

## Conference Call Transcript

### Titagarh Wagons

#### Q2FY18 Results

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#### *Corporate Participants*

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**Mr. Umesh Chowdhary**

*Vice Chairman And Managing Director*

**Mr. Anil Agarwal**

*Group CFO*

**Mr. Saurav Singhania**

*Group Finance Controller*

**Mr Vivek Goel**

*GM (Strategy & Finance)*

## Questions and Answers

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**Moderator:** Good morning ladies and gentlemen and welcome to the Titagarh Wagons Limited Q2 FY 2018 Results 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 the operator by pressing "\*" and then "0" on your touchtone phone. I now 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 Q2 FY2018 Conference call of Titagarh Wagons. Today, we have with us from the management side Mr. Anil Agarwal, Group CFO of the company, Mr. Saurav Singhania, Group Financial Controller and Mr. Vivek Goel, General Manager Strategy and Finance. Mr. Umesh Chowdhary, the Vice Chairman and Managing Director of the company will join us shortly. I would now hand over the call to the management for their opening remarks. Over to you Sir!

**Anil Agarwal:** Thank you Parvez. Good afternoon everyone. I would like to start with giving a brief idea about the results for the quarter and six months.

For the three months, the topline was around Rs.373 Crores, which was more or less in line with the first quarter, but the performance of the company in terms of the profitability got impacted primarily because of our French company.

If you remember the last time also in the first quarter, we mentioned about booking some contracts in French company at a low margin, which was basically to enter into a new product line and the execution of those particular wagon was in large quantity in this quarter, which we expect will get completed maybe by mid of this third quarter and once that is completed then of course we would be left with wagons with higher margin and that will improve the profitability of French unit.

As far as the other companies are concerned like Titagarh on a standalone basis, we did a topline of around Rs.87 Crores and that is the majority of this revenue came from non- wagon business like we did some nuclear shelters, some Bailey bridges, some equipment like EMU, MEMUs, and also from the ship building.

If I can give you a brief idea about the Titagarh performance, so whatever activities the company had started in terms of the product diversification all I would say going on a right track. We have been successful in participating large number of tenders, the results of which are awaited and all these tenders are non-wagon business tenders.

As far as the wagon business is concerned every one of you might be aware that the tender for 9000 odd wagons, which was opened in the month of September is expected to be finalized shortly may be in a month or so and based on the past performance and our competitive pricing, the company expects to get something around 22% to 23%. The company along with Cimmco expects to get around 22% to 23%.

This is the first time in the history of Indian Railways that Indian Railways will not be supplying any free supply item and thereby raising the overall realizations, so against the earlier realizations per wagon of around Rs.13 lakh to Rs.14 lakh, the realizations per wagon would go up to Rs.25 lakhs per wagon.

From the private sector side, again we are seeing lot of traction, so a lot of interest is there from the private sector and private customers. A lot of enquiries are coming. Company has been successful in booking some orders from the private sector and with this positive trend I think it will continue in the near future. So Mr. Chowdhary has joined in.

**Umesh Chowdhary:** Good morning. Apologies for the delay I was stuck in a little traffic. Anil has already started briefing about the quarter gone by and the future. As far as the quarter gone by is concerned, to give a very quick recap as far as the France is concerned, as I had mentioned during the previous investor call also that we had certain orders that we had taken with very tight pricing primarily to reenter the stainless steel wagon market. We have completed in the September quarter most of that contract with very small portion being spilled over for the third quarter dispatches. Going forward the orders that we have in France is with positive contributions so the situation of France should turnaround.

As far as Cimmco is concerned, Cimmco in the wagon tender is placed very well. We are expecting the tender to be finalized in a matter of days, so we should be having in Cimmco for the two product line both for the defence and for the railways, in railways, the wagons as well as the locomotive shells which we have emerged as one of the larger players in the industry. We are hoping an order book built up quite substantial over this quarter or in the coming three to four months in Cimmco and the performance therefore is looking bright going forward.

In Firema, in the Italian subsidiary we have executed most of the orders that we have taken, so just to give a recap of the number when we acquired the company, there were orders we are back log for about 170 million or 200 million Euros, 220 million Euros. After acquisitions of the company, we have signed contracts worth about 130 to 140 million Euros. When we acquired, the revenue used to be around 30 million Euros. We have been able to do about 130 million Euros last year so as the result of which the backlog of the orders have reduced quite substantially and what is important now going forward is to sign new contracts.

There are important tenders that we are participating in both in Europe as well as other countries in the world, but the time of contracts getting booked and

getting executed this is an industry, which require some gestation so there is likely to be a pressure on the Italian subsidiary in terms of the order book converting into revenue for the next few quarters, but I would say the order book should get developed over the next couple of quarters and the revenue of these will start getting converted over the next four to six quarters.

As far as Titagarh standalone is concerned, the situation is looking pretty positive from the wagon off-take perspective. The private wagon orders have started coming in. We have won some private wagon orders and we are in advanced stages of negotiation for some more private wagon orders. The Indian Railway wagon order again Titagarh is well placed, so we should be getting this order from the Indian Railways in a matter of days. The big business again in Titagarh standalone remains the metro coaches and the electrical, which is the new line that we are focusing on.

We are hoping that there would be about three to four big metro tenders that will be floated before March 2018 and we should be able to participate in these and we are going to be very focused on bagging at least one or two of these contracts.

We have received the developmental order for the propulsion and electricals from the Indian Railways and also for traction motors, the development of that has already started. The whole cycle of manufacturing prototype and approval is about 12 months, so the revenue, the real numbers of this should start coming in from the following financial year. Extending ourselves on the electricals, signaling and safety equipment we signed a MoU for joint ventures with leading company called MERMEC, creating a 50:50 joint venture.

The production of this will continue to be outsourced to Titagarh the same way that we have the other joint venture with Matiere Bridges. This joint venture essentially will be doing the designing and marketing of the products and the manufacturing will be done in Titagarh so the revenue will really flow into Titagarh standalone of these products.

On the joint venture with Matiere we have two product lines that we have introduced one is called the MPB, the Matiere Panel Bridge and the other is Unibridge, we have received the orders for both of them. We have to see the smaller for the Unibridge for pedestrian foot bridges but have participated in larger bridges also, but the highlight for the quarter was to about Matiere Panel Bridge we were able to win a world bank contract from Nepal in global competition and in fact one of the largest bridge manufacturing companies in the world was our competitor apart from having Chinese and other competitors, but we have been able to sign this contract and shall be executed partially in this financial year and partially spilling over to the next financial year.

This is the overall synopsis of the quarter. We have participated in other tenders for diagnostic vehicles like diesel electrical tower cars with automatic measuring instruments. We are placed L1 in those. These are tenders worth almost Rs.400 Crores and we are hoping that railways should finalize it over the next few months.

With this brief introduction, I would open up for any questions that could be there.

**Moderator:** Thank you. Ladies and gentlemen we will now begin the question and answer session. We will take the first question from the line of Ritika Garg from Equitas Investments. Please go ahead.

**Ritika Garg:** Good morning Sir. Could I know the order book for the French subsidiary, Italian subsidiary and the standalone order book?

**Umesh Chowdhary:** The total consolidated order book is about Rs.1900 Crores. The breakup of is in Italy we have about Rs.1000 Crores, in India we have about Rs.550 Crores and in France is about Rs.250 Crores, Rs.260 Crores. Of course I would like to highlight that the major orders in India are yet to get finalized, so we have participated in the tenders and we are hoping that this scenario will change quite substantially by the end of the current quarter.

**Ritika Garg:** In India, the order book could you give us the breakup for the defence shipbuilding?

**Umesh Chowdhary:** The shipbuilding, there has been no movement compared to the last order book that we had was about Rs.150 Crores odd. We are starting to participate in additional tenders, so primarily this order book out of this Rs.550 Crores odd about Rs.170 Crores, Rs.180 Crores is the defence and the rest is railways.

**Ritika Garg:** Sir when do we expect to execute these order books by?

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

**Ritika Garg:** When do we expect to execute these order books like in the Italian subsidiary by when do we execute this Rs.1000 Crores worth of orders?

**Umesh Chowdhary:** With Italian subsidiary orders would be getting executed over the next nine to 12 months majorly.

**Ritika Garg:** These are the high margins orders?

**Umesh Chowdhary:** Not all of them. There is a mixed bag. So some of them are the legacy orders that we had inherited which do not have very high margins, some of them are the new orders, which have decent margins.

**Ritika Garg:** What about the employee cost that was there? They were higher on the overseas subsidiaries?

**Umesh Chowdhary:** There was a changeover of European regulation that was happening earlier this year in terms of the technical standards, so there was a bulk of the orders or completion milestones that had to be achieved within a certain date in order to stay within the previous regulation and therefore we had number of temporary workers in Italy in order to comply with that regulation. Now we have normalized the manpower cost of permanent workers would be there, we have re-hired the temporary workers that were hired in the past.

**Ritika Garg:** In the Italian subsidiary what would be the margin for the new orders that we have got?

**Umesh Chowdhary:** Again it is varying situation. Our focus right now on more onwards strategy perspective is right now you see on a normalized basis in the passenger train segments, the EBITDA margin in Europe should be anywhere between 12% and 18%. It is better margin than the freight wagon business, but that is not our focus right now because we have acquired this company, which was in distress so we want to re-establish and grow the order book so both in India and in Italy the focus right now from the management is that even if the EBITDA margins are few percentage points lower we need to grow the topline and automatically since the market exist, the EBITDA margin improvement will follow subsequently.

**Ritika Garg:** Sir African order that was there that is being booked in the French subsidiary right?

**Umesh Chowdhary:** Which order?

**Ritika Garg:** Orders from Africa, which are being executed in India?

**Umesh Chowdhary:** That is right absolutely.

**Ritika Garg:** So this Rs.260 Crores, the French subsidiary has African orders have included in this right?

**Umesh Chowdhary:** No, if we include it in both it would actually inflate the order book so we have actually netted it off.

**Ritika Garg:** Okay and what is the outlook from Africa?

**Umesh Chowdhary:** The African outlook is picking up. We have already completed our first order successfully commissioned, the first order for clinker wagon. We are now executing contract for container flat wagons; again these are specialized design. We are negotiating some further contracts in fact repeat contracts from the existing customers, and also the mining industry having improved in terms of the prices of the raw material etc., there is a renewed interest that is coming up. We do not have any orders in hand which is after these two orders, but what is good is that the first contract that we had taken we have completed that and received entire payments for that, material is accepted by the customer and is running on the track.

**Ritika Garg:** Shipbuilding order in India, Rs.150 Crores when do we expect to execute that by?

**Umesh Chowdhary:** This will be executed over the next 12 to 18 months will be completed, but we will be in stages of course.

**Ritika Garg:** The defence orders?

**Umesh Chowdhary:** The defence we have primarily completed majority of them and we would complete majority of them within this quarter, which was there, some of them will continue and which are the new contracts that we received from the Ministry of Defence and that will get executed over next financial year.

**Ritika Garg:** What are the orders that we are expecting in terms of defence because there is a lot happening in terms of defence?

**Umesh Chowdhary:** We had participated in tenders and we are waiting for the results of those to come out. The tendering process in the defence is quite long. The technical bid and the trials and then the commercial bid opening, so it is very difficult to say or give a definitive timeline that this is the kind of order book that we are going to develop on the defence, but what I think say is that we are present in the defence sector in primarily the shelter business, launcher business and the canister business in a very effective manner and all opportunities for launchers or for any type of shelter whether it is nuclear shelters or communication shelters or mobile shelters we are one of the companies that are shortlisted. Some of the large contracts that we have participated in consortium with others like FICV that we participated with Tata Power we are also trying to participate in some other projects, awaiting of course the result of FICV, which will be known in the next few months. But apart from that there are other similar projects that are coming up and many of them we are discussing with them or with other similar partners to go jointly.

**Ritika Garg:** What is the outlook from the Indian Railways like because we have not received orders since past few quarters?

**Umesh Chowdhary:** We are hoping that the railway wagon orders, the previous years order will be released in the matter of days, that is what we have been told by the railways. They had said that it would be released within the middle of November, but I do not know because these are processes that can take a few days here or there, but we are hoping that they should get released very soon. As per the tender conditions, the quantity that we should get in the normal scenario right now because the tenders floated by the Indian Railways actually have very transparent method, methodology of allotting the orders. So we should out of this 9500 between Titagarh and Cimmco get may be anything around 2300 wagons or so.

**Ritika Garg:** That would translate into revenues of?

**Umesh Chowdhary:** So if we assume an average price of Rs.25 lakhs it would mean close to Rs.550 Crores, Rs.600 Crores.

**Ritika Garg:** Thank you.

**Moderator:** Thank you. The next question is from the line of Jayant Mamania from Care Portfolio Management Service. Please go ahead.

**Jayant Mamania:** Good morning Mr. Chowdhary. Lot of talks has been going on for LHB coaches in one of the article Titagarh name was also there. So can you breakup for some capability, eligibility and capacity to manufacturer in the LHB coaches and whether it will need any additional capex or not?

**Umesh Chowdhary:** LHB coaches if you see the Honourable Railway Minister had made an announcement that all the conventional coaches will be converted into LHB coaches, which are safer than the conventional coaches. I am aware of our name in the newspaper articles also and that is primarily because if we look at the coach manufacturing business this year, there are in the private sector we are the only established players and in overall BEML and ourselves are the two established players that have been making coaches. We have manufactured



and successfully supplied with the more than 300 EMUs to the Indian Railways over the last three, four, five years and therefore the Railways had approached us asking if you would be interested and of course we have shown our keen interest, but in addition what we have proposed to the railways is LHB technology in itself is a 30-year-old technology. Thanks to our Italian subsidiary we have the latest coach designs available, so we have offered to the railways that we can while we will be happy to manufacture LHB coaches for them we can also given them the up-to-date technology with the latest crash compliance etc., with our own design from the Italian subsidiary. The railways are in the process of drawing out a master plan of how their acquisition is likely to be but very clearly the bet seems to be that the coach business, which had stopped coming to trade with the new dispensation the idea, the whole focus of the railways would be to go for a quick fix of the solution and therefore this business is likely to come to the trade. Titagarh would definitely be by virtue of the technology and their experience is a frontrunner.

**Jayant Mamania:** They expect to replace 70000 coaches in next five years, so it will average out to be 13000, 14000 coaches per annum and their capacity at the max will be 5000 coaches per annum railways. So what is our capacity to build coaches per annum?

**Umesh Chowdhary:** We have communicated to them that we can do up to 100 coaches a month that is about 1200 coaches a year, but we need to have a consistency because LHB will require an investment in terms of the new jig set, fixtures etc., of course it is not going to be very large, but it is still going to be an investment. So we do not want to go for a kind of knee-jerk reaction and that is what the railways are doing, they are assessing the sustainable demand and there will be coming out with tender.

**Jayant Mamania:** So how far you are positive would this LHB coaches order?

**Umesh Chowdhary:** I am very positive about the coach order. I would not say LHB or X or Y or Z, because in Titagarh our position is that the railways while LHB this is exactly how I presented, so I probably repeat that I said examination paper with full mark of 100, let us say the conventional coach is 5% and LHB is 15% but still 15% is 15% of 100 so why should we say with the LHB coaches may be we should look at the latest technology. LHB is 30-year-old technology and of course LHB is good coach it is very coach compared to what we are using in the conventional coaches but it can be further bettered and I saw one of the interviews of the Honorable Railway Minister and of the Chairman of the Railway Board, which also suggested that they are evaluating the situation. So to answer your question I am very positive about getting coach orders in coming I would say months or quarters. I am not sure whether it is going to be LHB coaches, it is going to be EMU it is going to be MEMU and or it is going to ZETA 1, which we are offering.

**Jayant Mamania:** Sir in case of equipment and bridges segment we have very good growth in revenue and in terms of margins also so what is the present order book size and what kind of growth do we expect in coming years and who are other players in that industry?



**Umesh Chowdhary:** Thanks to our joint venture that we had signed with the French Company because joint venture as I had explained a little while ago, it is basically 50-50 joint venture called Matiere Bridges Private Limited and this company is essentially getting the design and technology from the joint venture partner, which is Matiere and doing the marketing. The manufacturing of this is entirely subcontracted to Titagarh. So therefore we see this is very potential business. Why I am saying is potential business is because if we kind of infrastructure growth that is happening not only in India, but also in other neighboring countries one of the bigger constraints used to be the non-timeliness of completion of building bridges. With these modular bridges that problem can get taken care of and that is where we have seen that we have been able to actively participate and convince the customers to go for these bridges. This company is fully operational. The joint venture is fully operational and it has Managing Director and it is technical experts fully in place so I am hoping that we should be able to grow this business well going forward.

**Jayant Mamania:** So what kind of turnover do you see in next three years in the segment?

**Umesh Chowdhary:** I would say that it would be quantum jump, but the potential and we will need to see how much acceptability that finally comes in but the quantum that the potential could be provide large. I would say the bridge segment could have potential business of around Rs.250 to Rs.300 Crores plus in the year.

**Jayant Mamania:** On this Rs.22 Crores how much is domestic and how much is foreign?

**Umesh Chowdhary:** Of which one?

**Jayant Mamania:** Of this Rs.22 Crores turnover in special bridges and equipments segment how much the domestic turnover in how much is foreign?

**Umesh Chowdhary:** This is 100% domestic and this is not new bridge. These are all Bailey Bridges and some shelters.

**Jayant Mamania:** Sir in opening remarks you said that majority of bids which we have filed are non-wagons, so can you elaborate that?

**Umesh Chowdhary:** Can you repeat the question please?

**Jayant Mamania:** In the opening remarks, you have said that majority bids we have tendered for non-wagon orders?

**Umesh Chowdhary:** I did not say that we have majority bids that we have given as for non-wagon tenders. I am saying wagon tenders we have already, which I just gave out the number also. There are lot of private wagons orders that also we are actively in negotiation, but there are other tenders, which is not wagon, which is in the passenger segment, in the diagnostic segment and this segment also that we have participated and what I said is that the focus in Italy will be to grow up the order book because that is something, which is essentially that is going to be pressure point for the Italian company over the next I would say four to six quarters unless we are able to growth the order

book very substantially.

**Jayant Mamania:** So this we are expecting fall in the Firema turnover so what kind of turnover will we need to breakeven?

**Umesh Chowdhary:** Firema we are doing multiprong approach we are on one side trying to also bring down as I mentioned about the employee cost and our fixed cost and we are also growing our turnover so I would not be able to give you this exact number at this point of time because the business plan and the budget is yet to be approved by the board. I hope that by the time we have next investor call we should be able to discuss or give more details about this.

**Jayant Mamania:** Sir last year we had substantial provision for warranty claims so is that any claims are over or is there any further provision during this first half in case of Firema?

**Umesh Chowdhary:** I do not think there are any warranty claim provisions. These are standard provisions that we make as far the percentage of sale is concerned. These are not any specific.

**Jayant Mamania:** Okay in last year annual report we saw provision of around total Rs.85 Crores I think?

**Umesh Chowdhary:** Last year?

**Jayant Mamania:** I think Saurav or Mr. Anil Ji will know it.

**Anil Agarwal:** At the time of acquiring TSA, there were some whole contract which we were already delayed and on that takeover.

**Umesh Chowdhary:** Sorry I understood now. I thought you are talking about the last quarter not the last financial year. These are the takeovers, so when we are Firema, they were some contracts, which are, accrued penalties already.

**Jayant Mamania:** So that I wonder to know that there are no further such claims or provision during this first half?

**Umesh Chowdhary:** No we do not see it any further provision or claims.

**Jayant Mamania:** Thank you.

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

**Nirav Vasa:** Thank you very much for the opportunity. My question pertains to the growth prospects that we are targeting from the metro segment. So would it be possible for you to share the bid pipeline that we have placed in Europe and some large projects where we have placed our bids and in India as you informed that you are expecting some four to five metro orders to be for which the tenders will be floated in this pending part of the financial year so any colour on that where we are going to place bids?

**Umesh Chowdhary:** Absolutely as far as Europe is concerned from our Italian subsidiary we have already participated in tenders worth more than 500 million Euros. The finalization of that would take some time so we do not know the position because you do not have the price bid opened has yet. We have tender

pipeline in Europe worth almost 2.5 billion Euros that we are intending to participate in. As far as India is concerned these metros are likely to be tendered out very soon. We have essentially Pune, Bengaluru and so on so we would definitely be participating in these tenders. I would definitely like to highlight here that these are very large numbers. Even one of them coming in will completely change the shape and size of the company and the order book, but they would not be translated into revenue in the immediate quarters. These are all having gestation of at least 16-18 months in order to get delivered. Of course revenues will start over three to four quarters of order booking, but the real benefit of these large tenders and large opportunity or something that we are all seeing not on the initiate next couple of quarters, but going forward.

**Nirav Vasa:** Sir other question that I wanted to understand is that as you have informed that we are in process of getting the mandatory prequalification for the propulsion system so there once we have got the prequalification for propulsion system, how large can be the market for us with Indian Railways and once we have got approval from Indian Railways how big can be the market in other nearby countries?

**Umesh Chowdhary:** This is big business. If you look at big business from the perspective of two things, number one if help us to reduce our cost of the vehicles that we are offering if we are doing our own propulsion, which is already approved by the Indian Railway so we will be more competitive, but apart from that all the coaches, locomotives that the Indian Railways are manufacturing or we other non-integrated companies are manufacturing there is big potential for propulsion, so if you look at companies like ABB for example they do not do any vehicles, they only do the propulsion, also Siemens going forward or Skoda or companies like Bombardier they really have a substantial part of their topline, but even more important part of their bottomline coming from propulsion. Titagarh Firema has supplied the propulsion to different trains including to trains that have been manufactured by other large companies like Hitachi. So the technology of the propulsion that exists with Titagarh Firema can be very useful and I would say that this in itself can be very important business line so if you look at Titagarh in the future, if you look at take a holistic view apart from the wagons, the important business lines could be the bridges, shipping and ship building and depends which will be a subset of defence and the propulsion and electricals and electronics and of course the metro coaches. So all of these individually have very large potentials of growing multifold and we are now basically at that inflection point wherein we need to win in a couple of tenders each of them. Bridges we already broken the barrier by winning a World Bank contract I think this will now pickup the momentum on its own. What we need to win is tender for the metro coach, which will really change the entire scenario. Propulsion with the developmental orders coming in is a matter of now getting it approved etc., which is the matter of another 12 months and this is going to be regular business. The total procurement of the Indian railways for propulsion in a year is about Rs.200 Crores and there are only about two to three players in this business. I would say more than Rs.2000 Crores or about Rs.3000 Crores. Wagon of course is something that we are

seeing that there is no offtake increase that is taking place.

**Nirav Vasa:** Can you give some updates on the DFC wagon tendering, what is the status with Indian railways or the designs finalized and is there any timeline for prototype making?

**Umesh Chowdhary:** The DFC what we hear that the tenders should be floated somewhere in the second or third quarter of 2018 calendar year as far as designs is concerned, the railways already have 25 tonne wagon design so that is not big problem, but also what we are pushing for this that railway should allow the private designs to be allowed.

**Nirav Vasa:** Sir that would require our designs to get approved and then going forward you can market those wagons to private sector player's right?

**Umesh Chowdhary:** That is absolutely right.

**Nirav Vasa:** So, how long will that process of getting approvals take any timelines?

**Umesh Chowdhary:** Railways are now contemplating the reciprocal design approval policy, which means that if the designs are approved by UIC then process of approval in India will be much shorter, but we have to wait and watch and see how the railways policy come out.

**Nirav Vasa:** Sir last question would be on the tax rate, quarterly what we have seen that there is lot of volatility in our tax rate, so just wanted to get an idea post GST implementation what can be the annual tax rate that we can take for standalone, Firema and Adler?

**Umesh Chowdhary:** There is no longer Adler. As far as the standalone is concerned, there has not been any volatility. The volatility has been because of the multiple jurisdictions. In Italy, the tax rate is 35%-40%, in France it is about 35%, but it is likely to be rationalized in the coming future. In India of course as far as the tax rate is concerned, GST will not make any impact on that. It continues to be the same.

**Nirav Vasa:** Sir one last question, I am sorry, but I wanted to understand Sir the commodity prices off late have increase in last six months, so would that be having any impact on the margins or the orders which we were currently executing and I understand in Indian Railways we have a PVC that is price variation clause, but the other orders that we are getting any impact on that?

**Umesh Chowdhary:** Private wagon orders that we have are definitely with fixed prices to some extent there would be an impact of the increase of steel prices. For the Railway wagon as you said yourself that they are all backed by PVC, the defence contracts are also generally backed by PVC.

**Nirav Vasa:** Sir for our overseas operations?

**Umesh Chowdhary:** The overseas operations for the Italian operations we do not really buy too much of steel, it is mostly aluminum coaches, but these are all hedged along with the signing of our main contracts, so there would not be on an account of the increase in the steel prices there should not be any erosion

of margins. In France also in some of the contracts, there have been a little bit of pressure of the EBIDTA margins due to the increase in steel prices, but the old contracts are not too many, so the new contracts that we have finalised we have been able to factor that.

**Nirav Vasa:** Thank you very much Sir. My queries have been answered.

**Moderator:** Thank you. The next question is from the line of Ranjit Shivram from ICICI Securities. Please go ahead.

**Ranjit Shivram:** Good morning. In last call, we had mentioned regarding this passenger coach refurbishment tender, so what is the status on that?

**Umesh Chowdhary:** The tender was issued, but has not been closed as yet, couple of reasons, number one that the refurbishments were essentially for the old design of coaches; with the new policy of the government wherein they are intending to scrap these coaches and replaced them with a new LHB coaches, they are evaluating whether they actually should spent a couple of 1000 Crores for refurbishing these coaches, which in any case they intent to scrap over the next five to seven years. The second reason was that there was a lack of clarity on the GST applicability on these refurbishments and therefore the railways kept on postponing the tenders and they have not yet been opened so we are waiting for the final blueprint of the railways to be concretized and issues as to how much if at all coaches they would like to refurbish and how many coached they would rather replace.

**Ranjit Shivram:** Okay so as on date this tender might get scraped if the railways is more bullish on the LHB portion of the business, is that right understanding or will this tender will again be considered?

**Umesh Chowdhary:** It is difficult to guess what the railways is going to do, but I can only say what our position is. Our position to the railways is that when you are going to replace these coaches why they want to spent money on refurbishment, so we are referring and we are suggesting to the railways that rather than going for the refurbishment go for the procurement of these new coaches.

**Ranjit Shivram:** Okay and Sir this, we were talking about some overhaul in the overall procurement policy of railway, so that we can also be one of the qualified suppliers of propulsion system, so what has actually happened in that we were expecting some procurement norms to be changed?

**Umesh Chowdhary:** That is already happened. The public procurement policy that was issued by the government of India I think on the June 15, 2017 it is an extremely important piece of legislation, which will help companies like ourselves in competition to imports, so that is already there and as far as propulsion is concerned as I mentioned little while ago we have already got the developmental order and we are in the process of actually working on developing the prototypes and putting them up for approvals.

**Ranjit Shivram:** Okay and again these will be procured by the respective metro corporations or will it be procured by the Indian Railways because these

are generally driven by DMRC and other Metro Corporation?

**Umesh Chowdhary:** So the propulsion is not bought by the DMRC, etc., they are bought by the railway production unit like ICF, RCF, CLW and DLW.

**Ranjit Shivram:** Sir what is our overall outlook regarding growth? Apart from the Wagon order which we have been talking around 2300, apart from that where are you seeing demand and what is the kind of growth that we can expect for this year and next year, the overall standalone?

**Umesh Chowdhary:** We are in a segment wherein each of the segment that we are in has a very high potential of growth, but if you are talking about the next couple of quarters, they are not going to come; they might get translated in the next three to four quarters into order book, but they will take sometime to be converted into revenues, but all of these segments are actually segments that we are ready and well positioned to kind of make them as much as the current size of the company if not larger and these are almost four or five segment.

**Ranjit Shivram:** Sir is there any thoughts regarding tapping the rail infra opportunity because we here lot of investments happening in rail infra in terms of electrification, track laying and other things, so do we internally try to get into that portion of the railway?

**Umesh Chowdhary:** No, we are not looking at getting into the EPC business, we believe that it is very crowded but we are doing is into the higher technology, which is track diagnostic signaling and that is the reason why we entered into this joint venture with MERMEC.

**Ranjit Shivram:** Thanks.

**Moderator:** Thank you. The next question is from the line of Amit Doshi from Care PMS. Please go ahead.

**Amit Doshi:** Thank you Sir. Sir this LHB coach that we discussed and you offered them the updated coaches, what would be the cost difference between the two, I mean I am sure that would be a big budget for the Indian Railways to consider for?

**Umesh Chowdhary:** You are talking of the cost difference between the conventional coach and the LHB coach?

**Amit Doshi:** No. The LHB and the updated one, which you said that why you want to go for 30-year-old methodology and why do not you go for an updated coaches, LHB and the new coaches that you offered the Indian Railway?

**Umesh Chowdhary:** It is not been very substantially difference because you see the coaches are not , it is not that we are getting converted from steel into silver but what would be different is the mindset because the railways have a certain stocks so the entire kind of maintenance scheduling will change. Of course the prices should be maybe I am just giving you a ballpark about 15%, 20% or 20% more, but it is not going to be multiple of the existing coaches.

**Amit Doshi:** Okay and what would be the rough cost for one coach like this LHB



coach?

**Umesh Chowdhary:** It depends on the type of coach, but on the ballpark you can say it is about Rs.2-2.5 Crores.

**Amit Doshi:** Rs.2-2.5 Crores and this you mentioned that you have the capacity of 100 per month, you can manufacture so that is the spare capacity available at the overseas subsidiary or you would have to forgo some other order there?

**Umesh Chowdhary:** I am not talking of the overseas subsidiary. I am talking of the Indian Railway.

**Amit Doshi:** But Sir this is talking about the India, okay, this LHB will be manufactured Indian company itself?

**Umesh Chowdhary:** Absolutely.

**Amit Doshi:** Sir you mentioned about the metro order where you said we have bid four to five and we are confident of winning couple of them so just to know what makes that confident about winning a couple of metro orders?

**Umesh Chowdhary:** So we have not bid for four to five, I said that the metro railway tenders that will be published for four to five in the next hopefully within this financial year, what makes us confident of winning the order is if you look at the Nagpur metro incident we were actually priced out by the Chinese import by 1%.

**Amit Doshi:** Yes, very, very small margin, right.

**Umesh Chowdhary:** At least 1% I mean it cannot get smaller than that. New public procurement policy now the price differential or the price advantage, which will be given to a domestic manufacture vis-à-vis an import, so that gives us confident that we will going forward in the tenders, we will be able to participate in a competitive way and really not be threatened by similar Chinese imports under the make of India scheme of the government.

**Amit Doshi:** Thank you.

**Moderator:** Thank you. The next question is from the line of Parvez Akhtar Qazi from Edelweiss Securities. Please go ahead.

**Parvez Akhtar Qazi:** Sir, just one question, you mentioned that we are L1 in Rs.400 Crores order I mean I am not sure whether I got this correct, but in case this is correct, just wanted to get some more details on this?

**Umesh Chowdhary:** Yes that is correct. It is a tender. We have participated in a tender, we have been adjudged as the lowest bidder and of course it has to go through the process before it is finalized may not be even to single bidder maybe distributed but you are correct it is a diagnostic vehicle that we have participated in.

**Parvez Akhtar Qazi:** So this is from the Indian Railways itself?

**Umesh Chowdhary:** That is right.

**Parvez Akhtar Qazi:** Sir how big will this market be I mean since you have



apart the track diagnostic MoU that you have signed I mean how big is the size of this opportunity?

**Umesh Chowdhary:** We have been hearing the Indian railways give out numbers that they want to invest in the automation, signaling, track diagnostics and safety, which is the tens of thousands of Crores and I would request you to just check the product of MERMEC, which is our joint venture that we have done on the website. They are extremely relevant to what the Indian Railways are actually talking about, so the potential for those products to come into India is quite interesting and I would say quite immediate.

**Parvez Akhtar Qazi:** Thanks. That is from my side.

**Moderator:** Thank you. The next question is from the line of Aditya Kothari from Niveshaay. Please go ahead.

**Aditya Kothari:** Good morning Sir. I would like to ask that the margins in the wagon segment have decreased drastically to 0.37% in this quarter on a consolidated basis, so are we looking at some realization in the coming quarter for arrival of the margin?

**Umesh Chowdhary:** The reason for the wagon margins coming down primarily because of the French losses, which as I mentioned that we have certain orders, which we had booked at the prices that was at a negative margin. Going forward, I would say that stable margins for the wagon business, the wagon business of course has undergone pricing pressure over the last three to four years, which is a known fact, so I would say that the normal EBITDA margin of Wagon business should remain between 8% and 10% going forward.

**Aditya Kothari:** Right Sir and like how much will be the time for revival to these levels?

**Umesh Chowdhary:** I would see that is the demand led. The way we are seeing the demand pickup right now, it should not be too long, by the end of this financial year, we should be able to see that we can reach out these kinds of levels.

**Aditya Kothari:** About the Navy orders, the orders from Navy so when are we looking at realizations or the profit booking from those orders?

**Umesh Chowdhary:** We have already the execution. In fact we have already started raising progress bids, and receiving payments from the Navy, so the execution of that is already on the way.

**Aditya Kothari:** What is the capacity to manufacture on the for the shipbuilding segment so what is the capacity that you can manufacture?

**Umesh Chowdhary:** We can do up to 110 meter in Titagarh.

**Aditya Kothari:** Sorry sir I did not get the last line.

**Umesh Chowdhary:** 110 meter. Our approval is to 110-meter.

**Aditya Kothari:** Okay so are we looking at any capex in coming quarters or the coming financial year?

**Umesh Chowdhary:** I am sorry.

**Aditya Kothari:** Are we looking at any capex in the shipbuilding segment in the coming financial year?

**Umesh Chowdhary:** Not substantial capex. I would say that there will be regular capex, but there will be or something which will be of a very high magnitude.

**Aditya Kothari:** This is my last question can you just elaborate on the order size of the export that you have doing right now?

**Umesh Chowdhary:** The order size of?

**Aditya Kothari:** Exports the wagons and the coaches that Titagarh companies are exporting?

**Umesh Chowdhary:** Export order as of now is close to about 110-odd Crores.

**Aditya Kothari:** That is all from my side. Thank you Sir.

**Moderator:** Thank you. The next question is from the line of Kapil Joshi from Stewart & Mackertich. Please go ahead.

**Kapil Joshi:** Good afternoon Sir. There was a news article one week ago that due to inadequate rail rakes there was shortage in supply of coal, so can you throw some light of it?

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

**Kapil Joshi:** There was a new article one week ago that due to inadequate rail rakes there was a shortage in the suppliers in the supply of coal.

**Umesh Chowdhary:** That is right. So we have also been hearing that there is a possibility of the railways increasing their wagon offtake, but we have not heard anything officially from the railways as yet.

**Kapil Joshi:** Okay, so it will be positive for the company?

**Umesh Chowdhary:** Absolutely.

**Kapil Joshi:** Sir in terms of revenue the consolidated revenue we can expect the 2018 revenues in line with FY2017?

**Umesh Chowdhary:** I would not give any forward-looking statement right now. I have given the position that is there and as I had mentioned in the little while ago our focus over the next two quarters is to build up an order book and that is what we will be focusing on. If we are able to sustain in the next two quarters and that for me as the CEO is going to be the key factor, the key milestone that I will be looking at of I am able to build up the order book in the next two quarters or three quarters at the most, that is really going to define the future of the company.

**Kapil Joshi:** That is it from my side. Thank you.

**Moderator:** Thank you. Ladies and gentlemen, that is the last question, I now hand the conference over to Parvez Akhtar Qazi for his closing comments.

**Parvez Akhtar Qazi:** We thank the management and all the participants in the

call for attending this call. Mr. Umesh do you have any closing comments to make?

**Umesh Chowdhary:** I think I have already covered everything. I would just like to conclude by saying that we and the management of Titagarh strongly believe that for all the businesses that we are into right now we are at an inflection point wherein all these businesses have the potential kind of almost transforming the company going forward. Of course what our focus has been is to enter into certain segments, which are not only Wagons, I have always maintained that Wagon is something that will be required by the Indian Railways, will be required by private players and is the business that will come in so we never compromise or sacrifice our capacity for the building wagons, but without doing that we have prepared ourselves for other lines of business. I am pretty hopeful that we will be able to build up order books where right now, our focus is going on building order book that to me with is much more important numbers to track than any other number over the next two to three quarters.

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

Aditya Narain, Head of Research, [aditya.narain@edelweissfin.com](mailto:aditya.narain@edelweissfin.com)

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