

## New Export Order To Aid In Revenue Growth

### Key Takeaways from RITES Ltd. Management Meet

- **New Export Order:** RITES has signed Contract Agreements with the National Railways of Zimbabwe (NRZ) for the supply of rolling stock (3000 HP Diesel Electric Locomotives and High Sided Open Wagons). The value of the contract is Rs 664 Cr, subject to the approval of funding by funding authorities. The contract is executable over a period of 24 months post-approval of funding. The management expects funding to be approved by the respective authorities in a couple of months.
- **More export orders in the near future:** The company expects some portion of the contract to be executed in FY24 while the majority of the contract would be executable in FY25 and FY26. It is also looking to secure more export orders in the near future. Furthermore, it is also working on exporting Vande Bharat Train to prospective clients in South-East Asian and African countries.
- **Revision in revenue estimates:** The addition of new export orders will boost the revenue of the company. In this context and based on the execution of new export orders, we increase the company's revenue growth projection for FY25 by 5% to 17%.
- **Healthy order book:** With an order inflow of Rs 3,080 Cr in FY23, the order book stands healthy at Rs 5,870 Cr as of 31<sup>st</sup> Mar'23, giving revenue visibility for the next 2 years. With the addition of new export order of Rs 664 Cr, the total unadjusted order book now stands at Rs 6,600 Cr and the addition of more export orders will keep the order book healthy moving ahead.
- **Sustainable growth in the consultancy business:** The consultancy segment comprises 41% of the order book, which is a high-margin business and we foresee sustainable growth in both the domestic and overseas consultancy business of the company moving forward.
- **Capex:** The company expects a Capex of Rs 100 Cr in FY24.
- **Healthy Dividend Payout:** In FY23, the board recommended a dividend of Rs 492 Cr (86% payout, Rs 20.5/share), implying a healthy dividend yield of 5.12% on the CMP. We expect the company to maintain its healthy dividend payout to shareholders.
- **Cash & Bank balance:** As of 31st Mar'23, the company's cash and bank balance stood healthy at Rs 1.136 Cr which is equivalent to 12% of the current market cap.
- **Key risk:** Slower order wins may impact revenue growth, and Higher competitive intensity may impact margins.

**Outlook & Valuation:** Higher Capex outlay in the Budget 2023-24 for Railways and Highways has provided the company with large opportunities to grow its business verticals. With a good order book position, efficient execution prowess, clean balance sheet, high return ratios, and healthy dividend payout, we expect the company to post healthy Revenues/EBITDA/APAT growth of 12%/11%/12% CAGR respectively over FY23-25E. The stock is currently trading at 17x & 14x FY24E/FY25E EPS. We maintain our BUY recommendation on the stock with a TP of Rs 450/Share, (Rs 410/Share earlier) implying an upside of 13% from the CMP. We value the company at 16x FY25E EPS (15x earlier).

### Key Financials (Consolidated)

(Rs Cr)	FY23	FY24E	FY25E
Net Sales	2,705	3,093	3,476
EBITDA	468	616	695
Net Profit	248	305	321
EPS (Rs)	6.1	7.5	8.0
PER (x)	11	9	9
EV/EBITDA (x)	11.7	9.9	8.8
P/BV (x)	1.1	1.0	0.9
ROE (%)	10.8	11.9	11.2

Source: Company, Axis Research

(CMP as of 16<sup>th</sup> June, 2023)

CMP (Rs)	398
Upside / Downside (%)	13
High/Low (Rs)	433/226
Market cap (Cr)	9577
Avg. daily vol. (6m) Shrs.	382678
No. of shares (Cr)	24.0

### Shareholding (%)

	Sep-22	Dec-22	Mar-23
Promoter	72.2	72.2	72.2
FII/FPIs	2.35	2.61	3.38
MFs / UTI	7.68	6.42	6.64
Banks / FIs	0.25	0	0
Public	17.52	18.77	17.78

### Financial & Valuations

Y/E Mar (Rs)	FY23	FY24E	FY25E
Net Sales	2,628	2,802	3,277
EBITDA	745	781	911
Net Profit	542	574	672
EPS (Rs)	23	24	28.0
PER (x)	18	17	14
EV/EBITDA (x)	12.7	10.8	9.1
P/BV (x)	3.7	3.5	3.2
ROE (%)	21	20	22

### Change in Estimates (%)

Y/E Mar	FY24E	FY25E
Revenue	1%	5%
EBITDA	1%	5%
Net Profit	1%	6%

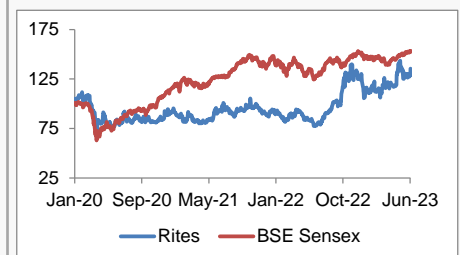
### ESG disclosure Score\*\*

Environmental Disclosure	NA
Social Disclosure Score	NA
Governance Disclosure	NA
Total ESG Disclosure	NA

Source: Bloomberg, Scale: 0.1-100

\*\*Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

### Relative performance



Source: Capitaline, Axis Securities

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## Change in Estimates

	New		Old		% Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	2,802	3,277	2784	3132	1%	5%
EBITDA	781	911	776	871	1%	5%
PAT	574	678	570	640	1%	6%

Source: Company, Axis Securities

## Result Review Q4FY23

(Rs Cr)	Quarterly Performance				
	Q4FY23	Q4FY22	% Change (YoY)	Q3FY24	% Change (QoQ)
<b>Sales</b>	<b>687</b>	<b>766</b>	(10)	<b>677</b>	1
Other Op. Inc	0.0	0.0		0.0	
<b>Total Revenue</b>	<b>687</b>	<b>766</b>	(10)	<b>677</b>	1
<b>Expenditure</b>					
Employee Benefit expense	136	133	2	125	9
Travel	15	13	23	14	13
Supplies & Services	256	227	12	254	0
Cost of Export sales	35	140	(75)	14	155
Cost of Turnkey Const. Projects	0	0	0	0	0
Transmission & Wheeling charges	0	0	0	0	0
Other Expense	54	48	11	78	(31)
<b>Total Expenditure</b>	<b>495</b>	<b>562</b>	(12)	<b>484</b>	2
<b>EBIDTA</b>	<b>192</b>	<b>204</b>	(6)	<b>193</b>	(1)
	27.9%	26.7%	120 bps	28.5%	(60 bps)
Oth. Inc.	19	22	(12)	26	(28)
Interest	2	2	19	2	6
Depreciation	17	24	(32)	19	(10)
<b>PBT</b>	<b>191</b>	<b>200</b>	(4)	<b>198</b>	(4)
Tax	52	58	(11)	52	0
Share of JV	0	1	(130)	1	(134)
<b>PAT</b>	<b>139</b>	<b>142</b>	(2)	<b>147</b>	(6)

Source: Company, Axis Securities

## Financials (Consolidated)

### Profit & Loss

Y/E March	FY22	FY23	FY24E	FY25E
<b>Net sales</b>	<b>2,662</b>	<b>2,628</b>	<b>2,802</b>	<b>3,277</b>
Other operating income	0	0	0	0
<b>Total income</b>	<b>2,662</b>	<b>2,628</b>	<b>2,802</b>	<b>3,277</b>
Employee Expenses	517	509	552	645
Contribution (%)	81%	81%	80%	80%
Other Expenses	1,421	1,375	1,469	1,720
<b>Operating Profit</b>	<b>724</b>	<b>745</b>	<b>781</b>	<b>911</b>
Other income	83	102	123	144
<b>PBIDT</b>	<b>807</b>	<b>847</b>	<b>904</b>	<b>1,055</b>
Depreciation	66	67	76	85
Interest & Fin Chg.	7	7	8	9
E/o income / (Expense)	0	0	0	0
<b>Pre-tax profit</b>	<b>734</b>	<b>773</b>	<b>821</b>	<b>962</b>
Tax provision	197	203	213	250
<b>PAT</b>	<b>538</b>	<b>570</b>	<b>608</b>	<b>712</b>
(-) Minority Interests	22	29	34	39
Associates	1	1	0	0
Other Comprehensive Income	0.0	0.0	0.0	0.0
<b>Adjusted PAT</b>	<b>516</b>	<b>542</b>	<b>574</b>	<b>672</b>
<b>Reported PAT</b>	<b>516</b>	<b>542</b>	<b>574</b>	<b>672</b>

Source: Company, Axis Securities

### Balance Sheet

(Rs Cr)

Y/E March	FY22	FY23	FY24E	FY25E
<b>Total assets</b>	<b>2,817</b>	<b>3,018</b>	<b>3,177</b>	<b>3,443</b>
Net Block	540	531	580	621
CWIP	58	101	25	25
Investments	149	126	126	126
Wkg. cap. (excl cash)	957	997	960	1,058
Cash / Bank balance	708	890	1,111	1,239
other Assets	405	374	374	374
<b>Capital employed</b>	<b>2,817</b>	<b>3,018</b>	<b>3,177</b>	<b>3,443</b>
Equity capital	240	240	240	240
Reserves	2,248	2,363	2,515	2,746
Pref. Share Capital	0	0	0	0
Minority Interests	106	115	115	115
Borrowings	25	0	0	0
LT Provisions and others	30	20	20	20
Def Tax Liabilities	168	279	286	321

Source: Company, Axis Securities

**Cash Flow**

(Rs Cr)

Y/E March	FY22	FY23	FY24E	FY25E
PBT	735	774	821	962
Depreciation	66	67	76	85
Interest Expense	7	7	8	9
Changes in Working Capital	-296	-65	37	-98
Others	-17	-40	0	0
Tax Paid	-185	-183	-213	-250
<b>Net Cash from Operations</b>	<b>310</b>	<b>560</b>	<b>720</b>	<b>698</b>
Capex	-142	-136	-49	-125
Investment	0	0	0	0
Others	170	71	0	0
<b>Net Cash from Investing</b>	<b>53</b>	<b>-15</b>	<b>-49</b>	<b>-125</b>
Borrowings	-7.7	-25	0.0	0.0
Interest Expense	-2	0	-8	-9
Dividend paid	-421	-433	-457	-481
Others	-10	-26	7	35
<b>Net Cash from Financing</b>	<b>-440</b>	<b>-483</b>	<b>-450</b>	<b>-446</b>
<b>Net Change in Cash</b>	<b>-69</b>	<b>64</b>	<b>221</b>	<b>128</b>
Opening cash	119	50	114	335
<b>Closing cash</b>	<b>50</b>	<b>114</b>	<b>335</b>	<b>463</b>

Source: Company, Axis Securities

**Ratio Analysis**

(%)

Y/E March	FY22	FY23	FY24E	FY25E
<b>Sales growth</b>	<b>43.1</b>	<b>(1.3)</b>	<b>6.6</b>	<b>17.0</b>
<b>OPM</b>	<b>27.2</b>	<b>28.3</b>	<b>27.9</b>	<b>27.8</b>
Oper. profit growth	43.6	2.9	4.9	16.6
Employee Expense / Net sales	19.4	19.3	19.7	19.7
Overheads/Net sales	53.4	52.3	52.4	52.5
Depreciation / G. block	7.8	7.4	7.4	7.4
Effective interest rate	29.4	57.3	60.9	32.6
Net wkg.cap / Net sales	0.60	0.64	0.48	0.31
Net sales / Gr block (x)	3.2	2.9	2.7	2.9
<b>RoCE</b>	<b>26.7</b>	<b>26.8</b>	<b>26.8</b>	<b>29.3</b>
Debt/equity (x)	0.0	0.0	0.0	0.0
Effective tax rate	26.8	26.3	26.0	26.0
<b>RoE</b>	<b>21.2</b>	<b>21.3</b>	<b>19.7</b>	<b>21.6</b>
Payout ratio (Div/NP)	0.0	0.0	79.5	71.5
<b>EPS (Rs.)</b>	<b>21.5</b>	<b>22.6</b>	<b>23.9</b>	<b>28.0</b>
EPS Growth	24.2	5.0	5.9	17.1
CEPS (Rs.)	24.2	25.3	27.0	31.5
DPS (Rs.)	17.0	17.0	19.0	20.0

Source: Company, Axis Securities

(Rs Cr)

## Rites Ltd Price Chart and Recommendation History



Date	Reco	TP	Research
12-Feb-21	BUY	279	Result Update
18-Jun-21	BUY	315	Result Update
12-Jul-21	BUY	315	Pick of the week
13-Aug-21	BUY	315	Result Update
15-Sep-21	BUY	315	AAA
12-Nov-21	BUY	330	Result Update
09-Feb-22	BUY	305	Result Update
26-May-22	BUY	275	Result Update
29-Jul-22	BUY	295	Result Update
08-Sep-22	HOLD	315	AAA
14-Nov-22	BUY	405	Result Update
10-Feb-23	BUY	410	Result Update
22-May-23	BUY	410	Result Update
19-Jun-23	BUY	450	Company Update

Source: Axis Securities

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Sector: Cement/Infra

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