(Formerly Hind Rectifiers Limited)

"Hirect Limited
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(Formerly Hind Rectifiers Limited)

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MR. A.K. NEMANI – EXECUTIVE DIRECTOR AND CHIEF FINANCIAL OFFICER
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Moderator: Ladies and gentlemen, good day, and welcome to the Q1 FY27 Earnings Call of Hirect Limited. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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 a conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note this conference is being recorded.

I now hand the conference over to Mr. Suramya Nevatia, Chairman and Managing Director of Hirect Limited. Thank you, and over to you, sir.

Suramya Nevatia: Good morning, everyone, and thank you for joining us for the Q1 FY27 earnings call of Hirect Limited. I am pleased to be joined by our newly appointed Executive Director and long-time CFO, Mr. A.K. Nemani; our new Global Chief Executive Officer, Mr. Anand Chidambaram, who I'm delighted to welcome on his first earnings call with us; and our Chief Executive Officer, Mr. Manoj Nair, along with SGA, our IR Advisors.

Before I begin, a brief word on our leadership. Mr. Nemani, who has served the company for 34 years, has joined the Board as an Executive Director, while continuing as our CFO. Mr. Chidambaram, who joined us as the Chief Global Growth Officer, has now been appointed as our Global Chief Executive Officer. He is the one who spearheaded and achieved our recent breakthroughs internationally. And of course, Mr. Manoj Nair, our CEO, who continues to lead our India business focusing on revenue growth, operational excellence and cost control.

Meanwhile, I, the Chairman and MD of Hirect, will continue to build a highly dynamic and sustainable vision for the company and continue to personally oversee our R&D road map, technology developments, M&A activities and, of course, engaging with you, our investor community.

The structure reflects the company that we are building, strong Indian technology backed by efficient operations, supporting growing global businesses with disciplined financial stewardship. The recent months have marked an important milestone for Hirect. Over the last few years, we have been steadily building capabilities across power electronics, traction systems, railway electronics and advanced engineering. We are now seeing these capabilities come together in a much more meaningful way.

Hirect is increasingly moving from being a supplier of individual components to becoming an integrated systems and solutions company. This transition is at the heart of our long-term strategy. It allows us to participate in a larger part of the value chain, increase the content we address in every locomotive and trainset, build deeper technology capabilities and then take these capabilities into new products, new customers and new geographies.

Let me now take you through the business segment-by-segment. First, Hirect business: orders, operations and margins. We understand that Q1 order intake looks flattish. However, this quarter does not define the year that we have planned. We have participated in several tenders where we are at leadership positions, either L1, L2 or L3.

These orders are expected to come in soon. Ordinarily, these finalizations would have come within Q1. There are multiple factors which have caused this delay, primarily the global geopolitical environment, which has led to certain temporary pivots within the government.

Furthermore, operationally, we are once again at a time where we face shortages in the Electronics segment. We have not been severely affected by it yet, but the industry has, leading to lopsided inventory at customers' end. We overcame this challenge a few years ago, and we are certain we will mitigate this challenge once again if it poses a threat to us.

On the copper front, by manufacturing these highly critical copper conductors in-house, we are improving control over an important input for our transformer business, while also creating an opportunity to develop a separate business serving third-party customers and export markets. We see this kind of vertical integration as an important part of building a stronger and more competitive Hirect. It gives us great control over our supply chains, supports our core business and at the same time creates opportunity for additional revenue streams.

There is already an impact of the copper conductors. Had it not been for the copper division, our gross margins would have been adversely affected by about 2%. That means we have saved about 2% on the material cost, and this cost saving is in its infancy. We are adding more initiatives within the copper vertical to further improve margins substantially.

Besides copper, there are a couple of other initiatives which are expected to be approved by the customers shortly, which will also contribute to improvement in margins in the next few quarters. These would be within the Electronics segment.

Second, Elventive France. Our investment in Elventive France is another important part of this transformation. Elventive's expertise in EMS, printed electronics, embedded systems, robotics and industrial automation complements our existing power electronics capabilities and gives us a strong presence in Europe.

As the business goes through this integration and scale-up phase, we are seeing some near-term impact on consolidated margins as it was expected at the time of the acquisition. We expect this to continue over the next 3 to 5 quarters as we work towards breakeven at Elventive. However, as the business scales, we expect this impact to gradually moderate and margins to improve. Over time, we believe this platform can help us accelerate new product development, enter new applications and strengthen our global customer base.

We are contemplating certain restructuring measures at Elventive France. The specific measures will be defined shortly. We are in concluding discussions with certain marquee German automakers, and we hope to close these deals positively. These are significant large projects and the restructuring will position us to execute such orders if successful.

Third, Hirect Global. Another important development during the quarter has been the expansion of our business into international business. We have secured our first order from the United

States for traction motor assemblies, marking our initial entry into the U.S. rail market. The order is scheduled for delivery within the year and provides us with the platform to develop customer relationships and pursue further opportunities in the region.

We see this as an encouraging validation of our engineering and manufacturing capabilities. Our objective is not simply to export products, but to gradually build Hirect into a global engineering and power electronics company.

The same technology platform is also opening opportunities beyond railways. We have also secured an order from the United States for IGBT converters for the mining industry. This is a big break and an important development because it demonstrates the applicability of our power electronics in a demanding industrial environment where reliability, robustness and uninterrupted performance are critical. These are initial prototype orders, which will be executed this year ahead of schedule. And once installed, we expect repeat orders in bulk quantities.

Fourth, new and emerging business, MEMU and Vande Metro. This is the evidence of our evolution. Recently, we secured our first MEMU trainset development order from Modern Coach factory valued at approximately INR60 crores, covering 4 trainsets and an integrated propulsion system, including transformers, motors, propulsion systems and TCMS.

We also secured our first order from the very first tender of Vande Metro trainsets. Let me repeat, this is not only Hirect's first order, but it is the very first tender for this specific train configuration. This covers the design, development and commissioning of an integrated system comprising of the propulsion systems, transformers, motors, TCMS and other electronic equipment.

What is particularly important for us is the significant increase in the value we can address per railway platform as we move from locomotives to trainsets and next-generation mobility applications. Today, our content opportunity on the locomotive is around INR5.5 crores. With our entry into trainsets, this opportunity increases to around INR15 crores per MEMU trainsets, while platforms such as Vande Metro offer an opportunity of around INR60 crores per trainset.

Our addressable content per platform increases by roughly 3 to 12x. We are no longer participating through a single component. We are bringing multiple technologies together and delivering them as an integrated railway system. These projects provide us with an important opportunity to demonstrate the reliability and performance of our indigenous propulsion technology in a trainset application and strengthen our credentials for larger system-level opportunities going forward. These 2 orders are proof points that the technology road map we have been building for years is now beginning to translate into system-level opportunities.

Fifth, the propulsion system update. At the center of this transition, the main protagonist is our indigenous propulsion platform. Our field trial program is progressing well, and we have covered about 9,000 to 10,000 kilometers of the field trial. It's no secret, the program experienced several delays, most recently due to the flooding in certain parts of Gujarat. We expect the trial to progress towards completion in the next few months. However, as per the new

UVAM guidelines, we are now approved as a development source and will be eligible for 20% of tender quantities.

For us, propulsion systems is not simply another product in our portfolio. It's a platform around which we can build a much broader systems and solutions business by combining our transformers, motors, converters, control electronics and other railway technologies. Our long-standing experience in rail power has provided us with the foundation to make this transition.

As we look ahead, our focus remains very clear. We will continue to strengthen our core railway business, while increasing our participation in higher-value products and systems. We will continue to scale our traction transformers, propulsion systems, railway electronics and other technology-led businesses. We will build on our entry into next-generation trainsets, while also taking our power electronics capabilities into international and adjacent industrial markets.

We believe this transformation provides the right platform for us to pursue our long-term growth ambition. The foundation has been laid, the technology platforms are taking shape, and we are now seeing early evidence of our ability to address larger and more complex opportunities. We will continue to evaluate opportunities in areas such as mining, defense, marine, power management and other specialized industrial applications and emerging tech sectors like AI and data centers, where our engineering and power electronics capabilities can create differentiated solutions. These adjacent applications are an important part of our broader strategy to diversify beyond our traditional markets.

These quarters of flat order intake do not deter us from our vision. Our target for the year of achieving 30% growth stays intact and the year so far has only strengthened our ambition. The ambition of becoming 1 billion revenue company in the next 5 years now moves a few steps forward that we have received proof of concept.

With that, I would like to hand over to our CEO, Mr. Manoj Nair, for his remarks. Thank you.

Manoj Nair: Thank you, Suramya. I would like to take a few minutes to talk about what, in my view, is the most important foundation behind Hirect's next phase of growth, our engineering and technology capabilities. At Hirect, we have always believed that sustainable growth in the railway business has to be built on strong engineering.

Over the years, we have moved from individual power electronic products towards increasingly complex railway systems, and we are now strengthening this capability further through our investments in people, R&D and product development. Today, we have more than 200 engineers across our R&D centers in Mumbai and Hyderabad with the Mumbai center focused on our core technology development and Hyderabad strengthening our software and digital intelligence capabilities.

More importantly, our innovation pipeline has expanded to more than 50 products under active development, covering areas such as propulsion systems, brake systems, converters, HVAC systems, digital intelligence and EMS. As the CMD also mentioned, we are already seeing these capabilities translate into new opportunities, including our entry into next-generation trainsets and our first U.S. orders.

We are also strengthening the manufacturing side to complement this engineering capability. At our Satpur facility, we have increased traction transformer capacity by 20%, from 60 transformers per month to nearly 75 per month, enabling us to support growing demand, while improving manufacturing capability.

The Sinnar facility's flexible and efficient layout has capabilities across propulsion systems, battery chargers, traction motors, HVAC systems and our specialized copper conductor facility. This combination of in-house engineering, manufacturing and validation gives us greater control over product quality, localization and time to market.

Ultimately, we believe this engineering depth and technology -- technological superiority will be Hirect's strongest competitive advantages. We are confident that the investments we are making today in our engineers, R&D and technology platforms will provide the foundation for Hirect's next phase of growth.

I would now like to invite our new Executive Director and CFO to take things forward.

A.K. Nemani: Thank you, Mr. Nair. Good morning, everyone. Let me take you through the financial performance for the Q1 of FY27. Starting with the consolidated financial performance, revenue from the operations grew 20.3% to INR258.4 crores, supported by healthy underlying business momentum across operations.

Gross margin increased 32% on quarter-to-quarter to INR73.2 crores versus 28.3%. (wrongly said, kindly read as Gross profit increased 30.2% year-on-year to INR73.2 crores with margins of 28.3%.). Consolidated EBITDA stood at INR13.2 crores, which de-grew by 45.4% year-on-year and increased 57% sequentially, with an EBITDA margin 5.4% (wrongly said, kindly read it as 5.1%). The consolidated margin was impacted by the ongoing integration and scale-up of the Elventive France, which resulted in a higher employee and operating expenses along with increase in other operating cost. As highlighted earlier, we expect this year -- this near-term impact to continue for another 3 to 5 quarters as Elventive progresses towards breakeven, following which margins should improve as the business scales.

Profit before exceptional item and tax stood at INR8.1 crores, which also reflects a significant sequential improvement. PAT after minority interest stood at INR9.4 crores, with the quarter includes the exceptional gain of INR3.5 crores arising from the sale of Dehradun plant.

Coming to the standalone performance, revenue from the operations grew 10.1% on a Y-o-Y to INR236.4 crores, driven by healthy execution across core railway business and sustained traction across key product segments. Gross profit increased 7.2% on Y-o-Y to INR60.3 crores. While gross profit margin stood at 25.5%, the moderation in gross margin was primarily due to the higher raw material cost and increased input cost volatility due to the West Asia crisis.

Despite the volatile operating environment and higher raw material cost arising from the West Asia crisis, we were able to maintain healthy profitability with standalone EBITDA at INR25.1 crores, witnessing a growth of 3.2% on Y-o-Y, and EBITDA margin of 10.6%. Standalone PAT stood at INR15.5 crores (wrongly said, kindly read it as INR15.1 crore), registering a 17.8% year-to-year growth.

This is all from my side. I now open the floor for Q&A.

Moderator: Thank you very, sir. We will now begin the question-and-answer session. Our first question comes from the line of Shubhi Gupta with Trinetra Asset Managers.

Shubhi Gupta: So, my question is that the capacity that we have purchased for the copper conductors, sir, I think 60% to 70% is for our own captive use and other we'll sort of sell. Sir, how much is CTC and how much is enameled paper insulated copper conductors?

Manoj Nair: So if I may answer this, the overall 350 metric tonne capacity that we have installed, the CTC capacity is about 220 metric tonne, but this is expandable because we may not be using the entire 220 metric tonne for ours immediately, but this is expandable. Rest of it is PICC and EPICC. EPICC has much higher capacity, more than 350 metric tonne.

Shubhi Gupta: Okay, sir. And so how much do we expect -- how much of our revenue share do we expect to get from this in coming years? Any range or idea on that?

Manoj Nair: At this point of time, we are focusing on more internal consumption. We have started taking few orders. This year we'll be primarily focusing on the internal consumption, while we establish credentials for the external orders -- with the external orders, primarily in the power sector.

Moderator: Our next question comes from the line of Deepak Purswani with SVAN Investments.

Deepak Purswani: Sir, just wanted to check it out, a couple of things. Firstly, on the propulsion system, for this year if you can update us how has been the railway tendering? I think every year in the month of July there has been tendering for the procurement of propulsion stuff. So how we are placed at this point of time for these opportunities, if you can please update on that one?

Manoj Nair: So currently we have tenders which are in pipeline, which are in the processing stage, in the sense all production units have released tenders for propulsion units. Like our CMD mentioned that there has been a delay in the tender processing, this is moved to this quarter. So we expect some of these tenders to get finalized towards the end of this quarter. So to your question, yes, we have propulsion system orders or tenders in pipeline.

Deepak Purswani: Okay. And secondly on the Metro and Vande Bharat trainset, if you can please update on the -- I mean from the annual perspective how are we seeing the tendering activity for these kind of businesses?

Manoj Nair: I'm sorry, can you please repeat?

Deepak Purswani: Sir, what is the annual tendering for the -- this MEMU trainset orders for the Vande Bharat and Metro projects?

Manoj Nair: So the MEMU tenders are primarily in the range of about 200 to 250 trainsets in a year, which has already been tendered by all the 3 coach factories. Vande Metro is the first tender, as we have already mentioned, so that's all for this year. There are certain Vande Bharat and some other configuration of Vande Bharat that is in pipeline. But we are actively participating in wherever the trainset tenders are currently being pursued. So whatever orders have come through are all part of this year's requirement.

Deepak Purswani: Okay. And finally, if you can also give a sense about this IGBT converter opportunities for the mining segment, which we are looking out to explore at the U.S. market? From the prototype stage to when we would be moving to the full-fledged product development tendering activity? What kind of opportunity are there in the U.S. market for these kind of segments? And which are the other markets which we can explore for this product?

Suramya Nevatia: So regarding the U.S. converters, we are bound by very stringent NDA clauses. So we cannot really discuss too much about it. But we expect to ship the product within 6 months. And once it is shipped and they install it and it's commissioned and the performance is satisfactory, we can expect more orders. Today we cannot reveal the rating, and we cannot reveal the configuration of this converter. But the opportunity within the U.S. for this is tremendous, and we intend to use those credentials to then go into different segments, including India.

Moderator: Our next question comes from the line of Midhun James with Moat PMS.

Midhun James: So my question is regarding, so we are supplying -- for example, we are supplying transformers, traction motors, converters, etcetera. And we are a development vendor for propulsion system. So how does it actually differ? As in, in a propulsion system you have all these components, if I'm not wrong.

And where I'm coming from is that we recently came across a company which got listed called MV Electrosystems, which is claiming that they also have a full vendor approval for propulsion system. So they, and I understand MEDHA has also got that approval. So if railway's tendering happens for a propulsion system, then what is the relevance for the standalone power electronics parts that we kind of supply?

And if there is an opportunity for that, then what is -- I mean how -- I'm not able to sort of figure out how does this play out in the railway tendering system? If you can throw some color on that.

Suramya Nevatia: Yes. So the terminology propulsion system, it differs from application to application. So when we talk about locomotives, the propulsion system constitutes primarily 4 products, which is your main traction converter, auxiliary converter, vehicle control unit, and the driver display unit. That's all that is a part of the propulsion system for locomotive. And the traction transformer, traction motor, HVAC system, brake system, everything else is bought separately. It's more like an a la carte sort of a situation.

When you move to trainsets, then the terminology changes. Then the propulsion system means the main converter, the auxiliary converter, the train control management system, the driver display unit, the driver desk, and it also includes the transformers and the motors and all other electrics and electronics that go into the trainset. So that is the differentiating factor in terminology of both the different or different kinds of trains for Indian Railways.

And regarding our competitors, yes, there are a handful of them who are competing with us in different segments and different categories, but I would not like to comment neither positively nor negatively about any of our competitors, peers, or rivals. So thank you.

Midhun James: Yes. So I think that gives a little bit more clarity. So what you're essentially saying is that for a trainset, then your opportunity for revenue improves significantly from the INR3 crores to INR4 crores which was mentioned in the previous call, so that would be upward INR40 crores, 50 crores, if I'm not wrong. Am I right in that assumption?

Suramya Nevatia: No, the numbers are skewed. It is INR5.5 crores for locomotives, it is INR15 crores approximately for a MEMU motor coach, and approximately INR60 crores for a trainset.

Midhun James: Okay. Okay. And one more on the same line. So what would be the TAM for the propulsion system? So if my ballpark numbers are right, I believe there are about 10,000 odd locomotives in the Indian Railway system, and roughly about 1,500 locos get tendered every year, I don't know if the numbers are right. But what could be the TAM that we are looking at?

Where I'm coming from is basically our guidance or our aspiration that we would be sort of a 1 billion revenue company in the next 4 to 5 years. I don't see that kind of a TAM from the railway propulsion systems per se, because if the numbers, whatever you are saying, and if my assumptions on the fresh tendering every year, then the TAM is significantly lower. Am I right? Wrong? Can you give some clarity?

Suramya Nevatia: Yes. So there are 2 different things here. First is the ambitions that we have is not solely dependent or relying on Indian Railway propulsion system. Indian Railway propulsion system is the launchpad for us to get credentials and to get involved with many more applications and many more territories. So that is a separate question.

Regarding the TAM, again, you have to break it up into different segments. If you talk about propulsion system for locomotives, yes, it is 1,500 annually, and then it is going to be tapered at 1,500, 1,200, more or less. But then the real increase of TAM is in the trainsets, where Indian Railways has just sort of started their journey of migrating or transforming their rail network from locos and coaches to trainsets. And that's where the real opportunity will come in the next couple of years.

Moderator: The next question comes from the line of Nishita with Sapphire Capital.

Nishita Shanklesha: Yes. So I had a few questions. My first question is on the order book. You mentioned that a few of our orders were delayed. Can you quantify the orders that were delayed and which we are expecting in Q2?

Suramya Nevatia: No, we cannot quantify it, because that would not be right for us today. But what I can tell you is that tenders we participated in, we are at very good positions and it's a matter of time when the orders are placed. And it's not just us, Indian Railways has not placed orders for all these components yet.

Nishita Shanklesha: Okay. Okay. Understood. So like by the end of FY27, what does our closing order book look like? If you can give some sort of guidance on that?

Suramya Nevatia: No, we cannot -- Anil?

A.K. Nemani: No, we cannot provide today.

Suramya Nevatia: No. No, we cannot provide that today.

Nishita Shanklesha: Okay. No problem. And I just wanted to understand that the current 5% EBITDA margins that is done, is there any scope of the margins going lower or are these the sustainable numbers for at least next 4, 5 quarters?

A.K. Nemani: See, the consolidated margins, as I mentioned in the speech also, consolidated margin is lower because we have them -- growing up them at our France entity, Elventive France. Standalone margins are around 10.8%.

Yes. So, it will take some time, maybe 3 to 4 quarters, before it picks up. If you see that let's say from March to June, where we had done poor in totally finished, consolidated. It has already improved.

Nishita Shanklesha: Okay.

A.K. Nemani: So that is next 5 years is us -- we're just expecting it to be 3 to 5 years, I mean, 3 to 5 quarters, it will improve all this.

Nishita Shanklesha: Okay. So like in 4 to 5 quarters we can expect Elventive France to be EBITDA breakeven, right?

A.K. Nemani: Yes, correct.Definitely.

Moderator: The next question comes from the line of Ashish Soni, an individual investor.

Ashish Soni: Sir, regarding this MEMU and Vande Bharat orders which we got, so who were our competitors? And any margin profile for these orders, if you can share? And this U.S. order, is it some sort of like trial order and it will ramp up after this trial order? Just give color on that as well.

Suramya Nevatia: Yes, I've already covered this before. The U.S. orders are prototypes, and once they are executed, we expect bulk orders. For the trainset orders, our competition profile is the same as the propulsion system and other electronic products that we serve. It's all the same competitors. We cannot give any indication of the margin profile product-wise.

Ashish Soni: Okay. And in your opening comment you spoke about propulsion, I think 9,000 kilometers. So when do you think it can get completed and you can move from the development to the main vendor stage for the propulsion system for Indian Railways?

Manoj Nair: We expect the field trials to be completed in the next few months. However, at this point, it's perhaps more advantageous for us to stay in development because we are eligible for 20% of the tendered quantity, whereas there are about 6 or 7 different people in approved source fighting for the balance 80%. So mathematically, it makes a little bit more sense to be where we are at this stage.

Ashish Soni: Okay. And in terms of your own margin profile for this MEMU, Vande Bharat, and propulsion, which is the highest one for you? You don't need to give number, but at least from ranking perspective which is the one -- which is having higher margins for you?

Manoj Nair: I think -- obviously we have more clarity on the propulsion system because we are already into it, so that is obviously better. But MEMU and Vande Metro, we are still in the prototype stage, so we would not like to share more at this point of time.

Ashish Soni: Okay. And one last question about that 1 billion aspiration. So when do you think strategy will -- can come for the investors, like what you guys are thinking, because it was discussed in last con call as well as today also, but when is the strategy coming for investors to look at it?

Suramya Nevatia: No, the strategy is already in play. We will not make it public, that's for sure, but it's already in play because all of these things that are resulting into new orders is a part of that big aspirational ambition that we have. And you'll keep seeing different things happening throughout the year. And yes, that's what we're working towards.

Moderator: The next question comes from the line of Uzair Lari with Aveksat Financial Advisory. Mr. Uzair, we can't hear you. Could you please use your handset?

Uzair Lari: Yes.

Moderator: No, sir. You're still not audible. Can you speak a bit louder or use your handset?

Uzair Lari: Yes, hello. Am I audible now?

Moderator: Yes, sir, perfect. Thank you.

Uzair Lari: Yes. Sir, I have a question related to this propulsion system. It's like what is the delivery payment structure? Suppose we get an order for a propulsion system, the delivery lies somewhere around 18 to 20 months, let's say. So what is the payment structure here? Is it milestone-based payment or will we get the complete payment after delivering the system?

Suramya Nevatia: After delivering.

Uzair Lari: Okay. And one more question, sir, like what is our strategy for this defense segment? Like, what major products are we targeting? Any idea on that? And will it be like majorly are we targeting the domestic defense segment? Or we are looking for export also?

Suramya Nevatia: No, we are looking at multiple different avenues within defense locally at first, in the range within power electronics sector. We don't know exactly what product it is, and we cannot disclose that, but it is within the existing core profile that we have.

Moderator: The next question comes from the line of Sajal Raj with Zenflow Finance.

Sajal Raj: Yes. So sir, I just wanted, if possible, can you give a guidance on the number of propulsion units that you will be able to produce in a year when the approval comes?

Manoj Nair: So, if you are talking about the locomotive propulsion system, we are geared up for about roughly 120 sets per annum. But we are staging the facility for further quantities as we scale up the numbers. So, it's not an infrastructure issue at all. It is more about the numbers that we -- the orders that we take in. So, we don't see an issue with the production capacity.

Moderator: The next question comes from the line of Midhun James with Moat PMS. Please go ahead.

Midhun James: Thanks for the follow-up. So, the question is regarding the development vendor status that we discussed now. So, are we the only development vendor currently for propulsion systems? As I understand -- and part of the question is that, as I understand, there are only 2 Indian origin full service vendors and then there are other multinationals like Siemens, Alstom, MV, etcetera for propulsion systems.

So do we have -- does the railway push for Aatmanirbhar or indigenization for the propulsion systems? Are they given specific weightages, the likes of MEDHA and MV? And do we get the entire 20% development vendor quota in the tenders going forward?

Manoj Nair: So answer to your first question, yes, we are the only development vendor for the propulsion system. In terms of a full in-house capability across all the systems, sub-systems related to propulsion, yes. Apart from us there is only another Indian source, rest of them are multinationals, as you said.

But there is -- as far as preferential treatment, there is no preferential treatment, it is more about the performance. So Indian Railways qualifies the vendors based on the quality and performance, reliability of the product, and not any specific preference.

Midhun James: Okay. But recently we came across a news item which says that -- which has put up certain conditions saying that the technology has to be -- sorry.

Moderator: Sorry to interrupt. Mr. Midhun, could you please speak a bit louder?

Midhun James: Yes. Am I clear now?

Moderator: Yes, sir, you're clear.

Midhun James: So we recently came across a news item which says that the Indian Railways have put up certain conditions where in which the technology has to be either it has to be 10 years old or it has to be within India and there are multiple conditions like that. So does that disqualify some of the multinationals or companies which have sort of acquired technology from the multinationals to participate in these propulsion tenders?

Manoj Nair: Sir, I think as far as our current participation is concerned, tender qualification criteria follows the UVAM portal guidelines, and there is nothing that indicates that whatever you have just mentioned, this is not something which applies to our product ranges right now.

Midhun James: Sure, and does it benefit you in some way so that some of the current players are sort of weeded out because of that, or that is...

Manoj Nair: The benefit is definitely in terms of the quality, reliability, and the design control that we have on the product. So because it is -- everything is homegrown, so we have 100% control on our technology, whereas few others may have to be dependent on external support. So that's the benefit.

Moderator: Our next question comes from the line of Garvit Goyal with Serene Alpha.

Garvit Goyal: And my question on cost side, like quarter 1 management said we protected from escalation clause on cost side, and in standalone financial statements we see margins are little compressed. So can you tell us that is there any freight charges and other costs? Or there is any change in escalation clause area?

A.K. Nemani: You see, the margins are maintained by large effects, but the employee cost has little increased. As we mentioned in the initial remarks speech also that we have the big targets on this. So we have recruited the number of employees, but the benefit will be seen in the coming year. Okay. But we can say today we have more than approximately 200 employees in the R&D also. If you strictly analyze all this breakup of the cost etcetera, if you exclude the increase in the employee cost, we have done much better for this versus Q4 also last year.

Garvit Goyal: Okay. It means our escalation clause is the same, sir, as you mentioned in quarter...

A.K. Nemani: Yes, correct.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question for today. I now hand the conference over to the management for closing comments.

Suramya Nevatia: I hope we have been able to address all your queries. Thank you everyone for joining the call today. It was a pleasure to speak with you and we look forward to continuing our engagement soon. Thank you.

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