



BUY

Target Price: Rs 379

CMP : Rs. 276
Potential Upside : 37 %

MARKET DATA

No. of Shares (Cr) : 20
Market Cap (Rs Cr) : 5,706
Free Float : 12%
Avg. daily vol (6mth) : 1,23,690
52-w High / Low : Rs 326/Rs 190
Bloomberg : RITES IN
Promoter holding : 87.4%

RITES Ltd

Transport consultancy & Engineering

Progressing for a smooth Journey !!

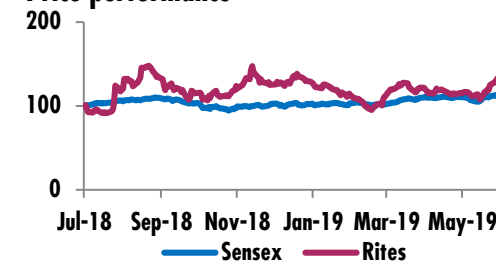
Financial Summary

| Y/E | Sales (Rs Cr) | PAT (Rs Cr) | EPS (Rs) | Change (%) | P/E (x) | RoE (%) | RoCE (%) | DPS (Rs) |
|-------|---------------|-------------|----------|------------|---------|---------|----------|----------|
| March | | | | | | | | |
| FY18 | 1,497 | 342 | 17.1 | 4.3 | - | 15.5 | 21.5 | 7.4 |
| FY19 | 2,047 | 470 | 23.5 | 37.1 | - | 19.2 | 28.1 | 10.8 |
| FY20E | 2,436 | 539 | 26.9 | 14.8 | 10.5 | 19.9 | 29.6 | 11.5 |
| FY21E | 2,875 | 633 | 31.6 | 17.4 | 8.9 | 20.8 | 30.9 | 12.0 |

Source: Company, Axis Securities

CMP as on 24th June 2019

Price performance



Shareholding pattern

| | Mar-19 | Q-o-Q Change |
|-----------------|--------|--------------|
| Promoters | 87.4 | 0.00 |
| FPIs | 1.28 | 0.21 |
| MFs / AIF | 4.00 | (1.32) |
| Banks / FIs | 0.16 | 0.09 |
| Public (Others) | 7.16 | 1.01 |

RITES Ltd

Sector: Transport consultancy & Engineering

Investment Rationale

RITES Limited, incorporated in 1974, is a Miniratna (Category – I) Schedule ‘A’ Public Sector Enterprise. It is a leading player in the transport consultancy and engineering sector in India with diversified services and geographical reach under one roof. As per Public Enterprise Survey (2015-16), RITES is ranked no. 1 based on net profit and dividend declared in Industrial Development and Technical Consultancy services sector. RITES has an experience of over 44 years and has undertaken projects in 55+ countries including Asia, Africa, Latin America, South America and Middle East. RITES is the only export arm of Indian Railways for providing rolling stock overseas (other than Thailand, Malaysia and Indonesia)

We expect revenues and earnings to grow at 18.5 % and 16 % CAGR respectively over FY19-21E driven by



Strong revenue visibility in the backdrop of robust and diversified order book of Rs 6,097 crore to be executed in 2-3 years



Ample opportunities within railways (~50% revenue share) being captured by RITES via venturing into turnkey projects and railway station development increasing its scale of operations



Competitive edge in winning orders owing to its 4+ decade of experience in transport infrastructure consultancy and association with MoR



Govt aim of constructing 65,000 km of national highways at the cost of Rs 5.35 lakh crore (US\$ 741.51 billion) by 2022



Transport infrastructure sector which is expected to grow at 5.9% CAGR by 2021 that would be supported by Rs 5.97 lakh cr allocated for Infrastructure in budget 2019-20

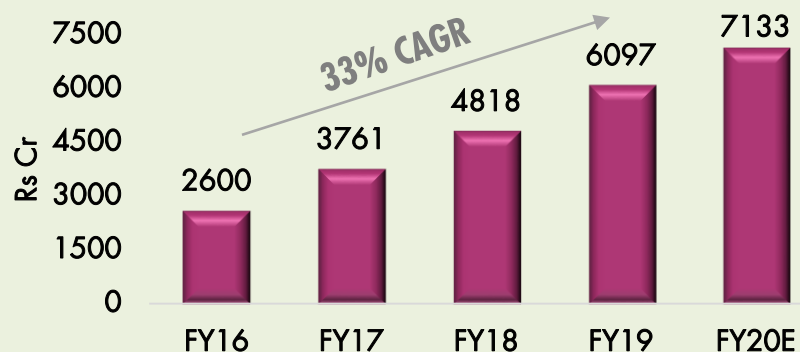
We initiate coverage with BUY rating and a target price of Rs. 379 (~37% upside) (@ ~12x FY21E)

Investment Rationale

Large Order book

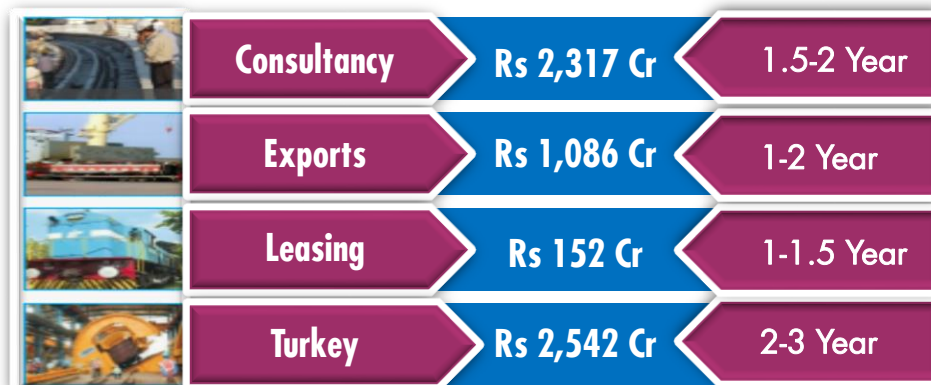
- ✓ RITES order books stand at Rs 6,097 crore and is expected to grow by +17 % in FY20 which provides strong revenue visibility for next 2-3 years
- ✓ RITES order book has grown by 27% in FY19 from Rs 4,818 crore in FY18
- ✓ Company has secured more than 300 projects, including extension in scope of projects during FY19
- ✓ This increase was led by foraying into Turnkey projects followed by orders flowing in from various infrastructure projects in railways, metros, airports, exports and loco leasing segments
- ✓ Order book includes 353 ongoing projects of value over Rs1 crore each from diverse business segments
- ✓ Turnkey has the largest share of 42% in total order book but its execution period is 2-3 years compared to 38% share of consultancy that gets executed in in 1.5-2 years on an average
- ✓ We expect growth in order book to continue across all segments as projects are expected to pick rapid pace post announcement of Final Budget in July 2020

Robust Order Book growth



Source: Company, Axis Securities

Segment wise Order Book (FY19) and Execution Period



Investment Rationale

**Preferred
consultancy
organization of
GOI**

- ✓ RITES occupies a key position in the growth plans of Government of India (GOI) with respect to the infrastructure and energy space
- ✓ RITES has been able to get several assignments on nomination/single tender basis from various government ministries, organizations and departments including Indian Railways due to its ownership by Ministry of Railways (MoR) and ability to execute business in compliance with various policies and procedures of government departments
- ✓ RITES is a nominated organization of the Indian Railways (IR) for the export of railway locomotives, coaches and other equipment manufactured by IR
- ✓ We believe RITES has the competitive edge in winning orders owing to its 4+ decade of experience in transport infrastructure consultancy and association with MoR

Rail



Metro



Airports



Highways



Strong Clientele portfolio

- ✓ Indian Railways
- ✓ NTPC
- ✓ Dedicated Freight Corridor Corporation of India Limited
- ✓ High Speed Rail Corporation of India Limited
- ✓ Public Works Department
- ✓ DMRC
- ✓ Steel Authority of India Limited
- ✓ Rashtriya Ispat Nigam Limited
- ✓ Hindustan Petroleum Corporation Limited
- ✓ Bharat Coking Coal Limited
- ✓ Metro Link Express for Gandhinagar and Ahmedabad (MEGA) Company Limited
- ✓ Indian Port Rail Corporation Limited
- ✓ Airports Authority of India

Investment Rationale

Government's push on Infrastructure development

- ✓ Govt is expected to invest heavily in the infrastructure sector, mainly for highways, railways, renewable energy and urban transport
- ✓ Rs 5.97 lakh crore has been allocated to the infrastructure sector in the Interim Union budget 2019-20
- ✓ Transport Infrastructure sector is expected to grow at CAGR of 5.9% over FY17-21
- ✓ India has requirement of investment worth Rs 50 lakh crore in infrastructure by 2022 to have sustainable development in the country
- ✓ Infrastructure is largest receiver of FDIs in India with 100 % FDI permitted through automatic route
- ✓ Government investment has witnessed steep rise over the last few years, With continuation of policies within transportation infrastructure sector is set to open up large addressable market for RITES

Investment Growth Across Sectors...

| Sectors | Mar-19 (Rs Cr) | Mar-18 (Rs Cr) | YOY (%) |
|--|------------------|------------------|-------------|
| Infrastructure, Services & Utilities | 7,553,800 | 6,320,100 | 20% |
| <i>Roadways</i> | <i>1,938,100</i> | <i>1,639,100</i> | <i>18%</i> |
| <i>Railways</i> | <i>1,894,500</i> | <i>1,555,100</i> | <i>22%</i> |
| <i>Aviation Infrastructure</i> | <i>138,200</i> | <i>112,000</i> | <i>23%</i> |
| <i>Shipping Infrastructure</i> | <i>534,700</i> | <i>446,700</i> | <i>20%</i> |
| <i>Others</i> | <i>3,048,300</i> | <i>2,567,200</i> | <i>19%</i> |
| Manufacturing | 2,385,200 | 2,155,300 | 11% |
| Mining | 534,400 | 452,100 | 18% |
| Electricity & Non Conventional Energy | 3,119,500 | 3,156,500 | (1%) |

Source: Projects India

...augurs well for RITES

The infrastructure consulting market is ~ Rs 55,000 crore which is assumed to be 0.5% to 1% of the total infrastructure investments

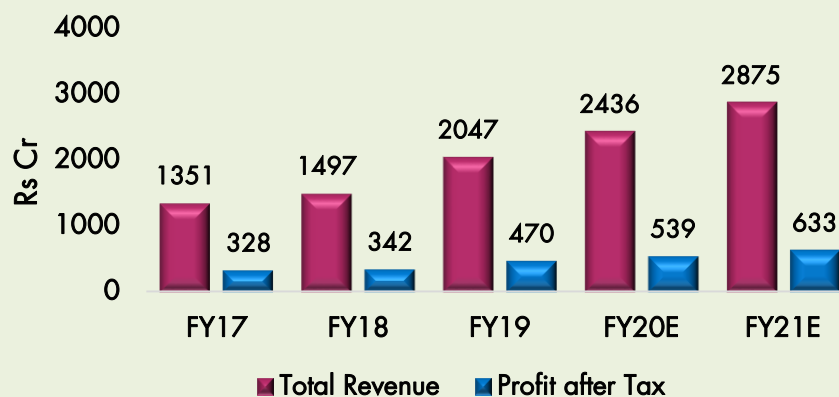
RITES Ltd. is a leading player in the transport infrastructure consultancy space with diversified services and geographical reach in this field under one roof

Investment Rationale

Strong and consistent financial performance

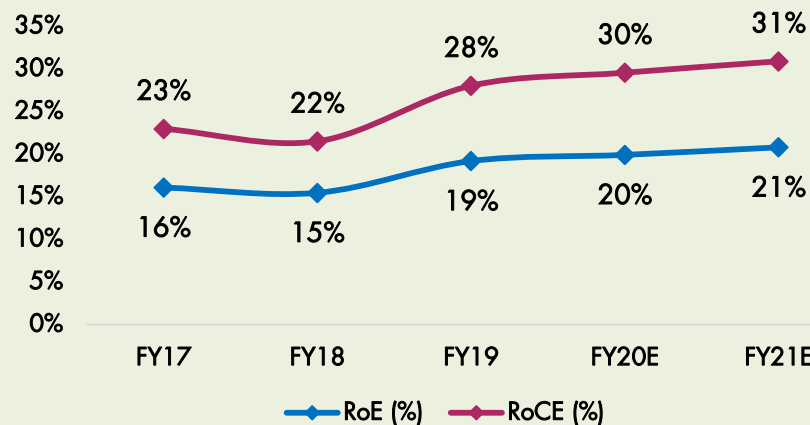
- ✓ RITES revenue has grown at a strong CAGR of 13.3% from Rs 1,096 Cr in FY14 to Rs 2,047 Cr in FY19
- ✓ The company has been consistently profitable and PAT has grown at a CAGR of 12.5% over FY14-19
- ✓ The company's stable financial position enables it to satisfy the minimum financial eligibility criteria for bidding in projects
- ✓ Asset light business model ensures healthy return ratios with RoE at 19% and RoCE at 27% for FY19
- ✓ We estimate revenue to grow at a CAGR of 18.5% over FY19-21E exceeding MOU* target of 17% for FY20 owing to huge business opportunity in Trunkey business and large order book and
- ✓ We estimate profits to grow marginally lower at CAGR of 16% over FY19-21E due to increasing share of low margin turnkey business, Consultancy which contributes 55% to total income and generates 35-40% operating margins would continue to keep the blended margins healthy

Revenue/PAT impetus to continue



Source: Company, Axis Securities

Healthy Return Ratios despite high cash in books



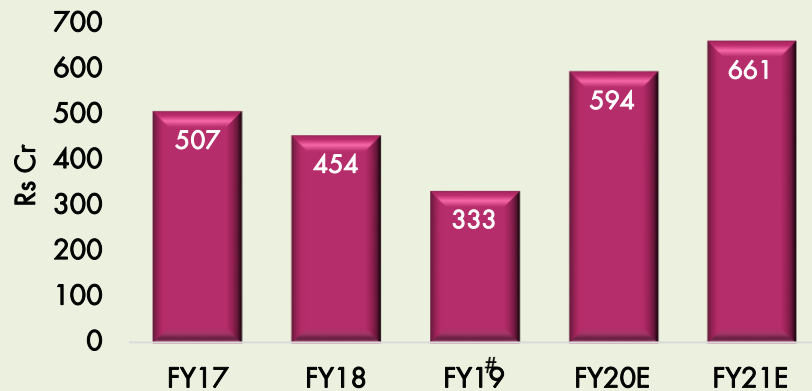
*Memorandums of Understanding (MoU) is signed every year with Ministry of Railways based on which the performance of the company is evaluated

Investment Rationale

Dividends to increase total shareholder returns

- ✓ RITES has paid dividends regularly to the equity shareholders and payout ratio has been +50% for FY17-FY19
- ✓ Current dividend yield (FY19) hovering around ~4.4% is higher than 80% of the listed PSUs
- ✓ Company follows Guidelines on Capital Restructuring of Central Public Sector Enterprises for distribution of Dividend i.e. minimum dividend of 30% of PAT or 5% of net worth whichever is higher
- ✓ The company generates positive cash flows and balance sheet is clear of long term debt which suggest sustainable dividend paying capacity of the company
- ✓ Dividends has grown at CAGR of 40% FY15-19 backed by strong operating cash flows
- ✓ With high dividend yield and expected capital appreciation due to asset light business expansion, we believe RITES is a promising investment avenue to generate healthy returns

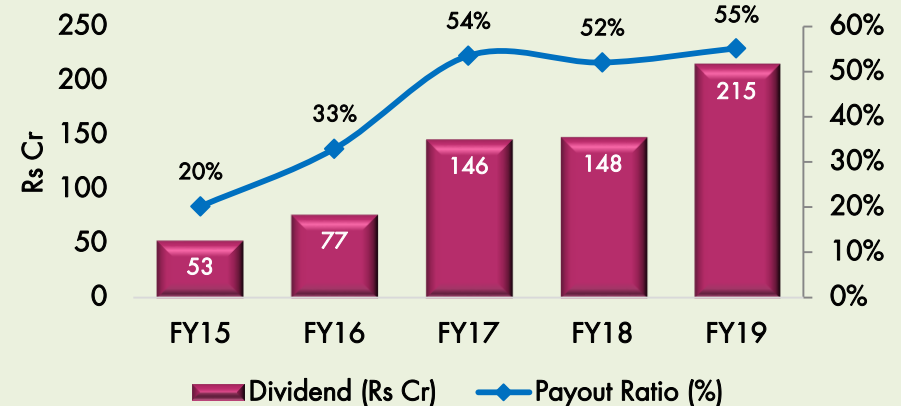
Operating Cash Flows



FY19 operating cash flow had impact of increase in inventory due to delay in export order execution

Source: Company, Axis Securities

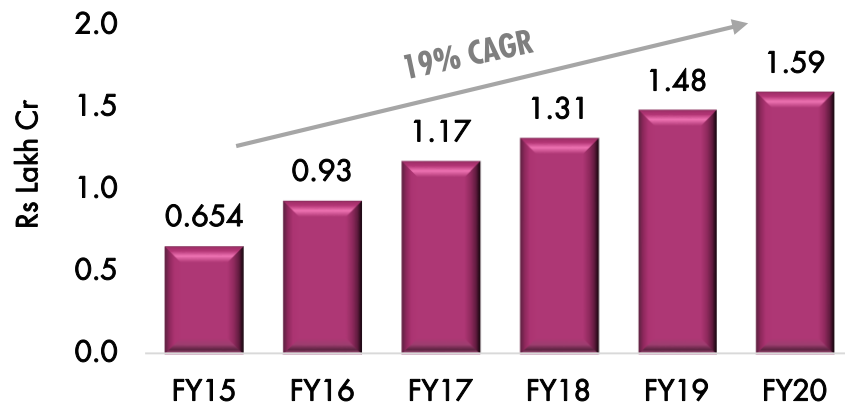
Dividends on the rise



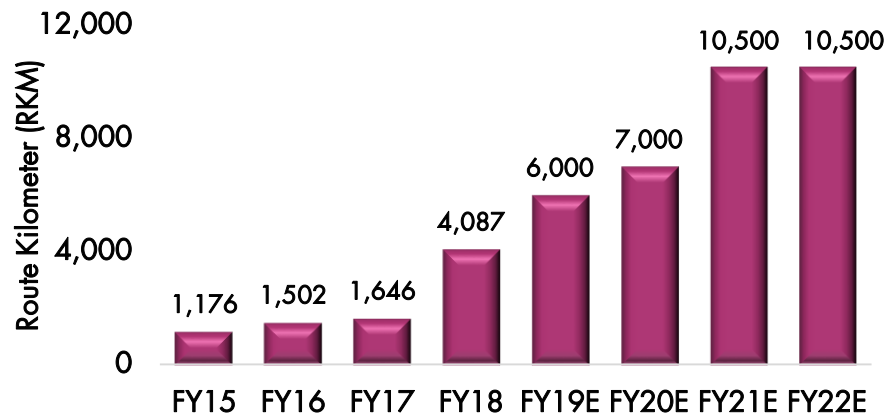
* Note: Dividend of current FY includes dividend proposed in previous FY but paid in current FY

Railways: Enormous opportunities

Capital Investments budgeted by Indian Railways



Target to achieve 100% electrification by FY22



Key trends in Indian Railways

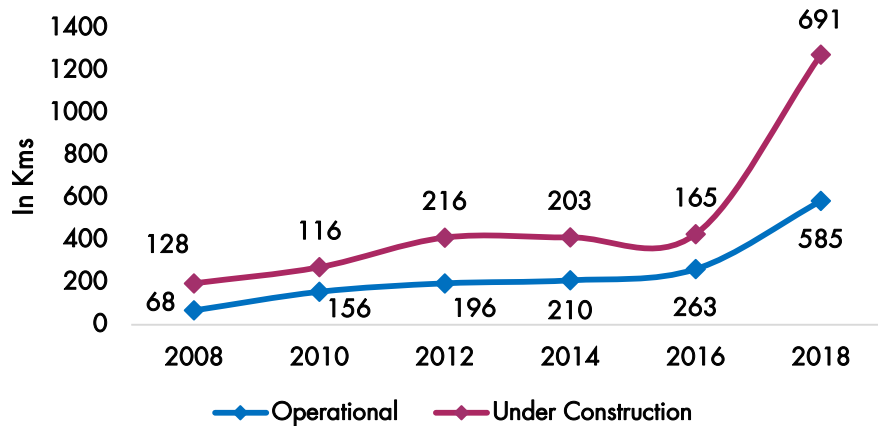
- ◆ FY20 Budget outlay of Rs 1.59 lakh crore is expected to augur well for the sector. Investment is expected to double from Rs 3.8 lakh crore during 2013-17 to Rs 8 lakh crore in 2018-22E
- ◆ India's rail network has total length of 67,368 km (FY17). 30,212 route kilometer (RKM) of Indian Railways have been electrified and electrification work is in progress on ~38,000 RKM to achieve 100% electrification by FY22
- ◆ India's exports of railways have grown at a CAGR of 27.05 % 2010-17 to USD 303.29 million. Exports of railways in 2018 stood at USD 454.99 million
- ◆ The Indian Railway Stations Development Corporation (IRSDC), a special purpose vehicle (SPV) of the Government of India has been set up to renovate 400 stations and build commercial establishments around it with ~Rs 1 lakh crore investment
- ◆ MoR is working on constructing ~3,000 Km of Dedicated Freight Corridor with total investment of USD 12bn, 55% of which has been completed by the end of December 2018 with ~ USD 6.04 bn investment so far
- ◆ Heavy investment is expected in up grading signaling system with European Train Control System (ETCS) Level 2. Other key investment areas would be tracks and bridges, rolling stocks, locomotives etc.

RITES being incorporated by the MoR enjoys the benefit of its association with the Indian Railways

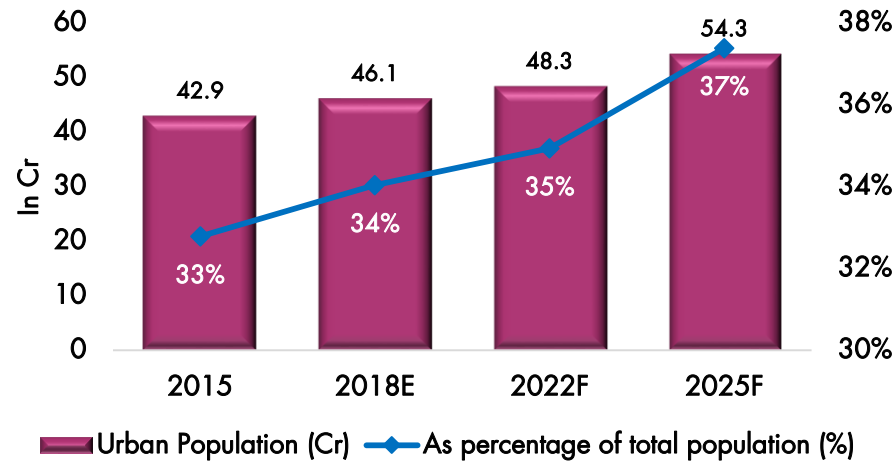
Source: Ministry of Railways

Urban Transport: Push for Smart Cities Mission

Rapid Growth in Metro Rail Network



Efficient public transportation for Rising Urbanization

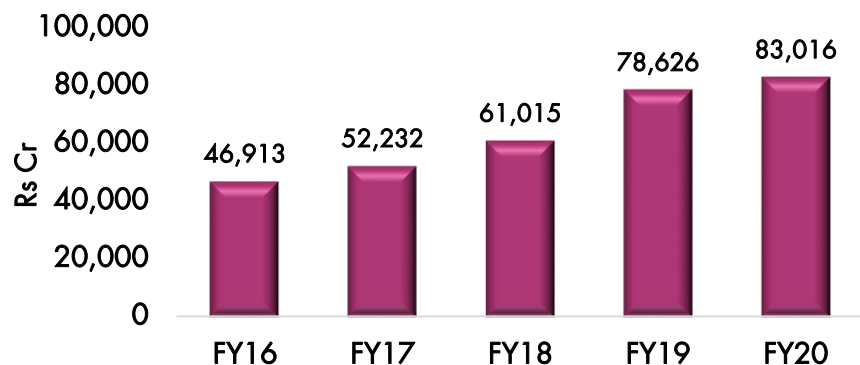


Source: Ministry of Urban Development

- ◆ The smart cities mission, an urban renewal and retrofitting program by the GOI took off quickly. 5,151 projects identified by the cities worth more than Rs 2 lakh crore are in various stages of implementation in 100 cities and 534 projects worth Rs 10,116 crore have been completed
- ◆ There is a rapid increase in demand for urban mass transportation systems in the country. Several metro rail projects are in progress to improve connectivity within cities.
- ◆ Metro rail works (including Brownfield expansion) will be carried out in 20+ cities in India over the next five years at an investment of ~ Rs 3,60,00 crore
- ◆ With expansion plans for mass rapid transit system and metro projects in the offing, the Interim Budget 2020 set aside the largest share of funds to the network - Rs 19,152 crores, increase of 23 % from Rs 15,600 crore for FY19
- ◆ Under-construction metro rail projects are estimated to generate order book of Rs 2.5-2.6 lakh crore in the next five years (2019-2024). This would entail investment of Rs 3.5-3.6 lakh crore in the same period.
- ◆ In January 2019, the Department of Economic Affairs (DEA) and the French Development Agency (FDA) have signed a credit facility framework agreement for extending its funding to Rs 2,000 crore
- ◆ RITES have given pre-feasibility studies of Agra and Patna metros and expect constructive role for consultancy when projects including these two get rolled out

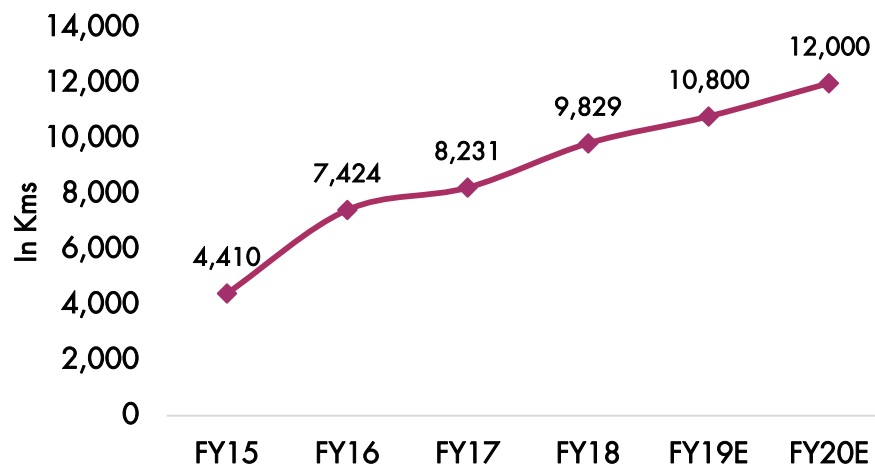
Roads and Highways: Expansion momentum to continue

Growth in MoRTH's budgetary expenditure



Source: Ministry of Road Transport and Highway (MoRTH)

Highway construction growth



Source: Ministry of Urban Development

- ◆ Road infrastructure has been a key government priority; sector has received strong budgetary support over the years
- ◆ Highway construction in India increased at 25% CAGR between FY15-19. In FY18, 9,829 km of highways were constructed with an expenditure of Rs 1.16 lakh crore
- ◆ It is estimated that 10,800 km of highways were built in FY19 alone when the pace of work had increased to 32 km/day; government target for FY20 is to construct 12,000 Km boosting pace of work to 40 km/day
- ◆ The Government of India aims to construct 65,000 km of national highways at a cost of Rs 5.35 lakh crore (USD 741.51 billion) by 2022
- ◆ Increasing industrial activity, increasing number of 2 and 4 wheelers would support growth in the road transport infrastructure projects
- ◆ Investment of Rs 30,000 crore (US\$ 4.67 billion) has been proposed for development of national highways in the Northeast under the Bharatmala Project
- ◆ GOI will spend around Rs 1 lakh crore (USD 15.26 billion) during FY18-20 to build roads in the country under Pradhan Mantri Gram Sadak Yojana (PMGSY)
- ◆ With the emergence of private players, the road construction market has become competitive; RITES helps clients in effectively bidding and executing the order

Company Brief

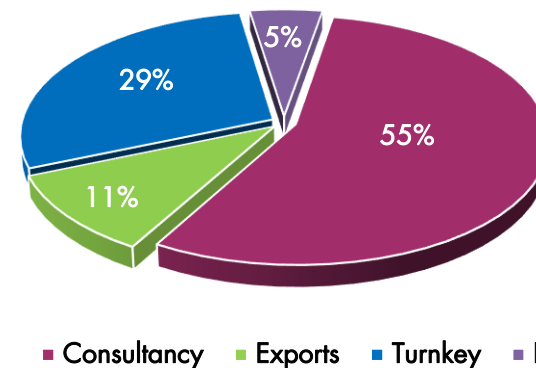
RITES was incorporated by the Ministry of Railways, Government of India ("MoR") and has the benefit of being associated with the Indian Railways, which is the fourth longest rail network in the world. Since its inception in 1974, company has evolved from providing transport infrastructure consultancy and quality assurance services and have developed expertise in:

- ◆ Design, engineering and consultancy services in transport infrastructure sector with focus on railways, urban transport, roads and highways, ports, inland waterways, airports and ropeways;
- ◆ Leasing, export, maintenance and rehabilitation of locomotives and rolling stock;
- ◆ Undertaking turnkey projects on engineering, procurement and construction basis for railway line, track doubling, 3rd line, railway electrification, up gradation works for railway transport systems and workshops, railway stations, and construction of institutional/ residential/ commercial buildings, both with or without equity participation; and
- ◆ Wagon manufacturing, renewable energy generation and power procurement for Indian Railways through collaborations by way of joint venture arrangements, subsidiaries or consortium arrangements.

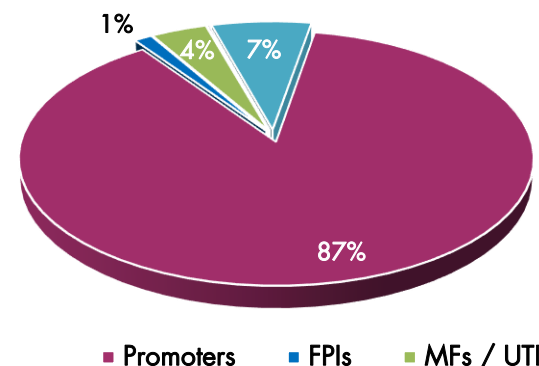
RITES operational experience spans over 55 countries in Africa, South East Asia, Middle East and Latin America. Most of RITES foreign assignments are for National Governments and other apex organizations. The growing clientele of RITES is testimony of high professionalism of its consultants and the satisfaction of its clients.

Promoter (Government) holding currently stands at 87.4%, which according to SEBI's rule has to be reduced within 3 years

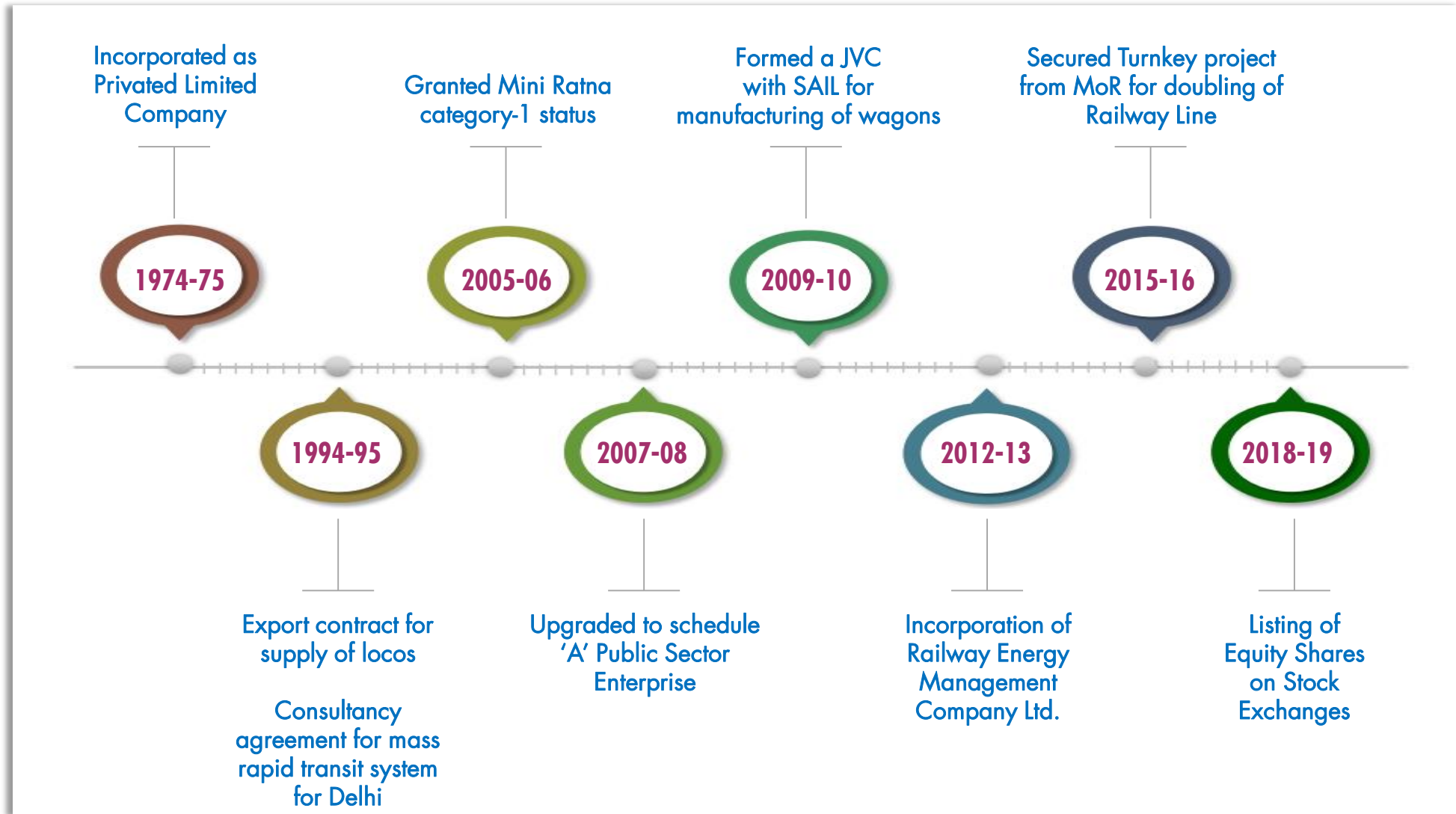
Segmental revenue breakup (FY19)



Shareholding



RITES story



Technical expertise & specialized domain knowledge across division

Rail Infrastructure Division

- ✓ Railways transportation & economics,
- ✓ Electrical engineering, signal & telecommunications
- ✓ Dedicated freight corridors,
- ✓ Track and Survey,
- ✓ Geo-technology & civil engineering design

Quality Assurance Division

- ✓ Third party inspection and vendor assessment to clients
- ✓ Laboratory testing services in India

Urban Infrastructure Division

- ✓ Urban and regional transport infrastructure including but not limited to feasibility studies, DPR, general consultancy for metros

Highways & Ports Division

- ✓ Roads and highways including bridges via ducts and tunnels, water resources engineering, ports and harbours, inland water transport, including studies, DPR, project management consultancy and Quality Assurance service`

Business Divisions

Technical Service Division

- ✓ Design & Development of rolling stock, procurement & logistics management consulting services and Locomotive leasing services
- ✓ Operation and Maintenance services of railways sidings

Buildings & Airports Division

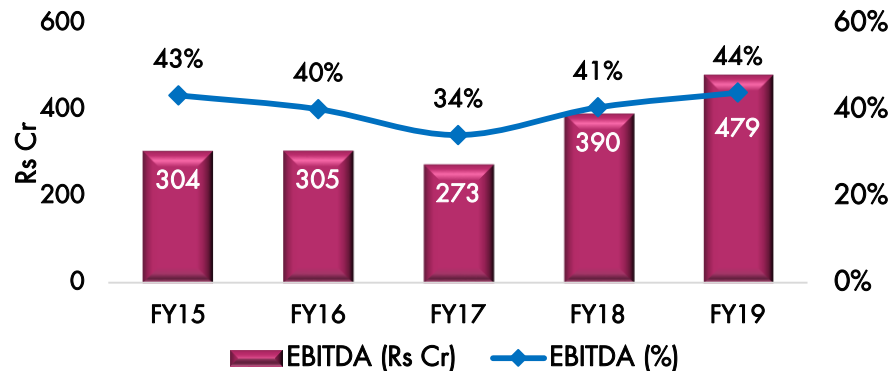
- ✓ Project Management Consultancy for construction of institutional, commercial, residential buildings
- ✓ Development of greenfield and brownfield airports, airport terminals, inland container depots

Expotech Division

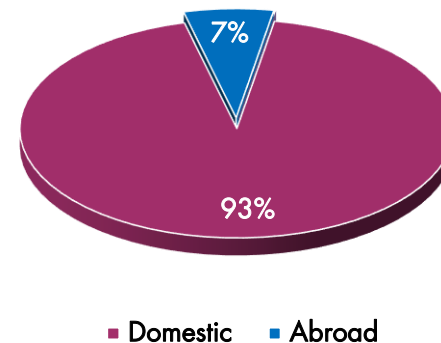
- ✓ Integrated export packages for railway locomotives and rolling Stock
- ✓ Technical consultancy services for workshop modernization, facility planning for rolling stock maintenance, training of maintenance personnel

Key Services: Predominantly a Consultancy organization

Consultancy



Consultancy revenue breakup



Note: Segmental EBITDA/Margins do not include un-allocable expenses

Source: Company, Axis Securities

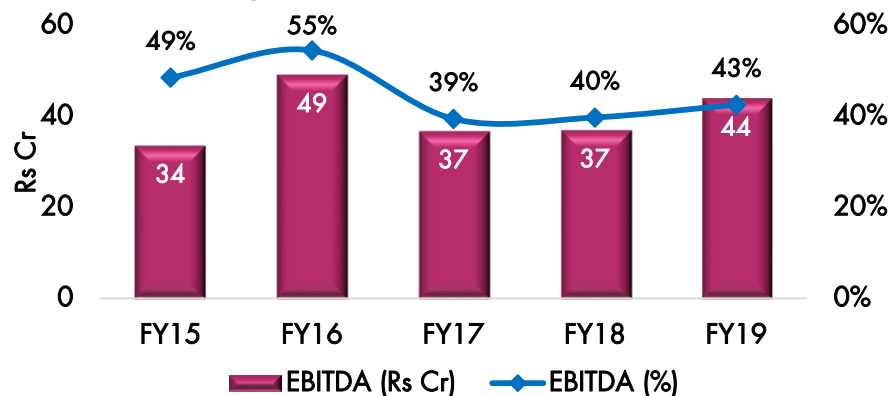
| | | | |
|--|--|---|----------------------------|
| Consultancy Services (55% revenue share) | Techno Economic viability-Fesibility & DPR | Project Management Consultancy | Construction Supervision |
| | Design Engineering | Quality Assurance & Inspection Services | Material System Management |

- ✓ RITES has a comprehensive range of consultancy services and a diversified sector portfolio
- ✓ Offers consultancy services to all sub segments of the transport sector that includes railways, rail projects of power companies, metro rail projects, ports, and highways

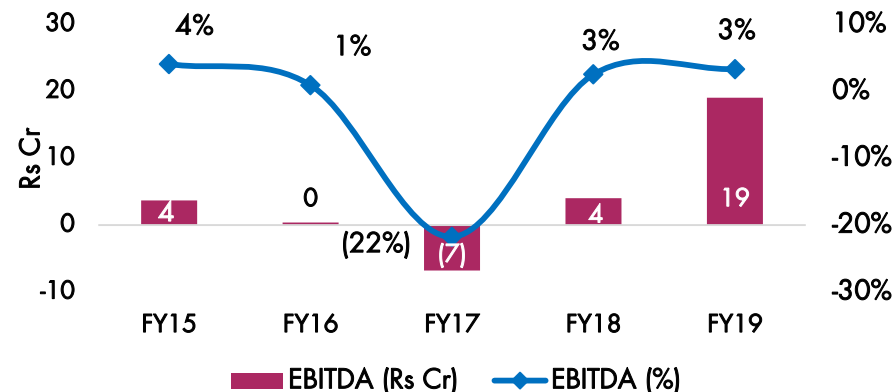
- ✓ Company predominantly is a consultancy organization with ~55 % of the operations income coming from consultancy during FY19
- ✓ Order book execution period is 6-12 months and margins are higher than other business segments
- ✓ **Opportunities Abroad:** Worldwide there is growing need to expand rail network, establish Light Rail System (metro rail) to enhance suburbs connectivity with cities and acquire new rolling stock, RITES with its global presence would be hunting for further opportunities abroad
- ✓ The infrastructure consulting market is assumed to be 0.5% to 1% of the total infrastructure investments, hence a large market for RITES to cater

Key Services: Expanding through Loco leasing and Turnkey

Locomotive Leasing



Turnkey Services



Note: Segmental EBITDA/Margins do not include un-allocable expenses

Locomotive Leasing (5% revenue share)

- ✓ RITES leases locomotives to domestic and foreign clients. It operates and maintains railway systems of domestic clients. It also provides maintenance services for locomotives
- ✓ It provides locos on lease to non-railway clients for their in-plant shunting operations in sectors such as power, steel, ports and cement. RITES owns 56 locos and plans to add 5-6 locos per year with an approximate investment of Rs 50 cr p.a

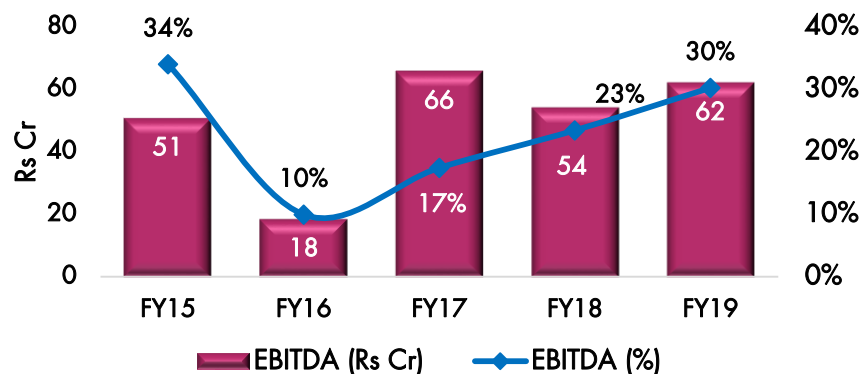
Turnkey Services (29% revenue share)

- ✓ RITES has been awarded projects on nomination basis from MoR for construction of railway lines and electrification of existing/new railway lines and up-gradation of railway workshops on a fixed fee basis. In these contracts, RITES fee is pegged at 8.5% of the total value of work done
- ✓ Large portion of Order book consist of Turnkey business which yields lower margin, however the execution period for these projects is 2-3 years which is more than double the execution period of consultancy projects and revenue share in total income would remain in the range of 25%-30%
- ✓ 2-3% operating margin in Turnkey business is earned on cost plus basis, therefore the business is less risky and it also increases bandwidth and expertise of RITES in winning orders in other segments

Source: Company, Axis Securities

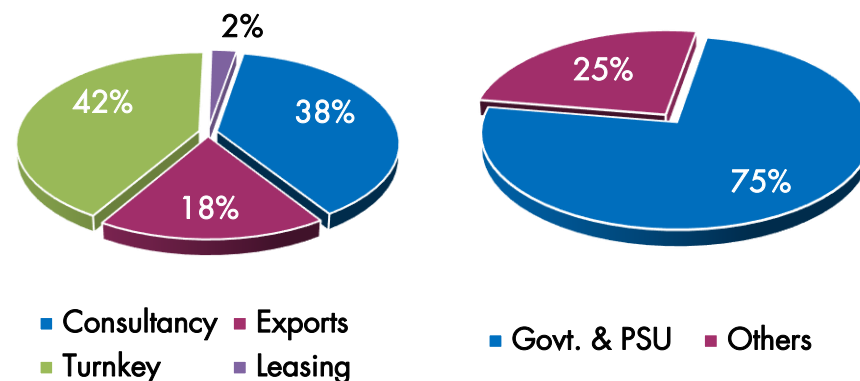
Key Services: Tapping export opportunities

Export of Rail Equipment



Note: Segmental EBITDA/Margins do not include un-allocable expenses

Order Book Breakup (FY19)



Exports of Locomotive, Rolling Stock & Spares (11% revenue share)

- ✓ RITES is a nominated organization of the Indian Railways for the export of railway locomotives, coaches and other equipment which are manufactured by the Indian Railways (other than exports to Malaysia, Indonesia and Thailand)
- ✓ RITES is playing an active role in achieving the Indian Railways' ambitious export target of Rs 4,000 crore during 2017-2020
- ✓ RITES Limited is the only export arm of Indian Railways for providing rolling stock overseas (other than Thailand, Malaysia and Indonesia)
- ✓ RITES has expanded its service offerings to address new market opportunities and macroeconomic trends arising in the infrastructure sectors
- ✓ However, export of rolling stock is cyclical in nature and largely dependent on lines of credit offered by GOI to various countries in Asia and Africa

Source: Company, Axis Securities

Key Joint Venture and Subsidiary



- ◆ Railway Energy Management Company Lt. was incorporated on August 16, 2013 to carry out business relating to:
 - ✓ Augmenting capacity in all activities relating to energy efficiency and power generation
 - ✓ Undertaking any kind of projects for power generation in the field of renewable energy resources
 - ✓ Sales of power generated
- ◆ It has commissioned a wind power project of capacity 26 MW and has also concluded power procurement contracts for approximately 1,175 MW across various states in India
- ◆ National High Speed Rail Corporation Limited has mandated REMCL to undertake techno-economic viability studies and related survey of power sourcing arrangements
- ◆ has successfully implemented open access supply for Railways in 10 States, covering 55% of energy requirement resulting in the annual saving of over Rs 2,000 crore to Indian Railways
- ◆ During FY18 company has achieved highest ever turnover of Rs 68.80 crore as compared to FY17 turnover of Rs 58.49 crore, higher by 17.63%. REMCL contributed profit before tax amounting to Rs 39.26 crore in FY18 as against Rs 27.94 crore of FY17



- ◆ SAIL-RITES Bengal Wagon Industry Private Limited was incorporated on December 13, 2010
- ◆ It is involved in the business of
 - ✓ Trading, selling, import, export, manufacturing of railway wagons, wagon prototypes, fabricated components/parts of railways vehicles
 - ✓ Its ancillary units includes repairing, manufacturing items of locomotives, machineries, equipment and other related components

Major Projects (Q4FY19)

RITES secured more than 300 projects/contracts including enhanced scope during FY19

| | Project Scope | Amount (Rs Cr) | Client | Expected Completion (CY) |
|-------------|---|----------------|--|--------------------------|
| Consultancy | PMC to IRSDC under Station Development Program | 81.2 | IRSDC | 2021 |
| | Third Party Quality Audit services for 13 AIIMS | 32.4 | Ministry of Health & Family Welfare | 2022 |
| | Project Management Consultancy for Setting up Railways Network | 50.07 | Jawaharpur Vidyut Utpadan Nigam Ltd | 2022 |
| | Detailed Project Report & Project Management Consultancy for Railway Infra | 16.54 | Tata Steel | 2022 |
| Turkey | Operation & Maintenance of 9 Locos | 10.67 | SAIL | 2021 |
| | Modernisation of Jodhpur Workshop | 53.03 | North Western Railway | 2022 |
| Leasing | Shifting of existing Railway Infrastructure & Other utilities (change Oof work from consultancy to turnkey) | 526.02 | National High Speed Rail Corporation Ltd | 2020 |
| | Wet leasing of 2 Locomotives | 14.08 | CONCOR | 2020 |

Senior Management with 33 years average experience

Mr. Rajeev Mehrotra (57 years)

He is the Chairman and Managing Director of since October 11, 2012. He has earned Bachelor's Honors degree in Accountancy and Business Statistics from Rajasthan University and is qualified as a Fellow Member of the Institute of Cost Accountants of India. He is associated with RITES since October 12, 2007. He has over 34 years of experience, out of which he has over 10 years of experience at the Board level in our Company. Also, he has worked with the National Hydroelectric Power Corporation Limited, Faridabad and Power Finance Corporation Limited, New Delhi in various capacities.

Mr. Rajeev Mehrotra (56 years)

He is the Director (projects) of RITES since September 27, 2018. He holds Bachelor's degree in Civil Engineering from REC (now NIT) Trichy and completed a Short Term Course on Design, Construction and Management of Pre- Stressed Bridges from Indian Railway Institute of Civil Engineering, Pune. He has 34 years of experience. He has worked with Engineering Projects limited as Executive Director, where he served as regional head for Southern Region. Earlier he worked with IRCON in various capacities in India and Abroad. He has expertise in multiple fields of engineering, innovation, project management and resources planning.

Mr. Rajeev Mehrotra (58 years)

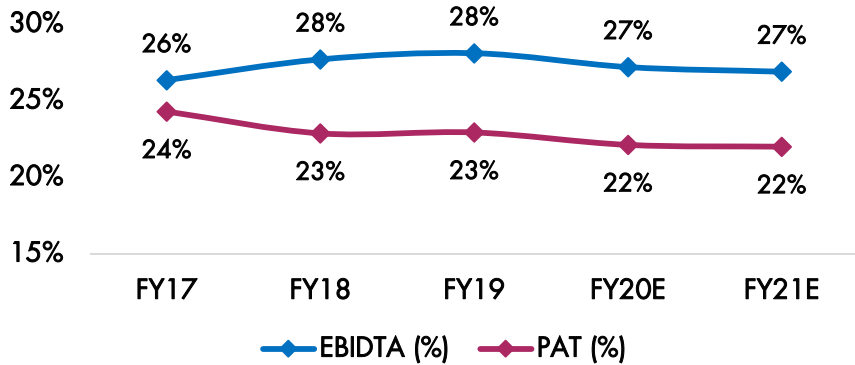
He is the Director (Finance) of RITES since September 02, 2013. He holds a Bachelor's degree in Commerce (Honours). He is qualified as a fellow Member of the Institute of Chartered Accountants of India. He has been associated with RITES since January 21, 1985. He has over 33 years of experience. He has also worked with the Container Corporation of India Limited.

Mr. Rajeev Mehrotra (58 years)

He is the Director (Technical) of RITES since December 01, 2016. He holds a Bachelor's degree in Mechanical Engineering from the University of Jabalpur and is qualified as a Fellow Member of the Institution of Engineers (India). He has been associated with Company since April, 2000. He has over 36 years of experience.

An efficient play

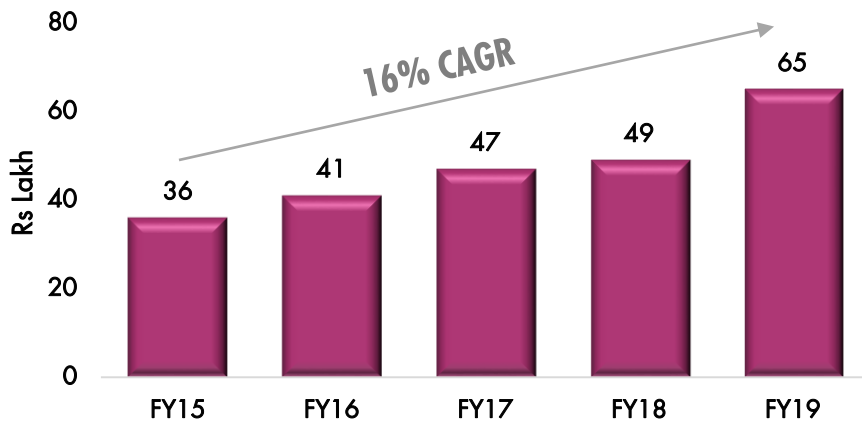
Margins to remain healthy despite increasing Turnkey share



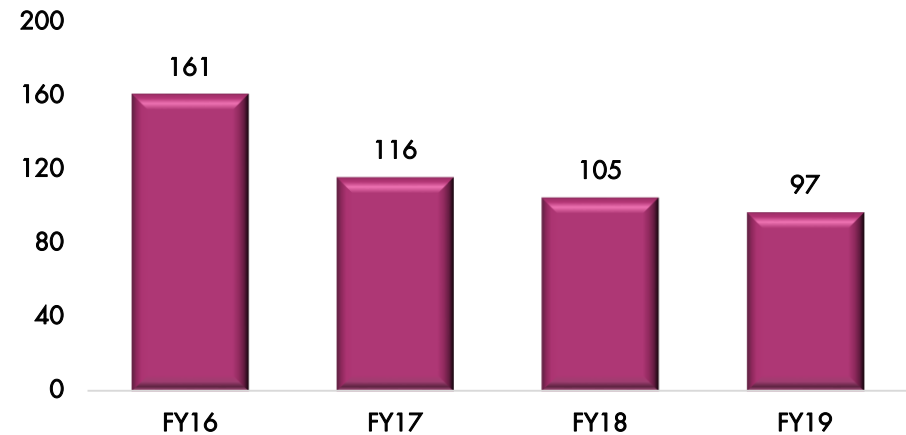
Other key margins drivers

-  Focus on High Margin Consultancy; Expansion of International Consultancy Business
-  Achieving Economy of scale in Turnkey Operations
-  Optimum Utilization of Human Resources
-  Improved Efficiency from Subsidiary and JV Operations
-  Continuously improving collection performance

Revenue per employee increasing



Declining receivable days indicate improvement in working capital

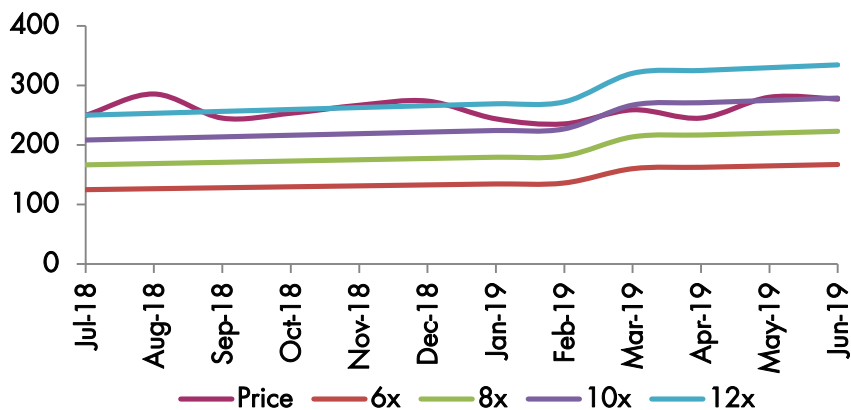


Source: Company, Axis Securities

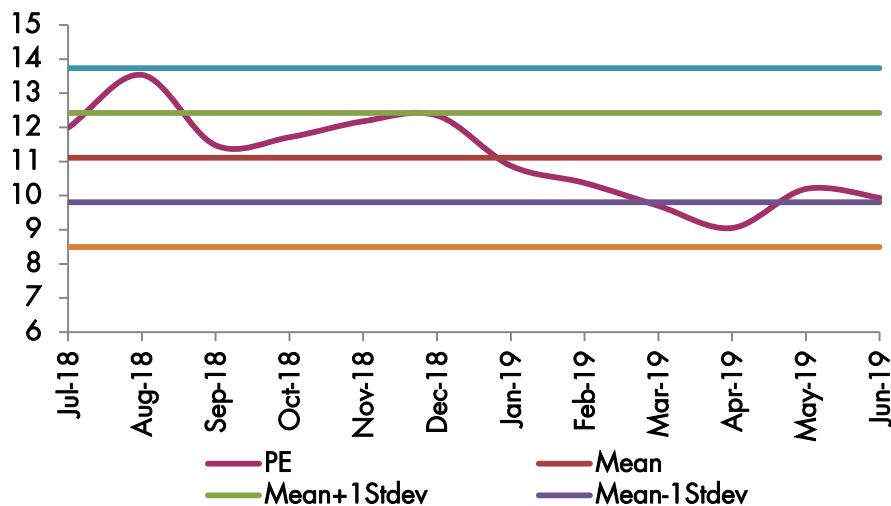
Source: Company, Axis Securities

Valuation Charts

PE Band



12mth fwd P/E (x)



Source: Company, Axis Securities

Valuation

- ◆ We estimate RITES to post revenue/PAT growth at a CAGR of 18.5%/16% respectively over FY19-21E. Focus on Strengthening EPC business, diversification and continuous infrastructure push by government is expected to auger well for RITES
- ◆ We value RITES at 12x FY21E given the growth prospects on the back of strong order book (~3x FY19 revenue), consistent financial performance, comprehensive range of services in its offering and wide presence in transportation sector to arrive at a target price of Rs 379 (37% upside).

Key Risks and Concerns

- ◆ Changes in the Government policies or decision by the MoR may adversely affect the business growth
- ◆ With increasing focus on export business, risk associated with currency can affect profitability
- ◆ Increased competition and aggressive bidding by both public and private sector players would make RITES ability to procure business in future more uncertain

Financials (Consolidated)

Profit & Loss

(Rs Cr)

| YE March | FY18 | FY19 | FY20E | FY21E |
|-------------------------|------------|------------|------------|--------------|
| Net sales | 1,497 | 2,047 | 2,436 | 2,875 |
| Employee Expense | 459 | 487 | 621 | 730 |
| Contribution (%) | 69% | 76% | 75% | 75% |
| Other Expenses | 624 | 985 | 1,152 | 1,371 |
| Operating Profit | 415 | 576 | 663 | 773 |
| Other income | 151 | 200 | 214 | 253 |
| PBIDT | 566 | 776 | 877 | 1,026 |
| Depreciation | 36 | 38 | 32 | 34 |
| Interest & Fin Chg. | 11 | 7 | 0 | (0) |
| Pre-tax profit | 519 | 730 | 845 | 992 |
| Tax provision | 162 | 240 | 283 | 332 |
| PAT | 357 | 490 | 562 | 660 |
| Minority Interests | 14 | 20 | 23 | 27 |
| Adjusted PAT | 342 | 470 | 539 | 633 |

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

| YE March | FY18 | FY19 | FY20E | FY21E |
|------------------------------|--------------|--------------|--------------|--------------|
| Total assets | 2,537 | 2,721 | 2,995 | 3,422 |
| Net Block | 402 | 477 | 523 | 544 |
| CWIP | 2 | 4 | 3 | 18 |
| Investments | 133 | 141 | 141 | 141 |
| Wkg. cap. (excl own cash)* | 276 | 555 | 554 | 587 |
| Cash / Bank balance (Own) | 1,419 | 1,302 | 1,533 | 1,891 |
| Others | 306 | 242 | 242 | 242 |
| Capital employed | 2,537 | 2,721 | 2,995 | 3,422 |
| Equity capital | 200 | 200 | 200 | 200 |
| Reserves | 2,006 | 2,222 | 2,507 | 2,879 |
| Minority Interests | 57 | 72 | 95 | 122 |
| Borrowings (Short+Long term) | 48 | 40 | 8 | 0 |
| LT Provisions & Others | 104 | 10 | 10 | 10 |
| Def tax Liabilities | 122 | 177 | 175 | 212 |

* Includes Cash & Bank balance of Clients

Financials (Consolidated)

RITES Ltd

Sector: Transport consultancy & Engineering

Cash Flow

(Rs Cr)

| YE March | FY18 | FY19P | FY20E | FY21E |
|-------------------------|------------|------------|------------|------------|
| Sources | 187 | 173 | 306 | 461 |
| Cash profit | 404 | 536 | 594 | 694 |
| (-) Dividends | 178 | 259 | 277 | 289 |
| Retained earnings | 226 | 277 | 317 | 405 |
| Issue of equity | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in Oth. Reserves | 11 | 15 | 23 | 27 |
| Borrowings (Long term) | (28) | (8) | (32) | (8) |
| Others | (22) | (111) | (2) | 37 |
| Applications | 187 | 173 | 306 | 461 |
| Capital expenditure | (72) | 116 | 76 | 70 |
| Investments | (195) | 8 | 0 | 0 |
| Net current assets | (70) | 164 | (0) | 33 |
| Change in cash | 524 | (116) | 230 | 358 |

Source: Company, Axis Securities

Ratio Analysis

(%)

| YE March | FY18 | FY19P | FY20E | FY21E |
|--------------------------|-------------|-------------|-------------|-------------|
| Sales growth | 10.8 | 36.7 | 19.0 | 18.0 |
| OPM | 27.7 | 28.1 | 27.2 | 26.9 |
| Oper. profit growth | 16.5 | 38.7 | 15.2 | 16.7 |
| COGS / Net sales | 30.6 | 23.8 | 25.5 | 25.4 |
| Overheads/Net sales | 41.7 | 48.1 | 47.3 | 47.7 |
| Depreciation / G. block | 7.1 | 6.1 | 4.5 | 4.5 |
| Effective interest rate | 18.4 | 17.1 | 0.6 | 0.0 |
| Net wkg.cap / Net sales | 0.90 | 0.78 | 0.45 | 0.19 |
| Net sales / Gr block (x) | 2.9 | 3.3 | 3.5 | 3.8 |
| RoCE | 21.5 | 28.1 | 29.6 | 30.9 |
| Debt / equity (x) | 0.02 | 0.02 | 0.00 | 0.00 |
| Effective tax rate | 31.2 | 32.9 | 33.5 | 33.5 |
| RoE | 15.5 | 19.2 | 19.9 | 20.8 |
| Payout ratio (Div/NP) | 52.0 | 55.2 | 51.4 | 45.7 |
| EPS (Rs.) | 17.1 | 23.5 | 26.9 | 31.6 |
| EPS Growth | 4.3 | 37.1 | 14.8 | 17.4 |
| CEPS (Rs.) | 18.9 | 25.4 | 28.5 | 33.3 |
| DPS (Rs.) | 7.4 | 10.8 | 11.5 | 12.0 |

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Instead of a company visit, we have done a conference call with the company's management.

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