

Transcript

Conference Call of Titagarh Wagons Limited

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Presentation Session

Moderator: Good morning ladies and gentlemen. I am Honeyla George, moderator for the conference call today. Welcome to 3 Q FY19 conference call of Titagarh Wagons Limited HDFC hosted by B&K Securities Limited. 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 handover the conference to Mr. Nirav. Thank you and over to you sir.

Nirav: Hello everybody and welcome to the conference call. We are very thankful to the management for giving us the opportunity for hosting this conference call. From the management side we have Mr Umesh Chowdhary, Managing Director of the company; Mr. Anil Agarwal, Chief Financial Officer; Mr. Saurav Singhania, Group Financial Controller and Mr. Vivek Goel who is the General Manager for Strategy and Finance. May I please request the management to give some opening remarks pertaining to 3Q and nine months performance of the company after which we can open the floor for Q&A. Over to you sir.

Umesh Chowdhary: Good morning; I am Umesh Chowdhary, thank you everybody for joining this call. As I had been mentioning in the past that our focus in Titagarh in the last two, three quarters have been to build up a healthy order book essentially in our business the bottom line follows the top line and the Indian Railway wagon business has been very subdued over the last two, three years. I am happy to report that we have been able to build up a very healthy order pipeline in India as of now and we are also working towards building a healthy order pipeline in Europe now.

As far as India is concerned, as of 1st of January the standalone operations has an order book of 2300 crores and our subsidiary Cimmco has an order book of 400 odd crores. Most of these orders will start getting culminated into revenue in FY 19-20; of course a good portion would also be through pro-rata converted within the Q4 of FY19. The company has been able to increase its revenue on a quarter on quarter basis for the corresponding period from 87200 to from 91 to 219 crores although the margins had not improved proportionately that is because some of these private sector contracts that we had were with fixed price and the steel prices had gone up and also the old railway contracts that have been executed were at very low margin. We haven't received the new contract for 5000 wagons worth about 1500 crores which is with a slightly better margin. So this should show us some margin improvement in FY19-20.

As far as our subsidiaries are concerned Cimmco we made some management changes three months ago our CFO Anil Agarwal was also appointed as the CEO and Managing director of Cimmco. He has been focusing a lot on turning the company around and in

the December quarter he has shown a very healthy growth in revenue and has also turned the company positive. I am very hopeful that this trend would continue. There is an order book of about 400 odd crores and there are some orders in the pipe line. So Cimmco in FY19, FY20 should be able to be positively contributed to the consolidated balance sheet.

As far as France and Italy is concerned, in France we continue to have a little bit of a difficulty; we had to completely revamp the management, we appointed a new CEO last month because the situation was not improving. We are expecting that this year we would end up with similar numbers as last year in the loss but considering the present trend and also the upsurge of the wagon market in Europe, the new orders that we are booking are with better margins and the new management has taken over; so FY 19-21 we should be able to definitely stop the losses and maybe turn marginally positive and maybe the trend would continue. We see the French operations from the year we took over. We took over the company in 2011. From 2012 onwards, every year we had a positive EBITDA and a positive growth. We made good profits in France except for the last two years which was on account of few reasons which I have already explained in the last call and I am pretty confident that we should be able to stop the losses from FY19-20 onwards.

In Italy we have been able to stop the bleeding or you can say reduce the bleeding to a very great extent. We had a net loss of more than 10 million Euros last year. We will be able to substantially reduce this loss in the current year and we are expecting.....we are in a very good position to get a couple of contracts. We are hoping to get these contracts over the next few weeks. With these contracts coming through, the situation of the T will completely turn around. Of course strategic benefit of the Italian acquisition is something that is playing very well for the T. We have received developmental orders from the Indian Railways thanks to the Italian credentials and technology for propulsion for about 100 crores and we are also qualified to participate in every metro tender. The market for the metro tender is very promising and we are the only Indian company that has its own technology, its own credentials and will be able to participate in all the metro tenders by ourselves.

So this is an overview of the company and me along with my team are happy to receive any questions. Thank you.

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 questions. If you would like to withdraw your request, you may do so by pressing * and 1 again. Also participants are requested to ask only two questions in the initial round.

The first question from Mr. Ranjit Shivram from ICICI Securities. Please go ahead.

Ranjith Shivram: Hi sir, congrats on a very good set of numbers and also on the new order win. So just regarding the new order win, isn't it probability then for the next lot of wagons we will get reduced number of thing....? Can you just explain how that new process of tendering of the wagons work?

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

Ranjith Shivram: So this 21000 wagons had been split into two and the first lot had been ordered. The second lot when they order out our share in that will be reduced because here we've got a bulk of the share....is that understanding right or if you can....?

Umesh Chowdhary: Understood. So the method that is being adopted by the railways now is what is called the bucket filling method. So our assessed capacity of Titagarh was 6400 wagons per year. And based on our competitive positioning in the tender, our capacity is being full based on our existing work load and the new orders that we receive. So since this order was....this reverse option happened in December, we have executed obviously a quarter since then till the time the next tender comes out. So our market filling cushion will be eased up in the sense that whatever execution happens from December to the date of the next reverse option the execution that takes place will be an additional quantity that we can bid for and get. Apart from this Cimmco similarly has a capacity range of about 2000 wagons and there also we have a substantial bucket capacity available. So between ourselves and Cimmco the fresh set of tendering we will be eligible to receive orders. What that actual quantum will be is not possible to be quantified now because it depends upon the timing of the tender.

Ranjith Shivram: Okay so the previous method of percentage wise distribution of L1, L2, L3....those kind of methodologies have been completely moved out for the new orders?

Umesh Chowdhary: That's right.

Ranjith Shivram: Okay, and sir, even the metro...you also told that this propulsion system, I think, in the last call you told around 70 crores of orders under propulsion system. So, this 100 crores is...

Umesh Chowdhary: We got two orders, combined value of those...we got for locomotives and for freight.

Ranjith Shivram: Okay, so this 100 crores of development order is pertaining to what?

Umesh Chowdhary: It is a mixture of both. So, there are some locomotive and some trains for the propulsion only.

Ranjith Shivram: And, any colour on that EMU and MEMU order, what is the status out there in terms of execution?

Umesh Chowdhary: It will be executed in FY19-'20, but that's a small order that we have.

Ranjith Shivram: And any additional there in EMU or...

Moderator: I am sorry to interrupt sir...could you please...

Ranjith Shivram: Yeah, this is just a follow-up on that...okay, yeah, sure.

Moderator: Yeah, thank you so much sir. We have the next question from Rithika Parak from Equitas Investments. Please go ahead.

Rithika Parak: Hello? Good morning sir. Sir, I wanted to know when is this 2300 crores order book executable by?

Umesh Chowdhary: Most of it is executable by March 2020.

Rithika Parak: Okay. And, what would be the margins?

Umesh Chowdhary: The different orders have different margins, but on a blended basis, we are looking at an EBITDA of anything around 10%, give or take percentage points here or there. But, on a blended basis, we should look at about 9, 10% of EBITDA margins.

Rithika Parak: Okay. And for shipbuilding, what would be our current order book?

Umesh Chowdhary: The outstanding order book is only about 50 crores. But we are in the front line for bidding for a few more. We are in advanced negotiations stage for a few more, so we will be waiting for them to materialize.

Rithika Parak: So, in this quarter, our margins were pretty high at 27%, what was the particular reason for that in shipbuilding?

Umesh Chowdhary: We are doing only specialized ships, we are doing for the Indian Navy and for research vessels for NIOT, so depending on the type of vessel we do, the margins fluctuate. But, on a blended basis, as I said, so we don't...when we are bidding for a tender, because we are using the same...primarily the same facilities, we kind of try to balance the workload based on the available capacity and the margins that we get, so that we are able to achieve that blended EBITDA of about 10%.

Rithika Parak: Okay, blended EBITDA of 10%. And, what would be the outstanding debt?

Umesh Chowdhary: On a standalone basis, we have no long-term debt, we have no term debt in Titagarh Wagons, but in our subsidiaries, for example in Cimmco, we have a long-term debt of about 95 crores, in Italy we have about 50 million, and in France we have about 3 or 4 million.

Rithika Parak: And what about short-term debt?

Umesh Chowdhary: Short-term debt, in India we have a working capital facility of about 140 crores, so that gets utilized based on the working capital needs, so more or less it is utilized.

Rithika Parak: Okay, and any idea when the...

Moderator: I am sorry to interrupt Ms. Rithika...I am so sorry to interrupt, could you please join the queue for more questions.

Rithika Parak: Alright, thank you.

Moderator: Thank you. Participants are requested to ask only two questions in the initial round. Thank you. The next question comes from Mr. Venkat Subramaniyan from Organic Capital. Please go ahead.

Venkat Subramaniyan: Thanks for taking my question sir. Since inception what is the amount of loss or including acquisition cost that's resulted in our overseas acquisition? Because in the previous conference call there was a little lack of clarity and very little downbeat in terms of how you are going to contain further losses.

Umesh Chowdhary: So, the total cost of acquisition as far as Italy is concerned, including the losses on the ongoing contract was estimated between 40 and 50 million Euros when we had done the acquisition, and we are well within that number.

Venkat Subramaniyan: And, in France, we said that as part of restructuring we still may have about 10 million?

Umesh Chowdhary: This is, I am talking of Italy. In France, our total investment, in toto, we had made profits also in the interim, so our total cost of acquisition including the losses, would be between 10 and 15 million Euros.

Venkat Subramaniyan: And a substantial part of this payoff is going to be our eligibility of the Indian market. And we currently have about a 100 odd crores you said of order win; while addressable market is a lot larger. So, what is your vision for that? Where do you think we can get based on our qualification?

Umesh Chowdhary: I think it is a very huge market. If you look at the metro coach segment itself, each metro coach on a ballpark would be say 10 crores, and of course, as per the international reports and as per the Ministry reports, the total demand for metro coach over the next few years would be up to 3000 coaches. So, potential market is almost up to 30000 crores or thereabouts. There are, as per the Make In India policy, there are only four Indian companies that are qualifying in the Make In India policy for metro coaches. This is again as per the website of the Ministry of Housing and Urban Affairs, which is ourselves, Alstom, BEML, and Bombardier. So, obviously, there is a very large potential market that is out there.

Venkat Subramaniyan: And you will manufacture most of it actually from here sir, or we will need to import some kits?

Umesh Chowdhary: No. Most of it will be manufactured in India. We will use the technology and the knowhow from Italy, the credentials from Italy, and most of it will be manufactured in India. Otherwise, it will not be cost competitive and it will not be as per the Make in India policy of the government.

Venkat Subramaniyan: You should start seeing these flows from '20 onwards?

Umesh Chowdhary: I would say the order booking should happen in FY19-'20. The revenue booking will start from probably '20-'21 something and '21-'22, the bulk,

because there is a gestation period to execute these contracts, because these are specific designed to order kind of contracts.

Moderator: Thank you sir. The next question comes from Mr. Saurabh Jain from Sushil Finance. Please go ahead.

Saurabh Jain: Good morning sir. I have a couple of questions. First is, on the wagon side, now we are almost full for next year in the capacities term, so in case if we get any orders for metro coaches, how would we be able to service these orders, as we know that the capacities are quite fungible, but now since the capacities would be full...how would we be able to service the new orders?

Umesh Chowdhary: We have two different factories sir, one is for the wagons and one is for the coaches. The capacity that we are having full is for the wagon unit. For the metro coach unit, which is in Uttarpara in Calcutta, we are doing EMUs and MEMUs, which will be executed in the current year, and that capacity is available to take up the metro coach project. So, of course, there will be some work required in terms of building that facility further for doing the metro coaches, but that will be phased out as and when we receive the contract.

Saurabh Jain: Okay. So, what would be the capacity there sir, for coaches?

Umesh Chowdhary: The facility that we have we can build up a capacity...for EMUs we have a capacity to do up to three days, which is about 27 coaches a month. For metro, our idea is to build a capacity of doing up to 15 to 20 coaches on a phase-wise basis per month.

Saurabh Jain: Okay. Sir, my next question is on other expenses. This quarter we have seen a substantial jump in other expenses as the percentage of revenue from 19 odd percent to more than 25%, so did we have any one-offs in this quarter? Also, if you can touch upon any developments on our JV with MERMEC. That's it.

Management: So, other expenses includes some part of the direct expenses, such as labour, such as power and fuel, stores and spares, and which is directly linked to your overall volume and due to increase in the volume, the other expenses has increased. The other portion of the expenses, which are mainly fixed expenses, that are almost at par with the previous quarters.

Saurabh Jain: Okay. And sir, if you can touch upon the developments on JV with MERMEC?

Umesh Chowdhary: So, as far as the JV with MERMEC is concerned, we have participated in tenders for the DSPC, we have participated in some tenders for the Indian Railways and other metro corporations, so it is something that is progressing. We don't have any orders that we have contracted, that we have booked till now, but it is progressing.

Moderator: Thank you sir. The next question comes from Parvez Akhtar from Edelweiss. Please go ahead. The question comes from Mr. Parvez Akhtar from

Edelweiss. Please go ahead with your question. Sir, there is no response, I am moving on to the next question, which is from Neet Jain from Prithvi Finmart. Please go ahead.

Neet Jain: Hi sir, good morning sir. My question is regarding the raw material side. Hello?

Umesh Chowdhary: Yeah, please go ahead.

Neet Jain: Yeah. I want to know what is the major raw material in wagons and coaches and shipbuilding side?

Umesh Chowdhary: The major raw materials are different components, and steel. So, we buy steel from different steel plants, and we buy wheel sets from the Railways own plant, or we import it. And the other big component is the bogies and couplers that we manufacture it in-house. So, and then brakes we buy from different...so, there is a mixture of...if you look at the win of material, it is like 100s or 1000s of items, but the bulk of these components are these, ones that I told you.

Neet Jain: And, so how much percentage, stainless steel contributes to our raw material?

Umesh Chowdhary: Our material cost is almost, depending again upon the type of contract, but it varies between 70% to 85%.

Neet Jain: No, the stainless steel contribution, means, basically Indian coaches are now....

Umesh Chowdhary: There are different types of wagons. There are some wagons that require stainless steel. Now, again, it is important to note that these are not the normal stainless steel. Like I said, 313 or 303, etc., these are other grades of stainless steel, and not all wagons require stainless steel.

Neet Jain: Okay. So, all the stainless steel, means, we use some stainless steel in shipbuilding as well? Or some.....?

Umesh Chowdhary: No, shipbuilding we use mostly cotton steel or aluminim.

Neet Jain: Okay. So, stainless steel is only in wagon, and that too in some selected wagons.

Umesh Chowdhary: That's right.

Neet Jain: Okay sir. Thank you.

Moderator: Thank you sir. The next question comes from Agustya Dave from CAO Capital. Please go ahead.

Agustya Dave: Thank you for the opportunity sir. Sir, I had two questions. One was the budget which has come out, and we know that both capacity build up, they are approaching the end, right, bulk of the Capexes have happened. So, there has been a 20% increase, so, have you gone through the details, where is this money going to be

deployed, is it going to be now for procurement of wagons and coaches, so on the macro side, what do you see? And also, what's the progress on the Coal India, and also in (not sure), that they are going to procure some 80% and something like that? So, did anything fructify there or did anything move there? On the second question sir, in the previous con calls, you have mentioned that because the activity levels were very low for the industry, the supply chain had whittled down significantly. And once the orders came in, you were foreseeing some problems in execution because of ancillary units going out of business. So, on the working capital side and also on the supply chain side, how are you seeing things, now that ramp up is happening? Thank you sir.

Umesh Chowdhary: So, as far as the budget allocation is concerned, we have always said that the Railways have invested in the last four, five, six years a lot on capacity creation and now is the time that they have to service that investment while utilizing capacity and utilization of Railway capacity is only by addition of rolling stock. So, while we do not have the numbers of exact allocation of the budgetary amount to different commodities, but we do assume that a substantial part of this will be to the rolling stock. In fact, I was seeing one newspaper article this morning to this effect also, that bulk of it is going towards rolling stock. We do not have any official confirmation as of now.

Agustya Dave: Wish you have it sir, right, because I can't find anything.

Umesh Chowdhary: No, there is nothing which has been published. They have all been, of course we would have got it probably at the same time. So, as far as the Coal India wagon tender is concerned, what we understand is that the Coal India has earmarked and has approached the railways to buy wagons for about 5000 crores. And the tender might come out directly or we do not know whether it will be through the railways or directly or whatever. But, we do expect that this will come out in the FY2019-2020. As far as the supply chain problems are concerned, yes, they have been addressed. We have been able to increase our throughput from January. I would not be able to disclose the exact numbers at this point of time. But, we have been able to increase our throughputs from January and we are expecting that we will be running at full capacity come April.

Agustya Dave: Perfect sir. And working capital debt sir?

Umesh Chowdhary: Working capital of course is a pressure, because railways have stopped all pre supply items. Now, everything has to be purchased by ourselves. So, that does put us under strain on working capital and that is why our interest costs have gone up quite a bit. But, having said that we are able to manage our working capital and increase our throughput continuously.

Agustya Dave: If I can squeeze one question sir, again just a follow up on this working capital, how many days is a good assumption for next year? For financial year 2020, what kind of average working capital days are you expecting?

Anil Agarwal: The entire working capital you need to assume almost 120 days. Of course at this point of time it is..... Okay, thanks.

Agustya Dave: Thank you very much sir. Thank you very much sir. Good luck sir. See you next quarter sir. Thank you.

Moderator: Thank you sir. The next question comes from Mr. Adithya Chandrasekar from Edelweiss. Please go ahead.

Adithya Chandrasekar: Hi. Just a couple of questions. What was the total wagon dispatched during the quarter from both TWL as well as Cimmco?

Anil Agarwal: From TWL we dispatched around 470 wagons and from Cimmco it was around 325 wagons, for the quarter.

Adithya Chandrasekar: And what was the number of wagons in the closing order book sir, for both?

Anil Agarwal: As on 31st December in Titagarh, it is roughly around 6700 and Cimmco, would be around 1200.

Adithya Chandrasekar: 1200?

Anil Agarwal: Yeah.

Adithya Chandrasekar: Okay. And just one more thing, what is the total debt in Cimmco? You said long term debt I think is 95 crores. Is there any short term debt also?

Anil Agarwal: The working capital cash credit is there, the total limit is around 35 crores.

Adithya Chandrasekar: Yes sir. That is it from my side. Thanks.

Moderator: Thank you sir. The next question comes from Mr. Aarsh Desai from Vallum Capital. Please go ahead.

Aarsh Desai: Hi. Sir, as I understand the tailwind of the sector is with us, with great traction in wagons as well as huge possible metro opportunity that can follow through and huge investments being done in this sector. I was just wondering if it is possible for us to think of some sort of global tie-up maybe in terms of technology or strategic partnership. We can get a Chinese partner or Japanese partner that would just push through everything and things would speed up. Can anything be thought in those terms?

Umesh Chowdhary: As far as technology is concerned, I appreciate it is a great thinking in coming out of the box, but as far as technology is concerned, our whole purpose of acquiring units in Europe was to become technologically and qualification wise self sufficient, which we have already achieved. So, we don't need to go to others to get technology anymore. We are technologically self sufficient as of now. Strategic advantages of tie-ups are always something that I think needs to be explored on a case to case basis. We do not keep our minds closed to any potential benefit that can accrue to the company and its stakeholders going through a strategic tie-up. So, as and when there is any opportunity of any such strategic tie-up on the table, we will definitely evaluate that dispassionately.

Aarsh Desai: Sir, I was also thinking in terms of the export market that could be huge, with India looking to even export to (not sure) or something like that because you need to get into all of those field, something in those lines also, if you all could look for a strategic partner, it could be a great opportunity in that sense.

Umesh Chowdhary: Export market will not develop by tying by with the Chinese or the Japanese, because they will be looking at their export market and not at our export market. If they tie-up with us, they will look at the Indian market. We are looking at the export market via our Italian and French subsidiary. We have been trying to work on that. We have met with limited success, I must confess. But, we are continuing to work on that. It is time taking. It is a very difficult process. But, once it does click, it is a perpetual kind of benefit that will be accrued to the company.

Aarsh Desai: Correct. And my second question was with regards to the metro. Sir, the Mumbai Metro bid that we lost where BEML bid substantially lower than us, has there been any reconciliation in the sense that how it would be sustainable for them at that cost vis-à-vis what we bid? And also with Alstom Bombardier already with some metro orders and BEML with some metro orders, do you know what sort of capacity utilization these guys are working at in terms of even if such a huge tender of metro orders are coming in terms of by default something has to go towards you, in that sense?

Umesh Chowdhary: No, we would definitely not like to win tenders by default. We would definitely like to work hard to win tenders and we will win them based on our merit and not because there is a spill over. But, as far as the Mumbai metro is concerned, I was on public domain myself having said that we bid in this tender, but that is primarily for entry purposes. It was not our target tender, because it was too large for us to take as a first metro tender in India. BEML has been very aggressive, but there are many tenders that are in the pipeline now. We believe that BEML has its belly full. Alstom has a lot of orders. And I believe that the capacity available in India is not sufficient and there might be more players that can enter into India and still have enough workload.

Moderator: Thank you sir. The next question comes from Mr. Parvez Akhtar from Edelweiss. Please go ahead.

The question comes from Mr. Parvez Akhtar from Edelweiss. Please go ahead. Sir?

Sir, there is no response. I am moving onto the next question that is from Mr. Ashish Kumar from Infinity Alternatives. Please go ahead.

Ashish Kumar: Thank you sir and thanks for the opportunity to ask the question. Now, in terms of the ramp up on the wagon order, this quarter we delivered 470, but we have an order book of 6700 to be delivered in the next five quarters. So, are we looking at a 1000 plus kind of wagon dispatch order over the next four quarters or is that where it could be or do you think that order may not get executed?

Umesh Chowdhary: No, we will be able to hit that run rate for sure. From Q1 of FY20, we will be able to run at full capacity. Of course Q4 FY19 also we will be increasing the number of wagons quite substantially.

Ashish Kumar: And sir, second thing is in relation to the Italian subsidiary. Last time when we had spoken, we had talked about the fact that we had made these bids and if we do not get any new orders by March to June, then we may be running out of the order book there. Can you give us a little bit more color on that as well as on this planned real estate sale on that business, so that.....?

Umesh Chowdhary: I have said it in my opening remarks sir that we are very well placed in a couple of tenders. We are expecting and hoping to win at least one of them. And I still maintain that for us March is a critical milestone as far as our Italian subsidiary is concerned. It is definitely a very critical milestone and we do hope that we will be able to get some new orders before that.

Ashish Kumar: How large is that order sir, if I may?

Umesh Chowdhary: I would not be able to disclose any details as of now till we have formally been able to get awarded that contract.

Ashish Kumar: And any option in terms of restructuring in sale of the real estate there?

Umesh Chowdhary: It is not something that we are evaluating at this point of time. We are looking at the business aspects and we would definitely need the entire real estate for executing these contracts that we are hoping to win.

Ashish Kumar: Okay. Thanks and wish you all the best and look forward to talking to you next quarter when and as we ramp up.

Umesh Chowdhary: Absolutely. I hope I will be able to give you happier news at that time for the orders and Italy.

Moderator: Thank you sir. The next question comes from Mr. Prateek Giri from Vallum Capital. Please go ahead.

Prateek Giri: Good morning Umesh-ji. I wanted to understand this demand scenario from GPWIS, General Purpose Wagon Investment Scheme. So, I just wanted to understand that what are the kinds of wagons which are being ordered by private players? Is it only container flat wagons or even BOX wagons as well, because GPWIS materialization will see higher number of orders in BOX category, because of the bulk load they carry, cement, steel and coal, so some color on that sir?

Umesh Chowdhary: Sure. I think you answered your question sir, because the container wagons are not in the GPWIS category. The orders for container trains are placed under the CTO category or the wagon leasing, WLS, Wagon Leasing Scheme category. The GPWIS category is only for bulk commodities like BOX, BCN, Hopper Wagon and so on. There was some policy kind of bottleneck in the GPWIS policy and now they have been resolved and there is a good healthy demand that has started for which different BOX and different bulk commodity wagons under this scheme. I have also got some contracts under this scheme. But, also the Coal India tender that we just spoke about, which is likely to come out, will be coming out in the GPWIS category itself.

Prateek Giri: Yeah, that was my question sir. So, are we seeing some increased order uptake from the private players in this BOX wagon category?

Umesh Chowdhary: Absolutely. As I said the entire GPWIS....BOX.

Prateek Giri: Any number? Any number from private players sir, in terms of this, apart from Coal India, apart from Coal India?

Umesh Chowdhary: There is a very large appetite. There is a very, very large appetite. Now, what materializes is something that we will need to wait and watch. But, the appetite is very large as of now. The number of enquiries that are coming are very large. How much will convert into order book and approvals and so on and so forth, we need to wait and watch.

Prateek Giri: Fair point sir. Sir, if we see the wagon being manufactured this quarter, we are still not up to the mark according to our order book, so in TWL we manufacture (not clear). So, are the problems of ancillary bottleneck and all is still there and because, if we see, Cimmco has performed well, while Titagarh has not performed as per the expectations. So, some color on that sir, till when this problem will get resolved and we will be hitting the ceiling in terms of our capacity?

Umesh Chowdhary: As I said that the Q4 FY19, we will be able to increase the wagon output in Titagarh compared to the previous quarters. And Q1 FY20, we will be running at capacity.

Prateek Giri: Fair enough sir. Just a last question, so if you look at our shipbuilding, we didn't win any new orders recently. So what kind of fixed costs are there, which can hit our wagon margins in the coming quarters? And we heard some enquires from Garden Reach Shipbuilders, so any update on that sir?

Umesh Chowdhary: I did mention that we are in the advanced stages of negotiation and discussion for some contract, including customers like Garden Reach or other customers. As far as the fixed cost is concerned, we don't have a very high level of fixed cost for ship building, because a number of costs can actually be shared between the wagons and it is fungible. So, we will not have a huge drag per se, even if there is a temporary lack of workload on the shipbuilding segment. But, having said that, I am also fairly optimistic that because we are one of the very few shipyards in India who have actually delivered vessel after vessel before time, and there is a huge credibility crisis on deliveries that we have seen in terms of delivery of vessels, so we should not have workload problems in the future.

Prateek Giri: Fair point sir. Sir, just a last question. Our EBIT margins in shipbuilding are just 1% versus 12% last quarter at the same level of revenue, I guess at 22 crores. So, what is the reason behind that sir?

Umesh Chowdhary: It is as I said different ships have different margin levels. So, on a blended basis when we are doing it, we don't do it on a ship by ship basis, but we look at the capacity (not sure) on a blended margin basis. So, some orders have taken a marginal cost and some have taken a...

Prateek Giri: I am sorry to interrupt you sir. Sir, this was bridge segment, EBIT margin was 1% versus 12% in bridge and not ship.

Umesh Chowdhary: It is the same fundamental basis sir. And as I told you that our capacities we have to keep that fulfilled, otherwise our fixed costs do not get absorbed. And as far as the bridge is concerned, this was you would recollect that we had announced that our joint venture with Matiere, we had bagged our first contract which was a World Bank contract to enter into this business. So, we had bid very aggressively and won the contract and we are still positive on that, that in itself as a market strategy, even if we have to put some money on the table to enter the market, we would have done that.

Prateek Giri: Fair point sir. Fair point. Congratulations on a good set of numbers sir. I hope that going on further numbers will improve significantly from here and we definitely will win some metro contracts as well. Thank you sir.

Umesh Chowdhary: We are hoping. Thank you very much.

Moderator: Thank you sir. We have a follow up question from Mr. Ranjith Shivram from ICICI Securities. Please go ahead.

Ranjith Shivram: Hi sir, just if you can touch upon the overseas business performance of AFR and the Italian subsidiary for the nine months and what is the outlook in terms of that?

Umesh Chowdhary: As far as the French subsidiary, as I mentioned in my opening comments sir that we are expecting that we will have similar numbers like last year in terms of the performance, in terms of the losses. For Italy we will be able to reduce the losses quite substantially. We have been able to reduce fixed cost. We have gone down on the number of; we have been able to close down to small size, which was not viable. We have been able to reduce the number of people from 440 odd to 380 odd people. So, a lot of structuring and restructuring has already happened, both in France and in Italy. So, in terms of the first nine months or the current financial year, in France we are expecting the losses to be around in the same year as last year, but in Italy, it should be substantially lower. We hope that in France, we will be turning positive, it is not substantially positive, but we will definitely turn positive in 2019-2020. In Italy we should be again maintaining close to breakeven numbers in 2019-2020, because the orders that we sign now will start execution in the last part of 2019-2020 and primarily in 2020-2021.

Ranjith Shivram: Okay. And in your last concall, you had given the gross debt number, in terms of Rupees crores around 617 crores, which the standalone 52, Cimmco 123, Italian 400 and French 42. So, this Rs.617 crores, has that increased or decreased, if you can throw some color on that?

Umesh Chowdhary: I will ask Anil to answer.

Anil Agarwal: So, the debt level of course as far as the long term debt is concerned, that has not increased. But, the working capital level has increased, because of the increase in the operations.

Ranjith Shivram: Okay. So, what will be the corresponding debt figures like? Last call you had given standalone was 52 crores. What will be the corresponding debt figure currently for standalone?

Anil Agarwal: Standalone, it is more or less same.

Ranjith Shivram: 52 and 123?

Anil Agarwal: Yeah.

Ranjith Shivram: And Italian, you had given 400 and French 42, so that also stands at similar levels?

Anil Agarwal: More or less on the same line, yeah.

Ranjith Shivram: Okay. So, 4Q will be the key quarter where we will see some higher execution and we can expect some cash flows to improve?

Anil Agarwal: Yeah.

Ranjith Shivram: Is there any debt target in our mind for this year?

Anil Agarwal: Sorry?

Ranjith Shivram: For this year end, is there any targeted debt figure in our calculations?

Umesh Chowdhary: The working capital debt depends upon the order book. It is on the cash credit limit, the debt keeps on fluctuating. So, obviously when we are increasing, we are talking of increasing the volume by almost two times. The working capital requirement will be higher. As far as the term loan, the long term debt is concerned, these are we don't tend to increase our overall debt levels on the term loan debt or the long term debt.

Ranjith Shivram: Okay sir. Thanks.

Moderator: Thank you sir. We have a follow up question from Ms. Rithika Parak from Equitas Investments. Please go ahead.

Rithika Parak: Sir, I wanted to know in FY19, how much have the railways tendered for rolling stock?

Umesh Chowdhary: They have tendered for ma'am 21000 wagons, but they finalized orders for about 11000 or 12000 wagons and they are likely to again come out with another tender for the balance.

Rithika Parak: The balance 10000 wagons, the tenders are yet to come out. Do you expect it to come out in Q4 of FY19?

Umesh Chowdhary: Normally it should be coming out anytime now, but being close to the elections we do not know whether the railways will be affected by the Model

Code of Conduct or things like that. So, we need to wait and watch and see what happens.

Rithika Parak: Alright. Thank you. Also sir, I wanted to know for Cimmco, how much of the Bharat Petroleum orders have we executed?

Umesh Chowdhary: No, the orders we are hoping the execution in FY2019-2020.

Rithika Parak: Okay, alright. Thank you.

Moderator: Thank you ma'am. The next follow up question comes from Mr. Adithya Chandrasekar from Edelweiss. Please go ahead.

Adithya Chandrasekar: Hi. Sorry, just a quick follow up question. The working capital limit is fully utilized in both the Titagarh as well as Cimmco?

Umesh Chowdhary: It is fluctuating sir. It is not fully utilized. But, the working capital keeps on fluctuating. There are times when it gets fully utilized. But, on an average I would say, they are utilized to the extent of between 70%-80% of the limit.

Adithya Chandrasekar: And currently the limit is 140 for Titagarh and 35 for Cimmco, right?

Umesh Chowdhary: That is right.

Adithya Chandrasekar: And how do you see this increasing with the increase in volume? Are you planning to increase its limit?

Umesh Chowdhary: We have a consortium of banks, which we work with. So, based on, it is an annual assessment, like the normal industry assessment that they explain the CMA data etc are under evaluation of our bankers and the bankers we hope will support our (not clear) working capital requirement.

Adithya Chandrasekar: Okay sir. Thanks a lot.

Moderator: Thank you sir. Participants, that will be the last question for the day. I now would like to hand over the conference to Mr. Nirav for closing comments. Over to you sir.

Nirav: Sir, would you like to give any closing comments?

Umesh Chowdhary: No, thank you very much everybody for the very valuable questions which also gave us some insight and ideas. We do hope that after a long period of difficult times, the industry should see good revival in the coming quarters and coming years. And thank you for your support and your interest.

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

Note:

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