


Strong Orderbook and Pick-up in Export Sales to Drive Growth
Est. Vs. Actual for Q2FY25: Revenue – MISS ; EBITDA Margin – MISS ; PAT – MISS
Change in Estimates post Q2FY25 (Abs.)
FY25E/FY26E: Revenue: -4%/0%; EBITDA: -21%/-16%; PAT: -21%/-18%
Recommendation Rationale

- **Healthy order book:** The company secured 91 orders worth Rs 729 Cr in Q2FY25. Its overall order book remains robust at Rs 6,581 Cr, providing revenue visibility for the next 2-2.5 years. The consultancy segment, which is a high-margin business, comprises 38% of the order book. Additionally, we anticipate sustainable growth in both the domestic and overseas consultancy businesses. The increased capital outlay in the 2024-25 budget for Railways is expected to serve as a growth catalyst for the company.
- **Export verticle to support revenue growth:** The company holds export orders worth Rs 1,240 Cr, with revenue from exports expected to gain momentum in FY26. Considering this, we anticipate the company to achieve a revenue CAGR of 17% over FY24-FY27E.
- **Increasing competitive intensity:** Currently, new orders are being secured through a competitive bidding process, leading to a reduction in the share of nomination-based (higher-margin) orders to 37%, which is exerting pressure on margins. Consequently, we foresee a moderation in the margin profile from the previously estimated 26% in FY26E to 22% in FY26E and 23% in FY27E.

Sector Outlook: POSITIVE

Company Outlook & Guidance: The management did not provide specific revenue guidance but indicated expectations for growth in EBITDA and PAT going forward. Additionally, it signalled an increase in export orders in the future. However, due to higher competitive intensity, margin pressure is expected to persist.

Current Valuation: 24x FY27E (Earlier Valuation: 24x FY26E EPS).

Current TP: Rs 325/share (Earlier TP: Rs 660/share, pre-bonus issue).

Recommendation: We roll over our estimates to FY27 and upgrade our recommendation from **HOLD** to **BUY** on the stock.

Alternative BUY Ideas from our Sector Coverage: KEC International (TP- Rs 1050/share)

Financial Performance

RITES Ltd. reported a weak performance for Q2FY25, with revenue of Rs 541 Cr, a decline of 7% YoY, primarily due to lower revenue in the Quality Assurance business, slower execution in the Turnkey segment impacted by heavy monsoon, and delays in the Exports business due to geopolitical issues. The supply of locomotives is expected to commence by the end of FY25. EBITDA stood at Rs 106 Cr, down 23% YoY, and PAT was Rs 83 Cr, a 25% YoY decline. The company recorded EBITDA margins of 19.7% in Q2FY25, below our estimate of 22.7% and compared to 23.7% in Q2FY24.

During the quarter, RITES achieved Consultancy sales of Rs 298 Cr (down 7% YoY), Export sales of Rs 2 Cr (up 219% YoY), Leasing sales of Rs 35 Cr (up 12% YoY), and Turnkey sales of Rs 201 Cr (down 10% YoY). The EBITDA margins for the Consultancy, Export, and Leasing segments were 35%, 26%, and 31%, respectively.

Key Financials (Consolidated)

(Rs Cr)	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	541	11%	-7%	553	-2%
EBITDA	106	1%	23%	126	-15%
EBITDA Margin	19.7%	(210 bps)	(400 bps)	22.7%	(300 bps)
Net Profit	83	-9%	-25%	99	-16%
EPS (Rs)	2	-7%	-64%	4	-60%

Source: Company, Axis Securities Research

 (CMP as of 7th November 2024)

CMP (Rs)	292
Upside /Downside (%)	11%
High/Low (Rs)	413/218
Market cap (Cr)	14,012
Avg. daily vol. (6m) Shrs.	29,52,789
No. of shares (Cr)	48

Shareholding (%)

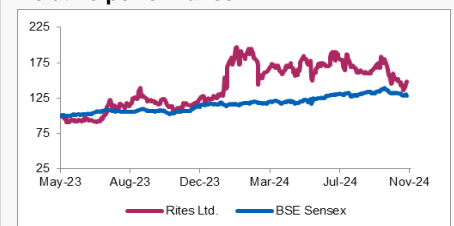
	Mar-24	Jun-24	Sep-24
Promoter	72.2	72.2	72.2
FII's	4.2	3.5	3.2
MFs / UTI	3.4	3.3	2.8
Banks / FIs	0.0	0.0	0.0
Others	20.3	21.0	21.8

Financial & Valuations

Y/E Mar (Rs Cr)	FY25E	FY26E	FY27E
Net Sales	2,451	3,447	3,957
EBITDA	528	762	898
Net Profit	379	545	646
EPS (Rs)	8	11	13
PER (x)	37	26	22
P/BV (x)	26	18	15
EV/EBITDA (x)	5.4	5.1	4.7
ROE (%)	13	19	21

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	-4%	0%
EBITDA	-21%	-16%
PAT	-21%	-18%

Relative performance


Source: Ace Equity

Uttam K Srimal

Research Analyst
 Email: Uttamkumar.srimal@axissecurities.in

Shikha Doshi

Research Analyst
 Email: shikha.doshi@axissecurities.in

Outlook

- Higher capex outlay in the Union Budget 2024-25 for Railways and Highways has created significant growth opportunities for the company across its business verticals. The company maintains a robust order book, supported by a clean balance sheet, strong return ratios, and a healthy dividend payout. We expect the company to achieve a CAGR of 17%/9%/9% in Revenue/EBITDA/APAT, respectively, over FY24-27E. However, due to higher competitive intensity, margin pressure is anticipated to persist.

Valuation & Recommendation

- The stock is currently trading at 26x/22x FY26E/FY27E EPS. We value the company at 24x FY27 EPS to arrive at a TP of Rs 325/share, implying an upside of 11% from the CMP.

Key Concall Highlights

- Order book** stands at Rs 6,581 Cr as of Q2FY25, with the following breakdown: 38% from Consultancy (Rs 2,542 Cr), 38% from Turnkey (Rs 2,506 Cr), 19% from Exports (Rs 1,240 Cr), 3% from Leasing (Rs 173 Cr), and 2% from the REMCL segment (Rs 120 Cr). Of the projects in the order book, 37% are through nomination, while the remaining 63% are secured via competitive bidding. The company secured 91 projects worth Rs 729 Cr during Q2FY25.
- Consultancy Segment:** Projects valued at Rs 327 Cr were secured in Q2FY25. This segment continues to be the top revenue and profit contributor, despite a 7% YoY decline in revenue. The company aims to maintain at least 40% of its order book in consultancy. The segment is facing increased competition as more orders are now obtained through competitive bidding rather than nominations. The Quality Assurance (QA) business experienced margin declines due to new orders being secured through competitive processes.
- Turnkey & Leasing:** New projects worth Rs 327 Cr in Turnkey and Rs 39 Cr in Leasing were secured in Q2FY25. The company anticipates margins in the Turnkey segment to remain between 2-3%.
- Export Segment:** The company won an export order of Rs 36 Cr in Q2FY25, raising the total export order book to Rs 1,240 Cr. Revenue from exports is expected to accelerate in FY26. The company is actively pursuing additional export orders and has bid for contracts in new regions. For orders in Zimbabwe, the company remains hopeful as Zimbabwean authorities seek funding from the Asian Development Bank.
- REMC Business:** Revenue for Q2FY25 stood at Rs 33 Cr, a 1.8% YoY decrease due to lower power generation activity, attributed to reduced wind velocity.
- Capex:** The company's capex target for FY25 is set between Rs 100-140 Cr, emphasizing its low-capex nature.
- Dividend Payout:** The board recommended a second interim dividend of Rs 1.75 per share for Q2FY25.
- Bonus Issue:** The company allotted 24,03,01,887 equity shares of Rs 10 per share as fully paid bonus shares in a 1:1 ratio on the record date of September 20, 2024. Additionally, the Authorized Share Capital was increased from Rs 300 Cr to Rs 600 Cr.

Key Risks to Our Estimates and TP

- Slower order wins may impact revenue growth.
- Higher competitive intensity may impact margins.

Change in Estimates

	New		Old		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	2,451	3,447	2,551	3,447	-4%	0%
EBITDA	528	762	665	907	-21%	-16%
PAT	379	545	482	661	-21%	-18%

Source: Company, Axis Securities Research

Result Review Q2FY25

(Rs Cr)	Quarterly Performance				
	Q2FY25	Q1FY25	Q2FY24	% Change (QoQ)	% Change (YoY)
Sales	541	486	582	11	(7)
Other Op. Inc	0	0	0		
Total Revenue	541	486	582	11	(7)
Expenditure					
Employee Benefit expense	121	130	119	(7)	2
Travel	14	11	14	34	0
Supplies & Services	269	216	275	24	(2)
Cost of Export sales	2	1	21	135	(89)
Cost of Turnkey Const. Projects	0	0	0	0	0
Transmission & Wheeling charges	0	0	0	0	0
Other Expense	28	22	16	27	80
Total Expenditure	434	380	445	14	(2)
EBIDTA	106	106	138	1	(23)
EBITDA Margins	19.7%	21.8%	23.7%	(210 bps)	(400 bps)
Oth. Inc.	21	22	26	(6)	(20)
Interest	2	1	1	129	68
Depreciation	15	14	14	3	6
PBT	110	113	149	(2)	(26)
Tax	29	25	40	17	(28)
Share of JV	1	2	1	(49)	(26)
PAT	83	90	110	(9)	(25)

Source: Company, Axis Securities Research

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
Net sales	2,453	2,451	3,447	3,957
Other operating income	0	0	0	0
Total income	2,453	2,451	3,447	3,957
Employee Expenses	492	512	672	752
Contribution (%)	80%	79%	81%	81%
Other Expenses	1,316	1,412	2,013	2,307
Operating Profit	644	528	762	898
Other income	86	89	103	119
PBIDT	730	617	865	1,017
Depreciation	61	58	68	76
Interest & Fin Chg.	5	7	9	10
E/o income / (Expense)	0	0	0	0
Pre-tax profit	665	551	788	931
Tax provision	175	139	205	242
PAT	490	413	583	689
(-) Minority Interests	40	37	38	44
Associates	5	3	0	0
Other Comprehensive Income				
Adjusted PAT	456	379	545	646
Reported PAT	456	379	545	646

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
Total assets	2,925	2,888	3,021	3,260
Net Block	512	554	586	630
CWIP	174	174	174	174
Investments	132	132	132	132
Wkg. cap. (excl cash)	1,009	969	1,233	1,346
Cash / Bank balance	778	740	577	659
other Assets	320	320	320	320
Capital employed	2,926	2,889	3,022	3,261
Equity capital	240	240	240	240
Reserves	2,369	2,331	2,464	2,704
Pref. Share Capital	0	0	0	0
Minority Interests	112	112	112	112
Borrowings	2	2	2	2
LT Provisions and others	14	14	14	14
Def Tax Liabilities	190	190	190	190

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
PBT	670	551	788	931
Depreciation	61	58	68	76
Interest Expense	5	7	9	10
Changes in Working Capital	-15	40	-264	-113
Others	-66	-89	-103	-119
Tax Paid	-223	-139	-205	-242
Net Cash from Operations	432	430	293	544
Capex	-137	-100	-100	-120
Investment	1	0	0	0
Others	123	89	103	119
Net Cash from Investing	11	-11	3	-1
Borrowings	0	0	0	0
Interest Expense	0	-7	-9	-10
Dividend paid	-457	-450	-450	-450
Others	-47	0	0	0
Net Cash from Financing	-504	-457	-459	-460
Net Change in Cash	-61	-39	-163	82
Opening cash	114	53	14	-149
Closing cash	53	64	51	133

Source: Company, Axis Securities Research

Ratio Analysis

(%)

Y/E March	FY24	FY25E	FY26E	FY27E
Sales growth	(6.7)	(0.1)	40.6	14.8
OPM	26.3	21.5	22.1	22.7
Oper. profit growth	(13.5)	(18.1)	44.3	17.9
Employee Expense / Net sales	20.1	20.9	19.5	19.0
Overheads/Net sales	53.7	57.6	58.4	58.3
Depreciation / G. block	6.5	5.6	6.0	6.0
Net kg.cap / Net sales	0.71	0.68	0.49	0.46
Net sales / Gr block (x)	2.6	2.4	3.0	3.1
RoCE	22.5	19.2	27.0	30.0
Debt/equity (x)	0.0	0.0	0.0	0.0
Effective tax rate	26.3	25.1	26.0	26.0
RoE	17.5	13.5	19.0	21.2
Payout ratio (Div/NP)	0.0	118.7	82.5	69.7
EPS (Rs.)	19.0	7.9	11.4	13.4
EPS Growth	(15.9)	(58.4)	43.9	18.4
CEPS (Rs.)	21.5	9.1	12.8	15.0
DPS (Rs.)	17.0	9.4	9.4	9.4

Source: Company, Axis Securities Research

Rites Ltd Price Chart and Recommendation History



Date	Reco	TP	Research
10-Feb-23	BUY	410	Result Update
22-May-23	BUY	410	Result Update
19-Jun-23	BUY	450	Company Update
01-Jul-23	BUY	450	Top Picks
31-Jul-23	HOLD	450	Result Update
25-Sep-23	HOLD	500	Result Update
02-Nov-23	HOLD	420	Result Update
03-Feb-24	HOLD	685	Result Update
30-May-24	HOLD	715	Result Update
01-Aug-24	HOLD	660	Result Update
08-Nov-24	BUY	325	Result Update

Source: Axis Securities Research

Disclaimer

Axis Securities Limited is a subsidiary company of Axis Bank Ltd. Axis Bank Ltd. is a listed public company and one of India's largest private sector banks and has its various subsidiaries engaged in businesses of Asset management, NBFC, Merchant Banking, Trusteeship, Venture Capital, Stock Broking, the details in respect of which are available on www.axisbank.com.

Axis Securities Limited, is registered as a

- Stock Broker, Depository Participant, Portfolio Manager, Investment Adviser and Research Analyst with Securities and Exchange Board of India
- Corporate Agent with Insurance Regulatory and Development Authority of India
- Point of Presence with Pension Fund Regulatory and Development Authority
- Distributor for Mutual Funds with AMFI

Registration Details:

SEBI Single Reg. No.- NSE, BSE, MSEI, MCX & NCDEX – INZ000161633 | SEBI Depository Participant Reg. No. IN-DP-403-2019 | Portfolio Manager Reg. No.- INP000000654 | Investment Advisor Reg No. INA000000615 | SEBI-Research Analyst Reg. No. INH000000297 | IRDA Corporate Agent (Composite) Reg. No. CA0073 | PFRDA – POP Reg. No. POP387122023 | Mutual Fund Distributor ARN- 64610.

Compliance Officer Details: Name – Mr. Maneesh Mathew, Tel No. – 022-68555574, Email id – compliance.officer@axisdirect.in;

Registered Office Address – Axis Securities Limited, Unit No.002, Building- A, Agastya Corporate Park, Piramal Realty, Kamani Junction, Kurla (W), Mumbai – 400070.

Administrative office address: Axis Securities Limited, Aurum Q Parc, Q2 Building, Unit No. 1001, 10th Floor, Level – 6, Plot No. 4/1 TTC, Thane – Belapur Road, Ghansoli, Navi Mumbai, Pin Code – 400710.

In case of any grievances please call us at 022-40508080 or write to us helpdesk@axisdirect.in.

We hereby declare that our activities were neither suspended nor we have defaulted with any stock exchange authority with whom we are registered in last five years. However, SEBI, Exchanges, Clearing Corporations and Depositories etc. have conducted the routine inspection and based on their observations have issued advise/warning/show cause notices/deficiency letters/ or levied penalty or imposed charges for certain deviations observed in inspections or in normal course of business, as a Stock Broker / Depository Participant/Portfolio Manager. We have not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has our certificate of registration been cancelled by SEBI at any point of time.

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

By referring to any particular sector, Axis Securities does not provide any promise or assurance of favourable view for a particular industry or sector or business group in any manner.

Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk-free return to the investors. Our research should not be considered as an advertisement or advice, professional or otherwise. This research report and its respective content by Axis Securities made available on this page or otherwise do not constitute an offer to sell or purchase or subscribe for any securities or solicitation of any investments or investment services for the residents of Canada and / or USA or any jurisdiction where such an offer or solicitation would be illegal.

Subject company(ies) may have been client during twelve months preceding the date of distribution of the research report. Derivatives are a sophisticated investment device. The investor is requested to take into consideration all the risk factors before actually trading in derivative contracts.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment of its original date of publication by ASL and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments.

The information and opinions in this report have been prepared by Axis Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of Axis Securities. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite, investment objective or the particular circumstances of an individual investor. The investor is requested to take into consideration all the risk factors including their financial condition, suitability to risk return profile and the like and take professional advice before investing.

While we would endeavour to update the information herein on a reasonable basis, Axis Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent Axis Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or Axis Securities policies, in circumstances where Axis Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained in good faith from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Axis Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Axis Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Axis Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months. Axis Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction. Axis Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months. Axis Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. Axis Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly,

neither Axis Securities nor Research Analysts and / or their relatives have any material conflict of interest at the time of publication of this report. Please note that Axis Securities has a proprietary trading desk. This desk maintains an arm's length distance with the Research team and all its activities are segregated from Research activities. The proprietary desk operates independently, potentially leading to investment decisions that may deviate from research views.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

Research Analyst may have served as an officer, director or employee of subject company(ies). Axis Securities or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report. Since associates of Axis Securities and Axis Securities as an entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest in various companies including the subject company/companies mentioned in this report. Axis Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. Certain transactions -including those involving futures, options and other derivatives as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Reports based on technical analysis centres on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

We and our affiliates/associates, officers, directors, and employees, Research Analyst(including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of Research Report or at the time of public appearance. Axis Securities may have proprietary long/short position in the above mentioned scrip(s) and therefore may be considered as interested. This should not be construed as invitation or solicitation to do business with Axis Securities. Axis Securities is also a Portfolio Manager. Portfolio Management Team (PMS) takes its investment decisions independent of the PCG research and accordingly PMS may have positions contrary to the PCG research recommendation.

RATING SCALE: Definitions of ratings

Ratings	Expected absolute returns over 12 – 18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.