

**Company Details**

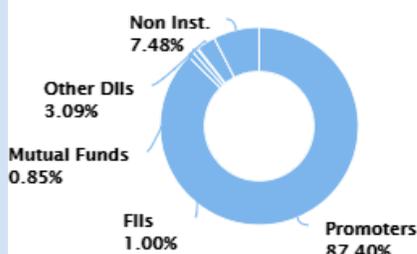
CMP:	Rs.246.7
Face value:	Rs.10.00
Market cap:	Rs.4756 Crs.
TTM EPS	Rs.17.42
52 week high:	Rs.326.55
52 week low:	Rs.190
BSE Code:	541556
Sector	Construction & Engineering

**Financial Highlights (YoY)**

Rs. in crores			
	FY18	FY17	% Var
Net Sales	1502.84	1351.46	11.20
Total Expendit	1092.76	995.35	9.79
PBDIT	410.08	356.11	15.16
Op.Profit	574.45	566.02	1.49
OPM (%)	38.2%	41.9%	-8.73
PBT	530.93	516.08	2.88
PAT	365.25	348.59	4.78
EPS (Rs.)	17.42	16.42	6.09
Equity	200.00	200.00	0.00

**Quarterly Performance (YoY)**

Rs. in crores			
	Q1FY19	Q1FY18	% Var
Net Sales	369.90	370.10	-0.05
Total Expe	239.83	250.68	-4.33
PBDIT	130.07	119.42	8.92
Op.Profit	130.07	119.45	8.89
OPM (%)	35.16	32.28	8.95
PBT	122.55	111.66	9.75
PAT	82.05	69.23	18.52
EPS (Rs.)	4.10	3.46	18.52

**Share Price Graph****Shareholding pattern as on June 30, 2018****Company Background**

**RITES Ltd.,(RITES)**, is a Government of India Enterprise, established in 1974, a Mini Navratna (Category-I) Schedule “A” public sector company, is a multi-disciplinary consultancy organization in the fields of transport, infrastructure and related technologies with operational experience in over 55 countries in Asia, Africa, Latin America, South America and Middle East regions. The company is the only export arm of Indian Railways for providing rolling stock overseas (other than Thailand, Malaysia and Indonesia). The company has two subsidiaries, i.e., Railway Energy Management Company Ltd and RITES infrastructure services limited. The company also has joint venture with SAIL namely SAIL RITES Bengal Wagon Industries Private Limited (50:50 JV Company). Further, the company has two subsidiary companies abroad, namely, RITES AFRIKA (PTY) Limited Botswana, and RITES Mohwarean Arabia company Limited, Saudi Arabia.

The company’s major business engagements are as consultants, engineers and project management in Railways, highways, airports, ports, ropeways, urban transport and inland waterways in India and abroad with an experience spanning 44 years. The company also provides services to third party like inspection, quality assurance, construction supervision & project management, operation & maintenance, leasing and export of rolling stock. The company has taken up projects relating to construction of railway infrastructure, electrification works and modernization of railway workshop on turnkey basis. The company has diversified into the field of alternative energy such as solar and wind energy and implementation of power procurement contracts for Indian Railways under ‘Open Access Policy’ and



rail concession in India on PPP/JV basis.

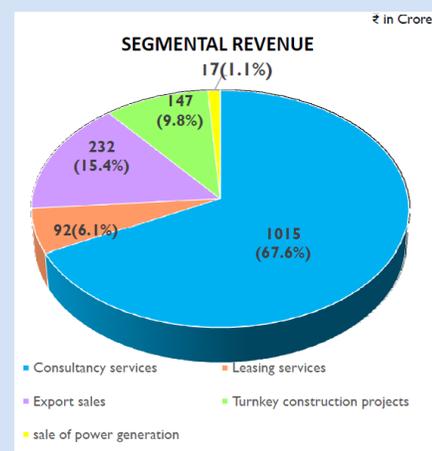
The company earns 67.6% of its revenues from Consultancy services, followed by Export and Turnkey Constructions projects which account for 15.4% and 9.8% respectively. The Domestic leasing and Consultancy are the high margin verticals of the company with margin of 38% and 30% respectively.

**Financial Performance**

For Q1 FY19, the Net sales of the company at Rs 369.9 crores, are more or less flat compared to those in Q1 FY18. However, the PAT has gone up by 18.5% to Rs 82.05 crores over that in Q1 FY18, on the back of momentum in consultancy, domestic leasing, turnkey projects and other income. The company has reported very healthy and strong operating and net profit margin of 35.2% and 22.2%, respectively in Q1 FY19 compared the corresponding quarter in the previous year. The EPS for Q1 FY19 has improved to Rs. 4.10 from Rs. 3.46 for Q1 FY18.

**Investment Rationale**

- **Government’s push on Infrastructure development:** There has been allocation of Rs 5.97 Lakh crore for Infrastructure development in Budget for 2018-19. The transport infrastructure is expected to grow average 5.9% annually through 2021. The government has taken on various infra projects to create world class infrastructure with several initiatives like Bharatmala project, Electrification of railway tracks, focus on metro and high speed trains, Sagarmala programme etc.
- The Company has comprehensive range of consultancy service offerings and a **diversified sector portfolio in the transport infrastructure space** and has undertaken



projects in 55 countries in Asia, Africa, Latin America and Middle East. Further, it is the only export arm of railways for delivering rolling stock abroad (other than Thailand, Malaysia and Indonesia).

- **Large Order Book across sector: The Company's standalone total order book as on 30<sup>th</sup> July 18 is Rs. 5517 Crores which is highest ever and expected to be executed in the next one to three years.** Thus, there is revenue visibility over the next three years. The Consultancy segment shares 43% of the total order book followed by Turnkey and Export by 31% and 23% respectively. **The Company has signed MoU with the concerned governing ministry, where consolidated operational revenue, excluding other income, target for FY19 has been kept at Rs. 1835 Crores which is 22% higher compared to FY18.**
- **Technical Expertise with preferred consultancy organization of the Government:** Over the 44 Years the Company has developed specialized expertise in transport consultancy and engineering sector, which enable to access additional business opportunities from new and the existing clients such as Central and State government ministries, Indian Railways, NTPC, PWDs, SAIL, DMRC, HPCL, AAI, Indian Port Corporation and Titagrah Wagons etc.
- The Company has paid a dividend of Rs.2/- per share for FY18 and it has no debt on book & is **virtually debt free.**
- The promoters hold 87.4% equity of the company, whereas FIIs and DIIs own 1% and 3.94% respectively and the balance 7.5% shares are held by the public

#### Concerns

Dependence on government orders, retaining key managerial and skilled workforce and competition from Peers are the main concerns.

#### Valuation

The share of the Company is trading at reasonable **P/E of only 14x based on the EPS of Rs 17.42 for FY18** which is lower than the industry P/E of 20x. Keeping in view of an impressive execution track record, healthy order book, no debt on books, high promoter holding and revenue visibility, we suggest share of the company can be considered for investment. We expect the company to report **EPS of Rs.18 for FY19 and based on PE of 17.5x**, we estimate the price of the scrip to appreciate to Rs.315 over the next 12 months.

#### Research Analyst

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