Management Discussion

Suramya Nevatia - Chairman and Managing Director
Good morning, everyone. And thank you for joining us for the Q1 FY27 earnings call of HIRECT Ltd. I am pleased to be joined by our newly appointed Executive Director and long-time CFO, Mr. A.K. Nemani. O ur new Global Chief Executive Officer, Mr. Anand Chidambaram, who I am 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. Madhu 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 Ltd, 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. A nd, 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 train set, 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 electronic segment. We have not been severely affected by it yet, but the industry has, leading to lopsided inventory at customer's end. We overcame this challenge a few years ago. A nd 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. B ut 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 chain, 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 e. 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 three to five 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 leads 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 markets. 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 a 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 four 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 train sets, and next-generation mobility applications.

Today, our content opportunity on the locomotive is around INR5.5 crores. With our entry into train set, this opportunity increases to around INR15 crores per MEMU train set, while platforms such as Vande Metro offer an opportunity of around INR60 crores per train set. Our addressable content per platform increases by roughly 3 times to 12 times. 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 train set application. And strengthen our credentials for larger system-level opportunities going forward.

These two 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 trials 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 system 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 longstanding 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, but 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 a $1 billion revenue company in the next five 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 - Chief Executive Officer
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. A nd 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 the active development, c overing 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 US 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 f acility'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 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.

Anil Kumar Nemani - Executive Director and CFO
Thank you, Mr. Nair. Good morning, everyone. Let me take you through the financial performance for Q1 of FY27. Starting with the consolidated financial performance, revenue from the operations grew 20.3% to INR258.4 Cr, supported by healthy underlying business momentum across the operations. Gross margin increased 32% on quarter- to- quarter to INR 73.2 Cr, for sales at 28.3%. Consolidated EBITDA stood at INR13.2 CR, which is do grew by 45.4% year- on- year and increased 57% sequentially, with an EBITDA margin 5.4%.

The consolidated margin was impacted by the ongoing integration and scale-up of the Illuminti [Phonetic] plants, which resulted in higher employee and operating expenses along with increase in other operating costs. As highlighted earlier, we expect this year term impact to continue for another three to five quarters as Illuminti [Phonetic] progresses towards breakeven, following which margins would improve at the business scale. Profit before exceptional item and tax stood at INR8.1 CR, which also reflects a significant sequential improvement.

PAT after minority interest stood at INR9.4 CR, which the quarter includes the exceptional gain of INR3.75 CR arising from the sale of Dehradun plant. Coming to the standalone performance, revenue from the operations grew 10.1% on YOY to INR36.4 CR, driven by healthy execution across core railway business and sustained traction across key product segments. Gross profit increased 7.2% on YOY to INR60.3 CR, 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 INR25.1 CR, witnessing a growth of 3.2% year-on-year and EBITDA margin of 10.6%. Standalone PAT stood at INR15.5 CR,

registering a 17.8% year-to-year growth. This is all from my side. I now open the floor for Q&A.

Questions & Answers

Operator
Thank you, sir. [Operator Instructions] Our first question comes from the line of Subi Gupta with Trinetra Asset Managers [Phonetic]. Please go ahead.

Subi Gupta - Analyst, Three Nature Asset Managers
Thank you so much for the opportunity. So my question is that the capacity that we have put for the copper conductors. So, I think, 60%-70% is for our own captive use and others we'll sort of sell. So how much is CTC and how much is enamelled paper insulated copper conductors?

Manoj Nair - Chief Executive Officer, HIRECT Ltd
So if I may answer this. T he overall 350 metric ton capacity that we have installed. The CTC capacity is about 220, but this is expandable because we may not be using the entire 220 for ourselves immediately, but this is expandable. So rest of it is PICC and EPICC. EPICC has much higher capacity, more than 350 metric tons.

Subi Gupta - Analyst, Three Nature Asset Managers
Okay, sir. And so how much do we expect -- how much of a revenue share do we expect to get from this incoming month? Any range or idea on that?

Manoj Nair - Chief Executive Officer, HIRECT Ltd
At this point of time, we are focusing on more internal consumption. We have started taking few orders. This year will be primarily focusing on the internal consumption while we establish credentials with the external orders, primarily in the power sector.

Operator
Thank you. Our next question comes from the line of Deepak Puraswani with Svan Investments. Please go ahead.

Deepak Puraswani - Analyst, Svan Investments
Thank you for the opportunity, sir. Just wanted to check it out 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 a 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.

Manoj Nair - Chief Executive Officer, HIRECT Ltd
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 tenders in pipeline.

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

Manoj Nair - Chief Executive Officer, HIRECT Ltd
I'm sorry, can you please repeat?

Deepak Puraswani - Analyst, Svan Investments
So what is the annual tendering for this MEMU train set orders for the Vande Bharat and Metro projects?

Manoj Nair - Chief Executive Officer, HIRECT Ltd
So, the MEMU tenders are primarily in the range of about 200 to 250 trains ets in a year, w hich has already been tendered by all the three 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 Puraswani - Analyst, Svan Investments
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 US market. From the prototype stage to when we would be moving to the full-fledged product development, tendering activity? W hat kind of opportunity are there in the US market for these kind of segments? And which are the other markets which we can explore for this product?

Suramya Nevatia - Chairman and Managing Director, HIRECT Ltd
So regarding the US 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 six 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 US for this is tremendous. And we intend to use those credentials to then go into different segments, including India.

Operator
Thank you. [Operator Instructions] Our next question comes from the line of Midhun James with Moat PMS. Please go ahead.

Midhun James - Analyst, Moat PMS
Hi, t hanks for the opportunity. So my question is regarding -- so we are supplying, for example, we are supplying transformers, traction motors, converters, etc. A nd we are a development vendor for propulsion system. So how does it actually differ? As 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, Electro Systems, which is claiming that they also have a full vendor approval for propulsion systems.

So, they and I understand MEDA has also got that approval. So, if railways tendering happens for a propulsion system, then what is the relevance for the standalon power electronics parts that we kind of supply? And if there is an opportunity for that, then what is, what is I mean, I'm not able to sort of figure out how does this play a role related to the system? If you can throw some color on that.

Suramya Nevatia - Chairman and Managing Director, HIRECT Ltd
Yeah, so the terminology propulsion system, it differs from application to application. So when we

talk about locomotive, the propulsion system constitutes primarily four 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.

And when you move to train sets, and 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, a nd electronics that go into the said train set. So that is the differentiating factor in terminology of both the 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 - Analyst, Moat PMS
Yeah, so, I think , that gives a little bit more clarity. So what you are essentially saying is that for a train set, 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 - INR50 crores , if I'm not wrong. A m I right in that assumption?

Suramya Nevatia - Chairman and Managing Director, HIRECT Ltd
No, the numbers are skewed. It is INR5.5 crores for locomotive. It is INR15 crores approximately for a MEMU motor coach and approximately INR60 crores for a train set.

Midhun James - Analyst, Moat PMS
Okay, thank you. 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 am coming from is basically our guidance or our aspiration that we would be sort of a $1 billion revenue company in the next four to five years.

I don't see that kind of a TAM from the railway propulsion systems per se because 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 - Chairman and Managing Director, HIRECT Ltd
Yes, so there are two 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 a 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 train sets where Indian Railways has just sort of started their journey of migrating or transforming their rail network from locos and coaches to train sets. And that's where the real opportunity will come in the next couple of years.

Operator
Thank you, sir. The next question comes from the line of Nishita with Sapphire Capital. Please go ahead.

Nishita Shanklesha - Analyst, Sapphire Capital
Yeah, 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 orders that were delayed and which we are expecting in Q2?

Suramya Nevatia - Chairman and Managing Director, HIRECT Ltd
N o. W e cannot quantify it because that would not be right for us today. But what I can tell you is that -- 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, it is railways has not placed orders for all these components yet.

Nishita Shanklesha - Analyst, Sapphire Capital
Okay, understood. So, 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 - Chairman and Managing Director, HIRECT Ltd
No, we cannot, can we? No. W e cannot provide that today.

Nishita Shanklesha - Analyst, Sapphire Capital
Okay, no problem. And I just wanted to understand that the current 5% EBITDA margins that we've done, is there any scope of the margins going lower, or are these the sustainable numbers for at least next four-five quarters?

Anil Kumar Nemani - Chief Financial Officer, HIRECT Ltd
See, the consolidated margins, as I mentioned in the speech also, consolidated margin is lower because we have them going up in the month, our advanced entity. trade on margins are much more around 10.8%. Yes, s o, it will take some time, may be three to four quarters i t takes, okay. As if you see , let say, March to June, where we have done poor in the totality consolidated, it has been already improved. So, that is maximum time, we are just expecting it three to five years, three to five quarters, you need to bother.

Nishita Shanklesha - Analyst, Sapphire Capital
Okay, so in four to five quarters, we can expect Elventive France to be at the term breakeven, right?

Anil Kumar Nemani - Chief Financial Officer, HIRECT Ltd
Yes, correct, definitely.

Operator
Thank you. [Operator Instructions] The next question comes from the line of Ashish Soni, an Individual Investor. Please go ahead.

Ashish Soni - Analyst, Individual Investor
Sir, this MEMU and Vande Bharat orders which we got, so who are our competitors and any margin profile for these orders, if you can share? And this US order, is it some sort of trial order and it will ramp up after this trial order? Just give a color on that as well.

Suramya Nevatia - Chairman and Managing Director, HIRECT Ltd
Yes, I have already covered this before. The US orders are prototypes, and once they are executed, we'll expect bulk orders. For the train set 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 - Analyst, Individual Investor
Okay. And in your opening committee, 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?

Suramya Nevatia - Chairman and Managing Director, HIRECT Ltd
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 six or seven 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 - Analyst, Individual Investor
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 - Chief Executive Officer, HIRECT Ltd
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'd not like to share more at this point of time.

Ashish Soni - Analyst, Individual Investor
Okay. And one last question about that $1 billion aspirations. When do you think strategy can come for the investors? 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 - Chairman and Managing Director, HIRECT Ltd
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 yeah, that's what we're working towards.

Operator
Thank you. [Operator Instructions] The next question comes from the line of Uzair Lari with Aveksat Financial Advisory. Please go ahead.

Uzair Lari - Analyst, Aveksat Financial Advisory
Good morning. S o, I have a question related to this propulsion system. So , 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 - Chairman and Managing Director, HIRECT Ltd
After delivery.

Uzair Lari - Analyst, Aveksat Financial Advisory
Okay. And one more question. So , what is our strategy for this defense segment? 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 - Chairman and Managing Director, HIRECT Ltd
No, we are looking at multiple different avenues within defense locally at first, in the range -- in the 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.

Operator
Thank you. The next question comes from the line of Sachin Raj with Z-Flow Finance [Phonetic]. Please go ahead.

Sachin Raj - Analyst, Z-Flow Finance
Yeah, S o, 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 w hen the approval comes?

Manoj Nair - Chief Executive Officer, HIRECT Ltd
So, if you're 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've taken. So, we don't see an issue with the production capacity.

Operator
Thank you. [Operator Instructions] The next question comes from the line of Midhun James with Moat PMS . Please go ahead.

Midhun James - Analyst, Moat PMS
Yeah, 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 a part of the question is that, as I understand, there are only two Indian-origin full-service vendors, and then there are other multinationals like Siemens, Alstom, ABB, etc., for propulsion systems. So, do we have -- does the railway push for Atmanirbhar or Indianization for the propulsion systems? Are they given any specific weightage as the likes of MEDA and MV? And do we get the entire 20% development vendor quota in the tenders [Indecipherable].

Manoj Nair - Chief Executive Officer, HIRECT Ltd
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, subsystems 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 - Analyst, Moat PMS
Okay, but recently we came across a news item which says that -- which has put up certain conditions saying that the technology -- . So, recently came across a news item which says that the Indian Railways have put up certain conditions wherein 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 - Chief Executive Officer, HIRECT Ltd
So, I think, as far as our current participation is concerned, tender qualification criteria follows the UAM portal guidelines, and there is nothing that indicates that whatever you have just mentioned, this is not something which applies to our product range right now.

Midhun James - Analyst, Moat PMS
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 - Chief Executive Officer, HIRECT Ltd
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.

Operator
Thank you. Our next question comes from the line of Garvit Goel w ith Serene Alpha. Please go ahead.

Garvit Goel - Analyst, Serene Alpha
Hello, am I audible? And thanks for the opportunity, sir. And my question on cost side, quarter one management said, we protected from escalation clause on cost side, and in standalone financial statements, we see margins are little compared. S o can you tell us that if there any base charges and other costs, or there is unchanged escalation clause?

Anil Kumar Nemani - Chief Financial Officer, HIRECT Ltd
Yeah, you see, the margins are maintained by [Indecipherable], but employees' cost has little increased. As we mentioned in initial month's speech also, we have the big targets on that, so we have recruited the number of employees and the benefit will be seen in the coming year. But you can say today we have more than approximately 200 employees in the R&D also. If you are exclude, if you analyze all this backup of the cost, etc., if you exclude the increase in the employees' cost, we have done much better. So, that's what is worse than that before also last year.

Garvit Goel - Analyst, Serene Alpha
Okay. Means our escalation clause is the same, sir, as you mentioned quarter ago.

Anil Kumar Nemani - Chief Financial Officer, HIRECT Ltd
Correct.

Operator
Thank you. L adies and gentlemen, d ue to time constraint, that was the last question for today. I now hand the conference over to the management for closing comments.

Suramya Nevatia - Chairman and Managing Director, HIRECT Ltd
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.

Operator
Thank you. On behalf of HIRECT Ltd., that concludes this conference. Thank you for joining us. A nd you may now disconnect your lines. Thank you.