

**Lackluster Performance; Retain HOLD**
**Est. Vs. Actual for Q1FY25: Revenue – MISS ; EBITDA Margin – MISS ; PAT – MISS**
**Change in Estimates post Q1FY25 (Abs.)**
**FY25E/FY26E: Revenue: -13%/-7%; EBITDA: -13%/-7%; PAT: -13%/-7%**
**Recommendation Rationale**

- **Healthy order book:** The company won orders worth Rs 1300 Cr in Q1FY25, more than one order a day during quarter. The company's overall order book stands healthy at Rs 6,355 Cr giving revenue visibility for the next 2 years. The consultancy segment comprises 39% of the orderbook, which is a high-margin business. Moreover, we foresee sustainable growth in both the domestic and overseas consultancy business of the company. Further higher capital outlay in the i budget 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 1200 Cr. Revenue from the export stream is expected to pick up in H2FY25. Keeping this in view, we expect the company to grow its revenue at a CAGR of 19% over FY24-FY26E.
- **Higher Competitive Intensity:** Earlier company used to get 2/3 orders in the consultancy segment on nomination basis with high margins. At present new orders are being own through competitive bidding process and share of nomination based orders have reduced to 39% putting pressure on margins. We therefore foresee moderation in margin profile of the company moving ahead.

**Sector Outlook: POSITIVE**
**Company Outlook & Guidance:** The management refrained from giving any revenue guidance but guided for growth in EBITDA & PAT moving ahead. It also guided for more export orders moving ahead. Owing to higher competitive intensity, pressure on margin will persist.

**Current Valuation: 24x FY26E (Earlier Valuation: 24x FY26E EPS).**
**Current TP: Rs660 /share (Earlier TP: Rs 715/share).**
**Recommendation:** We maintain our **HOLD** recommendation on the stock.

**Financial Performance**

RITES Ltd. reported a weak set of numbers during Q1FY25 with revenue of Rs 486 Cr (down 11% YoY), due to poor performance in the Exports business and lower revenue in the Quality Assurance segment set off by growth in the remaining segments. Its EBITDA stood at Rs 106 Cr (down 34% YoY), and PAT at Rs 90 Cr (down 24% YoY). The company registered EBITDA Margins of 21.8% in Q1FY25 (our estimate: 27.5%) as against 29.6% in Q1FY24. Fall in revenue can be attributed to less QA, consultancy abroad and Exports during the quarter. Profit moderated on account for lesser revenue without corresponding change in cost. Margins impacted due to change in revenue mix, fall in exports & lesser margins in consultancy.

During the quarter RITES booked Consultancy sales of Rs271 Cr (down 11% YoY), Export sales of Rs 5 Cr (down 87% YoY), Leasing sales of Rs 34 Cr (up 9% YoY), and Turnkey sales of Rs 171 Cr (up 4% YoY). The EBITDA Margins of Consultancy/Leasing/Turnkey stood at 40%/38%/1.2% 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 19%/19%/20% CAGR respectively over FY24-26E. However owing to higher competitive intensity, pressure on margin will persist

**Valuation & Recommendation**

The stock is currently trading at 26x FY26E EPS. We value the company at 24x FY26E EPS to arrive at a TP of Rs660 /share, implying a downside of 9% from the CMP.

**Key Financials (Consolidated)**

(Rs Cr)	Q1FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	486	-24	-11	533	-9%
EBITDA	106	-40	-34	146	-27%
EBITDA Margin	21.8%	(560bps)	(780bps)	27.5%	(570bps)
Net Profit	90	-34	-24	108	-17%
EPS (Rs)	3.3	-34	-24	4.5	-17%

Source: Company, Axis Securities Research

 (CMP as of 1<sup>st</sup> Aug , 2024)

CMP (Rs)	722
Upside /Downside (%)	(9)
High/Low (Rs)	826/432
Market cap (Cr)	17,328
Avg. daily vol. (6m) Shrs.	32,55,000
No. of shares (Cr)	24.0

**Shareholding (%)**

	Dec-23	Mar-24	June-24
Promoter	72.2	72.2	72.2
FIIs	3.2	4.2	3.5
MFs / UTI	4.8	3.4	3.3
Banks / FIIs	0.0	0.0	0.0
Others	19.8	20.3	21.0

**Financial & Valuations**

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	2,453	2,551	3,447
EBITDA	644	665	907
Net Profit	456	482	661
EPS (Rs)	19	20	28
PER (x)	38	35	26
P/BV (x)	26	26	19
EV/EBITDA (x)	6.5	6.4	5.8
ROE (%)	17	17	22

**Change in Estimates (%)**

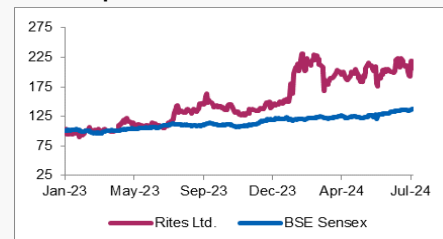
Y/E Mar	FY25E	FY26E
Sales	-13%	-7%
EBITDA	-13%	-7%
PAT	-13%	-7%

**ESG disclosure Score\*\***

Environmental Disclosure	NA
Social Disclosure Score	NA
Governance Disclosure Score	NA
Total ESG Disclosure Score	NA
Sector Average	49

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 2022 disclosures

**Relative performance**


Source: Ace Equity

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## Key Concall Highlights

- **Orderbook stands at Rs 6,355Cr as of Q1FY25:** The order book break up is as follows:39% from the Consultancy (Rs 2,492 Cr), 37% from the Turnkey (Rs 2,351Cr), 19% from the Exports (Rs 1202 Cr), 3% from the Leasing (Rs 190 Cr), and 2% (Rs120 Cr) from the REMCL segment. 39% of the projects in the order book are through nomination and the balance 61% is through competitive bidding. During Q1FY25, the company secured projects worth Rs 1301 cr.
- **Consultancy segment:** Projects worth Rs 293 Cr were secured in Q1FY25. Consultancy remained the highest revenue and profit-earning segment, though the segment's margins remained muted Consultancy revenue was down 10% during the quarter .The company expects to maintain atleast 40% of the orderbook from the consultancy business. Segment is facing stiff competition than earlier as majority of new orders are coming through competetive bid rather than on nomination basis. During the quarter QA business was impacted and margins declined as new orders secured were under competetive bidding process.
- **Turnkey & Leasing:** In Q1FY25, new projects worth Rs 54 Cr & Rs 48 Cr were secured in Turnkey and Leasing. The company expect margin in Turnkey segment to hover between 2-3 percent.
- **Export:** At present the company has 2 export orders for the supply of 10 locomotives with CFM Mozambique and supply of 200 locomotives to Bangladesh Railways. The order value of the 2 projects is Rs 1200 Cr.. Revenue from the export stream is expected to pick up in H2FY25. The company is working to obtain more export orders as it has bid for in new geographies. For Zimbabwe orders the company is hopeful to get finite orders as Zimbabwe authorities are working to get funding from Asian Developmnet Bank.
- **REMC business:** In Q1FY25, the business recorded revenue of Rs 35 Cr down 18% YoY on account of one-off additional consultancy revenue for RTC tender during Q1FY24. Growth in energy management activities continued
- **Capex:** The company's Capex target is Rs100-140 Cr for FY25. It's a low-capex business.
- **Dividend Payout:** The board has recommended interim dividend of Rs2.5 /share .
- **Bonus Issue:** The board has recommended to issue bonus shares in the ratio of 1:1 to existing shareholders.

## 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	2,551	3,447	2,921	3,699	-13%	-7%
EBITDA	665	907	768	973	-13%	-7%
PAT	482	661	553	713	-13%	-7%

Source: Company, Axis Securities Research

**Result Review Q1FY25**

(Rs Cr)	Quarterly Performance				
	Q1FY25	Q4FY24	Q1FY24	% Change (QoQ)	% Change (YoY)
<b>Sales</b>	<b>486</b>	<b>643</b>	<b>544</b>	(24)	(11)
Other Op. Inc	0	0	0		
<b>Total Revenue</b>	<b>486</b>	<b>643</b>	<b>544</b>	(24)	(11)
<b>Expenditure</b>					
Employee Benefit expense	130	124	124	5	5
Travel	11	18	13	(40)	(16)
Supplies & Services	216	292	191	(26)	13
Cost of Export sales	1	2	6	(39)	(83)
Cost of Turnkey Const. Projects	0	0	0	0	0
Transmission & Wheeling charges	0	0	0	0	0
Other Expense	22	31	50	(29)	(56)
<b>Total Expenditure</b>	<b>380</b>	<b>467</b>	<b>383</b>	(19)	(1)
<b>EBIDTA</b>	<b>106</b>	<b>176</b>	<b>161</b>	(40)	(34)
EBITDA Margins	21.8%	27.4%	29.6%	(560bps)	(780bps)
Oth. Inc.	22	24	18	(8)	23
Interest	1	0	1	163	14
Depreciation	14	16	16	(7)	(10)
<b>PBT</b>	<b>113</b>	<b>185</b>	<b>163</b>	(39)	(31)
Tax	25	50	43	(51)	(43)
Share of JV	2	2	0	(6)	
<b>PAT</b>	<b>90</b>	<b>137</b>	<b>119</b>	(34)	(24)

Source: Company, Axis Securities Research

## Financials (consolidated)

### Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
<b>Net sales</b>	<b>2,628</b>	<b>2,453</b>	<b>2,551</b>	<b>3,447</b>
Other operating income	0	0	0	0
<b>Total income</b>	<b>2,628</b>	<b>2,453</b>	<b>2,551</b>	<b>3,447</b>
Employee Expenses	509	492	519	672
Contribution (%)	81%	80%	80%	81%
Other Expenses	1,375	1,316	1,367	1,868
<b>Operating Profit</b>	<b>745</b>	<b>644</b>	<b>665</b>	<b>907</b>
Other income	102	86	95	121
<b>PBIDT</b>	<b>847</b>	<b>730</b>	<b>761</b>	<b>1,027</b>
Depreciation	67	61	64	74
Interest & Fin Chg.	7	5	7	9
E/o income / (Expense)	0	0	0	0
<b>Pre-tax profit</b>	<b>773</b>	<b>665</b>	<b>690</b>	<b>944</b>
Tax provision	203	175	175	246
<b>PAT</b>	<b>570</b>	<b>490</b>	<b>515</b>	<b>699</b>
(-) Minority Interests	29	40	35	38
Associates	1	5	2	0
Other Comprehensive Income	0.0	0.0	0.0	0.0
<b>Adjusted PAT</b>	<b>542</b>	<b>456</b>	<b>482</b>	<b>661</b>
<b>Reported PAT</b>	<b>542</b>	<b>456</b>	<b>482</b>	<b>661</b>

Source: Company, Axis Securities Research

### Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
<b>Total assets</b>	<b>3,019</b>	<b>2,925</b>	<b>2,991</b>	<b>3,239</b>
Net Block	531	512	548	574
CWIP	101	174	174	174
Investments	126	132	132	132
Wkg. cap. (excl cash)	997	1,009	1,009	1,250
Cash / Bank balance	890	778	808	790
other Assets	374	320	320	320
<b>Capital employed</b>	<b>3,019</b>	<b>2,926</b>	<b>2,991</b>	<b>3,240</b>
Equity capital	240	240	240	240
Reserves	2,364	2,369	2,434	2,683
Pref. Share Capital	0	0	0	0
Minority Interests	115	112	112	112
Borrowings	0	2	2	2
LT Provisions and others	20	14	14	14
Def Tax Liabilities	279	190	190	190

Source: Company, Axis Securities Research

**Cash Flow**

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
PBT	774	670	690	944
Depreciation	67	61	64	74
Interest Expense	7	5	7	9
Changes in Working Capital	-65	-15	0	-241
Others	-40	-66	-95	-121
Tax Paid	-183	-223	-175	-246
<b>Net Cash from Operations</b>	<b>560</b>	<b>432</b>	<b>491</b>	<b>420</b>
Capex	-136	-137	-100	-100
Investment	0	1	0	0
Others	71	123	95	121
<b>Net Cash from Investing</b>	<b>-15</b>	<b>11</b>	<b>-5</b>	<b>21</b>
Borrowings	-25	0.0	0.0	0.0
Interest Expense	0	0	-7	-9
Dividend paid	-433	-457	-450	-450
Others	-26	-47	0	0
<b>Net Cash from Financing</b>	<b>-483</b>	<b>-504</b>	<b>-457</b>	<b>-459</b>
<b>Net Change in Cash</b>	<b>64</b>	<b>-61</b>	<b>30</b>	<b>-19</b>
Opening cash	50	114	53	83
<b>Closing cash</b>	<b>114</b>	<b>53</b>	<b>83</b>	<b>64</b>

Source: Company, Axis Securities Research

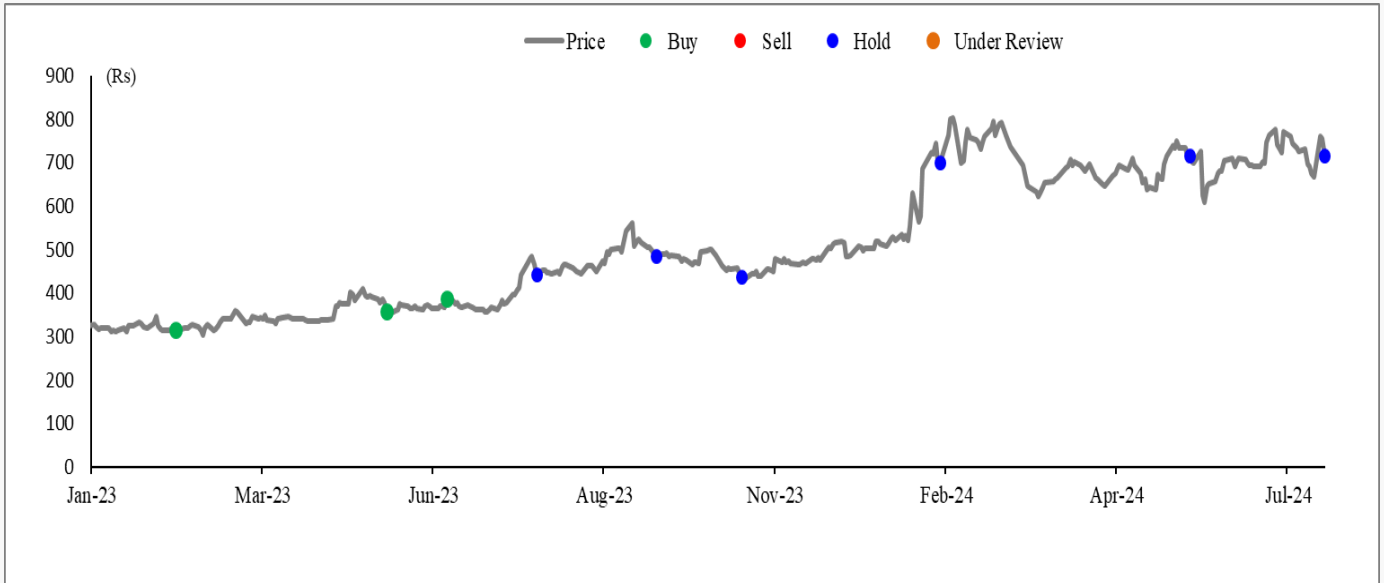
**Ratio Analysis**

(%)

Y/E March	FY23	FY24	FY25E	FY26E
<b>Sales growth</b>	<b>(1.3)</b>	<b>(6.7)</b>	<b>4.0</b>	<b>35.1</b>
<b>OPM</b>	<b>28.3</b>	<b>26.3</b>	<b>26.1</b>	<b>26.3</b>
Oper. profit growth	2.9	(13.5)	3.3	36.2
Employee Expense / Net sales	19.3	20.1	20.3	19.5
Overheads/Net sales	52.3	53.7	53.6	54.2
Depreciation / G. block	7.4	6.5	6.2	6.5
Net wkg.cap / Net sales	0.64	0.71	0.68	0.53
Net sales / Gr block (x)	2.9	2.6	2.5	3.0
<b>RoCE</b>	<b>26.8</b>	<b>22.5</b>	<b>23.6</b>	<b>30.6</b>
Debt / equity (x)	0.0	0.0	0.0	0.0
Effective tax rate	26.3	26.3	25.3	26.0
<b>RoE</b>	<b>19.6</b>	<b>17.5</b>	<b>16.8</b>	<b>21.9</b>
Payout ratio (Div/NP)	79.8	0.0	93.4	68.1
<b>EPS (Rs.)</b>	<b>22.6</b>	<b>19.0</b>	<b>20.1</b>	<b>27.5</b>
EPS Growth	5.0	(15.9)	5.8	37.1
CEPS (Rs.)	25.3	21.5	22.7	30.6
DPS (Rs.)	17.0	17.0	18.7	18.7

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

Source: Axis Securities Research

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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.

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