VENTURA

Kyon ki bhaiya, sabse bada rupaiya.

RITES Ltd.

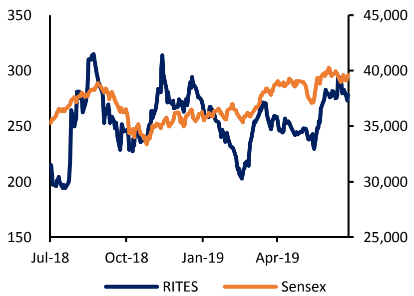
Target: Rs.365 | **CMP Rs.290 (9.9x FY22 P/E)** | **BUY**

Index Details	
Sensex	39,488
Nifty	11,876
BSE Infra	211
Industry	Infrastructure

Scrip Details	
Mkt Cap (Rs Cr)	5,816
O/S Share (Cr)	20.0
3 M Avg Vol (000)	411.0
52 Wk H/L (Rs)	326/190
Div Yield (%)	2.0
FVPS (Rs)	10.0

Shareholding Pattern	
Shareholder	%
Promoters	87.40
Institutional	5.44
Public	7.16
Total	100.0

RITES vs. Sensex



India witnessed a significant improvement in rail & road infrastructure during the first term of the Modi government. Over the tenure of Modi 2.0, we expect an even greater thrust on infrastructure spend (BJP manifesto & Niti Aayog Vision – 2022), and railways are expected to emerge as a big beneficiary of this spend. RITES with a proven track record and 44 years of rich experience is a proxy for the Indian Railways infrastructure push.

As a preferred supplier and nominated vendor for the Indian Railways & NHAI, RITES has delivered a steady Revenue / EBITDA / PAT CAGR of 12.5% / 16.1% / 11.1% respectively over the period of FY14-19. Further, its order book of Rs.6,097 Cr provides for ~3 years of revenue visibility. However, this sharp jump in revenue growth was mainly driven by a rise in turnkey projects (which significantly improved the segment's revenue share from 8.9% to 28.8% during FY14-19). Although there was growth in the revenue of the Turnkey segment, the overall profitability of the company declined as Turnkey is a low margin business. There was a 1,344 bps decline in blended EBITDA margins to 26.2% and a 1,459 bps decline in the PAT margin to 22.6% over the period of FY14-19.

Over the period FY19-22, we expect RITES to improve its order book to Rs.9,178 Cr by FY22 and clock revenue growth of 14.2% to Rs.2,936 Cr. Unlike FY14-19, the increase in the revenue share of the turnkey segment is expected to be moderate and hence EBITDA and PAT are expected to grow at a CAGR of 9.0% and 9.5%, respectively, during FY19-22E, while EBITDA and PAT margins are expected to dip 342 bps to 22.8% and 269 bps to 19.9%, respectively. Consequently, we expect the return ratios – RoE and RoCE - to decline to 17.8% (-87 bps) and 18.9% (-139 bps) respectively by FY22E. With a very low capex requirement (Rs.300 Cr over next 3-4 years) and strong operating cash flow, we expect RITES to sustain a healthy payout ratio of >40% while keeping the balance sheet healthy.

We initiate coverage on RITES as a BUY with a price objective of Rs.365, representing a potential upside of 26% from the CMP of Rs.290 over a period of 24 months. We have used the P/E multiple approach to value RITES and assign a multiple of 12.5x to the FY22 EPS of Rs.29.2

Key Financials (in ₹ crores)

	Sales	EBITDA	PAT	EBITDA Margin (%)	PAT Margin (%)	EPS ₹	BV ₹	RoE (%)	RoCE (%)	P/E (x)	P/BV (x)	EV/EBITDA (x)
FY18	1,439	360	337	25.0	23.4	16.8	110	15.4	15.1	17.3	2.6	10.9
FY19	1,969	517	445	26.2	22.6	22.2	119	18.7	20.3	13.1	2.4	7.8
FY20E	2,248	548	467	24.4	20.8	23.4	133	17.5	19.2	12.4	2.1	6.9
FY21E	2,578	598	521	23.2	20.2	26.1	148	17.6	18.7	11.1	1.9	6.1
FY22E	2,936	670	584	22.8	19.9	29.2	164	17.8	18.9	9.9	1.7	5.3

STOCK POINTER

Wednesday 27th June, 2019

Our optimism stems from the following:

- **RITES is expected to be a significant beneficiary of the Indian Railways' infrastructure push. Indian Railways capital outlay is expected to grow by 40% in next 5 years and we believe that RITES is well positioned for this opportunity. The current order book of Rs.6,097 Cr is 3.1x of FY19 revenue, providing strong revenue visibility over the forecasted period.**

- **Under the 'Make in India' program, Indian railways has improved export relations with SAARC, ASEAN, Africa, Latin America & Middle East regions. Being the only export arm of the Indian Railways (except Malaysia, Indonesia & Thailand), RITES is well positioned to make the most of this upcoming export opportunity.**

- **RITES is diversifying to milk opportunities in roads, ports & airports. Sagarmala and Bharatmala provide similar opportunities in terms of size and scale which are comparable to that offered by the Indian Railways.**

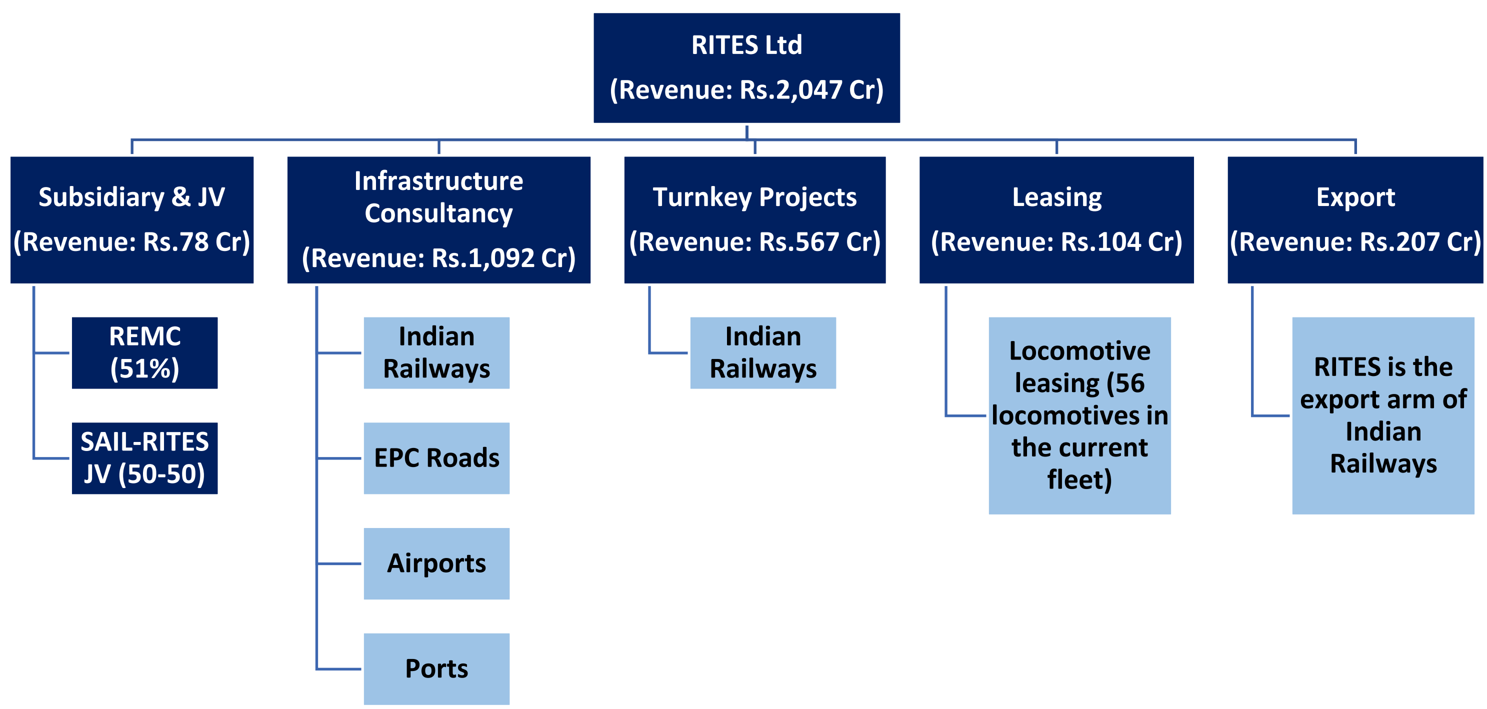
- **Most of the infrastructure companies have over-leveraged balance sheets and are struggling to generate positive cash flows. In contrast, RITES has a debt free and cash-rich balance sheet and has also maintained a strong cash flow on the back of consistency in financial performance. This is expected to support the company while bidding for non-railway infrastructure projects like roads, ports, airports, etc.**

- **RITES reported a net cash balance of Rs.1,273 Cr (excluding the cash of Rs.2,196 Cr in client fund account), which forms 24% of the total assets, making RITES a cash-rich company. We believe that such a huge cash pile may be utilized for acquisition, buyback or returned to the shareholders in the form of a dividend.**

❖ Company background

From only an infrastructure consultant for the Indian Railways, RITES has evolved into a well-diversified infrastructure company, offering consultancy services for railways, highways & urban infrastructure and also participating in Indian railways turnkey projects. It has also started locomotive leasing services and forayed strongly in the export market for Indian railways. REMC and SAIL-RITES are its subsidiaries engaged in the business of renewable power and locomotive manufacture and allied activities.

RITES Ltd – Company Overview



Source: Company reports & Ventura Research

Key management personnel

Name	Designation	Prior Experience
Mr Rajeev Mehrotra	Chairman & Managing Director (w.e.f 11th Oct 2012)	Mr. Rajeev Mehrotra holds a 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 has been 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 RITES. He has also worked with the NHPC and PFC in various capacities.
Mr Ajay Kumar Gaur	Director - Finance (w.e.f 2nd Sept 2013)	Mr. Ajay Kumar Gaur is qualified as a Member of the ICAI. He has been associated with RITES since January 21, 1985. He has over 32 years of experience. He has also worked with the CCIL.
Mr V G Suresh Kumar	Director - Projects (w.e.f 27th Sept 2018)	Mr. V G Suresh Kumar served in EPIL for 7 years in the position of Executive Director heading Business Development & Marketing Division. He was also Regional Head to conduct business affairs of the company activity for the Southern Region and Sri Lanka which involved marketing & execution of infrastructure projects such as ports, water supply, dams, industrial and irrigation projects. He also served for 26 years in IRCON in various capacities and executed prestigious infrastructure projects related to railways, highways, flyovers, bridges, ROBs in different parts of India and overseas such as Nepal & Bangladesh.
Mr Mukesh Rathor	Director - Technicals (w.e.f 1st Dec 2016)	Mr. Mukesh Rathore 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 our Company since April, 2000. He has over 36 years of experience.

Source: Company Reports

❖ Key investment highlights

FY15 – 17: Despite accelerated growth, net earnings suffer on the back of one-offs

Until FY17, RITES used to source the majority of its revenue (~70%) from the high margin consultancy business and enjoyed an EBTIDA margin in excess of 30%. Although the company reported revenue CAGR of 13.1% during FY15-17, however EBITDA and PAT reported compounded decline of 11.9% and 6.3% respectively over the same period. This was on account of saturation in profitability, pay revision and enhancement in gratuity ceiling in FY17. However, the pay revision is a once in a decade occurrence and hence no further impact is expected until FY27.

FY17 – 19: Accelerated growth continued on the back of healthy orders

During the period FY17-19, the overall revenue of RITES grew at a CAGR of 23.1% from Rs.1,299 Cr in FY17 to Rs.1,970 Cr in FY19, which was driven by a significant jump in order book from Rs.3,731 Cr in FY17 to Rs.6,097 Cr in FY19. Despite subdued exports (reported compounded decline of 26.0%), the company managed to clock strong double-digit revenue growth on the back of aggressive order booking in railway infrastructure & electrification turnkey projects. Also, the productivity of employees in terms of turnover per employee improved by 1.5x. EBITDA grew at a CAGR of 28.5% to Rs.517 Cr, while PAT reported a CAGR of 15.9% to Rs.445 Cr. Decline in other income and an increase in tax rate impacted the growth rate of the bottom-line.

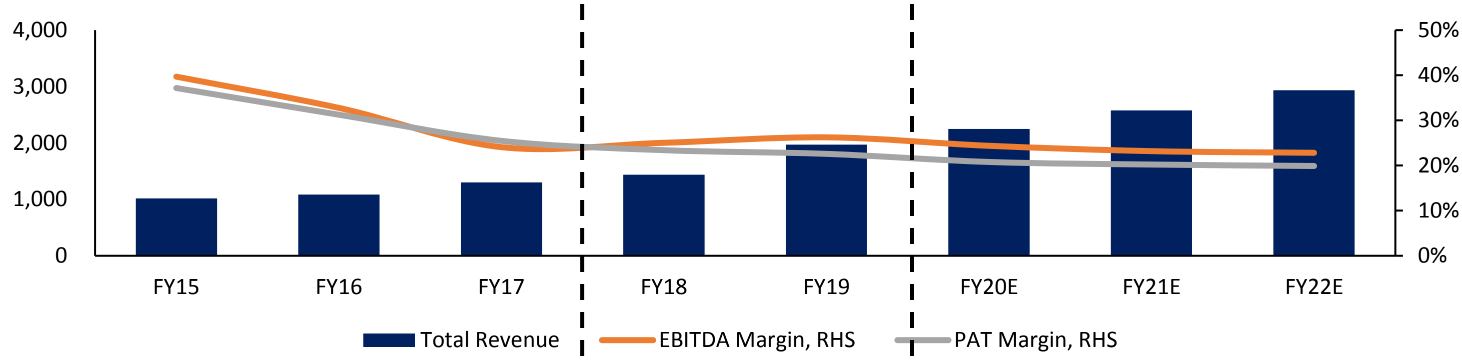
FY20 – 22E: Consultancy and turnkey segments to lead the growth momentum

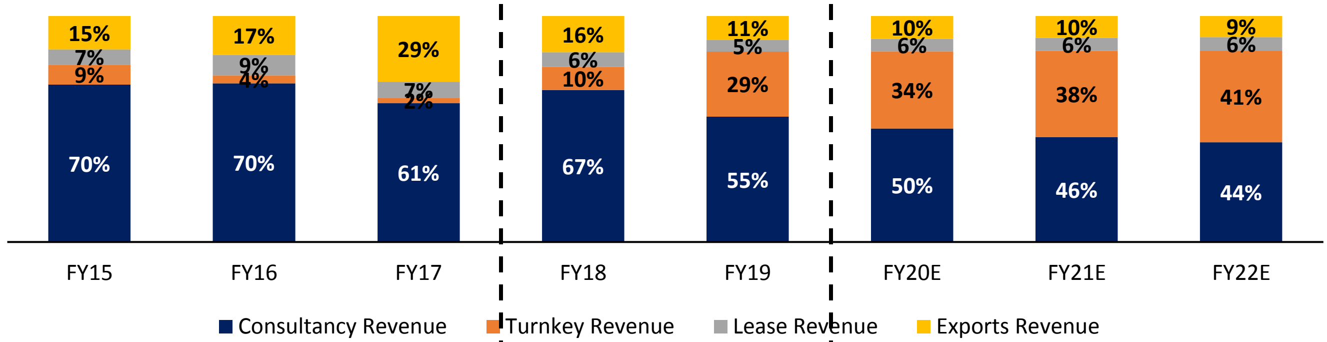
We expect revenues to grow at a 14.2% CAGR to Rs.2,936 Cr over the period FY19-22E, on account of traction in consultancy revenue and turnkey projects. Revenue performance may not drive the profitability due to the increasing contribution of low margin turnkey business. As a result despite EBITDA expected to grow at a CAGR of 9.0% to Rs.670 Cr, EBITDA margin is expected to decline to 22.8% (-342bps) during FY19-22E. PAT is expected to grow at a CAGR of 9.5% to Rs.584 Cr during the similar period.

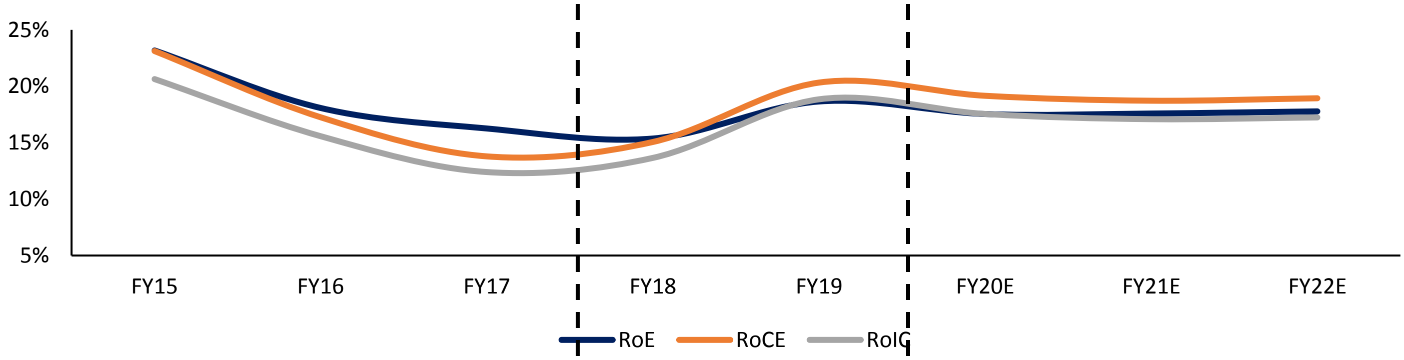
This growth in revenues is expected to be primarily driven by: -

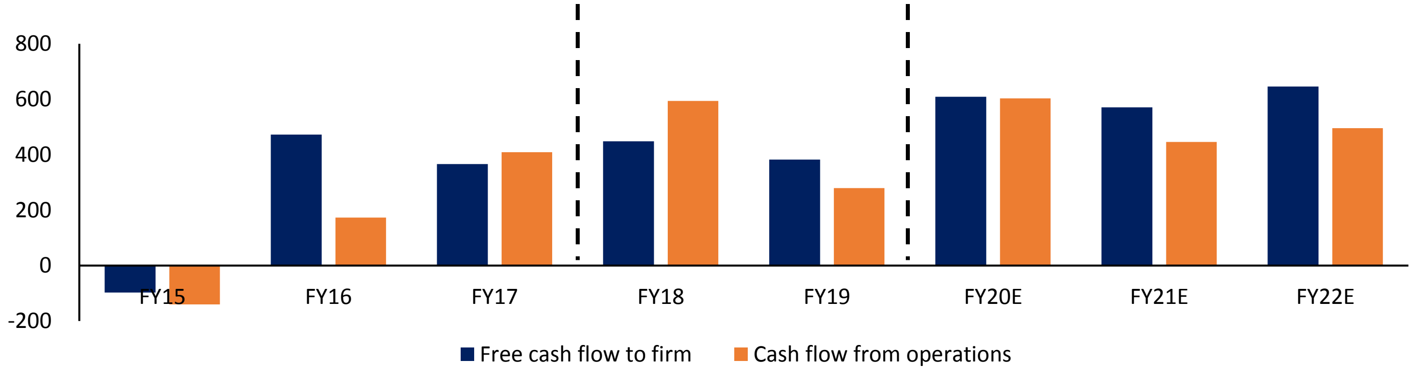
- Robust railway expenditure
- Improvement in the railway's export business and overseas leasing of locomotives
- Rising share of EPC road projects in NHAI awards to improve non-railway revenue
- Boost in consultancy revenue from metro rail projects
- Port infrastructure is expected to be a future revenue source.

Performance charts of RITES









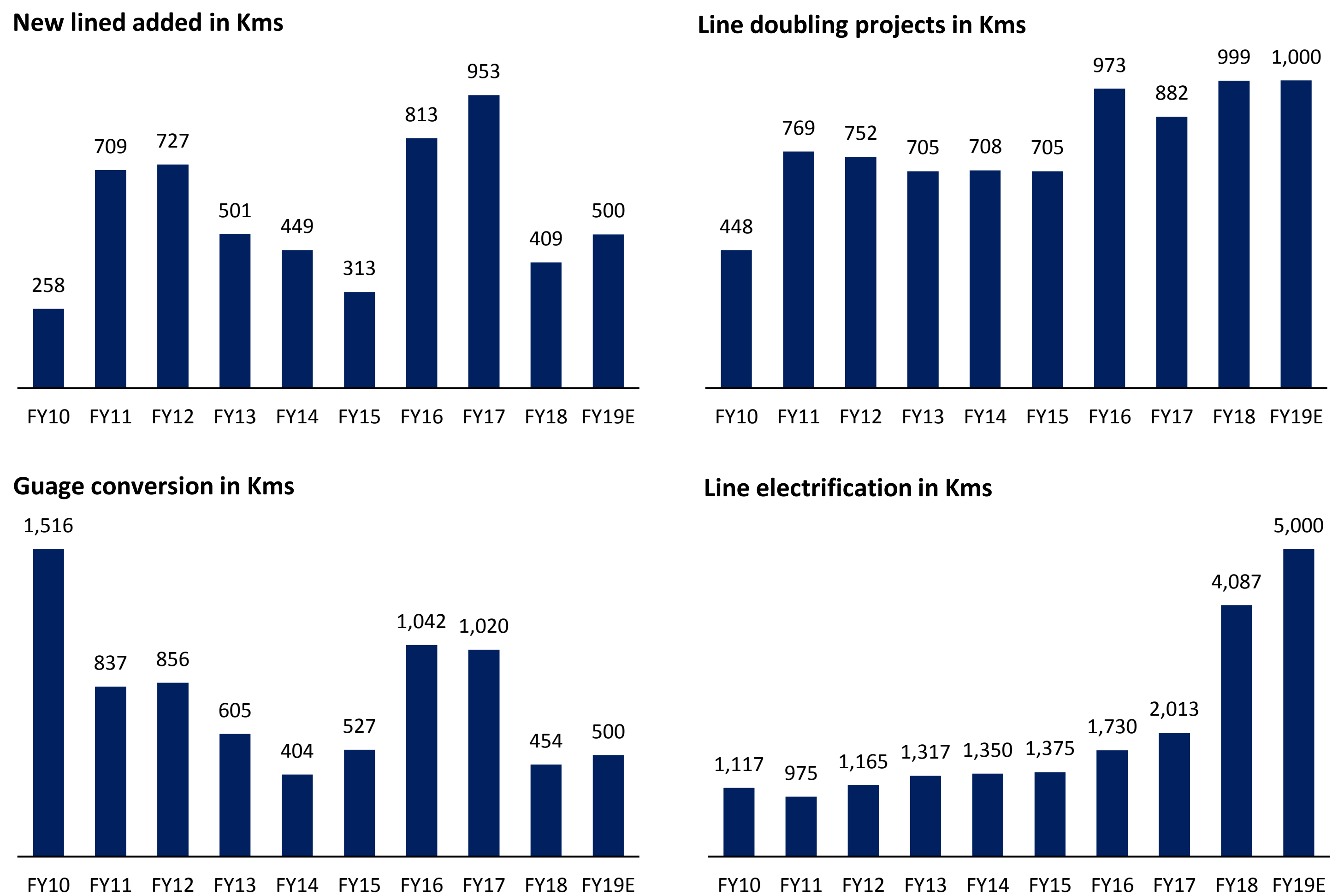
Source: Company reports & Ventura Research

❖ Key growth drivers

➢ Indian Railways expenditure to remain robust

Indian Railway spent ~Rs.3.78 Lac Cr as capex during FY14-19, which was significantly higher than the capex of Rs.2.29 Lac Cr spent during FY10-14. During the last 5 years, the Ministry of Railways focused more on new line addition, line doubling, gauge conversion, electrification and track renewals. This helped to improve the speed & load carrying capacity of Indian Railways.

Significant progress happened in Indian railways work during the past 5 years



Source: Indian Railways year-book & Ventura Research

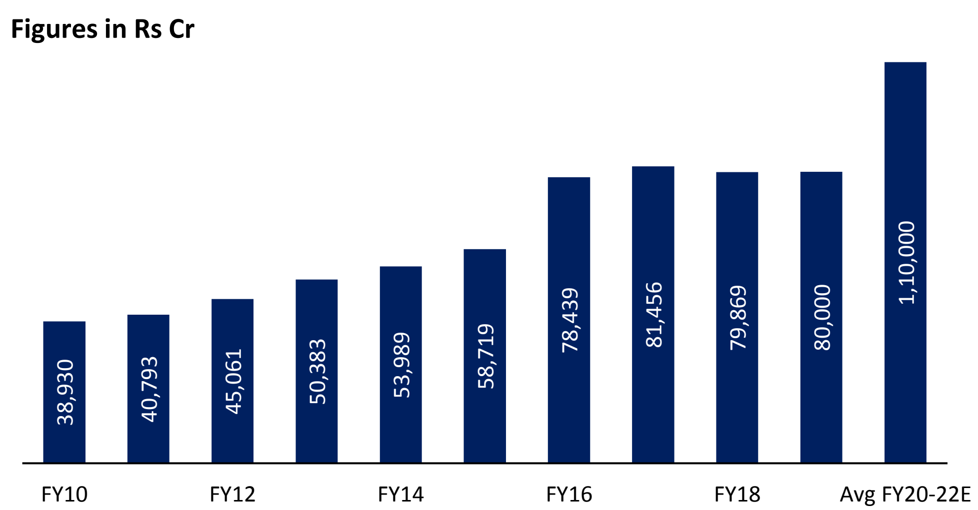
Both the BJP manifesto and the recently published NITI Aayog – Vision 2022 document clearly outline the present government's thrust on infrastructure – particularly the railways.

Infrastructure objectives of NITI Aayog's 'New India Vision – 2022' plan:

- Augment the capacity of existing railway infrastructure
- Increase the speed of infrastructure creation from the present 7 kms/day to 19 kms/day
- Achieve 100% electrification of broad gauge track from the current 50% level
- Increase the average speed of freight and mail/express trains to 50 kms/hr (from current 25 kms/hr) and 80 kms/hr (from current 60 kms/hr) respectively
- Enhance service delivery, achieving 95% on-time arrivals
- Achieve freight load of 1.9 billion tonnes and an improved modal share of 40% of freight movement from the current level of 33%
- Increase the share of non-fare revenues in total revenue to 20%

To achieve the above objectives within a stipulated time frame, Indian Railways is expected to increase its net capital expenditure over the next 3 years.

Railway expenditure is expected to witness >40% jump



Source: Indian Railways year-book & Ventura Research

RITES is expected to be a significant beneficiary of this railway infrastructure push.

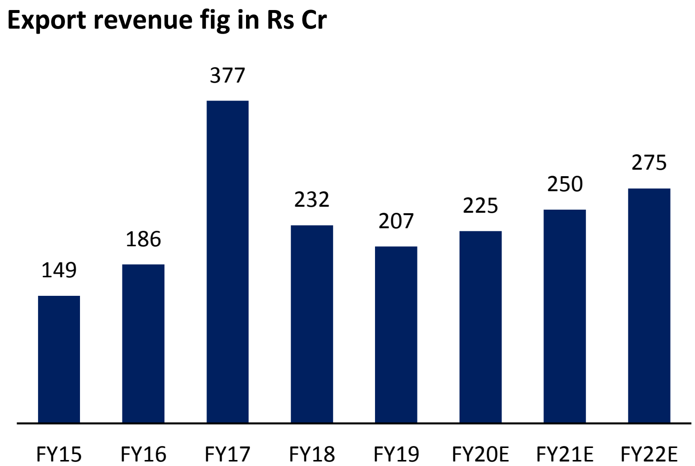
➢ **RITES is the export arm of Indian Railways**

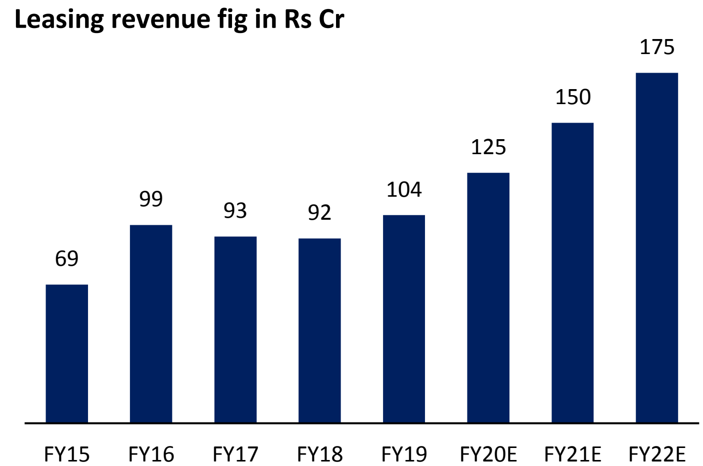
Indian Railways is seeking alternative sources of revenue by capitalising the low-cost manufacturing advantage. India has a negligible presence in the global $200 billion rolling-stock market. Recent developments such as Train

18, high-speed coaches and electric locomotives are expected to improve export potential for Indian railways.

RITES is the sole export arm of Indian Railways (except Malaysia, Indonesia & Thailand). RITES has export relations with SAARC, ASEAN, Africa, Latin America and Middle East regions. This is expected to serve as a market for the new product range.

REITS export and leasing revenue to maintain stable growth





Source: Company reports & Ventura Research

We expect RITES exports to grow at a minimum 10% over the forecast period with upside risk to our estimates.

Locomotive lease revenue set to expand

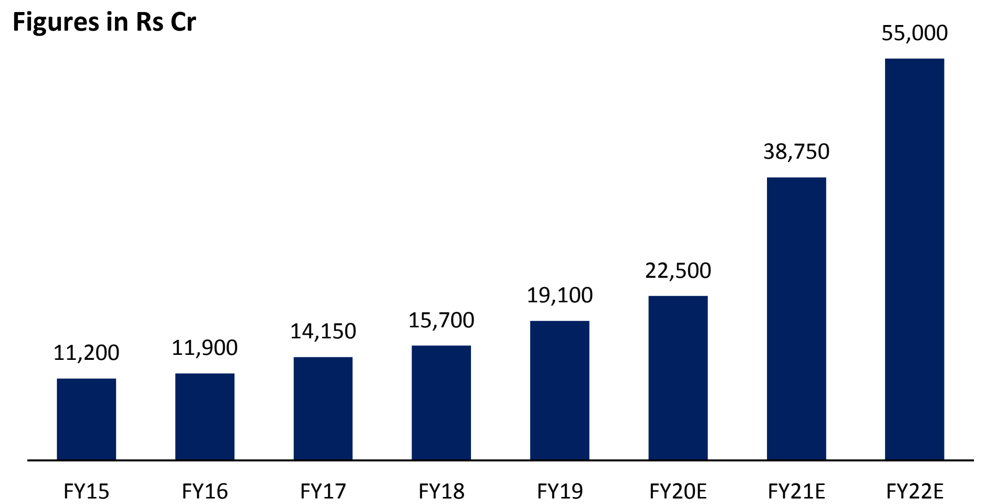
RITES also leases locomotives to private players in the domestic market to haul materials for logistics purpose. It is the only player providing

- High horse-power (HP) locomotives in the wet leasing space (offers train engines with drivers and maintenance).
- All its diesel locomotives are of 1,300 – 3,000 HP. RITES has supplied 56 locomotives to various customers.
- The locomotives are provided on a long-term lease with the contract reviewed every two years.

➢ **Metrorail expansion to boost consultancy revenues.**

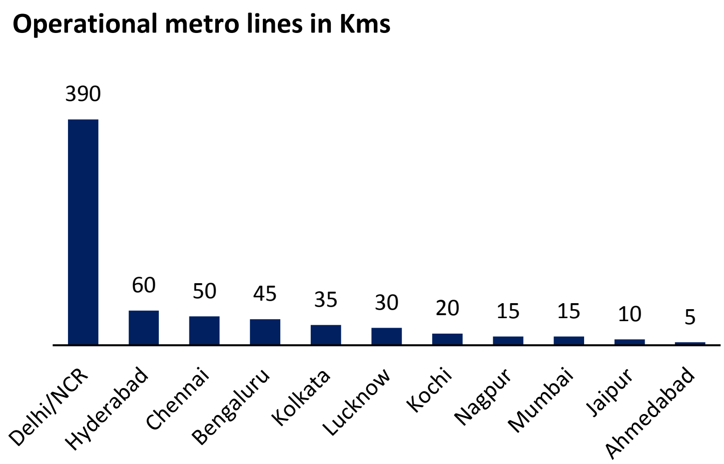
Rapid urbanization and declining share of public transport have intensified the traffic and pollution problem in India. To control this situation, the government is aggressively rolling out the metro rail network in Tier I & II cities. With 13 operational projects, 14 under construction projects and 7 projects at the planning stage, India has already surpassed the USA in terms of the metro rail network and now is only behind China. This metro rail boom is projected to attract investments worth of more than Rs.1.34 Lac Cr over the next 5 years.

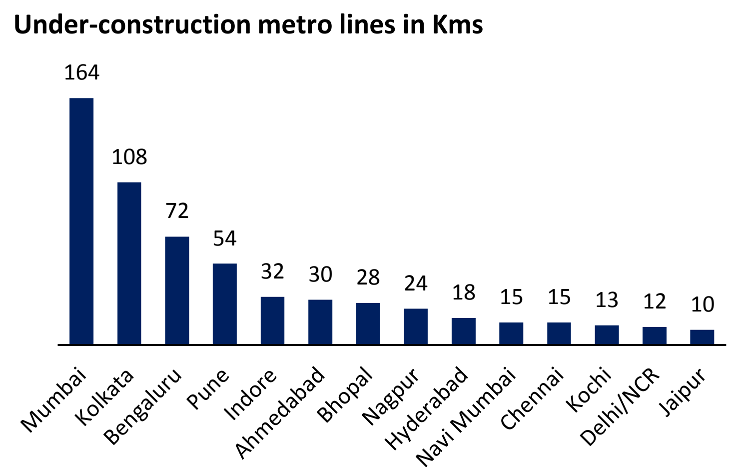
Metrorail projects to enter in the next leg of growth



Source: MRTS reports & Ventura Research

Significant scope for metrorail in India





Source: Government documents & Ventura Research

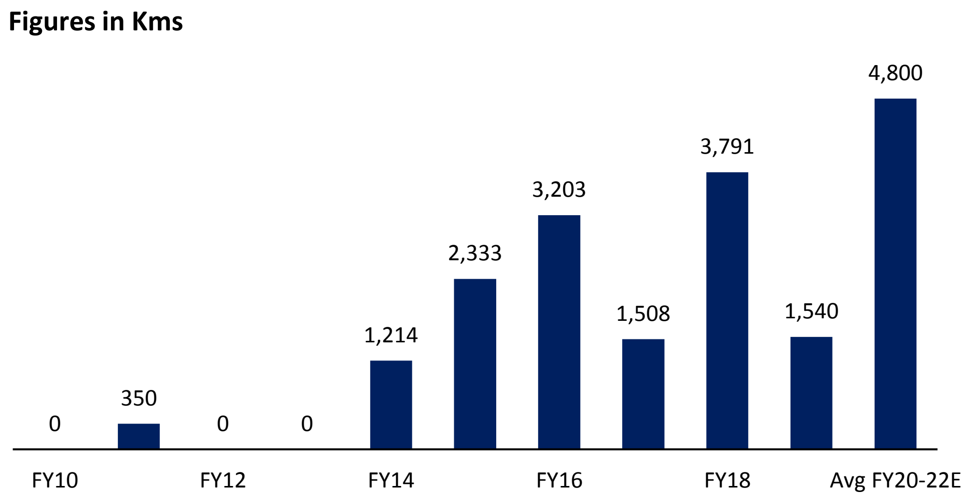
RITES offers consultancy services to major metro rail projects:

- Supervision for implementation work of Metro Express Project in Mauritius
- General Consultancy for Ahmedabad Metro Phase I, Nagpur Metro Phase I and Delhi Metro Phase III
- Project management consultancy services for Nagpur Metro & Pune Metro

➢ Pace in EPC road projects to continue over the coming years

RITES also offers consultancy services for EPC road projects. With the EPC roads construction expected to pick-up annual pace to 4500-5000 kms, RITES could be a beneficiary of a few projects

EPC is on a high growth trajectory



Source: NHAI & Ventura Research

During FY15-19, NHAI awarded 21,448 kms of national highways, out of which 12,375 kms were awarded through EPC contracts (compared to 1,564 kms of EPC contracts awarded during FY10-14).

With liquidity tightening in the banking and NBFC space due to the stalled recovery of loans and higher NPAs, EPC and HAM are attracting more bidders than BOT projects. NHAI is also increasingly favouring EPC & HAM/TOT model.

Aggressive commitments for road infrastructure

BJP government has committed to construct 60,000 kms of national highways in the next 5 years by 2024 (most of which will be under Bharatmala project) We expecting that ~40% of it would be through the EPC route (approx. 24,000 kms), while the rest would be through the HAM route.

RITES is primarily present in the EPC contracts space and therefore, momentum in EPC road projects is expected to benefit the company. The management has confirmed that they are comfortable in taking HAM projects in the future given their cash-rich balance sheet and ability to raise capital.

Bharatmala: Providing last mile connectivity through National Highways

India's road network is 3rd largest in the world, of which only 2.2% are national highways (total NH length 1.22 lac kms) carrying 40% of country's traffic load. Bharatmala Pariyojana is projected to significantly boost highway infrastructure:

- Double the length of NH to 2 lac kms
- Eliminate 789 black spots identified by the Ministry of Road Transport & Highways by Mar 2020 by constructing permanent structures such as flyovers, underpass and pedestrian paths
- The special accelerated road development program for the North-Eastern region by adding 4100 kms of highways.
- Increase the number of economic corridors from currently active 6 corridors to 50 corridors
- Increase the traffic load from 40% to 80% by connecting 24 logistics parks, 66 inter-corridors
- Add 250 districts to national highways (currently 300 districts are connected) by minimum 4 lane roads.

Components of Bharatmala programme

Category	Description	Total length identified (Kms)	Phase I (Kms) by 2022	Phase II (Kms) by 2024
National corridors efficiency improvement	Lane expansion & decongestion of existing national corridors	13,100	5,000	8,100
Economic corridors improvement	Connection of economically important production & consumption centers	26,200	9,000	17,200
Inter corridors & feeder routes development	Inter connection between economic corridors, first mile & last mile connectivity	15,500	6,000	9,500
Border & International connectivity roads	Connectivity to border areas and boosting trade with neighbouring countries	5,300	2,000	3,300
Coastal & port connectivity routes	Connectivity to coastal areas to enable port led economic development	4,100	2,000	2,100
Expressways	Greenfield expressways	1,900	800	1,100
Total		**66,100**	**24,800**	**41,300**

Source: Bharatmala documents

➢ **Port infrastructure story is yet to pick-up, Sagarmala a future potential revenue source**

As part of the Sagarmala program, more than 600 projects (worth of Rs.8.8 Lac Cr) have been identified for implementation (during the period of 2015-35) across the areas of port modernization, new port development, port connectivity enhancement, port-linked industrialization and coastal community development.

Summary of projects under Sagarmala

Sagarmala Project		Port Modernization	Port Connectivity	Port led Industrialization	Coastal Community Development	Total
2017-18	No. of Projects	107	82	18	28	235
	Project Cost (Rs. Cr.)	38,040	63,095	1,36,860	2,195	2,40,190
2018-19	No. of Projects	100	69	1	34	204
	Project Cost (Rs. Cr.)	33,738	48,180	11,147	4,268	97,334
2019-20	No. of Projects	15	46	5	6	72
	Project Cost (Rs. Cr.)	8,635	35,797	4,288	740	49,460
2021-25	No. of Projects	36	13	33	0	82
	Project Cost (Rs. Cr.)	54,004	1,03,453	3,22,598	0	4,80,055
2025-35	No. of Projects	8	3	0	0	11
	Project Cost (Rs. Cr.)	10,680	390	0	0	11,070
Total	No. of Projects	266	213	57	68	604
	Project Cost (Rs. Cr.)	1,45,096	2,50,915	4,74,893	7,204	8,78,108

Source: Sagarmala documents

As of Sep 2018, a total of 522 projects (costing around Rs.4.3 Lac Cr) were under various stages of implementation, development and completion.

Sagarmala projects status (till Sep 2018)

Project Status	Total Projects		Project by MoS	
	No. of Projects	Cost (Rs. Cr)	No. of Projects	Cost (Rs. Cr)
Completed	93	14,997	76	9,802
Under Implementation	161	2,37,980	101	67,175
Under Development	268	1,79,517	128	86,479
Total Projects Under Implementation/Under Development	522	4,32,494	307	1,63,456

Source: Sagarmala documents

In order to grapple with the potential slowdown in railways consultancy, RITES is diversifying to milk opportunities in roads, ports & airports.

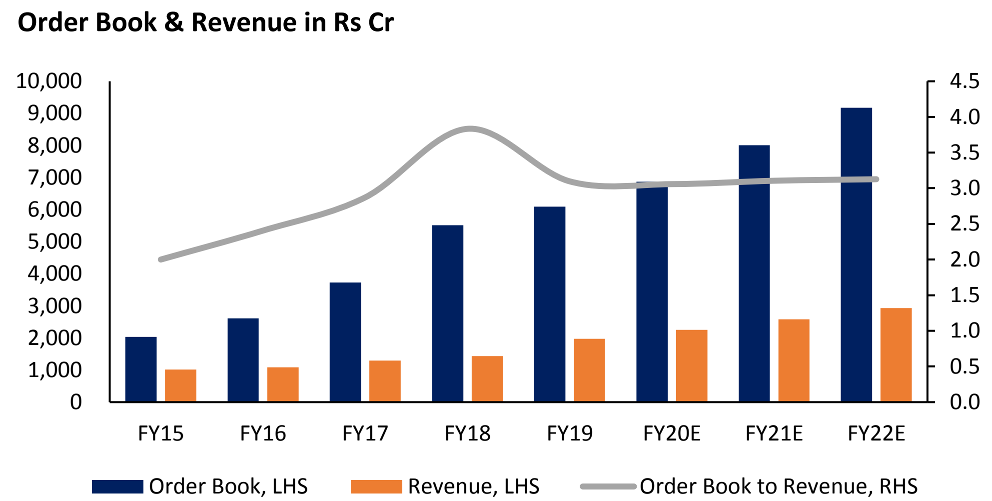
RITES has entered in many non-railway consultancy projects in the recent past to control the slowdown in its consultancy business performance. Sagarmala is one such project which is expected to provide a similar kind of opportunity.

➢ **Healthy order backlog provides strong revenue visibility**

RITES's order book grew at a CAGR of 31.6% over the period of FY15-19 on the back of a strong order flow from the Indian Railways, especially in turnkey projects. The current order book of Rs.6,097 Cr is 3.1x of FY19 revenue, provides strong revenue visibility over the forecasted period.

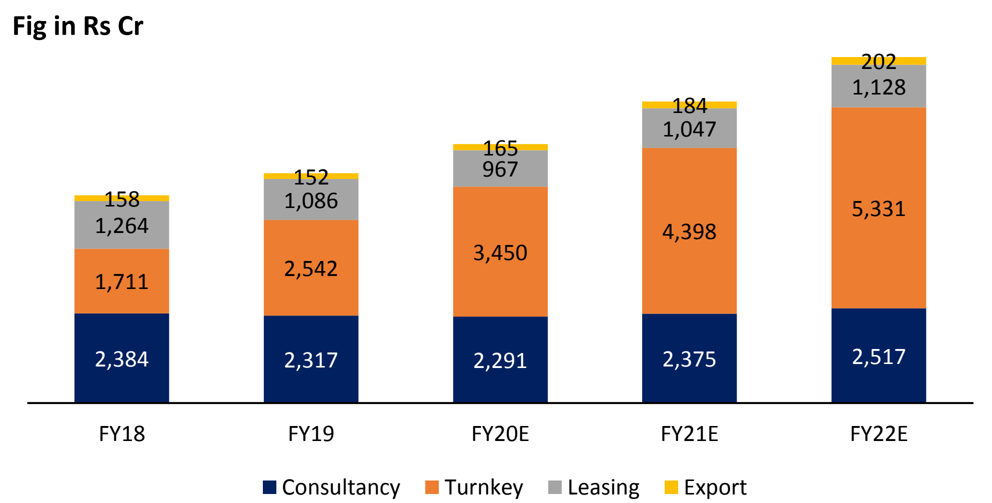
Order inflow from turnkey projects is driving the overall order book of the company. The turnkey segment's order book and revenue reported YoY growth of 48.6% to Rs.2,542 Cr and 286.7% to Rs.567 Cr respectively during FY19.

Consistent order flow maintained strong revenue visibility



Source: Company reports & Ventura Research

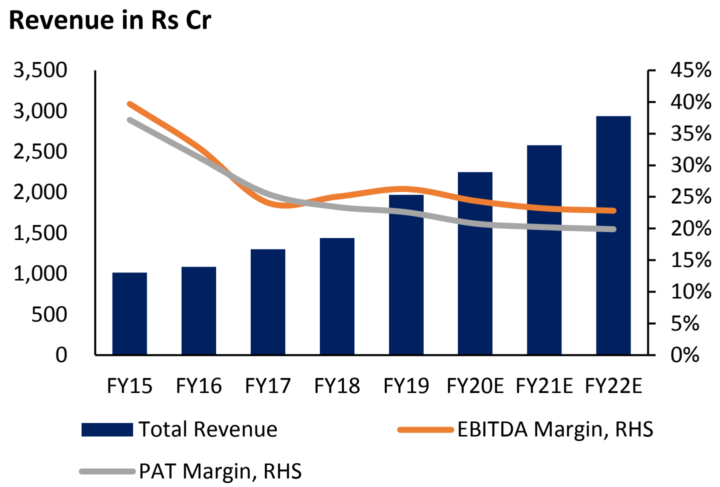
Changing revenue mix to sustain order flow

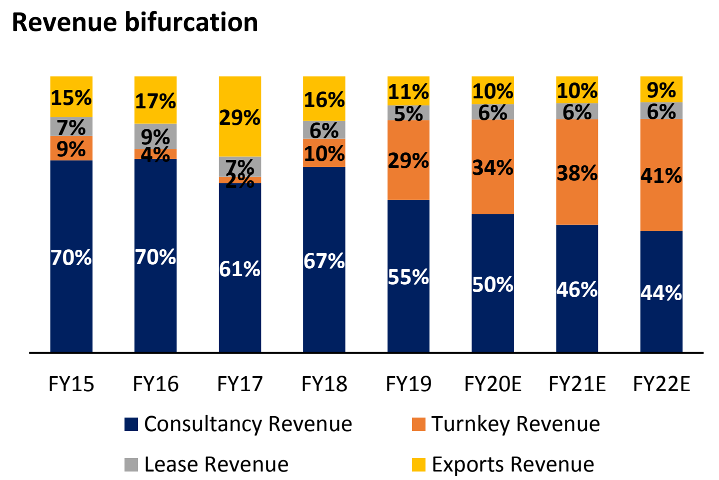


Source: Company reports & Ventura Research

Turnkey orders are expected to sustain order flow and ensure better revenue visibility over the 3 years. However, due to this, profitability is expected to remain stable due to the stark difference in consultancy and turnkey margins.

Revenue mix to follow the changes in order mix



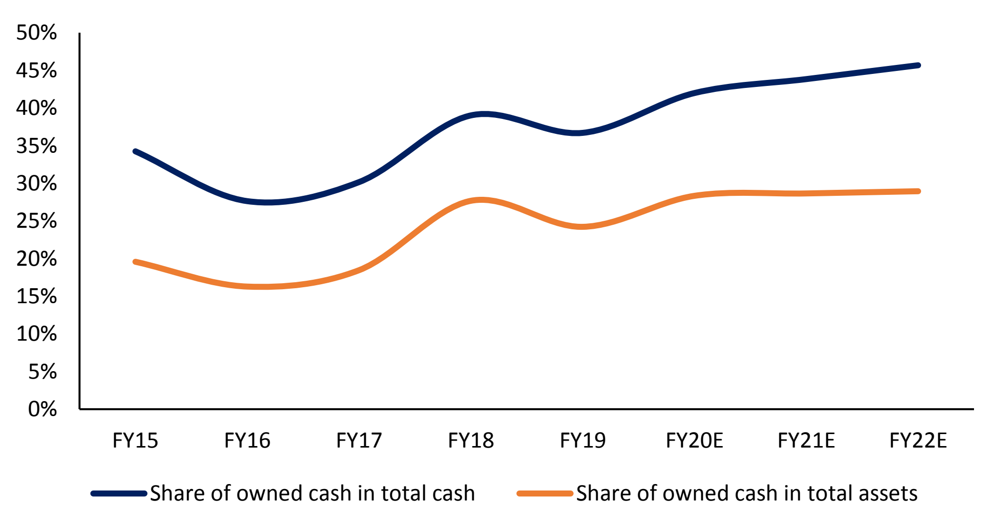


Source: Company Reports & Ventura Research

➢ Large cash pile on balance sheet

In its balance sheet of Mar 2019, RITES reported net cash balance of Rs.1,273 Cr (excluding the cash of Rs.2,196 Cr in the client fund account), which forms 24% of the total assets and 23% of the total market cap, making RITES a cash-rich company. We believe that such a huge cash pile may be utilized for inorganic expansion, buyback or returned to the shareholders in the form of special dividends. The optimum utilization of this liquidity is key to generating return ratios from a long-term perspective.

Higher liquidity to keep balance sheet healthy



Source: Company reports & Ventura Research

➢ Decline in receivable days to improve operating cash flow

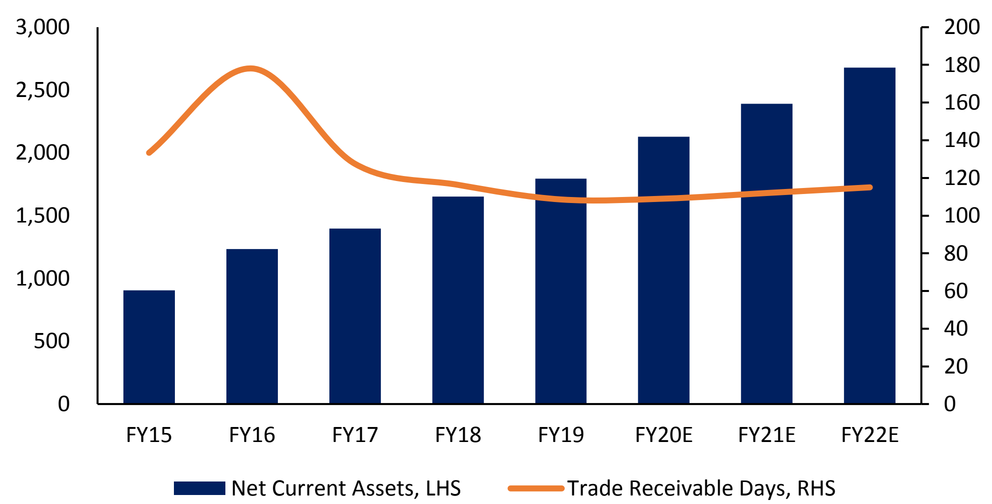
RITES has significantly improved its receivable days during past 3 years from 178 days in FY16 to 109 days in FY19. The receivable days were high (3-4 years back) due to the higher contribution of consultancy business in overall revenue. (Delays in acceptance of project consultancy report typically leads to elongated payment periods).

Unlike the consultancy business, RITES gets payment in advance in turnkey, exports and locomotive leasing business.

- In exports, RITES secures all the payments against 'Letters of Credit' and gets paid immediately after the export takes place
- In turnkey projects and leasing, RITES takes the deposit from clients in advance, which not only improves the cash flow, but also reduces the future payment / recovery risk.

The management is confident of reducing the receivable period to 100 days in the coming years. However, rising competition in the consultancy business could keep the receivable days high

Decline in receivable days to improve liquidity



Source: Company reports & Ventura Research

- **Subsidiary & JV: Small in size, but well positioned to capitalize on the upcoming opportunity**

RITES has one subsidiary – Railway Energy Management Company (REMC) and one JV – SAIL-RITES Bengal Wagon Industry (SRBWI)

Railway Energy Management Co Ltd

REMC was incorporated in 2013 as a JV between RITES (51% stake) and Indian Railways (49% stake) to operate in the energy efficiency and power generation space.

The Ministry of Renewable Energy and GOI has set specific targets for installation of generation and procurement of renewable energy for all PSUs. Indian Railways has set a target of 20% of the total consumption through renewable energy. To achieve this target, Indian railways have finalized a plan to set up 500 MW of solar energy system to meet energy requirements of over 8,000 stations. REMC has already auctioned 100 MW of rooftop solar projects in 2018 which is expected to be installed at offices, buildings and railway stations of zonal railways.

In addition, REMC is also conducting a techno-economic viability study of power sourcing arrangements for National High-Speed Rail Corp Ltd to ensure power supply for high-speed rail corridors.

SAIL-RITES Bengal Wagon Industry Pvt Ltd

SRBWI was incorporated in 2010 as a 50-50 JV between SAIL and RITES. This subsidiary is involved in trading, manufacturing and repairing of railway wagons and locomotives

These two subsidiaries form only 3% of the standalone revenue of RITES. We believe that both these subsidiaries are well positioned to grab the upcoming opportunities in the development of Indian Railways in long run.

❖ Key risk and concern areas

- **Slower than expected ramp-up in railway infrastructure:** With liquidity tightening in the banking and NBFC space, investments in railways through the PPP model (Public Private Partnership) could hit a road-block.
- **Infrastructure bottleneck due to land acquisition issues could slow down new lines addition in railways:** Land acquisition is the major issue for laying new railway lines. Most of the railway projects are stuck due to a delay in land clearances.
- **Foray of international players in the domestic market to adversely impact domestic players:** Even though RITES has a strong hold on the railway and metro rail consultancy market there could be serious competition in case global players decide to participate in India's railway and metro rail boom
- **Business cyclicality:** Infrastructure is cyclical in nature as it entirely depends on the investment momentum and economic performance of the country. India's economic growth is slowing down and there could be a chance of weakness for a couple of more years due to both micro and macro reasons. A long-term slowdown could impact the business performance of RITES.
- **Currency risk:** Exports accounts for 10-15% of the RITES total revenue. Any major currency fluctuation could impact the financial performance of the company
- **Inventory risk:** The company has an inventory of 56 diesel locomotives. The Indian Railways is working on full electrification and gradually replacing diesel locomotives with electric locomotives, which could be a threat to the existing inventory of RITES.
- **Contingent Liability:** RITES reported a contingent liability of Rs.63 Cr, which is related to a case against infrastructure agency. The case is in Jharkhand High Court. In addition, company has contingent liabilities of Rs.610 Cr related to the projects contested by the company on behalf of the clients.

❖ Quarterly Financial Performance

RITES reported a YoY revenue growth of 31.4% to Rs.714.3 Cr in Q4FY19 over the corresponding period of the previous year. This revenue growth was mainly driven by a significant growth in revenue in turnkey projects, which reported a YoY growth of 216.1% to Rs.261.4 Cr during Q4FY19. Export and leasing revenue reported a YoY growth of 39.8% to Rs.103.3 Cr and 30.0% to Rs.29.0 Cr. The consultancy segment reported a YoY revenue decline of 12.1% to Rs.320.6 Cr.

The EBITDA witnessed a YoY growth of 65.1% to Rs.167.1 Cr, while the EBITDA margin expanded by 477bps to 23.4% during Q4FY19. In-line with the operating performance, PAT reported YoY a growth of 70.2% to Rs.131.8 Cr and the PAT margin expanded by 420bps to 18.5% during the quarter.

RITES's financial performance in Rs Cr

RITES Ltd	Q4FY19	Q3FY19	YoY	QoQ	Q2FY19	Q1FY19	Q4FY18	Q3FY18	Q2FY18	Q1FY18	FY19	FY18	YoY
Net Sales	**714**	**511**	*31.4%*	*39.7%*	**433**	**310**	**544**	**360**	**195**	**330**	**1,969**	**1,592**	*23.7%*
Total Expenditure	547	378	*23.7%*	*44.6%*	291	240	442	223	153	251	1,456	1,229	*18.4%*
EBITDA (excl OI)	**167**	**133**	*65.1%*	*25.6%*	**143**	**70**	**101**	**136**	**42**	**80**	**513**	**362**	*41.6%*
EBITDA Margin %	*23.4%*	*26.0%*			*32.9%*	*22.6%*	*18.6%*	*37.9%*	*21.7%*	*24.1%*	*26.1%*	*22.8%*	
Depreciation	8	8	*18.3%*	*2.2%*	8	8	7	8	8	8	32	30	*6.6%*
EBIT (excl OI)	**159**	**125**	*68.6%*	*27.2%*	**135**	**63**	**94**	**129**	**35**	**72**	**481**	**332**	*44.8%*
EBIT Margin %	*22.2%*	*24.4%*			*31.1%*	*20.2%*	*17.3%*	*35.8%*	*17.8%*	*21.8%*	*24.4%*	*20.9%*	
Other Income	48	51	*70.8%*	*-7.0%*	40	60	28	35	50	40	163	163	*0.0%*
EBIT	**206**	**176**	*69.1%*	*17.2%*	**175**	**123**	**122**	**163**	**85**	**112**	**644**	**496**	*30.0%*
EBIT Margin %	*28.9%*	*34.4%*			*40.3%*	*39.5%*	*22.4%*	*45.4%*	*43.3%*	*33.8%*	*32.7%*	*31.1%*	
Interest	2	0	*93.4%*	*363.2%*	1	0	1	1	1	0	2	2	*0.0%*
Exceptional Items	0	0			0	0	0	0	0	0	0	0	
PBT	**204**	**176**	*68.9%*	*16.5%*	**174**	**123**	**121**	**163**	**84**	**112**	**642**	**493**	*30.1%*
PBT Margin	*28.6%*	*34.3%*			*40.2%*	*39.5%*	*22.3%*	*45.2%*	*43.0%*	*33.8%*	*32.6%*	*31.0%*	
Tax	73	58	*66.7%*	*25.2%*	57	41	44	56	11	42	157	157	*0.0%*
Tax Rate	*35.5%*	*33.1%*			*33.0%*	*33.0%*	*36.0%*	*34.5%*	*12.8%*	*38.0%*	*24.4%*	*31.7%*	
PAT	**132**	**117**	*70.2%*	*12.2%*	**117**	**82**	**77**	**107**	**73**	**69**	**486**	**337**	*44.1%*
PAT Margin %	*18.5%*	*23.0%*	*29.5%*	*-19.7%*	*26.9%*	*26.5%*	*14.3%*	*29.6%*	*37.5%*	*21.0%*	*24.7%*	*21.2%*	

Source: Company Reports & Ventura Research

❖ Financial outlook

RITES is expected to be the biggest beneficiary of expenditure in all three segments of infrastructure – Rail, Highways and City Infra. On the back of this, we expect RITES to clock the revenue growth of 14.2% to Rs.2,936 Cr by FY22. The recent change in revenue mix with the ramp-up of the turnkey business has been a revenue booster for the company and the momentum is expected to continue in the coming years.

However, turnkey projects generate 3.0-3.5% operating margins compared to 44-45% margins of the consultancy business. Increase in the revenue share of the turnkey segment is expected to impact profitability in the coming years. The EBITDA / PAT are expected to grow at a CAGR of 9.0% / 9.5% to Rs.670 Cr / Rs.584 Cr respectively during FY19-22E. However, EBITDA and PAT margins are expected to deteriorate by 342 bps to 22.8% and 269 bps to 19.9% respectively by FY22E. Consequently, return ratios – RoE and RoCE are expected to decline marginally to 17.8% (-87 bps) and 18.9% (-139 bps) respectively by FY22E.

With a very low capex requirement (Rs.300 Cr over the next 3-4 years) and strong operating cash flow, the balance sheet is expected to remain cash rich and healthy.

Secular compounding story deserves re-rating in price multiples

Particulars	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E	CAGR
Total Order Book	**2,030**	**2,613**	**3,731**	**5,517**	**6,097**	**6,874**	**8,004**	**9,178**	
Consultancy Order Book				2,384	2,317	2,291	2,375	2,517	
Turnkey Order Book				1,711	2,542	3,450	4,398	5,331	
Lease Order Book				1,264	1,086	967	1,047	1,128	
Exports Order Book				158	152	165	184	202	
Net Revenue	**1,015**	**1,086**	**1,299**	**1,439**	**1,969**	**2,248**	**2,578**	**2,936**	**14.2%**
YoY Growth		***7.0%***	***19.6%***	***10.8%***	***36.8%***	***14.2%***	***14.7%***	***13.9%***	
Consultancy Revenue	707	762	797	969	1,092	1,128	1,196	1,296	5.9%
Turnkey Revenue	90	39	31	147	567	770	981	1,189	28.0%
Lease Revenue	69	99	93	92	104	125	150	175	19.1%
Exports Revenue	149	186	377	232	207	225	250	275	10.0%
Order Book to Sales	2.00	2.41	2.87	3.83	3.10	3.06	3.11	3.13	
Segmental Operating Margins (%)									
Consultancy Revenue				*40.5*	*43.9*	*44.0*	*42.0*	*40.0*	
Turnkey Revenue				*2.5*	*3.3*	*3.5*	*3.5*	*3.5*	
Lease Revenue				*39.8*	*42.6*	*42.5*	*42.5*	*42.5*	
Exports Revenue				*23.4*	*30.2*	*30.0*	*29.0*	*28.0*	
EBITDA	**403**	**356**	**313**	**360**	**517**	**548**	**598**	**670**	9.0%
EBITDA Margin (%)	*39.7*	*32.8*	*24.1*	*25.0*	*26.2*	*24.4*	*23.2*	*22.8*	
PAT	**377**	**339**	**331**	**337**	**445**	**467**	**521**	**584**	9.5%
PAT Margin (%)	*37.2*	*31.3*	*25.5*	*23.4*	*22.6*	*20.8*	*20.2*	*19.9*	
Basic EPS	**18.9**	**17.0**	**16.5**	**16.8**	**22.2**	**23.4**	**26.1**	**29.2**	
P/E	14.9	16.6	17.0	16.7	12.7	12.1	10.8	9.7	
Book Value per Share	**81**	**94**	**102**	**110**	**119**	**133**	**148**	**164**	11.3%
P/B	3.5	3.0	2.8	2.6	2.4	2.1	1.9	1.7	
Return on Equity	23.2	18.1	16.3	15.4	18.7	17.5	17.6	17.8	
Return on Capital Employed	23.1	17.3	13.8	15.1	20.3	19.2	18.7	18.9	
CFO						603.2	446.2	495.0	
FCFF cash yield (%)						*9.3*	*9.9*	*8.7*	

Source: Company reports & Ventura Research

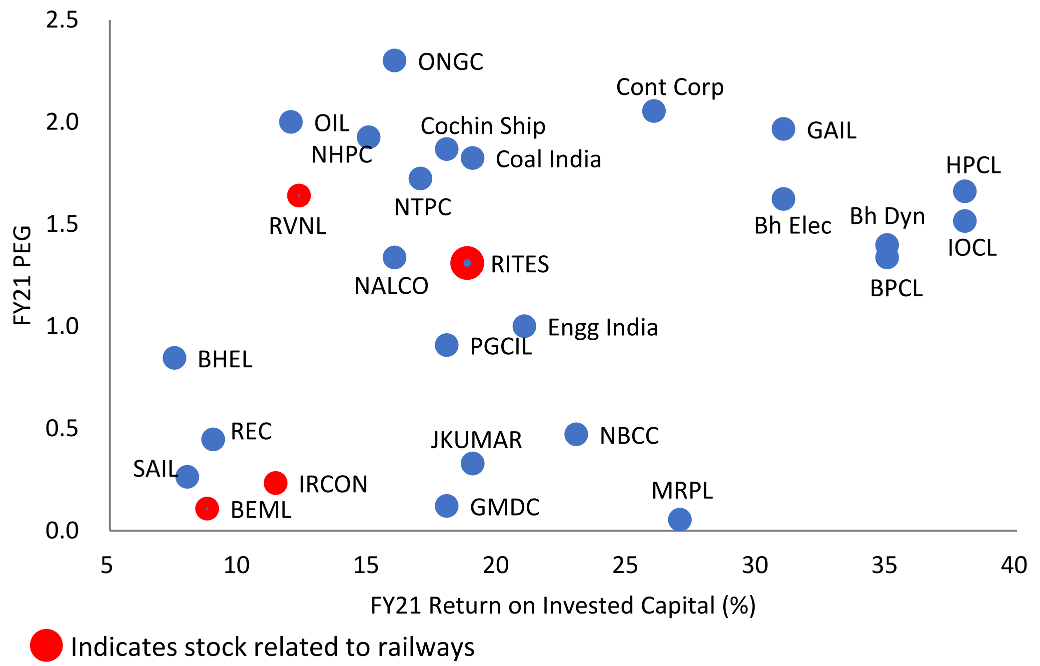
Peer group comparison

Figures are in Rs Cr (except per share data, return ratios and price multiples).

	Sales	EBITDA	PAT	EBITDA Margin (%)	PAT Margin (%)	EPS	BV	RoE (%)	RoCE (%)	P/E (x)	P/BV (x)	EV/EBITDA (x)
RITES Ltd (Market Cap – Rs.5,816 Cr, CMP – Rs.290)												
FY17	1,299	313	331	24.1	25.5	16.5	102	16.3	13.8	16.8	2.7	13.7
FY18	1,439	360	337	25.0	23.4	16.8	110	15.4	15.1	16.5	2.5	10.9
FY19	1,969	517	445	26.2	22.6	22.2	119	18.7	20.3	12.5	2.3	7.8
FY20E	2,248	548	467	24.4	20.8	23.4	133	17.5	19.5	12.1	2.1	6.9
FY21E	2,578	598	521	23.2	20.2	26.1	148	17.6	19.2	10.8	1.9	6.1
Rail Vikas Nigam Ltd (Market Cap – Rs.5,473 Cr, CMP – Rs.26)												
FY17	5,920	274	439	4.6	7.4	2.1	17	12.3	4.5	12.4	1.5	24.1
FY18	7,597	382	471	5.0	6.2	2.3	19	12.0	6.1	11.5	1.4	19.2
FY19	10,069	531	606	5.3	6.0	2.9	21	13.8	7.1	8.9	1.2	15.4
FY20E	11,579	611	697	5.3	6.0	3.3	23	14.7	7.8	7.8	1.1	13.4
FY21E	13,316	702	802	5.3	6.0	3.8	25	15.6	8.5	6.8	1.1	11.6
Ircon International Ltd (Market Cap – Rs.3,630 Cr, CMP – Rs.386)												
FY17	3,067	207	378	6.8	12.3	39	386	10.1	4.7	9.8	1.0	8.4
FY18	4,028	393	406	9.7	10.1	44	400	10.9	5.4	8.8	1.0	12.2
FY19	4,798	478	450	10.0	9.4	48	422	11.3	6.5	8.0	0.9	10.6
FY20E	5,278	525	495	10.0	9.4	53	448	11.7	7.0	7.3	0.9	9.6
FY21E	5,806	578	545	10.0	9.4	58	477	12.1	7.5	6.6	0.8	8.7
NBCC Ltd (Market Cap – Rs.11,124 Cr, CMP – Rs.62)												
FY17	7,425	405	325	5.5	4.4	2.0	9	21.9	23.5	31.0	6.8	21.5
FY18	6,942	422	372	6.1	5.4	2.0	10	19.7	21.2	31.0	6.1	20.2
FY19	9,943	365	375	3.7	3.8	2.1	13	16.3	15.4	28.7	4.7	23.3
FY20E	11,974	432	417	3.6	3.5	2.9	15	18.8	15.5	21.2	4.0	19.7
FY21E	15,973	697	601	4.4	3.8	4.0	19	21.4	20.6	15.2	3.3	12.2
J Kumar Infraprojects Ltd (Market Cap – Rs.1,167 Cr, CMP – Rs.154)												
FY17	1,573	249	106	15.9	6.7	14.0	184	7.6	10.6	10.9	0.8	4.3
FY18	2,051	321	137	15.7	6.7	18.0	199	9.1	11.9	8.4	0.8	3.8
FY19	2,551	424	172	16.6	6.8	22.6	219	10.3	14.2	6.7	0.7	3.0
FY20E	2,996	495	208	16.5	6.9	27.6	242	11.4	16.1	5.5	0.6	2.6
FY21E	3,429	562	244	16.4	7.1	32.3	271	11.9	17.3	4.7	0.6	2.3
Texmaco Rail & Engineering Ltd (Market Cap – Rs.1,516 Cr, CMP – Rs.69)												
FY17	1,357	74	27	5.5	2.0	1.2	45	2.7	3.6	57.3	1.5	21.1
FY18	1,139	64	13	5.6	1.2	0.6	48	1.2	2.5	122.9	1.4	28.3
FY19	1,858	170	73	9.1	3.9	3.4	51	6.8	8.2	20.1	1.4	11.6
FY20E	2,044	187	80	9.1	3.9	3.6	54	6.7	8.9	19.3	1.3	10.5
FY21E	2,248	206	88	9.1	3.9	3.9	57	6.9	9.6	17.6	1.2	9.6
Titagarh Wagons Ltd (Market Cap – Rs.712 Cr, CMP – Rs.62)												
FY17	1,739	108	22	6.2	1.3	2.3	84	2.8	4.3	26.2	0.7	9.3
FY18	1,271	-97	-147	-7.6	-11.6	-12.4	71	-17.6	-10.6	NA	0.9	NA
FY19	1,711	34	-23	2.0	-1.3	-2.5	74	-3.3	-0.1	NA	0.8	42.8
FY20E	1,882	38	-20	2.0	-1.1	-1.8	72	-2.4	0.1	NA	0.8	38.1
FY21E	2,070	43	-18	2.1	-0.9	-1.6	71	-2.2	0.4	NA	0.9	33.8

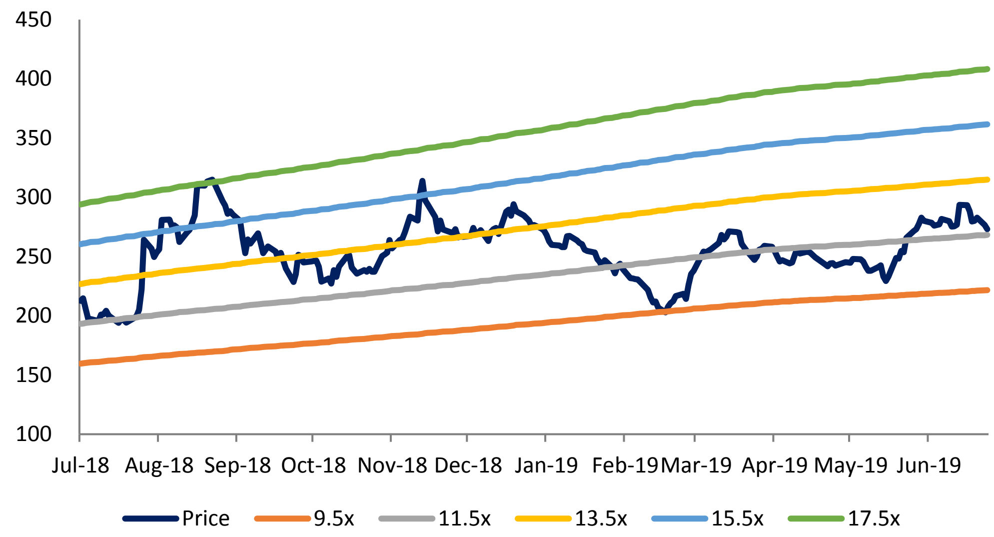
Source: Company Reports & Ventura Research

Scatter chart

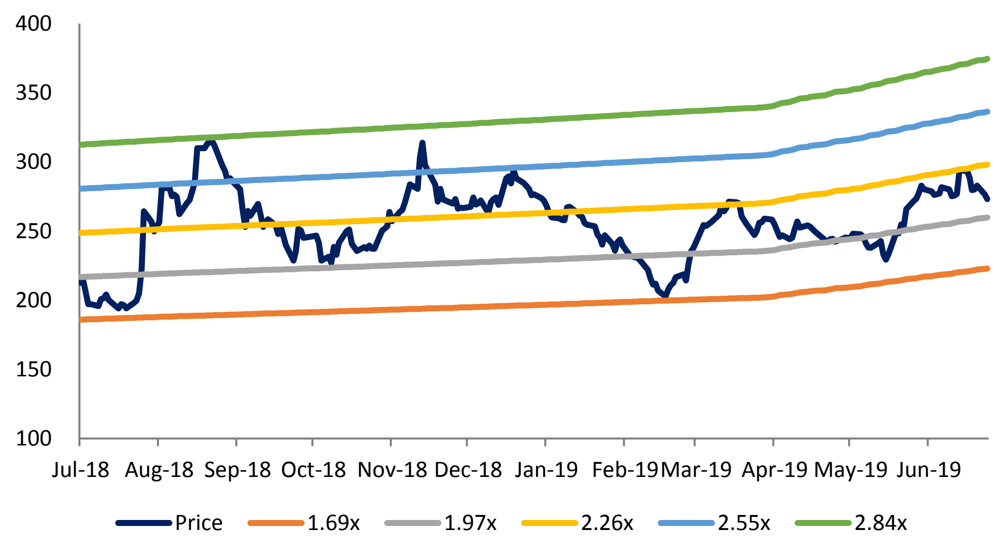


Source: Ventura Research

P/E band for RITES



P/B band for RITES



Source: Bloomberg & Ventura Research

Financial Performance

Figures are in Rs Cr	FY17	FY18	FY19	FY20E	FY21E	FY22E
Profit & Loss Statement						
Net Sales	1,299.4	1,439.2	1,969.0	2,248.1	2,577.5	2,935.7
Growth (%)	*19.6*	*10.8*	*36.8*	*14.2*	*14.7*	*13.9*
Total Expenditure	986.6	1,078.9	1,452.2	1,700.3	1,979.8	2,265.8
Growth (%)	*35.1*	*9.4*	*34.6*	*17.1*	*16.4*	*14.4*
EBITDA	312.8	360.3	516.7	547.9	597.7	669.9
Growth (%)	*-12.1*	*15.2*	*43.4*	*6.0*	*9.1*	*12.1*
EBITDA Margin (%)	*24.1*	*25.0*	*26.2*	*24.4*	*23.2*	*22.8*
Depreciation	32.1	30.2	32.2	37.5	42.9	47.8
Depreciation to Net Block (%)	*12.4*	*11.5*	*9.5*	*9.4*	*9.4*	*9.4*
EBIT	280.7	330.2	484.6	510.4	554.8	622.1
Growth (%)	*-13.4*	*17.6*	*46.8*	*5.3*	*8.7*	*12.1*
EBIT Margin (%)	*21.6*	*22.9*	*24.6*	*22.7*	*21.5*	*21.2*
Other Income	207.5	163.3	195.2	200.7	237.9	265.8
Exceptional Items	0.0	0.0	0.0	0.0	0.0	0.0
Financial Charges	0.0	0.0	3.0	3.0	3.0	3.0
PBT	488.1	493.5	676.7	708.0	789.7	884.9
Growth (%)	*-5.3*	*1.1*	*37.1*	*4.6*	*11.5*	*12.1*
PBT Margin (%)	*37.6*	*34.3*	*34.4*	*31.5*	*30.6*	*30.1*
Tax Provisions	157.2	156.7	232.1	240.7	268.5	300.9
Tax Rate (%)	32.2	31.7	34.3	34.0	34.0	34.0
PAT	330.9	336.8	444.7	467.3	521.2	584.0
Growth (%)	*-2.5*	*1.8*	*32.0*	*5.1*	*11.5*	*12.1*
PAT Margin (%)	*25.5*	*23.4*	*22.6*	*20.8*	*20.2*	*19.9*
Min Int & Share of Assoc	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	330.9	336.8	444.7	467.3	521.2	584.0
Growth (%)	*-2.5*	*1.8*	*32.0*	*5.1*	*11.5*	*12.1*
Net Margin (%)	*25.5*	*23.4*	*22.6*	*20.8*	*20.2*	*19.9*
Balance Sheet						
Share Capital	200.0	200.0	200.0	250.0	250.0	250.0
Reserves & Surplus	1,835.3	1,991.7	2,183.8	2,414.2	2,713.9	3,035.1
Total Shareholders Fund	2,035.3	2,191.7	2,383.8	2,664.2	2,963.9	3,285.1
Total Debt	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Tax Liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Other Current Liabilities	228.4	226.6	187.4	244.7	283.9	323.9
Total Liabilities	**2,263.7**	**2,418.3**	**2,571.3**	**2,908.9**	**3,247.8**	**3,609.0**
Gross Block	319.3	350.7	459.4	559.4	659.4	759.4
Less: Accumulated D&A	60.2	88.9	121.1	158.6	201.4	249.3
Net Block	259.1	261.8	338.3	400.8	457.9	510.1
Capital Work in Progress	4.5	1.6	3.1	3.1	3.1	3.1
Non Current Investment	179.8	179.8	180.0	180.0	180.0	180.0
Long Term Loans & Advances	249.2	141.4	59.7	59.7	59.7	59.7
Net Current Assets	1,397.5	1,652.6	1,793.2	2,128.2	2,390.2	2,677.8
Other Non Current Assets	866.2	765.7	778.1	780.7	857.6	931.3
Total Assets	**2,263.7**	**2,418.3**	**2,571.3**	**2,908.9**	**3,247.8**	**3,609.0**

Figures are in Rs Cr	FY17	FY18	FY19	FY20E	FY21E	FY22E
Per Share Data						
Adjusted EPS	16.5	16.8	22.2	23.4	26.1	29.2
Adjusted Cash EPS	18.2	18.3	23.8	25.2	28.2	31.6
Dividend Payout Ratio (%)	44.1	43.9	39.4	40.0	42.5	45.0
Dividend Per Share	7.3	7.4	8.8	9.3	11.1	13.1
Dividend Yield (%)	2.6	2.6	3.1	3.3	3.9	4.7
Free Cash Flow Per Share	18.3	22.4	19.1	30.5	28.5	32.3
Cash Yield (%)	15.4	12.6	14.7	9.3	9.9	8.7
Book Value Per Share	101.8	109.6	119.2	133.2	148.2	164.3
Capital, Liquidity & Return Ratios						
Total Debt to Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0
Current Ratio (x)	1.6	1.6	1.7	1.8	1.9	2.0
Quick Ratio (x)	0.6	0.7	0.7	0.8	0.9	1.0
Return on Equity (%)	16.3	15.4	18.7	17.5	17.6	17.8
Return on Capital Employed (%)	13.8	15.1	20.3	19.2	18.7	18.9
Return on Invested Capital (%)	12.4	13.7	18.8	17.5	17.1	17.2
Valuation Ratios						
P/E	17.0	16.7	12.7	12.1	10.8	9.7
P/CEPS	15.5	15.4	11.8	11.2	10.0	8.9
P/BV	2.8	2.6	2.4	2.1	1.9	1.7
EV/Sales	3.3	2.7	2.0	1.7	1.4	1.2
EV/EBITDA	13.7	10.9	7.8	6.9	6.1	5.3
EV/EBIT	15.3	11.9	8.3	7.4	6.6	5.7
Efficiency Ratios						
Receivable Days	127	116	109	109	112	115
Inventory Days	62	20	302	25	25	25
Payable Days	27	26	49	45	45	45
Net Working Capital Days	163	110	362	89	92	95
Cash Flow Statement						
Profit Before Tax	488.1	493.5	676.7	708.0	789.7	884.9
Depreciation	32.1	30.2	32.2	37.5	42.9	47.8
Adjustments	-111.3	70.0	-429.2	-142.3	-386.3	-437.7
Cash Flow from Operations	409.0	593.7	279.7	603.2	446.2	495.0
Capital Expenditure	-21.3	-62.7	-108.7	-100.0	-100.0	-100.0
Other Investment Activities	-75.4	149.2	-115.8	0.0	0.0	0.0
Cash Flow from Investing	-96.8	86.6	-224.5	-100.0	-100.0	-100.0
Changes in Equity	0.0	0.0	0.0	0.0	0.0	0.0
Changes in Borrowings	0.0	0.0	0.0	0.0	0.0	0.0
Dividend & DDT	-146.0	-148.0	-175.0	-186.9	-221.5	-262.8
Cash Flow from Financing	-146.0	-148.0	-175.0	-186.9	-221.5	-262.8
Net Cash Flow	166.2	532.3	-119.8	316.3	124.7	132.2
Opening Cash Balance	694.3	860.5	1,392.8	1,273.0	1,589.2	1,714.0
Closing Cash Balance	860.5	1,392.7	1,273.0	1,589.2	1,714.0	1,846.2

Source: Company Reports & Ventura Research

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