

Conference Call Transcript

Titagarh Wagons

Q3FY18 Results

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Corporate Participants

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Mr. Anil Agarwal

Group CFO

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Group Finance Controller

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Questions and Answers

Moderator: Ladies and gentlemen, good day and welcome to the Titagarh Wagons Limited Q3 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 phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Parvez Akhtar Qazi from Edelweiss Securities Limited. Thank you and over to you Sir!

Parvez Akhtar Qazi: Good morning friends. On behalf of Edelweiss Securities, I welcome you all to the Q3 FY2018 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, and Mr. Saurav Singhania, Group Financial Controller. I would now hand over the call to the management for their opening remarks. Over to you Sir!

Umesh Chowdhary: Good morning Parvez. Good morning everyone. As far as the performance of the Company in the previous quarter was concerned, during our last quarter's conference call, I had mentioned that the focus of the company going forward over the next two quarters or three quarters is going to be the order book building because of the delays of the placement of orders by the Indian Railways and due to the low order book till last quarter, the company's performance over the last few quarters has been subdued.

I am happy to report that we have been able to increase our order booking. Order book from the time of the last quarter results of about 400 Crores to 450 Crores for the Indian business has now increased to almost 1300 Crores as of now between Titagarh and its subsidiary Cimmco. Most of these orders will start getting converted into revenues from Q1 of FY2019 and large part of these orders will be booked into sales in the FY2019 between Titagarh and Cimmco.

The other development over the last quarter was the Indian Railway orders. I had mentioned that we would expect about 20% to 25% of the 9500 Wagon tender that was floated by the Indian Railways to come to us between Titagarh and subsidiary Cimmco. I am happy to report that we have got an order for about 2300 Wagons, which is 24% to 25% of the market share.

In addition to that, we have been able to build up healthy order book in the private sector wagon business some orders from the bridging, navy and the shipping order that we had received is progressing well and we have started participating in other tenders as well. The big opportunity that we are seeing going forward in India is of course the enhanced wagon targets that have been set by government in the last budget and we are hoping that this tender should be floated over the next few months.

This year we are also hoping that the for dedicated freight corridor, the initial freight wagon demand should start coming in calendar year 2018 or 2019 and we of course are very well prepared and the big opportunity that we are going to be targeting over the next few quarters is going to be the metro coach and the passenger coach business. That is something, which is going to mean a paradigm shift in our overall operations of the Indian operations of Titagarh.

As most of you would be aware we had qualified in the Nagpur metro tender thanks to the credentials that we have acquired from our overseas subsidiary, the Italian subsidiary. But we had lost that by a very thin margin of less than a percent to a competitor in the price bid, but we are hoping that there would be three to four metro tenders that will be floated over the next two to three quarters and we are looking towards participating in most or all of them.

As far as the results are concerned, in the Indian operation of course in Titagarh standalone, we have been able to increase our net profit to about 4 Crores from about a Crore and few lakhs last quarter. In Cimmco, we suffered a loss that was primarily on an account of the earlier orders having been executed in the September quarter and there was very less workload in Cimmco in the December quarter.

Now the order book of Cimmco stands at about 415 to 420 odd Crores. Part of that will be booked into revenue in the Q4 of FY2018, but bulk of that will be booked into revenue in FY2019. Coming to the overseas subsidiaries, the French subsidiary had a little bit of a setback in the last quarter. There were some technical problems due to which the production was affected for the good part of the last quarter. As a result of which, we suffered a loss in the quarter.

The other reason for the loss in the French subsidiary was the stainless wagon contract that we had acquired last year to re-enter the stainless wagon segment, which I had reported in the last quarterly result also, is a loss making contract. We have been able to complete that contract as in the December quarter, so there is no further contract or there is no further orders left for that type of a contract anymore, but we have been able to reestablish our sales in the stainless wagon business as well.

We hope the French operations to be stable over the next quarters. The French operations have been delivering a topline of around 40 million Euros and we expect that going forward there should be a stable business with an EBITDA between 6% and 8%.

The Italian business has had a difficult quarter. I would say because primarily on an account of the contracts that we had acquired along with the acquisition of the company, we had to book a one-time loss on those. As everybody is aware we had acquired this company at a very low value. We paid only about a million-and-half for the business and another 10 million for the real estate, which is to be paid over a period of five years whereas the gross block of the company when we acquired it was close to 150 million and there are huge intangible assets in terms of designs and credentials for different semi-high speed, high speed and metro coaches. We did not acquire any liability with the

Italian subsidiary. We got it liability free, but the only obligation was that we had to successfully execute the contracts of about 220 million Euros that were pending with the company and some of these contracts were onerous contracts.

There were some contracts, which had technical problems that had to be resolved and so on. This loss that we had to book of about 31 Crores last quarter was essentially these contracts that we had to take this hit. The order book of the company when we acquired in July 2015 was about 220 million and after acquisition we have signed for the contracts of about 130 odd million.

Bulk of that has been executed. The order book of the Italian subsidiary stands at about 130 million now and this is for a company of that size very low order book. Having said that we have been prequalified or we have participated in tenders worth about 2.5 billion Euros in Europe and other parts of the world, which we are participating. The focus again in the Italian subsidiary is going to be on order booking for the next two quarters because the execution cycle, particularly for a passenger train, which is the prime product of the Italian subsidiary has a lag of about three quarters from the order booking to the revenue getting booked.

So, our focus in the Italian subsidiary is to build up an order book and we are participating in these tenders. These are large tenders and we are hopeful that we should be able to win some of them. One order being signed will completely change the entire dynamics of the Italian subsidiary. Having said that, we do expect that even if we are able to get these orders over the next two to three quarters, the Italian subsidiary is going to be under a little bit of a stress.

There is another note on the account regarding a potential penalty of about 6 million Euros. This is also with respect to the acquired contracts that we had taken. If we consider all of these including the acquisition cost, our acquisition that we paid to the seller that was part of the government it was purchased from the government department. The acquisition cost still falls at fraction of the real potential and the real value of the company. So this in a nutshell is the overall situation of the company and I am happy to take any questions at this point.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question and answer session. We will take the first question from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Thank you very much for the opportunity Sir. My question is for the foreign subsidiaries you have answered. On the Indian subsidiaries, how are you feeling about the economics of this new method by which the 9500 wagons have been given out and what is your sense about the DFC orders you are saying that will start seeing them materialise probably this calendar year or definitely next, how will the economics play out for those and the specifications are very different have you done any trial pilot scale production of the larger wagons, which are required on DFC in terms of your preparation, are you just theoretically prepared or are there any measures that you have taken in terms of just actually going ahead and doing some physical work around DFC?

Umesh Chowdhary: Thank you. You see, as far as your three questions, first question was as far as 9500 wagon is concerned, the 9500 wagon follows the same tendering process as was being followed in the past. The talks that are going on of the reverse auction is something, which is being deliberated by the railways that has not yet been implemented and we will have to wait and watch as to what would be the final methodology of procurement by the railways going forward. Having said that we have participated in certain private wagon orders on the reverse auction mode and our experience is it might be a different method of quoting prices, but essentially, the larger picture does not undergo a change. As far as the DFC business is concerned, the wagons are of 25 tonne axle load. We have already started producing the prototypes of the 25 tonne axle load wagons. We have received orders for the 25 tonne axle load wagons now, in fact this for the coal wagon. For the 25 tonne already we have produced hundreds and hundreds of container flat wagons of 25 tonne axle load. So we are fully prepared to produce this not only in Titagarh, but also in our subsidiary Cimco and we are producing the 25 tonne axle load as of now.

Agastya Dave: And the breadth of the axle is also wider so you are doing it?

Umesh Chowdhary: Exactly the same. The axle width is exactly the same 1667 mm.

Agastya Dave: So, you are actually producing this, you are actually fully ready?

Umesh Chowdhary: Absolutely, not only that we are already producing this, but in addition the advantage that we have is that if the dedicated freight corridor, the policy framework of procurement of the dedicated freight corridor is yet to be announced, how will they procure, whether this will be procured by the private sector, but in the last meetings and interactions that we have had with the Railway Ministry including the Railway Minister who interacted with the wagon industry a few weeks ago, he encouraged a lot the private designing of wagon to be brought in into Indian Railway ambit. Earlier the designing was a domain of RDSO, but he says he was very clear and very articulate that he wants the private sector to bring their design and that is where Titagarh has a huge advantage over others by way of having a subsidiary and leader in wagon design and production in France, so we are again waiting for the detailed policies to be announced, but once that is done, we expect that this will be advantageous to us. I would also like to add one small point here, which is that the railways had come up the private wagon design approval scheme. Our company, Titagarh is the only company, which had actually designed and produced and has got approval for auto-carrier wagon, which is now under the final stages, so we built the prototype and prototype was inspected and approved. Now, it is under the field trials and we are hoping that it should get through in the next few months.

Agastya Dave: Sir, if I can ask this one more question, on the defence part, what is the progress in terms of how many orders are in the pipeline, the movement has been very slow from the Defence Ministry or what are you seeing there and the same thinking on metro side, you narrowly missed out on the

Nagpur one, but how much do you think over a period of time this can add to your topline and finally this on DFC again, what kind of wagons are we finally looking at, will it be a slower process, are we looking at the market expanding let say 50000 wagons any time soon, what is your sense and I am done for the day? Thank you for the opportunity, Sir.

Umesh Chowdhary: Thank you. So, I will start with your DFC question. The DFC, we do not know what type of wagons and how the procurement would be that is what I just mentioned. The informal interactions that we had with the railways they are talking of very large numbers of wagons over the next three to five years, so I would not like to quantify them although these were discussed in the informal of the meetings, the industry interaction and the railway interaction that took place. We would rather wait for them to get concretize and communicate it to us formally and then only we would come back to you and give you the numbers, but having said that I think the clear benchmark is that the railways have targeted a 300% jump in the revenue in terms of their freight, so obviously the revenue cannot come without having the necessary tools to generate that revenue, which is wagons. As far as the metros are concerned, yes we lost out on the metro tender by a whisker, less than a percent on almost 850 Crores tender. We were less than a Crore that we lost out on, but the good views is that since then the new public procurement policy has been passed by the government and this Make in India have been given a huge impetus, wherein all the metro companies will have to give a purchase preference to domestic manufacture. In that case, the coaches were imported from China instead of being produced in India, so with that being, we believe that we were very competitive even compared to the Chinese and since this procurement policy is in place, we are hopeful of being able to make a dent into it. The total size of the market as it seems as per the figures available in public domain is that the metro coaches required over the next five years should be anything between 3000 and 4000 coaches. Each coach costs about 10 Crores on a ballpark figure. So, that is the total size of the market. The producers in India are Alstom, Bombardier and BEML and we would be the fourth manufacturer in India.

Agastya Dave: Sir, this is over how many years?

Umesh Chowdhary: Sorry.

Agastya Dave: 3000 to 4000 over how many years?

Umesh Chowdhary: Five years. That is what is estimated. These are the reports that were published at different points of time, but these are not tenders that are being issued or published as yet. The last point is on the defence. Defence, we have not got any new orders over the last quarter. We have executed some of the orders that we had, but we have been able to get some orders for bridges. We are actively pursuing our defence interest as well and as and when they develop, we will come back and report.

Agastya Dave: Thank you very much, Sir. Good luck!

Moderator: Thank you. We will take the next question from the line of Ashish

Kumar from Infinity Alternates. Please go ahead.

Ashish Kumar: Thank you for giving me an opportunity to ask my question. Just wanted to understand a little bit more on the Italian subsidiary, out of the remaining order book, how much of the original owner's contracts are left and related to that do you believe that there is another risk of cost overruns/liquidity damage payment on this contract?

Umesh Chowdhary: The total order book in the Italian subsidiary is about 130 million that is the outstanding out of which about 75 million or about 80 million are the new orders and the rest are the inherited orders. As regards the risks are concerned, the only amount that is a potential risk is the one that has been disclosed in the book that was about 6 odd point million Euros. We are; however, very hopeful that we will be able to reduce this amount because these delays are not entirely accrued on our account. There were delays that were due to technical issues between the seller and the customer. In fact, we have been able to resolve those delays, so we have represented to the customers, which is the government that imposing these penalties on us would be unfair since we have been the ones who have actually resolved the problems and we should not be penalized on an account of the past delays. Having said that, we do not expect any further onerosity on the contracts that we have inherited.

Ashish Kumar: Do we have to fund in the last nine months anything in the Italian subsidiary or what is the debt in the Italian subsidiary currently?

Umesh Chowdhary: The total debt in the Italian subsidiary is about 45 million Euros against which in December there were the cash or the cash equivalent available in terms of deposits to customers and bank balance of about 9 to 10 million Euros. The total equity invested by Titagarh as of December 31, 2017 was 10 million Euros.

Ashish Kumar: No fresh investments have been made in the last nine months?

Umesh Chowdhary: Sure. It is not last nine months. In the last quarter there were no fresh investments.

Ashish Kumar: Sir, just coming back to India, we talked about metro, but also for the passenger coach side, there was a tender which was due sometime in October, November in terms of the passenger coach, did that tender deadline get extended or did we submit, what is the status on that if you can talk a little bit about that part?

Umesh Chowdhary: There was a tender that was due by ICF, which was for making train sets in the premises of ICF. That tender was reported in the newspapers yesterday. Only one company in the world or one consortium in the world could qualify for that tender as a result of which we understand that the railways are contemplating as to what is to be done in that tender, we have also on our part made representations to the government against the criteria that were set where for a train that is manufactured by about 20 companies in the world only one could qualify, so that is something that we will have to wait and watch as to what the railways does about it. The other announcements that were made as far the procurement of the passenger coaches for EMUs or

MEMUs, we are hearing very positive noises from the railways and from the government that they would be issuing the tender shortly. We have received some orders in the last quarter for MEMUs, and EMUs from the railway, but the potential we believe is much larger from the ones that we have received.

Ashish Kumar: Sir, one request may be going forward, if you can report the Indian operations and while I know you report the standalone and consolidated for the India operations and the international operations, if you help us analyze the trends a lot better in terms of the market dynamics of that?

Umesh Chowdhary: We are reporting that. We are reporting Indian operation separately for Cimmco, standalone separately and the only thing we are not reporting the French and the Italian separately.

Ashish Kumar: No, I am just saying, you are reporting separately and we do it together, but if you can kind of reported so that if there any in terms of increase then those can be eliminated as well?

Umesh Chowdhary: I am leaving this with my colleague, CFO and the Financial Controller and I see no problem in doing this. If it is permissible as per the listing guidelines we will be happy to do that.

Ashish Kumar: Thanks Sir, and all the best for future.

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

Nirav Vasa: Thank you very much for the opportunity. Sir, just to summarize what would be the total order backlog that we have, and if you can just give a breakup of that in terms of total subsidiary wise?

Umesh Chowdhary: We have a total order book 1300 Crores in India out of which about 450 Crores is in Cimmco and 850 Crores in Titagarh standalone, in France we have an order book of about 25 to 26 million and in Italy we have an order book of about 130 odd million.

Nirav Vasa: Sir, as I understand that Indian Railway is facing really shortage of wagons, so by what time you are expecting next big tender to be floated and in the existing order where we have to procure wheels and steel from where do we intent to procure both the products?

Umesh Chowdhary: The previous order has been finalized only a few weeks ago. We are hearing from the railways that they will be floating tenders very shortly. We are hoping that the quantity would be substantively larger so this would be highly speculative on my part to comment as to when these tenders would be floated, but considering that there is a shortage and there is a huge amount of private demand also that is coming up, the railways would also like to float the tenders sooner than later. In terms of the procurement of wheels and steel is concerned, the wheels have to be procured by the rail wheel factory, which is the railway undertaking and we are procuring the same. Steel has been procured from different sources like Tata, SAIL, etc.

Nirav Vasa: Got your point. Sir, can you help me with the outstanding debt that we have on a consolidated basis as of now?

Umesh Chowdhary: I just gave the numbers recently. Cimmco has a long-term debt of 75 Crores, Titagarh has a working capital debt of about 80 to 90 Crores, but also has cash-and-cash equivalent of similar amounts, France has a debt of about 3 million Euros and Italy has a debt of about 45 million Euros.

Nirav Vasa: Sir, now since we are going to execute the order backlog, which was inherited to us and you know some kind of issues have come in, are you expecting for the FY2019 our performance of Italian subsidiary to remain significantly under pressure because last year we had booked in revenue of around 1000 Crores and our PAT was 33 Crores in the same, so any kind of number that you would like to give?

Umesh Chowdhary: Sorry, we would not be able to give any forward-looking projection, I would just like to say corrected as far as the French debt is concerned. It is about 6 million Euros. I would not be able to give any forward-looking numbers, the only thing that I can say as far as the Indian operations are concerned, I have given you the order book and contractually we are supposed to execute and we are hopeful of being able to execute bulk of these orders in FY2019. In terms of France, I have already given that it is going to be a stable business based on our historical performances. In Italy we do expect that the next three quarters are going to be difficult, but we do not expect the hits like or the onerosity of the contracts that was just mentioned by me in the past. In terms of EBITDA, the Indian business would give us an EBITDA of about 10% odd, 9%, 11% in that range depending on the different product category. The French operations have always delivered an EBITDA of between 6% and 8% and Italy is something that the volume needs to increase in order for the EBITDA to become meaningful.

Nirav Vasa: Thank you very much Sir.

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 on 450 Crores order in terms of the diagnostic vehicle and the signaling thing that you have spoken about in the last concall, what is your update on that and also on the LHB portion what was the update on these two things?

Umesh Chowdhary: On the DICC tender that is not a signaling contract that is actually a diagnostic and a specialized vehicle for that purpose. We have participated. The tender is still under evaluation. It has not been finalized as yet. We are waiting for the finalization to happen in the next few months and that is where I said that we have participated from India in various tenders and are expecting the order book to become stronger over the next quarter. As a matter of fact, I have maintained and I still maintain that my focus and I would believe the focus of the company or to evaluate the company's performance should be building up of the order book, which has seen a lot of traction in the last quarter, but we should be able to continue with this traction over the next two to three quarters. As far as the LHB coaches are concerned, we still do not know what is the final decision of the railway is going to be. The railways had as

per the last understanding from committees to evaluate whether the railways would like to buy LHB coaches or buy the EMUs or MEMUs or buy both or buy none, so that is something which is still in the policy framing stage of the railways and we are expecting that this should get finalized over the next few months.

Harsh Desai: My other question was related to the Italian subsidiary, you said 50 million was the inherited orders, so the balance 80 million was the new orders, which were procured by us, what will be the EBITDA margins on that and also for the 2.5 bn tender that you will have bid for, what is the timeline, and how long would it actually, when would the results come out like in this year, next quarter, how that play out?

Umesh Chowdhary: As far as the orders that we have booked after our acquisition, the EBITDA is standard EBITDA of about 10% to 12%, which is a standard industry EBITDA in this business in Europe. The tenders that we have participated, we have not already put in the bid for this 2.5 billion. I said we have been qualified for some of the tenders. The tenders that we already participated are about half of that and the balance half we would be participating over the next month or two months. The tender is due at different points of time, but we have been prequalified for them. The results of such tenders normally takes anything between three to four months to get finalized, so I would presume that the order should start getting finalized somewhere in Q1 or Q2 of FY2019.

Harsh Desai: Q1 or Q2 of FY2019, this is the half the tender that you participated in terms of that, is it?

Umesh Chowdhary: The tenders that we have participated and the tenders that we are going to participate I would presume that the results of these should start coming out by that time.

Harsh Desai: And just 1300 Crores total order book of India, which is broken up into 450 Crores in Cimmco and 850 Crores in standalone basis, if you can give us further bifurcation of that how much of that is, 850 Crores would be in Indian Railways and how much would be in the private wagon orders, if you can give a bifurcation for Cimmco and Titagarh?

Umesh Chowdhary: Both Cimmco and Titagarh, the Indian railway wagons are about ballpark 250 Crores each and the rest is the private wagon and other products, so we have also in Cimmco developed certain specialized products like shells for locomotive, we are doing some work for the defence, so and so forth.

Harsh Desai: And for the Titagarh, the balance 600 Crores would be what?

Umesh Chowdhary: Again, we have some shipbuilding orders of about 150 Crores or so, then we have private wagons, we have some work from the defence and bridges, so that is the broad breakup.

Harsh Desai: How is that in 2300 wagon orders that you all see from the Indian Railways, Cimmco and Titagarh have got an even spread of 250 Crores each, because Titagarh having a large size in those terms and for the bid that

you have made should not Titagarh have got a bigger portion of the order and Cimmco have got a smaller portion of the order?

Umesh Chowdhary: Cimmco, in terms of capacity has a large capacity as well. The tendering of the order placement of the railways happens based on a set formula, which is also taking into consideration the past performances as well as the bidding performances because both of them bid independently. The orders have been placed accordingly. In fact, if we look at the industry at large, the industry has got pretty similar orders in terms even our meaningful competitors are concerned, so this time the orders have been distributed amongst the manufacturers on a by and large even basis.

Harsh Desai: That is, it.

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

Jayant Mamania: Good morning, Sir. Sir, our specialized bridges and equipment segment sale has gone substantially down from 15 Crores to 9 Crores from the corresponding quarter from 22 Crores in the preceding quarter and the profitability has also gone down, so what is your take on this and what is the outstanding order book position for the segment?

Umesh Chowdhary: We had some orders for shelters from defence, which were executed in the previous and the quarter previous to that, that order has gotten completed and exhausted. I just mentioned about the defence orders we are participating in the defence orders continuously or defence tenders continuously. We do not have a very larger order book directly for the defence land system or shelters. We are hoping the tenders for these should get released in sometime in few months. We do have orders for the bridges that we have got. These would start typically getting converted into revenues from Q1 of FY2019.

Jayant Mamania: Sir, considering our global business, we are working around 10% to 12% margins and that includes our warranty and the delivery damages also, so how far it is safe to be in such business?

Umesh Chowdhary: Well, this is the industry margin, so it is not that our margin is any different from the industry standards. In the railway industry globally these are the kind of EBITDA margins that are prevalent, so I do not see any reasons to fear about the safety about being in this business.

Jayant Mamania: Sir, when we acquired Firema Adler did we know that such type of penalty will come?

Umesh Chowdhary: We had obviously you know otherwise nobody would give us a company valued at about 150 Crores or even the fair valuation that was done was almost three figure million Euros we would have not been able to buy it at the price that we did. We very well aware that there would be contracts, but we were not clear as to what could be quantity of that. Having said that we had made our estimations of a total investment that this company would seek for and including these provision and the potential losses that we may have to

take in the future we are well within that target. The initial board approval that was taken for investing into the company we are well within that number.

Jayant Mamania: Sir, we already have an order book of around 2600 Crores and we have bid for more, so how our working capital requirement will be certified?

Umesh Chowdhary: We have sufficient bank limits. We are AA minus rated company from the rating agencies and we have very good relationships and banking facilities from our working capital bankers and we see no challenge in terms of executing the orders in India. In Italy, the funds that we have borrowed what I just mentioned the total debt that is there for 45 million and large part of that is on working capital facilities only though it is backed by Indian guarantee. In France, also on standalone basis they have working capital limits available without the support in most of the cases from Indian parent, so there are no problems. France is in any case stable business compared to last year, so the same limits that are continuing from last year should be sufficient to take care of the working capital limits.

Jayant Mamania: Sir, what was debt that we faced in the France business, which affected our production?

Umesh Chowdhary: There were some problems with relation to the bogies that we had produced and due to that there were some checks that had to be performed. The checks have been performed since then and sounds perfectly in order and we have restarted the production.

Jayant Mamania: Sir, employee cost has gone up by 20% from 52 Crores to 62 Crores even though the sales revenue has come down, will you explain this?

Umesh Chowdhary: It is primarily on an account of the subsidiary, the Italian subsidiary the costs are there because according to the agreements that we had with the Unions in Italy, we had to hire 45 more people or something of sort during that period, so it is essentially on an account of the subsidiary and also the exchange rate representation in rupee terms has gone up for the overseas employee cost, so that is in absolute rupee term is increasing the employee cost.

Jayant Mamania: Sir, although the bottomline is not much while the penalties are in millions, so how are we prepared to improve our bottomline?

Umesh Chowdhary: I just mentioned that it is going to be the order book that is going to determine the bottomline. The penalties are onetime charge or the costs that we are taking on the acquired contracts, so it would be reasonable to compare the correct bottomline with the penalties or the provisions that have been accrued for. These are essentially on an account of the takeover acquired contracts from the sellers. These are not contract penalties for the contracts that we have acquired after or we have booked after our acquisition.

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

Prateek Giri: Good morning, Sir. Sir, my question is on LHB coaches. Last

quarter you said that Indian Railway approached you for the manufacturing LHB coaches?

Umesh Chowdhary: That is right.

Prateek Giri: Sir, a large part of our value will come from there, but I was just curious that what gives you the confidence that they will give you LHB manufacturing tenders because in the past they have never given LHB manufacturing to anyone in spite of huge shortages?

Umesh Chowdhary: So, I just mentioned a few minutes ago, there is a study going on which has been commissioned by the railways to evaluate whether they would like to outsource LHB coaches or the EMUs or MEMUs or all of them. We do not know as of now. There is clearly a shortage of the coaches. The railways have time and again said that they would like to make good this shortage by procurement from the trade. We have represented at different levels of the government that private sector capacity for coaches that have been created at the behest of the railways and dedicated to the railways, so on one hand when the requirement of coaches is there in by the railways why should the private sector be deprived of partnering with the railways and continuing to supply, which has been there in the past. The railways have very well understood. The railways are working on that as you have seen that the railways not only require coaches from their own production unit we believe that after they acquire the coaches from private sector they would still have a shortage of coaches for which different PPPs like was announced recently also by the Honorable Minister will be floated. So considering the overall demand we will not see a huge kind of uncertainty that the railways will buy coaches from the private sector, which has supplied for example, Titagarh in India we have supplied more than 300 EMUs or MEMUs to Indian Railways over the last five, seven, 10 years. So we do not see the question mark can be whether it is going to be LHB coaches or it is going to be EMUs or MEMUs, but that is the same thing. It is a different model of coach, but it is a coach nevertheless.

Prateek Giri: Fair enough. Sir, my second question is recently there was a news article in which Piyush Goyal said that the whole signaling system of India, he wants to replace it with ETCS2.

Umesh Chowdhary: That is right. I also read that.

Prateek Giri: And our JV with MERMAC makes that ETCS1, there are only six companies in the world who manufacture this ETCS, so are we in their wish list, have they contacted us for the removal of whole signaling system with this ETCS2, Sir?

Umesh Chowdhary: So, we have had several meetings with the Indian Railways including meetings, which are held as recent as last week along with MERMAC and our team. We have been in active discussion with the railways and definitely all the products that are there in the MERMAC portfolio we would be introducing them and offering them to the Indian Railways. As far as this particular signaling system, I am not fully aware of the necessary technical specification whether the specifications required by the Indian Railways as the

specifications offered by MERMAC are matching or not, so I am unable to comment.

Prateek Giri: Sir, secondly what is the cost difference between LHB we make and the LHBs made by BEML and ICF? Is there any significant cost difference?

Umesh Chowdhary: Could you repeat your question?

Prateek Giri: What will be cost difference between LHBs we make and the ones made by BEML and ICF, is it significant?

Umesh Chowdhary: BEML is not making LHB. It is only ICF and RCF that makes LHB, so as far as the cost differential is concerned I do not think I would be able to answer that at this point of time because we have not made any LHB coaches. I can give you for an order of magnitude calculation the EMUs or MEMUs that we have produced, we have been able to give them at a cheaper price to the railways than the cost that ICF and RCF have incurred. The same for the GS coaches the tenders that we had participated, but was not finalized several years ago. Our prices were substantively lower than the cost of production of ICF and RCF.

Prateek Giri: Sir, out of 2300 wagons we have got, how many of these are 25 tonne axle?

Umesh Chowdhary: I am just giving you the number, give me a minute please I do not have that number handy with me. Approximately about 800 wagons would be around 25 tonnes.

Prateek Giri: 800 wagons of 25 tonnes, fine. I also little bit curious about this European order book, if the France subsidiary is since from 2012, but order book is declining since then, it was about 360 Crores order book in 2012 and now it is standing at nearby 210 Crores order book, Sir any light on that?

Umesh Chowdhary: See order book of the French subsidiary has been stable. It is a point of time order book that you are being December that is low. There are certain tenders or certain contracts that are under negotiation, which have not got finalized in December. Normally, the ordering in France does get finalized by December. This time we are expecting the orders to get finalized by March or by April. Part of it was also because of the technical problem that we face on bogie that the ordering was delayed by a couple of months. We believe that the ordering should get back to normal see in the next couple of months and we should be able to do the revenue as indicated, a stable revenue of about 40 million Euros plus minus two percentage point.

Prateek Giri: Sir, are we expecting this French order book to grow substantially in coming three, four, five quarters?

Umesh Chowdhary: Substantially I would not say because strategically we would not like to increase the volume of production in France. The French subsidiary has capacities, but considering the cost we had decided to only stay on certain type of wagons in France because the cheaper type wagon or the commodity type of wagon are one set our cost structure does not permit us to be competitive, so we would continue to be in that 40 to 50 million threshold

revenue in France.

Prateek Giri: Thank you.

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

Amit Doshi: Thank you. First of all, congratulation of a great order buildup. On the earlier participant in one of the question was that LHB, ICF you are confident that there will be distribution of orders to Titagarh Wagon as well; however, in the same interview he refers to that meeting with various nations and when Italy and France were nowhere is connection and also there no discussion about Indian company, so do you still believe that, that make in India though of Mr. Goyal will continue in this LHB coaches because he has already indicated that by June we will stop manufacturing ICF and we will shift to LHB, so any thoughts on that?

Umesh Chowdhary: The Make in India is not the railway policy, it is a Government of India policy, the public procurement order 2017 make in India has been cabinet approved document, so I really do not see that any part of the government whether it is the railways or the metros can be acting against that the railways have been, we saw in the papers very recently that Prime Minister Office came down very heavily on the metros also for not adhering to the public procurement order and to the make in India policy. I would also like to add here that based on our experience in the industry interactions that the Railway Minister has with us, he seems to be a very great proponent of the make in India policy, so I personally believe that the railways whether it is on the LHB procurement or it is in any other part, I do not know whether the railways would end up procuring LHB coaches or different types of coaches, but bottomline would be that the railways are likely to procure coaches in order to meet up if their shortfall and the strong likelihood it is going to be in the make in India policy. As far as the squeezing out of the ICF coaches, yes your knowledge is as good as mine because we have also heard and we have also seen in the papers that from June the Minister has announced phasing out of the ICF design coaches.

Amit Doshi: On the MERMAC side, the product portfolio of MERMAC what do you think that the order book that we can build up over 2018–2019 or so with the address of various unmanned signal, the target of Railway Minister on that front?

Umesh Chowdhary: It would be very premature on my part to name a number here because our JV MoU was time during the Italian Prime Minister's visit to India and this was also a part of the joint statement of the two Prime Ministers of Italy and Prime Minister of India, so obviously that signals that it is an important joint venture, which is being recognized by the heads of the two countries. The product portfolio of MERMAC is very rich. The MoU was time the final JVC is going to be formed, the company is going to get formed over the next months or so only after that we will start bidding for tenders so it is very premature for me to name a number of the order book that we can develop all I

can says that obviously the potential seems to be quite interesting.

Amit Doshi: But in order book we will build in 2018–2019?

Umesh Chowdhary: I am sorry.

Amit Doshi: That order book will be build up in 2018–2019?

Umesh Chowdhary: Part of that order book obviously will be built up 2018–20019, but would be that order book I am not able to try a guess.

Amit Doshi: Last question 2600 Crores, what do you believe that will be executed by next year, 2018–2019, what part of that order book?

Umesh Chowdhary: Of the MERMAC order book?

Amit Doshi: No, the 2600, overall consolidated order book that we have of 2600 Crores, what part of it will be executed in 2018-2019 both Titagarh level in the overseas subsidiary?

Umesh Chowdhary: As far as the Indian operations are concerned, I would say that bulk of that order maybe 70% to 80% of that 70% of that order will be executed over the next year. As far as the Italian subsidiary is concerned, again will be around the same percentage point. France entire order would be executed over the next year and we should be able to get some further orders and execute them as well.

Amit Doshi: So, the 50 million inherited orders would get over by 2018-2019?

Umesh Chowdhary: Yes, absolutely, that would be definitely over.

Amit Doshi: Thank you.

Moderator: Thank you. We take the question from the line of Ankush Mahajan from JM Financial. Please go ahead.

Ankush Mahajan: Sir, in the Italian subsidiary we have \$130 million of orders, where \$80 million are new orders and \$50 million are legacy orders, so what kind of EBITDA that we are expecting in this \$50 million, legacy orders?

Umesh Chowdhary: It is about 50 million Euros and about 80 million Euros. The legacy orders, as I mentioned as of now that are left are primarily the top three contracts so we do not expect any EBITDA on those 50 million order. In fact, there are certain under absorption of cost in the city of those contracts, which have been provided for and the penalties or the technical cost to those contracts that have been mentioned in our notes. As far as the orders that we have booked the EBITDA should be around 10%.

Ankush Mahajan: Sir, if we say when we acquired this company, the overall order backlog Eur220 million and meanwhile we received 130 million Euros?

Umesh Chowdhary: That is right, 130 million Euros of order.

Ankush Mahajan: Sir, out of this 130 million Euros, how much is for the replacement and how much is for new coaches, I mean new set of other coaches, basically on replacement and Greenfield demand?

Umesh Chowdhary: There is nothing called replacement or Greenfield

demands in coaches because the coach when it is procured by the railways it goes into the common service. It is not accounted for 1 x 1 x 1 new coach or a coach that is being taken out of it like lifecycle time, so we really cannot comment on how much is replacement demand and how much is new demand. It is all from the railways that we have booked these orders, different railways vicinity.

Ankush Mahajan: Sir, in the initial remarks you said that there three, four new tenders, we can expect in the metro side, can you give us the name of that metro?

Umesh Chowdhary: It is all in the public, I am talking to you from public domain knowledge, which is there in the approved project list in the site of the Ministry of Urban Development, the metros of Pune, the metros of Bengaluru, metro of Nagpur, expansion of Delhi, so all these are approved projects that the rolling stock should get tendered out over the next year.

Ankush Mahajan: Thank you Sir. That is, it from my side.

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

Rita Tahilramani: Sir, how much is the wagon dispatched in IR and non-IR in this particular quarter?

Umesh Chowdhary: In Q3?

Rita Tahilramani: Yes, in Q3.

Umesh Chowdhary: We do not have much of an Indian railway wagon dispatch because there were no orders and were outstanding hardly about 30 to 40 wagons from the standalone, which were residual orders that we are waiting for Wheeltek to be supplied for the railways have gone and coordinately no Indian railway dispatch. The private sector dispatch from Cimmco would be about 45 wagons only and from Titagarh it will be about 70 wagons.

Rita Tahilramani: What would be the value of these wagons?

Umesh Chowdhary: So, from Titagarh there were about 120 wagons out of which 75 was export. The value of these wagons from Titagarh would be approximately about 45 Crores.

Rita Tahilramani: That is, it from my side and good luck for future.

Umesh Chowdhary: Thank you.

Moderator: Thank you. We take the next question from the line of Vipin Antony from Equity Intelligence. Please go ahead.

Anup: This is Anup from Equity Intelligence. Thank for the opportunity. My question is regarding Cimmco, what is the company's vision for Cimmco I know we hold around 81% of Cimmco equity now, are we planning a divestment or fund raising or we going to integrate the company with Titagarh?

Umesh Chowdhary: As far as the SEBI listing guideline goes, there is a certain period that we have, wherein we have to bring down our equity to 75% minus.

We shall be complying with those guidelines. Beyond that we do not have any concretized plans that are in place or any advance discussion that we have as of now to either raise or dilute equity.

Anup: One more thing, three years down the line, what is the company's vision is, how much of the orders would be from non-wagon business, three years down the line?

Umesh Chowdhary: In terms of Cimmco or in terms of Titagarh?

Anup: Consolidated?

Umesh Chowdhary: In terms of consolidated, the wagon business three years down the line we expecting in terms of three or four years because the execution cycle, I would say that not more than 30% to 35% of the business should be wagons.

Anup: That is all from my side. Thanks and all the best.

Umesh Chowdhary: Thank you.

Moderator: Thank you very much. Well that seem to be the last question, I now hand the floor back to the management for their closing comments.

Umesh Chowdhary: Thank you very much. Thank you for all the questions. I hope I have been able to answer them. If there are any further queries, the CFO, Mr. Anil Agarwal would be available to answer them. Of course Mr. Dinesh Arya who is the Company Secretary is also available to answer any of the investor relation issues that would be there. The quarter has been a mixed quarter in terms of the performances in overseas not being good and the order book in India has been better than expectations. I had expected the order book to double, but actually we have been able to get it to three times. I am pretty confident of the Indian operations, Indian number is getting stabilized in terms of revenue and EBITDA from Q1 of FY2019 and I am also very confident that Italian operations over the next few quarter should be able to turn back to normalcy once we have been able to back some contracts. So, the focus once again is going to be on the order booking and we are hoping that we are able to get some of the contracts out of the tenders that we are participating right now. Thank you everybody for your support and some of the questions that have been very enlightening for the management as well.

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

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