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**Government push on infrastructure (especially metros, railways & roads) to boost financial performance in the coming years**
**Key result highlights**

RITES Ltd (RITES) reported strong YoY revenue growth of 16.0% to Rs.602.6 Cr in Q3FY20 over the corresponding period previous year. The revenue was mainly driven by stellar performance in the Turnkey segment, which reported a YoY revenue growth of 72.7% to Rs.196.2 Cr during the quarter. The Consultancy segment reported YoY revenue growth of 11.7% to Rs.301.0 Cr, while the leasing segment witnessed YoY revenue growth of 14.0% to Rs.30.4 Cr. Export revenue reported a YoY decline of 10.6% to Rs.90.8 Cr during the quarter. As per the management, delay in delivery of 2 locomotives to Sri Lanka (expected to happen in Q4FY20) impacted the Export segment performance.

EBITDA reported a YoY growth of 6.4% to Rs. 154.7 Cr, while EBITDA margins declined by 231bps YoY to 25.7% in Q3FY20. Decline in the high margin consultancy business and a rise in the share of the turnkey segment (which is a low margin business compared to Consultancy) impacted the EBITDA margin.

Other income reported a YoY decline of 8.7% to Rs.43.0 Cr in Q3FY20. PBT grew at a YoY rate of 1.7% to Rs.186.8 Cr, while PBT margins declined by 435bps YoY to 31.0% in Q3FY20. RITES opted for the new tax regime of lower corporate tax, which significantly aided the bottom-line. As a result, net profit reported YoY growth of 13.8% to Rs.139.7 cr; however, the net margin deteriorated by 44bps YoY to 23.2% during Q3FY20 (on account of increase in turnkey share in overall business).

|                 |         |
|-----------------|---------|
| Bloomberg Code  | RITE.IN |
| No of share O/S | 25.0    |
| Market Cap      | 8,068   |
| Face Value      | 10      |
| Dividend Yield  | 3.2     |
| 52 Wk High/Low  | 331/166 |
| <hr/>           |         |
| Shareholding    |         |
| Promoters       | 77.39   |
| Institutional   | 13.55   |
| Public          | 9.06    |
| Total           | 100     |

## ***Conference call highlights***

- RITES is expecting an order for the delivery of coach and locomotives (worth of Rs.650 cr) from Africa in Q4FY20. The company is also planning to deliver 160 coaches to Sri Lanka by end of Q3FY21. These two large sized orders are expected to improve the Export segment revenue performance
- The management is expecting consultancy orders from metros (13 tenders worth of Rs.1400 Cr are under bidding process)
- The company is also seeking orders for railway station re-development (under govt's plan to re-develop 500 railway stations)
- Turnkey segment is performing well and the management is targeting to sustain its revenue contribution at 25-30%. Company is likely to get orders in this segment – especially in railway electrification and line doubling

## ***Valuation***

RITES is currently trading at a FY22 forwarded P/E of 10.9x (FY22 est EPS of Rs.29.6). It is diversifying to milk opportunities in roads, railways, ports & airports and with the national infrastructure pipelines worth of Rs.102 lac cr. We are expecting a significant surge in order flow in the coming years. Most of the infrastructure companies have overleveraged balance sheets and are struggling to generate positive cash flows. In contrast, RITES has a debt-free and cash-rich balance sheet and has a strong cash flow on the back of consistency in financial performance. We would value RITES at FY22 P/E of 12.5x with a target price of Rs.370 and recommend ACCUMULATE at current market price.

# Financial Summary

Financials to improve in the medium to long term due to govt's thrust on infrastructure development

Aggressive order flow in the turnkey segment to keep revenue growth healthy, but it's a low margin business, which is expected to keep profitability under pressure

Healthy balance sheet and strong cash flows to keep return ratios above 20%

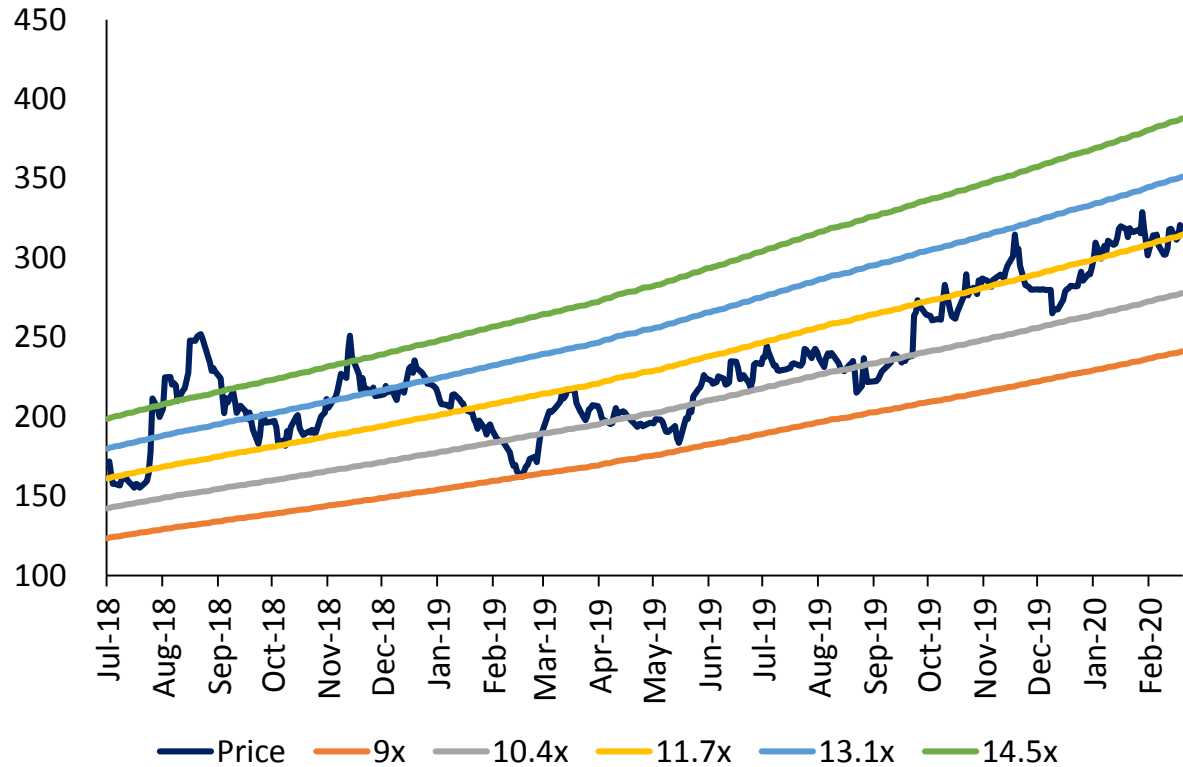
| Figures are in Rs Cr             | Q3FY20      | Q3FY19      | YoY (%) | Q2FY20      | QoQ (%) | FY19        | FY20E       | YoY (%) | FY21E       | YoY (%) | FY22E       | YoY (%) |
|----------------------------------|-------------|-------------|---------|-------------|---------|-------------|-------------|---------|-------------|---------|-------------|---------|
| Net Sales                        | 603         | 520         | 16.0    | 726         | -17.0   | 1,970       | 2,703       | 37.2    | 3,038       | 12.4    | 3,378       | 11.2    |
| Raw Material Cost                | 59          | 66          | -11.7   | 165         | -64.6   |             |             |         |             |         |             |         |
| RM Cost to Sales (%)             | 9.7         | 12.7        |         | 22.7        |         |             |             |         |             |         |             |         |
| Employee Cost                    | 133         | 133         | 0.4     | 121         | 10.5    | 484         | 530         |         | 598         |         | 669         |         |
| Employee Cost to Sales (%)       | 22.1        | 25.6        |         | 16.6        |         |             |             |         |             |         |             |         |
| Operating Expenses               | 256         | 175         | 46.1    | 260         | -1.6    | 968         | 1,507       |         | 1,721       |         | 1,936       |         |
| OPEX to Sales (%)                | 42.5        | 33.7        |         | 35.8        |         |             |             |         |             |         |             |         |
| EBITDA                           | 155         | 145         | 6.4     | 180         | -14.1   | 518         | 666         | 28.6    | 719         | 8.0     | 773         | 7.5     |
| <b>EBITDA Margin (%)</b>         | <b>25.7</b> | <b>28.0</b> |         | <b>24.8</b> |         | <b>26.3</b> | <b>24.6</b> |         | <b>23.7</b> |         | <b>22.9</b> |         |
| Depreciation                     | 10          | 8           | 23.3    | 10          | 5.7     | 32          | 40          | 25.0    | 46          | 15.0    | 52          | 13.0    |
| Depreciation to Net Block (%)    |             |             |         | 9.4         |         |             |             |         |             |         |             |         |
| Interest                         | 1           | 1           | 21.3    | 1           | 1.4     | 3           | 3           |         | 3           |         | 3           |         |
| <b>Interest Rate (%)</b>         |             |             |         |             |         |             |             |         |             |         |             |         |
| TTM Interest Coverage            | 158         | 149         |         | 162         |         | 162         | 209         |         | 224         |         | 240         |         |
| Other Income                     | 43          | 47          | -8.7    | 148         | -70.8   | 195         | 274         |         | 270         |         | 270         |         |
| <b>Other Income to Sales (%)</b> | <b>7.1</b>  | <b>9.1</b>  |         | <b>20.3</b> |         | <b>9.9</b>  | <b>10.1</b> |         | <b>8.9</b>  |         | <b>8.0</b>  |         |
| Exceptional Income / Expenses    | 0           | 0           |         | 0           |         | 0           | 0           |         | 0           |         | 0           |         |
| Profit Before Tax                | 187         | 184         | 1.7     | 317         | -41.1   | 678         | 897         | 32.3    | 940         | 4.8     | 988         | 5.1     |
| <b>Tax Rate (%)</b>              | <b>25.2</b> | <b>33.1</b> |         | <b>26.7</b> |         | <b>34.2</b> | <b>25.3</b> |         | <b>25.2</b> |         | <b>25.2</b> |         |
| Profit After Tax                 | 140         | 123         | 13.8    | 233         | -39.9   | 446         | 670         | 50.2    | 703         | 4.9     | 739         | 5.1     |
| <b>PAT Margin (%)</b>            | <b>23.2</b> | <b>23.6</b> |         | <b>32.0</b> |         | <b>22.6</b> | <b>24.8</b> |         | <b>23.1</b> |         | <b>21.9</b> |         |
| Adjusted EPS                     | 5.6         | 4.9         | 13.8    | 9.3         | -39.9   | 17.8        | 26.8        | 50.6    | 28.1        | 4.9     | 29.6        | 5.3     |
| Shareholder's Funds              |             |             |         | 2,610       |         |             |             |         |             |         |             |         |
| BV per share                     | #N/A        | #N/A        | #N/A    | 104.4       | #N/A    | 95.4        | 108.8       | 14.0    | 122.8       | 12.9    | 137.6       | 12.1    |
| Net Debt                         |             |             |         |             |         | -63         | 48          | -176.2  | -241        | -602.1  | 162         | -167.2  |
| Net Debt to Equity               | #N/A        | #N/A        | #N/A    | #N/A        | #N/A    | #DIV/0!     | #DIV/0!     |         | #DIV/0!     |         | #DIV/0!     |         |
| Net Debt to EBITDA               |             |             |         |             |         | -0.1        | 0.1         |         | -0.3        |         | 0.2         |         |
| Working Capital Cycle            | #N/A        | #N/A        |         | 110         |         |             |             |         |             |         |             |         |
| CAPEX                            |             |             |         |             |         | 109         | 100         | -8.3    | 100         | 0.0     | 100         | 0.0     |
| RoE                              | #N/A        | #N/A        |         | 22.2        |         | 18.7        | 24.6        |         | 22.9        |         | 21.5        |         |
| RoCE                             |             |             |         |             |         | 20.4        | 23.0        |         | 21.9        |         | 21.0        |         |
| P/E                              | 13.3        | 20.5        |         | 13.7        |         | 17.9        | 11.9        |         | 11.3        |         | 10.8        |         |
| P/B                              |             |             |         | 3.1         |         |             |             |         |             |         |             |         |
| EV/EBITDA                        | #N/A        | #N/A        |         | #N/A        |         | 15.3        | 12.0        |         | 10.7        |         | 10.5        |         |

## Segmental Performance

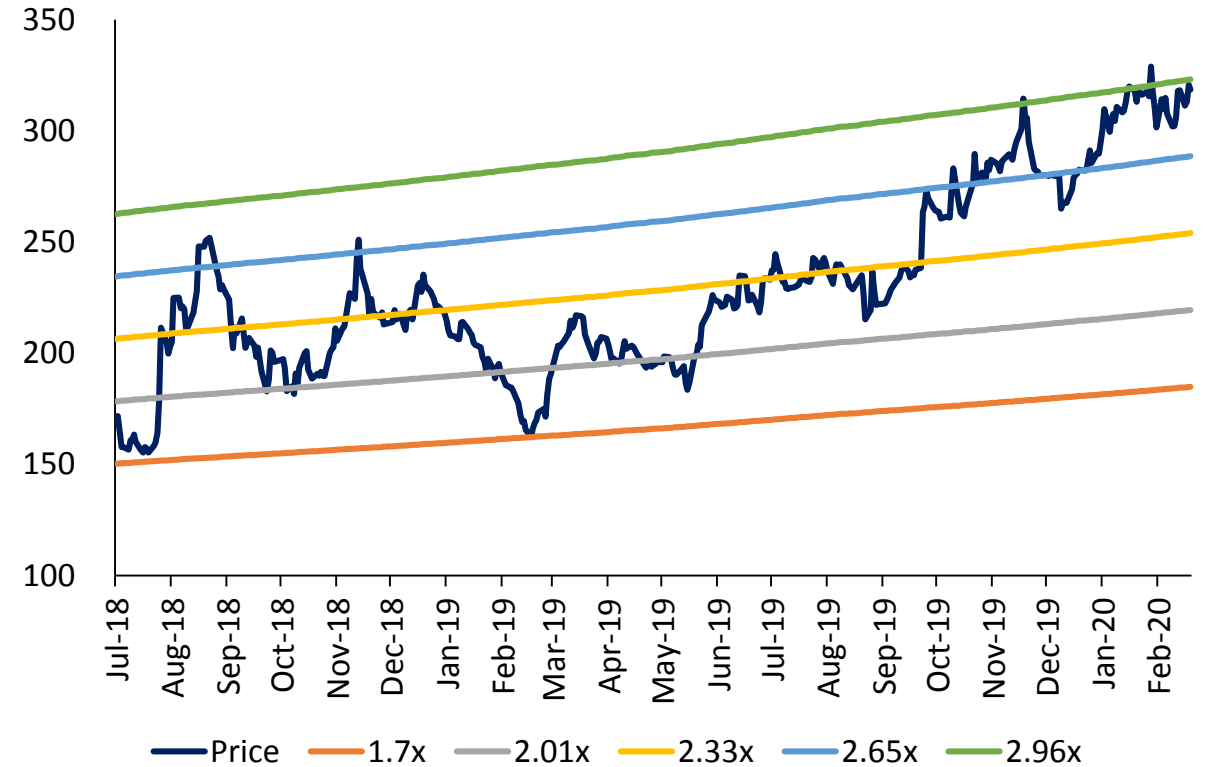
| Segmental Performance            | Q4FY18       | Q1FY19       | Q2FY19       | Q3FY19       | Q4FY19       | Q1FY20       | Q2FY20       | Q3FY20       | FY18         | FY19         | FY20E        | FY21E        | FY22E        |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Consultancy Order Book           | 2,384        | 2,384        | 2,296        | 2,268        | 2,317        | 2,379        | 2,474        | 2,530        | 2,384        | 2,317        | 2,655        | 2,925        | 3,206        |
| <i>Share in total order book</i> | <i>43.2%</i> | <i>43.2%</i> | <i>37.1%</i> | <i>37.5%</i> | <i>38.0%</i> | <i>39.3%</i> | <i>42.4%</i> | <i>44.4%</i> | <i>43.2%</i> | <i>38.0%</i> | <i>44.8%</i> | <i>43.5%</i> | <i>42.5%</i> |
| Consultancy Revenue              | 365          | 209          | 295          | 269          | 321          | 248          | 271          | 301          | 969          | 1,092        | 1,180        | 1,300        | 1,425        |
| <i>Share in total revenue</i>    | <i>67.1%</i> | <i>67.5%</i> | <i>67.6%</i> | <i>52.7%</i> | <i>44.9%</i> | <i>46.4%</i> | <i>36.5%</i> | <i>48.7%</i> | <i>67.3%</i> | <i>55.4%</i> | <i>43.7%</i> | <i>42.8%</i> | <i>42.2%</i> |
| Export Order Book                | 1,264        | 1,264        | 1,284        | 1,188        | 1,086        | 1,117        | 860          | 771          | 1,264        | 1,086        | 690          | 748          | 805          |
| <i>Share in total order book</i> | <i>22.9%</i> | <i>22.9%</i> | <i>20.8%</i> | <i>19.6%</i> | <i>17.8%</i> | <i>18.5%</i> | <i>14.7%</i> | <i>13.5%</i> | <i>22.9%</i> | <i>17.8%</i> | <i>11.6%</i> | <i>11.1%</i> | <i>10.7%</i> |
| Export Revenue                   | 74           | 1            | 1            | 102          | 103          | 129          | 262          | 91           | 232          | 207          | 600          | 650          | 700          |
| <i>Share in total revenue</i>    | <i>13.6%</i> | <i>0.4%</i>  | <i>0.2%</i>  | <i>19.9%</i> | <i>14.5%</i> | <i>24.1%</i> | <i>35.4%</i> | <i>14.7%</i> | <i>16.1%</i> | <i>10.5%</i> | <i>22.2%</i> | <i>21.4%</i> | <i>20.7%</i> |
| Leasing Order Book               | 158          | 158          | 138          | 134          | 152          | 140          | 130          | 131          | 158          | 152          | 185          | 207          | 230          |
| <i>Share in total order book</i> | <i>2.9%</i>  | <i>2.9%</i>  | <i>2.2%</i>  | <i>2.2%</i>  | <i>2.5%</i>  | <i>2.3%</i>  | <i>2.2%</i>  | <i>2.3%</i>  | <i>2.9%</i>  | <i>2.5%</i>  | <i>3.1%</i>  | <i>3.1%</i>  | <i>3.0%</i>  |
| Leasing Revenue                  | 22           | 23           | 24           | 27           | 29           | 29           | 30           | 30           | 92           | 104          | 123          | 138          | 153          |
| <i>Share in total revenue</i>    | <i>4.1%</i>  | <i>7.6%</i>  | <i>5.6%</i>  | <i>5.2%</i>  | <i>4.1%</i>  | <i>5.5%</i>  | <i>4.1%</i>  | <i>4.9%</i>  | <i>6.4%</i>  | <i>5.3%</i>  | <i>4.6%</i>  | <i>4.5%</i>  | <i>4.5%</i>  |
| Turnkey Order Book               | 1,711        | 1,711        | 2,465        | 2,464        | 2,542        | 2,416        | 2,369        | 2,264        | 1,711        | 2,542        | 2,400        | 2,850        | 3,300        |
| <i>Share in total order book</i> | <i>31.0%</i> | <i>31.0%</i> | <i>39.9%</i> | <i>40.7%</i> | <i>41.7%</i> | <i>39.9%</i> | <i>40.6%</i> | <i>39.7%</i> | <i>31.0%</i> | <i>41.7%</i> | <i>40.5%</i> | <i>42.4%</i> | <i>43.8%</i> |
| Turnkey Revenue                  | 83           | 76           | 116          | 114          | 261          | 128          | 179          | 196          | 147          | 567          | 800          | 950          | 1,100        |
| <i>Share in total revenue</i>    | <i>15.2%</i> | <i>24.5%</i> | <i>26.6%</i> | <i>22.2%</i> | <i>36.6%</i> | <i>24.0%</i> | <i>24.1%</i> | <i>31.7%</i> | <i>10.2%</i> | <i>28.8%</i> | <i>29.6%</i> | <i>31.3%</i> | <i>32.6%</i> |
| Total Order Book                 | 5,517        | 5,517        | 6,183        | 6,054        | 6,097        | 6,052        | 5,833        | 5,696        | 5,517        | 6,097        | 5,930        | 6,730        | 7,541        |
| Total Revenue                    | 544          | 310          | 436          | 511          | 714          | 534          | 741          | 618          | 1,439        | 1,970        | 2,703        | 3,038        | 3,378        |
| TTM Order Book to Revenue (x)    |              |              |              | 3.4          | 3.1          | 2.8          | 2.3          | 2.2          | 3.8          | 3.1          | 2.2          | 2.2          | 2.2          |

# 1 year forward valuation band charts

### P/E band chart



### P/B band chart



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