



COMPANY NAME	: Rites Ltd.
BSE Code	: 541556
Time Duration	: 1 year
CMP	: ₹294 (as on 20 Dec., 2018)
Target Price	: ₹368

The Mid Bridge for the month of December is RITES Limited. It is a wholly-owned government company, a Miniratna (Category-I), Schedule 'A' public sector enterprise and a key player in consultancy and engineering in the transport infrastructure sector in India. The revenue mix of the company includes consultancy : 45%, quality assurance : 16%, lease services : 6%, export sales : 14%, turnkey construction projects : 9% and others : 10% as of FY18.

With an objective of divestment and for achieving benefits of listing, the company came out with an IPO for sale of 12.6% stake of the government to the public. On the day of listing, i.e. on July 2, 2018, the company got listed on the BSE and NSE at 3% premium and, on the same day, closed with a massive gain of 21%. Since then, in the past six months, the stock has been performing better and has not gone below the listing price, despite volatile market conditions.

In FY18, the company delivered healthy ROE and ROCE of 15.9% and 23.45%, respectively. Considering its healthy order book and strong and consistent performance delivered by its consultancy and turnkey projects segments, the management is optimistic about achieving 20-22% topline growth in FY19 and 9-10% growth in operating profits.

High contribution from consultancy

RITES provides a comprehensive range of consultancy service offerings, primarily in the transport infrastructure space such as railways, urban transport, roads and highways, ports, inland waterways, airports and ropeways. The services offered include conducting techno-economic feasibility studies and preparation of detailed project reports, design engineering activities, project management, quality assurance etc. The services provided are diversified across various sectors. There is less volatility in manpower costs, which results in high operating margins.

Exports getting stronger

With a longstanding experience of 44 years, the company has

undertaken projects in over 55 countries, including Asia, Africa, Latin America, South America and Middle East regions. RITES is the only export arm of Indian Railways for providing rolling stock overseas (other than Thailand, Malaysia and Indonesia). It continues to expand its international operations by developing various types of locomotives, rolling stock, railway equipments, spares, etc. In FY18 and H1FY19, the company bagged some large export orders from Sri Lanka, Mauritius (metro project), Myanmar, Ghana and Guyana (road linkage project). The exports order book as on September 30, 2018, stood at Rs 1,284 crore.

Healthy order book

The company's total order book as on September 30, 2018, stood at Rs 6183 crore, which includes export order book of Rs 1284 crore. Considering FY18 revenue, the book-to-bill ratio works out at 4.1x. Segment-wise, the order book stands as follows: consultancy: Rs 2,296 crore, leasing: Rs 138 crore, turnkey: Rs 2,465 crore and exports: Rs 1,284 crore. Of the total order book, 70.7% orders come from the government and PSUs, while 29.3% orders come from the private and other sectors. The domestic orders would be executed over the next 1-3 years and export orders would be executed over the next 2.5 years. Thus, such healthy order book has given revenue visibility for the next 3-4 years.

Expansion in renewable energy services segment

RITES promoted a joint venture with Indian Railways named Railway Energy Management Company Ltd. (REMCL) in 2013 for renewable energy projects, bilateral purchases, power trading and energy efficiency projects, etc. The company has diversified into the field of renewable energy such as solar and wind energy and implementation of power procurement contracts for Indian Railways. The Ministry of New and Renewable Energy (MNRE) seeks to achieve target of renewable energy generation of 175 GW by 2022. In this regard, MNRE has set a target of 20% of total consumption through renewable energy for Indian Railways. REMCL is working towards achieving the target and has commissioned a 26 MW wind power project in Jaisalmer, Rajasthan and has also concluded power procurement contracts for ~1,175 MW across various states in India.

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Opportunities from Indian Railways

RITES has been nominated for export of railway locomotives, coaches and other equipments which are manufactured by Indian Railways. On a nomination basis, the Ministry of Railways (MoR) has awarded RITES with two projects each for construction of railway lines and electrification of railway lines on a fixed fee basis. Also, Indian Railways is working towards capacity creation - 18,000 kilometres of doubling, third and fourth line works and 5,000 kilometres of gauge conversion. Thus, RITES has huge opportunities for its consultancy segment and turnkey projects from the Indian Railways.

Financial Performance

The company's revenue has grown at a CAGR of 12.5% over FY16-18. It has maintained a healthy dividend payout of 34.8%. It has been a completely debt-free company for a decade and continues to work with an asset-light model.

The company's revenue in Q2FY19 grew by 122% YoY from Rs 195 cr to Rs 433 cr. The growth in revenue was led by robust growth in its consultancy and turnkey projects segments. The

consultancy segment grew by 82.8% YoY and turnkey projects segment grew by 867% YoY. EBITDA almost doubled from Rs 91.7 cr to Rs 182.15 cr on a YoY basis. The EBITDA margin surged by 110 bps to 38.5% from 37.4% on YoY basis. PAT for the quarter jumped by 59% YoY from Rs 73 cr to Rs 117 cr due to higher operating profits.

Valuation

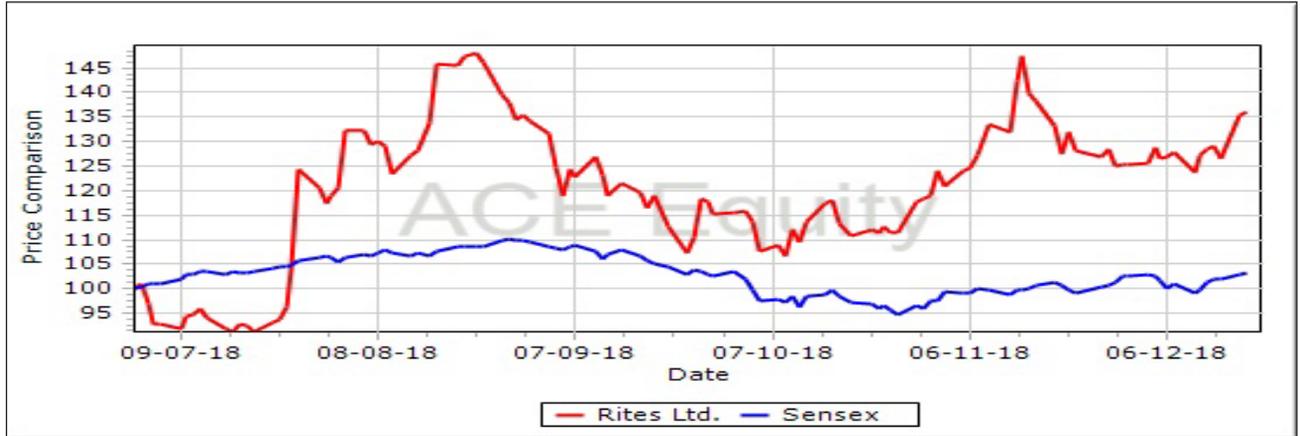
The company is trading at TTM P/E of 14.9x with TTM EPS of Rs 19.41. The company's focus area would continue to be on the consultancy segment, which has a strong order book and margins. Also, it is getting stronger in the exports and turnkey projects segments. The healthy order book giving revenue visibility over the next 3-4 years boosts confidence in the company. It has huge opportunities from railways and airports, considering the government's high spending on transport infrastructure. The topline and profitability is growing consistently and the valuation too is attractive and it is also a regular dividend paying company. Considering all these factors, we see potential upside of 25% with a target price of Rs 368 over a period of one year.

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201803	201703	201603	201503	201403
Net Sales	1591.87	1426.73	1086.01	1015.17	1093.46
Total Income	1755.21	1634.18	1277.61	1166.06	1255.67
Total Expenditure	1229.41	1111.96	728.98	681.95	848.02
PBIDT	525.80	522.22	548.63	484.11	407.65
PAT	336.81	330.93	339.44	306.14	263.61
Dividend %	55.00	66.50	136.00	62.00	53.00
Adj. EPS(Rs)	16.84	16.55	33.94	30.61	26.36

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201809	201806	Q on Q Var%	201709	Y on Y Var%
Net Sales	433.26	310.04	39.74	195.20	121.96
Total Expenditure	290.52	239.83	21.14	152.85	90.07
PBIDT (Excl OI)	142.74	70.21	103.30	42.35	237.05
PAT	116.75	82.05	42.29	73.24	59.41
PBIDTM% (Excl OI)	32.95	22.65	45.47	21.70	51.84
PBIDTM%	42.17	41.95	0.52	47.27	-10.79
PATM%	26.95	26.46	1.85	37.52	-28.17
Adj. EPS(Rs)	5.84	4.10	42.44	3.66	59.56



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