



Strong Order Book & Pickup In Export Sales to Drive Growth

Est. Vs. Actual for Q3FY25: Revenue – MISS ; EBITDA Margin – MISS ; PAT – BEAT

Change in Estimates post Q3FY25 (Abs.)

FY25E/FY26E: Revenue: -6%/-7%; EBITDA: -9%/-7%; PAT: -5%/-8%

Recommendation Rationale

- **Healthy order book:** The company won 110+ orders worth Rs 1,933 Cr in Q3FY25. Its overall order book remains healthy at Rs 7,978 Cr, providing revenue visibility for the next 2-2.5 years. The consultancy segment comprises 35% of the order book, which is a high-margin business. Moreover, we foresee sustainable growth in the company's domestic and overseas consultancy businesses. Additionally, higher capital outlay in the budget for 2024-25 for Railways will act as a growth catalyst for the company.
- **Export verticle to support revenue growth:** The company has export orders worth Rs 1,320 Cr. Revenue from the export stream is expected to pick up from Q2FY26. Keeping this in view, we expect the company to grow its revenue at a CAGR of 27% over FY25-FY27E.
- **Higher competitive Intensity:** At present, new orders are being won through a competitive bidding process, and the share of nomination (higher margin) based orders has reduced to 37%, putting pressure on margins. We therefore foresee moderation in the margin profile from the earlier 26% to 20%-22% moving ahead and accordingly revise our estimates downward.

Sector Outlook: POSITIVE

Company Outlook & Guidance: The management has guided for 40% of export orders to be executed in FY26 and the balance 60% in FY27, with lower-than-historical margins. For FY26, the management expects at least 20% revenue growth and margins to be around 20-22%.

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

Current TP: Rs 305/share (Earlier TP: Rs 325/share).

Recommendation: We maintain our recommendation of **BUY** on the stock.

Financial Performance

RITES Ltd. reported a weak set of numbers during Q3FY25 with revenue of Rs 576 Cr (down 16% YoY), attributed to lower revenue in the Quality Assurance business, a decline in the Turnkey business due to projects being in the early stage, and delays in the Exports business due to geopolitical reasons. Its EBITDA stood at Rs 118 Cr (down 31% YoY), and PAT at Rs 110 Cr (down 15% YoY). The company registered EBITDA margins of 20.4% in Q3FY25 (our estimate: 21%) compared to 24.8% in Q3FY24.

During the quarter, RITES booked Consultancy sales of Rs 309 Cr (down 5.9% YoY), Export sales of Rs 1 Cr (down 98.7% YoY), Leasing sales of Rs 40 Cr (up 10.3% YoY), and Turnkey sales of Rs 223 Cr (down 12.9% YoY). The EBITDA margins of Consultancy and Leasing stood at 39.8% and 35.7%, respectively.

Outlook

Higher capex outlay in the Union Budget 2024-25 for Railways and Highways has provided the company with large opportunities to grow its business verticals. The company has a robust order book position with a clean balance sheet, high return ratios, and a healthy dividend payout. We expect the company to post revenues/EBITDA/APAT growth of 27%/33%/29% CAGR, respectively, over FY25-27E. However, owing to higher competitive intensity, pressure on margins will persist.

Valuation & Recommendation

The stock is currently trading at 24x/20x FY26E/FY27E EPS. We value the company at 24x FY27 EPS to arrive at a TP of Rs 305/share, implying an upside of 20% from the CMP.

Key Financials (Consolidated)

| (Rs Cr) | Q3FY25 | QoQ (%) | YoY (%) | Axis Est. | Variance |
|---------------|--------|---------|---------|-----------|----------|
| Net Sales | 576 | 6 | -16 | 615 | -6% |
| EBITDA | 118 | 10 | -31 | 129 | -9% |
| EBITDA Margin | 20.4% | 74bps | -436bps | 21.0% | -61bps |
| Net Profit | 110 | 33 | -15 | 97 | 14% |
| EPS (Rs) | 2 | 37 | -17 | 2 | 13% |

Source: Company, Axis Securities Research

(CMP as of 29th January, 2025)

| | |
|----------------------------|-----------|
| CMP (Rs) | 255 |
| Upside /Downside (%) | 20% |
| High/Low (Rs) | 413/243 |
| Market cap (Cr) | 12,397 |
| Avg. daily vol. (6m) Shrs. | 29,31,118 |
| No. of shares (Cr) | 48 |

Shareholding (%)

| | Jun-24 | Sep-24 | Dec-24 |
|--------------|--------|--------|--------|
| Promoter | 72.2 | 72.2 | 72.2 |
| FII's | 3.5 | 3.2 | 3.3 |
| MF's / UTI | 3.3 | 2.8 | 2.4 |
| Banks / FI's | 0.0 | 0.0 | 0.0 |
| Others | 21.0 | 21.8 | 22.1 |

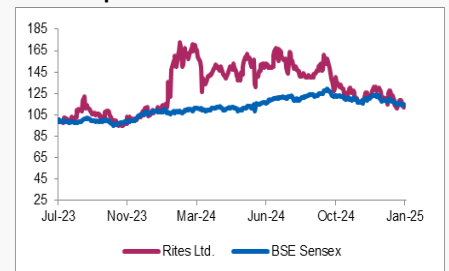
Financial & Valuations

| Y/E Mar (Rs Cr) | FY25E | FY26E | FY27E |
|-----------------|-------|-------|-------|
| Net Sales | 2,297 | 3,189 | 3,720 |
| EBITDA | 480 | 705 | 844 |
| Net Profit | 362 | 501 | 606 |
| EPS (Rs) | 8 | 10 | 13 |
| PER (x) | 33 | 24 | 20 |
| P/BV (x) | 25 | 17 | 14 |
| EV/EBITDA (x) | 4.7 | 4.6 | 4.2 |
| ROE (%) | 13 | 18 | 20 |

Change in Estimates (%)

| Y/E Mar | FY25E | FY26E | FY27E |
|---------|-------|-------|-------|
| Sales | -6% | -7% | -6% |
| EBITDA | -9% | -7% | -6% |
| PAT | -5% | -8% | -6% |

Relative performance



Source: Ace Equity

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Key Concall Highlights

- **Orderbook:** The order book stands at Rs 7,978 Cr as of Q3FY25. The order book break-up is as follows: 35% from Consultancy (Rs 2,773 Cr), 45% from Turnkey (Rs 3,574 Cr), 17% from Exports (Rs 1,320 Cr), 2% from Leasing (Rs 192 Cr), and 1% from the REMCL segment (Rs 120 Cr). 40% of the projects in the order book are through nomination, with the balance 60% through competitive bidding. During Q3FY25, the company secured 110+ projects worth Rs 1,993 Cr.
- **Consultancy Segment:** Projects worth Rs 563 Cr were secured in Q3FY25. Consultancy remained the highest revenue and profit-earning segment; however, Consultancy revenue was down 7.2% YoY. The company expects to maintain at least 40% of the order book from the consultancy business. The segment is facing stiffer competition than earlier, as most new orders are now coming through competitive bidding rather than on a nomination basis. During the quarter, the QA business was impacted, and margins declined as new orders secured were under competitive bidding.
- **Turnkey & Leasing:** In Q3FY25, new projects worth Rs 1,264 Cr and Rs 52 Cr were secured in Turnkey and Leasing, respectively. The Leasing segment reported revenue of Rs 37 Cr, up by 10% YoY, due to the induction of locomotives. The company expects margins in the Turnkey segment to hover between 2-3%.
- **Exports:** In Q3FY25, the company won an export order of Rs 54 Cr, bringing the export order book value to Rs 1,240 Cr. Revenue from the export stream is expected to pick up in FY26. Export revenue fell due to the supply of spares only during the 9 months.
- **REMC Business:** In Q3FY25, the REMC business recorded revenue of Rs 35 Cr, up 6.1% YoY, driven by increased revenue from consultancy activities.
- **Capex:** The company's Capex target is Rs 100-140 Cr for FY25. It's a low-capex business.
- **Dividend Payout:** The board has recommended 3rd interim dividend of Rs 1.9/share for Q3FY25. Total interim dividend till Q3FY25 amounts to Rs 4.9/share.

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 | 2,297 | 3,189 | 2,451 | 3,447 | -6% | -7% |
| EBITDA | 480 | 705 | 528 | 762 | -9% | -7% |
| PAT | 362 | 501 | 379 | 545 | -5% | -8% |

Source: Company, Axis Securities Research

Result Review Q3FY25

| (Rs Cr) | Quarterly Performance | | | | |
|---------------------------------|-----------------------|------------|------------|----------------|----------------|
| | Q3FY25 | Q2FY25 | Q3FY24 | % Change (QoQ) | % Change (YoY) |
| Sales | 576 | 541 | 683 | 6 | (16) |
| Other Op. Inc | 0 | 0 | 0 | | |
| Total Revenue | 576 | 541 | 683 | 6 | (16) |
| Expenditure | | | | | |
| Employee Benefit expense | 125 | 121 | 125 | 3 | (0) |
| Travel | 15 | 14 | 14 | 3 | 3 |
| Supplies & Services | 283 | 269 | 307 | 5 | (8) |
| Cost of Export sales | 17 | 2 | 8 | 652 | 111 |
| Cost of Turnkey Const. Projects | 0 | 0 | 0 | 0 | 0 |
| Transmission & Wheeling charges | 0 | 0 | 0 | 0 | 0 |
| Other Expense | 18 | 28 | 59 | (36) | (69) |
| Total Expenditure | 458 | 434 | 514 | 5 | (11) |
| EBIDTA | 118 | 106 | 169 | 10 | (31) |
| EBITDA Margins | 20.4% | 19.7% | 24.8% | 74bps | -436bps |
| Oth. Inc. | 38 | 21 | 17 | 81 | 127 |
| Interest | 1 | 2 | 2 | (58) | (44) |
| Depreciation | 16 | 15 | 15 | 7 | 7 |
| PBT | 139 | 110 | 169 | 26 | (18) |
| Tax | 35 | 29 | 42 | 21 | (18) |
| Share of JV | 5 | 1 | 2 | 373 | 189 |
| PAT | 110 | 83 | 129 | 33 | (15) |
| EPS | 2.1 | 1.5 | 2.5 | 37 | (17) |

Source: Company, Axis Securities Research

Financials (consolidated)

Profit & Loss

(Rs Cr)

| Y/E March | FY24 | FY25E | FY26E | FY27E |
|----------------------------|--------------|--------------|--------------|--------------|
| Net sales | 2,453 | 2,297 | 3,189 | 3,720 |
| Other operating income | 0 | 0 | 0 | 0 |
| Total income | 2,453 | 2,297 | 3,189 | 3,720 |
| Employee Expenses | 492 | 515 | 622 | 707 |
| Contribution (%) | 80% | 78% | 81% | 81% |
| Other Expenses | 1,316 | 1,302 | 1,863 | 2,169 |
| Operating Profit | 644 | 480 | 705 | 844 |
| Other income | 86 | 106 | 96 | 112 |
| PBIDT | 730 | 586 | 801 | 956 |
| Depreciation | 61 | 60 | 67 | 72 |
| Interest & Fin Chg. | 5 | 6 | 8 | 10 |
| E/o income / (Expense) | | 0 | 0 | 0 |
| Pre-tax profit | 665 | 521 | 725 | 874 |
| Tax provision | 175 | 129 | 188 | 227 |
| PAT | 490 | 392 | 536 | 647 |
| (-) Minority Interests | 40 | 38 | 35 | 41 |
| Associates | 5 | 8 | 0 | 0 |
| Other Comprehensive Income | | | | |
| Adjusted PAT | 456 | 362 | 501 | 606 |
| Reported PAT | 456 | 362 | 501 | 606 |

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

| Y/E March | FY24 | FY25E | FY26E | FY27E |
|--------------------------|--------------|--------------|--------------|--------------|
| Total assets | 2,925 | 2,867 | 2,954 | 3,151 |
| Net Block | 513 | 553 | 586 | 634 |
| CWIP | 174 | 174 | 174 | 174 |
| Investments | 132 | 132 | 132 | 132 |
| Wkg. cap. (excl cash) | 1,009 | 927 | 1,165 | 1,285 |
| Cash / Bank balance | 778 | 762 | 578 | 607 |
| other Assets | 320 | 320 | 320 | 320 |
| Capital employed | 2,926 | 2,868 | 2,954 | 3,151 |
| Equity capital | 240 | 240 | 240 | 240 |
| Reserves | 2,369 | 2,311 | 2,397 | 2,594 |
| 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 | 521 | 725 | 874 |
| Depreciation | 61 | 60 | 67 | 72 |
| Interest Expense | 5 | 6 | 8 | 10 |
| Changes in Working Capital | -15 | 83 | -239 | -119 |
| Others | -66 | -106 | -96 | -112 |
| Tax Paid | -223 | -129 | -188 | -227 |
| Net Cash from Operations | 432 | 433 | 278 | 498 |
| Capex | -137 | -100 | -100 | -120 |
| Investment | 1 | 0 | 0 | 0 |
| Others | 123 | 106 | 96 | 112 |
| Net Cash from Investing | 11 | 6 | -4 | -8 |
| Borrowings | | 0 | 0 | 0 |
| Interest Expense | | -6 | -8 | -10 |
| Dividend paid | -457 | -450 | -450 | -450 |
| Others | -47 | 0 | 0 | 0 |
| Net Cash from Financing | -504 | -456 | -258 | -460 |
| Net Change in Cash | -61 | -16 | 15 | 30 |
| Opening cash | 114 | 53 | 37 | 52 |
| Closing cash | 53 | 37 | 52 | 81 |

Source: Company, Axis Securities Research

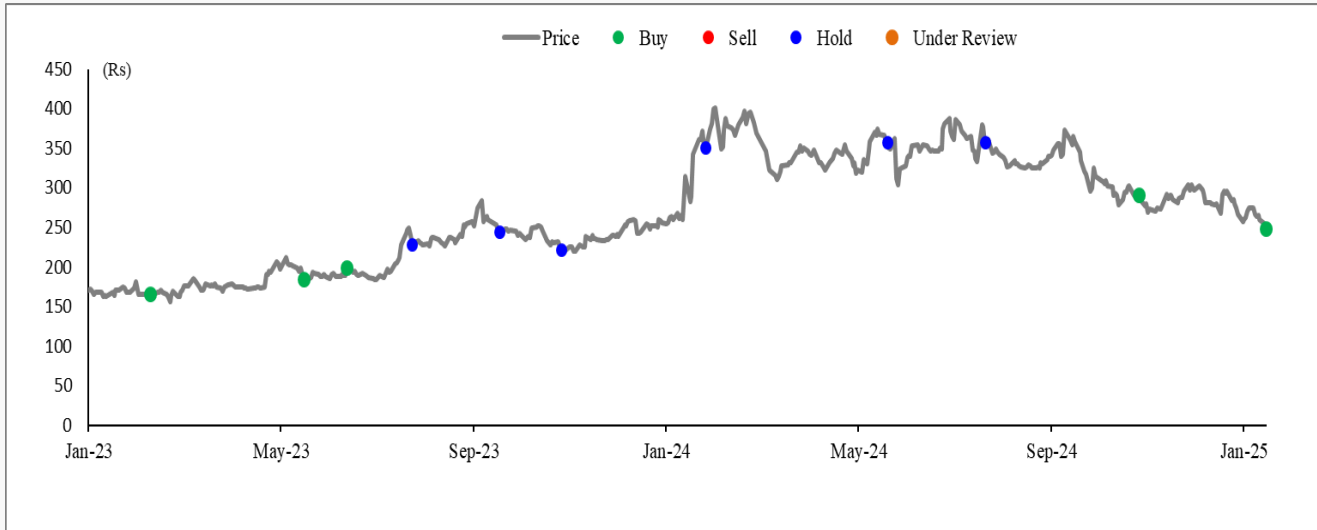
Ratio Analysis

(%)

| Y/E March | FY24 | FY25E | FY26E | FY27E |
|------------------------------|--------------|--------------|-------------|-------------|
| Sales growth | (6.7) | (6.4) | 38.8 | 16.6 |
| OPM | 26.3 | 20.9 | 22.1 | 22.7 |
| Oper. profit growth | (13.5) | (25.5) | 46.9 | 19.8 |
| Employee Expense / Net sales | 20.1 | 22.4 | 19.5 | 19.0 |
| Overheads/Net sales | 53.7 | 56.7 | 58.4 | 58.3 |
| Depreciation / G. block | 6.6 | 5.8 | 6.0 | 5.8 |
| Net wkg.cap / Net sales | 0.71 | 0.73 | 0.52 | 0.47 |
| Net sales / Gr block (x) | 2.7 | 2.2 | 2.8 | 3.0 |
| RoCE | 22.5 | 18.2 | 25.2 | 29.0 |
| Debt / equity (x) | 0.0 | 0.0 | 0.0 | 0.0 |
| Effective tax rate | 26.3 | 24.8 | 26.0 | 26.0 |
| RoE | 16.1 | 12.9 | 17.8 | 20.5 |
| Payout ratio (Div/NP) | 100.2 | 124.3 | 89.8 | 74.2 |
| EPS (Rs.) | 19.0 | 7.5 | 10.4 | 12.6 |
| EPS Growth | (15.9) | (60.2) | 38.5 | 20.9 |
| CEPS (Rs.) | 21.5 | 8.8 | 11.8 | 14.1 |
| DPS (Rs.) | 17.0 | 9.4 | 9.4 | 9.4 |

Source: Company, Axis Securities Research

Rites Ltd Price Chart & Recommendation History



| Date | Reco | TP | Research |
|-----------|------|-----|----------------|
| 10-Feb-23 | BUY | 205 | Result Update |
| 22-May-23 | BUY | 205 | Result Update |
| 19-Jun-23 | BUY | 225 | Company Update |
| 01-Jul-23 | BUY | 225 | Top Picks |
| 31-Jul-23 | HOLD | 225 | Result Update |
| 25-Sep-23 | HOLD | 250 | Result Update |
| 02-Nov-23 | HOLD | 210 | Result Update |
| 03-Feb-24 | HOLD | 343 | Result Update |
| 30-May-24 | HOLD | 358 | Result Update |
| 01-Aug-24 | HOLD | 330 | Result Update |
| 08-Nov-24 | BUY | 325 | Result Update |
| 30-Jan-25 | BUY | 305 | Result Update |

Source: Axis Securities Research

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