

| | |
|-----------------------|-------------|
| CMP | : INR 443 |
| Reco | : BUY ↔ |
| Target Price | : INR 621 ↔ |
| Target Price Change | : No Change |
| Target 1HFY26 P/E (x) | : 26.4 |
| EPS Change FY24/ 25 | : No Change |

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| Market data | |
|-----------------------|-----------|
| Sensex | : 63,591 |
| Sector | : Infra |
| Market Cap (INR bn) | : 106.4 |
| Market Cap (USD bn) | : 1.277 |
| O/S Shares (mn) | : 240.3 |
| 52-wk HI/LO (INR) | : 584/306 |
| Avg. Daily Vol ('000) | : 912 |
| Bloomberg | : RITE IN |

Source: Bloomberg

| | FY24e | FY25e | FY26e |
|--------------------|-------|-------|-------|
| EPS (INR) | 15.1 | 22.5 | 24.7 |
| P/E (x) | 29.3 | 19.7 | 18.0 |
| P/BV (x) | 4.1 | 3.8 | 3.5 |
| EV/EBITDA (x) | 16.0 | 10.6 | 9.4 |
| Dividend Yield (%) | 2.4 | 3.0 | 3.3 |

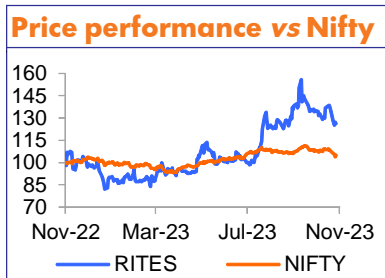
Source: Company, Antique

| Returns (%) | | | | |
|-------------|------|-----|----|-----|
| | 1m | 3m | 6m | 12m |
| Absolute | (10) | (5) | 15 | 16 |
| Relative | (7) | (2) | 11 | 11 |

Source: Bloomberg

| Shareholding pattern | |
|----------------------|-------|
| Promoters | : 72% |
| Public | : 28% |
| Others | : 0% |

Source: Bloomberg



Source: Bloomberg Indexed to 100

2QFY24 RESULT REVIEW

RITES

All eyes on export orders for revenue conversion

Rail Technical and Economic Service (RITE) reported INR 2.7 bn in consultancy, up 9% annually. While domestic consultancy is moderately growing, the international number was weak. On export orders, new inflows-Mozambique, Kenya, and Bangladesh-are yet to translate into LoAs. Given the lag between winning and executing an order is 12-18 months, the key lies in squeezing the timeline. While FY24E is a bad year for exports, RITE will have a strong rebound by FY26E. Thereby, we retain BUY rating with a target price of INR 621.

Export order wins to LoA will take time...

RITE will add (a) INR 8.5 bn from Zimbabwe (part of a MoU); (b) INR 5 bn from Mozambique (L1); and (c) INR 8.3 bn from Bangladesh (L1) to its near-zero export backlog. Without financial closure, RITE has not added them to its order backlog. RITE is confident of converting L1 to LoA and starting some work by 1QFY25.

...which can impact FY25 revenue

In the past, RITE reiterated that export execution depends on the nature of orders. For instance, locomotives and normal coaches are executed in 3-9 months. However, coaches like DMU takes over a year. Given there is a year-long lag between winning an order and the start of execution, we fear FY25 would need strong non-export drivers like consultancy. With a sticky base of QA-like works (now down to INR 3 bn from INR 4 bn per annum earlier) under pressure, it is unclear how FY25 will pan out.

Uncertainty on Zimbabwe export order

RITE expressed optimism on the Zimbabwe export order for INR 8.5 bn. Here the agreement was signed about four months back, when the Zimbabwe delegation visited India. The agreement was signed for locomotives and wagons, subject to their funding being approved by their funding agencies. As of now, Zimbabwe is still in the process of obtaining all requisite approvals from their government.

Initiatives to diversify beyond QA

As the INR 4 bn booked from QA is open to competition, RITE has witnessed some headwinds. However, RITE has diversified beyond domestic QA and has started eyeing opportunities in international QA. RITE is aiming for one order a day-as against 0.85 orders a day now. The size of one-order-a-day is tricky to guess: as it moves in the range of INR 5 mn to INR 300 mn. In 2QFY24, RITE won 78 orders in the size of INR 3.3 bn.

EBIT margin compressed by 200 bps annually

In 2QFY24, consultancy clocked 40.1% EBIT margin, as against 43.7% in the base year. Turnkey continues to maintain its characteristic volatile profile: 2%, as against 3% in 2QFY23. Management has guided 4% to be the long-run average, which is reflected in the full year. With export revenue crashing down to INR 7 mn, the current crop of numbers is hardly any reflection of steady-state.

Investment Summary

Even in a bear case, that is, if exports are won at low margins, we see a 5% net profit CAGR at the least. We ascribe a (1) PE multiple of 25x for 1HFY26E standalone PAT (15% discount to BSE CG index); (2) 15x for energy management vertical and other investments at invested value. With a target price of INR 621, we maintain BUY.

Financial Highlights

| In INR mn | Quarter Ended | | | | Year Ended | | | |
|-------------------------------|---------------|--------------|---------------|--------------|-------------|---------------|---------------|---------------|
| | Sep-23 | Sep-22 | % Chg | Jun-23 | % Chg | 1HFY24 | 1HFY23 | % Chg |
| Net Sales | 5,493 | 6,316 | (13.0) | 5,037 | 9.0 | 10,530 | 12,099 | (13.0) |
| EBIDTA | 1,107 | 1,579 | (29.9) | 1,263 | (12.3) | 2,370 | 3,141 | (24.5) |
| Other income | 514 | 312 | 64.6 | 177 | 190.6 | 691 | 626 | 10.3 |
| PBIDT | 1,621 | 1,891 | (14.3) | 1,440 | 12.6 | 3,061 | 3,767 | (18.7) |
| Depreciation | (117) | (151) | (22.3) | (140) | (16.1) | (257) | (279) | (8.0) |
| Interest | (14) | (11) | 28.8 | (9) | 55.4 | (24) | (23) | 2.6 |
| PBT | 1,490 | 1,729 | (13.8) | 1,291 | 15.4 | 2,781 | 3,465 | (19.7) |
| Tax | (324) | (415) | (21.9) | (332) | (2.4) | (656) | (858) | (23.5) |
| Adjusted PAT | 1,166 | 1,314 | (11.3) | 959 | 21.6 | 2,125 | 2,607 | (18.5) |
| Reported PAT | 1,166 | 1,314 | (11.3) | 959 | 21.6 | 2,125 | 2,607 | (18.5) |
| No. of shares (mn) | 240 | 240 | | 240 | | 240 | 240 | |
| EBIDTA margin (%) | 20.2 | 25.0 | | 25.1 | | 22.5 | 26.0 | |
| PBIDT margin (%) | 29.5 | 29.9 | | 28.6 | | 29.1 | 31.1 | |
| EPS - annualized (INR) | 19.4 | 21.9 | (11.3) | 16.0 | 21.6 | 17.7 | 21.7 | (18.5) |

Source: Company, Antique

Operational Highlights

| Segment Details All figures in INR mn, stated otherwise | Quarter Ended | | | | Year Ended | | | |
|---|---------------|--------------|---------------|--------------|---------------|---------------|---------------|--------------|
| | Sep 23 | Sep 22 | % Chg | Jun 23 | % Chg | FY23 | FY22 | % Chg |
| Consultancy-Domestic | 2,757 | 2,542 | 8.5 | 2,373 | 16.2 | 10,302 | 9,151 | 12.6 |
| Consultancy-Abroad | 179 | 245 | (26.9) | 326 | (45.0) | 1,592 | 1,039 | 53.2 |
| Export | 7 | 787 | (99.1) | 385 | (98.1) | 3,077 | 9,657 | (68.1) |
| Leasing-Domestic | 313 | 355 | (11.8) | 308 | 1.7 | 1,377 | 1,309 | 5.2 |
| Turnkey construction- Domestic | 2,236 | 2,385 | (6.3) | 1,645 | 35.9 | 8,846 | 4,594 | 92.6 |
| Total segment revenue | 5,493 | 6,314 | (13.0) | 5,037 | 9.1 | 25,194 | 25,750 | (2.2) |
| Consultancy-Domestic | 1,046 | 1,035 | 1.0 | 1,342 | (22.1) | 4,676 | 3,713 | 25.9 |
| Consultancy-Abroad | 147 | 247 | (40.5) | 367 | (59.9) | 835 | 585 | 42.8 |
| Export | 43 | 204 | -79 | 60 | (29.2) | 695 | 2,157 | (67.8) |
| Leasing-Domestic | 114 | 138 | (17.3) | 95 | 20.0 | 479 | 454 | 5.5 |
| Turnkey construction- Domestic | 40 | 71 | (43.7) | 71 | (44.1) | 346 | 123 | 181.3 |
| Total segment EBIT | 1,389 | 1,695 | (18.0) | 1,935 | (28.2) | 7,031 | 7,032 | (0.0) |

Segment margin

| | | | | | | | |
|--------------------------------|------------|------------|--|------------|--|------------|------------|
| Consultancy-Domestic | 38% | 41% | | 57% | | 45% | 41% |
| Consultancy-Abroad | 82% | 101% | | 113% | | 52% | 56% |
| Export | 593% | 26% | | 16% | | 23% | 22% |
| Leasing-Domestic | 36% | 39% | | 31% | | 35% | 35% |
| Turnkey construction- Domestic | 2% | 3% | | 4% | | 4% | 3% |
| Total EBIT margin | 25% | 27% | | 38% | | 28% | 27% |

Source: Company, Antique

Financials

Profit and loss account (INR mn)

| Year-ended 31 Mar | FY22 | FY23 | FY24e | FY25e | FY26e |
|---------------------------|---------------|---------------|---------------|---------------|---------------|
| Net Revenue | 25,750 | 25,196 | 21,255 | 27,112 | 32,795 |
| Op. Expenses | (19,230) | (18,646) | (16,490) | (20,114) | (25,293) |
| EBITDA | 6,520 | 6,550 | 4,764 | 6,998 | 7,503 |
| Depreciation | (584) | (594) | (653) | (718) | (790) |
| EBIT | 5,936 | 5,956 | 4,111 | 6,280 | 6,712 |
| Other income | 860 | 1,192 | 794 | 1,002 | 1,286 |
| Interest Exp. | (50) | (66) | (56) | (68) | (76) |
| Reported PBT | 6,746 | 7,081 | 4,849 | 7,215 | 7,922 |
| Tax | (1,774) | (1,776) | (1,221) | (1,817) | (1,995) |
| Reported PAT | 4,972 | 5,305 | 3,627 | 5,397 | 5,926 |
| Net Profit | 4,972 | 5,305 | 3,627 | 5,397 | 5,926 |
| Adjusted PAT | 4,972 | 5,305 | 3,627 | 5,397 | 5,926 |
| Adjusted EPS (INR) | 20.7 | 22.1 | 15.1 | 22.5 | 24.7 |

Balance sheet (INR mn)

| Year-ended 31 Mar | FY22 | FY23 | FY24e | FY25e | FY26e |
|---|---------------|---------------|---------------|---------------|---------------|
| Share Capital | 2,400 | 2,403 | 2,403 | 2,403 | 2,403 |
| Reserves & Surplus | 21,588 | 22,627 | 23,715 | 25,927 | 28,357 |
| Networth | 23,988 | 25,033 | 26,118 | 28,330 | 30,760 |
| Debt | 1,466 | 2,994 | 2,994 | 2,994 | 2,994 |
| Net deferred Tax liabilities | (520) | (735) | (735) | (735) | (735) |
| Capital Employed | 24,934 | 27,292 | 28,377 | 30,589 | 33,019 |
| Gross Fixed Assets | 6,525 | 7,094 | 7,663 | 7,981 | 8,581 |
| Accumulated Depreciation | (2,600) | (3,175) | (3,829) | (4,547) | (5,337) |
| Capital work in progress | 580 | 948 | 948 | 948 | 948 |
| Net Fixed Assets | 4,505 | 4,866 | 4,782 | 4,382 | 4,191 |
| Investments | 4,800 | 1,612 | 1,612 | 1,612 | 1,612 |
| Non Current Investments | 4,800 | 1,612 | 1,612 | 1,612 | 1,612 |
| Current Assets, Loans & Adv. | 45,944 | 47,079 | 43,963 | 50,331 | 59,024 |
| Inventory | 1,190 | 309 | 116 | 1,114 | 1,348 |
| Debtors | 6,810 | 8,693 | 7,337 | 9,359 | 12,579 |
| Cash & Bank balance | 32,660 | 33,967 | 33,015 | 35,401 | 38,807 |
| Loans & advances and others | 5,284 | 4,111 | 3,494 | 4,457 | 6,290 |
| Current Liabilities & Provisions | 30,000 | 29,503 | 25,214 | 28,969 | 35,042 |
| Liabilities | 29,140 | 28,723 | 24,457 | 28,226 | 34,143 |
| Provisions | 860 | 780 | 757 | 743 | 899 |
| Net Current Assets | 15,944 | 17,576 | 18,749 | 21,362 | 23,982 |
| Miscellaneous expenses | (315) | 3,238 | 3,234 | 3,234 | 3,234 |
| Application of Funds | 24,934 | 27,293 | 28,377 | 30,589 | 33,019 |

Per share data

| Year-ended 31 Mar | FY22 | FY23 | FY24e | FY25e | FY26e |
|----------------------------|-------|-------|-------|-------|-------|
| No. of shares (mn) | 240 | 240 | 240 | 240 | 240 |
| Diluted no. of shares (mn) | 240 | 240 | 240 | 240 | 240 |
| BVPS (INR) | 100.0 | 104.2 | 108.7 | 117.9 | 128.0 |
| CEPS (INR) | 22.5 | 23.6 | 17.8 | 25.5 | 28.0 |
| DPS (INR) | 17.5 | 18.0 | 10.6 | 13.3 | 14.6 |

Source: Company, Antique

Cash flow statement (INR mn)

| Year-ended 31 Mar | FY22 | FY23 | FY24e | FY25e | FY26e |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|
| PBT | 6,746 | 7,081 | 4,849 | 7,215 | 7,922 |
| Depreciation & amortization | 552 | 575 | 653 | 718 | 790 |
| (Inc)/Dec in working capital | (64) | (1,165) | (2,124) | (228) | 786 |
| Tax paid | (1,898) | (1,991) | (1,221) | (1,817) | (1,995) |
| Other operating Cash Flow | (2,426) | 213 | - | - | - |
| CF from operating activities | 2,910 | 4,715 | 2,157 | 5,888 | 7,503 |
| Capital expenditure | (773) | (937) | (569) | (318) | (600) |
| chg in investments | 1,530 | 128 | - | - | - |
| CF from investing activities | 757 | (809) | (569) | (318) | (600) |
| Inc/(Dec) in share capital | (3) | 3 | - | - | - |
| Inc/(Dec) in debt | (679) | (1,153) | - | - | - |
| Dividend Paid | (4,205) | (4,326) | (2,539) | (3,184) | (3,496) |
| Others | 629 | 2,876 | - | - | - |
| CF from financing activities | (4,258) | (2,599) | (2,539) | (3,184) | (3,496) |
| Net cash flow | (591) | 1,307 | (951) | 2,386 | 3,407 |
| Opening balance | 33,251 | 32,660 | 33,967 | 33,015 | 35,401 |
| Closing balance | 32,660 | 33,967 | 33,015 | 35,401 | 38,807 |

Growth indicators (%)

| Year-ended 31 Mar | FY22 | FY23 | FY24e | FY25e | FY26e |
|-------------------|------|------|-------|-------|-------|
| Revenue | 39.7 | -2.2 | -15.6 | 27.6 | 21.0 |
| EBITDA | 29.0 | 0.5 | -27.3 | 46.9 | 7.2 |
| Adj PAT | 17.3 | 6.7 | -31.6 | 48.8 | 9.8 |
| Adj EPS | 17.4 | 6.6 | -31.6 | 48.8 | 9.8 |

Valuation (x)

| Year-ended 31 Mar | FY22 | FY23 | FY24e | FY25e | FY26e |
|--------------------|------|------|-------|-------|-------|
| P/E (x) | 21.4 | 20.1 | 29.3 | 19.7 | 18.0 |
| P/BV (x) | 4.4 | 4.3 | 4.1 | 3.8 | 3.5 |
| EV/EBITDA (x) | 11.5 | 11.5 | 16.0 | 10.6 | 9.4 |
| EV/Sales (x) | 2.9 | 3.0 | 3.6 | 2.7 | 2.2 |
| Dividend Yield (%) | 4.0 | 4.1 | 2.4 | 3.0 | 3.3 |

Financial ratios

| Year-ended 31 Mar | FY22 | FY23 | FY24e | FY25e | FY26e |
|---------------------|------|------|-------|-------|-------|
| RoE (%) | 21.1 | 21.6 | 14.2 | 19.8 | 20.1 |
| RoCE (%) | 23.5 | 22.3 | 14.4 | 20.8 | 18.7 |
| Asset/T.O (x) | 0.5 | 0.4 | 0.4 | 0.5 | 0.6 |
| Net Debt/Equity (x) | -1.3 | -1.4 | -1.3 | -1.2 | -5.8 |
| EBIT/Interest (x) | 136 | 108 | 87 | 108 | 105 |

Margins (%)

| Year-ended 31 Mar | FY22 | FY23 | FY24e | FY25e | FY26e |
|-------------------|------|------|-------|-------|-------|
| EBITDA Margin (%) | 25.3 | 26.0 | 22.4 | 25.8 | 22.9 |
| EBIT Margin (%) | 23.1 | 23.6 | 19.3 | 23.2 | 20.5 |
| PAT Margin (%) | 18.7 | 20.1 | 16.5 | 19.2 | 17.4 |

Source: Company, Antique

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