

BITES

BUY

Execution to pick up

Summary

BITES Ltd (RITF) Q1FY22 PAT came 39%/ 46% lower than our / consensus estimate. This is led by lower revenue on exports and turnkey segment. RITF expects execution of export to pick up from Q2FY22 but turnkey segment execution is delayed by client to FY23E. Order inflow was strong and Q1FY22 Order book at Rs69bn equals 4x TTM and is one of the highest for the company. Company also secured orders of New Railway Line projects worth Rs40bn in Q2FY22. RITF has announced an interim dividend of Rs2 for FY22. We have modeled total dividend of Rs18 for FY22E (payout of 72%). Delay in execution of turnkey order, has led us to lower revenue for FY22E by 8% but we maintain FY23E revenue, as we expect commencement of turnkey segment execution. On unchanged TP of Rs343 (valued at 12x PER), maintain BUY. Stock offers dividend yield of 7-8% and trades at 9x FY23E EPS (below historically avg. of 10x).

Key Highlights and Investment Rationale

- Q1FY22 Snapshot:** Revenue at Rs3.5bn (+6% YoY/ -44% QoQ) is impacted from lower Export revenue at Rs7mn vs Rs933mn QoQ and Turnkey segment revenue has declined by 52% QoQ. Consultancy execution was up 14% at Rs2.2bn. Overall EBITDA margin stood at 27.3% vs 17.9% YoY / 29.2%QoQ. EBITDA increased by 62% YoY at Rs0.9bn. PAT stood at Rs0.8bn (up 20% YoY) impacted from lower other income.
- Guidance on segmental revenue:** For FY22E, RITF expects export revenue of Rs9bn which will be scattered over the next three quarters. Consultancy segment is growing and RITF expected revenue increase of 10% pa over the next 3-4 years. QA has reached Pre Covid level in Q2FY22. Turnkey segment revenue could decline in FY22E and improve only from FY23E. Though there are orders but clientele has slowed the execution in turnkey segment.
- Order-book at highest level:** RITF Secured order of Rs10bn in Q1FY22 and has closed Q1FY22 with highest ever order book. New opportunity is expected from metro consultancy order and 2-3 international orders of USD100mn each.

TP	Rs343
CMP	Rs268
Potential upside / downside	+28%

V/s Consensus

EPS (Rs)	FY22E	FY23E
IDBI Capital	25.2	28.6
Consensus	25.9	26.8
% difference	(2.7)	6.8

Shareholding Pattern (%)

Promoters	72.2
FII	1.0
DII	16.2
Public	10.6

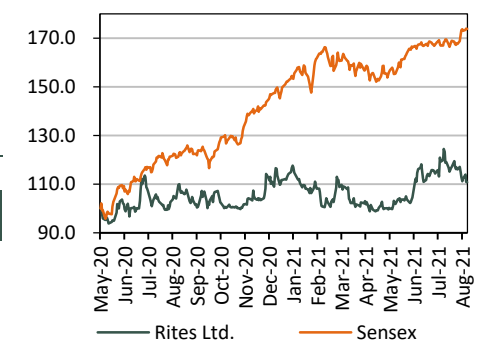
Price Performance (%)

	-1m	-3m	-12m
Absolute	(6.4)	8.8	7.2
Rel to Sensex	(12.2)	(5.0)	(37.3)

Key Stock Data

Bloomberg / Reuters	RITF IN / RITF.BO
Sector	Infrastructure
Shares o/s (mn)	240
Market cap. (Rs mn)	64,353
Market cap. (US\$ mn)	929
3-m daily avg Trd value(Rs mn)	--
52-week high / low	Rs303 / 232
Sensex / Nifty	55,437 / 16,529

Relative to Sensex (%)



Financial snapshot

Year	FY19	FY20	FY21	FY22E	FY23E
Revenue	20,475	24,744	18,595	25,708	32,857
EBITDA	5,755	6,609	5,038	7,190	8,305
EBITDA (%)	28.1	26.7	27.1	28.0	25.3
Adj. PAT	4,845	6,300	4,443	6,004	6,876
EPS (Rs)	24.2	25.2	18.5	25.0	28.6
EPS Growth (%)	32.7	4.0	(26.6)	35.1	14.5
PE (x)	11.1	10.7	14.5	10.8	9.4
Dividend Yield (%)	4.7	6.0	4.8	6.6	7.5
EV/EBITDA (x)	3.3	4.7	6.2	4.6	3.6
RoE (%)	20.9	24.9	17.7	24.7	27.3
RoCE (%)	20.2	21.4	15.7	23.8	26.6

Source: IDBI Capital Research;

Conference call highlights of RITE

- Revenue growth in Q1FY22 has softened because of spill-over of export orders to subsequent quarters and completion of past turnkey orders. Domestic consultancy business was low due to Covid and low quality assurance revenue. However, leasing achieved Pre-Covid level of execution.
- In Exports, 2 Loco and 40 coaches to Sri Lanka is ready for dispatch and will be done in Q2FY22. Overall for FY22E RITE expects export revenue of Rs9bn which will be scattered over the next three quarters. Post the execution, RITE will be left with order of Rs3bn and this will be executed in FY23E. Exports EBITDA margin trajectory is 20-25%.
- Consultancy segment is growing and RITE expected revenue increase of 10% pa over the next 3-4 years. QA has reached Pre Covid level in Q2FY22. Rites in consultancy has experience of executing Airport, highway, ports and railway and building and Consultancy will be 35-50% order book. In the order book 40% of consultancy is long lease item and 60% is short lease. Short lease item has execution time frame of 3-4 months.
- Turnkey segment revenue could decline in FY22E and improve only from FY23E. Though there are orders but clientele has slowed the execution. For new turnkey orders, working capital will remain the same and IR will give advances and margin will be higher from 2-3%. As volume and benefit of operating leverage will be there.
- Company level, Order book is at Rs69bn and is highest ever for the company and RITE Secured order of Rs10bn in Q1FY22.
- Revenue target for FY22 is to match pre covid levels.
- In station development, total 49 station are under development stag.
- On balance sheet, RITE has Cash Rs7.4bn and nil long term debt
- In terms of new bids there are 2-3 international orders with order size of USD100mn each. In consultancy order book, 10% is from international order. Domestically, 6-7 metro projects have been delayed due to Covid and rites expect to garner 1-2 orders out of it.
- Solar Capex has been reduced by half to 1300MW and is primarily due to land availability.
- In FY22E Capex target is Rs1bn in building , Rs1bn in REMCL and Rs0.5bn for loco.

Exhibit 1: Quarterly Snapshot

(Rs mn)

Particulars	Q1FY22	Q1FY21	YoY Chg (%)	Q4FY21	QoQ Chg (%)
Net Sales	3,547	3,355	6	6,359	-44
EBIDTA	969	600	62	1,854	-48
<i>EBITDA margin (%)</i>	<i>27.3%</i>	<i>17.9%</i>	<i>946bps</i>	<i>29.2%</i>	<i>-182bps</i>
Other income	226	436	-48	137	65
Depreciation	131	127	3	135	-3
Interest	9	15	-45	10	-14
Pre-tax profit	1,055	895	18	1,839	-43
Tax (current+deferred)	277	245	13	424	-35
PAT	779	650	20	1,416	-45
Segmental Revenue					
Consultancy	2,194	1,928	13.8	3,145	-30.2
Exports	7	5	38.3	912	-99.3
Leasing	323	235	37.3	289	11.5
Turnkey Projects	948	1,136	-16.6	1,980	-52.1
Segmental EBIT					
Consultancy	983	889	10.6	1,350	-27.2
Exports	(39)	(34)	NA	252	NA
Leasing	134	73	84.6	111	20.3
Turnkey Projects	20	51	-60.5	82	-75.3
EBIT Margin (%)					
Consultancy	44.8%	46.1%	-130bps	42.9%	188bps
Exports	NA	NA	NA	27.6%	NA
Leasing	41.5%	30.8%	1062bps	38.4%	304bps
Turnkey Projects	2.1%	4.5%	-236bps	4.1%	-199bps

Source: Company

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: Dec.	FY20	FY21	FY22E	FY23E
Net sales	24,744	18,595	25,708	32,857
<i>Growth (%)</i>	20.9	(24.8)	38.2	27.8
Operating expenses	(18,136)	(13,557)	(18,517)	(24,552)
EBITDA	6,609	5,038	7,190	8,305
<i>Growth (%)</i>	14.8	(23.8)	42.7	15.5
Depreciation	(473)	(519)	(547)	(575)
EBIT	6,136	4,519	6,643	7,730
Interest paid	69	60	71	71
Other income	2,678	1,466	1,538	1,615
Pre-tax profit	8,883	6,045	8,253	9,416
Tax	(2,411)	(1,483)	(2,031)	(2,322)
<i>Effective tax rate (%)</i>	27.1	24.5	24.6	24.7
Minority Interest	(171.6)	(118.3)	(217.6)	(218.2)
Net profit	6,300	4,443	6,004	6,876
Exceptional items	-	-	-	-
Adjusted net profit	6,300	4,443	6,004	6,876
<i>Growth (%)</i>	30.0	(29.5)	35.1	14.5
<i>Shares o/s (mn nos)</i>	250	240	240	240

Cash Flow Statement

(Rs mn)

Year-end: Dec.	FY20	FY21	FY22E	FY23E
Pre-tax profit	8,883	6,045	8,253	9,416
Depreciation	473	519	547	575
Tax paid	(2,099)	(1,025)	(2,031)	(2,322)
Chg in working capital	(2,315)	934	(1,051)	3,895
Other operating activities	(1,612)	(1,197)	(1,457)	(1,533)
Cash flow from operations (a)	3,330	5,276	4,261	10,031
Capital expenditure	(1,124)	(797)	(460)	(460)
Chg in investments	(1,111)	(218)	(2,000)	(2,000)
Other investing activities	2,605	2,850	1,528	1,604
Cash flow from investing (b)	370	1,835	(932)	(856)
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	(87)	(80)	-	-
Dividend (incl. tax)	(3,978)	(3,663)	(5,084)	(5,839)
Chg in minorities	-	(52)	-	-
Other financing activities	(132)	(3,286)	(71)	(71)
Cash flow from financing (c)	(4,197)	(7,079)	(5,155)	(5,910)
Net chg in cash (a+b+c)	(497)	31	(1,826)	3,265

Balance Sheet

(Rs mn)

Year-end: Dec.	FY20	FY21	FY22E	FY23E
Net fixed assets	5,949	5,999	5,912	5,797
Investments	1,489	1,782	3,782	5,782
Other non-curr assets	1,531	2,441	2,384	2,489
Current assets	50,056	48,111	46,920	53,558
Inventories	107	2,862	1,338	1,800
Sundry Debtors	8,437	5,844	8,804	10,802
Cash and Bank	36,308	33,632	31,665	34,788
Marketable Securities	-	-	-	-
Loans and advances	181	213	213	213
Total assets	59,026	58,333	58,997	67,626
Shareholders' funds	26,333	23,920	24,699	25,593
Share capital	2,500	2,403	2,403	2,403
Reserves & surplus	23,833	21,517	22,296	23,190
Total Debt	326	247	247	247
Secured loans	326	247	247	247
Unsecured loans	-	-	-	-
Other liabilities	2,618	2,336	2,452	2,575
Curr Liab & prov	28,935	30,949	30,500	37,894
Current liabilities	28,081	30,578	30,110	37,484
Provisions	853	371	390	409
Total liabilities	31,879	33,532	33,199	40,716
Total equity & liabilities	59,026	58,333	58,997	67,626
Book Value (Rs)	105	100	103	107

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: Dec.	FY20	FY21	FY22E	FY23E
Adj EPS (Rs)	25.2	18.5	25.0	28.6
Adj EPS growth (%)	4.0	(26.6)	35.1	14.5
EBITDA margin (%)	26.7	27.1	28.0	25.3
Pre-tax margin (%)	35.9	32.5	32.1	28.7
ROE (%)	24.9	17.7	24.7	27.3
ROCE (%)	21.4	15.7	23.8	26.6
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.4	0.3	0.4	0.5
Leverage factor (x)	2.2	2.3	2.4	2.5
Net margin (%)	25.5	23.9	23.4	20.9
Net Debt/Equity (x)	(1.4)	(1.4)	(1.3)	(1.3)
Working Capital & Liquidity ratio				
Inventory days	2	56	19	20
Receivable days	124	115	125	120
Payable days	27	64	42	40

Valuation

Year-end: Dec.	FY20	FY21	FY22E	FY23E
PER (x)	10.7	14.5	10.8	9.4
Price / Book value (x)	2.6	2.7	2.6	2.5
PCE (x)	9.9	13.0	9.9	8.7
EV / Net sales (x)	1.3	1.7	1.3	0.9
EV / EBITDA (x)	4.7	6.2	4.6	3.6
Dividend Yield (%)	6.0	4.8	6.6	7.5



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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