

# RITES Ltd

<b>Sensex</b>	62,207
<b>Nifty</b>	18,402

**Key Stock Data**

CMP	₹373.1/-
Target Price	₹425(+13.9%)
Market Cap (₹mn.)	₹89,656.6
52W High/Low	433/226
Shares o/s (mn.)	240.3
NSE Code	RITE:IN
BSE Code	RITES
Bloomberg	541556

**Shareholding Pattern Mar'23 (%)**

Promoters	72.2
DIs	15.9
FIs	3.4
Public	10.5

(₹ mn)

	FY20	FY21	FY22
Net Sales	24,006	18,432	25,752
EBIDTA	6,021	5,056	6,520
<i>EBIDTA Margin (%)</i>	<i>25.1</i>	<i>27.4</i>	<i>25.3</i>
PAT	5,964	4,244	4,971
EPS (₹)	24.8	17.7	20.7
DPS (₹)	16.0	13.0	17.0
RoE (%)	20.4	16.8	19.7
RoCE (%)	30.5	15.7	22.8
P/E (x)	15.0	21.1	18.0
EV/EBITDA (x)	13.5	16.3	13.0
P/BV (x)	3.6	3.9	3.7

	FY23P	FY24E	FY25E
Net Sales	25,196	29,484	32,316
EBIDTA	6,553	8,987	10,006
<i>EBIDTA Margin (%)</i>	<i>26.0</i>	<i>30.5</i>	<i>31.0</i>
PAT	5,305	5,694	6,361
EPS (₹)	22.1	23.7	26.5
DPS (₹)	20.5	22.0	24.0
RoE (%)	21.2	19.5	20.2
RoCE (%)	24.7	25.4	26.9
P/E (x)	16.9	15.7	14.1
EV/EBITDA (x)	12.7	11.7	11.5
P/BV (x)	3.6	3.3	3.1

Source: Company, Way2Wealth

**JAYAKANTH KASHURI**

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**Summary**

**RITES reported Q4FY23 Revenue at ₹6.6bn (-11.4% YoY / +1.3% QoQ) led by Consultancy – Domestic revenue at ₹2.86bn (+2.8% YoY & +14.2% QoQ) and Consultancy – Abroad revenue at ₹544mn (from ₹365mn YoY). EBIDTA was at ₹1.71bn (down 8.8% YoY) and PAT at ₹1.38bn (+6.5% YoY). The company registered EBIDTA Margins of 25.9% in Q4FY23 as against 25.1% YoY & 26.3% QoQ. Export sales of ₹934mn (down 74.6% YoY) with slowdown in rolling stock orders. The rolling stock export orders are long-period orders (3-4 years) and the management expects the spillover of export revenue of FY23 to be seen in FY24. The company expects good export orders in FY24 as negotiations with interested parties are at an advanced stage.**

**Leasing revenue was at ₹331mn (-2% YoY) while Turnkey at ~₹2.3bn (+58.4% YoY). While the margins of the Consultancy Domestic/ Abroad segment stood at 46.8%/67.4%, Leasing/Export/Turnkey projects reported EBIT margins of 28.8%/10.9%/3.1% respectively. The Board of Directors have recommended a final dividend of ₹6/share (60% of paid-up share capital) for FY23, making the total dividend payout ratio of 92.8% in FY23.**

**The Quality Assurance business contributed revenue of ₹3.93bn in Q4FY23 with a growth of 20% YoY. The company expects the QA business to grow at a healthy rate moving forward.**

**Orderbook stood at ₹58.7bn as of Q4FY23 end with break up as 45% from the Consultancy (₹26.57bn), 49% from the Turnkey (₹28.5bn), 2% from the Exports (₹990mn), 3% from the Leasing (₹1.64bn), and 2% (₹1bn) from the REMCL segment.**

**The company's Capex target range is ₹1bn for FY24. As of 31 March 2023, the cash balances on the balance sheet was at ₹33.97bn. The company generated OCF of ₹4714.7mn in FY23 (₹2910.9mn in FY22) on the back of higher profit and better-working capital management. OCF/EBITDA conversion stood at 72% against 45% the previous year.**

**Key Highlights for Quarter**

- **Q4FY23 sequential revenue growth led by 14.2% QoQ growth in consultancy business – RITES Q4FY23 Revenue was at ₹6.6bn (-11.4%YoY / +1.3%QoQ) led by Consultancy – Domestic revenue at ₹2.86bn (+2.8% YoY & +14.2% QoQ) and Consultancy- Abroad revenue at ₹544mn (from ₹365mn YoY). EBIDTA was at ₹1.71bn (down 8.8% YoY) and PAT at ₹1.38bn (+6.5%YoY). The company registered EBIDTA Margins of 25.9% in Q4FY23 as against 25.1% YoY& 26.3% QoQ. Export sales of ₹934mn (down 74.6% YoY) with slowdown in rolling stock orders. The rolling stock export orders are long-period orders (3-4 years) and the management expects the spillover of export revenue of FY23 to be seen in FY24. The company expects good export orders in FY24 as negotiations with interested parties are at an advanced stage. Leasing revenue was at ₹331mn (-2% YoY) while Turnkey at ~₹2.3bn (+58.4% YoY).While the margins of the Consultancy Domestic/ Abroad segment stood at 46.8%/67.4%,Leasing/Export/Turnkey projects reported EBIT margins of 28.8%/10.9%/3.1%respectively. The Board of Directors have recommended a final dividend of ₹6/share (60% of paid-up share capital) for FY23, making the total dividend payout ratio of 92.8% in FY23. The dividend will be paid in FY24 subject to the approval of shareholders.**
- **Orderbook stood at ₹58.7bn as of Q4FY23 end with break up as follows: 45% from the Consultancy (₹26.57bn), 49% from the Turnkey (₹28.5bn), 2% from the Exports (₹990mn), 3% from the Leasing (₹1.64bn), and 2% (₹1bn) from the REMCL segment. 53% of the projects in the order book are through the nomination and the balance 47% is through competitive bidding.**
- **Consultancy remained the highest revenue and profit earning segment. The foreign consultancy's segment reported the highest-ever revenue of ₹1592mn in FY23 and increased its share to 13% v/s 10% in FY22. The company's order book of ₹26.57bn in the Consultancy segment is to be executed over the next two years. The Quality Assurance business contributed revenue of ₹3.93bn in Q4FY23 with a growth of 20% YoY. The company expects the QA business to grow at a healthy rate moving forward.**

- **REMC business** – In Q4FY23, the business recorded revenue of ₹310mn, a healthy performance on account of energy management activities. The business has seen the highest-ever revenue and profit recorded during FY23. The company aims to maintain healthy growth in the REMC business as it's a high margin business.
- The company's Capex target range is ₹1bn for FY24. As of 31 March 2023, the cash balances on the balance sheet was at ₹33.97bn. The company generated OCF of ₹4714.7mn in FY23 (₹2910.9mn in FY22) on the back of higher profit and better-working capital management. OCF/EBITDA conversion stood at 72% against 45% the previous year.

### View

The increasing Railway and Road Capex in the Union Budget 2023-24 is throwing massive opportunities in various areas of consultancy for the company along with other business verticals to grow. With a good orderbook position, efficient execution prowess, clean balance sheet, high return ratios, and healthy dividend payout, **we expect the company to post healthy number going forward; hence, we view it as ACCUMULATE stock with a fair value of ₹415-425.**

**FINANCIALS**

	Q4FY23	Q4FY22	VAR[%]	Q3FY23	VAR [%]	FY23	FY22	VAR [%]
	(₹ mn)							
<b>Revenue from Operations</b>	<b>6,590</b>	<b>7,442</b>	<b>(11.4)</b>	<b>6,506</b>	<b>1.3</b>	<b>25,196</b>	<b>25,752</b>	<b>(2.2)</b>
Employee Expenses	1,355	1,342	1.0	1,245	8.8	5,077	5,164	(1.7)
Employee Exps. as a %age of sales	20.6	18.0	253	19.1	143	20.1	20.1	10
Travel	153	124	23.4	134	13.8	537	422	27.3
Travel as a %age of sales	2.3	1.7	66	2.1	25	2.1	1.6	49
Supply & Services	2,542	1,769	43.7	2,532	0.4	9,740	5,899	65.1
Supplies & Services as a %age of sales	38.6	23.8	1,481	38.9	(33)	38.7	22.9	1,575
Export Purchases	350	1,401	(75.0)	137	155.3	987	4,780	(79.4)
Export Purchases as a %age of sales	5.3	18.8	(1,351)	2.1	320	3.9	18.6	(1,465)
Inventory Changes of Stock in Trade	39	481	91.9	404	(90.4)	887	1,508	41.2
Other Expenses	447	457	(2.3)	345	29.3	1,416	1,458	(2.9)
Other Expenses as a %age of sales	6.8	6.1	63	5.3	5,788	5.6	5.7	(4)
<b>EBITDA</b>	<b>1,705</b>	<b>1,868</b>	<b>(8.8)</b>	<b>1,709</b>	<b>(0.2)</b>	<b>6,553</b>	<b>6,520</b>	<b>0.5</b>
<b>EBITDA Margins %</b>	<b>25.9</b>	<b>25.1</b>	<b>76</b>	<b>26.3</b>	<b>(40)</b>	<b>26.0</b>	<b>25.3</b>	<b>69</b>
Other Income	312	205	51.8	254	22.9	1,192	860	38.6
Depreciation	148	227	(34.7)	167	(11.3)	593.8	584.7	1.6
<b>EBIT</b>	<b>1,868</b>	<b>1,847</b>	<b>1.2</b>	<b>1,795</b>	<b>4.1</b>	<b>7,151</b>	<b>6,795</b>	<b>5.2</b>
Interest	23	13	77.9	20	16.5	66	50	33.5
<b>PBT</b>	<b>1,845</b>	<b>1,834</b>	<b>0.6</b>	<b>1,775</b>	<b>3.9</b>	<b>7,085</b>	<b>6,746</b>	<b>5.0</b>
Tax	461	535	(13.8)	460	0.2	1,780	1,775	0.3
<b>Profit After Tax</b>	<b>1,384</b>	<b>1,299</b>	<b>6.5</b>	<b>1,315</b>	<b>5.2</b>	<b>5,305</b>	<b>4,971</b>	<b>6.7</b>
<b>EPS</b>	<b>5.8</b>	<b>5.4</b>		<b>5.5</b>		<b>22.1</b>	<b>20.7</b>	

Source: Company, Way2Wealth Research

**SEGMENTAL PERFORMANCE**

	Q4FY23	Q4FY22	VAR[%]	Q3FY23	VAR [%]	FY23	FY22	VAR [%]
	(₹ mn)							
<b>REVENUES</b>								
Consultancy-Domestic	2,866	2,788	2.8	2,510	14.2	10,303	9,151	12.6
Consultancy-Abroad	544	365	49.0	350	55.4	1,592	1,039	53.2
Export Sales	554	2,502	(77.9)	934	(40.7)	3,078	9,658	(68.1)
Leasing-Domestic	331	338	(2.0)	355	(6.8)	1,377	1,310	5.2
Turnkey Cons Proj-Domestic	2,296	1,450	58.4	2,357	(2.6)	8,845	4,594	92.5
<b>Total Segment Revenue</b>	<b>6,590</b>	<b>7,442</b>	<b>(11.4)</b>	<b>6,506</b>	<b>1.3</b>	<b>25,196</b>	<b>25,752</b>	<b>(2.2)</b>
<b>EBIT</b>								
Consultancy-Domestic	1,342	1,187	13.0	1,150	16.7	4,676	3,713	25.9
Margin %	46.8	42.6	423	45.8	102	45.4	40.6	481
Consultancy-Abroad	367	211	73.9	152	140.8	836	586	42.7
Margin %	67.4	57.7	965	43.5	2,392	52.5	56.3	(385)
Export Sales	60	361	83.3	252	(76.1)	696	2,158	67.7
Margin %	10.9	14.4	(354)	27.0	(1,608)	22.6	22.3	27
Leasing-Domestic	95	73	29.7	116	(18.3)	479	454	5.5
Margin %	28.8	21.7	705	32.8	(406)	34.7	34.6	10
Turnkey Cons Proj-Domestic	71	83	(14.9)	119	(40.1)	346	124	179.8
Margin %	3.1	5.8	(266)	5.0	(193)	3.9	2.7	122

Source: Company, Way2Wealth Research

**FINANCIALS & VALUATIONS**

	(₹ mn)						
	FY19	FY20	FY21	FY22	FY23P	FY24E	FY25E
<b>Net Sales</b>	<b>19,690</b>	<b>24,006</b>	<b>18,432</b>	<b>25,752</b>	<b>25,196</b>	<b>29,484</b>	<b>32,316</b>
<b>EBIDTA</b>	<b>5,167</b>	<b>6,021</b>	<b>5,056</b>	<b>6,520</b>	<b>6,553</b>	<b>8,987</b>	<b>10,006</b>
<b>EBIDTA Margin (%)</b>	<b>26.2</b>	<b>25.1</b>	<b>27.4</b>	<b>25.3</b>	<b>26.0</b>	<b>30.5</b>	<b>31.0</b>
<b>PAT</b>	<b>4,447</b>	<b>5,964</b>	<b>4,244</b>	<b>4,971</b>	<b>5,305</b>	<b>5,694</b>	<b>6,361</b>
EPS (₹)	18.5	24.8	17.7	20.7	22.1	23.7	26.5
DPS (₹)	12.8	16.0	13.0	17.0	20.5	22.0	24.0
RoE (%)	19.4	20.4	16.8	19.7	21.2	19.5	20.2
RoCE (%)	28.1	30.5	15.7	22.8	24.7	25.4	26.9
P/E (x)	20.2	15.0	21.1	18.0	16.9	15.7	14.1
EV/EBITDA (x)	15.4	13.5	16.3	13.0	12.7	11.7	11.5
P/BV (x)	3.2	3.6	3.9	3.7	3.6	3.3	3.1
Debt / Equity	1.0	0.9	1.1	1.2	1.1	0.7	0.5
Interest Coverage	234	272	199	137	90	119	183
Cash Balances	34,634	36,184	33,190	32,663	33,967	38,615	47,427

Source: Company, Way2Wealth Research

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**Disclosure of Interest Statement in RITES Ltd. as on 23 May 2023**

Name of the Security	RITES 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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