

Infrastructure

Company Background

Rites Limited (RL), incorporated in 1974 is a Public Sector enterprise and a leading player in engineering and transport consultancy services. It provides overall services from concept to commissioning across all areas of transport infrastructure. Within infra and energy sectors, it has executed many projects such as building urban transport, roads and highways, ports, inland waterways, airports, institutional buildings and renewable energy. However, consultancy service in railway sector contributes a major part of its business. With an experience of more than 44 years, Rites has undertaken several projects in many countries which includes Asia, Africa, Latin America, South America and Middle East

Investment Rationale

Strong order inflows in consultancy, turnkey and export segment would usher revenue growth

Rites has received various contracts from government of India to a large extent. In FY19, Company has secured more than 300 projects led by foraying into railway's low margin turnkey construction projects such as infrastructure projects in railways, metros, airports, exports and loco leasing segments and the projects from consultancy segments which includes station redevelopment, railway network for UP power, quality audit service for 13 AIIMS, works in SAIL and Tata Steel. Turnkey segment contributes a major share of 42% while consultancy has a 38% share from the total order book of Rs 6,097 crores. Going forward we expect a strong revenue growth backed by ongoing projects from these segments, with the near term growth of 19% in FY20

Niche player in export arm to augur untapped opportunities

Rites, being a sole entity of the Indian Railways for the export of consultancy services, railway locomotives, coaches and other equipment which are manufactured by the Indian Railways (other than exports to Malaysia, Indonesia and Thailand). It contributes a share of 11% from total revenue. Recently, company has expanded its offerings in infrastructure sector to cater the new market opportunities. However, company has generated a total revenue of Rs 4,000 crores in exports segment over the past 3 years.

Gained prominence in major infrastructure projects

Rites, plays a key position in the plans of Government of India with respect to infrastructure and energy sector. Several assignments on nomination and single tender basis from various government ministries, organizations and departments including Indian Railways has been successfully bagged by them primarily due to sheer ability to execute business in compliance with regards to various policies and procedures of government departments. This helps them to increase its visibility in the market space leading to a competitive edge over other players.

Valuation and Outlook

Rites, an engineering consultancy company have experience of over 4 decades in major transport infrastructure projects. It is set to benefit from various infrastructure development initiatives in Railways, metro, airports etc and strong order inflows in various development projects. This provides ample potential business opportunity to grow going forward. Better execution of orders to drive higher revenue growth coupled with stable ROE and ROCE of around 20% augurs well for investment. Owing to above reasons, We expect Revenue/EBITDA/Pat to grow at 19%/14%/14% CAGR for FY19-21E. We value the stock by assigning 12x PE to FY21E EPS and recommend **BUY** rating for a target of INR 360 for a period of 12-15 months.

Stock Rating

| BUY | HOLD | SELL |
|-------|------------|-------|
| > 15% | -5% to 15% | < -5% |

Sector Outlook

Positive

Stock

| | |
|--------------------|---------|
| CMP (INR) | 306 |
| Target Price (INR) | 360 |
| BSE code | 541556 |
| NSE Symbol | RITES |
| Bloomberg | RITE IN |
| Reuters | RITS.BO |

Key Data

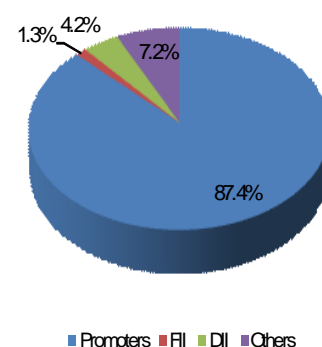
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|------------------|---------|
| Nifty | 11946 |
| 52WeekH/L(INR) | 326/192 |
| O/s Shares (Mn) | 200 |
| Market Cap (INR) | 61 |

| | |
|------------------|----|
| Face Value (INR) | 10 |
|------------------|----|

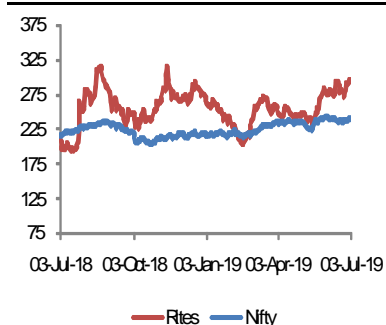
Average volume

| | |
|----------|-----------|
| 3 months | 4,39,790 |
| 6 months | 4,53,710 |
| 1 year | 11,54,600 |

Share Holding Pattern (%)



Relative Price Chart





Weekly Wealth

Key Financials

| YE March (Rs. millions) | FY17 | FY18 | FY19 | FY20E | FY21E |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | 13,515 | 14,975 | 20,475 | 24,406 | 28,969 |
| <i>Revenue Growth (Y-o-Y)</i> | NA | 10.8% | 36.7% | 19.2% | 18.7% |
| EBIDTA | 3,561 | 4,149 | 5,755 | 6,664 | 7,497 |
| <i>EBIDTA Growth (Y-o-Y)</i> | NA | 16.5% | 38.7% | 15.8% | 12.5% |
| Net Profit | 3,485 | 3,587 | 4,816 | 5,562 | 6,240 |
| <i>Net Profit Growth (Y-o-Y)</i> | NA | 2.9% | 34.3% | 15.5% | 12.2% |
| Diluted EPS | 17.4 | 17.9 | 24.1 | 27.8 | 31.2 |
| <i>Diluted EPS Growth (Y-o-Y)</i> | NA | 2.9% | 34.3% | 15.5% | 12.2% |

Key Ratios

| | | | | | |
|-------------------|--------------|--------------|--------------|--------------|--------------|
| EBIDTA (%) | 26.4% | 27.7% | 28.1% | 27.3% | 25.9% |
| NPM (%) | 25.8% | 24.0% | 23.5% | 22.8% | 21.5% |
| RoE (%) | 19.0% | 17.8% | 21.7% | 20.8% | 19.5% |
| RoCE (%) | 18.6% | 20.1% | 25.4% | 24.5% | 23.1% |

Valuation Ratios

| | | | | | |
|-------------------------|--------------|--------------|--------------|--------------|-------------|
| P/E (x) | 17.5x | 17.0x | 12.7x | 11.0x | 9.8x |
| EV/EBITDA | 9.2x | 6.2x | 11.4x | 9.9x | 8.8x |
| P/BV (x) | 3.3x | 3.0x | 2.7x | 2.3x | 1.9x |
| Market Cap. / Sales (x) | 4.5x | 4.1x | 3.0x | 2.5x | 2.1x |

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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