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A Miniratna (Category-I) Schedule 'A' PSE of Ministry of Railways

RITES LIMITED

RITES Limited
Q3 FY19 Results Conference Call
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MANAGEMENT: MR. RAJEEV MEHROTRA, CHAIRMAN AND MANAGING DIRECTOR

MR. AJAY GAUR, DIRECTOR - FINANCE

Moderator: Good Afternoon Ladies and Gentlemen, I am Ali, the moderator for this conference call. Welcome to the Conference Call of RITES Limited arranged by Concept Investor Relations to discuss its Q3 FY19 Results. We have with us today on the call Mr. Rajeev Mehrotra – Chairman and Managing Director and Mr. Ajay Gaur – Director (Finance). At this moment all participant lines will be in the 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 that this conference is being recorded. I, now would like to hand the conference over to Mr. Rajeev Mehrotra - Chairman and Managing Director of RITES Limited. Thank you and over to you, sir!

Rajeev Mehrotra: Thank you, Mr. Ali. Good afternoon to all of you. This is Rajeev Mehrotra - CMD of RITES Limited and with me I have Mr. Ajay Gaur – Director (Finance) and CFO of RITES. We welcome you all to the conference call on RITES Limited's Q3 FY19 9MFY19 results.

Just brief introduction, RITES is a Mini-Ratna Category-I Schedule "A" PSU of the Government of India and it is a leading player in the transport consultancy and engineering sector in India. RITES Limited is the only export arm of Indian Railways for providing rolling stock overseas other than to Thailand, Malaysia and Indonesia.

I would like to update you with one input that RITES signs MOU with government of India on yearly basis. The MOU for year 2017-2018 has been evaluated and we have been notified as Excellent with rating of 95.82 in December end.

So, with that now I am going to brief you about the Q3 performance. After this, we can take questions..

The company has delivered strong third quarter results in all the four business segments. The total revenue has grown to Rs. 562 crore as against Rs. 394 crore in third quarter of FY18 registering a growth of 43% on a Y-o-Y basis.

Company's revenue from operations has also grown by 42% to Rs. 511 crore from Rs. 360 crore in Q3FY18. Basically, we do not include other income, when I say 'Revenue from Operations'.

EBITDA for Q3FY19 has been recorded at Rs. 184 crore which shows an increase of 8% on Y-o-Y basis compared to Q3FY18.

In Q3FY18 results, some reversal of provision for employees' allowances was done. Company started making provision for such allowances in books from January 2017, the date from which salary revision was due. But later GOI made these allowances effective from November 2017. So, this has actually impacted the comparison between Q3FY18 and Q3FY19. I highlighted this so that you can keep this in mind when we discuss the results.

PAT of the company is up by 10.2% to Rs. 117 crore in Q3FY19 as compared to PAT of Rs. 107 crore in Q3FY18. The earning per share stands at Rs. 5.87 for Q3 FY19 as compared to Rs. 5.33 for Q3FY18.

For the nine months period also the company has shown an impressive performance. The company has recorded total income of Rs. 1,402 crore for 9MFY19 which is 38.2% higher on a Y-o-Y basis. The EBITDA for 9MFY19 stands at Rs. 496 crore which is 28.2 % higher than 9MFY18. Also this 9MFY19 EBITDA margin of 35.4% is even better than the full year 9MFY18 EBITDA margin of 32.9% which shows the companies commitment towards growth in topline while maintaining its margins intact.

9MFY19 PAT of the company stands at Rs. 313 crore as against Rs. 254 crore for 9MFY18 previous year which is higher by 23% in comparison. The PAT margin for 9MFY19 is at 22.3% which despite increase in turnkey is higher than the full year FY18 PAT margin of 21.1%.

Company predominantly remains a consultancy organization with around 61% of the operations income coming from consultancy during nine month period. Income from consultancy segment stands at Rs. 771 crore which is 28.8% higher from 9MFY18 when it was Rs. 599 crore. The growth can be mainly attributed to our overseas consultancy, quality assurance, airport and metro businesses. Company's leasing business has also shown a growth of 7% over 9MFY18 and recorded income of Rs. 75 crore in 9MFY19. The share of turnkey business has increased to 24.4% in company's operating income and it is at Rs.306 crore in 9MFY19 which is higher by Rs. 242 crore over corresponding period of previous year.

One DMU train-set has been exported to Sri Lanka and trial runs for the same have been successfully completed and in fact this has been put to public use and one locomotive to Sri Lanka has also been exported in the preceding quarter that is Q3.

Companies standalone order book stands at Rs. 6,054 crore as of 31st December, 2018 which is expected to be executed in next one to three years. Nine months performance of the company is in line with the targeted 22% operating income growth over last year as was given in the outlook for the year.

In addition to the growth in numbers, the company has executed many prestigious projects of national importance in the last quarter to name a few, the state of the art Bogibeel Bridge. You might have noticed, this was launched in December. This is near Dibrugarh, and here RITES will remain associated for monitoring structural health and other monitoring systems of the bridge. This is the longest rail road bridge in the country. Ropeway between Vaishno Devi and Bhairon Mandir, this is already operational. Integrated check post at Moreh, this is in Manipur at India - Myanmar border, etc. these are some projects which were completed in Q3.

Interim budget has again shown an increase in amount allocated for infrastructure CAPEX. With this, we are uniquely poised to grow in all the segments of businesses, consultancy and turnkey in particular.

So, that is all, I thought I will highlight to you in the Q3& 9MFY19 performance and if Director- Finance has to add anything more at this stage or we can open the forum for questions and answers. Thank you very much for your patient hearing.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Santosh Hiredesai from SBICAP Securities. Please go ahead.

Santosh Hiredesai: Couple of questions, sir. So, the export business that you said has again resumed in, the December quarter. Should we assume this is the run rate that is going to recur in the coming quarters? I am just trying to understand how this Rs.1,200 crore of existing order book on exports is going to pan out in the current year?

Rajeev Mehrotra: This might actually accelerate. Because we have about Rs. 1,200 crore of export orders and the first set was sent for trial run and after successful commissioning it has been put to use. And we have got Go-ahead for next lot. We hope to export about two more train sets and two to three locomotives by March end. So, this quarter may see exports revenue higher than Q3 exports.

Ajay Gaur: Mr. Santosh, I am Ajay Gaur – Director (Finance). Last quarter we started exporting locomotives and DMU set and these were prototypes. Clearance has already been received from the client so, we will export further by March. I think, the turnover should be somewhere around Rs. 300 crore.

Santosh Hiredesai: So basically, this is to be executed broadly over 4 quarters, if I understand right, in next year?

Ajay Gaur: The balance will come in the first half next year. But out of Rs. 1,188 crore export order book, about Rs. 600 crore is for coaches which may start by the end of next year. I am talking about the DMU set and the locomotives where the value was about Rs. 680 crore. So, out of Rs. 680 crore some part will be done this year, say about Rs. 300 crore and the balance will be carried over to next financial year.

Rajeev Mehrotra: In this order book of Rs. 1200 crore, there is a new order of 160 coaches, the shipments of which will start in Q4 of FY20. So, what Director (Finance) explained, in next financial year first 2 quarters, you will see carry over form current project being executed, possibly one lull quarter and then we pick up again for the next Rs.600 crore export order. So, that appears to be the timeline foreseen now and these are confirmed orders.

Santosh Hiredesai: So, the second question in terms of the order inflow, I see nine months would have roughly done about Rs. 2,500 crore worth of orders?

Rajeev Mehrotra: Yes.

Santosh Hiredesai: So, how do you see FY20 panning out in terms of, some colors in this would be helpful, sir.

Rajeev Mehrotra: It is very difficult to say right now because we are awaiting announcements of projects. Some have already been announced in this budget, may be some might happen now till the code of conducts comes in. But, it will depend upon what types of projects are coming out. So, it is very difficult to give you an assessment of that. But, I see no reason to be pessimistic about the future investments. The sectors we are into; the railways, semi high speed, DFCs, metros, airports, highways, all are seeking more and more investments and you would have noticed that in last 3-4 days, two metros have been announced, Agra and Patna. So, such projects are coming out and it is very difficult to give you an idea of the extent for next year. But again I will say we are optimistic that at least this level should be seen certainly. When I said this level means atleast Rs. 2,500 crore zone.

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

Kunal Sheth: Sir, I just wanted to check while you highlighted, because next year is slightly difficult to highlight in terms of opportunities. But, is there a bidding pipeline? I mean we would have bid for certain projects. So, any sense on especially on the turnkey side, sir which are the key areas will be our key focus areas in FY20?

Rajeev Mehrotra: It is not correct to talk about the numbers which are in pipeline; but as a general comment I would say, yes we are looking at some exports orders which are under discussion. Some offers we have already submitted in two countries and that is on the export side. On the turnkey side, this was the first experiment or you can say execution by us for two new rail line projects, electrification projects based on that we are expecting that more projects will come to us. But, exact quantum of such project will again depend upon the execution/bidding process which starts after the budget is approved.

Ajay Gaur: Further, I would like to add that we have workshop projects also from Ministry of Railways. Our hands are full, presently we have about Rs.2,400 crore plus order book position in the turnkey projects. Further we have given 1 dozen reports for metro projects. As CMD has earlier mentioned that Patna and Agra metro projects have already been announced for implementation, there also we will participate for general consultancy work. Presently, we are working at four places in metro, doing GC work. One dozen reports given, in case government announces more, we will be participating in GC work and expect that we may secure some projects. In exports also we have already submitted few offers, we are in touch with few clients and we are hopeful here also. Otherwise also, the order book position is very healthy and it will require at least two years to execute. We are hopeful that future is promising.

Rajeev Mehrotra: Incidentally, I may share with you that the pre-feasibility studies for both these metro projects which have been announced in last 3-4 days, has been done by RITES. So, we strongly believe that we should have a constructive role when the projects get rolled out.

Kunal Sheth: My second question was regarding the dividend and dividend policy. Has the board freezed any dividend policy that we are likely to follow in the future?

Rajeev Mehrotra: Well, the dividend policy declared by the government for us is 30% of PAT or 5% of net worth whichever is higher. So, at least this minimum benchmark we will have to comply. I cannot comment on the additional dividend which the management and the shareholders may finally approve. But, this is the declared policy that the minimum threshold i.e. 30% of PAT or 5% of networth whichever is higher, which definitely we have to comply.

Kunal Sheth: My third question is regarding the margin. Sir, what is the steady state margin generally you work with in a consultancy order and a turnkey order?

Rajeev Mehrotra: Well consultancies will typically see EBITDA level margins of 30% to 35%. I am saying more sustainable, at times we have even 40%.

Kunal Sheth: This is EBIT or EBITDA margin, sir?

Rajeev Mehrotra: Overall position on consultancy, because some consultancies are more profitable some may be less. So, average ball park would be about 30% to 35% range and then exports about 15% to 20% and then there is also interplay of exchange rates in exports, we would get higher realization if the Dollar, Rupees is in our favor.

Ajay Gaur: **In** turnkey, basically we have secured cost plus projects where our fee is pegged at 8.5% of the total value of work done. After excluding the expenses incurred for execution of the projects, the margins are about 2% to 3% in case of the turnkey and in case of leasing segment the margins are about 40% plus.

Kunal Sheth: Sir, just a clarification, this margins are EBITDA or EBIT margins?

Ajay Gaur: You take EBITDA or EBIT margins that do not make much difference in case of RITES because we are not asset heavy. Total depreciation is only Rs. 32 crore and it is a debt free company. We have not borrowed anything also therefore zero interest payout. So, marginal difference will be there.

Moderator: Thank you. The next question is from the line of Chintan Sheth from Sameeksha Capital. Please go ahead.

Chintan Sheth: Sir, one thing if I look at your quarterly margins on consultancy side. Last year, there was sharp increase and this year we saw a sharp decline because EBIT margins are down from 50% to 40%. So, it is related to mix playing out last year which were favorable orders and this year they will not, which impacted the margins on the consultancy side?

Ajay Gaur: Basically, what has happened is when you are talking about December 2017 results. As CMD mentioned earlier also that there was a provision made by us from January 2017 for salaries which were due for revision. Later we got a letter from DPE in the month of November which said that HRA and other benefits would be applicable from November onwards only. Since we were making provision from January for all these expenses also and we came to know only in the month of November, we reversed the excess provision made by us which was about Rs. 20 crore. This has mostly picked up by the consultancy, which contributes about 65% in the total turnover of the company. That was one of the reasons that the salary expenses were low and the margins were high (in Q3 FY18). Secondly, we do number of projects where milestones and payment terms are different. Sometimes mobilization fees paid by the client can be 10% and in some other projects it could be 20%-25%. Depending upon expenditure has incurred and amount of the mobilization fee received margins may vary Qtr-o-Qtr but if you see nine months cumulative position you will find that the margins are same.

Chintan Sheth: Sir, second question on the employee cost this quarter compared to last quarter that is Q2 of FY19 our number of employees remain more or less same at 3,345-3,350 but we have seen sequential increase in employee cost. Any particular reason 23% Q-o-Q increase in employee cost to Rs. 133 crore?

Ajay Gaur: Are you comparing September 2018 versus December 2018?

Chintan Sheth: Right, correct?

Ajay Gaur: There has been increase in the contractual employees' salaries also after increase in the regular employees' salary. In addition, we have got actuarial valuation done and due to change in discount rate and assumptions there is an additional impact of about Rs. 16 -17 crore on the pay package bill on account of provision towards retiral benefits of the employees. But overall increase at the end of the year will be 3% to 4% only as compared to the last year in the salary bill.

Chintan Sheth: So, the run rate will normalize next quarter, the actual one will not be there.

Ajay Gaur: Yes, because earlier the discounting rate was higher but this time the actuarial has taken the discounting at 7.5% only. So, that has made a lot of difference in the actuarial valuation for provisions of leave encashment, retiral benefits, medical leave etc. for the employees.

Rajeev Mehrotra: Also, there is a small change in the formula for deciding performance based pay to employees which has an element of about Rs. 6 crore more in this quarter.

Chintan Sheth: Sir, overall we will see on the 5% to 7% annual increase, right?

Rajeev Mehrotra: That is right.

Chintan Sheth: That can be sustainable even in FY20 or we are planning to recruit more people next year?

Rajeev Mehrotra: It is safe to believe that the salary bill normally goes up 5% to 6%. There are lots of retirements also, so about 70 to 80 people we have to replenish. But we do not need to add too many people right now in fact, there is a rather a reduction in December 2018compare to December 2017.

Ajay Gaur: Otherwise also, we have a flexibility in our organization structure and instead of hiring new employees on regular basis, we are able to take lot of people on deputation from varies Ministries and then the number of the contractual employees also keeps on changing depending on the order book and the projects we are executing. So, we have flexibility and we will keep a control on salary cost. But you can presume 4% - 5% will be increase on account of the DAs, increments and the promotions of the employees.

Rajeev Mehrotra: Chintan, the number of employees as of 31st December, 2018 is down by 48 compared to 2017.

Chintan Sheth: Sir, on the cash balance, what would be our cash balance if you split between the clients.

Ajay Gaur: Company's own cash balance & bank is almost Rs. 1,295 crore as on December 2018 and we have about Rs. 2,122 crore funds of the client.

Moderator: Thank you. The next question is from the line of Hrudhyum Verma from Augment Catalyst. Please go ahead.

Hrudhyum Verma: Sir, my question was on this station development authority. So how is, I mean sir, what is the view on that? I mean, how is the order book looking there and has any execution of projects started?

Rajeev Mehrotra: Well, I will answer this in 2 parts. First we were to participate in the equity of that company. Those modalities are being finalized and now we have set element of Rs. 50 crore only. Initially, we were looking at higher subscription. Now we are just looking at Rs. 50 crore equity investment for which we are doing the detailing. Second objective of going into this line, was to get some engineering work for stations and other property developments which I will say has gone in the right direction. You would have seen today an announcement from IRSDC that they have finalized plans for fourty nine stations of which seven have been given to us.

HrudhyumVerma: Seven have been given to Station Development Authority, right?

Rajeev Mehrotra: No. Seven stations have been given to RITES. We will be doing the engineering solution including market assessment of which property can be developed and what is the station investment requirement. Then commercially viable properties will go for investment phase. Once it will go for investment phase we will be the engineering advisor or we can call it project management consultants of these properties.

HrudhyumVerma: Sir, how much will be the quantum of this order if likely, I mean if it goes for further construction and infrastructure. So, how much would be the quantum of these orders, any ballpark figure?

Rajeev Mehrotra: See, it is very difficult to say because each station has different investment requirements. I will answer it differently. The 3 station investment cost which they have announced in Delhi one in bijwasan i.e. close to airport, one at Anand Vihar and one at Holambi Kalan new north Delhi are ranging around Rs. 250 crore to Rs. 350 crore.

HrudhyumVerma: Each station, right?

Rajeev Mehrotra: Yes, each station. So, this could be an indication. These are, I will say A Class stations. So, it would be safe to believe that we might see somewhere around Rs. 100 crore to Rs. 150 crore investments on an “A” or “A+” station minimum. But this is my best assessment and I will say this with riders.

HrudhyumVerma: So, you mention that seven have come to us, so after, say for example these are all approved. So, would the infrastructure also come to us or would that be decided by the government?

Rajeev Mehrotra: No, these seven have come to us to develop and once studies are done, let’s say out of these seven, five are commercially doable, we become the engineering advisors for these projects. So, these works are already with us subject to viability to be proven with the process.

HrudhyumVerma: Sir, just one more clarification. Sir, three freight corridors are coming up and you mentioned in the last quarter that you have done feasibility for all the three corridors, right? So, now do we have any opportunity on the rolling stock side here, I mean because there would be requirement for wagon train, so?

Rajeev Mehrotra: Just to understand the question, are you talking about dedicated freight corridors?

HrudhyumVerma: Yes, so basically they will have requirement for wagons and rolling stock, right? So, we already export rolling stock to different countries. So, would we be satisfying the demand, the domestic demand?

Rajeev Mehrotra: No, we are not into the domestic supply business, most of the wagon exports would be from the production units either in private sector or one or two in public sector also. And the locomotive part, the PPP locomotive project is already here, the

Marhora and Madhepura projects, so they would be giving electric and diesel locomotives to IR. DFCs would use mainly electric traction.

HrudhyumVerma: Because, you mentioned that government has release an order for 20,000-22,000 wagons. So, any part of that will not come to us, right?

Rajeev Mehrotra: No, we have a joint venture company with SAIL. They supply to IR too.

Hrudhyum Verma: Yes, but that is for 1,200 wagons, right if I am not wrong?

Rajeev Mehrotra: Yes, so to that extent this would be beneficiary of those orders in the market.

Moderator: Thank you. The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: How many debtors day?

Ajay Gaur: Debtors days at the end of the year will be less. But, right now it is higher, may be around 150 days. But we are following up with the clients and we are hopeful that we will be able to realize that. As on 31st December there was an export to Sri Lanka. The payment for which has been received in the month of January which is about Rs. 100 crore and this will bring down outstanding substantially.

Ravi Naredi: How many stocks days?

Ajay Gaur: Stock is around Rs. 38 crore..

Ravi Naredi: Sir you have said that the consultancy business we have is 30% to 32% margin, what about export or this turnkey project?

Ajay Gaur: Exports, the margins are around 15% to 20%, turnkey margins are around 2% to 3%.

Moderator: Thank you. The next question is from the line of Benny Gupta from Sakura Capital. Please go ahead.

Benny Gupta: Sir, my question is regarding the order book. Our order book has actually move from 50% of consulting business to almost 37% this quarter, when turnkey has moved from 30% in Q3 of FY18 to almost 41%. So, in the near future how do we see our order book moving across, because consulting is a high margin business versus turnkey?

Rajeev Mehrotra: Yes, when the new major projects start coming out, only then high-ticket consultancies would actually materialize. For example, again I will go back to the metro, in last 3-4 days two metros have been announced. It is too early to draw a conclusion because most of the orders would happen now as after the budget from Center or the State governments would be stating the CAPEX plan. So it is too early to draw a conclusion that we have actually reduced consulting. . The outlook is actually stronger on the consulting side.

Benny Gupta: Sir, my second question regarding the debtor days, I think in one of your last con calls you mentioned that the ideal debtor days for government projects would be around 130 days. So what is the current debtor days that we have?

Ajay Gaur: Currently as on December 2018, as I said earlier also, you may find it slightly on a higher side may be around 160 days but at the end of the year normally, we try to bring it down to about 120-125 days that is normal because most of the clients are government and State governments. So, it takes time to realize money from them. In December 2018 it is high because one export order for which payment has been realized by us in the month of January which is about Rs. 100 crore. This will bring it down substantially.

Rajeev Mehrotra: So, we still hold on to the view given to you that typically 120 may be 130 days.

Ajay Gaur: It will remain around 4 months.

Moderator: Thank you. The next question is from the line of Sagar Shahfrom Alpha Line Wealth Advisors. Please go ahead.

Sagar Shah: So, my first question is regarding to your turnkey construction projects actually. As we are seeing a healthy growth in terms of, if you compare on Q-o-Q or 9 months but my concern is on the margin front actually. If I take the segmental margins actually then your turnkey projects almost like after calculating the EBIT income it comes to Rs. 9 crore as compared to Rs.306 crore for the nine months ended. So as we are seeing margins is quite insignificantly less as compared to consultancy business especially domestic. So, are we going aggressive on that front?

Ajay Gaur: These are the projects secured by us from Ministry of Railways and these are on cost plus basis. Ministry of Railway wanted to speed up the development work so it has invited all PSUs. We picked up turnkey jobs of our own choice as we wanted to build up our profile for participation in the turnkey jobs in future. Our fee is fixed in these projects; which is 8.5% of the total value of work done. If the value goes up our fees will also go up, if it goes down, it will go down but there is no risk. We have taken up these projects of Ministry of Railways otherwise we have not taken up any other turnkey jobs so far. We are more into consultancy and will continue to focus on consultancy. But in case we develop our profile and we are in a position to secure more projects, not on a fixed cost basis but otherwise, then definitely margins will be higher. Yes in percentage terms you are right but if you see in absolute terms the topline and the bottom-line are likely to grow.

Sagar Shah: But, your order book, in your order book the turnkey composition of the turnkey proposition is quite high. So Rs. 2,464 crore it is even more than the consultancy business actually and our newer order book I am saying. So, will our consolidated margins especially EBITDA, will they be affected next year due to this order book composition?

Ajay Gaur: Upto 1% to 2% overall impact, we may take. . Further in consultancy, we have submitted bids and we are also expecting few projects in the metro where the margins are high because they are based on man month cost. Therefore impact on margins will not be much. Our focus, as I said earlier will continue to remain on consultancy. Right now, yes it appears that the turnkey business is more than the consultancy but in consultancy this year (9 months) the turnover is about Rs. 770 crore which is higher than the turnkey which is about Rs. 300 crore.

Rajeev Mehrotra: Mr. Shah, one more clarification. The turnkey project would typically see a two to three years execution period, whereas consultancy would be a shorter implementation. So the distortion or the so called compression of margin which you are foreseeing is not really going to be much. If you see the margins, we have made in turnkey i.e. 2.9% in Q3 or 3% in nine months, is actually the margins already stated by us in the beginning. The turnkey can see 2% to 3% margin. We are not away off in this. I would like to highlight that what we have made in nine months is actually more than what was in full year last year. So, we are on track to maintain the margins along with the growth.

Ajay Gaur: Let me also add, this year till December 2018 we have already made a PBT of Rs. 472 crore as against Rs. 498 crore of the last year and margin last year was about 31% against that we are doing 33.7% for the company till December. Definitely, it may have impact of 1% or 2% that is it.

Moderator: Thank you. The next question is from the line of Keshav Garg from Equity Mechanic**.** Please go ahead.

Keshav Garg: Sir, last year in November 2018, there was a news item that Kerala Rail hire Systra of Paris for Rs. 27 crore consultancy project. So, I am trying to understand sir, why a communist state government is giving orders to imperialist multinationals whereas, PSUs are there doing the same thing?

Rajeev Mehrotra: I know it is interesting but then it is very difficult to see what they have in mind. Systra is possibly having some more experience if I can say in the high speed. This line what they have given to them is the high speed line around 400 kilometers to 500 kilometers. But, yes we are also noticed but I cannot really say more on this.

Keshav Garg: Sir, moreover the joint venture between Kerala government and Indian Railways, should you approach your CITU and left front trade unions in your employees to take this matter with state government?

Rajeev Mehrotra: That is the most union dominated state. If that is doing to private, it is more difficult to fight it out. So, I will say that there is no shortage of work for us. But if the government has decided to go with the particular client, I do not really have much to think. But we have done other works with same party here, with Systra we did initial study of Ahmedabad – Mumbai with the same party, we did Delhi-Chandigarh-Amritsar, that report we have submitted to government. So this time they decided to higher MNC straight, I will say is possibly a one-off, decision, I feel.

Moderator: Thank you. The next question is from the line of Chintan Sheth from Sameeksha Capital. Please go ahead.

Chintan Sheth: On the leasing side, how many trains are planning to add next year?

Rajeev Mehrotra: Let me tell you Chintan, there are 50 locomotives which are on lease. We just give locomotives only and not trains, which we have added up to 50 and these locomotives are used by about say 20-25 clients, some have 5-6, some have one and they use it mainly in plant area like Dhamra port, Paradip port etc.. When the main train comes they leave the wagons near plant area and then these locomotives are used for in plant movement, loading, unloading, shifting etc.

Ajay Gaur: This is wet lease where crew members are also provided by us, only lubricants are provided by the clients, the rest of the maintenance and running is with RITES.

Chintan Sheth: So, how many wet lease, we are planning to add next year? Fifty, we are currently running and we guided one or two addition as the year we are looking at given the demand and given the private sector interesting wet leasing of train. So, are we on track on adding one or two lines every year?

Rajeev Mehrotra: Not one or two Chintan, we are adding about five to six locomotives every year on an average.

Chintan Sheth: That will continue?

Rajeev Mehrotra: Five to six are definitely getting added every year, so far.

Chintan Sheth: How much CAPEX we require to add per train, per loco?

Rajeev Mehrotra: It depends upon the horse power of the locomotive because some clients have heavy running load and whether the locomotive is new or old. They require heavy horse power and a brief answer to your point would be above Rs. 10 crore to Rs. 18 crore, a new locomotive.

Ajay Gaur: If it is secondhand loco, it could be Rs. 4 crore. If it is a medium size loco it is Rs. 8 crore. For new loco, if someone asking for it, it could go up as CMD has mentioned. As on date, we have about Rs. 200 crore WDV for the locomotives in our balance sheet.

Moderator: Thank you. Next question is from the line of Hrudhyum Verma from Augment Catalyst. Please go ahead.

Hrudhyum Verma: Sir, just a follow up on that wagon question. So, right now we have a JV for 1,200 wagons. So, that contract was for 10 years right? So, apart from that do we plan to enter that segment where we will supply, I mean will you satisfy the domestic demand for wagons or we do not have any?, just wanted to get an idea about that.

Rajeev Mehrotra: Right now, these wagons are the traditional 18 - 20 tons axle load wagons. The capacity, which is being seen for DFC is 25 to 32 tons axle load wagons which right now nobody is doing. Everyone will have to have the approved technology from Railways and produce it (higher axle load wagons), we are also in the line. We will also try to do it. But, how much & when, this we need to see till then the DFCs will have rolling stock of IR running. But, we will have to go for higher axle load wagons very soon, very fast.

HrudhyumVerma: Sir, on that station development you mention the contracts that you have likely to get. So, what will be the timeline for those contracts, I mean when will we get that and in how much time will we execute those contracts?

Rajeev Mehrotra: We already have the names of stations and the draft MOUs for that should be done within this month.

HrudhyumVerma: So, I mean we will sign the contracts within this month, right?

Rajeev Mehrotra: Yes, then we start the first phase of the work which is doing a pre-feasibility and based on that design, then we decide whether it is commercially viable to make that investment.

Pradyum Verma: Sir just last clarification. Sir, the other income that we have on our P&L, so that is totally on the cash that is owned by the company right?

Rajeev Mehrotra: The other income is on the interest income and also the exchange rate variations, the export incentives, these two-three items would make it.

Ajay Gaur: Yes, basically it is interest income on our deposits and interest on our IRFC bonds where we have invested in tax-free bonds, then export incentives, there are certain reversal of the excess provision made in earlier years. We expect it to be somewhere around about Rs. 150 crore to Rs. 160 crore at the end of the year.

Moderator: Thank you. The next question is from the line of Sagar Shah from Alpha Line Wealth Advisors. Please go ahead.

Sagar Shah: In the next year FY20 according to you which segment can lead to further growth in revenues as well in bottom-line?

Rajeev Mehrotra: Well, as two metro projects are already out and we are aware that about one dozen prefeasibility done by us alone, have been submitted to respective governments. So, I believe the lead could come actually from metro investments followed by highways, airports, etc. and of course the railway investments are as capex in railways is higher by 7-8%.

Sagar Shah: So, consulting business would be again the front runner you are saying?

Ajay Gaur: Our share in consultancy will remain as it is, consultancy will grow by about 8% to 9% that is what we have been doing in past also. There will be good contribution from export because we have good order book position.. The leasing & turnkey are also likely to grow. All segments we expect to grow but predominantly it is going to be consultancy.

Moderator: Thank you. The next question is from the line of Keshav Garg from Equity Mechanic**.** Please go ahead.

Keshav Garg: So sir, I am trying to understand that is it safe to assume that whichever new airport or metro rail projects come, you will get the project on nomination basis of consultancy?

Rajeev Mehrotra: No, it is not always so, like one of the participants suggested a high speed rail in Kerala has been given to Systra. I will say it differently that we are the consultants of preference here and we compete also. Almost entire airport business comes with competition. Entire metro business comes out of competition. But yes, in railway sector projects are still flowing largely on nomination because there is a set of knowledge which is required for this, which they believe their PSUs have.

Keshav Garg: Also sir is there any proposal for a share buyback?

Rajeev Mehrotra: No, not to my knowledge as yet.

Keshav Garg: Also sir, you gave a dividend in Q3, so after Q4 also you will give some final dividend or was this interim dividend as final dividend only?

Rajeev Mehrotra: No, this is definitely interim dividend but beyond this I would not be able to comment. Let us wait and I am sure the investors are smart enough to see the profitability as they make their own assessments.

Ajay Gaur: This was interim dividend. We have to follow guidelines issued as regard to the payment of the dividend.

Rajeev Mehrotra: I think Mr. Keshav, we answered your point.

Moderator: Thank you. The next question is from the line of Anand Bhavnani from Unifi Capital. Please go ahead.

Anand Bhavnani: Sir, you mentioned railway projects on nomination basis because they require certain specific skills. Just wanted to understand, is there any upper limit or lower limit or either of them for the railway projects which currently Ministry, others to win it gives you project on nomination basis?

Rajeev Mehrotra: I think, it is more driven on the basis of your ability to execute and the area in which you are operating. The projects could vary from Rs. 100 crore to Rs. 500 -Rs. 600 crore.

Anand Bhavnani: My question was more on the margin front. When Railway gives you project on nomination basis, is there an upper limit to margin or any minimum margins that the Ministry, the follows as a guideline to give it you?

Rajeev Mehrotra: Yes, there is a specify margin for everybody, 8.5% of the cost incurred.

Anand Bhavnani: Even so our consultancy projects?

Rajeev Mehrotra: No, not for consultancy, I am talking of turnkey projects.

Anand Bhavnani: What about consulting projects for railways?

Ajay Gaur: There are no guidelines for the consulting business. They ask us to submit our offer & we submit our offer on commercial norms. If it is accepted, it is fine. If during negotiation we find that it is not financially viable to do a study, we may not take up the work. Absolutely, there are no restrictions on the margins. There is no upper cap on the margins so far consultancy is concerned. It is only in turnkey projects similar terms and conditions have been offered to all PSUs under Ministry of Railways.

Anand Bhavnani: Has it ever been the case that for a railway consultancy project you quoted at a margin which was not acceptable and then subsequently purely for margin reason it was given to some other player?

Rajeev Mehrotra: No. There can be instances where we ask for X price and they ask for small fine tuning here and there but because of margin it goes to somebody else, never.

Moderator: Thank you very much. As there are no further questions, I now hand the conference over to the management for the closing comments.

Rajeev Mehrotra: Well, thank you very much dear participants. I think, we have clarified the details of various parameters on which you have been monitoring our performance. We are firmly on track to achieve at least 22% growth which we had given you as outlook in the beginning of the year. The margins are intact. Not only we are seeing growth in Q3, we are seeing growth in all the quarters which the nine months has shown. The business model is known to you, consultancies are normally safe business bets. I think we are expanding in whatever areas we are open to, whether it is railways, metro, airports and highways. Thank you very much for joining interaction with me and Mr. Ajay Gaur.

Ajay Gaur: Thank you very much.

Moderator: Thank you. Thank you all for being a part of this conference call. If you need any further information or clarification please email at gaurav.g@conceptpr.com. Thank you for joining us and you may now disconnect your lines.

- Ends -

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