

## RITES Ltd.

**RITES is a wholly owned Government Company, a Miniratna (Category – I) Schedule 'A' Public Sector Enterprise. It is a leading player in the transport consultancy and engineering sector in India and the only company having diversified services and geographical reach in this field under one roof. RITES has an experience spanning 43 years and has undertaken projects in over 55 countries including Asia, Africa, Latin America, South America and Middle East regions.**

**Healthy order book with diversified clientele base:** RITES' order book stood at ~₹4,800cr as of March 2018 (3.5X of FY17 top-line). The company receives orders on nomination/single tender basis on regular intervals from its clients such as national government, governmental instrumentalities and public sector enterprises.

**Strengthening EPC/Turnkey business:** RITES intends to increase its revenue mix in Turnkey projects owing to new investments in electrification and railway infrastructure. So far RITES has been awarded two projects for new railway lines and two projects for railway electrification.

**Preferred consultancy organization of GOI including Indian Railways:** RITES was incorporated by the Ministry of Finance (MoR) and is a nominated organization of the Indian Railways for export of railway locomotives, coaches and other equipments, which are manufactured by the Indian Railways (except exports to Malaysia, Indonesia and Thailand). It is also a nominated organization for inspection of various materials and equipment purchased by the Indian Railways.

**Outlook & valuation:** In terms of valuations, pre-issue PE works out to 12x of annualized FY18 EPS ₹17 (at the upper end of the issue price band), which is reasonably priced considering (a) 3.5x of order book with execution capability and experienced management, (b) maintaining the RoE level in the range of 17-18%, (c) diversified client base and (d) increasing opportunity of revenue from Railways due to new investment in electrification and infrastructure. Given that the RITES is a preferred consultant of Indian Railways along with other government authorities with exposure in international operation and fair valuation of issue, **we recommend SUBSCRIBE to issue.**

### Key Financial

Y/E March (₹ Mn)	FY2014	FY2015	FY2016	FY2017
<b>Net Sales</b>	<b>10,964</b>	<b>10,126</b>	<b>10,905</b>	<b>13,533</b>
% chg	15	(8)	8	24
<b>Net Profit</b>	<b>2,585</b>	<b>3,140</b>	<b>2,815</b>	<b>3,623</b>
% chg	9	21	(10)	29
EBITDA (%)	25.6	34.3	32.7	26.5
<b>EPS (₹)</b>	<b>13</b>	<b>16</b>	<b>14</b>	<b>18</b>
P/E (x)	14	12	13	10
P/BV (x)	3	2	2	2
RoE (%)	18	19	15	18
RoCE (%)	17	18	15	14
EV/EBITDA	7	5	6	7

Source: RHP, Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

Issue Open: June 20, 2018

Issue Close: June 22, 2018

### Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹200cr

Offer for Sale: \*\*2.52cr Shares

Post Eq. Paid up Capital: ₹200cr

Issue size (amount): \*₹460 -\*\*466cr

Price Band: ₹180-185

Lot Size: 80 shares and in multiple thereafter

₹.6 per share discount to individual

Post-issue implied mkt. cap: \*₹3600cr

\*\*₹3700cr

Promoters holding Pre-Issue: 100%

Promoters holding Post-Issue: 87%

\*Calculated on lower price band

\*\* Calculated on upper price band

### Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

### Post Issue Shareholding Pattern

Promoters	87%
Others	13%

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### **Company background**

RITES Limited ("RITES") is a wholly owned Government Company, a Miniratna (Category – I) Schedule 'A' Public Sector Enterprise. It is a leading player in the Transport Consultancy and Engineering sector in India and the only company having diversified services and geographical reach in this field under one roof. RITES has an experience spanning 43 years and 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). RITES is a multidisciplinary engineering and consultancy organization providing diversified and comprehensive array of services from concept to commissioning in all facets of transport infrastructure and related technologies.

Since inception in 1974, RITES has evolved from being a transport infrastructure consultancy and quality assurance services provider and has developed expertise in:

- Design, engineering and consultancy services in transport infrastructure sector with focus on railways, urban transport, roads & 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.
- Wagon manufacturing, renewable energy generation and power procurement for Indian Railways through their collaborations by way of joint venture arrangements, subsidiaries or consortium arrangements.

In India, company's clients include various central and state government ministries, departments, instrumentalities as well as local government bodies and public sector undertakings.

### Issue Details

The company is raising ~₹460cr through a offer for sale in the price band of ₹180-185 with Retail and Employee Discount of Rs6/ per share. The offer will constitute ~12.6% of the post-issue paid-up equity share capital of the company, assuming the issue is subscribed at the upper end of the price band. The company is offering 2.52cr shares that are being sold by Government of India (GOI).

#### Exhibit 1: Pre and Post-IPO shareholding pattern

	No of shares (Pre-issue)		%No of shares (Post-issue)	
Promoter (GOI)	20,00,00,000	100%	17,48,00,000	87%
Other	0	0%	2,52,00,000	13%
Total	20,00,00,000	100%	20,00,00,000	100%

Source: RHP, Angel Research; Note: Calculated on upper price band

### Objects of the offer

- As the issue is an offer for sale, RITES will not receive any proceeds from the offer.

### Key Management Personnel

**Mr. Rajeev Mehrotra:** He is the Chairman and Managing Director of RITES since October 11, 2012. He 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 received a certificate of participation for the course titled 'Financial Management Training Program for Electric Utilities held from April 18, 1994 to May 20, 1994 as offered by the Southern Electric International and Global Utilities Institute, Samford University, USA. He has been associated with the Company 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 National Hydroelectric Power Corporation Limited, Faridabad and Power Finance Corporation Limited New Delhi in various capacities.

**Mr. Arbind Kumar:** He is the Director (Projects) of RITES since June 01, 2012. He holds a Bachelor's degree in Civil Engineering from Muzaffarpur Institute of Technology, a Diploma in Management from the Indira Gandhi National Open University, and is qualified as a Life Fellow of the Institution of Permanent Way Engineers (India). He has been associated with RITES since January, 2001. He has over 35 years of experience. He has also worked with the Indian Railways in various capacities, a private company in Malaysia through RITES, and for the Sultanate of Oman.

**Mr. Ajay Kumar Gaur:** He is a 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 Container Corporation of India Limited.

**Mr. Mukesh Rathore:** He is a 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 RITES since April, 2000. He has over 36 years of experience.

## Investment Argument

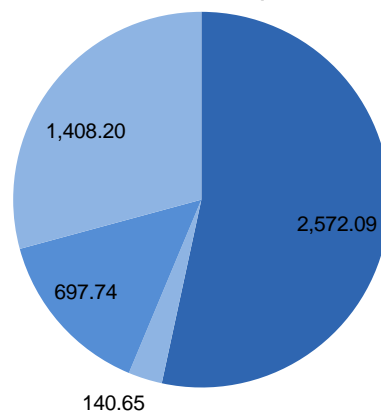
### Healthy order book with diversified clientele base

RITES' current order book as of March 31, 2018 stands at ₹ 4,818.6cr, which is 3.5x of FY17 revenue, which gives strong revenue visibility going forward. RITES has long standing history of business relationships and collaboration with several central and state government ministries, departments, corporations, authorities and public sector undertakings. As a result, RITES, from time to time has been allocated projects on nomination/single tender basis. RITES is one of the agencies of the Indian Railways for exporting rolling stock, from India, customized for specific client requirements and components as manufactured by the Indian Railways (except exports to Malaysia, Indonesia and Thailand) and for inspections of materials and equipment as procured by the Indian Railways.

RITES' domestic as well as overseas clients typically are national government, governmental instrumentalities and public sector enterprises. Such governments, governmental agencies and public sector undertakings are engaged in large scale infrastructure planning and development both in India and abroad. RITES also undertakes and execute projects funded by multilateral funding agencies.

#### Exhibit 2: RITES order book mix FY18

Order book Mix (₹ Cr.)



■ Consultancy Services ■ Leasing Services ■ Export Sales ■ Turnkey Construction Projects

Source: RHP, Angel Research

### Experienced management personnel and technically qualified team

RITES is led by an experienced and well – qualified management team. The management team plays a significant role in formulating the company's business strategies, accounting procedures and internal control and policies, and has been instrumental in their growth of operations and consistent performance. RITES had a total of 3,349 employees as on March 31, 2018. The company has an in-house team of expert engineers specializing in civil, mechanical, metallurgy, chemical, electrical, signal & telecom engineering, and specialists in transport and economics, quality assurance, environment engineering, information technology, finance and general management. The senior management has an average experience of about 33 years and they have a pool of 1,400 skilled engineers/ professionals of executive cadre on their permanent roll. The company also sources requisite manpower from the Indian

Railways and other government ministries and departments, both on deputation and permanent basis, according to requirements.

**Strengthening the EPC/Turnkey business**

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 get fees as a certain percentage of the cost of the project executed. So far, RITES has been awarded 2 projects for new railway lines and 2 projects for railway electrification. Considering the extent of new investments in electrification and railway infrastructure, RITES intends to strengthen its organization for taking more such projects.

**Expanding operations in power procurement and renewable energy sector**

In order to assist the Indian Railways meet its stipulated target for procurement of renewable energy, the Indian Railways and RITES has set up a company i.e. Railway Energy Management Company Limited (“**REMCL**”), with the objective of synergizing the technical resource base of RITES and for reducing the carbon footprint of the Indian Railways through utilization of green energy. RITES holds 51% of issued and paid-up equity share capital of REMCL. REMCL provides project management and other consultancy services for the Indian Railways with regard to setting up of wind energy projects, solar energy projects, power procurement and construction of transmission lines connected to the Inter-State Transmission System (ISTS). REMCL has commissioned a wind power project of capacity 26 MW in Jaisalmer, Rajasthan and has also concluded power procurement contracts for approximately 1,175 MW across various states in India. Further, the National High Speed Rail Corporation Limited has mandated REMCL to undertake techno-economic viability studies and related surveys of power sourcing arrangements for their requirements.

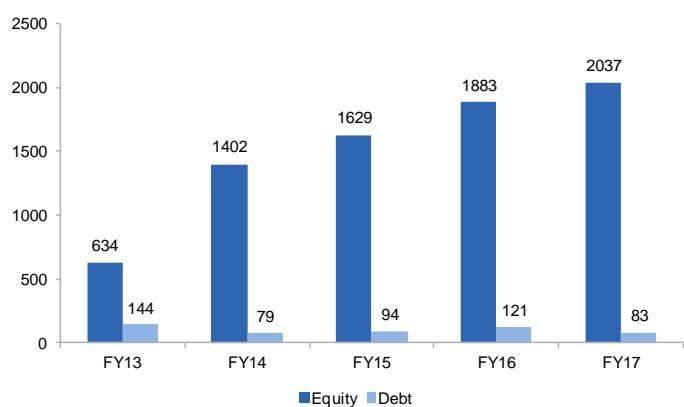
**Expanding international operations**

RITES intends to continue expanding its international service offerings in order to acquire new clients. Over the years, RITES has expanded its service offerings to address new market opportunities and macroeconomic trends arising in the infrastructure sectors. RITES, recently has been appointed by the Government of Mauritius as a consultant for implementing light rail project in Mauritius and also to prepare a detailed project report on Trident Port project. RITES is working in Nepal on 2 integrated check-posts at Birgunj and Biratnagar, and is conducting construction supervision services of a road project in Botswana through its Subsidiary, RITES (AFRIKA).

**Strong financial performance, healthy balance sheet**

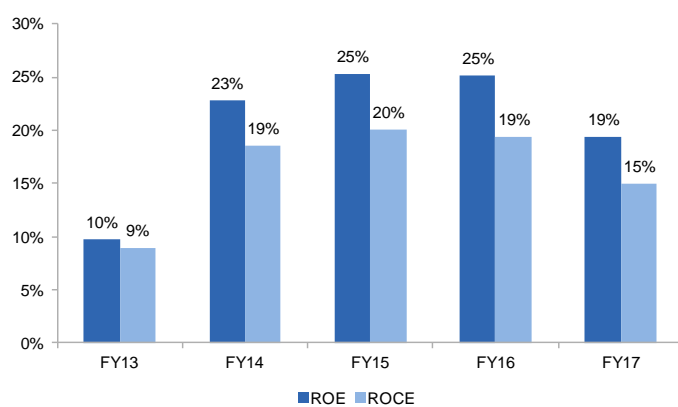
RITES has been consistently profitable over the last 5 years and has paid dividends regularly to shareholders. The company’s stable financial position enables it to satisfy the minimum financial eligibility criteria for bidding in projects which generally comprise of financial parameters such as net worth and profitability for various projects across all market segments. As per the Restated Financial Information, the total income has grown at a CAGR of 9.61% from ₹1,083.05cr in FY13 to ₹1,563.27cr in FY17 and PAT has grown at a CAGR of 11.61% from ₹233.06cr to ₹361.66cr during the same period.

**Exhibit 3: Healthy Balance sheet (₹cr)**



Source: RHP, Company

**Exhibit 4: Return ratio**



Source: RHP, Company

**Outlook & valuation:**

In terms of valuations, pre-issue PE works out to 12x of annualized FY18 EPS ₹17 (at the upper end of the issue price band), which is reasonably priced considering (a) 3.5x of order book with execution capability and experienced management, (b) maintaining the RoE level in the range of 17-18%, (c) diversified client base and (d) increasing opportunity of revenue from Railways due to new investment in electrification and infrastructure. Given that the RITES is a preferred consultant of Indian Railways along with other government authorities with exposure in international operation and fair valuation of issue, **we recommend SUBSCRIBE to issue.**

**Key Risks**

**High Dependence on Railway orders**

RITES receives most of the orders from the Railways segment, hence any slowdown in railway spending may adversely impact the financial performance of the company.

**Currency risk**

Over 25% of RITES' revenue comes from export sales, any adverse fluctuation in movement of currency may impact earnings of the company.



## Income statement

Y/E March (₹ Mn)	FY2014	FY2015	FY2016	FY2017
<b>Total operating income</b>	<b>10,964</b>	<b>10,126</b>	<b>10,905</b>	<b>13,533</b>
% chg	7	(8)	8	24
<b>Total Expenditure</b>	<b>8,154</b>	<b>6,657</b>	<b>7,341</b>	<b>9,951</b>
Raw Material	4,706	2,749	3,270	4,735
Personnel	2,707	3,245	3,410	4,169
Others Expenses	742	664	662	1,046
<b>EBITDA</b>	<b>2,810</b>	<b>3,469</b>	<b>3,564</b>	<b>3,582</b>
% chg	29	23	3	1
(% of Net Sales)	26	34	33	26
Depreciation & Amortisation	203	262	346	383
<b>EBIT</b>	<b>2,606</b>	<b>3,207</b>	<b>3,217</b>	<b>3,200</b>
% chg	29	23	0	(1)
(% of Net Sales)	24	32	30	24
Interest & other Charges	0	0	47	113
Other Income	1,270	1,464	1,362	2,099
(% of PBT)	33	31	30	41
Extraordinary Items	(27)	10	(26)	(115)
Share in profit of Associates	-	-	-	-
<b>Recurring PBT</b>	<b>3,849</b>	<b>4,682</b>	<b>4,506</b>	<b>5,071</b>
% chg	18	22	(4)	13
Tax	(1,244)	(1,560)	(1,676)	(1,454)
<b>PAT (reported)</b>	<b>2,605</b>	<b>3,121</b>	<b>2,830</b>	<b>3,617</b>
<b>Adj PAT</b>	<b>2,585</b>	<b>3,140</b>	<b>2,815</b>	<b>3,623</b>
% chg	12	20	(9)	28
(% of Net Sales)	24	31	26	27
<b>Basic &amp; Fully Diluted EPS (Rs)</b>	<b>13</b>	<b>16</b>	<b>14</b>	<b>18</b>
% chg	9	21	(10)	29

Source: Company, Angel Research

### Balance Sheet

Y/E March (₹ Mn)	FY2014	FY2015	FY2016	FY2017
<b>SOURCES OF FUNDS</b>				
Equity Share Capital	1000	1000	1000	2000
Reserves & Surplus	13251	15762	17635	18411
<b>Shareholders Funds</b>	<b>14251</b>	<b>16762</b>	<b>18635</b>	<b>20411</b>
<b>Total Loans</b>	<b>823</b>	<b>886</b>	<b>2122</b>	<b>1915</b>
Other Liab & Prov	1211	1219	1266	1576
<b>Total Liabilities</b>	<b>16285</b>	<b>18867</b>	<b>22023</b>	<b>23902</b>
<b>APPLICATION OF FUNDS</b>				
Net Block	<b>1968</b>	<b>2105</b>	<b>4185</b>	<b>4052</b>
Capital Work-in-Progress	192	257	70	33
Investments	2000	2000	1700	1200
<b>Current Assets</b>	<b>24613</b>	<b>24472</b>	<b>31031</b>	<b>34021</b>
Inventories	175	67	131	504
Sundry Debtors	3258	3808	5355	4645
Cash own fund	363	2570	2620	2647
Cash client fund	20817	18028	22925	26225
Loans & Advances	1833	1775	3017	2394
Other Assets	5755	5445	4085	6322
Current liabilities	20078	17187	22066	24121
<b>Net Current Assets</b>	<b>4535</b>	<b>7285</b>	<b>8965</b>	<b>9900</b>
Other Non Current Asset				
<b>Total Assets</b>	<b>16285</b>	<b>18867</b>	<b>22023</b>	<b>23902</b>

Source: Company, Angel Research

### Cash Flow

Y/E March (₹ Mn.)	FY2014	FY2015	FY2016	FY2017
Profit before tax	3,850	4,682	4,506	5,071
Depreciation	22	35	34	36
Change in Working Capital	1,980	2,489	2,482	5,528
Interest / Dividend (Net)	(973)	(1,068)	(1,080)	(979)
Direct taxes paid	(1,270)	(1,394)	(1,845)	(1,666)
Others	(2,898)	(3,648)	(3,461)	(4,128)
<b>Cash Flow from Operations</b>	<b>711</b>	<b>1,096</b>	<b>637</b>	<b>3,862</b>
(Inc.)/ Dec. in Fixed Assets	(488)	(1,001)	(1,941)	(211)
(Inc.)/ Dec. in Investments	(1,104)	2,696	684	(83)
<b>Cash Flow from Investing</b>	<b>(1,592)</b>	<b>1,696</b>	<b>(1,257)</b>	<b>(294)</b>
Issue of Equity	-	-	-	-
Inc./(Dec.) in loans	-	-	1,206	372
Others	(653)	(533)	(866)	(2,517)
<b>Cash Flow from Financing</b>	<b>(653)</b>	<b>(533)</b>	<b>340</b>	<b>(2,146)</b>
Inc./(Dec.) in Cash	(1,534)	2,259	(279)	1,422
<b>Opening Cash balances</b>	<b>1,898</b>	<b>364</b>	<b>2,622</b>	<b>2,343</b>
<b>Closing Cash balances</b>	<b>364</b>	<b>2,622</b>	<b>2,343</b>	<b>3,765</b>

Source: Company, Angel Research

## Key Ratios

Y/E March	FY2014	FY2015	FY2016	FY2017
<b>Valuation Ratio (x)</b>				
P/E (on FDEPS)	14.3	11.8	13.1	10.2
P/CEPS	1.3	1.1	1.2	0.9
P/BV	2.6	2.2	2.0	1.8
EV/Sales	1.9	1.6	2.1	1.8
EV/EBITDA	7.3	4.6	6.3	6.9
EV / Total Assets	1.3	0.9	1.0	1.0
<b>Per Share Data (Rs)</b>				
EPS (Basic)	12.9	15.7	14.1	18.1
EPS (fully diluted)	12.9	15.7	14.1	18.1
Cash EPS	13.9	17.0	15.8	20.0
DPS	2.7	3.1	6.8	6.7
Book Value	71.3	83.8	93.2	102.1
<b>Returns (%)</b>				
ROCE	17.3%	18.2%	15.5%	14.3%
Angel ROIC (Pre-tax)	21%	25%	20%	17%
ROE	18.1%	18.7%	15.1%	17.7%
<b>Turnover ratios (x)</b>				
Inventory / Sales (days)	6	2	4	14
Receivables (days)	108	137	179	125
Payables (days)	36	31	30	23
Working capital cycle (ex-cash) days)	78	109	153	116

Source: Company, Angel Research

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