"Titagarh Wagons Limited Q4 FY-21 Earnings Conference Call"

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MODERATOR: **MR. RENJITH – ICICI SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Titagarh Wagons Limited Q4 FY21 Earnings Call hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Renjith from ICICI Securities Limited. Thank you and over to you, sir.

Renjith: Good morning all. We are pleased to invite Titagarh Wagons' management for Q4 FY21 Results Conference Call discussion. The management is represented by Mr. Umesh Chowdhary – Vice Chairman and Managing Director; Mr. Anil Agarwal – Director-Finance and Chief Financial Officer; and Mr. Saurav Singhania – Group Financial Controller. So we will have initial opening remarks from the management followed by Q&A session. I will hand over to Mr. Umesh Chowdhary for the opening remarks. Over to you, sir.

Umesh Chowdhary: Thank you, Renjith. Very good afternoon everybody and thank you for joining the earnings call for FY21 for Titagarh. The presentation has already been uploaded yesterday and I am sure that would have been shared with whoever has joined the call. But to give an overview the year has been a very difficult one apart from the COVID uncertainties that prevailed in India, Italy also have been one of the worst affected in terms of the COVID crisis.

Having said that, we have by and large as a company been able to keep directional movement towards our plan. We have been able to achieve a number of targets that we had set for ourselves. Of course, some of them could not be achieved due to various reasons. I would like to give an overview of the performance separately for the Indian operations and for the Italian operations.

As far as the Indian operations are concerned, we were able to continue to maintain a healthy order book or order inflows. We have now our current Indian order book of about Rs. 2,600 crores, which is one of the highest orders book levels that we have had in the company. What is most important is the order book is split pretty well into different segments of our business, which is the freight business, the transit that is Metro and Propulsion and Shipbuilding. 50% of our order book comes from the freight business and the balance 50% approximately comes from the others.

In terms of the performances, we were able to do an EBITDA of Rs. 130 crores on a revenue of Rs. 1,040 crores and a profit after tax of about close to Rs. 50 crores. This has been a turnaround from the last year where we had certain exceptional or one off items which had resulted in a standalone loss in the last couple of years. We expect that the current year the trend of execution would be maintained. Of course we are suffering the current lockdown due to the second wave of COVID. Our operations are likely to commence normally from coming week. The non availability of oxygen has also impacted the first quarter to some extent but we are trying to make that up as much as we can.

In terms of the execution of the Pune Metro, which is a very important milestone for our company, the prototype train has entered the testing initially. It is already been manufactured now it is being tested. We are expecting that in the next few weeks, maybe maximum couple of months, the train would be dispatched from Italy. The production of the first train in Calcutta, which is the upgraded plant that we have set up in Calcutta has already begun. It started in the middle of April, but we had to slow it down because of the COVID second wave and we are expecting that beginning of July we will again start the production. We are expecting the first train from India to be rolled out within this financial year.

Coming to the European operations, again, they have been very difficult. In spite of the COVID problems, we have been able to increase revenue from levels of Rs. 30 million to almost close to Rs. 70 million. And the last quarter of FY21, we were able to do a breakeven on the EBITDA in Italy. Although there has been a full year loss on EBITDA level and in PAT level in Italy. We have an order book of about Rs. 2,200 crores to Rs. 2,300 crores. The legacy contracts that were there have already been completed. By and large 100%, maybe a few percentages left, but will not have a major impact. Now, with the COVID crisis getting over, we are hoping to ramp up and we are very confident that we will be able to ramp up the production there. And this year, we should be able to achieve positive EBITDA in the Italian operations.

In terms of the debt levels, in India, I had mentioned in the last calls that we are targeting to achieve for the Indian operation a net debt free situation. I am happy to report that in spite of all the disruptions, while we have a long term debt on the balance sheet of the Indian operations of about Rs. 100 crores, we have equivalent cash available. So on a net debt level we are debt free in India.

In terms of the European operations, we have a debt of about €75 million, which we believe that with the stabilization of the operations this year, we will be able to service from the Italian operations. So this is the overview of the entire company's working and I am most happy to answer any questions that might be there. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Bhagyesh Kagalkar from HDFC Mutual Fund. Please go ahead.

Bhagyesh Kagalkar: Can you give more details on the India freight order book, the wagon division order book and rough split between private sector and the Indian Railway's wagon and also the production issues here? And I would like to know what is the roadmap here for the next one to three years for the India Wagon Division because there is a talk of DFC coming private sector players purchasing wagons etc. So, what is seen here? And also overall margin wise for the India Wagon Division for next one to three years?

Umesh Chowdhary: Sure Bhagyesh. The Indian order for the freight division, which includes wagon and components of wagon is approximately Rs. 1,200 crores as on 31st March. I would say the majority of the orders are from the Railways. Private sector demand had slowed down during the first wave of the COVID. Of course, we saw that there was a pickup that happened in the private sector demand. But as a matter of strategy because private sector demand had been historically not had price variation so we have not been very aggressive in booking private sector orders owing to the steel price fluctuation that is one has seen in the last few months.

We believe that now steel prices should stabilize so there would be a private sector demand that will come back again because most of the wagon manufacturers have shied away from taking longer term fixed price contracts. Most of our contracts that we have is with a price variation clause. I would say almost 70%, 80% of the contracts that we have are with price variation clause in the freight business. So the steel price impact has not hit us very badly. Of course, there can always be a little bit of a time lag between the PVC and the steel price increase.

Going forward, we have seen that the Railways have been able to decongest their lines. The DFC was of course delayed and now we see that the work is picked up in the last year. Also, we have read in the newspapers, and we have seen that the work pace has picked up quite a bit. So we expect that this financial year the DFC ordering should by the end of the year should start. We do not expect to book that into revenues this financial year, but in the coming year and the year after, we definitely believe that the DFC wagon should contribute to revenues.

We believe that wagon business would continue from the Railway side I am saying at the levels that they are. We do not see that the Railway Board wagon procurement change too much. Maybe at the level 10,000 wagons, 15,000 wagons, but the private sector demand both for the DFC and for the non-DFC portion is likely to go up.

Bhagyesh Kagalkar: In Railways also what is the margin situation? Steel has gone up so much so pass through is there?

Umesh Chowdhary: As I mentioned that bulk of our contracts are with PVC, so our EBITDA margins, as I have mentioned in the past, are around between 9% to 11%. And if you see that, it continues to be that way. Some quarters it can be slightly different. And as I said, that is primarily because the PVC takes indices of two months prior to the date of supply. So there can be a lag, but it averages out during the year.

Moderator: Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: Can you give the number of wagons sold in standalone consolidated for the quarter and for the full year?

Umesh Chowdhary: Sure. Anil Agarwal, our CFO would answer.

Anil Agarwal: So this year we sold around 2,800 wagons. And this is the total quantity of wagons which we have delivered taking into account the consolidated result because the consolidation in TFA we are into the passenger rolling stock not on the wagon rolling or separate tolling stock.

Bhavin Chheda: And Quarter 4 would be how much?

Anil Agarwal: Quarter 4 numbers are not readily available with me, but on a full year as I mentioned it was 2,800.

Bhavin Chheda: Yes. And your Rs. 1,200 crores order book is for how many wagons?

Anil Agarwal: It would be roughly around 4,300 wagons.

Bhavin Chheda: And this has to be entirely executed in FY22, or it will go forward also?

Umesh Chowdhary: We have a delivery schedule Bhavin Ji, and this basically most of it would be executed in the current financial year. Some of them is scheduled to go over to the next financial year, but then there are new orders that we might book this year that would come into this financial year. So, some of them have a delivery schedule, but I would say bulk of it would be executable during this year.

Bhavin Chheda: Regarding the gross debt numbers on our consol, if I see the gross debt is roughly around Rs. 846 odd crores, standalone is Rs. 103 crores. So I think majority of the debt is standing in Italian subsidiary. So what is the cost of this debt? And is there any other debt standing in other company apart from Italy?

Umesh Chowdhary: So there is no other debt standing in any other company because we have done a merger of the other entities into this Cimmco entity etcetera into Titagarh Wagons. So, there is no other debt, the debt only in these two entities. As far as the cost of debt is concerned, in India the cost of debt is close to 10% and in Italy it is close to about 3.5% to 4%.

Bhavin Chheda: And what are the repayments schedules in ATE?

Umesh Chowdhary: So, there are different facilities over there with different repayment schedules. There are three or four different facilities. Some of them are also cash credit facilities. So you know they are kind of rolling, but there are certain term debts which have a repayment over the next five, six years.

Bhavin Chheda: Because Italian subsidiary is as of now not reporting cash profits or just turned EBITDA positive. So how are you serving the Italian subsidiaries' interest and debt repayment there? Has standalone provided loans in advance to Italian subsidiary and APS? What is the outstanding number?

Umesh Chowdhary: As a standalone, we have not given any loans or advances apart from business advances, which are for ongoing contracts. The Italian subsidiary has had a negative EBITDA in the current year in the first nine months, but it had actually turned EBITDA positive prior to the pandemic hitting the operation. And we are fairly confident that it will be again EBITDA positive this year.

Bhavin Chheda: And Anil, consolidated other income was high at Rs. 14 crores versus Rs. 3 crores in standalone. So is there any one off their or why was such high number in quarter 4?

Umesh Chowdhary: In the standalone the other income, you are asking about the standalone other income, right?

Bhavin Chheda: No, consolidated other income. Consolidated other income was much higher than the standalone. I think standalone was Rs. 3 crores, which is the normal run rate. But consolidated was Rs. 14 crores versus Rs. 6 crores in December quarter and Rs. 5 crores last year March quarter. So was there a one off, which has been accounted there?

Umesh Chowdhary: In Italy I think it would be one off, it will not be a recurring other income. I do not have the exact data with me right now. But in Italy, we do not have any recurring other income. It would be more like a one off maybe.

Moderator: Thank you. The next question is from the line of Saurabh Jain from Sushil Finance. Please go ahead.

Saurabh Jain: Sir, my first question is during the media interaction you had mentioned yesterday that the standalone order book is executable over the next two years. So could you please give some similar color on the Italian order book also? And also now since the legacy orders which came along with the acquisition are over now, what kind of EBITDA margins can we look forward for the Italian operations for the current fiscal and probably some in the next fiscal?

Umesh Chowdhary: So as far as the Italian order book is concerned, that is also some of the contracts are executable over the next three years. But there are many which have to be executed within this year. The total order book of the Italian subsidiary is had about Rs. 2,200 crores, €270 million.

In terms of the EBITDA in European markets in the segment that we are and I had mentioned that we normally expect an EBITDA of 7%, 8% over there. And new orders that we have are on a blended EBITDA of about 7%, 8%.

Saurabh Jain: Okay. So sir, would you be able to quantify what percentage would be executable in the current fiscal, approximately?

Umesh Chowdhary: So, we do not give out the estimates or the forward looking numbers. But as I had mentioned that these orders are primarily you can say that executable over 2 years, 2.5 years, because normally in the passenger train segment the lag, which is their or the gestation period from order to execution is normally 18 months. So, I would say that these orders have come over a period of time and they are executable over the next 2 years, 2.5 years.

Saurabh Jain: Sir, an observation on the standalone business was that exports have gone up substantially even though on a smaller base, but majority of the full year has come in the last quarter itself of approximately Rs. 28 crores. So, shall we assume that this is a trend which is catching up and is likely to continue this year?

Umesh Chowdhary: No, this would be primarily on account of the execution of the Pune Metro contract. We do not have much of an export turnover, which is going to be there. But going forward, the targets that we are setting up for ourselves is that we have upgraded **(Inaudible) 20:13** over the last couple of years to cater to the international market. We are getting ourselves all the international certifications. And maybe two years or three years ago, when we were at order book levels of Rs. 600 crores that our focus or priority would be to build order book, and then it was to **(Inaudible) 20:37** particularly as far as the Indian operations are concerned.

Going forward, our priorities are going to be for the Indian operations to develop international markets over the next two to three years. And in terms of the Italian operations to turn EBITDA positive and to stabilize the operation. I must also add over here on the Italian operations is one of the strategy is that we have been able to achieve is to try to optimize cost levels there.

So we have consolidated the manufacturing sites in Italy. Earlier, there were three manufacturing sites, which we consolidated them to two last year, and this year, in probably the next couple of months, we will be able to consolidate them to a single manufacturing site, which is a large enough site which will help us to optimize costs there. So with all the measures of optimization of costs and increase of volumes, the Italian operation should start taking care of itself and contributing.

Saurabh Jain: Okay. So sir, what kind of cost optimization would that help? Because if you have already considered that in those 7%, 8% kind of EBITDA margins, which you are expecting in the Italian operations?

Umesh Chowdhary: Yes, when I say 7%, 8% margins, I am talking about industry margins, industry EBITDA margins. I am not talking about contract-to-contract EBITDA margins. On a blended basis, there can be some contracts or some quarters where we can achieve a better or some quarters or some contracts where it can be slightly less, it is also dependent upon the strategy of the contract. But on a blended basis, the industry EBITDA margins that one can achieve in Europe is about 7%, 8%.

Saurabh Jain: Does shipping orders, which we have bagged early this year have similar margins, which we witnessed in the last four vessels we had supplied last year?

Umesh Chowdhary: I will not be able to specifically discuss about the margins of a specific contract, but when I say the average EBITDA margin that we expect in Indian operations is going to be between 9% and 11%. We blend it while quoting for the orders as a matter of strategy to maintain that kind of a net EBITDA level. But to specifically speak about contracts and individual contractual EBITDA margins would not be possible for me because of several reasons, competitive and otherwise.

Saurabh Jain: But these shipping orders of Rs. 130 crores is executable in this current fiscal only, FY22?

Umesh Chowdhary: It is over the next two years. We have also got some other contracts apart from that from the Defense PSUs and from some states. So, these contracts are executable over the next two years.

Saurabh Jain: One last question. In the budget the government had announced 33% increase in the CAPEX for Railways and also they had increased capital outlay for metros by 20% also for the current fiscal. So any updates? How is the traction looking at the ground level and in Metro which all tenders have we participated so far and outcomes of which are yet to come?

Umesh Chowdhary: We are participating in pretty much all the metro tenders that are going to come out and that have been coming out. We have participated as we have informed to the stock exchange in a monorail project in Mumbai. The order has not yet been finalized to anybody. According to the some articles that you are mentioning there are supposed to be several Metro light and Metro and Metro Neo projects that are likely to be taking off in the current year or in the coming years, and we have geared ourselves and we are now fully eligible and capable of participating in all of them.

Moderator: Thank you. The next question is from the line of Sreeram Ramdas from Green Portfolio. Please go ahead.

Sreeram Ramdas: Firstly, how is the execution taking place with Trams in Norway and the metro coaches in Brazil as well as Catania?

Umesh Chowdhary: No, we are not executing any tramways in Brazil or in Norway or in Oslo. Right now, we have in the past done tram execution that is the company that we acquired Firema. In the past has supplied tramways to Oslo etcetera. Now, what we are doing is from the Italian operations, we are executing contracts for Naples and for the City of Catania.

Sreeram Ramdas: And when it comes to capacity utilization, it was low for the best part of the year. So, how much are those levels in India as well as the Italian operations?

Umesh Chowdhary: In terms of the capacity utilization in India, we have adequate capacity and particularly with the upgradations that we have kind of made in the last couple of years, we are fully geared to producing 7,000 to 8,000 wagons if there is enough workload without any additional or without major CAPEX being required. In terms of the metro coach facility, the facility that we are setting up in Calcutta, we should be able to scale up to about 200 to 250 coaches a year. We are just starting to make the first Metro coach. We have done several EMUs and MEMUs in the same facility.

But this has been upgraded and made suitable to manufacture aluminium coaches, which is the first time that it is being done in India. So, it is a huge technological jump for an Indian Company to be doing Aluminium coaches in India. So, in terms of the capacity utilization, I would say that we have built up over the last couple of year's adequate capacity leg room that is available to us in order to be able to grow the volumes as the market picks up.

Sreeram Ramdas: Okay and this expansion is taking place in the Uttarpara plant, correct?

Umesh Chowdhary: The Metro is taking place in the Uttarpara plant. That is right. The metro and propulsions is being set up in Uttarpara plant.

Sreeram Ramdas: Okay, and any percentage number that you can give me in terms of capacity utilization?

Umesh Chowdhary: We are just starting production. So, right now, if you see capacity utilization, it is zero. We are going to deliver as I mentioned, the first trains for the metro from the Uttarpara plant this year.

Sreeram Ramdas: I meant the capacity utilization for the Italian operations which is producing Metro coaches and the wagons, that was what I was looking for

Umesh Chowdhary: So for the wagons, last year as Anil just mentioned, we delivered close to 3,000 wagons. That is I would say about 50% of our capacity or maybe slightly lesser. In terms of the Italian operations, the capacity is actually divided into revamping contracts, new build contract, etcetera. So it is very difficult to quantify a percentage of capacity utilization.

But if I had to say in terms of revenue, the unit in the past has done a revenue I mean before we acquired of about €250 million to €270 million and what we did was €70 million last year.

So there is a possibility with the same infrastructure to do what at least they have done in the past, which is four times of that.

Sreeram Ramdas: And another question. What kind of value addition are we doing in Metro coaches in Italy? For example, are we doing AC systems, resets, hydraulic door systems or are we just assembling the things procured from various sources? And what I am trying to say is what kind of manufacturing setup do we have there like other than sheet fabrication and assembly?

Umesh Chowdhary: Well, we are manufacturing the entire Metro coaches. None of the metro train produces in the world actually do the doors themselves or the AC systems themselves. These are specialized equipments. What normally the metro coach manufacturing is fabrication of the coach, the bogies, the integration. Some of us do the traction, like our Italian subsidiary makes its own traction as well. So yes, it is pretty much an integrated I mean in the in the parlance of a metro coach manufacturing, one can definitely classify our Italian subsidiary to be a fully integrated plant.

Sreeram Ramdas: Okay, that is what I was looking for.

Umesh Chowdhary: And also for the testing facilities, our Italian facility Titagarh Firema has one of the most advanced testing facilities to test trains of different voltages. The voltages that are applicable all over the world starting right from 1.5KV up to 25KV.

Sreeram Ramdas: And you said that it takes three years ideally for the Italian order book to be executed. And I want to understand how are the payment flows, payment cycle like do you get payment based on the prototype and what percentage do you get on the final delivery, etcetera?

Umesh Chowdhary: Each contract has a different payment schedule. I mean, there is no standardized payment schedule for this business. So while quoting for tenders, we kind of evaluate the cash flow cycle for each of the contracts. Some of them, for example, have an advance, some of them do not, some of them have milestone payments, some of them have delivery payments. So I mean, it is very difficult, if not impossible for me to give a one single answer for this because it is applicable differently for different contracts.

Sreeram Ramdas: And I will just try to squeeze in one more question. The Italian subsidiary, it has seen a lot of changes in the CEO. And that is quite unusual, despite only four years since acquisition, so can you just give me some information on what is going on there?

Umesh Chowdhary: So we had the last CEO change was something which we made about two years ago. I had mentioned that during our call also that I had myself taken over as an interim CEO that was primarily to clean up operations, to re-strategize the fixed cost, the strategy etcetera. And then we had appointed a CEO last year. Fortunately or unfortunately, the Government of Italy found him to be attractive, and they kind of post him to be the CEO of the Italian Railways. So our

CEO who was there has become the CEO of Italian Railways, and we have another person who was associated as a board member in our company, we have appointed him as the CEO.

So he is doing a reasonable job. But I would say that going forward, we may after the things have stabilized get in a younger CEO, who would be then there for a longer period of time, but for the coming foreseeable future, the existing CEO who is operating will continue to be there.

Sreeram Ramdas: And sorry, just last one. With the ABB, the tie up with ABB, how the sample orders going for the Railway for the propulsion systems?

Umesh Chowdhary: Yes, so that is very important. Thank you for asking that. The cooperation we find with ABB is going well. This financial year, we are expecting to supply the prototype to the Railways for the propulsion system, which has been designed and manufactured in cooperation with ABB. We believe that the second half of next financial year we should be into regular production of the propulsion.

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

Vasudev: Can you give me the detailed breakup of the order book if possible?

Umesh Chowdhary: I am sorry, can you repeat the question please?

Vasudev: That detailed breakup of the order book like between wagons, coaches and others?

Umesh Chowdhary: Yes, it is given in our presentation. If you see on the page 3 of the presentation, but I will just repeat it. The total order book is about Rs. 2,680 crores, 42% of which is in the freight, about 38% is in the passenger or transit and the balance is shipbuilding and defense, bridges etcetera.

Vasudev: And you just spoke about the monorail order. So can you just throw some light on that like when do we expect an order and what will be the execution period?

Umesh Chowdhary: Well, we do not know, till the tender is finalized, we cannot say when do we expect the orders, but as we have disclosed in our reporting to the stock market, we have participated in this tender. We are placed L1. And as far as the finalization of the order is concerned, I mean in a tender anything can happen, we do not know what will happen going forward. So, we will only be able to comment about execution schedules, etc., if and when the tender is awarded to us.

Vasudev: And in Italy, do we have any bid pipeline?

Umesh Chowdhary: I am sorry?

Vasudev: Do we have any bid pipeline in Italy?

Umesh Chowdhary: Yes, absolutely. The bid pipeline is there, both in India and in Italy, there is a big bid pipeline and that always remains there. In terms of several tenders in all the divisions that we continue to participate on, it is an ongoing process.

Vasudev: So, could you quantify what could be the bid pipeline for coming year?

Umesh Chowdhary: Again there are many tenders, which have been issued, there are tenders which are expected to be issued. So it is difficult for me to offhand give you a quantification. I can give you the quantification of some large tenders that we have participated. From Italy, we have participated in tenders worth about €500 million, €600 million, which has yet not been finalized. From India, maybe the total tenders that we would have participated in which are pending finalization will be about Rs. 1,000 odd crores.

Vasudev: Then, going forward, what do we expect the debt levels to be like at the standalone level we are net debt free so in the coming years do we expect to raise any debt?

Umesh Chowdhary: We do not expect to raise long term debt. But in terms of working capital, that is a fluctuating scenario.

Vasudev: Sir, one last question. What is the impact of the commodity price hikes?

Umesh Chowdhary: So as I mentioned, the commodity price hikes most of our contracts, I would say bulk of our contracts are with the price variation clause. So apart from the time lag impact that we have, we do not expect to have long term impact for the commodity price hikes. However, you it does kind of dampen the finalization of fixed prices contract, the balance 20%, 30% fixed price contracts that we generally have with private sector wagon business. So, we are hoping that the price stability should come in. Whatever levels they stabilize, they should stabilize in the period ahead or weeks ahead. And that would definitely help to strategize order inflow better.

Vasudev: Okay. And could you give the breakup of the order book between the Indian Railways and the private sector?

Umesh Chowdhary: Bulk of the Railway orders are from the Indian Railways. Some of them are from private sector, but we have not for competitive reasons disclosed the breakup.

Vasudev: And lastly, can you give any revenue guidance?

Umesh Chowdhary: Sorry, we do not give any forward looking projections. So, we will not be able to give revenue guidance but what we can definitely I can share with you that FY20 we did on our Indian operations a revenue of about close to Rs. 1,500 crores. Due to various constraints it had dropped down to about Rs. 1,100 crores in FY21. So, barring I think the COVID situation which has impacted the first quarter, as I mentioned before our target would be to at least regain levels that we achieved in the past.

Moderator: Thank you. The next question is from the line of Arvind Joshi from Bateleur Advisors. Please go ahead.

Arvind Joshi: I just had one broad question on our shipbuilding industry. What is our strategy in this? Are we largely reactive in this or we are having a strategy to get orders and all that? Normally, if some order comes up, we have the capability and hence we build it or we have a proper strategy to go out and find the market and explore possibilities, go to different clients and I just wanted to get an insight and some feel into how our shipbuilding industry operates and what is the competitive positioning and how do you see this evolving over a period of time?

Umesh Chowdhary: Firstly, do not think that the market is any of the products that we are participating or we are present in is a product where we can be reactive. We have to be proactive based on our strategy. Orders in such cases where it is more tender oriented, do not come by way of a trickle down. So we have a very clear strategy. We have a very clear strategy also for our shipbuilding venture, which is effectively we do not want to be in the commodity shipbuilding industry, we only want to be in the specialized shipbuilding industry. So, we are participating in tenders selectively for Navy, for Ocean Research, and some other specialized or specific tenders.

Shipbuilding is an industry which has a long working capital cycle. So we are very careful while selecting the tenders that we participate. That is one of the key focus that we keep on how intensive is going to be the working capital cycle. Learning from the peers who have been or who are in the shipbuilding industry. So, to answer your question, yes, we definitely have a strategy and we are definitely not reactive. I would say we are very proactive, but we are very selective on the kind of vessels or the tenders that we would like to participate.

Arvind Joshi: Could you just stretch a little bit on the kind of competitive advantages we possessed based on designing abilities or location or low cost sourcing of certain specific inputs or something like that? How do we position ourselves and what enables us to bag orders and stay profitable in this slightly competitive area?

Umesh Chowdhary: The most important is our track record of having delivered vessels to the Indian Navy, to the Ocean Research. We have been able to manage our projects very well. We are definitely cost competitive and our positioning is not to go for very large vessels. So our facility is catered to do specialized vessels. We do not get into the large cargo vessels at all. And we do not have any kind of backward integration USP, but our USP definitely is fungibility of our basic infrastructure that we have in Titagarh. And we have a very good design setup for sure.

I think that is another area on when we speak about design I am sorry, I missed out. I think it was important that I highlight it. During this year, we also took a big step forward in terms of setting up our Design Center in Hyderabad, which is primarily for our passenger and transit and propulsion business,. We have set up 100 people Design Center, so that we can while we have our design expertise available in Italy, this is our initiative towards achieving self reliance or Atmanirbharta for both designing and manufacturing for these trains in India.

This is coming up very well. We already have about 35 odd people in the design center who come with very large experiences. We have the best of designing infrastructure in terms of software, hardware and everything. And we are planning to grow this. So one of the key focuses that we have in the company is from being just manufacturers we are moving towards being investing a lot in the designing capability.

Arvind Joshi: And just to understand considering the new government lists on negative list of imports for defense production, all that and considering the special domain expertise that we have managed to generate, what kind of addressable opportunity or addressable market that exists in the Indian context and maybe in our range of neighbors, South Asia somewhere, we could get similar products? Defense and shipbuilding combined, what could be the rough addressable market, and what kind of conversions we can achieve in this over say not immediately, but next two, three years probably?

Umesh Chowdhary: So, in terms of the defense business, we do not have a large order pipeline as of now, but there is negative list and the opportunities that are coming up on the defense segment have been more recent, we need to see what kind of translates and what goes to the Defense PSUs. So, it would be premature for us to quantify this at this point of time, but we are keeping our eyes and ears opened. We are present in all the opportunities as they keep on coming up. And we will see how this develops over the next two to three quarters.

Arvind Joshi: But this is a strategic focus area for us now, Defense and Shipbuilding?

Umesh Chowdhary: Definitely all the businesses that we are in, we are present in and we have kind of segregated as you could see also in the divisional reporting the segmental reporting the key focus areas of our business are very clearly earmarked. And all these areas which have been reported are our strategic key focus areas.

Arvind Joshi: And you believe tailwinds would improve for this sector over the next two to three years looking at the government policies, and overall, the kind of experience learning curve we have gone through, we will be in a better position to exploit the emerging tailwinds in shipbuilding and Defense?

Umesh Chowdhary: Definitely, I mean, the reason why we moved out of some of the like HEMM, etc., tractors we decided to move out of, because we felt that they were not strategic in our growth plans. And there was we wanted to focus on a few key business areas. For example, in the Defense now we have developing or we are supplying specialized shelters for the army requirement. So, all these areas, which we are in the four key areas where what we have shown in our segmental results are our key strategic areas. All of which we believe, either already have, or are going to have a potential upside for our company.

Moderator: Thank you. The next question is from the line of Venkata Subramaniam Raman from Organic Capital. Please go ahead.

Venkata Subramaniam R: On the Italian operations, it has been a while since we actually took full control. And we still have subscale kind of margins. And given your commentary about how advanced our facility is etcetera, what kind of margins will make you happy and what will disappoint you, which is question one? And two, we acquired some assets, both strategically and also because there was an opportunity there. And given what we faced in France, what are we in our learnings and are we fully provided for?

Umesh Chowdhary: So just to answer your questions, one after the other, as far as the first one is concerned, what kind of margins would keep us happy, and in that, I do not think has any bounds, of course higher than the margins that we can get would happen, we will be happier. But realistically speaking on a serious note, we would believe that in the industry that we are over there, 7%, 8% EBITDA margin is what we can expect to achieve. Yes, we have acquired that company about five years ago but out of which one-and-a-half years have actually gotten washed off an account of COVID.

If you see the numbers quarter-after-quarter, December 2019 just before Covid hit, we were actually starting to turnaround. We were starting to deliver positive EBITDA numbers for two, three quarters' losses at shop and the losses primarily that had been incurred over there were on account of legacy contracts that we acquired along with the company which we knew that there have been legacy contracts. But the scale of that some of these contracts which were almost one-and-a-half decades old, was probably much higher than what we had anticipated. In terms of learnings, the first learning is that in a high cost economy we need to have a technology based industry. So passenger train is a high technology, much higher technology industry than a freight wagon. And that I think is the single most differentiating factor between Italy and France. It is as you acknowledge a very comprehensive and modern facility I would say it is high technology. It has manufactured the Italian high speed systems in consortium with now Hitachi and Bombardier. So, the available technology with our Italian subsidiaries there, the facilities there, it is a question of scaling up volume and having sufficient working capital sets are available. We believe that this year we should be able to turnaround.

Venkata Subramaniam R: Sir, the constraints that you kind of referred to which is working capital and execution, you think is falling into place already or definitely for this year, and also given some of the design etcetera can probably be done out of Hyderabad, which you are setting up now, will it kind of help costs a lot better, and therefore do you think (a) margins will improve and (b) if scales also improved, do you think we can actually get to the kind of margins that you dream of?

Umesh Chowdhary: Absolutely, these are parts of the strategy. I mean, one is to target the margins that we spoke about, but then the other is to travel that route and to be able to achieve that. All these things that we are doing of setting up the design center here or to try and support manufacturing from the Indian manufacturing center, these will actually be a part of the journey to achieve that destination.

Venkata Subramaniam R: And you think it sooner than later, Umesh Ji, I mean do you think it will happen in the next three, four quarters?

Umesh Chowdhary: Definitely this year we are targeting and we are hopeful that we should be able to deliver positive at least definitely on the EBITDA levels.

Venkata Subramaniam R: And lastly, on the ABB partnership, what kind of addressable market and what kind of revenue can we possibly achieve? What kind of contribution can happen from there?

Umesh Chowdhary: I would not like to give the numbers of the contribution or the margins. Can I just give you the business potential. The ABB collaboration is for the EMU and MEMU propulsion and trade propulsion. So, this is required for all the rolling stock that is manufactured in India by the Railways or for the Railways. So, this is a very niche segment and this is also strategic for us, because in Italy for the trains that we manufacture, we manufacture our own propulsion. The target going forward for India is for the trains that we manufacture. We are going to manufacture in maybe next 2, 3, 4 years.

We should be able to backward integrate to manufacturing our own propulsion and this is a step towards that. So, apart from having a good market potential for the propulsion that we are doing for the EMUs and MEMUs, this is also very strategic for our train production business.

Venkata Subramaniam R: Do we need to bid for this separately or our bids will going forward will be actually a fully fitted out offering?

Umesh Chowdhary: It was so when we supply only the propulsion we have to bid for it separately, but when we bid for a train with our own propulsion, then it is fully fitted one.

Moderator: Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: What will be the CAPEX in standalone in Italy for FY22?

Umesh Chowdhary: CAPEX that we have incurred or you are asking about what is the expected?

Bhavin Chheda: Sir, both. One is FY21 what you have incurred and FY 22 plans?

Umesh Chowdhary: For between FY21 and FY22, in India we would have a total CAPEX of about Rs. 100 crores, which we are doing from our internal generations primarily. In Italy, the total CAPEX that we have planned will depend upon the new order inflow. We do not require major CAPEX over there. But a part of the CAPEX is also the new design developments that we will have to incur based on the new platforms we take up when we get new orders. So I would say on a ballpark on an average basis. a facility like that would require about €3 million to €5 million of CAPEX. But any additional substantive CAPEX will be dependent on the new order pipeline that we seen in the market.

Bhavin Chheda: Sorry, India you said Rs. 200 crores over FY21 and FY22, right?

Umesh Chowdhary: No, Rs. 100 crores.

Bhavin Chheda: Rs. 100 crores over FY21 and FY22 and this would be mainly for what?

Umesh Chowdhary: This is upgrading our existing facility as I mentioned that one of the strategy is to go to the international market. So, we are applying for Irish Certifications and so on and so forth and also for the transit and propulsion. So, we are setting up the state of the art propulsion manufacturing facility the one that we signed the agreement with ABB. So this is all included in that.

Bhavin Chheda: And if I see the standard on numbers, though your debt number is very low the interest cost number is very high. It was Rs. 55 crores in a year or last quarter also Rs. 11 crores so the debt is Rs. 100 crores. So are the LC and bank charges which lead to such high interest cost and what it would be going forward?

Umesh Chowdhary: So, there are a number of things. Number one is as you said LC and bank charges are of course. But also the debt reduction took place in the later part of the year. So, that is the first part. The second is also there are certain customer advances where according to the accounting standard we have to factor in the interest costs.

Bhavin Chheda: What is the customer advances outstanding in standalone? That is why I was coming to that number also. It was close to Rs. 65 crores earlier and in consolidate also there is a customer advance number. So, if you can share that two numbers?

Umesh Chowdhary: So in the customer advances there is a mixture of progressive payment that we received because many of the contracts particularly in the train business, both in India and in Europe are on percentage of completion. As I had mentioned in my answer against one of the questions a few minutes ago, some of the contracts have progressive payments. So, I will not be able to quantify the exact advances because each contract is different in their advances. But the numbers of course will be the detailed numbers whatever are disclosable as per the accounting standards will be there in the financial statements.

Bhavin Chheda: Anil, if you have the outstanding number because I think I have some other current liabilities number of Rs. 287 crores so that will include Rs. 120 crores of customer advances?

Anil Agarwal: That includes the customer advance. The exact number I will tell you maybe once the complete financials are out from there you can get that particular number.

Bhavin Chheda: So it will be upwards of Rs. 100 crores, right?

Umesh Chowdhary: Approximately, yes.

Bhavin Chheda: And even Italy would have the customer advance so consolidate number should also have a higher number, right?

Umesh Chowdhary: The Italy would not only have even India would not only have customer advances, but it is also included in that would be the stage payments, as I said progress payments.

Moderator: Thank you. The next question is from the line of Sreeram Ramdas from Green Portfolio. Please go ahead.

Sreeram Ramdas: This is a follow up to the previous answer you provided. You said that the Italian operation is one of the most vertically integrated Metro facilities. And hence I am thinking and you also mentioned that the industry margins are somewhere around 7% to 8%, correct? So will it be fair to assume that because you are vertically integrated your margins can maybe above by 300 basis points to 10%. Is it fair to assume?

Umesh Chowdhary: No, because we made ourselves as vertically integrated we are comparing ourselves to vertically integrated plants only. Whether they are Alstoms of the world or etcetera, they are also equally vertically integrated in terms of the scope of integration.

Sreeram Ramdas: Okay, and these big players like BHEL or Servo they are also vertically integrated entities, correct?

Umesh Chowdhary: BHEL is not into rolling stock, they are only doing some locomotives for the Indian Railways and they are doing propulsion. Propulsion is a standalone business that we have started which is basically the agreement that we signed.

Moderator: Thank you. The next question is from the line of Ankur Chadha, an individual investor. Please go ahead.

Ankur Chadha: I have this question on the Italian operations. There was a report by India Rating Credit Agency, which mentioned there was a cash infusion of about €3 million into this TFA. Can you please throw some light on that?

Umesh Chowdhary: Sure. Post COVID there were certain cash requirements that were there and also as a part of getting the Italian gate support. There was a necessity for some equity infusion, and that infusion was done by way of the holding company using equity into Titagarh Firema.

Ankur Chadha: So, this cash infusion was through the parent Titagarh Wagons or was it in promoters' personal capacity?

Umesh Chowdhary: No, this was not from the parent Titagarh Wagons, this was promoted by the promoters.

Ankur Chadha: So, please can you explain the rationale for that?

Umesh Chowdhary: Titagarh Wagons had the board and the lenders had advised that considering the requirement of the cash in Titagarh Wagons, Titagarh Wagons should not be taking further cash exposure and therefore, we had decided not to put further cash from Titagarh Wagons.

Ankur Chadha: And this infusion was by means of optionally convertible debentures, right?

Umesh Chowdhary: That is right.

Ankur Chadha: So, the intention would be for promoters to convert these debentures into equity of Titagarh Firema at a later stage?

Umesh Chowdhary: As you said, it is an optionally convertible debenture, so I will not be able to comment what would be the final decision going forward, but as of now, it has been invested as an OFCD.

Ankur Chadha: So that would imply that at some point later, there is a possibility that the Italian operation might not be 100% subsidiary, and would have promoters' stake holding separately?

Umesh Chowdhary: It is an OFCD so definitely, I mean, as you said that the option is always there. As of now, I would only say that it is OFCD, which was supported by the promoters because CWL was not able to support this amount, which was essential for the Titagarh Firema.

Ankur Chadha: So this was just about €3 million, about Rs. 20 crores so Titagarh Wagons could not support this Rs. 20 crores, you are saying?

Umesh Chowdhary: That is right.

Ankur Chadha: I mean it sounds like a very small number, so I mean, Rs. 20 crores how come?

Umesh Chowdhary: As I had mentioned there was an embargo from the board and from the lender. It mentioned also in our public filing that about Rs. 27 crores I would say, was supported by the promoters as Titagarh Wagons had an embargo for putting in.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to the management for closing comments.

Umesh Chowdhary: Thank you very much everybody for participating and asking very relevant questions. I hope I have been able to answer them. But if there are any answers, or any questions unanswered, we would be happy to take them. Our Investor Relations Department or our CFO or myself are available at any point of time to answer any questions that might be there and we request you to kindly email that.

We believe that the company in all the four sectors that we are present in are promising sectors. We are trying to make ourselves in terms of technology, in terms of capacity and in terms of capability. We are trying to upgrade ourselves to be world class in these sectors. And we would continue to request for your support and we hope to be able to deliver better numbers going forward as well. Thank you.

Moderator: Thank you. On behalf of ICICI Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

Notes:
1. This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings
2. Figures have been rounded off for convenience and ease of reference
3.