TEXMACO RAIL & ENGINEERING LTD.

"Texmaco Rail & Engineering Limited Q2 FY'23 Earnings Conference Call"

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TEXMACO RAIL & ENGINEERING LTD.

MANAGEMENT:	**MR. INDRAJIT MOOKERJEE – EXECUTIVE VICE CHAIRMAN** **MR. A. K. VIJAY – EXECUTIVE DIRECTOR** **MR. HEMANT BHUWANIA – VICE PRESIDENT (CORPORATE FINANCE)** **MR. RAVI VARMA – VICE PRESIDENT (CORPORATE AFFAIRS) & COMPANY SECRETARY**
MODERATOR:	**MR. NAVIN AGARWAL – HEAD INSTITUTIONAL EQUITIES, SKP SECURITIES LIMITED.**

Moderator: Good day ladies and gentlemen. Welcome to the Texmaco Rail's Q2 FY'23 Earnings Conference Call.

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 Management's opening remarks. 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. Navin Agarwal - Head Institutional Equities at SKP Securities Limited. Thank you. And over to you, Sir!

Navin Agarwal: Good afternoon ladies and gentlemen. It's my pleasure to welcome you to this earnings conference calls on behalf of Texmaco Rail and SKP Securities. We have with us Mr. Indrajit Mookerjee - Executive Vice Chairman along with his colleagues, Mr. A.K. Vijay - Executive Director; Mr. Hemant Bhuwania – VP (Corporate Finance); and Mr. Ravi Varma – VP (Corporate Affairs) and Company Secretary.

We will have the opening remarks from Mr. Mookerjee followed by a Q&A session. Thank you, and over to you sir.

Indrajit Mookerjee: Good afternoon to all of you. And at the very outset, let me congratulate you for your patience and being present for this call. I also apologize for the delay, which happened because of technical reasons from the communication side.

I also would like to wish you all the best, because we are talking after the period of celebrations in India, which includes both Durga Puja as well as Diwali, so my warm greetings to all of you.

Just to give a little bit of overview of what's happening, you all are aware that the sector once again has come back to a very promising one, with orders already been awarded from Indian Railways to the wagon manufacturers. Also, there are lots of demands from the private customers, including exports.

There seems to be a worldwide shortage, but there seems to be also many challenges because in order to gear up to higher volume, it requires lots of other inputs like components and people, etc. which take time to gear up. So, while it's a good problem to have, it also has its own challenges.

As far as Texmaco is concerned, I am happy to say that it took almost a quarter and few months to really overcome the initial challenges of availability of key materials, key components, etc. But at the same time, we see that apart from the wagons, as we call ourselves, we are a real solution provider. So, all the other connected areas or affiliated areas also are showing good signs of recovery.

So, our current focus is very much on to keep your focus into our production, improve the productivity, quality, efficiency, and debottleneck in our existing two plants, to the highest possible level, to meet the demand. The demands are pretty high. And our productions are ramping up. In fact, the run rates are pretty up now. And we hope to achieve much more. I don't think we are there where we want to be. But I think I am very hopeful that by next month, we should be in an optimum position on a maximized position on our production of wagons.

As wagon production goes up, it also puts lots of pressure on to foundry, because most of the key components come from our own foundry, and there also we are very highly focused to improve efficiencies and productivity.

So, having said this, I think it's the time to talk about some specific covers and to see what we are doing. We are just in the path of recovery. I think it is the beginning of good run. So, we can't expect anything to come in one month. But I think we see a bright future.

And I would request my colleague, Mr. Vijay – our Executive Director (Finance) to explain to you the numbers in a nutshell.

A.K. Vijay: Thank you, sir. I must say you have summed it up so well, in such brief, covering the entire gamut of the operations also, and also how the outlook and other things are there.

In briefly, I would like to just share with the shareholders that the company, as explained by Mr. Mookerjee is now turning the corner, which is very vital and important. And as Mr. Mookerjee pointed out, we are no more only a wagon company it is basically a rail solution provider. And fortunately for us, in all segments of railway, there is a robust demand coming both from rail segment and also from non-rail segment, which is a very good thing to happen, and we have been talking about this for quite some time.

And all the vision documents of Government of India these we are focused upon, but somehow it was not acted upon by the government. This is the first time we are noticing that 'yes' the government is 'walking the talk' and also ensuring this thing that whatever is required to be done for this segment should be done, not only expeditiously, but if possible within a very short span of time.

Now with this, basically, I would like to clarify for academic purpose, the gross revenue of the company for Quarter 2 is Rs. 497 crores as compared to Rs. 379 crores in the corresponding quarter of the previous year and Rs. 305 crores in the previous quarter of Quarter 1.

The EBITDA and net Profit after Tax for the quarter are Rs. 55.21 crore and Rs. 13.51 crore respectively, as against Rs. 44.04 crores and Rs. 5.85 crore respectively of the corresponding quarter, and negative of Rs. 3.62 crores and negative that is the loss of Rs. 22.53 crores in the Quarter 1.

The gross revenue for the half-year ended September is Rs. 802 crores compared to Rs. 716 crores in the corresponding quarter of the previous year. The EBITDA and Net Profit Loss after tax for the quarter are Rs. 51.59 crore and negative Rs. (-8.99) crore against Rs. 85.61 crore and Rs. 10.5 crore respectively, in the H1 of the previous year.

These are the basic, the financial numbers which are there in front of you, and certainly you can take cognizance of that. Accordingly, we will also like to inform along with this that yes, we are getting a very robust demand scenario whereby we are not only getting orders from the railway, which one of the largest order we received, also getting a large number of orders from the private segment or non-rail segment.

And also now, to our delight, we are getting a lot of export inquiries also, which is a very heartening thing, and we are gearing ourselves, to make sure that we reach to a level of production whereby we can meet all the requirements which are coming our way, and encash upon the opportunity, which is being thrown open, in the present booming rail segment.

Total order book as on date is close to Rs. 9,300 crores, and basically, post-approval of the prototype that was sometime in the end of July, we started the production activities from August, whereby initially 10, 15 days were required for the purpose of built up of the WIP. And thereafter we are going full swing. We already reached a level of close to 300 wagons a month. And we expect to reach much higher levels in the coming month as was explained by Mr. Mookerjee that our aim is to go much higher, and we are working towards that direction.

Our other division like Steel Foundries also has to gear up, and we are accordingly gearing it up. And we basically had a lot of inventory because the previous months suction was not there from wagon plant, for the reason that wagons were under prototype approvals. Since that happened, now we are gearing up the foundry production, and hope to expand the foundry production also substantially in line with the requirement for my wagon division.

Similarly, my other division including Rail EPC, they are seeing now the traction. Recently we are L1 in an order for Rs. 252 crores, which is basically for the ballast less track for Metro, Indore Metro. And that's how basically we explained earlier also, the aim obviously now to go for a smaller duration contracts and also contracts where we are not stuck because of activities relating to land, civil or governmental actions. Fortunately, these things are not there in the Metro segment, they are primarily and basically existing only in the rail track segment. And that is how the company is now focusing not on the rail track segment, but on the ballast less track, signaling and other allied area where the core strength of the company is there.

With these statements, I submit it to the Investors to have proper evaluation of the company's performance, and in case they have some queries and questions, we are open to answer that. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. First question is from the line of Shambhu Rathod from Aamara Capital. Please go ahead.

Shambhu Rathod: Yeah, I wanted to know the status of the Kalindee Rail. So, is it profitable now?

A.K. Vijay: I would like to answer you in affirmative. In the previous quarter Kalindee is on positive side.

Shambhu Rathod: So, not the Rail EPC, only the Kalindee segment.

A.K. Vijay: Yeah, in Rail EPC we have two divisions, one is Kalindee and other one is Bright Power. Bright Power all along has been very positive. And that business is always growing fast. As far as Kalindee is concerned, we had certain setbacks, and that's the reason why we have not earned money during the few previous quarters, but this quarter, we are on positive side.

Moderator: Thank you. The next question is from the line of Kaustav Bubna from BMSPL Capital. Please go ahead.

Kaustav Bubna: So, I had a few questions. Firstly, you have hired a new professional. So, could you just speak a little bit about his qualifications?

And very honestly wanted to ask how much role does the professional play in terms of decision making versus the core promoters? Could you speak a little bit about the culture of the company as to how much power would the promoters give the professional to run the company and make decision?

And then the second question is, could you state your current Rail EPC order book, and just some ambitions and internal targets on where you would like to take that order book given the opportunities India is seeing in the railway space right now. We don't have, we haven't captured any of that growth in our Rail EPC order book, right now. I understand, we have got one small order recently, but obviously internally, our ambitions must be much higher. So, could you speak a little bit about some internal targets on where you would like to take this order book?

A.K. Vijay: Yeah, I would like to answer the second question first, regarding your Rail EPC order book, and where you would like to take it. Now, the present situation of Rail EPC order book is about Rs. 1,325 crores. Now, as far as the question that where you would like to see it over there, we explained in the last Investor conference also and even in this conference I mentioned briefly, our focus is only in areas where our 1) our core strength is there. 2) where we are relatively certain, that the project will not be delayed beyond a limit, because we have seen in past that projects relating to the track work laying and all, they normally get delayed beyond limits and ultimately the companies have to lodge a large claim on the customer and the settlement in Indian condition takes really very long. And by the time the settlement actually comes in force, that company always face a cash crunch and liquidity crisis. So, we have decided consciously that 'yes' our focus will remain in the core strength which is signaling, ballast less track, rail electric overhead and also the auto fare collection systems.

So, these are the things where the financials remain under control, the projects are done expeditiously. And we actually come in play much later than when the civil work and other related work on the ground is completed. So, that's how basically we are focused. We are moving very cautiously, we are only booking those orders, which are basically 1) profitable, 2) which can be completed within a reasonable time span and 3) which basically relate to the core strength which we have.

We are also now exploring possibilities to get into the export market, albeit in a very small way, but Africa is a market where lot of options are available to us, and that is what we are exploring. And we are very hopeful before the year ends, we will be able to book some orders for exports from African continent. So, this is how the company's focus for Rail EPC will remain.

As far as the target for order book and all concern, we will be going cautious but then I can assure you, our target is to at least maintain the level of turnover which we have been achieving over the year which is Rs. 500 crores to Rs. 600 crores. And that is going forward, order book also commensurate to meet this our achievements requirement.

Indrajit Mookerjee: Yes, the question number one, if I have got it correctly, is about the, how professional the organization is, now I have to say that our organization has always been very professional. And it's always been run by professional managers. If you look at the organization, it's hardly there is any, the promoters, which are majority shareholders, are always hands-off from the operations of the company, unless it's at the strategic level. But at the operating level, I think they are totally hands-off. And all our company is run highly professionally. We have professional managers. We have professional managing directors, in fact, all of us, including me and Mr. Vijay and all Hemant and everyone present there, all of us are professionals. And we try to bring in whatever best we can do in the organization.

So, I don't know whether I have answered, addressed all the concerns and all the points which was raised, but I can only tell you that we are a very professional company. We are also trying to bring in fresh blood, but in places where it's required so as to modernize ourselves, renew ourselves as much as possible with the experience and also the competencies of people from outside. So, we are constantly looking at where the gaps are and we are trying to fill that in.

In addition to that, we have a very robust performance appraisal as well as personal development program. So, under which the high potential candidates are being seen, and we see their future path, successions. So, these are all the part of the exercise which is ongoing.

Kaustav Bubna: I just like to end by saying that as you know your industry space, and I hope this eventually converts into -- your P&L which has not been able to be seen until now, but I hope that we can see the industry opportunity, in your P&L eventually. Thank you.

Indrajit Mookerjee: Yes, I thank you very much for your good wishes. And I think we have aligned thoughts and our actions are in that direction.

Moderator: Thank you. Our next question is from the line of Nalin Jain from NVS Wealth Managers. Please go ahead.

Nalin Shah: Now, my questions are two very simple questions 1) You mentioned about that, both the plants were in the process of debottlenecking and trying to take the maximum out of it. So, just want to ask what is the, at the full level of 100% capacity utilization level, what is the maximum top-line which can be generated by the company because of these two plants without having fresh CAPEX?

2) You had I think order book of around Rs. 9,300 crore or so. This will be implementable over what period of time? These two questions if you can just throw some light, it will be very good.

A.K. Vijay: Now the full level of production basically for our plant size and all these things, depending upon what the batch mix of production is there, what types of wagons we have been producing, what kind of orders we are booking, we always have to step it up from the present level to the level of 8000 to 9000 wagons. In fact, the capacity which we have excess capacity value so, is in excess of 7800 numbers. So, that's the capacity of our plant in respect of the wagons.

Similarly, my other plant, which is foundry, the capacity is 42,000 tonnes per annum. So, these are the capacities and given the opportunity to us, which is we are getting tested for first time, our efforts of the management is all the way to reach closer to those levels, because now we the have opportunity to scale up the production to those levels.

Of course, there at times are bottlenecks like for wagon production, availability of wheel sets always remains a challenge. And if there is a break in production, naturally it effects our utilization of capacity. Similarly, in the foundry area also, there are specific bottlenecks which we face in case we have to produce different, various types of castings, because we are also doing a large number of export casting business. So, that mix must be changed, the batch mix and all these things, the production is bound to get a little down at that point of time.

But of course, we can pick it up. So, we are pretty hopeful that the capacity of the company which is there already recorded in system, we are closer to achieving that now since we have the full run of this thing.

The second question which you asked is Rs. 9,300 crores order book, what is the timeline. The railway order book basically is 39 months, and accordingly we target to achieve within that period. So, it is three years, three months, and that is what the target line we have for achieving this order book.

Nalin Shah: So, I just want to extend the question that what is the value of the top-line from the two plants which we can generate as you explained to me about the physical production, in terms of value, what will be it? And 39 months you count from when?

A.K. Vijay: 39 months we count from the date of the order, which was in the month of May 2022. So, accordingly, it goes up to next three years. This is this year and then further two, two and a half years, that's how the order book is basically for.

And the second question, top line the average price for the wagon if you see what is prevailing today in the market, on today basis it's 35 lakhs on an average. And accordingly, the capacity explained to you, so the top-line relates to the whole wagons, the top-line multiplied by the capacity. And for the foundry it is 40,000 tonnes capacity. So, the average realization price for a foundry product, without the components, is in excess of Rs. 150,000 and the component can be closer to Rs. 200,000. So, accordingly the number of foundry can be. So, basically the capacity wise we can certainly achieve that, but then achieving 100% capacity, I explained to you what are the issues which need to be addressed to and which is attended by the management.

Moderator: Thank you. Our next question is from the line of Dhaval Sheth from Dhaval Sheth Financials. Please go ahead.

Dhaval Sheth: Yes, a couple of questions. One is the inclusion of Rakesh Tripathi as a Director. So, what will be the role of him going forward?

And any updates regarding 6500 wagons of Indian Railway? And what is the work in process, how much wagons we have produced till date?

And the third one is, clarity for the future business and the revenue guideline?

A.K. Vijay: I will cover the point number second first. The number of wagons produced in the 1st Quarter was nearly 120 numbers. The reason being this thing that we didn't have any orders from the railways and whatever order from private were there, we have never been able to get the wheel sets from Rail Wheel Factory which we are giving priority only for railway orders and not for any private orders. So, that was a big suffering which we had in the 1st Quarter.

Second quarter once we had our proto approved in the month of July, we started the production from the month of August only. And from roughly about from mid of August, we were getting into the full saddle. So, accordingly in the 2nd Quarter we produced about 477 number of wagons. This is what we have been able to produce during the first half of the year.

As far as your next question is concerned regarding what is the top-line and all, I think I have already answered, when I was replying to the question of Mr. Shah, that how the order book is today and what is the execution plan for that? And what is the timeline for it?

Indrajit Mookerjee: Now Mr. Tripathi is joining as a Managing Director of the Company. So, the entire company's operations, including profitability and all other aspects which are required to be managed and governed will be under the leadership of Mr. Tripathi. So, he is going to be the Managing Director of the Company. Is there any other clarification on that that's required, I will be most happy to give it.

Moderator: Thank you. We have the next question from the line of Balasubramanian from Arihant Capital Markets. Please go ahead.

Balasubramanian: The order book mentioned around Rs. 9,300 crore, could you please give the breakup for that in terms of Heavy Engineering, Steel Foundry and Bright Water division?

On last call you have mentioned this wheel sets are expected to come from November onwards so what is the status right now from China? These are the two questions.

A.K. Vijay: You wanted to know the order book position. I had mentioned about Rs. 9,300 crore, it compresses like Rs. 7,500 for Heavy Engineering division; Steel Foundry division is Rs. 260 crores. Of course, the order book of steel foundry will further swell, once the supply for the wagon start making, because this wagon includes a large number of order for the steel foundry division. As far as the Rail EPC division is concerned, I earlier also mentioned our order book is Rs. 1,325 crore. And others are roughly about Rs. 200 crores. So, this is how the complete order book of Rs. 9,300 crore comprises of.

The wheel set import we mentioned last time that yes November, November it is not coming because of some China problem of COVID. And also, that as a result of the shutdown because of the COVID impact, the inspection and all were put on hold. Finally, it has now been done. And we are glad to share with the people that yes, the first consignment has left the factory, to the port for shipment to India. So, now we expect that it will come in sometime in the month of December only, but not in November. But yes, now the pipeline has started. And from December onwards we will be getting a regular consignment from import from China. And which will be used primarily for our private wagon production, for which we have a sizable bulk order.

Balasubramanian: I have one more question. Is there any changes in guidance for delivering in wagons 3300 wagons in the next six months, and 6600 wagons in the next financial year, is there any changes or you are continuing the same guidance?

A.K. Vijay: There is no change, we are targeting to see what we have advised you and we are working towards that direction. Barring certain untoward situation or some critical, your political situation all these things, we think that we will remain on track.

Balasubramanian: Could you please throw some light on CAPEX part. So, what kind of plan --?

A.K. Vijay: We are very conservative as far as the CAPEX plan is concerned. Our target was to invest in excess of Rs. 100 crore to augment the balancing capacity, and also improve on the production capacity. But right now, our endeavor is, invest only in the balancing equipment. So, that we have that first opportunity to test our existing infrastructure and asset and allow them to set to full, and thereafter then invest on the further major expansion and all this thing. So, we are following this principle and going accordingly. Roughly our estimation is the thing that yes, we should be in a position to control the expenditure on capital account, to something around Rs. 50 crore to Rs. 70 crore in this financial year.

Moderator: Thank you. Our next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: For this year's target of 3300 odd wagons since we have just done around 600 odd wagons in the first half, so we are targeting around 2500 to 2700 wagons for the remaining six months.

Second is on the debt side. So, what are our plans in terms of debt reduction or interest cost reduction or any other plans on reduction of the debt that we are planning to pursue because we have a relatively high debt on the balance sheet.

And my last question is, this quarter, so if we do the math, out of around Rs. 240 odd crores in the Heavy Engineering division around Rs. 160 crore to Rs. 170 crore is through the wagon. So, if you can explain the split of the remaining revenue in the Heavy Engineering division, and how much of Foundry division revenues is accounted in the Heavy Engineering division.

A.K. Vijay: One, that you asked that, are we targeting -- 2500 number of wagons in the ruminant part of the year that is a Quarter 3 and Quarter 4. I explained in my opening remarks also that post approval of the prototype we have geared up the production lines. And we have been able to achieve close to 300 number of wagons in the month of September. Going forward, we will be only improving on this. So, even by that standard of what we have achieved in the month of September, which is 300 numbers, you can always understand that it is a numbers are anyways this is the within that range only. And since we are going forward, we are going to improve on the production and as Mr. Mookerjee also explained in his opening remark, the steps taken by us as company to allow company to produce much at a greater production levels by improving the efficiency and also the management structure. So, all these things are certainly going to contribute in a significant way and in a positive manner. So, accordingly achieving closer to 3300, which we are indicating about this thing, is certainly feasible. Of course, there have been some delay in the initial start of production because of the reason we went into the prototype thing. So, of course, we would have then wanted to be in a better situation than what we are today. But yes, we will be closer to that.

Hemant Bhuwania: So, working capital debt if you see our balance sheet as on September we have a debt of around Rs. 660 crores to Rs. 670 crores. I think this will continue to be at the same level, since we are executing this bulk order from railways. In fact, if you go on a realistic, it will move upward only, it will not go down for this bulk order of railways.

And your third question was on interest rate. So, interest rate with the current increase in interest rate across country, we do not see any foresee that interest would come down. Although we are at constant touch with our institutional bankers, and others to bring it down. But I doubt that within this year, unless there is certain radical change by the government, there would be certain reduction in finance cost as well.

A.K. Vijay: I would like to add what my colleague Hemant has just shared with you that although we have a large debt, if you see my debt, the maximum debt is regarding working capital only. The long-term debt in our books is very small, if I am correct, Hemant correct me, it is nearly Rs. 200 crores. So, long-term debt is merely at Rs. 200 crore. So, you can say the company is not highly leveraged as far as the long-term debts are concerned. And there is an opportunity for company also in case company requires for major expansion and all this thing, to look forward, to go for a long-term debt also which will enable the company do this thing.

Policy-wise we are generally relying upon the promoters also, who are basically very generous to support us and have been putting in the money, in the company by way of preferential issue as well as for the right issue. So, the company is fortunate enough to bank upon the promoter group, who are basically bullish on the company and are providing required funds as and when the company needs that. So, that is basically the debt side story is concern.

Hemant Bhuwania: So, from Heavy Engineering we had around Rs. 50 crore of turnover from our hydromechanical and bridges division. And the remaining part what you see is from rolling stock.

A.K. Vijay: And the foundry turnover is there in the results, so foundry if you see, we had a turnover of around Rs. 191 crore in September.

Moderator: Thank you. The next question is from the line of Pranav from Omkara Capital. Please go ahead.

Pranav: Just wanted to understand based on our opening remarks. You were saying that you want to shift your focus around building railway tracks towards signaling and other products. A) Why are you wanting to shift right now from the NPC side of railway tracks to signaling? B) And what is the opportunity size there that you are seeing?

And second is like you said for FY'23 you are targeting 3300 wagon, what is the target for FY'24 and beyond?

A.K. Vijay: What we mentioned is very clear. In fact, rather let me again clarify you. We are not moving from one to other, signaling is the core of this company. The Rail EPC company which we are operating the core business of is signaling. So, that will be more focused now. We are only trying not to get into a long-term track laying projects, which are basically as explained in my statement also, 1) long time taking 2) there are a number of local situation which influences the project completion, including the land acquisition, the bridges construction, the land development. And for one of the litigation, if we are stuck, then our money remains blocked. And invariably, we need to go for lodging claims and then settling claims, which is again a very time consuming process, and it affects my liquidity and cash flow. I don't want to get into a situation whereby my liquidity and cash flow is blocked for long. As you see in the Kalindee balance sheet today, we are heavily blocked on liquidity and cash flow because of these reasons.

Of course, we will be realizing much larger sums of money but then yes, that will take time and by that time, I need liquidity today, and I can't wait for that. So, that's why the focus today is now to getting into smaller kind of contracts in there where the end-to-end is tied up or otherwise our core strength, signaling, ballast less track and auto fare collection, as well as the over electrification.

The future of this segment is also considerable bright for the reason that yes, railway is looking for opportunities to open the maintenance segment also, where we have a good strength. And once it opens up, definitely that is the area where we will be focusing more on this thing, which will be giving us little better liquidity and our turnover rotation will be faster.

Pranav: So, just on the wagon side, like you mentioned for 3300 wagons is what you will produce FY'23. What are the targets for '24 and '25?

A.K. Vijay: I think our requirement is to produce 6600 and we will try to achieve that levels.

Pranav: And just one last question like you said the maintenance side, which is another opportunity that will open up, right, so the maintenance side will be on which segment, I mean, where will the maintenance component, will it only be on the signaling side or will it also be on other segments as well?

A.K. Vijay: It can be possible for other segment also. What I was referring to was basically in respect of the Rail EPC segment, which is signaling or electrification or for that reason even the repairing of the Metro tracks and all. So, all those basically relate to the Rail EPC segment only. But opportunities will be opening up, if they open up in this segment they will be opening up in other segment also.

Moderator: Thank you. The next question is in the line of Anurag Patil from Roha Asset Managers. Please go ahead.

Anurag Patil: In Heavy Engineering division, once our utilization touches optimum level, what kind of EBIT margins we can expect on a conservative basis?

A.K. Vijay: I would refrain from this answer because this is a very forward-looking statement. And I hope you will understand and appreciate my situation in this respect.

Anurag Patil: Just from another perspective, so current margins, can we say further improvement is still possible across all three divisions?

A.K. Vijay: Normally, yes, because the reason this thing that's very standard, if you go for improving your production and all this thing your overhead cost doesn't commensurate to that and automatically it reflects in your bottom-line. So, the answer is affirmative.

Moderator: Thank you. The next question is from the line of Hari Kumar as an Individual Investor. Please go ahead.

Hari Kumar: My question is regarding this other current assets, can you throw some light and detail because nearly if I am not mistaken Rs. 1,000 crores are blocked. And when will they be released?

And second thing is rational for continuing this Rail EPC like in spite of very poor return on capital ROC. And also, there are a large number of new players are entering this field, in the current interest rate scenario is this rational for continuing this segment?

A.K. Vijay: I will start by answering your question number two first, rational for continuing with the Rail EPC business being the large thing also. It's true that a large number of people are coming in all this thing, but your strengths also counts a lot. And fortunately for us, our both Kalindee division and Bright Power division have core strength in signaling and telecommunication and also in the Bright Power on the rail over electrification. So, this core strength certainly is critical for us. And we would like to capitalize to the maximum extent possible in this thing.

As we explained earlier also, we don't want to get involved into very long-term contracts, where I am mainly relating to where certainty is not there, like track laying and all, and that is how basically the structure of the company is being done. Moreover, Rail EPC business is very evolving business. And the kind of focus that the government is presently putting on rail infrastructure, this is a business to be there for next 10 to 15, 20 years. So, this certainly gives us lots of hope. And with this opening of a segment of maintenance, it will open, grandeur opportunities for this segment. So, we would like to remain in the segment and also expand, but of course, our interest is very focused that we do want to get our working capital involved in a very large manner in this business. So, accordingly, we are becoming choosy in acceptance of the order and also in doing of the jobs. So, as far as the second question, this is my answer.

Your first question was, why other current assets, it also relates to my answer to second question, which is basically my major money is in other current assets blocked into the unbilled revenue, which is relating to the Rail EPC business, where I have done the job, but I cannot bill because the milestone cannot be achieved and milestone cannot be achieved for the simple reason of this thing that some other agencies have not completed their task or railway has not been able to provide that particularly area free from all of the encumbrances. So, accordingly, although I have proceeded for certain steps, but then I cannot proceed with the final step. So, that's how basically we are finding, and that is why we have changed our gear to make sure that this start coming down. And in future, our money rotation is much faster, which will also help me in managing my interest burden. So, this is why the reason for this thing.

Apart from that about Rs. 200 crores is in the GST, which is certainly realizable. But since earlier, in the wagon segment the rates were 5%, increased to 12% and now to 18%. So, accordingly, things are changing also, and realization will be much faster. We expect that within a matter of one year or one and a half year, this money will certainly be realized by the company that will also give additional resource for liquidity to the company.

Hari Kumar: This old money will be coming with interest, this legacy business money.

A.K. Vijay: It doesn't come with interest, I have explained that in the case of the Rail EPC business, it is all basically depends on the success of the claims, which we keep lodging with the vendors, but it takes very long time for settlement of those claims.

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

Sarvesh Gupta: My question was on the margins only, so if you can indicate some, the major order that we have received from the railways, what kind of gross margins and EBITDA margins are we expecting from this project?

A.K. Vijay: I think Sarvesh you were there earlier also, and you have already raised certain questions. And some of the other shareholders questions, I have also said that I will refrain from coming across on the margin levels and all this thing since this is a very forward-looking statement, the company as a policy don't want to make. So, I certainly think you have to basically draw your own conclusion based on the results which have been published and provided to you.

Moderator: Thank you. We will take the last question from the line of Balasubramanian from Arihant Capital Markets as a follow up question. Please go ahead.

Balasubramanian: I want to understand about the payment cycle for general as well as specifically for EPC projects. Is there any challenges because of the new budget allocation in railways in this quarter?

A.K. Vijay: To answer your question in one line is that fortunately for us once we achieved the milestones, which are billable milestones, the payments in railway is normally fast, because budget allocation has been done on priority basis for this segment. The challenge remains where basically the payment terms are defined in a manner whereby you realize 70% on completion of the job 1st Stage, then also the 10% will realize on the preliminary acceptance stage, the 10% realize in the final acceptance stage and the 10% realized after completion of certain duration, there is a warranty period. So, that is how the money remains blocked for long until the project is completed. And if a project is not completed within the span of three years, which basically is being allotted to and it goes beyond 5, 6, 7 years, your money remains blocked for that reason.

And that is the biggest hurdle we are facing in the Rail EPC segment, and primarily in the track railway track laying business. And that's the focus of the company's management how to manage it in a manner whereby we are into the business where the money is rotating much faster compared to what in the these kind of businesses are there. So, that's the focus of management we explained in quite detail in our opening statement also, we also explained during question answer session also and management is conscious about it and going forward efforts are there not to allow the other current assets, debtors and inventory to rise beyond certain levels, it will suddenly start coming down which will be providing additional liquidity to the organization.

Balasubramanian: My last question about what kind of ramp up we may expect in Steel Foundry division for next two years?

A.K. Vijay: We have never been allowed to test our capacity that is why we were basically producing very leisurely that whatever is required to produce we are producing, but now that scenario has changed, whereby we are required to produce much more than what today we can produce. So, accordingly we are gearing up and as I mentioned in my statement that yes, we are adding certain balancing equipment, making sure that we are able to achieve and meet the requirement in respect on 1) Wagon and 2) The committed export orders. So, that's how we are going about this thing. And this will certainly give traction and we can see much improved performance from Steel Foundry division in the coming days

Balasubramanian: It would be anywhere 40,000 tonnes per annum.

A.K. Vijay: That's the capacity but then achieve the capacity you understand if I can make one type of production, day in day out, it is achievable, but in practical life, it is not possible. I have to do a lot of combination. So, the combination may certainly make an impact on the production. In normal standard speaking that the target is that if you achieve 80%, you are doing very good.

Balasubramanian: So, 30,000 tonnes in that range.

A.K. Vijay: That's the company's endeavor and the company's effort toward that direction and also that why not we go beyond that also.

Moderator: Thank you. Ladies and gentlemen, that would be our last question for today. I now hand the conference over to Mr. Indrajit Mookerjee for closing remarks. Thank you and over to you.

Indrajit Mookerjee: Thank all the well-wishers as well as the investors for asking very constructive question. I think it has come up very clearly that we have a very sharp cut out strategy for the future. We know the market is very big, and like we discussed EPC many questions came up. But we don't want to go all over the business and spread ourselves like wall-to-wall carpet. We want to be very strategic. We have defined, we have done exercises to find out where our competencies lie, where we have credentials, which others don't have. And we only take those projects where we don't have the problems of getting stuck. This is what I think has been explained by Mr. Vijay.

Similarly, we can always invest, but we would not like to do that we want to do the best resources utilization of our own assets. And that's the reason why we are trying to debottleneck through automation through rationing the reward, improving the quality etc. all the management tool that's available, the lean manufacturing, so as to get the highest number of production out of the wagons. And of course the same is true for foundry.

We need your good wishes, so that the march that we have started, we can take it forward to a different height and heights for which all of us will be happy and we will be rejoicing. So, thank you very much for your interest in the company.

Moderator: Thank you very much. Ladies and gentlemen on behalf of SKP Securities Limited that concludes this conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines. Thank you.