

RITES Ltd

Sensex	64,422
Nifty	19,247

Key Stock Data

CMP	₹441.3/-
Target Price	₹475 (+7.6%)
Market Cap (₹mn.)	₹106,033.2
52W High/Low	584/306
Shares o/s (mn.)	240.3
NSE Code	RITES
BSE Code	541556
Bloomberg	RITE:IN

Shareholding Pattern Sep'23 (%)

Promoters	72.2
DIs	12.7
FIs	4.0
Public	11.1

(₹ mn)

	FY20	FY21	FY22
Net Sales	24,006	18,432	25,752
EBIDTA	6,021	5,056	6,520
EBIDTA Margin (%)	25.1	27.4	25.3
PAT	5,964	4,244	4,971
EPS (₹)	24.8	17.7	20.7
DPS (₹)	16.0	13.0	17.0
RoE (%)	23.1	18.3	20.7
RoCE (%)	28.9	22.1	26.2
P/E (x)	17.8	25.0	21.3
EV/EBITDA (x)	16.2	19.6	15.5
P/BV (x)	4.3	4.6	4.4

	FY23	FY24E	FY25E
Net Sales	25,196	24,573	30,799
EBIDTA	6,553	5,162	8,031
EBIDTA Margin (%)	26.0	21.0	26.1
PAT	5,305	4,118	5,959
EPS (₹)	22.1	17.1	24.8
DPS (₹)	20.5	17.0	22.0
RoE (%)	21.2	15.4	19.8
RoCE (%)	25.5	16.7	22.7
P/E (x)	20.0	25.7	17.8
EV/EBITDA (x)	15.2	12.6	9.4
P/BV (x)	4.2	4.1	4.0

Source: Company, Way2Wealth

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Summary

RITES reported Q2FY24 Revenue was at ₹5.49bn (-13% YoY & +9.1% QoQ) with Consultancy – Domestic revenue at ₹2.76bn (+8.4 YoY & +16.2% QoQ) and Consultancy- Abroad revenue at ₹179mn (down from ₹326mn YoY). There was lower execution in exports and Turnkey segments which declined 99%/6.3% YoY to ₹7mn/₹2.23bn respectively. EBIDTA was at ₹1.11bn (down 29.9% YoY) and PAT at ₹1.17bn (-11.3%YoY & +21.6% QoQ).The company registered EBIDTA Margins of 20.2% as against 25% YoY & 25.1% QoQ. EBIDTA Margins are in pressure due to increase in competition, as moving away from nomination and there will be stress in the margin going ahead in the entire four segments. While the margins of the Consultancy Domestic/Abroad segment stood at 42.1%/9.9%; Leasing/Export/Turnkey projects reported EBIT margins of 40.4%/-315.3%/1% respectively. The company declared 2nd interim dividend of ₹4.5 per share taking 1HFY24 dividend to ₹8.25 with annualized dividend yield is healthy at ~4%.

Orderbook stood at ₹55.29bn as of Q2FY24 end with break up as follows: 48% from the Consultancy (₹26.4bn), 46% from the Turnkey (₹25.4bn), 1% from the Exports (₹590mn), 3% from the Leasing (₹1.9bn), and 2% (₹1bn) from the REMCL segment. 51% of the projects in the order book are through the nomination and the balance 49% is through competitive bidding. Projects secured during the quarter were at ₹3.29bn with Consultancy at ₹2.6bn, Turnkey at ₹180mn and Lease at ₹510mn.

It has an Export order book of ₹55bn (2.2x FY23 revenue) but export order is 1% in this book. Company is L1 in export order to Bangladesh (coaches worth ₹15bn), Mozambique (Locos/wagons worth ₹5bn) and Zimbabwe order. It expects these orders to get LoA in Q3FY23 and revenue generation is expected from FY25.

High margin quality assurance (~15% contribution to revenue) revenue has declined by 25%. In terms of Quality assurance/Inspection business, the revenue has dropped to ₹780mn wherein earlier average revenue in QA was around ₹900-1000mn, this is mainly due to increasing competitive bidders & the management is trying to diversify the client base to Non Indian Railways clients in this segment & guiding to reach historical revenues till FY25.

In Q2FY24 secured 70 orders inflows worth ₹3.29bn which stood at 0.85 orders per day, RITES has guided to win 1 order a day in upcoming months. It has tied up with IRFC/PFC & other players IRFC to handle Due diligence for them regarding their Investment Proposals, expecting more opportunities to receive from them.

REMCL has surpassed the Revenue & Profits of last year .It has seen 15-16% revenue increase, Higher other income is primarily attributed to dividend of ₹267mn from REMCL.

Total Capex of ₹630mn in 1HFY24 and ₹1.25-1.5bn of capex target in FY24 and going ahead it will be in the range of ₹1bn/year

Key Highlights for Quarter

➤ **Q2FY24 Performance down due to lower execution Exports & Turnkey** – RITES Q2FY24 Revenue was at ₹5.49bn (-13%YoY & +9.1%QoQ) with Consultancy – Domestic revenue at ₹2.76bn (+8.4% YoY & +16.2% QoQ) and Consultancy- Abroad revenue at ₹179mn (down from ₹326mn YoY). There was lower execution in exports and Turnkey segments which declined 99%/6.3% YoY to ₹7mn/₹2.23bn respectively. EBIDTA was at ₹1.11bn (down 29.9% YoY) and PAT at ₹1.17bn (-11.3%YoY & +21.6% QoQ).The company registered EBIDTA Margins of 20.2% as against 25% YoY & 25.1% QoQ. EBIDTA Margins are in pressure due to increase in competition, as moving away from nomination and there will be stress in the margin going ahead in the entire four segments. While the margins of the Consultancy Domestic/ Abroad segment stood at 42.1%/9.9%; Leasing/Export/Turnkey projects reported EBIT margins of 40.4%/-315.3%/1% respectively. The company declared 2nd interim dividend of ₹4.5 per share taking 1HFY24 dividend to ₹8.25 with annualized dividend yield is healthy at ~4%.

- **Orderbook stood at ₹55.29bn as of Q2FY24 end** with break up as follows: 48% from the Consultancy (₹26.4bn), 46% from the Turnkey (₹25.4bn), 1% from the Exports (₹590mn), 3% from the Leasing (₹1.9bn), and 2% (₹1bn) from the REMCL segment. 51% of the projects in the order book are through the nomination and the balance 49% is through competitive bidding. Projects secured during the quarter were at ₹3.29bn with Consultancy at ₹2.6bn, Turnkey at ₹180mn and Lease at ₹510mn.
- **Export opportunity** – BITES has an order book of ₹55bn (2.2x FY23 revenue) but export order is 1% in this book. Company is L1 in export order to Bangladesh (coaches worth ₹15bn), Mozambique (Locos/wagons worth ₹5bn) and Zimbabwe order. It expects these orders to get LoA in Q3FY23 and revenue generation is expected from FY25.

The management is bidding global tenders in regions like Southeast Asia, Africa & Latin America, due to Global Competitors the Margins for this projects may differ.

The management has guided that they are using 3 fold strategies for bringing back Revenue to historical levels. Strategy includes putting more focus on Project Consultancy, Try & Diversify Inspection Segment of business & aggressively Pursue export opportunities.

- **Quality assurance** – High margin quality assurance (~15% contribution to revenue) revenue has declined by 25%. In terms of Quality assurance/Inspection business, the revenue has dropped to ₹780mn wherein earlier average revenue in QA was around ₹900-1000mn, this is mainly due to increasing competitive bidders & the management is trying to diversify the client base to Non Indian Railways clients in this segment & guiding to reach historical revenues till FY25.
- **In Q2FY24 secured 70 orders inflows worth ₹3.29bn which stood at 0.85 orders per day**, BITES has guided to win 1 order a day in upcoming months. It has tied up with IRFC/PFC & other players IRFC to handle Due diligence for them regarding their Investment Proposals, expecting more opportunities to receive from them.
- REMCL has surpassed the Revenue & Profits of last year, Indian Railway is main client for REMCL & also RMCL has declared dividends. REMCL has seen 15-16% revenue increase, Higher other income is primarily attributed to dividend of ₹267mn from REMCL..
- Total Capex of ₹630mn in 1HFY24 and ₹1.25-1.5bn of capex target in FY24 and going ahead it will be in the range of ₹1bn/year.

View

BITES saw weak Q2FY24 due to low execution primarily in Exports and Turnkey projects. Q2FY24 was 5th consecutive quarter of YoY revenue decline and has also seen sharp cut in margins, impacted from competitive intensity. Stabilisation in revenue is expected post receipt of export order of ₹30bn+ where it is L1. While domestic consultancy looks good the international number is weak. On export orders, new inflows – beyond Bangladesh, Mozambique and Zimbabwe – are speculative. Without timely conversion of the won orders into execution, BITES is at risk moderate revenue growth. The increasing Railway and Road capex is throwing massive opportunities in various areas of consultancy for the company along with other business verticals to grow. **Hence, we view it as ACCUMULATE stock with a fair value of ₹470-475.**

FINANCIALS

(₹ mn)

	Q2FY24	Q2FY23	VAR[%]	Q1FY24	VAR [%]	1HFY24	1HFY23	VAR [%]
Revenue from Operations	5,493	6,317	(13.0)	5,037	9.1	10,529	12,100	(13.0)
Employee Expenses	1,188	1,193	(0.4)	1,235	(3.8)	2,423	2,476	(2.1)
Employee Exps. as a %age of sales	21.6	18.9	27.4	24.5	(289)	23.0	20.5	25.5
Travel	142	124	13.7	127	11.9	268	249	7.5
Travel as a %age of sales	2.6	2.0	61	2.5	6	2.5	2.1	48
Supply & Services	2,734	2,589	5.6	1,901	43.8	4,635	4,666	(0.7)
Supplies & Services as a %age of sales	49.8	41.0	879	37.7	1,203	44.0	38.6	54.5
Export Purchases	209	196	6.6	56	272.7	265	500	(46.9)
Export Purchases as a %age of sales	3.8	3.1	70	1.1	269	2.5	4.1	(161)
Inventory Changes of Stock in Trade	(204)	277	(173.9)	208	(198.3)	4	444	(99.2)
Other Expenses	317	359	(11.6)	248	27.9	565	624	(9.5)
Other Expenses as a %age of sales	5.8	5.7	9	4.9	426	5.4	5.2	21
EBIDTA	1,107	1,579	(29.9)	1,263	(12.3)	2,370	3,141	(24.5)
EBITDA Margins %	20.2	25.0	(483)	25.1	(491)	22.5	26.0	(345)
Other Income	514	312	64.6	177	190.6	691	626	10.3
Depreciation	117	151	(22.3)	140	(16.1)	257	279	(8.0)
EBIT	1,504	1,740	(13.6)	1,300	15.7	2,804	3,488	(19.6)
Interest	14	11	28.8	9	55.4	24	23	2.6
PBT	1,490	1,729	(13.8)	1,291	15.4	2,781	3,465	(19.7)
Tax	324	415	(22.0)	332	(2.4)	656	859	(23.6)
Profit After Tax	1,166	1,314	(11.3)	959	21.6	2,125	2,607	(18.5)
EPS	4.9	5.5		4.0		8.8	10.8	

Source: Company, Way2Wealth

SEGMENTAL PERFORMANCE

(₹ mn)

	Q2FY24	Q2FY23	VAR[%]	Q1FY24	VAR [%]	1HFY24	1HFY23	VAR [%]
REVENUES								
Consultancy-Domestic	2,757	2,543	8.4	2,373	16.2	5,130	4,928	4.1
Consultancy-Abroad	179	245	(27.0)	326	(45.0)	505	698	(27.6)
Export Sales	7	788	(99.1)	385	(98.1)	392	1,590	(75.4)
Leasing-Domestic	313	355	(11.8)	308	1.7	621	692	(10.2)
Turnkey Cons Proj-Domestic	2,236	2,386	(6.3)	1,645	35.9	3,881	4,192	(7.4)
Total Segment Revenue	5,493	6,317	(13.0)	5,037	9.1	10,529	12,100	(13.0)
EBIT								
Consultancy-Domestic	1,161	1,150	1.0	1,046	11.0	2,207	2,185	1.0
Margin %	42.1	45.2	-312	44.1	(199)	43.0	44.3	-132
Consultancy-Abroad	18	70	(74.6)	147	(88.0)	165	317	(48.0)
Margin %	9.9	28.4	(1,852)	45.1	(3,522)	32.6	45.4	(1,277)
Export Sales	(23)	180	112.6	43	(153.2)	20	384	94.8
Margin %	(315.3)	22.8	(33,807)	11.1	(32,638)	5.1	24.1	(1,902)
Leasing-Domestic	127	129	(1.9)	114	10.9	241	267	(9.9)
Margin %	40.4	36.3	406	37.0	336	38.7	38.6	14
Turnkey Cons Proj-Domestic	22	86	(74.6)	40	(44.8)	62	157	(60.7)
Margin %	1.0	3.6	(263)	2.4	(143)	1.6	3.7	(215)

Source: Company, Way2Wealth

FINANCIALS & VALUATIONS

	(₹ mn)						
	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Sales	19,690	24,006	18,432	25,752	25,196	24,573	30,799
EBIDTA	5,167	6,021	5,056	6,520	6,553	5,162	8,031
EBIDTA Margin (%)	26.2	25.1	27.4	25.3	26.0	21.0	26.1
PAT	4,447	5,964	4,244	4,971	5,305	4,118	5,959
EPS (₹)	18.5	24.8	17.7	20.7	22.1	17.1	24.8
DPS (₹)	12.8	16.0	13.0	17.0	20.5	17.0	22.0
RoE (%)	18.7	23.1	18.3	20.7	21.2	15.4	19.8
RoCE (%)	26.4	28.9	22.1	26.2	25.5	16.7	22.7
P/E (x)	23.8	17.8	25.0	21.3	20.0	25.7	17.8
EV/EBITDA (x)	18.5	16.2	19.6	15.5	15.2	12.6	9.4
P/BV (x)	3.8	4.3	4.6	4.4	4.2	4.1	4.0
Debt / Equity	1.0	1.1	1.1	1.2	1.1	0.9	0.7
Interest Coverage	234	272	199	137	90	115	177
Cash Balances	34,634	36,184	33,190	32,663	33,967	32,995	49,376

Source: Company, Way2Wealth

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Name of the Security	BITES Ltd.
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	No
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

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