RITES Ltd

Sensex	73,998
Nifty	22,499

Key Stock Data	
CMP	₹686.7/-
Target Price	**₹780.0** *(+13.6%)*
Market Cap (₹bn)	₹170.3
52W High/Low	826/365
Shares o/s (mn.)	240.3
NSE Code	RITES
BSE Code	541556
Bloomberg	RITE:IN

Shareholding Pattern	**Mar'24 (%)**
Promoters	72.2
DIIs	11.1
FIIs	4.2
Public	12.5

(₹mn)

Particulars	**FY21**	**FY22**	**FY23**
Net Sales	**18,432**	**25,752**	**25,196**
EBIDTA	**5,056**	**6,520**	**6,553**
EBIDTA Margin (%)	***27.4***	***25.3***	***26.0***
PAT	**4,244**	**4,971**	**5,305**
EPS (₹)	17.7	20.7	22.1
DPS (₹)	13.0	17.0	20.5
RoE (%)	18.3	20.7	21.2
RoCE (%)	22.1	26.2	25.5
P/E (x)	38.9	33.2	31.1
EV/EBITDA (x)	31.2	24.6	24.2
P/BV (x)	7.1	6.9	6.6

Particulars	**FY24P**	**FY25E**	**FY26E**
Net Sales	**23,120**	**25,799**	**29,476**
EBIDTA	**5,261**	**6,211**	**7,334**
EBIDTA Margin (%)	***22.8***	***24.1***	***24.9***
PAT	**4,541**	**4,732**	**5,673**
EPS (₹)	18.9	19.7	23.6
DPS (₹)	18.0	20.0	22.0
RoE (%)	18.1	19.2	21.3
RoCE (%)	25.1	20.5	22.8
P/E (x)	36.3	34.9	29.1
EV/EBITDA (x)	30.3	21.1	18.0
P/BV (x)	6.6	6.1	6.0

Source: Company, Way2Wealth

JAYAKANTH KASTHURI

jayakanthk@way2wealth.com

Ph:022-4019 2914

Summary

RITES reported Q4FY24 Revenue was at ₹6.1bn (-8% YoY & -7.2% QoQ) with Consultancy – Domestic revenue at ₹2.79bn (-2.6% YoY & -2.5% QoQ) and Consultancy – Abroad revenue at ₹224mn down from₹544mn YoY (+42.8% QoQ). The Exports revenue declined 88.8% YoY to ₹62mn. Overall EBIDTA was at ₹1.45bn, down 15.1% YoY & +0.3% QoQ) with EBITDA Margins of 23.9% as against 25.9% YoY & 22.1% QoQ. PAT was at ₹1.23bn, -11.1%YoY & +3.8% QoQ. The company declared final dividend of ₹5 per share taking FY24 dividend to ₹18 per share (F.V ₹10/-) with dividend payout ratio of 95.2%.

The margins of the Consultancy Domestic/ Abroad segment stood at 44.7%/50.5%; Leasing/Export/Turnkey projects reported EBIT margins of 40.1%/33.4%/4.9% respectively. The management stated that is witnessing increase in contribution from the non IR clients in QA (at 50%). The management is trying to strengthen International Quality Assurance segment; currently venturing for more opportunities in countries like UAE, Saudi, Oman, Qatar etc.

Orderbook stood at₹56.9bn (bill to book of 2.3x) as of Q4FY24-end with break up as follows: 46% from the Consultancy (₹26bn), 44% from the Turnkey (₹25bn), 5% from the Exports (₹2.9bn), 3% from the Leasing (₹1.7bn), and 2% from the REMCL segment. 54% of the projects in the order book are through the nomination and the balance is through competitive bidding.

In Q4FY24, order inflows was worth ₹6.33bn with major Turnkey order worth ₹4.14bn Infrastructure development at IIT Bhubaneshwar and Quality Assurance order worth ₹675mn for PM Vishwakarma scheme received.

Received LOA for Bangladesh order worth ₹9bn in May'24, to deliver 200 coaches in 8 different variants, currently design approval is in process & prototype will come up in 1 month. Management is expecting revenue to flow from Q3/Q4FY25 from this order. Timeline for the order completion is 2.5-3yrs.

Expects FY25 EBITDA margins to maintain around same levels as in FY24 due to high competition in global Export markets. Also in Quality Assurance segment the margins would be slight tighter but overall focus on margins to be around 25-27% and PAT margins at around 20% levels.

Key Highlights for Quarter

- **Q4FY24 performance saw decline in revenues from Exports, Q&A and competitive business environment in consultancy even as there was sequential improvement –** RITES Q4FY24 Revenue was at ₹6.1bn (-8% YoY & -7.2%QoQ) with Consultancy – Domestic revenue at ₹2.79bn (-2.6% YoY&-2.5% QoQ) and Consultancy- Abroad revenue at ₹224mn down from ₹544mn YoY (+42.8% QoQ). The Exports revenue declined 88.8% YoY to ₹62mn. Overall EBIDTA was at ₹1.45bn, down 15.1% YoY & +0.3% QoQ) with EBITDA Margins of 23.9% as against 25.9% YoY& 22.1% QoQ. PAT was at ₹1.23bn, -11.1%YoY& +3.8% QoQ. The margins of the Consultancy Domestics/ Abroad segment stood at 44.7%/50.5%; Leasing/Export/Turnkey projects reported EBIT margins of 40.1%/33.4%/4.9% respectively. The management stated that is witnessing increase in contribution from the non IR clients in QA (at 50%).The company declared final dividend of ₹5 per share taking FY24 dividend to ₹18 per share (F.V ₹10/-) with dividend payout ratio of 95.2%.
- The company continues to follow 3 point strategy i.e. a) Aims to bid for Exports order b) Will not only bid Indian Railways Segment but also will focus on Non-IR segment currently has ~50% Quality Assurance order in Non-IR Segment c) Maximise the project consultancy revenue.
- The management is trying to strengthen International Quality Assurance segment; currently venturing for more opportunities in countries like UAE, Saudi, Oman, Qatar etc.
- **Orderbook stood at ₹56.9bn (bill to book of 2.3x) as of Q4FY24-end** with break up as follows: 46% from the Consultancy (₹26bn), 44% from the Turnkey (₹25bn), 5% from

the Exports (₹2.9bn), 3% from the Leasing (₹1.7bn), and 2% from the REMCL segment. 54% of the projects in the order book are through the nomination and the balance is through competitive bidding.

- In Q4FY24, order inflows was worth ₹6.33bn with major Turnkey order worth ₹4.14bn Infrastructure development at IIT Bhubaneshwar and Quality Assurance order worth ₹675mn for PM Vishwakarma scheme received. Received +100 orders with 1 order per day.
- In Dec'23, received orders worth USD 37.68mn for 10 diesel locomotives from CFM, Mozambique.
- Received LOA for Bangladesh order worth ₹9bn in May'24, to deliver 200 coaches in 8 different variants, currently design approval is in process & prototype will come up in 1 month. Management is expecting revenue to flow from Q3/Q4FY25 from this order. Timeline for the order completion is 2.5-3yrs.
- Zimbabwe Order is still in approval process, the National Rail Zimbabwe had taken funding from Africa EXIM bank & the approval is still in process, once this is done LOA is likely to be approved.
- REMCL's Revenue and EBITDA grew 32.6% YoY and 48.4% YoY to ₹390mn and ₹310mn respectively with profit at ₹220mn, +53.6% YoY. RTC tenders LOA 900 MW have been signed & 2nd tender of 700mw have been signed, Bhilai Solar Project inauguration has led REMC in right direction & expecting the same going ahead.
- In terms of guidance, the management stated that it is bottom line driven company, expects FY25 EBITDA margins to maintain around same levels as in FY24 due to high competition in global Export markets. Also in Quality Assurance segment, the margins would be slight tighter but overall focus on margins to be around 25-27% and PAT margins at around 20% levels.

View

RITES's Q4FY24 witnessed decline in profits in Exports, Q&A and competitive business environment in consultancy on expected line with improvement in performance QoQ. The management intended performance for FY24 was in line to bid for Exports order, not only bid Indian Railways segment but also will focus on Non-IR segment and maximise the project consultancy revenue. Its continuity to focus on achieving one order per day with more of big tickets projects augers well for FY25. With expectation of increase in Railway and Road capex in the Final Budget 2024, throws open massive opportunities in various areas of consultancy for the company along with other business verticals to grow, as it has presence across 13 different industry streams thus providing revenue and profit visibility. **Hence, we view it as *ACCUMULATE* stock with a fair value of *₹760-780*.**

FINANCIALS

(₹ mn)

	Q4FY24	Q4FY23	VAR[%]	Q3FY24	VAR [%]	FY24	FY23	VAR [%]
Revenue from Operations	**6,062**	**6,590**	**(8.0)**	**6,529**	**(7.2)**	**23,120**	**25,196**	**(8.2)**
Employee Expenses	1,239	1,355	(8.5)	1,250	(0.9)	4,912	5,077	(3.2)
Employee Exps. as a %age of sales	*20.4*	*20.6*	*(12)*	*19.1*	*130*	*21.2*	*20.1*	*110*
Travel	177	153	15.8	142	24.7	587	537	9.4
Travel as a %age of sales	*2.9*	*2.3*	*60*	*2.2*	*75*	*2.5*	*2.1*	*41*
Supply & Services	2,915	2,542	14.7	3,060	(4.7)	10,610	9,740	8.9
Supplies & Services as a %age of sales	*48.1*	*38.6*	*951*	*46.9*	*121*	*45.9*	*38.7*	*723*
Export Purchases	16	350	(95.3)	82	(80.1)	364	987	(63.1)
Export Purchases as a %age of sales	*0.3*	*5.3*	*(504)*	*1.3*	*(99)*	*1.6*	*3.9*	*(234)*
Inventory Changes of Stock in Trade	3	39	(93.3)	242	98.9	248	887	(72.1)
Other Expenses	264	447	(40.9)	309	(14.7)	1,138	1,416	(19.6)
Other Expenses as a %age of sales	*4.4*	*6.8*	*(242)*	*4.7*	*(38)*	*4.9*	*5.6*	*(70)*
EBIDTA	**1,448**	**1,705**	**(15.1)**	**1,443**	**0.3**	**5,261**	**6,553**	**(19.7)**
EBITDA Margins %	***23.9***	***25.9***	***(198)***	***22.1***	***177***	***22.8***	***26.0***	***(325)***
Other Income	330	312	5.8	249	32.7	1,269	1,192	6.5
Depreciation	132	148	(10.9)	125.9	4.8	514.3	593.8	(13.4)
EBIT	**1,646**	**1,868**	**(11.9)**	**1,566**	**5.1**	**6,016**	**7,151**	**(15.9)**
Interest	5	23	(79.8)	19	(75.0)	47	66	(29.0)
PBT	**1,641**	**1,845**	**(11.1)**	**1,547**	**6.1**	**5,969**	**7,085**	**(15.8)**
Tax	410	461	(11.1)	361	13.5	1,428	1,780	(19.8)
Profit After Tax	**1,231**	**1,384**	**(11.1)**	**1,186**	**3.8**	**4,541**	**5,305**	**(14.4)**
EPS	5.1	5.8		4.9		18.9	22.1	

Source: Company, Way2Wealth

SEGMENTAL PERFORMANCE

(₹ mn)

	Q4FY24	Q4FY23	VAR[%]	Q3FY24	VAR [%]	FY24	FY23	VAR [%]
REVENUES								
Consultancy-Domestic	2,792	2,866	(2.6)	2,862	(2.5)	10,784	10,303	4.7
Consultancy-Abroad	224	544	(58.8)	157	42.8	886	1,592	(44.3)
Export Sales	62	554	(88.8)	580	(89.3)	1,034	3,078	(66.4)
Leasing-Domestic	394	331	19.2	365	7.9	1,381	1,377	0.3
Turnkey Cons Proj-Domestic	2,590	2,296	12.8	2,564	1.0	9,035	8,845	2.1
Total Segment Revenue	**6,062**	**6,590**	**(8.0)**	**6,529**	**(7.2)**	**23,120**	**25,196**	**(8.2)**
EBIT								
Consultancy-Domestic	1,247	1,342	(7.0)	1,199	4.0	4,653	4,676	(0.5)
Margin %	*44.7*	*46.8*	*(214)*	*41.9*	*278*	*43.1*	*45.4*	*(224)*
Consultancy-Abroad	113	367	(69.1)	20	477.6	298	836	(64.4)
Margin %	*50.5*	*67.4*	*(1,693)*	*12.5*	*3,799*	*33.6*	*52.5*	*(1,893)*
Export Sales	21	60	65.7	174	88.1	215	696	69.2
Margin %	*33.4*	*10.9*	*2,255*	*30.0*	*347*	*20.8*	*22.6*	*(186)*
Leasing-Domestic	158	95	66.0	147	7.4	546	479	14.0
Margin %	*40.1*	*28.8*	*1,130*	*40.2*	*(19)*	*39.5*	*34.7*	*476*
Turnkey Cons Proj-Domestic	128	71	80.3	60	112.6	250	346	(27.8)
Margin %	*4.9*	*3.1*	*185*	*2.3*	*259*	*2.8*	*3.9*	*(115)*

Source: Company, Way2Wealth

FINANCIALS & VALUATIONS

(₹ mn)

	FY19	FY20	FY21	FY22	FY23	FY24P	FY25E	FY26E
Net Sales	**19,690**	**24,006**	**18,432**	**25,752**	**25,196**	**23,120**	**25,799**	**29,476**
EBIDTA	**5,167**	**6,021**	**5,056**	**6,520**	**6,553**	**5,261**	**6,211**	**7,334**
EBIDTA Margin (%)	***26.2***	***25.1***	***27.4***	***25.3***	***26.0***	***22.8***	***24.1***	***24.9***
PAT	**4,447**	**5,964**	**4,244**	**4,971**	**5,305**	**4,541**	**4,732**	**5,673**
EPS (₹)	18.5	24.8	17.7	20.7	22.1	18.9	19.7	23.6
DPS (₹)	12.8	16.0	13.0	17.0	20.5	18.0	20.0	22.0
RoE (%)	18.7	23.1	18.3	20.7	21.2	18.1	19.2	21.3
RoCE (%)	26.4	28.9	22.1	26.2	25.5	25.1	20.5	22.8
P/E (x)	37.1	27.7	38.9	33.2	31.1	36.3	34.9	29.1
EV/EBITDA (x)	29.9	26.0	31.2	24.6	24.2	30.3	21.1	18.0
P/BV (x)	5.9	6.6	7.1	6.9	6.6	6.6	6.1	6.0
Debt / Equity (x)	1.0	1.1	1.1	1.2	1.1	1.0	0.8	0.5
Interest Coverage	234	272	199	137	90	120	114	107
Cash Balances	34,634	36,184	33,190	32,663	33,967	30,605	33,281	43,736

Source: Company, Way2Wealth

Disclaimer

Analyst Certification: I, Jayakanth Kasthuri, the research analyst and author of this report, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s), principally responsible for the preparation of this research report, receives compensation based on overall revenues of the company (Way2Wealth Brokers Private Limited, hereinafter referred to as Way2Wealth) and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

It is confirmed that Jayakanth Kasthuri, the author of this report has not received any compensation from the companies mentioned in the report in the preceding 12 months. Our research professionals are paid in part based on the profitability of Way2Wealth, which include earnings from other business. Neither Way2Wealth nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information contained in this report.

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Way2Wealth is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. The contents of this material are general and are neither comprehensive nor appropriate for every individual and are solely for the informational purposes of the readers. This material does not take into account the specific objectives, financial situation or needs of an individual/s or a Corporate/s or any entity/s.

This research has been prepared for the general use of the clients of the Way2Wealth and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Way2Wealth will not treat recipients as customers by virtue of their receiving this report. The distribution of this document in other jurisdictions may be restricted by the law applicable in the relevant jurisdictions and persons into whose possession this document comes should inform themselves about, and observe any such restrictions.

The report is based upon information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up to date and it should not be relied upon as such. Way2Wealth or any of its affiliates or employees makes no warranties, either express or implied of any kind regarding any matter pertaining to this report, including, but not limited to warranties of suitability, fitness for a particular purpose, accuracy, timeliness, completeness or non-infringement. We accept no obligation to correct or update the information or opinions in it. Way2Wealth or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. The recipients of this report should rely on their own investigations. In no event shall Way2Wealth be liable for any damages of any kind, including, but not limited to, indirect, special, incidental, consequential, punitive, lost profits, or lost opportunity, whether or not Way2Wealth has advised of the possibility of such damages.

This material contains statements that are forward-looking; such statements are based upon the current beliefs and expectations and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements. These uncertainties include but are not limited to: the risk of adverse movements or volatility in the securities markets or in interest or foreign exchange rates or indices; adverse impact from an economic slowdown; downturn in domestic or foreign securities and trading conditions or markets; increased competition; unfavorable political and diplomatic developments; change in the governmental or regulatory policies; failure of a corporate event and such others. This is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any particular trading strategy. No part of this material may be copied or duplicated in any form by any means or redistributed without the written consent of Way2Wealth. In no event shall any reader publish, retransmit, redistribute or otherwise reproduce any information provided by Way2Wealth in any format to anyone. Way2Wealth and its affiliates, officers, directors and employees including persons involved in the preparation or issuance of this report may from time to time have interest in securities / positions, financial or otherwise in the securities related to the information contained in this report.

To enhance transparency, Way2Wealth has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement in RITES Ltd. as on 31 May 2024

Name of the Security	**RITES Ltd.**
Name of the analyst	**Jayakanth Kasthuri**
Analysts' ownership of any stock related to the information contained Financial Interest Analyst : Analyst's Relative : Yes / No Analyst's Associate/Firm : Yes/No	No No 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

This information is subject to change without any prior notice. Way2Wealth reserves at its absolute discretion the right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, Way2Wealth is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.