

CMP: INR 795

Rating: ACCUMULATE

Target Price: INR 892

Stock Info

BSE	532966
NSE	TITAGARH
Bloomberg	TWL:IN
Reuters	TITG.NS
Sector	Capital Goods
Face Value (INR)	2
Equity Capital (INR mn)	254
Mkt Cap (INR mn)	95,059
52w H/L (INR)	868 / 148
Avg Yearly Volume (in 000')	1,135.8

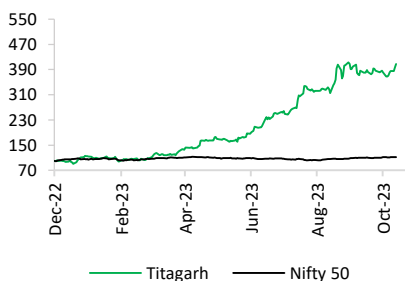
Shareholding Pattern %

(As on Sep, 2023)

Promoters	44.97
DII	10.45
FII	16.85
Public & Others	27.73

Stock Performance (%)	3m	6m	12m
TITAGARH	52.2	178.5	307.3
NIFTY	-0.4	11.4	5.5

Titagarh vs Nifty



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Titagarh Rail Systems Ltd reported strong numbers, Q2FY24 revenue stood at INR 9,355mn (+54.1% YoY/+2.7% QoQ); above our estimates of INR 8,763mn driven by freight rail systems. Gross Profit stood at INR 2,140mn (+59.6% YoY/+7.7% QoQ), above our estimates of INR 1,989mn. Gross margins improved by 79 bps YoY (up by 106 bps QoQ) to 22.9% vs 22.1% in Q2FY23. The margin improvement is mainly because of raw material cost decrease in terms of sales. The raw material cost in terms of sales stood at 77.1% vs 77.9% in Q2FY23. EBITDA stood at INR 1,151mn (+109.1% YoY/+8.5% QoQ); above our estimates of INR 1,025mn. EBITDA margin improved by 324 bps YoY (up by 65 bps QoQ) to 12.3% vs 9.1% in Q2FY23. The reduction in other expenses in terms of sales improved EBITDA margins in Q2FY24. PAT stood at INR 704mn (+115.8% YoY/+14% QoQ); above our estimates of INR 607mn. PAT margin improved by 215 bps YoY (up by 74 bps QoQ) to 7.5% vs 5.4% in Q2FY23.

Key Highlights

Strong order book shows potential business visibility: The order book stood at INR 282.12bn (~7.9x of FY23 TTM revenue) shows potential revenue visibility. The freight rolling stocks order book stood at INR 143.42bn (~51%) and the Passenger Rolling stocks order book stood at INR 138.70bn (~49%). In freight rolling stocks, around 26% of orders are booked from private wagons. Metro order book accounts for ~15% of Passenger rolling stocks order book. In Metros, the company has a delivery schedule for the next 3 to 3.5 years.

Wagon execution remains on track: Freight Rail Systems revenue stood at INR 8,009mn (+69.8% YoY/+7.3% QoQ); EBIT Stood at INR 1,077mn (+114.4% YoY/+10.8% QoQ). EBIT margin improved by 280 bps YoY (up by 42 bps QoQ) to 13.4% vs 10.7% in Q2FY23. The company is currently executing 650-700 wagons per month and focused on 1,000 wagons per month by the end of FY24E.

Passenger Rail Systems execution is expected to ramp up in the middle of FY25E: Passenger Rail Systems revenue stood at INR 1,346mn (+6.7% YoY/-18.3% QoQ); EBIT Stood at INR 36mn (-16.9% YoY/-43.7% QoQ). EBIT margin contracted by 76 bps YoY (down by 121 bps QoQ) to 2.7% vs 3.4% in Q2FY23. Passenger rail systems margins are lower due to lower volumes. The company is targeting 15 cars to 20 cars per month in the middle of FY25E. Passenger Rail System's margins are expected to reach 10% due to an increase in volumes. Further margin improvement is expected based on the backward integration of propulsion systems and components.

Well positioned to take advantage of Vande Bharat Trains and Metros: The company is currently in the process of 80 Vande Bharat train order execution. The government has set a target of 800 Vande Bharat trains by FY30E. The company has a potential opportunity on Vande Bharat trains. Vande Bharat train margins are expected around 10% and services margins are higher. Around 50 metro projects have an opportunity size of INR 500bn. The company has a larger market share in Metros.

Outlook & Valuation: Titagarh Rail Systems has a strong order book (~7.9x of FY23 TTM revenue), Capacity expansion for freight wagons and Passenger coaches, backward integration through traction motors and propulsion systems, well positioned to benefit from freight wagons, Vandhe Bharat Trains, Metros, and global wagon tenders, New orders for Vandhe Bharat Trains and Wheelsets will drive business growth going forward. In Base Case, Revenue is expected to grow at a CAGR of 30.8% over the period of FY23-FY26E, RoE is expected to improve from 14.9% (FY23) to 25.2% in FY26E. The stock is trading at 43.2x of its FY24E EPS. In Base Case Scenario, At the CMP of INR 795 per share, We have an "ACCUMULATE" rating and valued the stock at 25x of its FY26E EPS of INR 35.7, and arrived at a price objective of INR 892, an upside of 12.2%.

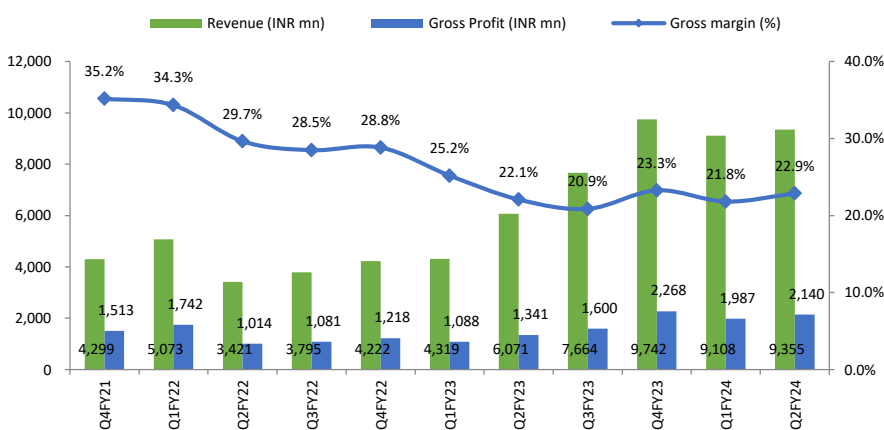
Q2FY24 Results

Income statement summary

Particular (INR Mn)	Q2FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Revenue	6,071	9,108	9,355	54.1%	2.7%
Net Raw Materials	4,730	7,120	7,214	52.5%	1.3%
Employee Cost	130	158	173	32.6%	9.4%
Other Expenses	660	768	816	23.7%	6.3%
EBITDA	551	1,061	1,151	109.1%	8.5%
EBITDA Margin (%)	9.1%	11.7%	12.3%	+324 bps	+65 bps
Depreciation	53	66	67		
Interest expense	199	191	203		
Other income	162.2	38.9	67.7		
Share of profits associate & JV	(17)	-	(5)		
Profit before tax	444	843	944		
Taxes	118	225	240		
Minorities and other	-	-	-		
PAT	326	618	704	115.8%	14.0%
PAT Margin (%)	5.4%	6.8%	7.5%	+215 bps	+74 bps
EPS (INR)	2.7	5.2	5.5		

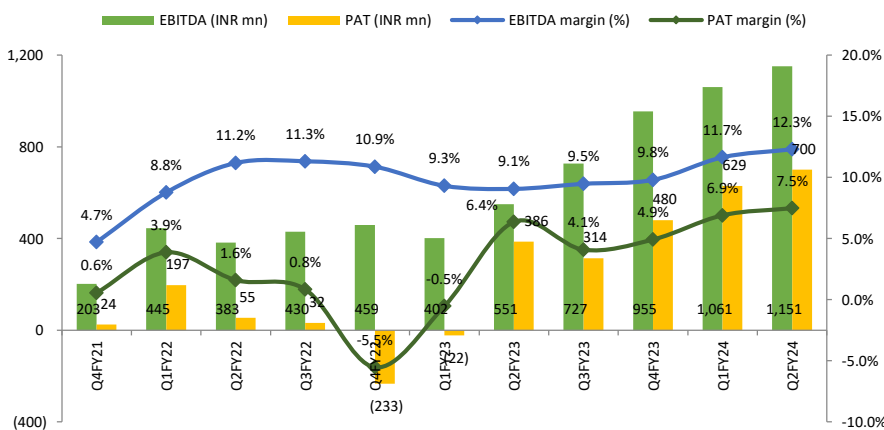
Source: Company Reports, Aриhant Capital Research

Exhibit 1: Gross margins improved by 79 bps YoY to 22.9% due to lower RM costs in Q2FY24.



Source: Company Reports, Aриhant Capital Research

Exhibit 2: EBITDA Margin improved by 324 bps YoY due to lower other expenses in-terms of sales in Q2FY24.



Source: Company Reports, Aриhant Capital Research

Q2FY24 Concall Highlights

Freight Rail Systems

- In freight rail systems, The company is executing around 650-700 wagons per month and targeting 1,000 wagons per month by the end of FY24E.
- In Sep-23, the company delivered 759 wagons which is the highest-ever volume on a monthly basis.

Passenger Rail Systems

- Passenger rail systems margins are lower due to lower volumes. The company is targeting 15 cars to 20 cars per month in the middle of FY25E.
- Passenger Rail Systems margins are expected to reach 10% due to an increase in volumes. Further margin improvement is expected based on the backward integration of propulsion systems and components.

Margins

- The gross margin improvement was majorly led by an increase in the share of private wagons. Private wagons margins are higher than railway wagons.
- EBITDA margins are expected around 8% to 10% on a sustainable basis and expected to move from 11% to 11.5% backed by backward integration of propulsion systems and components.

Order book

- The order book stood at INR 282.12bn (~7.9x of FY23 TTM revenue). The freight rolling stocks order book stood at INR 143.42bn (~51%) and the Passenger Rolling stocks order book stood at INR 138.70bn (~49%).
- In freight rolling stocks, around 26% of orders are booked from private wagons.
- Metro order book accounts for ~15% of Passenger rolling stocks order book. In Metros, the company has a delivery schedule for the next 3 to 3.5 years.

Metros

- In the Bangalore metro, 1st stainless steel car is expected to be dispatched by the end of FY24E.
- In the Pune metro, around 60%-70% of work is completed, and the remaining is expected to be completed by the end of FY24E.
- Around 50 metro projects have an opportunity size of INR 500bn. The company has a larger market share in Metros.

Metro orders

- The company has received an order of INR 8,660mn from the Surat Metro Rail Phase-1 Project to supply 72 cars. The average realization per car is around INR 120mn.
- The company has received an LOA from GMRCL to supply 30 cars for Ahmedabad Metro Rail Phase-II. The order value is around INR 3,500mn which comes realization of INR 117mn per car.

Q2FY24 Concall Highlights**Vande Bharat trains**

- In the Vande Bharat train, designs have already progressed and are in line with expectations.
- The company is currently in the process of 80 Vande Bharat train order execution. The government has set a target of 800 Vande Bharat trains by FY30E. The company has a potential opportunity on Vande Bharat trains.
- Vande Bharat train margins are expected around 10% and services margins are higher.

Market share

- The company has a market share of 32% based on dispatched wagons.

Capex

- The capex is expected around INR 7bn over the next 2 to 3 years.

Other highlights

- The company has launched 1st Diving Support Crafts (DSC) and will be included in the Indian Navy. The DSC will provide diving assistance during underwater repair, maintenance, and salvage operations.
- The increase in receivables is temporary and expected to normalize going forward. In freight rolling stocks, Net working capital is expected to be maintained for around 30 days.
- In private wagons, advance mobilization is around 0% to 50% based on contracts.

Scenario Analysis

Exhibit 3: Scenario Analysis

Bull Case (INR mn)	FY23	FY24E	FY25E	FY26E
Freight Rail Systems	22,509	32,000	43,200	45,600
Passenger Rail Systems	5,287	10,450	18,000	28,500
Shipbuilding, Bridges and Defence	-	670	683	712
Total Revenue	27,796	43,120	61,883	74,812

Base Case (INR mn)	FY23	FY24E	FY25E	FY26E
Freight Rail Systems	22,509	30,495	36,480	41,040
Passenger Rail Systems	5,287	6,120	13,260	20,400
Shipbuilding, Bridges and Defence	-	670	683	712
Total Revenue	27,796	37,285	50,423	62,152

Bear Case (INR mn)	FY23E	FY24E	FY25E	FY26E
Freight Rail Systems	22,509	28,386	33,300	37,740
Passenger Rail Systems	5,287	4,800	10,560	17,280
Shipbuilding, Bridges and Defence	-	670	683	712
Total Revenue	27,796	33,856	44,543	55,732

Source: Company, Arianth Capital Research

Valuation

Exhibit 4: Bull Case Scenario

Bull Case (INR mn)	FY23	FY24E	FY25E	FY26E
Revenue	27,796	43,120	61,883	74,812
EBITDA	2,635	4,490	6,554	8,170
EBITDA Margin (%)	9.5%	10.4%	10.6%	10.9%
PAT	1,157	2,822	4,399	5,612
PAT Margin (%)	4.2%	6.5%	7.1%	7.5%
EPS (INR)	10.6	22.2	34.6	44.1

Valuation - P/E (FY26)

EPS (INR) 44.1

P/E (x) 27.0

Target Price (INR) 1,191

CMP (INR) 795

Upside/Downside (%) 49.9%

Source: Company, Arianth Capital Research

Exhibit 5: Base Case Scenario

Base Case (INR mn)	FY23	FY24E	FY25E	FY26E
Revenue	27,796	37,285	50,423	62,152
EBITDA	2,635	3,882	5,340	6,788
EBITDA Margin (%)	9.5%	10.4%	10.6%	10.9%
PAT	1,157	2,342	3,454	4,537
PAT Margin (%)	4.2%	6.3%	6.9%	7.3%
EPS (INR)	10.6	18.4	27.2	35.7

Valuation - P/E (FY26)

EPS (INR) 35.7

P/E (x) 25.0

Target Price (INR) 892

CMP (INR) 795

Upside/Downside (%) 12.2%

Source: Company, Arianth Capital Research

Exhibit 6: Bear Case Scenario

Bear Case (INR mn)	FY23	FY24E	FY25E	FY26E
Revenue	27,796	33,856	44,543	55,732
EBITDA	2,635	3,525	4,718	6,087
EBITDA Margin (%)	9.5%	10.4%	10.6%	10.9%
PAT	1,157	2,059	2,969	3,992
PAT Margin (%)	4.2%	6.1%	6.7%	7.2%
EPS (INR)	10.6	16.2	23.3	31.4

Valuation - P/E (FY26)

EPS (INR) 31.4

P/E (x) 23.0

Target Price (INR) 722

CMP (INR) 795

Upside/Downside (%) -9.2%

Source: Company, Arianth Capital Research

Sensitivity Analysis

Freight Rail Systems Revenue (INR mn) - FY24E

		Freight Wagon Realization (INR mn/Wagon)										
		3.5	3.6	3.7	3.8	3.9	4.0	4.1	4.2	4.3	4.4	4.5
Wagon Volumes	30,495											
	6,000	21,000	21,600	22,200	22,800	23,400	24,000	24,600	25,200	25,800	26,400	27,000
	6,400	22,400	23,040	23,680	24,320	24,960	25,600	26,240	26,880	27,520	28,160	28,800
	6,800	23,800	24,480	25,160	25,840	26,520	27,200	27,880	28,560	29,240	29,920	30,600
	7,200	25,200	25,920	26,640	27,360	28,080	28,800	29,520	30,240	30,960	31,680	32,400
	7,600	26,600	27,360	28,120	28,880	29,640	30,400	31,160	31,920	32,680	33,440	34,200
	8,000	28,000	28,800	29,600	30,400	31,200	32,000	32,800	33,600	34,400	35,200	36,000
	8,400	29,400	30,240	31,080	31,920	32,760	33,600	34,440	35,280	36,120	36,960	37,800
	8,800	30,800	31,680	32,560	33,440	34,320	35,200	36,080	36,960	37,840	38,720	39,600
	9,200	32,200	33,120	34,040	34,960	35,880	36,800	37,720	38,640	39,560	40,480	41,400
	9,600	33,600	34,560	35,520	36,480	37,440	38,400	39,360	40,320	41,280	42,240	43,200
10,000	35,000	36,000	37,000	38,000	39,000	40,000	41,000	42,000	43,000	44,000	45,000	

Freight Rail Systems Revenue (INR mn) - FY25E

		Freight Wagon Realization (INR Mn/Wagon)										
		3.5	3.6	3.7	3.8	3.9	4.0	4.1	4.2	4.3	4.4	4.5
Wagon Volumes	36,480											
	6,300	22,050	22,680	23,310	23,940	24,570	25,200	25,830	26,460	27,090	27,720	28,350
	6,800	23,800	24,480	25,160	25,840	26,520	27,200	27,880	28,560	29,240	29,920	30,600
	7,300	25,550	26,280	27,010	27,740	28,470	29,200	29,930	30,660	31,390	32,120	32,850
	7,800	27,300	28,080	28,860	29,640	30,420	31,200	31,980	32,760	33,540	34,320	35,100
	8,300	29,050	29,880	30,710	31,540	32,370	33,200	34,030	34,860	35,690	36,520	37,350
	8,800	30,800	31,680	32,560	33,440	34,320	35,200	36,080	36,960	37,840	38,720	39,600
	9,300	32,550	33,480	34,410	35,340	36,270	37,200	38,130	39,060	39,990	40,920	41,850
	9,800	34,300	35,280	36,260	37,240	38,220	39,200	40,180	41,160	42,140	43,120	44,100
	10,300	36,050	37,080	38,110	39,140	40,170	41,200	42,230	43,260	44,290	45,320	46,350
	10,800	37,800	38,880	39,960	41,040	42,120	43,200	44,280	45,360	46,440	47,520	48,600
11,300	39,550	40,680	41,810	42,940	44,070	45,200	46,330	47,460	48,590	49,720	50,850	

Freight Rail Systems Revenue (INR mn) - FY26E

		Freight Wagon Realization (INR Mn/Wagon)										
		3.5	3.6	3.7	3.8	3.9	4.0	4.1	4.2	4.3	4.4	4.5
Wagon Volumes	41,040											
	7,500	26,250	27,000	27,750	28,500	29,250	30,000	30,750	31,500	32,250	33,000	33,750
	8,000	28,000	28,800	29,600	30,400	31,200	32,000	32,800	33,600	34,400	35,200	36,000
	8,500	29,750	30,600	31,450	32,300	33,150	34,000	34,850	35,700	36,550	37,400	38,250
	9,000	31,500	32,400	33,300	34,200	35,100	36,000	36,900	37,800	38,700	39,600	40,500
	9,500	33,250	34,200	35,150	36,100	37,050	38,000	38,950	39,900	40,850	41,800	42,750
	10,000	35,000	36,000	37,000	38,000	39,000	40,000	41,000	42,000	43,000	44,000	45,000
	10,500	36,750	37,800	38,850	39,900	40,950	42,000	43,050	44,100	45,150	46,200	47,250
	11,000	38,500	39,600	40,700	41,800	42,900	44,000	45,100	46,200	47,300	48,400	49,500
	11,500	40,250	41,400	42,550	43,700	44,850	46,000	47,150	48,300	49,450	50,600	51,750
	12,000	42,000	43,200	44,400	45,600	46,800	48,000	49,200	50,400	51,600	52,800	54,000
12,500	43,750	45,000	46,250	47,500	48,750	50,000	51,250	52,500	53,750	55,000	56,250	

Source: Company Reports, Aриhant Capital Research

- Bull Case - Base Case - Bear Case

Sensitivity Analysis

Passenger Rail Systems Revenue (INR mn) - FY24E

		Rollingstocks Realization (INR mn/car)										
6,120		60	65	70	75	80	85	90	95	100	105	110
Rollingstocks Volumes	40	2,400	2,600	2,800	3,000	3,200	3,400	3,600	3,800	4,000	4,200	4,400
	50	3,000	3,250	3,500	3,750	4,000	4,250	4,500	4,750	5,000	5,250	5,500
	60	3,600	3,900	4,200	4,500	4,800	5,100	5,400	5,700	6,000	6,300	6,600
	70	4,200	4,550	4,900	5,250	5,600	5,950	6,300	6,650	7,000	7,350	7,700
	80	4,800	5,200	5,600	6,000	6,400	6,800	7,200	7,600	8,000	8,400	8,800
	90	5,400	5,850	6,300	6,750	7,200	7,650	8,100	8,550	9,000	9,450	9,900
	100	6,000	6,500	7,000	7,500	8,000	8,500	9,000	9,500	10,000	10,500	11,000
	110	6,600	7,150	7,700	8,250	8,800	9,350	9,900	10,450	11,000	11,550	12,100
	120	7,200	7,800	8,400	9,000	9,600	10,200	10,800	11,400	12,000	12,600	13,200
	130	7,800	8,450	9,100	9,750	10,400	11,050	11,700	12,350	13,000	13,650	14,300
140	8,400	9,100	9,800	10,500	11,200	11,900	12,600	13,300	14,000	14,700	15,400	

Passenger Rail Systems Revenue (INR mn) - FY25E

		Rollingstocks Realization (INR Mn/car)										
13,260		60	65	70	75	80	85	90	95	100	105	110
Rollingstocks Volumes	110	6,600	7,150	7,700	8,250	8,800	9,350	9,900	10,450	11,000	11,550	12,100
	120	7,200	7,800	8,400	9,000	9,600	10,200	10,800	11,400	12,000	12,600	13,200
	130	7,800	8,450	9,100	9,750	10,400	11,050	11,700	12,350	13,000	13,650	14,300
	140	8,400	9,100	9,800	10,500	11,200	11,900	12,600	13,300	14,000	14,700	15,400
	150	9,000	9,750	10,500	11,250	12,000	12,750	13,500	14,250	15,000	15,750	16,500
	160	9,600	10,400	11,200	12,000	12,800	13,600	14,400	15,200	16,000	16,800	17,600
	170	10,200	11,050	11,900	12,750	13,600	14,450	15,300	16,150	17,000	17,850	18,700
	180	10,800	11,700	12,600	13,500	14,400	15,300	16,200	17,100	18,000	18,900	19,800
	190	11,400	12,350	13,300	14,250	15,200	16,150	17,100	18,050	19,000	19,950	20,900
	200	12,000	13,000	14,000	15,000	16,000	17,000	18,000	19,000	20,000	21,000	22,000
210	12,600	13,650	14,700	15,750	16,800	17,850	18,900	19,950	21,000	22,050	23,100	

Passenger Rail Systems Revenue (INR mn) - FY26E

		Rollingstocks Realization (INR Mn/car)										
20,400		60	65	70	75	80	85	90	95	100	105	110
Rollingstocks Volumes	210	12,600	13,650	14,700	15,750	16,800	17,850	18,900	19,950	21,000	22,050	23,100
	225	13,500	14,625	15,750	16,875	18,000	19,125	20,250	21,375	22,500	23,625	24,750
	240	14,400	15,600	16,800	18,000	19,200	20,400	21,600	22,800	24,000	25,200	26,400
	255	15,300	16,575	17,850	19,125	20,400	21,675	22,950	24,225	25,500	26,775	28,050
	270	16,200	17,550	18,900	20,250	21,600	22,950	24,300	25,650	27,000	28,350	29,700
	285	17,100	18,525	19,950	21,375	22,800	24,225	25,650	27,075	28,500	29,925	31,350
	300	18,000	19,500	21,000	22,500	24,000	25,500	27,000	28,500	30,000	31,500	33,000
	315	18,900	20,475	22,050	23,625	25,200	26,775	28,350	29,925	31,500	33,075	34,650
	330	19,800	21,450	23,100	24,750	26,400	28,050	29,700	31,350	33,000	34,650	36,300
	345	20,700	22,425	24,150	25,875	27,600	29,325	31,050	32,775	34,500	36,225	37,950
360	21,600	23,400	25,200	27,000	28,800	30,600	32,400	34,200	36,000	37,800	39,600	

Source: Company Reports, Arianth Capital Research

- Bull Case

- Base Case

- Bear Case

Industry Wagon Volumes – Indian Railways (RSP)

Wagon Volumes (company wise)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24*
Titagarh Wagons	559	447	620	810	591	571	1,183	1,522	1,666	1,430	542
Jupiter Wagons	503	560	334	388	461	326	512	830	755	557	115
Texmaco	270	209	135	258	66	29	339	913	1,046	998	687
Modern	296	215	178	264	132	250	408	-	44	27	-
H.E.I	166	222	119	91	11	203	481	923	735	550	433
Besco (WD)	80	62	113	104	-	105	219	290	320	249	142
Besco (FD)	-	-	-	-	-	-	-	85	215	200	135
Oriental	42	-	-	-	-	-	-	171	232	148	126
Amtek	-	5	-	-	-	-	17	-	-	-	-
CIMMCO	9	-	-	-	-	-	-	-	-	-	-
CEBBCO	65	-	2	-	-	-	-	-	-	-	-
Jindal	-	-	-	-	-	-	-	-	-	-	-
Braithwaite	273	158	278	198	458	358	250	385	458	153	90
SRBWIL	-	-	35	88	161	101	170	206	207	132	-
Total Industry Wagons	2,263	1,878	1,814	2,201	1,880	1,943	3,579	5,325	5,678	4,444	2,270

Volume Share (%)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24*
Titagarh Wagons	24.7%	23.8%	34.2%	36.8%	31.4%	29.4%	33.1%	28.6%	29.3%	32.2%	23.9%
Jupiter Wagons	22.2%	29.8%	18.4%	17.6%	24.5%	16.8%	14.3%	15.6%	13.3%	12.5%	5.1%
Texmaco	11.9%	11.1%	7.4%	11.7%	3.5%	1.5%	9.5%	17.1%	18.4%	22.5%	30.3%
Modern	13.1%	11.4%	9.8%	12.0%	7.0%	12.9%	11.4%	0.0%	0.8%	0.6%	0.0%
H.E.I	7.3%	11.8%	6.6%	4.1%	0.6%	10.4%	13.4%	17.3%	12.9%	12.4%	19.1%
Besco (WD)	3.5%	3.3%	6.2%	4.7%	0.0%	5.4%	6.1%	5.4%	5.6%	5.6%	6.3%
Besco (FD)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.6%	3.8%	4.5%	5.9%
Oriental	1.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.2%	4.1%	3.3%	5.6%
Amtek	0.0%	0.3%	0.0%	0.0%	0.0%	0.0%	0.5%	0.0%	0.0%	0.0%	0.0%
CIMMCO	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
CEBBCO	2.9%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Jindal	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Braithwaite	12.1%	8.4%	15.3%	9.0%	24.4%	18.4%	7.0%	7.2%	8.1%	3.4%	4.0%
SRBWIL	0.0%	0.0%	1.9%	4.0%	8.6%	5.2%	4.7%	3.9%	3.6%	3.0%	0.0%

Source: Ministry of Railways, Arianth Capital Research; Volumes as per RSP (Indian Railways), *(Jul-23 + Aug-23) volume data

Wagon Industry Note

31st Mar 2023
Industry Note

Wagons

Wagons are getting up on the right track.

Wagon Industry Note

Union Budget 2023-24: Railway budget allocated to INR 2.4 lakh crore which is up from the 2023-24 revised outlay. The wagon manufacturing is ramping up due to demand for freight and passenger wagons. There is a shift to commercial vehicles to fuel for transportation. Recently, Indian Railways reported a demand for 90,000 wagons and awarded for 7 manufacturers. Further, the industry is expected to manufacture around 50,000 wagons in the next 2 to 3 years. The government is coming up with 50,000 advanced freight wagons and 50,000 passenger wagons. The industry is expected to manufacture around 50,000 wagons in the next 2 to 3 years. The government is coming up with 50,000 advanced freight wagons and 50,000 passenger wagons. The industry is expected to manufacture around 50,000 wagons in the next 2 to 3 years. The government is coming up with 50,000 advanced freight wagons and 50,000 passenger wagons. The industry is expected to manufacture around 50,000 wagons in the next 2 to 3 years.

Titagarh Plant Visit Note

Plant Visit Note
15th Apr, 2023

Titagarh Wagons

Wagons on cards

Plant Visit Note

Visited Titagarh freight wagons and SHB building plant at Titagarh, Kolkata and Rolling stock, Propulsion systems and traction motor plant at Chittorgarh, Kolkata. Also saw interaction with Mr. Sankar Kundu - Freight Rolling Stock COO, Mr. Manoj Kanti Das - Freight Wagon Plant Head, Mr. Shiv Singh - Passenger Rolling Stock COO, Mr. Venkatesh Sambasivan - Passenger Rolling Stock Plant Head, Mr. S. Subramanian - Propulsion Plant Head, Mr. Sourav Singhania - IFCO & Group Finance Controller, Mr. Anil Kumar Agarwal - Director (Finance), CIO & CFO and other Titagarh members.

Key Highlights:

- Strong revenue visibility backed by order book: The company has an order book of 25,000 wagons and around 8,000 - 10,000 wagons are expected to complete in FY24 at optimum utilization levels. We are expecting around INR 380m - INR 400m revenue in FY24 on a conservative basis. The company is manufacturing around 800 wagons per month to manufacture 1,000 wagons per month from September onwards due to improvement in wagon chain efficiencies. The plant is meeting around 30-34 wagons per day and is focused to reach 40 wagons per day. Out of 40 wagons, 25 are BCBH wagons and 15 are covered wagons. There is a structural change in wagons and rail systems due to make-in India. The industry is expected to manufacture 20,000 to 30,000 wagons per annum and Titagarh is expected to capture 30%-35% share over medium term.
- First mover advantage in wheelsets: Titagarh wagons bagged orders from the Ministry of Railways to supply "T-34 million forged wheelsets of different sized shaft of rail wheels over a period of 20 years at around 77,000 tonnes per annum. The order worth is around INR 320 bn. signed over 20 years. The company has 50:50 partnership with An Forgeings. The project sits around INR 150m and will be funded through equity and long term loans. The funding is expected to complete in the next 2 years. The company is setting up a capacity of 2 lakh wheels per annum. Around 7,000 tonnes are expected to supply to Indian railways and the remaining to others. In the wheelset plant, the breakeven is normally expected at 40,000 to 50,000 wheels.
- Casting wheelsets cost around INR 2.3 lakh, while forged wheelsets cost around 2.1 lakh to INR 2.1 lakh. Forged wheelsets are costlier and stronger than casting wheelsets. On a conservative basis, we assume INR 200m per annum in wheelset manufacturing is expected around INR 400m to INR 200m in 3 years which starts from FY25. The payback period is expected in 3 years. Wheelset production is expected around 1.5 lakh going forward. Titagarh-tilk forgings is expected to export wheelsets after a few years, which will be a potential opportunity.
- Backward integration will lead to margin improvement: The backward integration of traction motor and propulsion systems will lead to margin improvement.
 - IF Propulsion: IFCO and IFCO development order for propulsion system is in progress. Indian Railways, Titagarh, Propulsion is expected to enter the trading space.

Railway Sector Note

10th Apr 2023
Sector Update

Railways

Ready to leave station.

Railway Sector Note

Indian railways system is 4th largest in the world, behind only US, Russia, and China. India is the 4th largest rail freight carrier in the world. Indian railways are the single largest employer in India and the 3rd largest in the world. The Railway Group is achieving an upturn and is on track to hit its 100th anniversary in FY24. The government has allocated INR 1 lakh crore to the Ministry of Railways (MoR). The railway investments are towards dedicated freight corridors, network decoupling, bullet trains, high speed, and low-high speed projects. The "Vande Bharat" initiative for the development of advanced high-speed rail, network decoupling, bullet trains, high speed, and low-high speed projects. The "Vande Bharat" initiative for the development of advanced high-speed rail, network decoupling, bullet trains, high speed, and low-high speed projects. The "Vande Bharat" initiative for the development of advanced high-speed rail, network decoupling, bullet trains, high speed, and low-high speed projects.

The increasing income in urban and rural areas has made rail travel affordable for a large number of Indians. The improvement in rural connectivity will be the major driver for the growth. In railways, around 800 new stations are coming up will be a big booster for passenger and freight growth and opportunities for railway companies. The urban population is expected to reach 1.2 bn by FY25 and high-speed rail travel is expected to reach 100 bn by FY25.

National Infrastructure investments are nearly INR 75 lakh crore of projects under execution and the National Infrastructure Plan outlined by the Government investment of INR 311 lakh crore over the period of FY24-FY26. Transport, Energy, and water projects account for 80% of NIP spending of planned INR 111 lakh crore. More than 50% of NIP projects are under construction and EPC has the opportunity of INR 42 lakh crore in the transport section. The redevelopment opportunity in railways has INR 1 lakh crore with commercial development accounting for 70% of investment. Around 400 stations have been identified for the "railway" and 2nd station opportunity has completed construction. The station redevelopment scope is expected to be implemented under the PPP framework.

The railway infra players have the potential opportunity to be 400 Vande Bharat Trains, 75 Vande Bharat trains are expected to be complete by Aug 2023, 100 Vande Bharat Trains (VBT) are expected to be complete by Aug 2023, 100 Vande Bharat Trains (VBT) are expected to be complete by Aug 2023, 100 Vande Bharat Trains (VBT) are expected to be complete by Aug 2023.

Disabling of lines and free time capex is expected around 60% of total railway capex and Rail Vikas Nigam's 50% of business comes from these areas which show the company has a potential business opportunity going forward. Locomotives and Wagons capex is expected around 20% of the total railway capex and Titagarh Wagons, Titagarh Rail & Engineering and Jupiter Wagons are expected to benefit going forward. Main tracking capex is expected around 20% of total railway capex and Titagarh Wagons, Titagarh Rail & Engineering and Jupiter Wagons are expected to benefit going forward. Main tracking capex is expected around 20% of total railway capex and Titagarh Wagons, Titagarh Rail & Engineering and Jupiter Wagons are expected to benefit going forward.

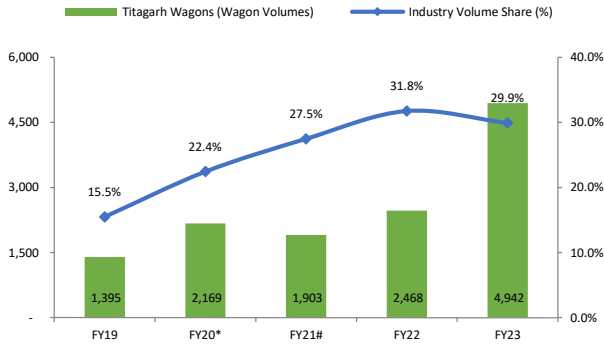
Source: Arihant Capital Research

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Source: Arihant Capital Research

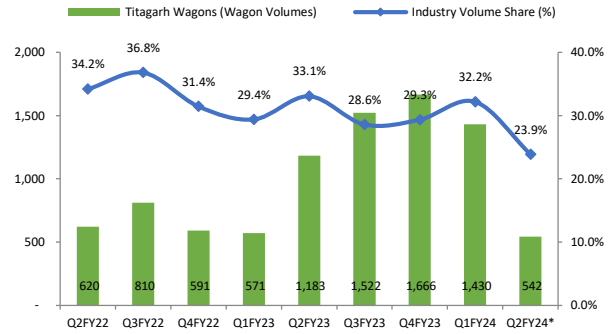
Industry Wagon Volumes – Indian Railways (RSP)

Exhibit 7: Titagarh ramped up production and maintains ~30% volume share as of FY23.



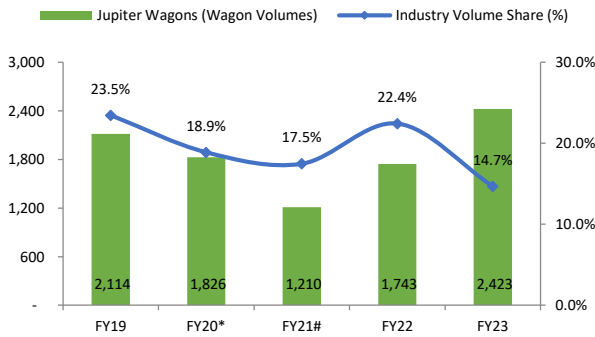
Source: Ministry of Railways, Industry, Aриhant Capital Research

Exhibit 8: Titagarh has executed more private wagon orders in Q2FY24 and railway wagons share has declined in Q2FY24.



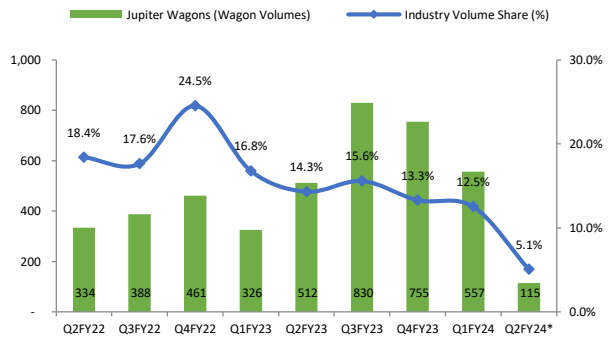
Source: Ministry of Railways, Industry, Aриhant Capital Research, *(Jul+Aug)-23 volumes data

Exhibit 9: JWL has ramped-up Private wagon manufacturing in FY23 and reduced railway wagons. Private wagons are yielding higher realizations compared to Indian railway wagons.



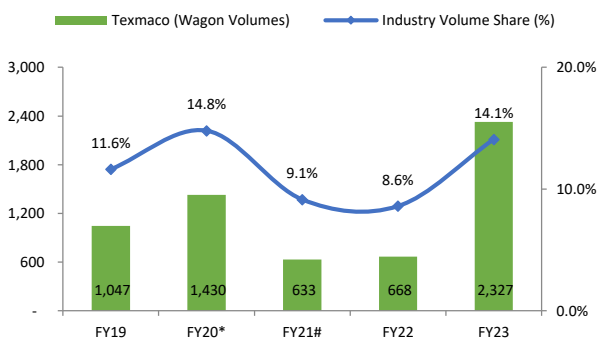
Source: Ministry of Railways, Industry, Aриhant Capital Research

Exhibit 10: JWL has executed more private wagon orders in Q2FY24 and railway wagons share has declined in Q2FY24.



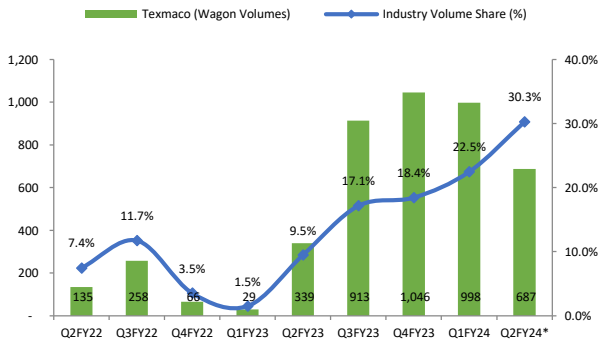
Source: Ministry of Railways, Industry, Aриhant Capital Research, *(Jul+Aug)-23 volumes data

Exhibit 11: Texmaco ramped up production and maintains 14% volume share as of FY23.



Source: Ministry of Railways, Industry, Aриhant Capital Research

Exhibit 12: Texmaco railway wagon volumes share increased to 30.3% in Q2FY24.



Source: Ministry of Railways, Industry, Aриhant Capital Research, *(Jul+Aug)-23 volumes data

Financial Statements

Income statement summary

Y/e 31 Mar (INR Mn)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	17,663	15,206	14,675	27,796	37,285	50,423	62,152
Net Raw Materials	11,515	9,934	10,476	21,499	28,709	38,624	47,453
Employee Cost	1,518	2,106	454	565	690	958	1,181
Other Expenses	3,421	2,360	2,096	3,096	4,003	5,501	6,730
EBITDA	1,209	806	1,649	2,635	3,882	5,340	6,788
EBITDA Margin (%)	6.8%	5.3%	11.2%	9.5%	10.4%	10.6%	10.9%
Depreciation	(291)	(299)	(184)	(225)	(244)	(301)	(362)
Interest expense	(883)	(812)	(573)	(807)	(751)	(657)	(645)
Other income	340	249	177	426	298	318	392
Profit before tax	375	(55)	1,070	1,901	3,186	4,700	6,173
Taxes	205	(132)	(292)	(555)	(844)	(1,245)	(1,636)
PAT	580	(187)	778	1,346	2,342	3,454	4,537
PAT Margin (%)	3.3%	-1.2%	5.3%	4.8%	6.3%	6.9%	7.3%
Loss from Discontinued operations	(941)	-	(780)	(89)	-	-	-
Net PAT	(361)	(187)	(2)	1,257	2,342	3,454	4,537
Other Comprehensive income	53	81	57	(100)	-	-	-
Total Comprehensive income	(309)	(106)	55	1,157	2,342	3,454	4,537
EPS (INR)	5.0	(1.6)	6.5	10.6	18.4	27.2	35.7

Source: Company Reports, Arihant Capital Research

Balance sheet summary

Y/e 31 Mar (INR Mn)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	231	239	239	239	254	254	254
Reserves	7,435	8,167	8,182	9,396	11,738	15,192	19,729
Net worth	7,666	8,406	8,421	9,636	11,992	15,447	19,984
Minority Interest	789	-	1	-	-	-	-
Provisions	1,017	814	912	112	817	1,105	1,362
Debt	7,644	8,584	9,316	3,608	5,108	5,408	4,908
Other non-current liabilities	1,441	1,868	145	417	559	756	622
Total Liabilities	18,556	19,672	18,796	13,772	18,476	22,716	26,875
Fixed assets	8,254	8,330	8,790	6,200	8,479	10,684	12,953
Capital Work In Progress	-	162	152	123	106	131	47
Other Intangible assets	381	536	646	16	16	16	16
Investments	799	923	765	1,006	746	756	932
Other non current assets	789	739	1,419	1,714	1,864	2,521	3,108
Net working capital	4,615	7,034	5,729	3,650	5,383	5,584	6,181
Inventories	3,763	3,852	5,039	4,614	6,292	8,254	10,141
Sundry debtors	2,538	5,672	6,591	2,791	5,618	7,598	8,514
Loans & Advances	531.6	-	-	-	-	-	-
Other current assets	1,944	2,576	2,093	4,953	3,065	2,072	2,554
Sundry creditors	(3,512)	(3,980)	(4,387)	(3,231)	(5,491)	(6,793)	(8,191)
Other current liabilities & Prov	(649)	(1,085)	(3,606)	(5,478)	(4,101)	(5,547)	(6,837)
Cash	561	1,240	421	1,000	1,509	2,014	2,084
Other Financial Assets	3,159	706	874	63	373	1,008	1,554
Total Assets	18,556	19,672	18,796	13,772	18,476	22,716	26,875

Source: Company Reports, Arihant Capital Research

Du-Pont Analysis

Y/e 31 Mar	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Tax burden (x)	1.5	3.4	0.7	0.7	0.7	0.7	0.7
Interest burden (x)	0.4	(0.1)	0.7	0.8	0.9	0.9	1.0
EBIT margin (x)	0.1	0.0	0.10	0.09	0.10	0.10	0.10
Asset turnover (x)	0.9	0.8	0.6	1.2	1.5	1.7	1.7
Financial leverage (x)	2.6	2.5	2.8	2.5	2.2	2.2	2.1
RoE (%)	7.3%	-2.3%	9.2%	14.9%	21.7%	25.2%	25.6%

Source: Company Reports, Arihant Capital Research

Financial Statements

Cashflow summary

Y/e 31 Mar (INR Mn)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	375	(55)	1,070	1,901	3,186	4,700	6,173
Depreciation	291	299	184	225	244	301	362
Tax paid	205	(132)	(292)	(555)	(844)	(1,245)	(1,636)
Working capital Δ	254	(2,419)	1,305	2,079	(1,733)	(201)	(597)
Operating cashflow	1,127	(2,307)	2,267	3,651	852	3,554	4,302
Capital expenditure	635	(538)	(633)	2,394	(2,506)	(2,531)	(2,547)
Free cash flow	1,762	(2,845)	1,634	6,045	(1,654)	1,023	1,755
Equity raised	(1,013)	138	(761)	(134)	15	-	-
Investments	155	(124)	158	(241)	260	(11)	(176)
Others	(498)	2,347	(957)	1,145	(460)	(1,293)	(1,132)
Debt financing/disposal	(1,985)	941	732	(5,708)	1,500	300	(500)
Other items	945	224	(1,625)	(528)	848	485	122
Net Δ in cash	(634)	680	(820)	579	509	505	69
Opening Cash Flow	1,195	561	1,240	421	1,000	1,509	2,014
Closing Cash Flow	561	1,240	421	1,000	1,509	2,014	2,084

Source: Company Reports, Aриhant Capital Research

Ratio analysis

Y/e 31 Mar	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)							
Revenue growth	13.3%	-13.9%	-3.5%	89.4%	34.1%	35.2%	23.3%
Op profit growth	45.1%	-33.3%	104.5%	59.8%	47.3%	37.6%	27.1%
Profitability ratios (%)							
OPM	6.8%	5.3%	11.2%	9.5%	10.4%	10.6%	10.9%
Net profit margin	3.3%	-1.2%	5.3%	4.8%	6.3%	6.9%	7.3%
RoCE	11.0%	15.1%	6.6%	12.6%	18.5%	19.7%	20.8%
RoNW	7.3%	-2.3%	9.2%	14.9%	21.7%	25.2%	25.6%
RoA	3.1%	-1.0%	4.1%	9.8%	12.7%	15.2%	16.9%
Per share ratios (INR)							
EPS	(2.7)	(0.9)	0.5	9.7	18.4	27.2	35.7
Dividend per share	-	-	-	-	-	-	-
Cash EPS	7.5	0.9	8.0	13.1	20.3	29.5	38.5
Book value per share	66.3	70.4	70.4	80.6	94.3	121.5	157.1
Valuation ratios (x)							
P/E	(297.8)	(897.9)	1,732.5	82.1	43.2	29.3	22.3
P/CEPS	105.5	851.0	98.8	60.5	39.1	26.9	20.6
P/B	12.0	11.3	11.3	9.9	8.4	6.5	5.1
EV/EBITDA	81.2	125.7	62.6	36.7	26.8	19.4	15.2
Payout (%)							
Dividend payout	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Tax payout	-54.7%	-239.9%	27.3%	29.2%	26.5%	26.5%	26.5%
Liquidity ratios							
Debtor days	62	99	153	62	41	48	47
Inventory days	142	140	155	82	69	69	71
Creditor days	98	95	117	55	48	50	49
WC Days	106	143	190	88	63	67	69
Leverage ratios (x)							
Interest coverage	1.0	0.6	2.6	3.0	4.8	7.7	10.0
Net debt / equity	0.9	0.9	1.1	0.3	0.3	0.2	0.1
Net debt / op. profit	5.9	9.1	5.4	1.0	0.9	0.6	0.4

Source: Company Reports, Aриhant Capital Research

Story in Charts

Exhibit 13: Freight Wagons, Metro and Vande Bharat trains are expected to drive revenue growth over the period of FY23-FY26E.

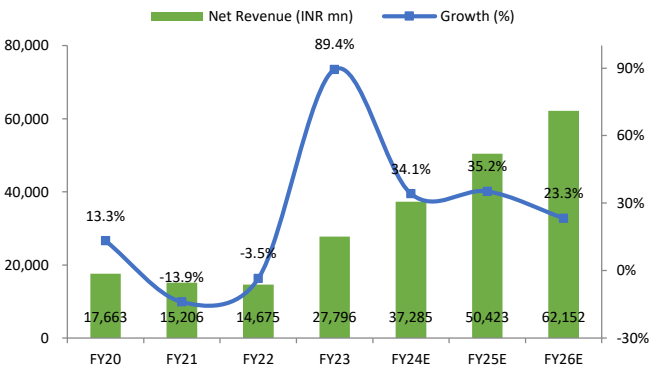


Exhibit 14: Gross margins are expected to improve going forward.

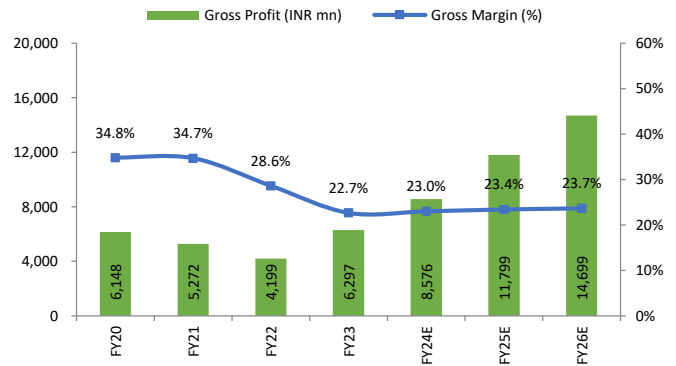


Exhibit 15: Growth in EBITDA & PAT levels

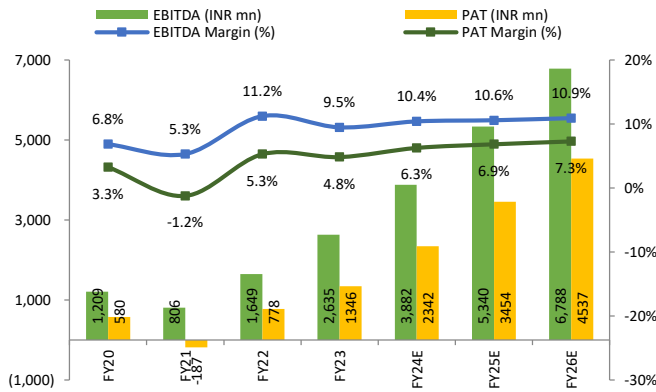


Exhibit 16: Return ratios to be improve

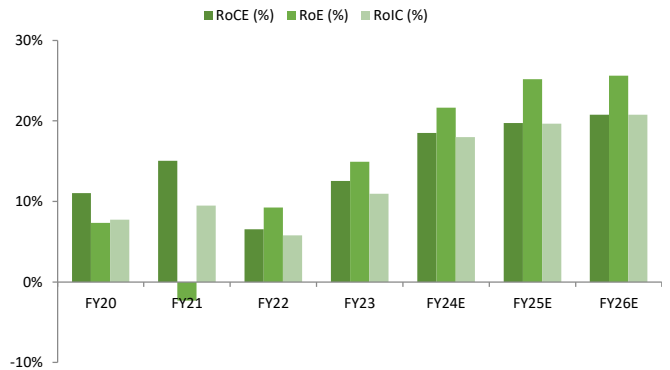


Exhibit 17: Working capital days to be improve.

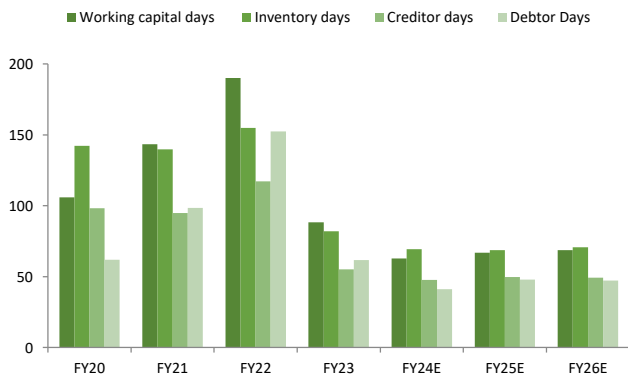
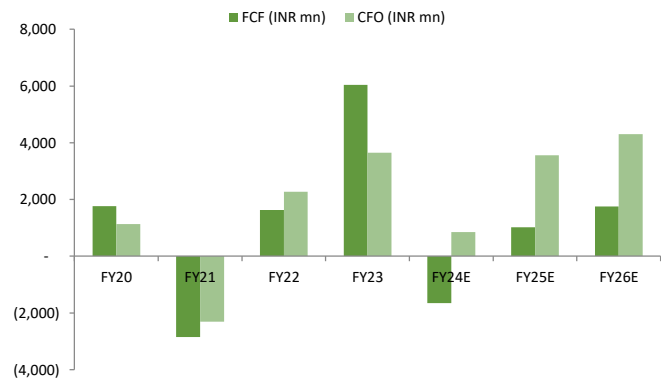


Exhibit 18: Cash flows to be improve.



Source: Company Reports, Arianth Capital Research

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Stock Rating Scale

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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