the coaches. So, Railways, maybe constituting to almost 90% of the...Railway directly and indirectly is constituting to 90% of the order book.

Raj Kumar: Thank you sir.

Umesh Chowdhary: Thank you.

Moderator: Thank you sir. Next question comes from Adithya Chandrasekar from Edelweiss. Please go ahead.

Adithya Chandrasekar: Yeah, hi, good morning sir. Just some data point questions. Can you tell me what was the wagon dispatched during the quarter from TWL and CIMMCO, number of wagons?

Management: So, the number of wagons from Titagarh Wagons during the quarter was 864 wagons.

Adithya Chandrasekar: And CIMMCO?

Management: And CIMMCO was 262.

Adithya Chandrasekar: And what would be the number of wagons in the closing order book from both these entities?

Management: So, we can give you the values of the order book which is outstanding for the wagon segment. In Titagarh, as we already said before, it is 1800, and for CIMMCO, it comes to approximately around 380 odd crores.

Adithya Chandrasekar: And, what would be the number of wagons?

Umesh Chowdhary: I am sorry, for competitive reasons, we will not be able to declare the number of wagons exactly, because there are number of private orders that we have booked, and we normally do not declare the number of wagons. We can give you the number of wagons that we received from the Railways, which is 5058, but private wagon orders, we are unable to declare exact quantum.

Adithya Chandrasekar: Okay sir, no worries. And, could you also give me the gross debt number in all four entities?

Umesh Chowdhary: Yeah. If you see in the press release that has been issued along with the financial results, the gross debt number, individual debt numbers have been given, but I will repeat for you. On the standalone, there is no long term debt, but there is a working capital debt of cash credit limit, which is about 130 crores net of cash in cash equivalent. In CIMMCO, there is a term debt of about 100 crores. And there is working capital...

Management: Just one second. So, just to repeat these numbers, in India there is only one term debt of 94 crores in CIMMCO and the working capital debt in Titagarh and CIMMCO taken together, net of free cash, is approximately 123 or 124 crores, something like that.

Adithya Chandrasekar: Okay, got it. And lastly, you were mentioning about the private sector orders, I mean, without getting into specific numbers, could you just give us a kind of sense as to what's happening in the sector? Are you seeing orders there?

Umesh Chowdhary: Yeah, absolutely. The private sector business is looking pretty healthy. The Railways have come up with very attractive and very forward-looking schemes, so the wagon investment scheme has been relaunched. The company has booked several wagon investment scheme orders. The container train operator segment has also seen quite a bit of momentum in the last one, one-and-a-half years. So, this pipeline for the order flow from the private sector has been pretty good, I would say, over the last 12 months.

Adithya Chandrasekar: Okay sir. That's it from my side. All the best. Thanks.

Umesh Chowdhary: Thank you so much.

Moderator: Thank you sir. Next question comes from Prateek Giri from Bellwether Advisory. Please go ahead.

Prateek Giri: Hi, good morning Umesh ji. We have been going through a lot of pain in our subsidiary and all, sir, but I just wanted to get your sense on our ship-building segment. So, if we see, it is very commendable that our fixed cost structure in ship-building is very low, and we made good margins there, and recently Cochin Shipyard won an order of nearly 300 crores, Ministry of Home ministry I guess. So, sir, and this segment for us has not been performing since last...I mean, we haven't won any new order in the last two quarters. So, sir, don't you think this is a time to go get a JV with some Korean or Japanese or Chinese company, even for a ship-building kind of project, because we already have very lower margins for lower fixed cost there. So, we can just make it a 500-600 crore annual business sir?

Umesh Chowdhary: Thank you so much for this suggestion. See, for the ship-building business that we have, we are equipped to do certain types of vessels. When we talk about Cochin shipyard, the kind of capex and the kind of facilities that they have created, our fixed cost is low, because we have not created that. Essentially what we have done is, we have utilized common infrastructure and only created marginal infrastructure alongside our wagon units. So, as a result of which there is a limitation on the types of ships that we can do, and we can bid for. That segment we are very actively pursuing, but at this point of time we do not want to invest 100s and 100s of crores that would be required to build something that is equitable to a Cochin shipyard or an L&T. As you can see from their balance sheets, their investments have been running into 1000s or 100s of crores. As you yourself had mentioned that we have a number of things to stabilize within the group, particularly with respect to the subsidiaries, till we have been able to stabilize that, we would not like to take up any large scale investment proposals, till we have been able to make all the subsidiaries and all the units stand on their own feet.

Prateek Giri: Fair enough. So, sir, this ship-building, in next few quarters we are going to wait for the orders for whom we are capable of, right? So, even in next few quarters, there should be some overhang for this unit particularly, so we are not going to see any, let's say, 200 or 300 crore top line this year too.

Umesh Chowdhary: No, I don't see that we will be able to multiply the top line of the ship-building business, nor do we want to strategically. We would like keeping the niche business, we do not want to get into the cargo vessel segment, which is possible... booking orders for those are not very difficult, but we have learnt from the experiences that other companies have had, in terms of getting their cash flow completely stuck up. So, we are moving on that cautiously and having said that, there are number of tenders for the kind of vessels that we are doing, that we have participated (not clear) from different government departments are out, and we are participating, and I am sure we will be winning some of them.

Prateek Giri: Got it sir. And, sir, any update on this Garden Reach Ship-builders enquiry we got few quarters back?

Umesh Chowdhary: The discussions are underway.

Prateek Giri: Got it sir. And secondly sir, we had been showing this order book of 150 crores (not clear) for several quarters. I think this is not under execution and that is why it is lying in the order book. So why is it so sir?

Umesh Chowdhary: It is not that it was not under execution, but it was not moving forward because the railways had to give some free supply item. The railways had been able to...they had a dispute with one of their suppliers who was supposed to give them this free supply item, now we have received the free supply item so the production for this has already started. Within this financial year it will be executed.

Prateek Giri: Got it sir, got it. Sir we have been very bullish on diagnostic space in Indian Railways, but we have not seen anything till now although the DSP thing is moving, although a bit slowly it is moving sir, so are we seeing something from that part sir?

Umesh Chowdhary: We have a tie up with a company called (not clear); the company has bid on DSP along with us in a number of projects. The orders have not yet been finalized. It is not that we have won or lost those orders, but they have not been finalized so we are waiting to see what happens on those.

Prateek Giri: Got it sir, got it. Sir secondly what about our electrical business? If you see we were there in a one-off tender by ICF which was amounting to 1500 crores I guess...so...

Umesh Chowdhary: We are bidding for the developmental order in that which is worth about 70 crores. This is a new design which we have to make because the Italian subsidiary uses a 750 KVA....I guess European standard is 750 volts whereas Indian standards are 25 KVA so the design of this propulsion equipment is already under progress. If it is a prototype execution, we will take another 12 to 18 months and then this will become a regular business for us. Simultaneously we have also set up a design set up in India and also going forward in setting up a manufacturing base in India.

Prateek Giri: So sir even this segment will have to wait for another one, one and a half year to give some material top line sir?

Umesh Chowdhary: That's right but these are businesses of the future.

Prateek Giri: Got it sir, got it. I will join back the queue sir.

Moderator: Thank you sir, next question comes from Thanmay Patel from Ind Asia Fund Advisors. Please go ahead.

Tanmay Patel: In Q3 FY19 you had mentioned that the France subsidiary will stop rewarding (not clear) by FY21 and they have already contained the fixed costs to a large extent including booking of new orders....orders with higher margin. In the last quarter the subsidiary goes into restructuring, so I just wanted to understand what exactly has gone wrong in the subsidiary over a period of time. Is it that the strategy which you wish the management had put forth has it gone wrong or what exactly is your comment on that front?

Umesh Chowdhary: It was a mixture of various factors. What we mentioned is, that we would finalize and execute the loss making orders and book new orders. That has already happened, if you see the release also we have orders and commitments for more than 51 million Euros and we have letters of commitment from our major customers also for three year contract at better prices. But because of the previous losses in the contract that was there and the technical problems coupled with the management problems that was there which essentially included non-family corrective actions to correct the inefficiencies and the labor cost happens to be very high and if there is inefficiencies and labor management is not proper, which cost to control and the losses tend to mount quite heavily, so that did not happen in time which lead to cash shortages, which lead to further production delays and it was a kind of a cascading effect. So we had to...early this calendar year we had to take a call that we've changed pretty much the three or four top managers who were there and after realigning the strategy, but having done that there was a cash flow problem which needed to be sorted out and therefore this restructuring was necessitated.

Tanmay Patel: Alright. There's another question – could you talk about the competition shaping up the Indian business?

Umesh Chowdhary: The competition I don't see that there has been any new competitors that have come up, but there are some people who have found it difficult to survive in this market because of the increased working capital requirement, that's because people have not been able to gear up their own operational standards and to that extent while there are a couple of new players like Intel etc; there are a few which were the legacy players who were quite heavy, they have not been seen as very active in the market, but I don't see that the competition landscape has changed drastically. We, Titagarh has continued to maintain its leadership position if you see the last several years we have always been the market leaders in the segment and we have continued to maintain our leadership position.

Tanmay Patel: Okay thank you, that's it from my side.

Moderator: Thank you sir. Next question comes from Madhu Sudan Sarda from Valum Capital. Please go ahead.

Madhu Sudan Sarda: Good morning. I had one question regarding the ramp up we can do in our wagon making capabilities, given the kind of order book and expected orders of future, what are the plans in terms of ramping up if I can know the monthly and the quarterly ramp up target that you guys would have.

Umesh Chowdhary: Sure we have....as Saurabh just mentioned, last quarter we did about 800 some wagons on a standalone basis and on a combined basis we did about 1100 wagons. We are expecting to take it upto at least 1500, 1700 wagons in the very near future for a quarter and one of the reasons why we are....wagon is a voluminous commodity and it needs a large amount of material storage and wagon storage space, so one of the reasons why we wanted to go ahead and expand the land area in Titagarh is to ramp up this capacity. So I am pretty confident that we will reach a run rate of more than 1500 wagons per quarter in the next couple of quarters.

Madhu Sudan Sarda: Alright. Sir I will add one more question regarding our ability to demonstrate any advantage of our Italian subsidiary's expertise in procuring metro or technology upgradation related orders from Indian Railways? So other than electrical where you got some initial prototype orders....we haven't got anything other than that so is this because of your focus in actually trying to revive these offshore subsidiaries and you have not been able to give enough time to Indian operations? It has taken quite a long amount of time to actually ramp up in these areas....?

Umesh Chowdhary: Absolutely not. Actually in the metro segment if you follow the (not sure) releases of the government of India; we qualified in the Nagpur Metro which we lost by a whisker. After that because of various reasons, Indian companies like ourselves and also PML were not eligible to participate in tenders like Mumbai Line three tenders etc., then Delhi Metro tenders, the eligibility criteria was extremely restricted. The government of India came down very heavily on that and these were essentially funded by foreign multinational institutions and the eligibility was dictated by them. So the government of India came down very heavily and it was only about six months ago that the standard eligibility criteria was published on the website of the public information bureau PIB's website and the MoUD website wherein Indian

companies like ourselves and BML started qualifying for all the metro tenders that would be coming up in India. As far as Titagarh is concerned, we are only able to qualify based on our 100% subsidiary which is Titagarh Piramal. So you can actually go into the Ministry of Urban Development or now it is Ministry of Housing and Urban Affairs website and find this standard eligibility criteria for Metro coaches and that will make it clear. This was released something about 6 months ago probably.

Madhu Sudan Sarda: No but other than that there have been some areas where the Railways has done a lot of effort to modernize like existing passenger coaches coupling and all...there could have been some scope for us given our experience. So I was just wondering we couldn't crack anything new. So that worries me a bit.

Umesh Chowdhary: Coupling etc. is not a part of the product range of our subsidiary thing at Piramal. These are purchase items that are purchased from companies like (not sure) or Delta etc. whether it is in India or in Europe. Our production is essentially coaches and Indian Railways has not procured a single coach till date that we have lost.

Madhu Sudan Sarda: I know. Okay thank you.

Moderator: Thank you sir. Next question comes from Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Thank you for the opportunity. I had two questions. One, can you transfer any IT out of your French subsidiary in case if it goes bankrupt to the parent and the same with the Italian subsidiary? And the second question....

Umesh Chowdhary: I didn't quite get your question, can you repeat please?

Agastya Dave: When we acquired the companies we had a very clear reason for acquiring them. It was to do with what they offered in terms of technology right? For example, Metro qualifications, locomotives or railway coaches which are of high speed trains. So there were certain technical benefits we could get from them because they held them open. Now, in case any of these companies go bankrupt, can we transfer that....will we continue to own the IT and can it be transferred to the domestic entity? So in terms of IP, how secure and how vulnerable that is, so ultimately if the financial angle goes for a toss for acquiring these companies will the technological angle still make it worthwhile for this entire thing to have happened? That's the first question. Second question in the domestic business finally after so many years, we have had this large order of 22000 or 25000 wagons and for the last five years we have been discussing how the existing rakes....very, very old much of that stock we (not clear) and then there is the DSC hope that it will come. So how does the demand scenario look for you? It would seem that bulk of the fixed asset in respect that the railway had to do in terms of capacity creation....I mean it must be nearing its end now. When will this start feeding (not clear) because they have created the racks but they don't have the wagons, so how does this scenario look to you in terms of demand?

Umesh Chowdhary: Sure. So will answer your second question first. As far as the demand for wagon is concerned, if we go based on whatever the Railway Ministry has been announcing and whatever are the planned vision documents or planned documents or the announcements of the Minister or the Chairmen had been there, the

wagon demand on several platforms has been said that the Railways require at least 100 to 150,000 wagons in the next five years and this is apart from the dedicated safe corridor and we do believe and I have always believed in the last several years that the railways have invested and for the first time in the version one of the current government they have borrowed money to invest on capacity creation. So if they have to service this debt, they need to utilize the capacity for which they need to buy wagon. So the bottom line is I hope that this demand for wagon should continue at least for the next five years. That is number one.

Number two, as far as technology is concerned, the Metro, the propulsion and all of this technology, the company that we are actually drawing down from this technology is the Italian subsidiary. While there is no problem of the financial write down etc. that has happened is on the main subsidiary; there is no dependence on that for Indian technology but the company had taken several measures in any case both in case of the French and in case of the Italian subsidiary to be having the right and the access on a perpetual basis to the Italian technology that is existing in both the subsidiary. So to answer your question, we are fully secure in terms of access and authorization to utilize all the technology for both our subsidiaries.

Agastya Dave: Okay and sir, one final follow through if I can show, you have also quoted the press release that you are acquiring some land next to your existing facility and the quantum is pretty large from what you have today to what you will have post the merger. So will you be undertaking a capex immediately? Do you have enough visibility on the wagon side to undertake rapid capex or will it be just a long-term thing that let's have the land and then....face the problem...? What's the thought process there and what kind of activity....if you can speak about it...?

Umesh Chowdhary: Sure. Part of the facility rented by Titagarh Wagon is being utilized by Titagarh Wagons. The balance there will not be much capex required but as I just explained a few minutes ago, the wagon industry when we are increasing our production from say 150 or 200 wagons to 500 wagons, the sheer amount of storage space that we require even to store finished wagons is huge in terms of number of days of wagon holding and number of days of raw material holding, because the pull out of wagons happens not on a daily basis, but two or three times in a week. So the land that we are acquiring by way of a merger will not require major capexes apart from minor maintenance capex of maybe 4, 5 crores....some such amount; I am not quantifying the amount expected but it is definitely insignificant compared to the size of the business.

Agastya Dave: Okay, thank you very much sir, good luck.

Moderator: Thank you sir. The next question comes from Abhilasha Satale from Dalal Broacha Stock Broking. Please go ahead.

Abhilasha Satale: Thank you for taking my question. Sir I only know you have said that now you are qualified to bid for any metro order, so what kind of visibility you are seeing in that front where latest bids are coming and in case we bag the order in Metro coaches, then what kind of capacity do we have to cater to that?

Umesh Chowdhary: As far as the visibility ma'am of the Metro segment is concerned, the visibility I think the government was very clear in announcing that every tier1 and tier 2 in fact company has fixed these will be going for Metro Coach. Even we

saw in the last four or five weeks ago that the government signed with ABD that five new cities will be covered under the Metro. So we believe that the metro coach demand in the current government with the kind of thrust they have put on infrastructure should be very high. As far as the production is concerned, most of the designing for the Metro coach and the prototyping is going to be done in our Italian subsidiary because they have the know-how. Of course we have set up a design office which supports them from India but it is going to be essentially coming out of there and the bulk production will happen in India which will require some capex. That capex is going to be only incurred after we have won the contract. So in terms of the capacity that we are intending to create, it exceeds the capacity that we have to make more than about 40, 50 coaches a month. It is in fact a single largest plant for coach manufacturing in Europe....not only in Italy, it's either the number one or number two largest coach manufacturing branch. In terms of the Indian capacity, we would be planning to set up a capacity to do about 15 Metro coaches per month.

Abhilasha Satale: Okay fine thank you.

Moderator: Thank you. Next question comes from Anoop Nair from Equity Intelligence. Please go ahead.

Anoop Nair: Thanks for giving me an opportunity. My question was regarding the Ryan savings from the Titagarh Enterprises merger and secondly are there any liabilities on the book of....any debt on the book of Titagarh and the prices which should be merged.

Umesh Chowdhary: There are absolutely....sir you are talking in terms of Cimmco?

Anoop Nair: No, no, Titagarh Enterprises or the promoter entity which is being merged.

Umesh Chowdhary: There is a debt liability of about 20 crores which have been adjusted from the land valuation or the enterprise valuation that has been conducted by the independent valuers. But the details of the entire thing....apart from that there are no other liabilities. The details of the entire thing would be circulated along with the scheme that will come up for approval for the share holders.

Anoop Nair: Okay, so what was the Ryan savings in that?

Umesh Chowdhary: That also would be indicated along with the merger.

Anoop Nair: Fine thanks. Most of my other questions have been answered thanks and wish you all the best.

Umesh Chowdhary: Thank you sir. Next is a follow up question from Adithya Chandrashekar from Edelweiss. Please go ahead sir.

Adhitya Chandrashekar: Hi thanks for the follow up. Sir could you just give more detailed breakup of the quarter's revenue in terms of Indian Railways wagons, non-IR wagons, coaches etc?

Umesh Chowdhary: Primarily it has been out of the wagons and some bridges; the coach revenue has been insignificant in the quarter. It has been primarily from the wagon segment only.

Adhitya Chandrashekar: Okay would it be possible to get the detailed numbers or maybe can I give a call after the concall and get the numbers?

Umesh Chowdhary: Yes, if you could do that, the break up whatever is possible to be given in the public domain we will definitely share that.

Adhitya Chandrashekar: Okay, that's it from my side, thank you.

Umesh Chowdhary: Thank you sir. Next is a followup question from Rithika Garg from Equitas Investments. Please go ahead ma'am.

Rithika Garg: Hello? Sir what would be the tax rate for India business going forward?

Management: Going forward the company would effectively be having a tax rate of 34%, 30%, 32%....something like that.

Rithika Garg: Okay and what are the number of employees we have in our India business?

Umesh Chowdhary: In India, on a permanent payroll we have about 700 employees in Titagarh standalone and then we do a lot of work on job contract basis.

Rithika Garg: Okay, thank you.

Moderator: Thank you ma'am. Next is a follow up question from Ashish Kumar from Infinity Alternatives. Please go ahead.

Ashish Kumar: Thank you sir, all my questions have been answered.

Moderator: Next is a follow up question from Prateek Giri from Bellwether Advisory. Go ahead sir.

Prateek Giri: Umesh ji I was just wondering that lately we have been doing a good job by selling ancillary parts to other players...am I right in that assumption?

Umesh Chowdhary: I am sorry I didn't understand the question?

Prateek Giri: Sir, I got to know that we have been selling ancillary and other spare parts (not clear) to other large players, I heard this somewhere....

Umesh Chowdhary: No, we have not been doing that at all. We have been bidding in competition with them but we definitely participate in joint venture with different companies or what they call sub contractors; but that's a normal standard practice in this business. So you would see for example Bombardier and Alstom participating in a joint venture in a tender in India or so on and so forth. So that's what we do.

Prateek Giri: Got it sir. Sir is there any possibility that till the time we ramp up, we get an order for Metro like May we have been discussing since long. So can we explore this opportunity of supplying ancillary parts from our Italian knowledge so that we can get some revenue and we can get some knowhow of this business....make a top line and from there you can ramp it up after winning any Metro from any city?

Umesh Chowdhary: I am sorry; I didn't get your question?

Prateek Giri: Sir, I simply mean that can we explore this opportunity of selling ancillary and spare parts to players like VML in India and other players because VML outsource a lot of work? So I was just curious can we do this with any of the existing Indian players so that we get to know some....get some knowledge on doing that, then we can win some orders....so that we can ramp up our...?

Umesh Chowdhary: It is something possible but that's not in our strategy at this point of time. We would rather like to be in the market to establish ourselves as an OEM.

Prateek Giri: Fair enough sir, fair enough. And sir, secondly I had been just listening about Pune Metro in several last concalls, but recently the Namma Metro from Bangalore awarded 400 Metro coaches to VML and similarly there have been several live orders from their website including Delhi Metro sir....both Bangalore and Delhi. So sir, why is it so that we always hear of only Pune Metro on our concalls and not of these others?

Umesh Chowdhary: I had mentioned about the Mumbai Metro, that we had participated in the Mumbai Metro but the price was too large. I mentioned in my call a couple of calls ago and that was the first large Metro that we've got eligible to participate in but we were not keen to get that order and we participated with enough kind of....only for experience gaining purposes. There has been no tender from Delhi Metro apart from a small tender for 36 cars instead which was a follow on tender of car that was already supplied by another car builder, so that was not worth participating in. So there is no other tender for Metros that have come up that we have not participated.

Prateek Giri: Okay sir. Yes sir please....?

Umesh Chowdhary: Ever since we have been eligible, there is no other tender that has come up and we have not participated in.

Prateek Giri: Okay sir. What about Pune Metro and what is the status at this point in time?

Umesh Chowdhary: We have submitted our bid and it is under evaluation; we will come to know I guess in due course.

Prateek Giri: Okay, so any timeline in which we can expect the result from that?

Umesh Chowdhary: Difficult to give a timeline but I believe....

Prateek Giri: Got it sir. Sir, last question if I can squeeze in, if we see our margins even at this point in time is nearly 7%, 8% at EBITDA level and with this coming order, since it is a good margin order....the 5000 wagon order from Indian Railways....I was just curious when our fixed costs (not clear) ship building and bridges is not that high, so why don't we give a guidance of margin where we can get a sense that these orders are really high margin orders....high like 10%, 11% kind of because the fixed cost in rest of the segment is not that high as was told by you; so is there a chance that we can garner 11%, 12% EBITDA margin from the existing 5000 wagon order sir?

Umesh Chowdhary: It is difficult....on a blended basis our focus is not on....I mentioned this in the last calls also that the whole strategy is not to cherry pick the businesses with only higher EBITDA margin but to grow the top line and let the EBITDA follow thereafter. So considering the current scenario of the market I believe on a blended basis we maintain an 8%, 10% margins and I think, that's something that I would be targeting.

Prateek Giri: So, you mean to say that out of these 5000 wagon orders, some of the wagons are at lower margins and some are at good margins? Is that what you meant?

Umesh Chowdhary: I would say they would be marginally plus or minus, so maybe a percent minus or a percent plus, that's it.

Prateek Giri: Okay. Sir actually I looked at the wagon profile and I guess all of them are box wagons...so while executing an order....

Umesh Chowdhary: For the Indian Railway wagon we are at the same price because they are in the same price and they are the same wagon. I am talking on a blended basis because we book a lot of private wagons also...

Prateek Giri: Got your point sir. And sir, last if you can give me some idea on GPW because CTO is the thing which is coming to play post BFC and there will be no government push on that but whatever we were expecting after the GPW IS was the box wagon because there the coal and the steel and the (not clear) players will start procuring their wagons, so I was just curious to get the sense of the demand that are you seeing some good demand, in proportion to Indian Railway wagons as well....that's 2000 or 2500 wagons per year from private players in box wagons sir, not CTOs?

Umesh Chowdhary: Box wagon demand has gone up quite a bit; the number of application that the private players are quoting to the railways are very high. Coal India has been talking quite sometime of buying box wagons and we have already started receiving orders so yes, this is likely to pickup but how much it will pick up, only time can tell.

Prateek Giri: Got it sir, got it. Sir, the numbers were good, so congratulations for that. I seriously believe that we are going to hit higher revenues in coming quarters. Best of luck sir and thank you very much.

Moderator: Thank you sir. That will be the last question for the day. Now, I hand over the floor to management team of Titagarh Wagons Limited for closing comments. Over to you sir.

Umesh Chowdhary: Thank you very much for the very insightful questions. As I mentioned that we are quite bullish on the core business which is the wagon business in India. We are also bullish that the Metro segment that we have been targeting for in the current financial year, we should be able to get at least one contract for that, that is going to be our very sincere endeavor. We need to see what happens on the French subsidiary doing our best to conclude a successful restructuring package. As far as Italian subsidiary is concerned, this year we have to make sure that we are able to curtail our big cost and sail through because the revenues from the next year onwards for the contracts that have already been signed with our kicking in and that should be quite positively impacting the operations in Italy. In the meanwhile we continue to aggressively participate in the tenders and build up all the operations whether it is in India or in Europe. So thank you very much once again.

Moderator: Thank you sir. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant day.

Note:

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.