

July 8, 2020

## Management Meet Update

### Key Financials - Standalone

Y/e Mar	2017	2018	2019	2020
Sales (Rs. m)	14,267	14,339	19,690	24,006
EBITDA (Rs. m)	3,148	3,672	5,178	6,021
Margin (%)	22.1	25.6	26.3	25.1
PAT (Rs. m)	3,309	3,317	4,447	5,964
EPS (Rs.)	13.2	13.3	22.2	23.9
Gr. (%)	(51.5)	0.8	67.2	7.3
DPS (Rs.)	6.7	5.5	12.8	9.2
Yield (%)	2.7	2.8	2.8	2.8
RoE (%)	16.9	15.7	19.4	23.0
RoCE (%)	25.0	23.1	29.7	23.6
EV/Sales (x)	1.9	1.3	0.9	2.8
EV/EBITDA (x)	5.1	6.2	4.6	4.9
PE (x)	16.3	14.5	11.6	9.9
P/BV (x)	2.6	2.4	2.2	2.6

### Key Data

### RITE.BO | RITS IN

52-W High / Low	Rs. 331 / Rs. 191
Sensex / Nifty	36,329 / 10,706
Market Cap	Rs.67.4 bn/ \$ 899.3 m
Shares Outstanding	250.0 m
3M Avg. Daily Value	Rs.215.8 m

### Shareholding Pattern (%)

Promoter's	72.02
Foreign	2.91
Domestic Institution	16.39
Public & Others	8.68
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	9.6	(11.9)	16.9
Relative	3.7	(1.4)	23.8

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## Playing to its strengths

We recently hosted Mr. Rajeev Mehrotra, CMD of Rites Ltd to gain insights on company's growth strategy and industry outlook. RITES (niche player providing design, engineering and consultancy services in transportation infrastructure) is well-positioned to gain traction in the infrastructure sector on the back of: 1) an impressive execution track record; 2) a strong balance sheet with healthy return ratios; and 3) a healthy order book-to-sales ratio. FY20 has been a successful year for the company that achieved highest ever consolidated revenue/PAT growth of 22%/29% YoY, beating their own guidance (17% YoY growth). Growth was mainly driven by Exports, Leasing and Turnkey business.

Order book as on 4QFY20 stood at Rs62.2bn majorly comprising of Consultancy (40%), Turnkey (34%) and Exports (23%) segment which also provided a revenue visibility for next few years. At the current market price, the stock is trading at a P/E of 9.6x and an EV of 3.7x EBITDA FY22E earnings vs. peers (EIL is trading at a P/E of 8.6x and an EV/EBITDA of 2.7x and NBCC at a P/E of 10x and an EV/EBITDA of 9.8x FY22 earnings). NOT RATED

**Key businesses:** RITES is a leading player in providing comprehensive range of consultancy services across various segments that include Railways, Roads, Ports and Airports. It is also into Leasing, Exports and maintenance plus rehabilitation of locomotives & rolling stock. Moreover, it undertakes EPC projects on turnkey basis.

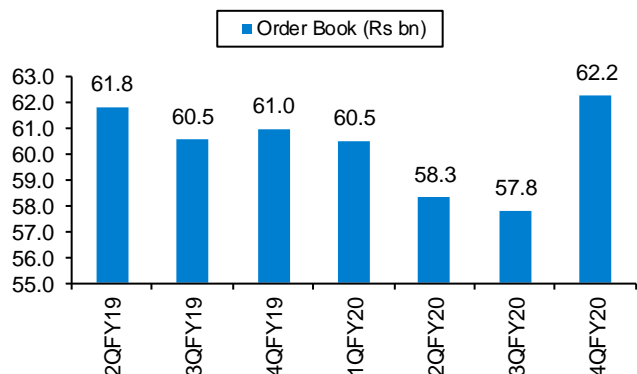
**Credentials and diversity boost consultancy segments, huge opportunity domestically & internationally:** Consultancy has been a key segment for the company that generated revenues of ~Rs10.7bn in FY20 (~9% CAGR over FY15-20). The company lost some revenues due to disruption caused in March as well as some foreign projects that got affected due to lockdown. Post partial upliftment, management indicated that the pipeline of projects picked up significantly and it expects to see good attraction in orders from Metro (~Rs15bn), Railways (~Rs10bn), Highways and Ports. Mgt pointed out that large ticket size projects have seen deferment whereas small value order awards continued during lockdown.

**Despite pandemic, leasing business grows 16.5% YoY in FY20E:** RITES is one of the dominant players (market leader) in leasing locomotive segment across the country having a fleet of 62 (6 locomotive's added in FY20) locomotive trains. Over FY15-20, the leasing segment has grown at ~11% CAGR driven by increasing client base, gaining market share and additional local requirements by existing clients. As locomotive segment has long term agreement (~2 years) in place with its clients, management expects to maintain 38-40% margins going forward.

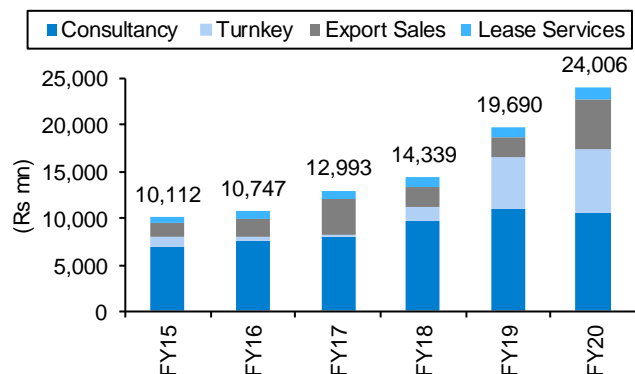
**Exports continue to be major driver:** Over the few years, company has made its presence felt across various Asian countries such as Sri Lanka, Bangladesh, Nepal, etc. by offering quality products and value offering thereby increasing its order book to ~Rs14.4bn. Thus revenue has increased at 30% CAGR over FY15-20. Despite competition from foreign players, quality product offering and competitive pricing, the company has been able to bag various project (recently took ~Rs7.1bn export contract of Diesel Motor Unit (DMU) from Mozambique).

### Other Highlights:

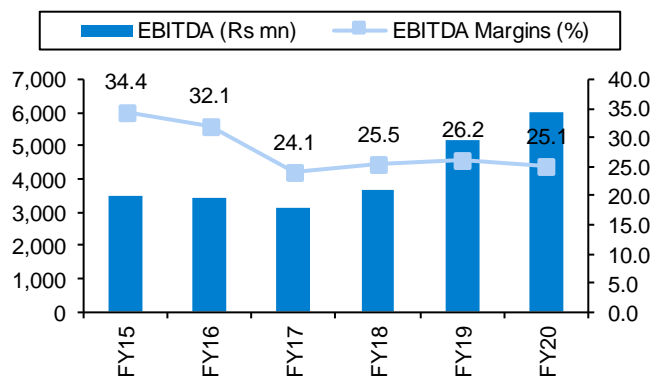
- **Consultancy:** Revenue stood at Rs11bn largely dominated by railways segment (60% of total revenues, of which 90-95% contributed by domestic) while Airports, Ports, Highways and others contribute 40%.
- **Leasing** segment has been growing led by continuous gain in market share, increase in client base and additional local requirements by existing clients. In FY20, company added 62nd locomotive (up by 6) to the leasing fleet.
- **Exports:** RITES got many enquiries for railways segment from Bangladesh, Nepal, Sri Lanka. In FY20, there were two milestones, a) completed supply of 6 DMU's to Sri Lanka and based on good quality output, it received repeat order for 2 more DMU and b) successfully completed supply of 10 locomotives. **RITES forayed into KPL (Kamarajar Port Ltd) market, and bagged Rs7.1bn exports contract of DEMU from Mozambique in June,2020.**
- After securing **turnkey project** from MOR for construction/electrification of railway lines in FY16, RITES ventured into undertaking turnkey construction projects on cost-plus basis for railway electrification, line up gradation works for railway transport systems and modernization of workshops. **Gross Margin in this business is 8.5% and after overheads as well as staff cost for supervision of the projects, RITES earns 3.5 to 4% EBIT margin.**
- **REMCL investment-** Rites has 51% stake in REMCL while balance being owned by Indian Railways. As on date, the company has invested ~Rs700mn as equity and has a cash reverse of Rs900mn. Further, the company is expected to incur an equity of investment of Rs1.5-1.8bn for 400MW (total project cost ~Rs18bn) solar power plant through PSU Investment model.
- Opportunity of 3GW solar power project could be divided into three phases:
  - Opportunity of 1.6 GW solar power project where land would be provided by Indian Railways and investment will be made by a developer. In this developer model, RITES will be acting as a consultant for which it would receive a fee of Rs0.07/unit and will not be investing any equity.
  - 0.4 GW opportunity on PSU investment model where RITES intends to invest in 400MW solar plant as an equity partner. The total project cost is expected to be ~Rs18bn (assuming Rs45mn/MW), of which company expects 20% subsidiary from government. For the balance portion, RITES would be investing at a D: E ratio of 80:20.
  - For balance 1GW, the company is evaluating a developer model for various land parcel which are parallel along the railway tracks. At current juncture, some land parcel has been identified by the company for development based on developer model. For this, the company would be receiving the fee of Rs0.07/unit acting as a consultant.
- Management highlighted that consultancy and exports business would be major growth drivers for next 2-3years.
- RITES guided for a capex for addition of ~15 locomotives to the tune of Rs800mn, construction of office buildings in Kolkata and Lucknow worth Rs400mn and Rs400mn on digitalization in FY21E.

**Exhibit 1: OB stands healthy at Rs62bn as on 4QFY20**


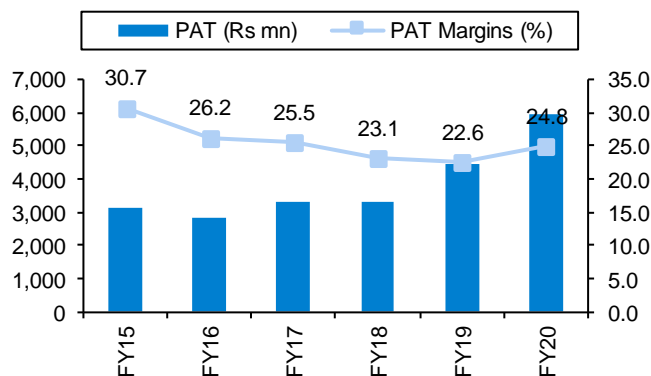
Source: Company, PL

**Exhibit 2: Revenue grew at CAGR of 19% over FY15-20**


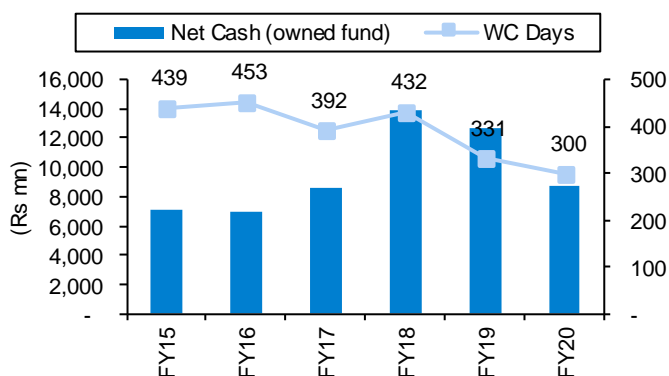
Source: Company, PL

**Exhibit 3: Higher share of PMC segment impacts margin**


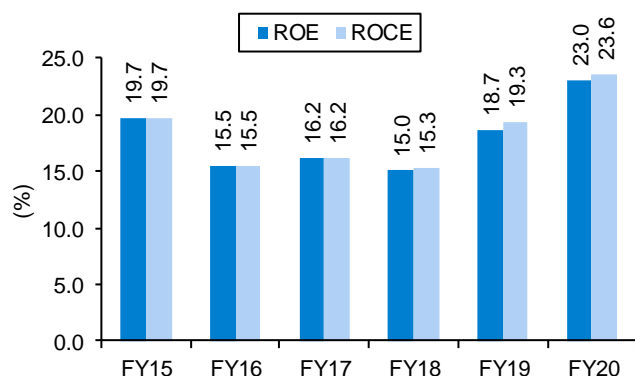
Source: Company, PL

**Exhibit 4: PAT grew at a CAGR of 14% over FY15-20**


Source: Company, PL

**Exhibit 5: Net cash of ~Rs9bn as on 4QFY20**


Source: Company, PL

**Exhibit 6: Asset light model leads to better return ratio**


Source: Company, PL

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Hold	874	943
2	Ahluwalia Contracts (India)	BUY	264	215
3	Apar Industries	BUY	587	368
4	Ashoka Buildcon	BUY	147	64
5	Bharat Electronics	Hold	90	104
6	BHEL	Hold	34	41
7	Capacite's Infraprojects	BUY	162	111
8	Container Corporation of India	Accumulate	468	434
9	Cummins India	BUY	472	411
10	Engineers India	BUY	104	73
11	GE T&D India	Hold	71	82
12	H.G. Infra Engineering	BUY	259	200
13	IRB Infrastructure Developers	BUY	139	113
14	ITD Cementation India	BUY	67	52
15	J.Kumar Infraprojects	BUY	176	102
16	Kalpataru Power Transmission	BUY	261	258
17	KEC International	BUY	296	275
18	KNR Constructions	BUY	305	215
19	Larsen & Toubro	BUY	1,192	941
20	NCC	BUY	83	33
21	PNC Infratech	BUY	205	151
22	Power Grid Corporation of India	BUY	205	170
23	Sadbhav Engineering	BUY	128	25
24	Siemens	BUY	1,402	1,157
25	Thermax	Accumulate	798	760
26	Triveni Turbine	BUY	83	75
27	Voltamp Transformers	BUY	1,244	1,132

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: >15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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