

Pick of the Week

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- In an ever-changing business environment, some of our investment ideas seem more convincing than others due to better earning visibility and/or attractive valuation. Every Monday, we bring you such fundamental stock ideas through our “Pick of the Week” report.
- **Investment Horizon:** Though the ideal investment horizon for such ideas remain 6-9 months, our picks may provide some profit-making opportunities even to short-term investors.
- **Risk-Return Profile:** Pick of the week ideas are the best high return research ideas at this point in time.

Scrip	Mcap (Rs Cr)	CMP (Rs)	Target Price *	Potential Upside (%)	Reco
BITES LTD	7,063	283	328	16%	BUY

* Note: Investment horizon Approx. 6-9 months., CMP as on 20th Dec, 2019.

RITES LTD

CMP (Rs)	Target (Rs)
283	328

MARKET DATA

No. of Shares	: 25 cr
Market Cap	: Rs 7,063 Cr
52-week High / Low	: Rs 325/161
BSE Code	: 541556
NSE Code	: RITES

Investment Rationale

- ❑ **Broad based performance continue:** RITES has continued its growth journey in Q2FY20, registering its highest ever quarterly and half yearly revenues and profits. Almost all the segments have shown continuous growth with healthy and sustainable margins. Turnkey business increased substantially growing 54%/40% YoY/QoQ showing increased pace of execution. Exports that contributed just Rs 1 cr in base year has contributed Rs 263 cr, growth is led by continued exports of DMUs and Locomotives to Sri Lanka. Leasing business has shown a growth of 24% YoY with revenue of Rs 29 cr. Consultancy revenue is lower largely due to prolonged monsoon affecting project management consultancy fee and some projects not reaching their billing stages. However, with projects in the pipeline management is confident of achieving ~10-11% growth in FY20.
- ❑ **Order book provides strong visibility:** RITES standalone order book stand at Rs 5,833 crore (~3x FY19 revenue). Management expect pickup in H2 would help them end FY20 with over Rs 8000 cr order book. Order book is expected to grow by +17 % in FY20 over FY19 which provides strong revenue visibility for next 2-3 years. Railways projects have started to roll out and RITES would be key beneficiary of this across all the transportation sector. Order book is well diversified with high margin consultancy and low margin turnkey business contributing 41% each. 16% pertains to exports order whereas as leasing business contributes least at 2.5%.
- ❑ **High Sustainable margins:** EBIDTA margin in Q2FY20 at 26.3 % rose by 130 bps on quarterly basis due to strong execution while increasing turnkey contribution resulted in fall in margins on yearly basis. Operating margin for consultancy is 48% for Q2FY20 while Turnkey business generated improved 4.2% operating margin. Turnkey order book is witnessing strong traction and stands similar to that of consultancy, however, execution period of turnkey projects is higher than consultancy. Consultancy business contribution in total revenue would remain stable in near term. Management has also guided for 25%-30% contribution from Turnkey business in revenue for full year FY20, hence, incremental order book within turnkey segment does not signifies margin dilution of more than 50-100 bps.
- ❑ Government investment has witnessed steep rise over the last few years, with continuation of policies within transportation infrastructure, the sector is set to open up large addressable market for RITES.
- ❑ We recommend a **BUY** on this stock with a TP of Rs 328

Financial Summary

Y/E March	Sales (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	Change (YoY %)	RoE (%)	RoCE (%)
FY19	2,047	470	18.8	37.1	19.2	28.1
FY20E	2,436	584	23.3	24.3	21.4	29.3
FY21E	2,875	685	27.4	17.4	22.0	30.2

Source: Axis Securities Estimates.

Performance

No of Stocks Matrix

<i>No of Stocks</i>	9m	15m
Met Target	20	34
Not Met Target	19	31

Performance Matrix

<i>% Return</i>	9m	15m
Met Target	12.78	12.27
Not Met Target	(7.02)	(15.74)

Benchmark Performance Matrix

<i>% Return</i>	9m	15m
Met Target	0.89	2.76
Not Met Target	3.88	6.42

Note : Performance of the pick of the week is calculated for stocks recommended from Mar-19 to Sep-19 for 9 Months and from Sep-18 to Oct-19 for 15 Months.

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