

RITES

BUY

Near term covid disruption but future bright

Summary

RITES Ltd (RITE) Q4FY21 PAT at Rs1.4bn is 14% lower than our and consensus estimate, as revenue was impacted from covid disruption (supply chain issue). Consolidated EBITDA margin remained healthy at 29% (up 50bps YoY) and was driven by export orders and cost management (employee strength reduced by 9% YoY). In FY21, RITE received orders of Rs21bn and order inflow could be strongly higher in FY22 as company is already L1 in order of Rs14bn. Balance sheet continues to remain lean, CF was strong with OCF at Rs5bn vs Rs3bn in FY20. Company has increased div payout to 72% in FY21 vs 65% in FY20. RITES stock performance has been muted in the last 12 months due to concerns on the execution. FY22 execution is expected to pick up driven by commencement of export order and domestic consultancy as railway capex is at Rs2tn+. Stock trades at 8x FY23E EPS (below historically avg. of 10x). Maintain BUY on unchanged TP of Rs343 (valued at 12x PER). Stock offers dividend yield of 7-8%.

Key Highlights and Investment Rationale

- Q4FY21 Snapshot:** Revenue increased by 11% YoY to Rs6.4bn and is led by Export and Turnkey segment where revenue increased by 54%/ 16% YoY. Consultancy was muted at +2% YoY due to lower QA and covid related disruption. EBITDA margin was healthy at 29.2% and was led by export orders. EBITDA increased by 13% YoY but PAT at Rs1.4bn was down 2% YoY due to lower other income.
- Revenue guidance strong FY22E:** RITE expects to execute complete export order in FY22E and turnkey segment execution to pick up from H2. Railway capex is one of the highest in FY22 and thus QA revenue to be better than FY21. All this implies RITE revenue could be Rs28-32bn in FY22E.
- Order inflow guidance at 10% YoY:** FY21 order inflow is at Rs21bn and Order Book of Rites is at Rs63bn (3x TTM revenue). Order Inflow guidance by RITE (pegged at increase of 10% YoY) is conservative as RITE is L1 in order of Rs17bn for railway electrification work. RITE is also planning to submit bid domestically for metro work and loco in exports orders, which could improve its order inflow in FY22E.

TP	Rs343	
CMP	Rs269	
Potential upside / downside	+28%	
Previous Rating	BUY	
V/s Consensus		
EPS (Rs)	FY22E	FY23E
IDBI Capital	25.2	28.6
Consensus	26.5	26.1
% difference	(4.8)	9.4

Shareholding Pattern (%)

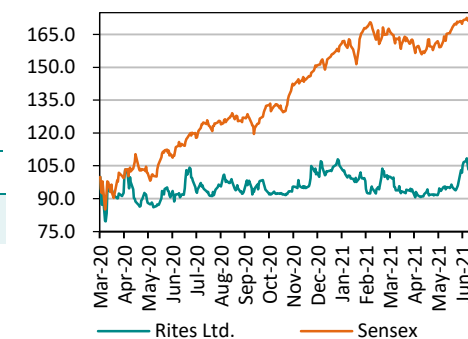
Promoters	72.2
FII	1.0
DII	15.4
Public	11.4

Price Performance (%)

	-1m	-3m	-12m
Absolute	8.5	8.3	16.4
Rel to Sensex	2.9	3.3	(39.7)

Key Stock Data	
Bloomberg/Reuters	RITE IN / RITS.BO
Sector	Infrastructure
Shares o/s (mn)	240
Market cap. (Rs mn)	64,557
Market cap. (US\$ mn)	871
3-m daily avg Trd value(Rs mn)	82.9
52-week high / low	Rs293 / 230
Nifty / Sensex	52,323 / 15,691

Relative to Sensex (%)



Financial snapshot

Year	FY2019	FY2020	FY2021	FY2022E	FY2023E
Revenue	20,475	24,744	18,595	28,515	32,857
EBITDA	5,755	6,609	5,038	7,260	8,305
EBITDA (%)	28.1	26.7	27.1	25.5	25.3
Adj. PAT	4,845	6,300	4,443	6,057	6,876
EPS (Rs)	24.2	25.2	18.5	25.2	28.6
Adj. EPS Growth (%)	32.7	4.0	(26.6)	36.3	13.5
PE (x)	9.9	9.5	12.9	9.5	8.3
Adj. Dividend Yield (%)	5.3	6.7	5.4	7.4	8.5
EV/EBITDA (x)	2.3	3.6	4.8	3.2	2.6
RoE (%)	20.9	24.9	17.7	24.9	27.3
RoCE (%)	20.2	21.4	15.7	24.0	26.5

Source: Company; IDBI Capital Research

Conference call highlights of RITE

- **Segment wise**, revenue contribution from Consultancy is expected at 50%, Turnkey at 20%, Export 25% and remaining others. Do not see major shift in revenue composition until FY23.
- **Export** has order book of Rs13bn, contractually complete order book to be executed by FY22. EBIT margin were higher in Q4FY21 and this will vary from 15-25% in FY22. Q4FY21 Exports revenue grew by 54.5% YoY at Rs9bn led by exports to Mozambique for cape gauge locomotives and coaches to Sri Lanka. Due to unavailability of ships RITE was unable to ship few consignments and hence exports will have revenue spill over in FY22. Entire export order book of Rs13bn is expected to be executed in FY22.
- **Q4FY21 Revenue** increased by 6.1% YoY at Rs6.4bn. This was led by growth, exports (up 54.5% YoY) and turnkey (up 16.4% YoY), while leasing declined 6.2% YoY and consultancy (up 2.8% YoY). In consultancy, Quality Assurance was impacted.
- **On margins front**, RITE Q4FY21 leasing and turnkey segment witnessed better operating margin that led to EBITDA margin expansion of 50bps YoY at 29.2%. While consultancy margins were affected due to less quality assurance income and miss on milestone in certain projects.
- **Order Book:** FY21 Order book stood at Rs63bn with revenue visibility of 2-3 years. Order book comprises of Consultancy/ Turnkey projects/ Exports/ Lease Rental/ REMCL at 40%/ 35%/ 21%/ 2%/ 1%. Off the total Order book government and PSU accounts for 71%. FY21 Order Inflow stood at Rs21bn and guidance is FY22 it will be higher by 10%YoY
- **Consultancy:** Consultancy revenue is returning back to pre-covid level. Out of the total consultancy Order book of Rs25bn, Airport / Highways/ Quality Assurance/ Railways/ Urban Transport accounts for Rs1.9bn/ Rs3.8bn/ Rs0.8bn/ Rs10.6bn/ Rs2.1bn/ Rs5.1bn.
- **Turnkey:** RITE emerged as L1 for order worth Rs17bn in the segment for electrification projects.
- **Leasing:** Recently RITE has approved the purchase of 5 locomotives (67 locomotives owned currently) for leasing purpose and expected revenue to report 10% growth going ahead.
- **Capex:** FY21 capex stood at Rs0.8bn. Going ahead, company expects capex to be ~Rs1.5-1.7bn towards purchase of locomotive and construction of building Lab in Kolkata and Lucknow over next 2 years.
- **REMCL:** Q4FY21 revenue stood at Rs 190mn (down 5.3% YoY) due to 86% YoY growth in power generation revenue at Rs32mn. As on date, company has equity infusion of Rs0.5bn and an additional equity infusion of Rs2bn is expected in next 2 years.
- RITE has reduced **employee strength** by 8% YoY in FY21.

Exhibit 1: Quarterly Snapshot

(Rs mn)

Particulars	Q4FY21	Q4FY20	YoY Chg (%)	Q3FY21	QoQ Chg (%)
Net Sales	6,359	5,707	11	4,493	42
EBIDTA	1,854	1,635	13	1,278	45
<i>EBITDA margin (%)</i>	29.2%	28.7%	50bps	28.4%	71bps
Other income	137	435	-69	308	-56
Depreciation	135	132	2	129	4
Interest	10	21	-52	21	-53
Pre-tax profit	1,839	1,942	-5	1,438	28
Tax (current+deferred)	424	503	-16	385	10
PAT	1,416	1,439	-2	1,053	34
Segmental Revenue					
Consultancy	3,145	3,090	1.8	2,573	22.2
Exports	912	590	54.5	16	5671.5
Leasing	289	309	-6.2	292	-0.8
Turnkey Projects	1,980	1,701	16.4	1,586	24.9
Segmental EBIT					
Consultancy	1,350	1,556	-13.3	1,231	9.6
Exports	252	93	169.5	(14)	-1872.5
Leasing	111	105	6.3	116	-4.2
Turnkey Projects	82	57	43.5	48	71.6
EBIT Margin (%)					
Consultancy	42.9%	50.4%	-746bps	47.8%	-493bps
Exports	27.6%	15.8%	1178bps	NA	NA
Leasing	38.4%	33.9%	453bps	39.8%	-138bps
Turnkey Projects	4.1%	3.3%	78bps	3.0%	112bps

Source: Company

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net sales	24,744	18,595	28,515	32,857
<i>growth (%)</i>	20.9	(24.8)	53.3	15.2
Operating expenses	(18,136)	(13,557)	(21,255)	(24,552)
EBITDA	6,609	5,038	7,260	8,305
<i>growth (%)</i>	14.8	(23.8)	44.1	14.4
Depreciation	(473)	(519)	(547)	(575)
EBIT	6,136	4,519	6,713	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	8,323	9,416
Tax	(2,411)	(1,483)	(2,048)	(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	6,057	6,876
Exceptional items	-	-	-	-
Adjusted net profit	6,300	4,443	6,057	6,876
<i>growth (%)</i>	30.0	(29.5)	36.3	13.5
<i>Shares o/s (mn nos)</i>	250	240	240	240

Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Pre-tax profit	8,883	6,045	8,323	9,416
Depreciation	473	519	547	575
Tax paid	(2,099)	(1,025)	(2,048)	(2,322)
Chg in working capital	(2,315)	934	1,917	2,312
Other operating activities	(1,612)	(1,197)	(1,457)	(1,533)
Cash flow from operations (a)	3,330	5,276	7,282	8,448
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)	(5,129)	(5,839)
Chg in minorities	-	(52)	-	-
Other financing activities	(132)	(3,286)	(71)	(71)
Cash flow from financing (c)	(4,197)	(7,079)	(5,200)	(5,910)
Net chg in cash (a+b+c)	(497)	31	1,149	1,682

Balance Sheet

(Rs mn)

Year-end: March	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	51,416	54,949
Inventories	107	2,862	1,484	1,800
Sundry Debtors	8,437	5,844	9,765	10,802
Cash and Bank	36,308	33,632	34,639	36,179
Marketable Securities	-	-	-	-
Loans and advances	181	213	213	213
Total assets	59,026	58,333	63,493	69,017
Shareholders' funds	26,333	23,920	24,705	25,600
Share capital	2,500	2,403	2,403	2,403
Reserves & surplus	23,833	21,517	22,302	23,197
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	34,989	39,278
Current liabilities	28,081	30,578	34,599	38,868
Provisions	853	371	390	409
Total liabilities	31,879	33,532	37,689	42,100
Total equity & liabilities	59,026	58,333	63,493	69,017
Book Value (Rs)	105	100	103	107

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY20	FY21	FY22E	FY23E
Adj. EPS (Rs)	25.2	18.5	25.2	28.6
Adj. EPS growth (%)	4.0	(26.6)	36.3	13.5
EBITDA margin (%)	26.7	27.1	25.5	25.3
Pre-tax margin (%)	35.9	32.5	29.2	28.7
ROE (%)	24.9	17.7	24.9	27.3
ROCE (%)	21.4	15.7	24.0	26.5
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.4	0.3	0.5	0.5
Leverage factor (x)	2.2	2.3	2.5	2.6
Net margin (%)	25.5	23.9	21.2	20.9
Net Debt/Equity (x)	(1.4)	(1.4)	(1.4)	(1.4)
Working Capital & Liquidity ratio				
Inventory days	2	56	19	20
Receivable days	124	115	125	120
Payable days	27	64	40	40

Valuation

Year-end: March	FY20	FY21	FY22E	FY23E
P/E (x)	9.5	12.9	9.5	8.3
Price / Book value (x)	2.3	2.4	2.3	2.2
PCE (x)	8.8	11.6	8.7	7.7
EV / Net sales (x)	1.0	1.3	0.8	0.7
EV / EBITDA (x)	3.6	4.8	3.2	2.6
Dividend Yield (%)	6.7	5.4	7.4	8.5



Notes

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Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto ±5%; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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