



Titagarh Wagons Limited
Q3 FY2020 Earnings Conference Call

February 14, 2020

Management:

Mr. Umesh Chowdhary – Vice Chairman & Managing Director

Mr. Anil Kumar Agarwal – Director (Finance)

Mr. Saurav Singhania – Group Finance Controller

Hosted by



Moderator: Ladies and gentlemen, good day and welcome to the Titagarh Wagons Limited Q3 FY20 Earnings Conference Call hosted by ICICI Securities Limited. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rushad Kapadia from ICICI Securities. Thank you and over to you.

Rushad Kapadia: Thank you, Steven. Good evening, everybody, and welcome to the Q3 FY20 results conference call of Titagarh Wagons Limited. We have with us from the management Mr. Umesh Chowdhary – Vice Chairman and Managing Director, Mr. Anil Kumar Agarwal – Director (Finance), and Mr. Saurav Singhanian – Group Financial Controller. I would now like to hand over the call to the management. Thank you and over to sir.

Umesh Chowdhary: Good afternoon everybody this is Umesh Chowdhary. Thank you for joining the Q3 FY20 results conference call of Titagarh Wagons Limited. I will give you highlights of the quarters and overall scenario, as far as the numbers are concerned they are already there in the presentation. As I had mentioned in the previous quarter earning call we have continued with the similar pace of execution on the wagon contracts that we have. As far as the Metro Coaches contract for Pune, that we have received, we have submitted the preliminary design review documents well within the contractual time and now we are working on the pre-final design review documents. The contract execution is going as per the schedule. We are hoping that there will be no delays in the execution of the prototype and the series production in the trains.

As far as the overall demand for the wagons is concerned, from the private sector there has been a little bit of a slowdown in the purchasing of wagons, but that was primarily because of the auctioning of the iron ore mine because of which not much of the GPW IAT demand was coming up. And also the general slowdown in the economy but we have seen in the last few days again the inquiries from the clients have picked up with some small inquiries getting converted into orders. As far as Cimmco is concerned, we have been able to turn positive and the scheme for the merger of Cimmco with the Titagarh has also been cleared from the stock exchanges and SEBI and filled with NCLT. So, we are hoping by the end of this financial year we should be able to move ahead with the merger of Cimmco and Titagarh which will have a unique single identity as far as the Indian operations are concerned.

Going forward, our focus is going to be, to continue to on one side now build up the order book. Of course we have a healthy order book of about Rs. 2,400-2,500 crore in India. But we would continue to focus on building up a healthy order book and also continue the thrust on the execution. One of the big emphasis that we are giving is on the debt reduction in the India level. So, to start with we moved the debt that was there in

Singapore which we had taken for acquisition of the Italian subsidiary through India. This was corporate guaranteed by the Indian operation and we have already started repaying and reducing debt significantly in India. As I had mentioned, we are well within our target. As of now, if things go as we are envisaging it should be able to reach our target of being long term debt free by March 2021. On the Italian operations again, we have been EBITDA positive in the third quarter as well, similar to the first two quarters. We have a complete new management team already in place which has taken up number of initiatives to grow the business. So, for FY21 we are expecting that we will be PAT positive in the Italian operations. And in any case, the synergy between Italy and India would continue in terms of participating in new Metro opportunities and Metro light opportunities which are likely to come up in India. So, that's an overview of the Company and I am happy to take any questions that might be. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Ranjeet Shivram from ICICI Securities. Please go ahead.

Ranjeet Shivram: Sir, it's a very detailed presentation and it's very informative only the thing which we want some more clarity is that, how much of this order book is with Italian, I think last quarter you had told Rs. 230 crore in Italian subsidiary, this order book?

Umesh Chowdhary: So, we have about Rs. 2,400 crore in India and balances is in Italy.

Anil Kumar Agarwal: It's around €340 million.

Ranjeet Shivram: Okay. And I think Q1 FY21 we were expecting the commencement of the production of the Sicilian Metro, that timeline continues or is there any change in that?

Saurav Singhania: Commencement of the production will have, in fact has already started. So, in some way it is a little ahead of schedule, but that is only the first part of the assembly. So, yes we are very well within schedule.

Ranjeet Shivram: And how about this Italian company's financials if you can throw some light?

Saurav Singhania: Sure, the breakup of the financial performance by the Company has been provided in the entity wise slide in seven, where if you see the performance of the Company of TFA has been around Rs.240 crore in the nine months revenue and there has been EBITDA of around Rs. 14 crore. So, which is in line with the budget that we had. And regarding the overall performance of the consolidated it's like Rs. 1,382 crore of the total income with an EBITDA of Rs. 118 crore.

Ranjeet Shivram: Okay. So this year probably one more quarter is there so the Italian company might be kind of breakeven levels right?

- Saurav Singhania:** So, as far as Italy is concerned on EBITDA level we will be positive but on the net level no, we will not be able to break even in FY20 but as I mentioned in FY21 we are expecting to be PAT positive.
- Ranjeet Shivram:** Okay and what is the outlook regarding Cimmco?
- Umesh Chowdhary:** As far as Cimmco is concerned, once we have been able to complete the merger, we would like to reorient because it will become then one of the units of Titagarh Wagons. So, we would like to reorient the business model in order to get the maximum efficiencies and the idea would be to concentrate most on the wagon production in one of the plants which is in Titagarh and Cimmco would be used for the defense production and also the locomotive shell. We have a good healthy order book for locomotive shell and some canisters for the defense and some specialized projects. So, the facility of course will continue to make some tank wagons and some specialized wagons, but primarily it will be concentrating on the other products. So, the entire operations between all the four units would be/ have been restructured and would in any case be made specific units which would become centers of excellence for specific products since we are a multi-product company.
- Ranjeet Shivram:** Okay and because of these two entities you used to have an advantage during railway tenders, because we were able to represent two units and therefore we will get a larger chunk of the tender orders so, won't this be an impediment to that advantage?
- Umesh Chowdhary:** No, because the tendering system of the railways has changed. Earlier it used to be a different tendering system now it's the reverse e-auction and bucket filling. So this is not something that is going to make any positive or negative impact.
- Moderator:** Thank you. The next question is from the line of Ashish Kumar from Infinity Alternatives. Please go ahead.
- Ashish Kumar:** A couple of questions, one is in terms of trying to understand how much is the debt reduction that we have achieved in this quarter and what is the target for the next quarter? What is the total debt as of today if you can give us that number alternatively?
- Umesh Chowdhary:** So we will split the debt into two levels one is India level and one is Italian level. This is for the reason because Cimmco is under merger with TWL. So, we will merge the debt of Cimmco in Indian level and also the debt which was in Singapore which was total of about Rs. 160-170 crore that has moved to India. And the other part is the debt which was earlier under a corporate guarantee of India, but now because we have been able to create mortgage of the real estate assets and the other covenants of the sanction have been met, so, the corporate guarantee has fallen off. So, if we have to give the numbers my Director (Finance) would do that, what is the total debt number India level and overseas.

- Anil Kumar Agarwal:** So, as on 30th September the total India debt including the Singapore portion was around Rs. 400 odd crore and today if we talk as on 31st of December that was something around Rs. 220 odd crore.
- Ashish Kumar:** And what will be the target lets say by in March 31st for India?
- Saurav Singhanian:** Net debt number.
- Ashish Kumar:** What will be the target by end of?
- Anil Kumar Agarwal:** End of March that is FY20?
- Ashish Kumar:** FY20.
- Anil Kumar Agarwal:** FY20 we are targeting a Rs. 100 crore or net debt or southward of Rs. 100 crore of net debt. Level is about €50-60 million.
- Ashish Kumar:** Okay and second question was in relation to the new tender for the wagons, any news last quarter we had mentioned that we were expecting a larger tender for the wagons but that hasn't moved, so where is this stuck kind off, if you can throw some light?
- Umesh Chowdhary:** So the tender, the reverse e-auction got conducted for the 6,500 wagons, we are very well positioned though the tender has not yet been finalized. And once it is finalized then only we will be able to know exactly what is the quantity that we are getting. But the reverse e-auction was concluded and we are well positioned in the reverse e-auction.
- Ashish Kumar:** When do you think that any idea for date when we can get some?
- Umesh Chowdhary:** It's very difficult to predict the date but we are expecting that it should get finalized within this quarter.
- Ashish Kumar:** But do you see any concern because after a long time we have managed to ramp up our wagons manufacturing operation. So do you see any concern that there may be any breakage in the current momentum that we are seeing or do you not see any concern there?
- Umesh Chowdhary:** I don't see that in the short/mid term there should be any breakage because the railways need the wagons number one and number two, even if we look at the current order book that we have with us right now, that is sufficient as the current run rate to take us for another six, seven months and for sure we be able to get orders by that time for the continuance.

- Ashish Kumar:** And in terms of Italian operation last time we had talked about evaluating the possibility of seeing whether some real estate assets can be sold so is that still something which is on the table or that is no longer on the table?
- Umesh Chowdhary:** There is some restructuring that we are contemplating which is being worked out which is underway. It is not really sale of the real estate asset but more of restructuring so that we can evaluate options of sale and leaseback, etc. But that's not something that is materialized till now it is still work in progress.
- Ashish Kumar:** Any timeline why when we can get some?
- Umesh Chowdhary:** I think we would be able to finalize the structure. I am not talking of completing the transaction but finalizing the structure, the restructuring by first quarter of FY21. And within FY21 we should be able to finalize the entire transaction.
- Ashish Kumar:** How much debt can go up the balance sheet if you were to do the sale and lease back traction?
- Umesh Chowdhary:** It would be very premature for me to give a number to that, so we would rather give a number once the clarity emerges.
- Moderator:** Thank you. The next question is from the line of Aarsh Desai from Vallum Capital Advisors. Please go ahead.
- Aarsh Desai:** Sir actually my question was with regards to our order book, besides wagons we aren't really seeing any traction for say in shipbuilding or in bridges, so how are you looking at the other two segments and orders coming in out there?
- Umesh Chowdhary:** So, for shipbuilding we have in fact just handed over our fourth vessel today to the NIOT. But yet, there is little bit of a slow pace of new order booking or new order finalization. In fact, from the Navy, there have been no tenders that have gotten or RFIs which have been converted into RFPs or tenders finalized. But we do hope that in the next two or three quarters there would be some tenders that will get finalized. Having said that, I would also like to reemphasize that in the shipbuilding segment, we are very selective on the types of vessels that we are bidding for. We are only trying to be in the specialized shipbuilding segment. We don't want to get into the general cargo shipbuilding segment. Having seen the experiences of the fellow companies that have suffered in that segment. On the bridges, bridges have always continued to be a niche business we have received some orders from different PWDs, we have received some order from Maharashtra government and the Bengal government. This is the particularly the French technology that we had gotten. It's taking some time for the Indian clients, the PWDs to be able to familiarize themselves with this new technology but we do believe

that this is going to pick up so we believe that we should be able to book orders of more than Rs.100 crore in the next financial year. Which will be a significant jump and you know once these bridges do get established then we believe that the scope and the potential for this kind of bridges can be much larger.

Aarsh Desai: Okay. And my other question is related to DFCC, when you see the DFCC wagon orders, if any to come in and do you expect any business coming in from the, how do you look at the entire DFC?

Umesh Chowdhary: The DFCC orders, there are some small orders but that is more on the construction side which are getting finalized but the real demand of DFCC we believe that the tenders I mentioned this last time also we should see the orders starting getting placed by end of calendar year 2020. So, last quarter of calendar year 2020 I believe that the DFCC ordering should start.

Aarsh Desai: Okay. And we would be taking a big part in these orders going forward as well, right?

Umesh Chowdhary: For sure, definitely going to be our endeavor.

Aarsh Desai: Sure. And is there any other line of business where you see an opportunity, like in your presentation, you spoke a little bit about, the new government initiative. So what is your outlook out there?

Umesh Chowdhary: So I'll probably just take a minute in explaining the vision of the company. The vision of the company, as you see from the presentation, we have basically christened ourselves to be a mobility solutions provider, we are supporting mobility in every form. Now, whether it is in the industrial segment for the wagons, all types of wagon today, Titagarh not only is the largest wagons producer in India, but also has probably the largest range of wagons that we produced. Apart from that in the passenger side, we are in the metro We will definitely be active in the metro light which is the LRT segment and the metro Neo which is the trolley bus segment. So, there would be tenders that would come up we have not deliberately been very aggressive in participating in every tender because it is a costly proposition to participate in a tender. So, we are only selecting tenders that are more suitable in terms of the size of the tender in the specifications of the tender. Then the bridges which is again supporting mobility and the shipbuilding which is again in the mobility sector. So, basically if we look at all the segments that we are in, we would only like to concentrate on these. And since there is enough opportunity available in the existing segments, we don't want to spread ourselves any more thinner and focus all our management bandwidth on these segments only.

Aarsh Desai: Sure. And my last question was with regards to the wagon execution, we are on track to how many wagons per month currently versus how much did we do last quarter and how

much can that go up to and also to our margins which remain more or less stable from what they were in the last two quarters?

Umesh Chowdhary: Yes, so the margins that you can see are more or less stable, it can depend on a quarter-to-quarter basis in a very marginal basis. But as far as execution is concerned, we are still constrained by lack of availability of wheel sets for private wagons. We were permitted to import wheel sets, which started coming in but, primarily these were coming in from China. So we've seen a little bit of a slowdown of shipment of course over the last month, month or so. The Rail Wheel Factory is still not able to provide us with the adequate quantities of wheel set that continues to be the constraint. And for the Indian railway wagons the only option is to buy from the Rail Wheel Factory. So, while we are comfortably positioned to manufacture between 5 to 600 wagons in our Titagarh plant every month, we are ending up last quarter we produced 990 wagons in Titagarh, and in Cimmco we did about 230 wagons or so.

Aarsh Desai: So, this is the last quarter number you are telling me right?

Umesh Chowdhary: That's right.

Moderator: Thank you. The next question is from the line of Vipin Goel from ICICI Securities. Please go ahead.

Vipin Goel: Sir Can you just break up the order book, as you do between the Italy the wagons metro and then Cimmco?

Saurav Singhania: I think the breakup has been given in the presentation but we will share for you again. So the total order book, I am consolidating the India operations which is Titagarh and Cimmco taken together. So the total India operations the order book is Rs. 2, 400 crore out of which the wagon would be around Rs. 1,200 crore. And then we have the order for the metro Rs. 1,200crore , so we have the order for the Pune metro which is around Rs. 1,000 crore and then the others are between bridges, foundries and train electrical and others for around Rs. 300 crore.

Vipin Goel: Okay. And then, sir on the recent rate pay budget. What's your outlook on that given that the allowance that was given to the wagon that has reduced some 7-8%. So what's your take on that?

Umesh Chowdhary: We don't see that as a big challenge because you see the wagons are financed in any case via different methods in the railways. IRFC is one of the finances of wagon and again Coal India has given a lot of money to the Indian Railways to buy wagon. So, I don't think that money is going to be a constraint in terms of purchase of wagons. It is primarily the economic activity the demand of traffic that is going to determine the

demand of wagon. Wagon just to elaborate is the return on investment, the capital output ratio of wagon is extremely favorable. So, definitely the railways would not find it difficult to find money to purchase wagons provided the economic activity picks up.

Moderator: Thank you. The next question is from the line of Akash Damani from Edelweiss. Please go ahead.

Akash Damani: Sir, can you give the split of wagons order book between Indian railways and private wagons?

Saurav Singhania: So the Indian Railways would be around Rs. 950 odd crore and private wagons would be something around Rs. 200 crore.

Akash Damani: Okay, and sir about debt I just wanted to confirm, so what I heard is that debt as of 30st December is Rs. 2,020 crore and you target to reduce it by another Rs. 100 crore by end of March which will bring it down to Rs. 120 crore this is for India operations, is that right?

Umesh Chowdhary: India including the Singapore, the debt that has moved from Singapore.

Anil Kumar Agarwal: And this is the net debt position.

Akash Damani: Okay. And Firema debt standard at €60 million?

Umesh Chowdhary: That's right, yes. On a standalone basis, so there is no corporate guarantee overhang on to India.

Akash Damani: If you could share your outlook for FY21 on wagon ordering in public and private sector and any upcoming bids?

Umesh Chowdhary: So there is this tender that I mentioned of 6,500 wagons which was reverse e-auctions and that is yet to get finalized. Company is well positioned in the e-auction. So we are hoping that this order should get finalized sometimes in this quarter. As far as the overall demand as I mentioned in my opening comments, we had seen in the last few months a little bit of slowdown from private sector that is primarily driven because of two factors. The general liquidity and economic activity slow down as well as the iron ore auctions that were happening as a result of which most of the iron ore companies were not actively involved in the market for buying wagons. We do hope that the private sector demand should pick up again, because particularly the steel prices have seen an upward trend. So, if the demand of steel continues, there should be a sizable demand that should come from the steel sector. The railways demand has also been muted because of the lack of traffic growth which we've all seen in the different publications. But we do understand that in January the traffic growth of the railways have again shown a positive sign. So, it is

effectively dependent upon the economic activity of India, but, considering the policies of the government wherein they are trying to be, we also heard yesterday that railway minister saying about the new logistics policy committee which has been created by the government, which is targeting to reduce the logistics cost of India by from 14% to the 7-8% level. So, this obviously in order to achieve that railways is going to play an extremely important role and therefore, wagon demand is likely to be healthy in the years to come.

Akash Damani: And sir on the Firema if you could give some guidance on revenue growth and margins for FY21?

Umesh Chowdhary: So, we would not be able to give you any forward guidance's because the company has not been providing any forward looking guidance. But the target for FY21 is to definitely turn around into PAT positive. We had said that we would turn EBITDA positive in FY20 which we have done. And in FY21 we are targeting and we are very hopeful to turn PAT positive.

Moderator: Thank you. The next question is from the line of Vikram Raut from Phillip Capital. Please go ahead.

Vikram Raut: My question is on, what are the opportunities we are looking in the domestic macro market over the next one or two years. And can you just highlight the pipelines in the domestic market. And second in the global market, what are our path, what is the outlook for the global market? And third thing sir, how do you see the impact of the recent this coronavirus thing on, how do you see this as impacting the business for the Indian players and you specifically?

Umesh Chowdhary: So, as far as the Indian pipeline is concerned for the metros the only order we have received till now is the Pune metro. There are some tenders that have been issued, we are evaluating the ones that we will like to participate and the ones that we would not like to. Having said that, it is in public domain that every Tier II city also in India is under the radar for be considered to be put under the services of a metro operation. So, the demand for metro coaches in India should continue to be healthy and are particularly combined with the Make In India initiated there are not many companies in India that are producing the metro coaches. So, we do believe that there should be adequate opportunity for Indian companies in the Indian space. As far as the global space is concerned. From Italy, we are catering to the global space as far as the Indian operation is concerned on the metro we are only concentrating on the Indian market. From Italy we are bidding in different African countries, we are also looking at certain Nordic countries, but primarily as of now the order book is from Italy from within Italy or within Europe and we would like to step up Off Europe, but that could be done in a much calibrated manner. As far as the coronavirus is concerned, it's an extremely unfortunate incident for mankind, but and we

do hope that it would get resolved soon. What would be the impact on our business, I would not be in a position to comment upon that. Because we really do not know how things would span out and whether it is going to impact the supply chain out of China, whether it is for components or it is for the finished product. So, on one side, there are certain components that are purchase even by us from China for example, the wheel sets that I just mentioned. On the other side, we are also competitors to China in many tender so we need to see how things span out. We are unable to comment upon the impact of that as of now, it's a little early to comment upon it.

Moderator: Thank you. The next question is from the line of Ashish Kumar from Infinity Alternatives. Please go ahead.

Ashish Kumar: I had two questions. One was in relation to the Firema. We had a number of historical legacy contracts that we had inherited, which were low margin are all of those completely done?

Umesh Chowdhary: Would you like to ask your second question also?

Ashish Kumar: The second one was in relation with the French subsidiary in terms of that potential liability that we have on the corporate guarantee, where are we if you can give some more color on it and are you expecting any, I know in the notes you said it's difficult to estimate, but are we expecting any hit or do we think that the real estate there will be sufficient to make sure that we don't get any hit on our parent balance sheet?

Umesh Chowdhary: As far as Titagarh Firema is concerned, the legacy contracts, we have executed majority of the legacy contracts or I would say that by 31st March that is FY20 we would have executed except for maybe €10-15 million of the legacy contract everything would have been executed. So, from FY21 most of the contract I would say 90-95% of the contracts that will be executed would be the new contracts and we will not have any overhang of the legacy contracts in FY21. As far as the corporate guarantee obligations of the French subsidiary is concerned we are now evaluating because the whole process of land realization, etc takes time. So, we are now evaluating what is to be done and necessary actions or necessary steps we intend to take before the end of this fiscal. We are evaluating all sorts of, on one side we are trying to expedite the crystallization of the value that needs to get realized. On the other side, we are also looking at options of kind of subrogation of the rights and squaring up the liability of the corporate guarantee. But, after due deliberations and proper legal consultations and once the board takes a decision, we do intend not to keep this overhang beyond this fiscal. So, whatever needs to be done, we would like to be conservative and complete this before a FY20.

Ashish Kumar: But do we expect any cash out go from the holdco or from the parent or that unlikely in your view?

Umesh Chowdhary: There would be some cash outflow, what would be the quantum of the cash outflow and what will be the timing of the net cash outflow. There might be a cash outflow in the beginning, which we may be able to recover subsequently. So, we have already as far as cash flow is concerned, we have already factored that in our cash flow. So, that's something which will get crystallized before March. What will be the amount, whether that amount would be a net outflow or it will be a temporary outflow is something that is impossible to comment at this point of time till we get clarity on the realization amount and the realization timelines from the real estate value of the French assets.

Moderator: The next question is from the line of Umesh Satra from Sequent Investments. Please go ahead.

Umesh Satra: Can you share the number of wagons dispatched during the quarter?

Umesh Chowdhary: Sure, as we mentioned a little while ago, we sold about 990 wagons from Titagarh and about 200 wagons from Cimco.

Umesh Satra: Okay. And can you throw some light on the availability of wheel sets because we were facing some problem in the previous quarter. So any update on that?

Umesh Chowdhary: The shortage of wheel sets, as I mentioned a little while ago again, is continuing, we for the private wagon, we had been allowed to import wheel sets for the private wagons. We did import some of the wheel sets in the last quarter and that helped us to ramp up the production, but because of this coronavirus problem, the last one month there have been no shipments from China. On the other side Rail Wheel Factory continues to have some capacity constraints. They are also internally importing some axles from China which are getting impacted on account of the coronavirus. But we do hope that with the internal capacity of Rail Wheel Factory we should be able to continue with more or less the current run rate of wagons. A few percentages here or there, but by and large we should be able to continue with the current run rate with the expected supply from Rail Wheel Factory.

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

Umesh Chowdhary: Thank you very much for the very enlightening questions from everybody. As I mentioned in my opening comments the focus now let's say six quarters ago the focus was primarily to build up an order book with which we were able to succeed to an extent, there was to stabilize the production which again, over the last four quarters as you can see, we have consistently maintained an execution of about on the vicinity of about Rs. 300 crore a quarter. We expect to maintain the same trend till the metro coach execution starts. As I mentioned in the last conference call and this one, now the focus is on debt

reduction. We are working very closely to improve the working capital cycle and incorporate efficiencies. This is an activity which is being monitored at every level. And is being led by the director of finance and the director operations on a day by day basis. So, with this operational efficiency improvement, we hope that we should be able to reduce the debt level in the Indian operations significantly, both in FY20 and then FY21. The focus again in the coming year FY21, is to try and get another one or maybe two metro contracts, so that the line of the metro continues of course, the current contract will get executed up to FY22. But in order to continue that line, we would be looking at bagging another contract this year. And of course, the wagon and the other bridge businesses would continue on the normal stream as they have been continuing. So, on the whole, we hope that the Indian economic scenario, the overall industrial output and the GDP growth picks up again. Because our business particularly on the freight side, is directly related to the economic activity and the GDP, which in turn impacts the railway loading and in turn, impacts the wagons procurement of the railways or of the private sector. So with these words, I would once again like to thank everybody to join the call and I look forward to be able to share the annual numbers in the next few months.

Moderator:

Thank you. Ladies and gentlemen on behalf of ICICI Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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Note: This transcript has been edited to improve readability



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