

# RITES Ltd

Sensex	61,032
Nifty	17,930

## Key Stock Data

CMP	₹335.1/-
Target Price	₹386(+15.2%)
Market Cap (₹mn.)	₹80,525.2
52W High/Low	433/226
Shares o/s (mn.)	240.3
NSE Code	RITE:IN
BSE Code	RITES
Bloomberg	541556

## Shareholding Pattern Dec'22 (%)

Promoters	72.2
DII's	15.8
FII's	2.6
Public	9.4

(₹ 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 (%)	20.4	16.8	19.7
RoCE (%)	30.5	15.7	22.8
P/E (x)	13.5	19.0	16.2
EV/EBITDA (x)	4.6	5.5	4.3
P/BV (x)	3.2	3.5	3.4

	FY23E	FY24E	FY25E
Net Sales	27,144	29,772	32,457
EBIDTA	6,916	9,278	9,984
EBIDTA Margin (%)	25.5	31.2	30.8
PAT	5,263	6,135	6,626
EPS (₹)	21.9	25.5	27.6
DPS (₹)	20.0	22.0	24.0
RoE (%)	20.1	24.2	25.4
RoCE (%)	23.2	25.5	27.1
P/E (x)	15.3	13.1	12.2
EV/EBITDA (x)	2.8	2.7	2.5
P/BV (x)	3.2	2.8	2.7

Source: Company, Way2Wealth

**JAYAKANTH KASTHURI**
[jayakanthk@way2wealth.com](mailto:jayakanthk@way2wealth.com)

## Summary

**RITES reported Q3FY22 Revenue was at ₹6.51bn (-13.8%YoY / +3%QoQ) led by Consultancy – Domestic revenue at ₹2.5bn (from ₹2.2bn YoY) and Consultancy – Abroad revenue at ₹350mn (from ₹197mn YoY). EBIDTA was at ₹1.71bn (down 4.5% YoY), and PAT at ₹1.32bn (down ~2% YoY). The company registered EBIDTA Margins of 26.3% in Q3FY23 as against 23.7% YoY. Export sales of ₹934mn (down 74.6% YoY), Leasing of ₹355mn (+9.7% YoY), and Turnkey of ₹2.36Cr (+114.7% YoY). While the margins of the Consultancy Segment stood at 45.8%, Leasing/Export/Turnkey projects reported EBIT Margins of 32.8%/27%/5% respectively.**

**The Quality Assurance business contributed revenue of ₹990mn in Q3FY23. The company expects the QA business to grow at a healthy rate moving ahead. The company is looking to increase its share in consultancy outside Indian Railways. The company sees large opportunities in Highways, Urban infra, Metro, City planning, Airports, Ports, and Waterways including rail infra to create and maintain a growth trajectory. The company maintained that 50% of its revenue will come from the Consultancy segment.**

**Focus on winning sizable export orders moving ahead. The export order as of date is ₹1.11bn. The company executed orders worth ₹2.45bn in 9MFY23. The company received a ₹100mn order in an export segment from Bangladesh.**

**The Board of Directors have declared a third interim dividend for FY23 at the rate of ₹6/- per share (60% of paid-up share capital) and the total dividend payout in FY23 now stands at ₹14.5/- per share**

## Key Highlights for Quarter

- **Q3FY22 Revenue growth of 3% QoQ led by consultancy business – RITES Q3FY22 Revenue was at ₹6.51bn (-13.8%YoY / +3% QoQ) led by Consultancy- Domestic revenue at ₹2.5bn (from ₹2.2bn YoY) and Consultancy- Abroad revenue at ₹350mn (from ₹197mn YoY). EBIDTA was at ₹1.71bn (down4.5% YoY), and PAT at ₹1.32bn (down ~2%YoY).The company registered EBITDA Margins of 26.3%in Q3FY23 as against 23.7% YoY. Export sales of ₹934mn (down 74.6% YoY), Leasing of ₹355mn (+9.7% YoY), and Turnkey of ₹2.36Cr (+114.7% YoY).While the margins of the Consultancy Segment stood at 45.8%,Leasing/Export/Turnkey projects reported EBIT Margins of 32.8%/27%/5% respectively. The Board of Directors declared a third interim dividend for FY23 at the rate of ₹6/- per share(60% of paid-up share capital) and the total dividend payout in FY23 now stands at ₹14.5/- per share.**
- **Orderbook stood at ₹55.13bn as of Q3FY23 end** with break up as follows: 46% from the Consultancy (₹25.45bn),47% from the Turnkey (₹25.77bn), 2% from the Exports (₹1.11bn), 3% from Leasing (₹1.8bn), and 2% (₹1bn) from the REMCL segment.
- **Consultancy segment to continue to remain the major driver –** Consultancy remained the highest revenue and profit earning segment and the foreign consultancy's share is steadily increasing. The company's order book of ₹25.45bn in the Consultancy segment is to be executed over the next two years. The Quality Assurance business contributed revenue of ₹990mn inQ3FY23. The company expects the QA business to grow at a healthy rate moving ahead. The company is looking to increase its share in consultancy outside Indian Railways. The company sees large opportunities in Highways, Urban infra, Metro, City planning, Airports, Ports, and Waterways including rail infra to create and maintain a growth trajectory. The company maintained that 50% of its revenue will come from the Consultancy segment. The company sees consultancy in the area of sustainability as another potential segment for revenue generation.
- **Focus on winning sizable export orders moving ahead –** The export order as of date is ₹1.11bn.The company executed orders worth ₹2.45bn in 9MFY23. The company received a ₹100mn order in an export segment from Bangladesh. The company is looking to win sizeable orders in the Export segment moving ahead. Normally in the export after getting an order, the execution takes another 10 -12 months to deliver the order.

- **Turnkey segment witnessing improvement in margins** – The company's turnkey order as of date is ₹25.77bn. Execution of phase II of turnkey projects has begun. The management is targeting projects across all sectors such as railways, metros, and buildings. The company has improved its margins from the Turnkey segment from 2-3% to over 4% through the efficient execution of projects.
- **REMC business saw healthy performance** on account of energy management activities in 9MFY23. The business has seen growth in both the topline and bottom line and the profit margins remained healthy during the quarter. 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 ₹1-1.25bn for FY23 of which ₹1.06bn has already been incurred. Cash in hand stood at ₹7.6bn.

### View

Higher Capex outlay in the Budget 2023-24 for Railways & Highways has provided the company with large opportunities to grow its business verticals. 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 ahead, hence, we view it as BUY stock with a fair value of ₹360-390.**

**FINANCIALS**

	Q3FY23	Q3FY22	VAR[%]	Q2FY23	VAR [%]	9MFY23	9MFY22	VAR [%]
(₹ mn)								
<b>Revenue from Operations</b>	<b>6,506</b>	<b>7,545</b>	<b>(13.8)</b>	<b>6,317</b>	<b>3.0</b>	<b>18,606</b>	<b>18,310</b>	<b>1.6</b>
Employee Expenses	1,245	1,325	(6.0)	1,193	4.4	3,721	3,822	(2.6)
Employee Exps. as a %age of sales	19.1	17.6	157	18.9	25	20.0	20.9	(88)
Travel	134	124	8.4	124	8.0	384	298	28.9
Travel as a %age of sales	2.1	1.6	42	2.0	10	2.1	1.6	44
Supply & Services	2,532	1,572	61.0	2,589	(2.2)	7,198	4,130	74.3
Supplies & Services as a %age of sales	38.9	20.8	1,807	41.0	(207)	38.7	22.6	1,613
Export Purchases	137	984	(86.1)	196	(30.1)	637	3,379	(81.2)
Export Purchases as a %age of sales	2.1	13.0	(1,093)	3.1	(100)	3.4	18.5	(1,503)
Inventory Changes of Stock in Trade	404	1,213	66.7	277	46.1	848	1,028	17.5
Other Expenses	345	539	(36.0)	359	(3.8)	970	1,001	(3.1)
Other Expenses as a %age of sales	5.3	7.1	(184)	5.7	(18,972)	5.2	5.5	(26)
<b>EBIDTA</b>	<b>1,709</b>	<b>1,788</b>	<b>(4.5)</b>	<b>1,579</b>	<b>8.2</b>	<b>4,849</b>	<b>4,652</b>	<b>4.2</b>
<b>EBITDA Margins %</b>	<b>26.3</b>	<b>23.7</b>	<b>256</b>	<b>25.0</b>	<b>127</b>	<b>26.1</b>	<b>25.4</b>	<b>66</b>
Other Income	254	160	58.3	312	(18.8)	880	655	34.4
Depreciation	167	128	30.5	151	10.8	446	358	24.5
<b>EBIT</b>	<b>1,795</b>	<b>1,821</b>	<b>(1.4)</b>	<b>1,740</b>	<b>3.2</b>	<b>5,283</b>	<b>4,949</b>	<b>6.8</b>
Interest	20	23	(13.0)	11	80.2	43	37	17.5
<b>PBT</b>	<b>1,775</b>	<b>1,798</b>	<b>(1.2)</b>	<b>1,729</b>	<b>2.7</b>	<b>5,241</b>	<b>4,912</b>	<b>6.7</b>
Tax	460	461	(0.3)	415	10.8	1,319	1,240	6.4
<b>Profit After Tax</b>	<b>1,315</b>	<b>1,336</b>	<b>(1.6)</b>	<b>1,314</b>	<b>0.1</b>	<b>3,922</b>	<b>3,672</b>	<b>6.8</b>
<b>EPS</b>	<b>5.5</b>	<b>5.6</b>		<b>5.5</b>		<b>16.3</b>	<b>15.3</b>	

Source: Company, Way2Wealth Research

**SEGMENTAL PERFORMANCE**

	Q3FY23	Q3FY22	VAR[%]	Q2FY23	VAR [%]	9MFY23	9MFY22	VAR [%]
(₹ mn)								
<b>REVENUES</b>								
Consultancy-Domestic	2,510	2,248	11.6	2,543	(1.3)	7,437	6,364	16.9
Consultancy-Abroad	350	197	77.5	245	42.7	1,048	674	55.5
Export Sales	934	3,679	(74.6)	788	18.6	2,525	7,156	(64.7)
Leasing-Domestic	355	323	9.7	355	(0.1)	1,047	972	7.7
Turnkey Cons Proj-Domestic	2,357	1,098	114.7	2,386	(1.2)	6,550	3,144	108.3
<b>Total Segment Revenue</b>	<b>6,506</b>	<b>7,545</b>	<b>(13.8)</b>	<b>6,317</b>	<b>3.0</b>	<b>18,606</b>	<b>18,310</b>	<b>1.6</b>
<b>EBIT</b>								
Consultancy-Domestic	1,150	887	29.7	1,150	-	3,334	2,526	32.0
Margin %	45.8	39.1	67.4	45.2	60	44.8	39.7	51.3
Consultancy-Abroad	152	79	91.8	70	118.5	469	375	25.2
Margin %	43.5	40.2	325	28.4	1,507	44.7	55.6	(1,083)
Export Sales	252	860	70.7	180	40.3	636	1,698	62.6
Margin %	27.0	24.1	290	22.8	418	25.2	23.7	1.45
Leasing-Domestic	116	122	(4.7)	129	(9.8)	383	380	0.8
Margin %	32.8	37.8	(499)	36.3	(351)	36.6	39.1	(250)
Turnkey Cons Proj-Domestic	119	1	23,600.0	86	37.6	275	40	582.6
Margin %	5.0	0.0	498	3.6	142	4.2	1.3	292

Source: Company, Way2Wealth Research

**FINANCIALS & VALUATIONS**

	(₹ mn)						
	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Net Sales</b>	<b>19,690</b>	<b>24,006</b>	<b>18,432</b>	<b>25,752</b>	<b>27,144</b>	<b>29,772</b>	<b>32,457</b>
<b>EBIDTA</b>	<b>5,167</b>	<b>6,021</b>	<b>5,056</b>	<b>6,520</b>	<b>6,916</b>	<b>9,278</b>	<b>9,984</b>
<b>EBIDTA Margin (%)</b>	<b>26.2</b>	<b>25.1</b>	<b>27.4</b>	<b>25.3</b>	<b>25.5</b>	<b>31.2</b>	<b>30.8</b>
<b>PAT</b>	<b>4,447</b>	<b>5,964</b>	<b>4,244</b>	<b>4,971</b>	<b>5,263</b>	<b>6,135</b>	<b>6,626</b>
EPS (₹)	18.5	24.8	17.7	20.7	21.9	25.5	27.6
DPS (₹)	12.8	16.0	13.0	17.0	20.0	22.0	24.0
RoE (%)	19.4	20.4	16.8	19.7	20.1	24.2	25.4
RoCE (%)	28.1	30.5	15.7	22.8	23.2	25.5	27.1
P/E (x)	18.1	13.5	19.0	16.2	15.3	13.1	12.2
EV/EBITDA (x)	3.1	4.6	5.5	4.3	2.8	2.7	2.5
P/BV (x)	2.9	3.2	3.5	3.4	3.2	2.8	2.7
Debt / Equity	1.0	0.9	1.1	1.2	0.8	0.6	0.4
Interest Coverage	234	272	199	137	151	187	196
Cash Balances	34,634	36,184	33,190	32,663	35,318	41,426	43,193

Source: Company, Way2Wealth Research

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## Disclosure of Interest Statement in BITES Ltd. as on 15 February 2023

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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