

# RITES Ltd. (RITES)

Sensex	41,604
Nifty	12,208

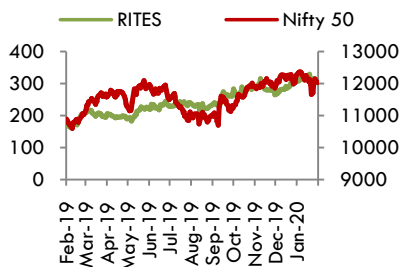
## Key Stock Data

CMP	₹310/-
Target Price	₹364 (+17.6%)
Market Cap (₹mn.)	₹77,475
52W High/Low	331/160
Shares o/s (mn.)	250
Bloomberg	RITE:IN
NSE Code	RITES
BSE Code	541556

## Shareholding Pattern (%)

Promoters	77.4
FIs & DIs	13.6
Public & Others	9.0

## Comparison Chart



	FY20E	FY21E	FY22E
Net Sales	26,809	34,985	46,432
Growth (%)	36.2	30.5	32.7
EBIDTA	5,710	6,210	7,220
EBIDTA Margin (%)	21.3	17.8	15.6
PAT	5,881	6,376	7,006
EPS (₹)	23.5	25.5	28.0
PE (x)	13.2	12.2	11.1

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## Summary

**RITES Ltd. (RITES) reported strong revenue growth of 16% YoY to ₹6,025.7mn with Consultancy, Leasing and Turnkey segments being the drivers. The management has maintained its FY20 order book target of ₹80,000mn with EBITDA margin at 35%.**

## Key Result Highlights

- Revenue grew by 16% YoY to ₹6,026.7mn (-17% QoQ from ₹7,262.1mn) driven primarily driven by Consultancy-Abroad, Leasing and Turnkey segments. The Consultancy-Abroad/Leasing/Turnkey grew 21.2%/14%/72.5% YoY to ₹192.1mn/₹304.1mn/₹1962mn respectively.
- The Consultancy-Domestic segment grew ~2% YoY/10% QoQ to ₹2,659.3mn. Currently rail consultancy orders constitute 62% (50-60% on nomination basis) of total consultancy orders worth ₹25,320mn. Under consultancy, the quality assurance revenue grew by ₹4000mn YoY to ₹2700mn with targeted revenue of ₹3,800mn for FY20.
- As per the management for 9MFY20, the consultancy-domestic revenue declined due to prolonged monsoon affecting project.
- Export sales declined ~11% YoY/ 65.4% QoQ to ₹908.2mn. As per the management the remaining two out of 10 Sri Lanka locos order will be shipped during Q4FY20. The management has stated that it is likely to get coach and locos African order worth ₹6,500mn in Q4FY20 with likely revenue of 15-20% from that order in FY21. Also plans to execute 160 coaches Sri Lankan order by end of Q3FY21.
- EBITDA grew by 6.4% YoY to ₹1,547.4mn (declined by 14.1% QoQ from ₹1,802.2mn) on better project/order execution. Staff expenses grew 0.4% YoY and 10.5% QoQ to ₹1,334mn while travel expenses grew 6.7% YoY and ~15% QoQ to ₹136.2mn.
- EBITDA Margins declined by 231 bps YoY to 25.7% (grew 86 bps QoQ from 24.8%) with guidance of 35% for FY20.
- During the quarter, the net profit grew +13.8% YoY to ₹1,397.4mn (-39.9% QoQ from ₹2,326.4mn).
- The current orderbook as on 31 December 2019 was at ₹57,820mn (Consultancy – 44%; Export Sales-13%; Turnkey project-39%; Lease – 2%).
- Order inflow during the quarter was at ₹1,329.6mn with major consultancy orders from Highways, Bridge, rolling stock, siding and locos leasing order.
- The company declared second interim dividend of ₹4 per share (F.V ₹10).
- Apart from rail Consultancy orders, the company expects to bag consultancy orders from Metros with 13 tender's worth ₹14,000mn under bidding, Highways orders, Airports orders since as per government plan 100 airports are to be constructed and renewable energy projects on rail lands.
- The company is also looking into station redevelopment orders with government plans to redevelop 400-600 stations in coming years.
- During the quarter, the Turkey segment revenues grew +72.5% YoY/9.9% QoQ to ₹1,962mn (Order book ₹22,550mn) and the management has targeted 25-30% of revenue (8.5% fee on cost plus basis) to come from this segment with orders worth ₹15,000-20,000 are under bidding stage. The management stated that its likely to get orders on Feb-Mar'20 with policy revision notified on 27 December 2019 and execution of projects to take place in FY21. ₹3,000-5,000mn worth rail electrification and 300kms of rail doubling lines orders are in pipeline.

- The company is also looking to play a key role in the planned Bangalore Suburban Rail network (done by pre-feasibility work) and Delhi-Mumbai expressway.
- Consultancy revenue guidance for Q4FY20 and FY20 at ₹3,500-4,000mn and ₹11,000-11,500mn respectively.
- FY20 Capex guidance of ₹700mn for new locomotives and in-service locomotives (buying from Indian Railways for export would lead to 30-50% of capex reduction).

### Valuations & Recommendation

With order pipeline visibility from railways having capex spend of ₹1.7-1.8tn and various infrastructure projects from Roads, Highways and construction projects worth ₹240bn in pipeline, we expect the company to bag at least 15-20% orders and continue its growth momentum with estimated CAGR earning growth of 16.4% for FY19-22E. Hence, we **maintain our BUY with a target price of ₹364 (P/E 13x FY22E)**

**Standalone Financials**

	(₹ mn)				
	Q3FY20	Q3FY19	VAR [%]	Q2FY20	VAR [%]
<b>Revenue from Operations</b>	<b>6,025.7</b>	<b>5,196.5</b>	<b>16.0</b>	<b>7,262.1</b>	<b>(17.0)</b>
Employee Expenses	1,334	1,328.3	18.2	1,206.8	10.5
<i>Employee Exps. as a %age of sales</i>	22.1%	25.6%		16.6%	
Travel	136.2	127.6	(128.2)	118.5	14.9
<i>Travel as a %age of sales</i>	2.3%	2.5%		1.6%	
Supply & Services	433.2	457.4	18.2	479.2	(9.6)
<i>Supplies &amp; Services as a %age of sales</i>	7.2%	8.8%		6.6%	
Export Purchases	206.4	713.1	18.2	914.3	(77.4)
<i>Export Purchases as a %age of sales</i>	3.4%	13.7%		12.6%	
Inventory Changes of Stock in Trade	378.6	(50.9)	18.2	736.7	(48.6)
Cost of Turnkey Cons Projects	1,751.2	1,079.0	18.2	1,639.6	6.8
<i>Cost of Turnkey Cons Projects as a %age of sales</i>	29.1%	20.8%		22.6%	
Other Expenses	238.7	87.4	(25.2)	364.8	(34.6)
<i>Other Expenses as a %age of sales</i>	4.0%	1.7%		5.0%	
<b>EBIDTA</b>	<b>1,574.4</b>	<b>1,454.6</b>	<b>34.7</b>	<b>1,802.2</b>	<b>(14.1)</b>
<b>EBIDTA Margins %</b>	<b>25.7%</b>	<b>28.0%</b>		<b>24.8%</b>	
Other Income	430.1	471.3	(41.3)	1,475	(70.8)
Depreciation	102.0	82.7	22.4	96.5	5.7
<b>EBIT</b>	<b>1,875.5</b>	<b>1,758.8</b>	<b>18.4</b>	<b>3,180.7</b>	<b>(41.0)</b>
Interest	7.4	6.1	(42.4)	7.3	1.4
<b>PBT</b>	<b>1,868.1</b>	<b>1,755.0</b>	<b>70.5</b>	<b>3,173.4</b>	<b>(41.1)</b>
Tax	470.7	608.9	1109.1	847.0	(44.4)
<b>Profit After Tax</b>	<b>1,397.4</b>	<b>1,228.2</b>	<b>13.8</b>	<b>2,326.4</b>	<b>(39.9)</b>
<b>EPS</b>	<b>5.6</b>	<b>6.1</b>		<b>9.3</b>	

**Segment Performance**

	(₹ mn)				
	Q3FY20	Q3FY19	VAR [%]	Q2FY20	VAR [%]
<b>REVENUES</b>					
Consultancy-Domestic	2,659.3	2,618.3	1.6	2,428.7	9.5
Consultancy-Abroad	192.1	158.5	21.2	124.7	54.0
Export Sales	908.2	1,015.9	(10.6)	2,621.4	(65.4)
Leasing-Domestic	304.1	266.7	14.0	302.1	0.7
Turnkey Cons Proj-Domestic	1,962.0	1,137.1	72.5	1,785.2	9.9
<b>Total Segment Revenue</b>	<b>6,025.7</b>	<b>5,196.5</b>	<b>16.0</b>	<b>7,262.1</b>	<b>(28.4)</b>
<b>EBIT</b>					
Consultancy-Domestic	1,230.4	1,004.8	29.5	1,101.9	(12.5)
<i>Margin %</i>	46.3%	38.4%		45.4%	
Consultancy-Abroad	95.8	83.8	(18.5)	35.5	(36.0)
<i>Margin %</i>	49.9%	52.9%		28.5%	
Export Sales	193.4	297.3	162.2	683.2	(26.4)
<i>Margin %</i>	21.3%	29.3%		26.1%	
Leasing-Domestic	103.4	88.5	162.2	127.7	162.2
<i>Margin %</i>	34.0%	33.2%		42.3%	
Turnkey Cons Proj-Domestic	61.1	17.5	162.2	75.7	162.2
<i>Margin %</i>	3.1%	1.5%		4.2%	

**Financials**

(₹ mn)

Income Statement	FY19	FY20E	FY21E	FY22E
<b>Total Revenues</b>	<b>19,690</b>	<b>26,809</b>	<b>34,985</b>	<b>46,432</b>
<b>Total Expense</b>	<b>14,522</b>	<b>21,099</b>	<b>28,775</b>	<b>39,212</b>
Operating Expenses	8,568	13,914	18,559	25,097
Employee Cost	4,836	5,898	8,396	11,608
Other Expenses	1,118	1,287	1,819	2,507
<b>EBITDA</b>	<b>5,167</b>	<b>5,710</b>	<b>6,210</b>	<b>7,220</b>
Depreciation	322	423	557	714
<b>EBIT</b>	<b>4,846</b>	<b>5,287</b>	<b>5,653</b>	<b>6,506</b>
Interest	30	24	18	12
Other Income	1,952	2,792	2,886	2,868
<b>PBT</b>	<b>6,767</b>	<b>8,049</b>	<b>8,512</b>	<b>9,362</b>
Tax	2,321	2,174	2,145	2,356
<b>Net Earnings (Loss) After Provision for Losses/write offs/ Tax (PAT)</b>	<b>4,447</b>	<b>5,881</b>	<b>6,376</b>	<b>7,006</b>

(₹ mn)

Balance Sheet	FY19	FY20E	FY21E	FY22E
<b>Sources of Funds</b>				
Equity Capital	2,000	2,500	2,500	2,500
Reserves & Surplus	21,838	27,720	34,096	41,101
<b>Net Worth</b>	<b>23,838</b>	<b>30,220</b>	<b>36,596</b>	<b>43,601</b>
L.T Borrowings	1,874	1,813	1,733	1,692
S.T Borrowings	22,496	22,357	22,337	22,478
<b>Total Debt</b>	<b>24,370</b>	<b>24,170</b>	<b>24,070</b>	<b>24,170</b>
Deferred Tax Liability (Net of Deferred Tax Assets)	(740)	(740)	(740)	(740)
<b>Total Capital Employed</b>	<b>47,468</b>	<b>53,649</b>	<b>59,925</b>	<b>67,031</b>
<b>Applications of Funds</b>				
Net Block	3,393	4,538	5,949	7,552
CWIP	39	44	49	53
Investments	3,605	3,805	3,955	4,055
<b>Current Assets, Loans &amp; Advances</b>				
Inventories	1,049	1,322	1,677	2,163
Receivables	5,858	7,712	9,393	12,848
Cash and Bank Balances	34,686	42,957	48,092	52,148
Loans and Advances	3,178	4,334	5,655	7,505
<b>Total: Current Assets, Loans &amp; Advances</b>	<b>44,771</b>	<b>56,325</b>	<b>64,818</b>	<b>74,665</b>
<b>Current Liabilities &amp; Provisions</b>				
Payables	1,944	2,859	4,017	5,157
Provisions	2,400	3,621	4,830	6,532
<b>Total: Current Liabilities &amp; Provisions (-)</b>	<b>4,344</b>	<b>6,480</b>	<b>8,847</b>	<b>11,689</b>
<b>Net Current Assets</b>	<b>40,427</b>	<b>49,844</b>	<b>55,970</b>	<b>62,976</b>
<b>Total Assets</b>	<b>47,468</b>	<b>53,649</b>	<b>59,925</b>	<b>67,031</b>

(₹mn)

Cash Flow Statement	FY19	FY20E	FY21E	FY22E
<b>Net Profit / (Loss) Before Tax</b>	<b>6,767</b>	<b>8,055</b>	<b>8,521</b>	<b>9,362</b>
Depreciation	322	423	557	714
Net Interest	30	24	18	12
Direct Taxes Paid	(2,321)	(2,174)	(2,145)	(2,356)
Change in Working Capital (Non-Cash)	(2,859)	(1,146)	(991)	(2,950)
<b>(A) Net Cash Flow from Operating Activities</b>	<b>1,940</b>	<b>5,182</b>	<b>5,960</b>	<b>4,782</b>
Capex {Inc./ (Dec.) in Fixed Assets n WIP}	(1,093)	(1,572)	(1,973)	(2,323)
<b>Free Cash Flow</b>	<b>847</b>	<b>3,609</b>	<b>3,987</b>	<b>2,460</b>
Inc./ (Dec.) in Investments	(770)	200	150	100
<b>(B) Cash Flow from Investing Activities</b>	<b>(1,862)</b>	<b>(1,371)</b>	<b>(1,822)</b>	<b>(2,222)</b>
Issue of Equity/ Preference	0	500	0	0
Inc./ (Dec.) in Debt	(589)	(200)	(100)	100
Interest exp net	(30)	(24)	(18)	(12)
Dividend Paid (Incl. Tax)	(2,983)	(3,999)	(4,336)	(4,764)
<b>(C) Net Cash Flow from Financing Activities</b>	<b>(3,602)</b>	<b>(3,723)</b>	<b>(4,454)</b>	<b>(4,676)</b>
Net Change in Cash	(1,009)	8,271	5,135	4,056
Opening Cash balances	35,695	34,686	42,957	48,092
Closing Cash balances	34,686	42,957	48,092	52,148

Ratios	FY19	FY20E	FY21E	FY22E
<b>(A) Margin (%)</b>				
EBIDTA Margin (excl. O.I.)	26.2	21.3	17.8	15.6
EBIDTA Margin (incl. O.I.)	36.2	31.7	26.0	21.7
EBIT Margin	24.6	19.7	16.2	14.0
Interest/Sales	0.2	0.1	0.1	0.0
Tax Rate	34.3	27.0	25.2	25.2
Net Profit Margin	22.6	21.9	18.2	15.1
<b>(B) As Percentage of Net Sales</b>				
Operating Expenses	43.5	51.9	53.1	54.1
Employee	24.6	22.0	24.0	25.0
Other	5.7	4.8	5.2	5.4
<b>(C) Measures of Financial Status (x)</b>				
Debt / Equity	1.0	0.8	0.7	0.6
Interest Coverage	234.2	351.8	503.8	834.8
Average Cost of Debt (%)	0.1	0.1	0.1	0.1
Debtors days	108.6	105.0	98.0	101.0
Inventory days	19.5	18.0	17.5	17.0
Inventory Turnover Ratio (x)	19	20	21	21
Fixed Assets Turnover	4.2	4.3	4.3	4.4
Working Capital Turnover	0.5	0.5	0.6	0.7
Non-Cash Working Capital (₹ Mn)	5,741	6,887	7,878	10,828
<b>(D) Measures of Investment</b>				
EPS (₹) (excl. EO)	17.8	23.5	25.5	28.0
CEPS (₹)	19.1	25.2	27.7	30.9
DPS (₹)	12.8	13.6	17.3	19.1
Dividend Payout (%)	71.7	58.0	68.0	68.0
Profit Ploughback (%)	28.3	42.0	32.0	32.0
Book Value (₹)	119.2	120.9	146.4	174.4
RoANW (%)	19.4	21.8	19.1	17.5
RoACE (%)	14.5	16.0	15.0	14.8
RoAIC (%) (Excl. Cash & Invest.)	58.0	68.8	75.8	70.2
<b>(E) Valuation Ratios</b>				
CMP (₹)	310	310	310	310
P/E (x)	17.4	13.2	12.2	11.1
Market Cap. (₹ Mn.)	77,475	77,475	77,475	77,475
MCap/ Sales (x)	3.9	2.9	2.2	1.7
EV (₹ Mn.)	67,159	58,688	53,453	49,497
EV/Sales (x)	3.4	2.2	1.5	1.1
EV/EBDITA (x)	13.0	10.3	8.6	6.9
P/BV (x)	2.6	2.6	2.1	1.8
FCF/Yield (%)	0.3	4.4	5.0	3.3
Dividend/Yield (%)	4.1	4.4	5.6	6.1
EBITDA/OCF (x)	2.7	1.1	1.0	1.5
EBITDA/Free cash flow (x)	6.1	1.6	1.6	2.9

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Name of the Security	RITES Ltd
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	NIL
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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