



# JOINDRE CAPITAL SERVICES LTD.

SEBI REGN NO. INH000002061 / INB 000174034

## RESEARCH REPORT

13<sup>th</sup> Dec 2018

### RITES LIMITED

**BSE : RITES**

**Sector: TRANSPORT CONSULTANCY & ENGINEERING**

**BSE: 541556**

#### View - BUY

CMP : Rs. 273

Target Price: Rs 432 (In next 12 to 18 mths)

#### BUSINESS BACKGROUND

RITES Limited is a wholly owned Government Company, a Miniratna enterprise. It is a leading player in the transport consultancy and engineering sector in India with diversified services and geographical reach. Rites offers services in transport infrastructure consultancy and engineering services consisting of conducting techno-economic feasibility studies and preparation of detailed project reports, design engineering activities, procurement assistance, project management activities, quality assurance, inspection, training, construction supervision, materials system management, transaction advisory and commissioning support including operation and maintenance

RITES have also commenced wagon manufacturing, renewable energy generation and power procurement for Indian Railways

#### INVESTMENT HIGHLIGHTS

##### Strong Financial Performance in H1 FY19 –

Rites reported a steady set of FY18 numbers with net sales at Rs 1502.89 crs as compared to a revenue of Rs 1351.46 crs last year, with EBIDTA placed at Rs 410.08 crs from Rs 356.11 crs last year with the PAT placed at Rs 346.37 crs from Rs 329.04 crs. Rites has declared a dividend of 55% for FY18.

For Rites H1FY19 was noteworthy with Sales up by 42% at Rs 743 crs with PAT at Rs 198 crs from Rs 142 crs up by 39% YoY.

##### Rites is a de-risked play on the transportation sector –

RITES offers consultancy services to all sub segments of the transport sector. It provides services to traditional railways, rail projects of power companies, metro rail projects, ports, and highways.

Rites is also involved in leasing railway locomotives to domestic non-railway customers and exports locos. In the past three years Rites has also been nominated by the Indian Railways to undertake turnkey execution of railway projects in new line laying, doubling and gauge conversion. Rites have an experience spanning 44 years and have undertaken projects in over 55 countries including Asia, Africa, Latin America, South America and Middle East regions

Further, long standing business relationships and collaboration with governments, governmental agencies and PSUs, enables RITES to bag large chunk of orders on nomination/single tender basis. The strong relationships help RITES to win large percentage of repeat orders and also increase its presence and participate in new emerging infrastructure sectors

#### KEY DATA

FACE VALUE	Rs	10.00
DIVD YIELD %		2.01
52 WK HI/LOW		326/190
NSE CODE		RITES
BSE CODE		RITES
MARKET CAP	RS	5460 CRS

#### SHAREHOLDING PATTERN

PROMOTERS	-	87.50%
BANKS, MFs & DIIs	-	%
FIIs	-	%
PUBLIC	-	12.50%

#### KEY FUNDAMENTALS

YE	FY19	FY20	FY21
Rev Gr%	16	14	12
EBIDTA Gr%	32	14	12
PAT Gr%	18	17	15
EPS Gr%	18	17	15
EPS (Rs)	20.50	24	27.50
ROE %	17	18	18
ROCE %	19	20	20
P/E(x)		11	10



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**RITES Business Division and Services include the following –**

**Rail Infrastructure division –**

This unit provides consultancy services in railway transportation and economics, electrical engineering, signal and telecommunications, dedicated freight corridors, track and survey, geo-technology and civil engineering design through conceptualization and project management consultancy in respect of rail based transportation systems.

**Transport and Economics Unit** Transportation system designing, planning of rail infrastructure and transport economics Track and Survey Unit Studies and surveys for various stages of railway infrastructure development comprising of pre-feasibility studies, feasibility studies, preliminary engineering studies, final location surveys, detailed project reports and detailed design engineering

**Geo-Technology** This unit provides consultancy services in engineering geology, soil and rock mechanics, foundation engineering, geophysical survey, diamond core drilling of exploratory bore – holes, survey of ground water reserves and in situ /laboratory testing of soil and rock structures.

**Dedicated Freight Corridor Unit** This provides project management consultancy services for the construction of double line electrified railway tracks and other related infrastructure for the Dedicated Freight Corridor Project for DFCCIL.

**Civil Engineering Design Unit** These provides engineering services involving planning, design support and preparation of bidding documents and tender documents for the construction and development of rail bridges, rail – cum – road bridges, road over / under bridge, approach structures and rail / road viaducts amongst others.

**Electrical Engineering Unit** This unit provides project management consultancy services, turnkey services, quality services and surveillance inspections in the field of railway electrification and electric substations.

**Signalling and Telecommunications Unit** This provides consultancy and construction management services for the development of S&T infrastructure related to rail connectivity projects for the railways, power, steel, refineries, ports and coal sectors among others

Rites here provides consultancy services inter alia for detailed engineering and PMC including the planning and design of projects of railway infrastructure, construction of railway sidings, flyovers, roads, inland containers depots and buildings. It also provides a comprehensive spectrum of services from concept to commissioning of projects including preparation of DPR, feasibility studies, estimation studies, bidding process assistance, execution of projects, budgetary management support and quality assurance.

**Buildings and Airports division** This unit provides consultancy services for construction of buildings and airports (included associated infrastructure) Construction Project Management Unit Provides PMC services in construction of institutional, commercial, residential buildings and inland container depots along with third party inspection of such infrastructure projects. Airports Unit Provides consultancy services for planning and construction management of greenfield and brownfield airports, cargo complexes, taxi ways, airport terminals and integrated check posts.

**Highways and Ports division** Here Rites provides consultancy services for ports and harbours, water resources engineering, inland water transport, roads and highways.



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**Ports and Water Resources Unit** provides various consultancy services for ports and harbours, water resources engineering and inland water transport Highways Unit Consultancy services for all aspects of roads and highways which cover conceptual and detailed design, construction supervision, O&M, planning and management of highway networks, improvement and up gradation works and safety audits

**Urban Infrastructure division** provides consultancy services for various urban and regional transport infrastructure Urban Transport Unit Comprehensive consultancy services for various urban/regional transport infrastructure including conducting transport studies and developing transport sector master plans including traffic engineering and management, transport demand modelling, comprehensive mobility plans, traffic and transportation plans, bus system planning and detailed project reports for rail – based mass rapid transit systems. Urban Transport (General Consultancy) Unit Consultancy services for construction of metro railways including detailed design of stations/depots and quality assurance

**Urban Engineering Unit** provides consultancy services in the fields of environmental impact assessment, environmental management plan, social impact assessment, design of water supply, sewerage and drainage system, solid waste management, ecology and biodiversity.

### **Expotech division**

Here Rites provides integrated export packages for railway locomotives and rolling stock including, rehabilitation, maintenance and spare part support. It also provides technical consultancy for workshop modernization, facility planning for rolling stock maintenance, training of maintenance personnel and related technology transfer. Export services also include leasing of locomotives, consultancy in O&M of rolling stock and after sale services.

**Quality Assurance division** Here Rites provides third party inspection and vendor assessment to various clients and also laboratory testing services in India.

**Technical Services** provides consultancy for design and development of rolling stock, procurement and logistics management as well as consultancy for aerial ropeway systems

**Rolling Stock Design** Provides research and development and carries out design and development of rolling stock using advanced technologies and specialized design software for modelling, strength analysis, crash analysis and other simulation methodologies.

**Materials System Management** Provides consultancy for comprehensive procurement and logistics management in compliance with the guidelines, regulations, norms and procedures of international funding organizations, GOI, Indian Railways and DG of Supplies & Disposal (DGS&D).

**Ropeways and Industrial Engineering** – This unit provides consultancy including feasibility studies, preparation of DPR and PMC for passenger and material aerial ropeways and funicular railway projects.

**Railway Equipment Services** Provides O&M services of railway sidings for various clients in power, steel, mining, cement and port sector. It provides locomotive leasing services, operation of railway systems and maintenance of rolling stock for clients.

### **Privatisation and Concession**

This unit provides transaction advisory services for various PPP projects in the infrastructure sector, project appraisal and legal advisory for procurement contracts. Consultancy in the field of information technologies including conducting feasibility studies, system analysis, system design, software development, implementation support and user training programmes. Value assessment services for revenue enhancement of the assets of the Indian Railways through advertising. Support for business development, coordination at corporate level, representation at industry forums.



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### **Rites is a Preferred consultancy organization of the Government of India including the Indian Railways**

Rites is incorporated by the Ministry of Railways (MoR) and has the benefit of being associated with the Indian Railways, which is the fourth longest rail network in the world. Company has been involved in and has contributed to the development of transport infrastructure in India for the last 44 years. Given its proven track record of financial performance, service offerings and the market segments in which it operates, Rites occupies a key position in the growth plans of the Government of India with respect to the infrastructure and energy space.

Rites is a nominated organization of the Indian Railways for the export of railway locomotives, coaches and other equipment which are manufactured by the Indian Railways (other than exports to Malaysia, Indonesia and Thailand). It is also a nominated organization for inspection of various materials and equipment purchased by the Indian Railways. Company is able to get several assignments on nomination/ single tender basis from various government ministries, organizations and departments including the Indian Railways because of its ownership by the MoR coupled with its ability to execute business in compliance with various policies and procedures of governmental departments.

Rites status as a public sector undertaking and its established relationships with governments, governmental instrumentalities and other public sector enterprises in India as well as abroad where it has undertaken projects in the past, can be effectively leveraged to increase its presence and participation in new emerging infrastructure sectors.

### **Rites enjoys a comprehensive range of consultancy services and a diversified sector portfolio –**

Rites has developed specialized expertise over the years in providing consultancy services across major market segments in the transport infrastructure sector including railways, urban transport, roads and highways, ports, inland waterways, airports and ropeways.

Rites offerings in transport infrastructure consultancy and engineering services consist of conducting techno-economic feasibility studies and preparation of detailed project reports, design engineering activities, procurement assistance, project management activities, quality assurance, inspection, training, construction supervision, materials system management, transaction advisory and commissioning support including operation and maintenance. Rites ability to collaborate and work jointly through alliances, joint ventures, subsidiaries and consortium arrangements enables it to enhance the quality of services and allows it to focus attention on certain large scale projects and to develop technical expertise and domain knowledge through its collaboration with partners in comparatively newer market segments. As on Sept 2018 Rites has a order book of Rs 2296 crs.

**Large order book with strong and diversified clientele base across sectors:** As of Sept 2018, Rites order book stands at Rs 6183 crs, with several central and state government ministries, departments, corporations, authorities and public sector undertakings. As a result, it is from time to time allocated projects on nomination/single tender basis. It 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.

Its domestic as well as overseas clients typically are national governments, 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. It also undertakes and executes projects funded by multilateral funding agencies and regularly provide its services to some leading public sector entities.



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In India, Rites clients include various central and state government ministries, departments, instrumentalities as well as local government bodies and public sector undertakings. These include Indian Railways, NTPC, Dedicated Freight Corridor Corporation of India Limited, High Speed Rail Corporation of India Limited, Public Works Department, DMRC, Steel Authority of India Limited, Rashtriya Ispat Nigam Limited, Hindustan Petroleum Corporation Limited, Bharat Coking Coal Limited, Metro Link Express for Gandhinagar and Ahmedabad (MEGA) Company Limited, Indian Port Rail Corporation Limited, Airports Authority of India, among others.

Rites also has several private sector corporations as its clients which include L&T Metro Rail (Hyderabad) Limited, Kanti Bijlee Utpadan Nigam Limited (KBUNL), Cimco Limited, Titagrah Wagons Limited, Snowmex Engineers Limited, Unity Infraprojects Limited, Rajdeep Buildcon Private Limited, Mahalsa Constructions Private Limited, Marymatha Constructions Limited, AFCON Infrastructure Limited, INCAP, ARK Services, MNEC Consultants Private Limited, Indian Geotechnical Services Limited, Geokno India Private Limited and NATRIP Implementation Society among others.

## **Rites enjoys strong Technical expertise and business divisions with specialized domain knowledge –**

Rites has technical expertise housed in various business divisions with specialized domain knowledge across each of the market segments. In order to enable to provide tailored solutions for its clients and customers, it has streamlined the divisions in its organization in order to meet the specific requirements of each such market segment. Over the years, it has evolved from primarily being a railway consultancy services provider to a diversified multi – disciplinary transport infrastructure consultancy and engineering organization undertaking a wide gamut of services.

It has enhanced its domain knowledge and technical expertise by participating in consortiums with several consulting partners including SYSTRA, EGIS Rail S.A, GEOCONSULT ZT GmbH amongst others from countries such as France, Japan, Austria, U.S.A, Germany and Denmark.

## **Rites also enjoys a strong International Presence –**

RITES have a strong global presence across 55 nations. Their first international project was in 1975 with Syrian Railways and as on today order book consists of projects from ten countries. The company have largely worked in Asia, Africa, Latin America, South America and Middle East regions.

Lately Rites has entered into an agreement with Government of Mauritius and Metro Express Limited for providing construction management services for the Metro Express Project and Trident Port Project. They are also undertaking project report preparation consultancy for East Bank-East Coast road linkage project in Guyana (South America).

Moving ahead Rites is looking at expanding design and project management consultancy services for road safety audits, bridge condition surveys, bridge maintenance management systems and rehabilitation, with focus on other urban transport and transport infrastructure sectors including metro rail projects and high-speed corridor projects. Further they are intensifying international business of rehabilitation of locomotives and wagons, exports and leasing of railway locomotives, rolling stock, railway equipment and other spares which are in high demand in Africa, South Asia, Middle East and other developing nations. As on Sept 2018 Rites has a export order book of Rs 1284 crs.



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### **Rites is also expanding towards Renewable Energy Services -**

RITES has recently formed a subsidiary named Railways Energy Management Company Limited (REMCL) for providing renewable energy to the Indian Railways and reduce the carbon footprint. REMCL is the agency mandated by the Indian Railways to undertake power procurement and facilitate contracts between power producers and Indian Railways including renewable energy projects and energy efficiency projects.

REMCL provides project management and other consultancy services for the Indian Railways with regards 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). Subsidiary 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.

Through its other subsidiaries and JVs, RITES is also engaged in the following businesses –

**SAIL-RITES Bengal Wagon Industry Private Ltd** (SAIL-RITES) is a 50:50 joint venture between RITES and SAIL. It manufactures railway wagons from a facility located within the premises of SAIL Growth Works, Kulti, West Bengal. It has entered into an assured off-take agreement with the MoR (Ministry of Railways) for procuring 1,200 wagons and rehabilitation of a minimum of 300 wagons annually.

**BNV Gujarat Rail Private Ltd** (BNV) is joint venture between RITES (26%), Shapoorji Pallonji Road (67.5%), and PCM Cement (6.5%). It is formed for the implementation of the Bhuj-Naliya-Vayor Rail-Connectivity Project in Gujarat on a BOOT (build-own-operate-transfer) basis for a concession period of 30 years.

### **Going ahead Rites is looking at 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. Presently as on Sept 2018 Rites has a order book of Rs 2400 crs for Turnkey projects.

### **Industry overview for potential opportunities for Rites –**

Government of India has been very proactive and has brought in a variety of measures to step up public investments – which include substantial increase in budgetary outlays in high-impact sectors, push for private sector investments, building institutional capacity through establishment of new infrastructure PSUs, and intensive implementation follow-up for completion of projects. This is reflected in the strong growth of the infrastructure sector since 2002

Since independence until the 1990s, India invested around 3% of its GDP in infrastructure which resulted in significant infrastructure gap. Emergent markets with high economic growth have typically invested at 7-10% of GDP in infrastructure in their boom years; hence, from the 10th Five Year Plan, GoI started focusing on infrastructure investments in a big manner. The average infrastructure spending during the 10th plan (2002 – 2007) was 5% of India's GDP (total spending of Rs 8.7tn during the 10th plan). This further increased to 7% during the 11th five year plan (2007 - 2012) (total spending of Rs 23.4tn in the 11th plan). The infrastructure consulting market is assumed at 0.5% to 1% of the total infrastructure investments which is about Rs 550bn.



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Under the 12th five year plan, it was envisaged that projects would continue to be set up under the public private partnership (PPP) mode, with around 48% of the investment coming from the private sector. The infrastructure sector - consisting of electricity, airports, energy, shipping and ports, railways, roads and urban development - has been a key driver of the Indian economy since 2002 after the Government started reforming the sectors.

Also, New India 2022 – Specific goals/targets for 75th year of Independence have been set for a modern and efficient transportation system giving key emphasis to Railway sector in India. Specific goals set in New India 2022 include commissioning of complete operationalization of Eastern and Western dedicated freight corridors, capacity augmentation on the saturated trunk routes, gauge conversion, rail network in north eastern states, completion of Udhampur-Srinagar-Baramula section of Jammu-Baramula project and Bilaspur-Mandi-Manali-Leh all weather broad gauge railway track.

## Opportunities in Railways sector –

In 2014, MoR prepared a white paper titled ‘Indian Railways – Lifeline of the nation’ on the state of railway infrastructure and operations in the country. Under-investment in railways has led to overstretched infrastructure with more than 60% routes being more than 100% utilized leading to huge unmet passenger demand and decreasing modal share in freight.

Further, due to passenger fares being low, passenger trains utilized two-third of capacity and generated one-third of revenues, whereas high freight rates meant railway freight was getting out-priced in the market. Hence, GoI identified ramping up investments in Indian Railways as the top priority area. GoI realized that lack of adequate carrying capacity and the resulting congestion has accelerated Indian Railway’s loss of market share to other modal transports.

Other opportunities in the Railways sector include:

- Dedicated Freight Corridor
- Capacity augmentation on the saturated trunk routes
- Gauge conversion
- High-speed rail
- Semi-high speed rail
- Electrification

### Details of Investment break-up in Indian Railways

(in INR billion)	FY13	FY14	FY15	FY16	FY17
Construction of new lines	53.0	58.1	71.4	201.9	185.5
Gauge conversion	27.0	31.0	36.6	36.2	51.1
Line doubling	24.8	29.8	38.8	104.7	204.9
Yard remodelling	7.9	6.6	7.8	13.2	13.7
Rolling stock	183.7	175.0	164.9	193.8	259.9
Track renewals	54.3	49.9	53.7	43.7	49.7
Electrification projects	9.7	12.6	13.9	22.7	35.2
Other electrical works	1.5	1.2	1.1	1.1	6.6
Workshops	15.2	18.2	16.8	15.3	33.2
Passenger amenities	8.4	8.6	8.6	10.8	19.2
Investment in government commercial/public unde	6.0	6.3	5.4	8.6	26.0
Credits or recoveries	0.0	0.0	0.0	0.0	0.0
Investments in metropolitan transport projects	11.9	9.1	10.0	13.4	15.3
<b>Total investments</b>	<b>503.8</b>	<b>539.9</b>	<b>587.2</b>	<b>935.2</b>	<b>1,210.0</b>

Source: MoR, IRR Advisory

Please note only key heads provided; total will not add up.

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## Proposed Investment Plans by Ministry of Railways (FY15 – FY19)

Description	Amount (INR Bn)	% of Total
Network Decongestion (including DFC, Electrification, Doubling of electrification and traffic facilities)	1,993	23.3%
Network Expansion (including electrification)	1,930	22.5%
National Projects (North Eastern & Kashmir connectivity projects)	390	4.6%
Safety (Track renewal, bridge works, ROB, RUB and Signalling & Telecom)	1,270	14.8%
Information Technology/ Research	50	0.6%
Rolling Stock (Locomotives, coaches, wagons – production & maintenance)	1,020	11.9%
Passenger Amenities	125	1.5%
High Speed Rail & Elevated corridor	650	7.6%
Station redevelopment and logistic parks	1,000	11.7%
Others	132	1.5%
<b>Total</b>	<b>8,560</b>	<b>100%</b>

Source: MoR, IRR Advisory

## Opportunities in the Indian Roads sector –

India has one of the largest road networks in the world aggregating to about 5.5 million kms of roads at present and the same is depicted in the chart below. National Highways (NH) comprise only 1.9% of the total length of roads, but carries over 40% of the total traffic across the length and breadth of the country. The development and maintenance of NHs are the responsibility of the central government, whereas the respective state governments are responsible for development and maintenance of roads other than NH and expressways. State highways (SH) account for 3.0% of the total length of roads and carries an estimated 25~30% of the country's road traffic. Rural roads link rural communities with the highway network, providing access to higher agricultural incomes, employment opportunities and social services. Other State roads and rural roads account for over 95.1% of the total road infrastructure, but carries only 30~35% of the road traffic.

In the Union Budget 2017-18, Government of India has allotted Rs 640bn to NHAI for roads and highways and INR 270bn to PMGSY for rural roads. The National Highways Development Project (NHDP) is a project to upgrade, rehabilitate and widen major highways in India to a higher standard. This project is managed by NHAI under MoRTH.

The NHDP represents 49,260km of roads and highways work and construction in order to boost economic development of the country. The GOI aims to boost public and private investment in roads sector through various schemes such as NHDP, PMGSY, Bharat Mala scheme, etc. along with introducing business-friendly strategies that will balance profitability with effective project execution.

Type of Road	Length (km)	% of Network
National Highways/ Expressways	103,933	1.9%
State Highways	161,487	3.0%
Other State Roads	2,556,467	46.7%
Rural Roads	2,650,577	48.4%
<b>Total Roads</b>	<b>5,472,464</b>	<b>100.0%</b>

Source: Annual Report FY17 MoRTH, IRR Advisory



## Opportunities in Urban Transportation –

India is experiencing an unprecedented transition from rural to urban living. Its urban population increased from 222mn in 1990, to 410mn in 2014 and 440mn in 2017. It is forecasted to increase to 814mn by 2050, according to a United Nations report. The pace of urbanization has been so rapid that Delhi and Mumbai are now the 2nd and 6th most populous cities in the world.

Clearly this rapid increase in the country's urban population has put significant pressure on its existing urban infrastructure, particularly with transportation. Indian cities face severe traffic congestion. Growing traffic and limited road space have reduced peak-hour speeds to 5 to 10 km per hour in the central areas of many major Indian cities. GoI has realized that the emphasis on rural development has led to the neglect of urban areas. One of the major initiatives that triggered increased attention to sustainable transport in the cities was the formulation and adoption, of a National Urban Transport Policy in the year 2006 and Jawaharlal Nehru National Urban Renewal Mission (JnNURM).

List of Metro Projects expected to be completed by FY22			
Name of the Metro	City	Kilometer	Project Cost(INR mn)
Bangalore Metro Phase 2	Bangalore	72.1	264,050.0
Extension of Chennai Metro Phase 1	Chennai	9.1	37,700.0
Nagpur Metro Rail Project	Nagpur	38.2	86,800.0
Ahmedabad Metro Rail Project Phase 1	Ahmedabad	36.0	107,730.0
Pune Metro Rail Project Phase 1	Pune	31.3	114,200.0
Mumbai Metro Line 2A	Mumbai	18.6	64,100.0
Mumbai Metro Line 2B	Mumbai	23.6	109,860.0
Mumbai Metro Line 3	Mumbai	32.5	231,360.0
Mumbai Metro Line 4	Mumbai	32.3	145,490.0
Thane Bhiwandi Kalyan Mono Rail	Thane	23.8	31,690.0
Jaipur Metro Phase 2	Jaipur	23.1	65,830.0
Kanpur Metro	Kanpur	25.0	132,210.0
Ludhiana Metro	Ludhiana	28.8	66,000.0
Chandigarh Metro	Chandigarh	37.6	136,000.0
<b>Total</b>		<b>431.8</b>	<b>1,593,020.0</b>

Source: MOUD



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### **Opportunities in Indian Airports –**

India has 464 airports and airstrips, of which 125 airports are owned by Airports Authority of India (AAI). AAI was established in 1994 under the Airports Authority Act (AAA) and is responsible for developing, financing, operating and maintaining all Government Airports. The Aircraft Act (1934) governs remaining airports. Currently, India is the 7th largest civil aviation market in the world and is expected to become the world's 3rd largest by FY20 after USA and China and the world's largest by FY30.

Government has allocated a budget of about USD14.98mn to AAI, of which USD 4.29mn has been allocated towards Pakyong, Sikkim project. The Government has planned to allocate a sum of USD11.80mn to DGCA to implement various scheme. The Government has also supported the Bureau of Civil Aviation Security with USD9.71mn to meet their expenditure.

Also, the Government of India has granted "in principle" approval for setting up of the 18 Greenfield airports in the country including Mopa in Goa; Navi Mumbai, Shirdi and Sindhudurg in Maharashtra; Bijapur, Gulbarga, Hassan and Shimoga in Karnataka; Kannur in Kerala; Durgapur in West Bengal; Dabra in Madhya Pradesh; Pakyong in Sikkim; Karaikal in Puducherry; Kushinagar in Uttar Pradesh; Dholera in Gujarat; Dagadarthi Mandal, Bhogapuram and Oravakallu in Andhra Pradesh

RITES offers consultancy services to all sub segments of the transport sector stated above. It provides services to traditional railways, rail projects of power companies, metro rail projects, ports, and highways. It is also involved in leasing railway locomotives to domestic non-railway customers and exports locos. In the past three years Rites has also been nominated by the Indian Railways to undertake turnkey execution of railway projects in new line laying, doubling and gauge conversion.



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### **Rites enjoys a strong balance sheet and both Topline and Bottomline growth is likely to remain strong going ahead –**

Rites has maintained a strong balance sheet over the years with virtually no debt as on March 2018. The company has also enjoyed healthy operating cashflows. Operating cashflows between FY15-FY18 has grown at a CAGR of 15% where Rites continues to be a debt free and asset light company and where its growth in revenue and profitability has been consistent over the last few years.

Rites has also reported average RoE of 17-18% during the past 3 years, thus showing strong commitment on delivering shareholders return. Hence going ahead we expect that Rites has the capability to sustain the robust financials performance given its strong order book and asset light model

We expect that going ahead overall bottomline growth in the next 3 years starting FY19 onwards should easily increase at a CAGR of 18-20% and going ahead also we believe that net cash flows generated will remain healthy going ahead.

RITES has been consistently profitable over the last five years and has paid dividends regularly to the equity shareholders. The company's 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. RITES has been a debt free company for more than a decade. It has regularly paid dividends to the Shareholders of the Company with a dividend pay out of Rs 148 crs during FY18.



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### **Business Outlook & Stock Valuation –**

On a rough cut basis, in FY19, Topline will see a steady rise wherein Topline is expected to touch Rs 1743 crs in FY19E.

On the bottomline level we expect the company to record a PAT of Rs 410 crs in FY19E. Thus on a conservative basis, Rites should record a EPS of Rs 20.50 for FY19E. For FY20E and FY21E our expectation is that earnings traction for Rites would continue to be strong wherein we expect a EPS of Rs 24 and Rs 27.50 respectively.

RITES is the largest transportation infrastructure consultant in country with expertise in railway and metro rail infrastructure. Moving further it plans to intensify into international markets with exports of locomotives and other turnkey construction projects.

However the key focus for Rites will remain consultancy services where it enjoys a strong domain and a strong order book of Rs 6183 crs as on Sept 2018. The management team has clearly stated that consultancy business will continue to grow and will help it sustain EBIDTA margins of 37-38% going ahead also,

Also considering a 4.11x of order book with execution capability and experienced management, maintaining the RoE level in the range of 17-18%, diversified client base and increasing opportunity of revenue from Railways due to new investment in electrification and infrastructure makes us believe that the outlook for Rites look bright over the next 2-3 years. RITES should benefit from growing railways capex, new metro projects, development of airports in tier 2 and 3 cities, and infrastructure investments in countries where India's EXIM Bank has provided funding.

In conclusion we believe that Rites is supported by a competent management team and promoters, and is well positioned to ride the next wave in the Infrastructure sector and believe that Rites is well positioned for long term sustainable growth.

Hence we believe that the Rites stock should be purchased at the current price for a price target of around Rs 432 over the next 18 months.



# JOINDRE CAPITAL SERVICES LTD.

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## FINANCIALS

For the Year Ended March RsCrs	FY17A	FY18A	FY19E	FY20E	FY21E
Net Sales	1351.46	1502.84	1743.29	1987.36	2225.84
EBIDTA	356.11	410.08	540.42	616.08	690.01
EBIDTA %	26.35	27.29	31.00	31.00	31.00
Interest	11.68	7.18	4.00	2.00	2.00
Depreciation	38.26	36.34	37.50	38.00	39.00
Non Operational Other Income	209.91	164.37	150.00	155.00	150.00
Profit Before Tax	504.61	528.36	648.92	731.08	799.01
Profit After Tax	329.04	346.37	410.00	480.00	550.00
Diluted EPS (Rs) FV Rs 10	16.45	17.32	20.50	24.00	27.50
Equity Capital	200.00	200.00	200.00	200.00	200.00
Reserves	1837.92	2006.16	2291.16	2641.16	3056.16
Borrowings	75.76	47.65	25.00	20.00	20.00
GrossBlock	406.3	400.38	404.38	406.38	406.38
Investments	120.04	120.04	120.04	120.04	1.57

Source Company our Estimates

## KEY CONCERNS

Rites depends heavily on MoR contracts. Any changes in the government policies or decisions by the MoR may adversely affect the business prospects.

Rites project management and turnkey construction contracts have long execution periods. For the project related costs and revenue estimates, any variances between projected and actual cost-revenue structure, could have an adverse impact on the company's financial condition and future prospects.

Rites is dependent on continued growth of infrastructure and energy sector including transport infrastructure. Any change or slowdown in fresh investments in the infrastructure and energy sectors could have an adverse impact on the business.

**JOINDRE**

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