

Stock Idea

Abhishek Basumallick

www.intelsense.in

Disclosure

- I am a SEBI registered research analyst and run an equity advisory, www.intelsense.in.
- I may have personal position or may take positions in the stocks discussed. I may change my view at any time without informing anyone.
- Please assume that I have vested interest in the stocks discussed and do your own due diligence.
- These ideas are for discussion at the ValuePickr Meet, 2019 and is not to be construed as investment advice.

RITES - SUMMARY

- RITES was set up by the Government of India in 1974 and was awarded the Mini Ratna status in 2002. It is a company primarily doing work in the railways sector, but it does civilian work also such as metro construction, airports and flyovers.
- About half the work RITES does is on nomination basis by the Government, and the rest of it is through competitive bidding.
- In the Government related business such as Quality Inspection, and Consultation for Railways work such as broad-gauging, electrification and setting up of new lines, RITES almost has a monopolistic claim on all work.
- The most attractive business segment of RITES is consultancy where operating Margins are around 35%.
- The valuation of the company at 12.2 times trailing 4 quarters earnings is quite attractive.
- The dividend yield is around 4%, and the company has a surplus cash pile of more than Rs. 1,000 crores.

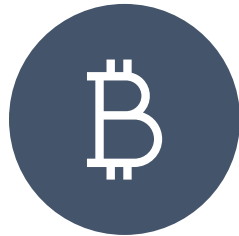


Business Overview

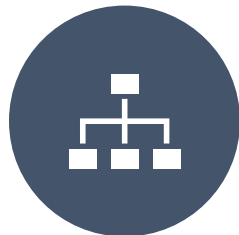


RITES was set up by the Government of India in 1974 for exclusively railways related work.

Gradually, RITES has gotten into work for private companies also. **It also does non-railways related governmental work such as designing airports, conducting feasibility checks for metro projects, consultation for flyover construction etc.** This work is secured through competitive bidding.



All railways related consultancy work comes exclusively to RITES. It is a monopoly in this segment. Most of this work is also therefore on a nomination basis.



The company has 5 main lines of business and the order book of the company in Q3 2018-19 of Rs 6054 crs shows clear visibility of work for the next 2-3 years.



Segments	Revenue Share	Margin Profile
Consulting	45%	35%
Quality Assurance	16%	35%
Turnkey Projects	9%	2-3%
Exports	14%	15%
Leasing Services	6%	35%

Business Overview

Quality Assurance primarily includes inspection of all material that is used by vendors for supply to the Indian Railways.

RITES completely outsources all Turnkey Construction Projects and merely acts as a liaison for the work – hence the lower margins in this segment. However, this also ensures that there is no blocking of working capital. However, some orders may be given to some of its Joint Venture companies.

RITES leases out locomotives (Train Engines) with or without drivers for operations to cement, steel or other firms.

RITES has a lot of surplus cash on the Balance Sheet. However, about Rs. 1,700 crores is cash for the clients. The interest on this is also returned to them. The remaining cash of more than Rs. 1,000 crores belongs to RITES.

The government sometimes delays payments to RITES – indicated by the high Receivables figure, but the large cash position ensures that there is no stress.

RITES has a Promoter (government) shareholding of 87.4%. The Government has called for quotes from Merchant Bankers for conducting an Offer for Sale for 15% of the Equity on June 6, 2019.

Financials

Income Statement		
(in Cr.)	2019	2018
Revenue	1,968.97	1,439.24
Other Income	195.2	163.34
Total Income	2,164.17	1,602.58
Expenditure	-1,455.27	-1,078.91
Interest	-3.04	--
PBDT	708.9	523.67
Depreciation	-32.18	-30.18
PBT	676.72	493.49
Tax	-232.07	-156.68
Net Profit	444.65	336.81
Equity	200	200
EPS	22.23	16.84
CEPS	23.84	--
OPM %	36	36.39
NPM %	22.58	23.4

Ratio	Value
Stock P/E	13.21
ROCE	23.44%
ROE	15.93%
Debt to equity	0
Price to book value	2.47
OPM	26.24%
NPM last year	23.40%
Return on assets	14.38%
Profit growth	36.31%
Debtor days	116.33%
Profit growth 3Years	2.72%
Sales growth 3Years	12.49%

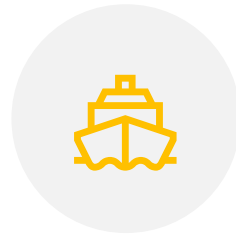
Problems and things that can go wrong



THE PROFITABILITY GROWTH HAS BEEN TEPID OVER THE LAST FEW YEARS DUE TO HIGHER ADDITION OF LOW-MARGIN TURNKEY PROJECTS.



IF CONSULTING AND QUALITY ASSURANCE BUSINESSES DON'T SEE NEW ORDERS THEN PROFITABILITY WILL NOT RISE MEANINGFULLY.



THERE ARE CONTINGENT LIABILITIES OF AROUND 672 CRORES AS OF FY 2017-18 WHICH HAVE BEEN CONTESTED BY THE COMPANY.



WHILE THE COMPANY DEALS WITH SOVEREIGN GOVERNMENTS WHEN DOING WORK ABROAD, THERE IS STILL A POSSIBILITY OF DELAY/DEFAULT IN PAYMENTS LIKE WHAT HAPPENED IN THE CASE OF TANZANIA.



SYSTRA GOT A CONTRACT FOR METRO RELATED CONSTRUCTION IN KERALA. THIS WAS A SURPRISE TO THE RITES MANAGEMENT WHO FEEL THIS IS A ONE-OFF INCIDENT. BUT IF COMPETITION INCREASES, IT CAN POTENTIALLY DENT MARGINS.

Ideas to explore further

Not Recommendations

Majestic Auto

- Company owned by Mahesh Munjal (related to the Munjals of Hero group. BM Munjal was the uncle of Mahesh Munjal)
- Total promoter shareholding – 75%
- Anil Kumar Goel owns 2.12% of the company & is the largest non-promoter shareholder.
- The co discontinued manufacturing operations (Fine Blanking, Electric & Winding) in the second half of the year 2017-18 due to the losses incurred, lack of viable orders, external environmental challenges & technology moving forward.
- New line of business is development and lease of Office Space and its facility management.
- Company's lease business is done through its subsidiary Emirates Technologies Pvt Ltd (80%) which involves leasing of its developed offices and retail properties.
- As at 31st March 2018, your company's lease business comprised completed offices with leasable area of approximately 6 lakh square feet. Occupancy rate is of 94%.
- The Facility management business is done through the holding Company Majestic Auto Ltd (100%) which involves support services for the building owned by subsidiary company Emirates Technologies Private Limited at Sector-62, Noida. FM covers these two main areas: 'Space & Infrastructure' (such as planning, design, workplace, construction, lease, occupancy, maintenance and furniture) and 'People & Organisation' (such as catering, cleaning, ICT, HR, accounting, marketing, hospitality).
- Reference: <https://timesofindia.indiatimes.com/business/india-business/Munjal-family-inks-settlement/articleshow/6034861.cms>

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Sales	13.99	13.77	13.87	13.33	13.83	14.74	16.86	12.93	35.78	51.12
Expenses	10.50	10.25	10.95	7.96	6.54	11.51	6.84	6.70	10.58	29.59
Operating Profit	3.49	3.52	2.92	5.37	7.29	3.23	10.02	6.23	25.20	21.53
Other Income	0.11	5.84	0.17	3.01	0.07	5.52	0.06	4.64	0.71	5.32
Depreciation	2.10	1.99	1.56	1.55	2.04	2.09	1.66	1.66	1.70	1.97
Interest	6.39	7.30	4.71	4.82	6.49	6.48	5.22	5.14	5.01	6.24
Profit before tax	-4.89	0.07	-3.18	2.01	-1.17	0.18	3.20	4.07	19.20	18.64
Tax	-0.34	-0.72	-0.11	-0.42	0.23	0.79	1.46	0.05	-0.01	-1.40
Net profit	-4.91	0.86	-3.41	2.42	-1.40	-0.61	1.73	4.02	19.21	19.78
OPM	25%	26%	21%	40%	53%	22%	59%	48%	70%	42%

Quarterly Results



Annual Results

	2015	2016	2017	2018	2019
Sales	114.03	137.58	56.60	55.77	116.69
Expenses	133.32	137.05	42.41	35.55	53.71
Operating Profit	-19.29	0.53	14.19	20.22	62.98
Other Income	57.25	52.90	9.34	8.78	10.73
Depreciation	18.47	20.20	8.32	8.19	6.99
Interest	10.42	26.42	26.93	22.97	21.61
Profit before tax	9.08	6.81	-11.72	-2.15	45.11
Tax	-14.64	-4.53	-1.41	0.49	0.10
Net profit	23.72	11.34	-11.19	-3.60	44.74
EPS	22.81	10.90	-10.76	-3.46	43.02
Price to earning	2.66	8.28	-9.86	-45.78	3.95
Price	60.68	90.30	106.07	158.49	169.80

Statement of Audited Standalone & Consolidated Financial Results for the Quarter & Year Ended March 31, 2019

(Rupees in Lacs)

SN	Particulars	Standalone					Consolidated	
		Quarter ended			Year ended		Year ended	
		31.03.2019	31.03.2018	31.12.2018	31.03.2019	31.03.2018	31.03.2019	31.03.2018
		AUDITED	AUDITED	UNAUDITED	AUDITED	AUDITED	AUDITED	AUDITED
I	Revenue from Operations	22.87	44.60	62.55	103.95	74.08	71,765.98	35,580.17
II	Other Income	116.48	184.31	243.50	707.70	507.66	415.76	425.69
III	TOTAL INCOME (I + II)	139.35	228.91	306.05	811.65	571.74	72,181.74	36,005.86
IV	EXPENSES							
	Purchase of Stock-in-Trade	16.51	35.83	52.44	70.70	40.66	55,823.70	24,408.40
	Change in Inventories of Stock-in-Trade	8.36	27.61	8.41	33.26	64.51	(4,743.79)	533.31
	Employee Benefits Expense	27.61	32.86	24.24	99.97	109.63	5,212.98	3,754.72
	Finance Costs	24.59	27.03	23.16	101.59	107.80	509.39	442.15
	Depreciation and Amortisation Expense	20.04	22.85	20.52	82.92	94.74	573.28	573.39
	Other Expenses	27.43	59.38	31.73	128.00	132.43	13,117.79	7,503.32
	TOTAL EXPENSES (IV)	124.54	205.56	160.50	516.44	545.77	70,493.35	37,215.29
	Profit/(Loss) before Exceptional Items and Tax (III)-(IV)	14.82	23.35	145.55	295.21	31.97	1,688.39	(1,209.43)
	Exceptional Items	-	-	-	-	-	-	-
VII	Profit/(Loss) before Tax Expenses (V - VI)	14.82	23.35	145.55	295.21	31.97	1,688.39	(1,209.43)
VIII	Tax Expenses:							
	Current Tax	(20.70)		(14.80)	(69.50)	-	(593.79)	(191.33)
	Deferred Tax	2.63	(7.23)	2.74	11.31	3.06	(16.53)	164.88
	Short/ (Excess) provision of the earlier period	-	2.15	8.70	(10.58)	2.15	(11.90)	2.15
	Total Tax Expense	(18.07)	(5.08)	(3.36)	(68.77)	30.21	(622.22)	(24.35)
IX	Profit/(Loss) for the period (VII + VIII)	(3.25)	18.27	142.19	226.44	42.18	1,066.17	(1,233.78)
X	Other Comprehensive Income for the year	(1.97)	25.49	-	(1.97)	25.49	(9.50)	(54.75)
XI	Total Comprehensive Income for the year (IX + X)	(5.22)	43.76	142.19	224.47	67.67	1,056.67	(1,288.53)
XII	Earnings Per Equity Share (Face Value Rs. 10 each)							
	Basic	(0.13)	0.71	5.90	8.76	1.63	41.26	(47.74)
	Diluted	(0.13)	0.71	5.90	8.76	1.63	41.26	(47.74)

Cravatex – Is
Something
cooking?

- Cravatex Limited is the Holding Company of two subsidiaries viz. BB (UK) London (BBUK) and Cravatex Brands Ltd Mumbai (CBL). As you are aware that, with a view to realizing value from your Company's strength in building consumer brands, the Sports Goods and Fitness Equipment businesses were transferred in FY 2016-17 via slump sale to CBL. The company was successful in attracting a Private Investment in the subsidiary for taking the overall business to higher levels. Having provided substantial support of financial and management skill, the subsidiary is expected to register a sustainable growth in the years to come.
- Businesses:
 1. Proline Fitness
 - It is the only pan-India fitness company with a retail presence of over 50 stores in key cities and thousands of commercial installations.
 - Represent Johnson Health Tech, Taiwan - one of the world's largest and fastest growing fitness equipment manufacturers as an exclusive distributor to India, Sri-Lanka and Bangladesh with a Long-term agreement and a partnership that is already decades old.
 2. Fila India
 - Cravatex has a long-term exclusive licensing agreement with the brand for India, Sri Lanka, Nepal, Bhutan and Pakistan.
 3. Fila International
 - Cravatex also serves as an exclusive licensee for Fila in the Middle East and North Africa.
 4. BB UK
 - BB UK provides end-to-end design, development and sourcing services for all Fila development within Cravatex and to other Global Licensees. BB UK also operates an exclusive Sub-License give by JD Sports PLC for the Fila brand in the UK and a Sublicense for Accessories for the whole of Europe from the brand owner.
- Paragon Partners has invested Rs 75 crore in Cravatex Brands Ltd, a wholly-owned subsidiary of public listed company Cravatex in 2017. Paragon Partners is floated by Siddharth Parekh, Deepak Parekh's son.

BUSINESS OF BRANDS

FILA focuses on increasing reach; to open 100 brick-and-mortar stores over a period of five years

FILA posted revenue of Rs 125 crore in FY18, has grown 68% in terms of top-line in FY19

Misbaah Mansuri • ETBrandEquity • June 05, 2019, 09:16 IST

Cravatex Brands acquires India rights to sell footwear brand Vans from global owner VF Corp

Rooted in California since 1966, Vans has grown steadily since VF Corp acquired it in 2014 and is aiming to reach sales of \$5 billion brand by fiscal 2023.

ET Bureau | Jun 05, 2019, 05:18 PM IST

Save

We are confident of over 50% growth this year: Anupam Sehgal, FILA India

Anupam Sehgal, Head of Marketing, FILA India tells us about the company's plans to open 100 exclusive stores across India, the brand's advertising strategy and more

by **Christina Moniz**
Published - 01-March-2019



Actress Sonam Kapoor Stills From Fila India Promotions

POSTED BY: GOPI | APRIL 18, 2019

Thank you