

11 February 2020

## Q3-FY20 Result Update

- ❑ Rites Ltd reported healthy set of numbers in Q3FY20. The company reported Revenue, EBITDA, PAT of RS.620Cr, Rs.167Cr and Rs.147Cr respectively. Growth in the top line and bottom line was 45% and 43% respectively. On the segment front, Consultancy and Leasing segment grew by 2.7% and 14% YoY. Turnkey segment witnessed a very strong quarter and grew by 72% YoY to 196 Cr. Exports were weak and de-grew by 10% to 91Cr. Profitability improved significantly in FY20. In 9MFY20, company has recorded PAT of INR 484 Cr, up 43% YoY.
- ❑ For FY20, Revenue guidance by the management is ~Rs.2300 Cr, a growth of 17% YoY. Rites Ltd has already recorded Rs.1900 Cr of revenue in 9MFY20. With this, company is all set to exceed its revenue guidance for FY20. Earnings visibility in the future are solid because of strong order book.
- ❑ At the end of 3QFY20, Rites order book stands strong at Rs.5782 Cr (~3x FY19 revenue). However, company is estimating fresh order inflows of Rs.2800 Cr lead by the export vertical(roughly 650 Cr). From FY22, construction and export will start contributing meaningfully in the overall business.
- ❑ Currently there are 13 tenders of metro project with the size of INR1400 Cr, In addition to this, 100 new airports and highway projects are on cards that will push the inflows for the consultancy segment. The company is in discussion for an overseas cape gauge(width between rail tracks) contract. Currently, Rites Ltd is confident to win the Rs.650 Cr order for the same before March-2020. There is a delay in turnkey order inflow but the management expects this to normalize in the upcoming quarters. Additionally, the company has booked Rs.190 Cr in low-margin construction orders
- ❑ We are bullish on the long term prospects of the company and we believe that the company is well positioned in the industry to take advantage of the upcoming infrastructure projects. After Q3FY20 results, we have tweaked our estimates a little but we maintain our **BUY** rating on the company with a target price of **Rs 370/ share**,

## Financial Results

(In ₹ mn)	Q3FY19	Q3FY18	Chg	9M-FY19	9M-FY18	Chg
Net Sales	6,198	5,349	15.9%	19,037	13,102	45.3%
Operating Expense	4,529	3,786	19.6%	14,102	9,159	54.0%
EBITDA	1,670	1,563	6.8%	4,935	3,943	25.2%
Other Income	436	476		2,202	1,402	
Depreciation	118	99		341	284	
EBIT	1,988	1,941	2.4%	6,797	5,061	34.3%
Interest	17	17		49	53	
PBT	1,972	1,924	2.5%	6,748	5,009	34.7%
Tax	501	566		1,908	1,624	
<b>Consolidated PAT</b>	<b>1,470</b>	<b>1,358</b>	<b>8.3%</b>	<b>4,840</b>	<b>3,384</b>	<b>43.0%</b>

Margins	Q3FY19	Q3FY18	Chg	9M-FY19	9M-FY18	Chg
Operating Margin %	26.9%	29.2%	(229 bps)	25.9%	30.1%	(417 bps)
Net Margin %	23.7%	25.4%	(66 bps)	25.4%	25.8%	(40 bps)

Source: Company, Anand Rathi Research

## Consolidated Financials

(In ₹ mn)	FY-18	FY-19	FY-20E	FY-21E
Net Sales	14,975	20,475	25,076	30,069
Operating Expense	10,805	14,709	17,174	20,504
EBITDA	4,170	5,766	7,902	9,565
Other Income	1,535	1,922	2,354	2,822
Depreciation	363	384	950	1,139
EBIT	5,342	7,304	9,306	11,249
Interest	135	85	38	29
PBT	5,207	7,218	9,268	11,220
Tax	1,620	2,403	2,456	2,693
Minority Interest	(162)	(120)	(287)	(359)
PAT	3,425	4,695	6,525	8,169

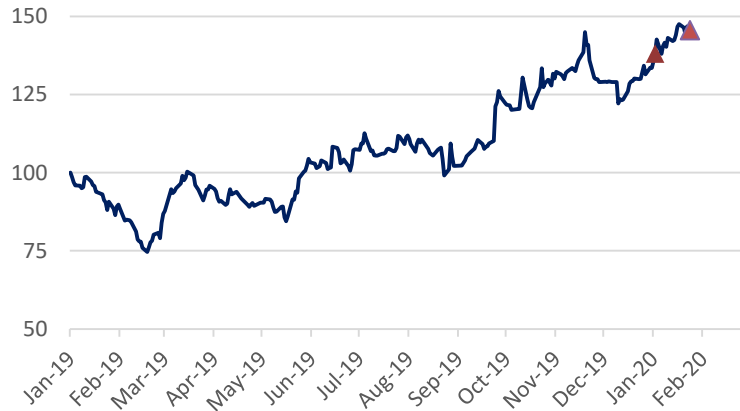
Margins	FY-18	FY-19	FY-20E	FY-21E
Sales Growth %	0.9%	36.7%	22.5%	19.9%
Operating Margin %	27.8%	28.2%	31.5%	31.8%
Net Margin %	22.9%	22.9%	26.0%	27.2%

(In ₹ mn)	FY-18	FY-19	FY-20E	FY-21E
<b>Liabilities</b>				
Equity Share Capital	2,000	2,000	2,000	2,000
Reserves & Surplus	20,136	22,221	23,642	26,707
Total Shareholder's Funds	22,136	24,221	25,642	28,707
Minority Interest	568	717	759	849
Long-Term Liabilities	477	399	477	502
Other Long-term Liabilities	2,677	1,874	1,724	1,560
Deferred Tax Liability	(531)	(719)	(719)	(719)
Short-term Liabilities	25,842	27,103	30,275	32,391
<b>Total</b>	<b>51,168</b>	<b>53,596</b>	<b>58,158</b>	<b>63,291</b>
<b>Assets</b>				
Net Fixed Assets	4,029	4,811	4,823	5,197
Long-Term L&A	1,452	1,478	1,478	1,478
Non Current Investments	1,340	1,421	1,592	1,733
Other Non-Current Assets	1,186	376	1,336	1,461
Current Asset	43,161	45,511	48,929	53,422
<b>Total</b>	<b>51,168</b>	<b>53,596</b>	<b>58,158</b>	<b>63,291</b>

Source: Company, Anand Rathi Research

## Rating and Target Price history:

### RITES rating history & price chart



Source: Bloomberg, Anand Rathi Research

NOTE: Prices are as on 11 Feb 2020 close.

### DLPL rating details

Date	Rating	Target Price (₹)	Share Price (₹)
05-Dec-19	BUY	370	301
11-Feb-20	BUY	370	303

Source: Bloomberg, Anand Rathi Research

## Key Risks

- **Foreign Exchange Risk:** RITES also carries a risk arising from currency exchange rate fluctuations, which could adversely affect its business, financial condition, results of operations and future prospects. These risks are mitigated by management through appropriate measures.
- **Export business is cyclical in nature:** The cyclical nature of the business of export of rolling stock is because of its dependence on lines of credit offered by GOI to various countries. These operations are also exposed to international legal and geo-political risks.
- **Capital Requirements:** Turnkey projects are an important leg of the business model. These projects fetch lower margins than consultancy, while having higher risks and some of these may require capital deployment from the Company's resources.
- **Competition:** After opening up of cross border businesses there is a greater risk of competition from foreign companies in consultancy projects. RITES also faces competitive pressures from the existing competitors and new entrants in both public and private sector within India.

Source: Company, Anand Rathi Research

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