

RITES Limited
Q1 FY20 Results Conference Call
14th August, 2019

Moderator: Good afternoon ladies and gentlemen. I am Stanford, the moderator for this conference. Welcome to the Conference Call of RITES Limited arranged by Concept Investor Relations to discuss its Q1 FY20 Results. We have with us today Mr. Rajeev Mehrotra – Chairman and Managing Director and Mr. Parmod Narang – Chief Financial Officer. At this moment, all participants are in a listen only mode. Later, we will conduct a question and answer session. At that time, if you have a question you may press * then 1 on your telephone keypad. Please note this conference is being recorded. I would now like to hand the floor to Mr. Rajeev Mehrotra, Chairman and Managing Director. Thank you, and over to you sir.

Rajeev Mehrotra: Thank you very much. Good afternoon to all of you. I am Rajeev Mehrotra, CMD of RITES Limited and I have with me, my colleague and CFO Mr. Parmod Narang.

RITES Limited is a Mini-Ratna Category-I Schedule “A” public sector company and leading player in the transport consultancy and engineering sector in India. We have worked for about 45 years and undertaken projects in over 55 countries so far. Our key business segments are consulting, exports of rolling stock, leasing of rolling stock and turnkey contracts.

Now, I am going to talk about the highlights of company’s results for Q1FY20 and then we can open the forum for questions and answers.

Firstly, I will be discussing numbers on consolidated basis and then on standalone basis. After having a successful financial year 2018-19, RITES has continued its growth journey in the first quarter of FY20.

The company’s total revenue on consolidated basis have grown to ₹573 crore as against ₹390 crore in Q1FY19 thus registering a growth of 46.8% on year-on-year basis. Company’s revenue from operations has also gone up by 61.8% to ₹538 crore from ₹332 crore in Q1FY19. So, the growth in operational income is higher than the total income. Operating profit of the company for the quarter has increased by 51.3% and stands at ₹119.02 crore.

Q1FY19 had a provision or liabilities reversal of ₹25 crore which had resulted in a higher other income in Q1FY19. Due to this, if you compare Q1FY20, there appears to be a fall of 40.4% but this has to be understood with the correct perspective that there was a non-repeating one-off item in Q1FY19 which is not there in Q1FY20.

This has also led to moderate EBITDA and PAT growth of 13% and 11.3% respectively, and EBITDA and PAT now stand at ₹167crore and ₹102 crore respectively. The reversal of

provision/liability led to moderate EBITDA and PAT growth but by adjusting for this, EBITDA and PAT growth would have been 36.2% and 35.3% respectively. I will repeat that if we ignore this one-off item in Q1FY19, the EBITDA and PAT year-on-year growth for Q1FY20 would have been 36.2% and 35.3% respectively.

EBITDA and PAT margins stand at 29.1% and 17.8% respectively. While comparing margins on year-on-year basis; the impact of this provision or liabilities reversal of ₹25 crore during Q1FY19, had impact of 640 basis points on EBITDA and PBT margins and 420 basis points on PAT margins in Q1FY19. This has to be kept in view.

The earnings per share stand at ₹4.9 for Q1FY20 as compared to ₹4.35 for Q1FY19. So, that was summary of consolidated numbers.

Now, I move on to standalone basis. Company has shown growth in all its four segments, the company has recorded total income of ₹554 crore in Q1FY20 which is 50.3% higher on year-on-year basis. Company's revenue from operations has also grown by 67.2% to ₹519 crore from ₹311 crore in Q1FY19. Operating profit of the company for the quarter has increased by 67.3% and stands at ₹106.7 crore.

EBITDA for the first quarter of FY20 has been recorded at ₹151 crore which shows an increase of 16.6% on year-on-year basis. PAT of the company is up by 14.5% to ₹93 crore in the first quarter of FY20, as against ₹81 crore in Q1FY19. Similar to the consolidated earnings, growth in standalone EBITDA and PAT after adjustment of earlier specified provision liabilities reversal of ₹25 crore has been 44.5% and 43.4% respectively. I will repeat this paragraph again. That if we adjust this ₹25 crore one-off item, the growth of EBITDA and PAT on standalone basis would be 44.5% and 43.4% respectively. The earnings per share stands at ₹4.63 for Q1FY20 as compared to be ₹4.05 for Q1FY19.

Company's consultancy revenue has been growing consistently. Revenue from consultancy segment during last quarter stands at ₹ 233 crore which is 11% higher than Q1FY19 revenue of ₹ 210 crore. The increase can be attributed to higher business from railways, urban transportation and quality assurance businesses mainly. Company's leasing business has also shown a growth of 24.4% over Q1FY19 and recorded income of ₹29 crore in Q1FY20.

Company has been able to garner ₹128 crore in Q1FY20 from its turnkey business which is higher by 68.6% over corresponding period of previous year.

Exports have substantially increased with help of continued export of diesel multiple units and locomotives to Sri Lanka and spares to Myanmar. Export has almost grown 111 times on low base of Q1FY19 and has reached ₹129 crore in Q1FY20.

Company's standalone order book now stands at ₹6052 crore as on 30th June 2019 with a gross order inflow of ₹ 473 crore excluding the execution but including the reduction in scope

of work during the first quarter of FY20. This order book we expect to execute in the coming one to three years.

So, with this, our summary of performance is over. Now, we can open the line for questions and answers. Thank you very much for your kind attention.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Dixit Doshi from Whitestone Financial Advisors. Please go ahead.

Dixit Doshi: Sir firstly, in terms of this write-back of 25 crore so let's say out of the full year other income, what was the write back? Or it was just in the Q1 only?

Rajeev Mehrotra: We made provision for two items on account of pay revision. One was for pay revision of ₹8 crore, this was the left-over unused provision and another was post-retirement medical scheme for employees. Pay revision has been done from 1.1.17 and after doing all settlements, this was found to be unusable or not needed further, so put together we decided to write back this provision of ₹25 crore.

Dixit Doshi: Okay, so any particular reason for fall in other income quarter-on-quarter basis like even in the Q4 our other income was almost ₹51crore?

Rajeev Mehrotra: Well, what I suggest is that Q4 is normally the best quarter in case of RITES operations and Q1 is normally I will say the lowest one.

Dixit Doshi: Even in terms of other income?

Rajeev Mehrotra: Could be because there are items like export incentives or final translation exchange gain, few provision reviews/reversals etc., they actually are known finally at the year-end only. And not so much on the other competent of other income because those would mainly be interest income, which is evenly spread over. But overall, Q1 could be weaker than the Q4.

Dixit Doshi: Okay, because quarter-on-quarter also other income fall by almost ₹17- ₹18 crore?

Rajeev Mehrotra: You are saying year-on-year basis or previous quarter?

Dixit Doshi: No, quarter. So Q4 it was somewhat ₹52 crore and ₹Q1 was around 35crore.

Parmod Narang: In Q4FY19, other income stands at approx 47 crore. This revenue includes approx ₹31 crore from interest income, approx ₹8 crore from exports incentives, and exchange variation and approx ₹3 crore of income tax refund and remaining from miscellaneous sources.

- Dixit Doshi:** Okay. Secondly sir, in terms of our margins in the export segment, so in Q4 our margins were almost around 32%. Where as in Q1 in the export segment the margins were around 20-21%. So, any particular reason for this?
- Rajeev Mehrotra:** Look, our general guideline is that, around 15% to 20% [considering the un-allocable expenses] is the normal range we are able to maintain in exports. So, this quarter is close to that 19.9%. So, we are very close to 20%. There's one more detail to be shared here. We did export of some spares to Myanmar of about \$5 million. These spares normally have a lower margin than a full locomotive or coach. So, that has pulled down the overall margins but there's no reason to worry about the Exports margin and exports are taking place as scheduled.
- Dixit Doshi:** Yes, so that was my question. After the Q4 results analyst meet, we spoke that at the end of Q4 our export order book was around ₹1100 crore and that time we spoke that ₹500 crore to be executed within this year and around ₹600 crore will go to FY21. So, my two questions regarding that is firstly, are we on track to execute ₹500 crore this year? And second thing is, we also received ₹156 crore order in Q1. So, that will go into FY21?
- Rajeev Mehrotra:** Yes, in fact this will go towards second half of FY21. Let me answer the first one, broadly ₹450 to ₹500 crore is still the number we will be able to export in FY20. First order of DMU and Locomotives, we have to complete this year. Another order of coaches, we will try to start in March of this year. In case we are able to make shipment in March. Then we will also see some more revenue, then this could actually be 500 plus. If not, then what outlook we have given to you during Mumbai road show remains.
- Dixit Doshi:** Okay and last question from my side. Are we expecting any big consultancy order within next few let say remaining nine months of this year. Anything in the bids pipeline, if you can share?
- Rajeev Mehrotra:** Yes, there is couple of large projects in the pipeline. But I will not be able to share details because you know the budget has just been announced last month. And some projects have already started rolling out and we are working on it.
- Dixit Doshi:** But that will be on the road side or railway side?
- Rajeev Mehrotra:** Both. And just give us little more time; we will be shortly sharing that.
- Moderator:** Thank you. The next question is from the line of Santosh Hiredesai from SBICAP Securities. Please go ahead.
- Santosh Hiredesai:** So, I was just trying to understand in terms of our order book right now, where we have turnkey projects worth about ₹ 2400 crores. What's a typical execution timeline out here?

- Rajeev Mehrotra:** These projects are of three categories:- construction of second line or third line, electrification and railway workshops. So, the average period for this can be taken as two years, but these projects like workshops might actually go up to two and a half to three years.
- Santosh Hiredesai:** Sure, sir in that case, would it be fair to assume that you could probably looking at doubling your turnkey revenues in FY20 because from ₹560 crore, if you were to execute ₹ 2500 crore for two years are we looking at such as sharp jump because I think that momentum is slightly on the lower side in Q1, so I am just trying to understand how this would plan out in the coming year or so?
- Rajeev Mehrotra:** This will definitely be higher for current year, but it will not be doubled. I will not be able to really comment on it immediately. This will be higher than last year and this year it could be around ₹ 500 to 600 crore. But, a typical indication would be about 25% -30% basket of turnkey as segment currently.
- Santosh Hiredesai:** Sure, but would it be fair to say? Sure, no, because I am just trying to understand this 2500 crore to be executed over two and a half years would mean that a fair amount of execution has to come through. So if that were to move into FY21, would it all get bunched up in FY21. In that case?
- Rajeev Mehrotra:** There are some workshop projects which have come at the end, like this ₹ 2416 crore order book would have some projects just added. So in that, six months to one year is spent in designing and deciding procurement related issues. In my order book analysis, I am seeing that industrial engineering which we call workshops, have ₹867 crore of orders. So, these are latest additions and this will take time to get the designs approved from the client and set the machinery to be procured then this may actually spill over to third year.
- Santosh Hiredesai:** Alright, sir.
- Rajeev Mehrotra:** Work shop position as said, but electrification and doubling, you are right this will be over either this year or next year.
- Moderator:** Thank you. The next question is from the line of Nihal Kumar from Axis Securities. Please go ahead.
- Nihal Kumar:** Sir, can you give me an outlook on tax rate it has also gone up on yearly basis?
- Rajeev Mehrotra:** Our tax liability is already in the normal tax bracket. We don't have any other tax incentive as such. It is around 34% but let CFO answer the same.
- Parmod Narang:** It would be around 34% normally [the maximum tax bracket].
- Rajeev Mehrotra:** On standalone basis it is around 34%.

- Nihal Kumar:** Sir, in terms of order inflow can you give some guidance how has the quarter been?
- Rajeev Mehrotra:** In this quarter, we added around ₹473 crore of orders and it has components of all segments.
- Nihal Kumar:** Sir, whatever the proportion if you could give a breakup and how is the outlook on consultancy business?
- Rajeev Mehrotra:** Okay. Can I give you the numbers first on the year closing basis that is for quarter closing basis?
- Nihal Kumar:** Okay sir.
- Rajeev Mehrotra:** The quarter closing is ₹6052 crore which is almost 39-39% each is the consultancy and turnkey. Then about 19% exports and lease is 2.3%. Just give me some time to get the breakup of quarterly order inflow. We can get that as we go through. So Mr. Nihal, we will come back on this. Any other question, Mr. Nihal?
- Nihal Kumar:** Sir, I was talking about the EBITDA margin. So, what is the guidance for the year will it remain stable at current level?
- Rajeev Mehrotra:** In fact, if you see our standalone financials, we have actually improved the margin in consultancy also. So, on overall basis I see no reason to worry about margins and if you take into account this ₹25 crore one-off item in Q1FY19 then the real growth would be visible and then there is no reason for worrying about the current year's margin level.
- Moderator:** Thank you. The next question is on the line of Rohit Natarajan from Antique Limited. Please go ahead.
- Rohit Natarajan:** Sir, you said some qualitative remarks that there are lot of orders that are scheduled in plan and the budget is just out. The reason why I am touching back on the same question is that, we just had an order inflow close to 5 billion. And if this is the rate we maintain we can just replenish what the execution that we are planning for this year. So next year, effectively the top line could be flat. You said that in your strategy that you are looking at some bigger number that would you want to give some ballpark number?
- Rajeev Mehrotra:** Frankly, this doesn't seem to be the correct assessment of the situation. The several projects which government has announced in budget, they have started rolling out and we are trying to get whatever maximum work we can get out of these. So, this assumption that only replenishment to the extent of what is executed, is actually not valid. Rather, the incremental inflows could be more going forward.
- Rohit Natarajan:** Okay.

- Rajeev Mehrotra:** We will have to wait a little more to get more on the order inflow. But, I am optimistic that only the replenishment will not be the level.
- Rohit Natarajan:** Yes, and I appreciate optimism sir. Well, what I am trying to tell you is that can you quantify in terms of will it be in consultancy or will it be more a turnkey where exactly this opportunity lies?
- Rajeev Mehrotra:** Okay, we are also looking at some exports; we are also looking at some highway works outside India. We are also looking at some major rail projects here, where we are likely to get PMC.
- Parmod Narang:** Consultancy will grow at the rate as already said by CMD sir. ;In consultancy the growth is around 12 - 13% maximum. It can go up to a maximum of 15%.
- Rajeev Mehrotra:** But, order inflows in railways, exports and highway sector are in the pipeline. And more of this would be PMC for major projects. There are some major projects which are likely to come out. So, we are trying to get PMC there. PMC [Project Management Consultancy] is categorized as consultancy in our segments.
- Rohit Natarajan:** Okay. I appreciate this sir. But now, if I have to look into this quarter gone by the margins that we have reported. Sir, what is the reason why consultancy abroad margin seems to be a little bit volatile is there any qualitative remarks that you want to state over there? And at the same time leasing as well, leasing is also like a little bit from 48% it has gone to 44% is there something?
- Rajeev Mehrotra:** This will not be actually correct to see by just one quarter, if you see this on yearly basis FY17-18 and FY18-19, margins has been sustainable in leasing also.
- Parmod Narang:** Annual was 42.4%.
- Rajeev Mehrotra:** 40-42 is a very high margin
- Parmod Narang:** Annual was 42.5% and this quarter is 44.4% rather it has improved, if you compare annual and the quarterly numbers.
- Rohit Natarajan:** On a Y-o-Y basis in comparison to the corresponding quarter last year.
- Rajeev Mehrotra:** No, 44% is already a reasonably high margin. So I don't think that 47 or 48 would be maintainable 40 to 44 if we are able to maintain in leasing, then that will be good margin.
- Rohit Natarajan:** Okay. And, in consultancy abroad sir?
- Rajeev Mehrotra:** Consultancy abroad should normally be seeing the same margin. At times, what happens that the cost of manpower is already incurred, like the biggest overseas consultancy I have is

Mauritius Metro and in this the billing stage may not have come. The employee cost is being paid on monthly basis, so at times there could be spill over to the next billing cycle. Beyond that, I don't see any risk to any of the margins in India or abroad.

Parmod Narang: The margin remains in the same range.

Rohit Natarajan: Okay. And sir turnkey, this is going to be the effective run rate that we can maintain in terms of margin I am talking about.

Rajeev Mehrotra: Yes, 2.5 to 3 or maybe 3.3 as we did last time, could be indication for future and 20 to 30% in the overall basket would be turnkey revenue.

Moderator: Thank you. The next question is from the line of Sagar Shah from Alphaline Wealth Advisors. Please go ahead.

Sagar Shah: My first question is regarding your guidance actually, that you have given in your investor presentation. It's your further operating profit margin actually, that is around 23.2%, right? For entire you have given? So, I wanted to know, is that by adding other income that guidance you have given or excluding other income?

Parmod Narang: It is excluding other income.

Sagar Shah: EBITDA margin operating profit margin.

Rajeev Mehrotra: Operating profit margins, are excluding other income.

Sagar Shah: Okay. Because, your EBITDA margin currently without the other income stands at 24.3% for this quarter. So, you are guiding for 110 basis points lower for the entire year. So that means for the remaining three quarters are we envisaging a lower EBITDA margin?

Rajeev Mehrotra: No, you have to understand this 23.2% is the minimum benchmark set for certain efficiency parameters of management or performance. It does not mean that it will stop there. So 23.2%, I will say is the lowest barrier rate we will definitely try to cross but not the upper limit.

Sagar Shah: Okay, that's a kind of a minimum that you are envisaging?

Rajeev Mehrotra: Minimum, Yes.

Sagar Shah: Okay. And my second question sir was regarding to your ₹ 2300 crore revenue guidance that you have given in the last quarter for FY20 correct. So, in that and your order book also now the proportion of your turnkey projects is nearly almost 40% and you are saying that you are executing these turnkey projects within two, two and a half years. So, in these ₹ 2300 crore

what can be the contribution of turnkey projects, because your margins in these turnkey projects is the lowest if I see your segmental performance?

Rajeev Mehrotra: Around ₹600 crore is likely this year, slightly 5-10% here and there we can see because, at times government wants to priorities some projects. Like electrification projects do get more expeditious attention, if that happens may be 5-10% increase in revenue.

Sagar Shah: But nearly ₹600 crore due to envisage? and 12 to 13% growth for consulting domestic right?

Rajeev Mehrotra: Yes, 12% to 15%, we are hopeful that looking at the market scenario, Railway projects, Metro projects, and highway we will be able to do.

Sagar Shah: And for exports?

Rajeev Mehrotra: Exports are expected to be around ₹ 450- 500 crore. We are working on some new exports orders as well, but at this stage I cannot comment on this because this is either under negotiation or evaluation. So, this depends on a lot of other factors.

Sagar Shah: Will we maintain this run rate of ₹ 130 crore for the next three quarters if not more or if not less?

Rajeev Mehrotra: The current year between ₹450 crore to ₹500 crore, we will be able to maintain.

Sagar Shah: Okay 450.

Rajeev Mehrotra: 450 to 500 would be there. We will try to expedite if we can push some more coaches in March but that looks slightly difficult because in India also the demand is very high. Production units may not be able to match up with the schedule of ours because of their annual production plans.

Sagar Shah: And for consulting domestic, are we finding any opportunities in the metro front in other states because you mentioned in Patna, Agra and Bihar that is why I am asking.

Rajeev Mehrotra: We are working for getting work in couple of metro projects but till that materializes I will not be able to commit more. But, the answer is yes. We are looking at opportunities there and we are hopeful that we will get some of them.

Sagar Shah: In this year or next year?

Rajeev Mehrotra: Yes, this year.

Moderator: Thank you. The next question is from the line of Pawandeep Bhatia from Phoenix Capital. Please go ahead.

Pawandeep Bhatia: Little bit late on the call. So, I don't know if this question was answered before. Sir, I can see our order book dependence on turnkey was around 22-23% last year. And this time it is 40-41% and turnkey projects I find them in the lower margin compared to our consultancy and exports. So how are we placed on the margin guidance front? And another question that I wanted to ask is, what is the order book inflow guidance for the FY20? That's it sir.

Rajeev Mehrotra: Okay, first of all, on turnkey side we have answered this question, that turnkey could continue to be about 20 to 30% of the overall revenue and the margins there would be 2.5% to 3% or 3.3% as we achieved last year with some cost management. So the margin range is 2.5% to 3.3% in turnkey, that's first part.

Pawandeep Bhatia: How do we expect to safeguard our overall margins on the consolidated level if this tomorrow becomes little bigger because the government is pushing railway budgets very aggressively. So, are we protecting on the consolidated basis? Are the margins protected, because our consultancy and exports do very well on the margin.

Rajeev Mehrotra: Exports order book is also very good right now. And I think just before you joined, I commented that we are also in discussions for more export orders and that may also materialize. Consultancy per se will remain static or will not grow is not a correct understanding. There are several major projects which are being rolled out. So in fact, you might see a good growth in consultancy also. So there's no reason to believe that only one segment will increase. In fact, we have a situation in this quarter where everything has increased, the turnkey has increased but so has the leasing business, the consultancy business has increased, exports have increased. On exports, I have given you the outlook that it will continue to be in the range of ₹450 to 500 crore this year. And this quarter, the margin in export is slightly lower because one order of spares of \$5 million, we had exported. Spares normally don't give high margin. But this order is over.

Pawandeep Bhatia: FY20 we can expect that this is the same range of margins trajectory on the blended basis where we were in FY19?

Rajeev Mehrotra: No those were on little higher side. Actually, some spares etc are given with every export as free items and I think some of the items could not be shipped in March and this has gone now, so some of the carryover could be there. A sustainable margin would be around 20% in exports, plus minus 10% here and there can happen.

Pawandeep Bhatia: So blended we are talking about 25-26%?

Rajeev Mehrotra: This can also come because if the dollar rupee has now gone to 71. So this is giving about ₹2 extra on each dollar exported. So this could also help in enhancing margins this year.

Pawandeep Bhatia: And sir what is the order inflow scenario for FY20 the new order inflow?

Rajeev Mehrotra: New order, it's very difficult to commit an order inflow but safe to believe around ₹2000 plus crore. Already, in first quarter despite the budget being in July, we already clogged in about ₹475 crore. There is every reason to be optimistic, actually beyond that I don't think I should comment. But we are looking at some export orders, we are looking at some Metro projects, we are looking at some major PMC work for railway projects. We are also looking at one international highway consultancy.

Moderator: Thank you. The next question is from the line Kunal Seth from B&K Securities. Please go ahead.

Kunal Seth: Sir, my question was on exports. Typical what is the execution cycle for the export order book?

Rajeev Mehrotra: The exports, we are doing are of normally two to three categories, one is locomotives and typical time for manufacturing of a locomotive is 12 months to 18 months. Similarly, for coaches, it is about 9 to 15 months. Before that, there is a lot of discussion on designs, design clearance, moving dimensions clearance by the client. So, that takes anytime between six months to one year. Now, for the shipments to Sri Lanka, all these stages have been crossed. So, these are now under manufacturing.

Kunal Seth: Okay. And currently, what part of order book, export order book will be Sri Lanka large part of it?

Rajeev Mehrotra: Yes, this is mostly Sri Lanka right now, but we are looking at other orders also. And this is also largely coupled with line of credit from India. So, we are looking at those countries which need railways equipment's, who have line of credit. There are cases where possibilities exist immediately.

Kunal Seth: And sir, you mentioned that you are also looking at some of the opportunities in exports, other countries as well. So, which could be the potential this could largely be in the SAARC region?

Rajeev Mehrotra: SAARC in any case we have been doing, when I say SAARC region, the broad gauge countries mainly are Bangladesh and Sri Lanka. They look at India's products with the same moving dimensions and same standards. We are also now looking at cape gauge countries which are in Africa. Cape gauge is very close to our meter gauge. Looking at markets in Africa, we are developing some prototypes and also working on standard gauge and meter gauge products. Meter gauge countries in SAARC are Myanmar, then Thailand also has meter gauge, there is interest in Vietnam also for meter gauge. So, we have to actually now create some prototypes and start marketing that. Off course the immediate possibility seems to be on the Cape gauge segment, which we are looking at.

- Kunal Seth:** Sir so supplying there will be dependent on line of credit or is there any other approval process that we need to go through?
- Rajeev Mehrotra:** The exports so far have been mainly Indian government line of credit linked, but we can get orders for other funded schemes also. For Africa, there is African Development Bank, here ADB also funds infrastructure projects. We have given bid in one ADB funded tender for Bangladesh. But normally the thrust has been on the Indian line of credit supported exports.
- Kunal Seth:** And sir on the consultancy side you mentioned that you are also looking at an overseas order. So, where would be that highway order that you are talking about.
- Rajeev Mehrotra:** Little wait is required because unless that negotiation concludes, we will not be able to tell the country or the amount. Very soon maybe in next 45 days this should materialize and then we will inform everybody.
- Kunal Seth:** Sure. And sir this is a bidding order or nominations?
- Rajeev Mehrotra:** This is on bidding basis. We are already L1 there. But the amount and country just give me a little more headroom.
- Moderator:** Thank you. The next question is from the line of Swechha Jain from ANS Wealth. Please go ahead.
- Swechha Jain:** I wanted to know, in last call there was some discussion around investment of close to ₹ 50 crore in redevelopment subsidiary, so just wanted to know your thoughts are we planning to make that investment in this year or there is no plan B on that?
- Rajeev Mehrotra:** Actually, there is still discussion going on, on that we have not concluded as yet. We are still discussing some issues in the business plan, so that's where we are. After that only, we will be able to take a clear decision. But we have decided to go ahead for engineering support to them and that is our part of normal consultancy business.
- SwechhaJain:** Okay, thank you so much sir. Another question I wanted to know was, in the MOU target of ₹ 2300 crore, I think we were targeting 1185 crore from the consultancy business in FY20. In this quarter we have achieved only 20% of that target; so, where do we see ourselves reaching that target, are we very comfortably placed or are we going to surpass that number sir?
- Rajeev Mehrotra:** ₹2300 crore target, I am very confident we will be able to reach, the turnover as well as the margin. There is absolutely no threat to both the things.

Swechha Jain: Sir, the last question is the order book as on March 2019 was ₹6097 crore and as on June it is ₹6052 crore. So, can you explain the inflow of the order book between the opening and closing number?

Rajeev Mehrotra: The standalone order book when we are saying this order book is standalone, it does not include orders of our subsidiary railway energy management company. Against opening, we have recorded ₹ 519 crore as standalone revenue. So that goes out from the order book and some component of the inspection fees, because inspection we take only three months in our order book. While we have recorded revenue of ₹519 crore almost there is an equal inflow. So the order book has slightly gone down to ₹ 6052 crore.

Swechha Jain: Okay, and inspection fees is not included right?

Rajeev Mehrotra: Inspection fee in order book is included only for one quarter.

Moderator: Thank you. The next question is from the line of Abhilasha Satale from Dalal and Broacha. Please go ahead.

Abhilasha Satale: I want to know; what is working capital requirement for your consultancy business, export business, as well as turnkey business. Is it different for the different businesses and also for exports, like how is currency management done?

Rajeev Mehrotra: Okay, let me start from the last i.e. turnkey. In turnkey, there is no requirement of working capital; we get the funds in advance from the client, then only we make the disbursement. So there's no working capital requirement for turnkey projects and therefore, the margins are low and therefore, possibly it is justified even at low level of margins. Because there's no construction risk, no time over-run risk and no working capital requirement. So that's turnkey. Now we come to exports. In most of the export orders, it's only linked to line of credit including the export of spares.. So, there we receive advance payment, make advance payment to suppliers. There is hardly any working capital requirements except our employees who are working on the export orders because that we bill only when the shipments happen. Therefore, very meager working capital is required for exports. For consultancy businesses, I will categorize this in two components. One is what is already built and to be paid by the client. So, that takes about a cycle of two to three months, maybe sometimes four months. So, this is one requirement. Second is, if your employees have worked on a project, but the billing cycle has not come yet i.e. the billing stage has not come yet, in such cases we have to pay one to three months salaries and wait for the billing to happen. Beyond this, there's no working capital requirement. And typically, we are able to manage with around 400 to 500 crore of working capital overall.

Abhilasha Satale: Okay. And it will be.

- Rajeev Mehrotra:** It's a zero debt company. We do not have any working capital limits or credit requirements. Now the last question you have was on the currency risk. We are allowed to hedge, we can sell/buy dollar forwards, futures and options. Board has approved a policy and depending upon the market conditions, we take a call.
- Moderator:** Thank you. The next question is from the line of Harshit Kapadia from Elara Capital. Please go ahead.
- Harshit Kapadia:** Couple of questions from my side. So, in the last analyst meet, we had a conversation that, you were expecting some turnkey order inflows because of delay in budget, some of the electrification projects or doubling lines were not awarded. So, now almost one and a half month has been passed for budget. Are we seeing any kind of movement here?
- Rajeev Mehrotra:** That is going on.
- Harshit Kapadia:** So how is there a quantum that you can give us?
- Rajeev Mehrotra:** It would not be possible Mr. Harshit. I think I already cleared that we are looking at some export businesses, some highway orders, some Metro projects are under discussion and there are some interesting railway projects which are also under discussion.
- Harshit Kapadia:** I am specifically talking for turnkey inflows?
- Rajeev Mehrotra:** Turnkeys are under discussion, but it will take some time to get this, maybe few weeks more.
- Harshit Kapadia:** Okay. Coming to maybe large projects order inflows, some of the news articles were stating that two to three more DFCs have been planned apart from the ones which are already in operational stages. High speed rail is also one of the projects which is coming up, even semi high-speed. So, do you expect any of the orders from these three categories to come this year and if we can highlight what would be the size where RITES could be standalone entity to any of the projects or it would be in a JV format?
- Rajeev Mehrotra:** The new DFCs are yet to get approval of the Government. These are at different stages of consideration. So, which one comes first and what role we get we have to wait a little more. One project which has moved faster is Delhi-Mumbai conversion to semi high speed or 160-kilometer speed. That government has approved and we are trying to see what meaningful role can be given to us. This could be consultancy or in whatever way the government wants, we are working on this.
- Harshit Kapadia:** And what will be the size of this project?
- Rajeev Mehrotra:** The media indication of this cost is about ₹ 11,000 crore. This may be requiring complete change of signaling, electric traction, all crossings to be closed, fencing at certain crowded

areas and several old bridges to be rebuilt. This may take three to five years in execution. We are trying to see that we get a meaningful role there and I am optimistic. Beyond this it is very difficult to comment on the numbers which can impact RITES' numbers.

Harshit Kapadia: Okay, what about high speed rail any movement there, sir?

Rajeev Mehrotra: High speed rail, I am not aware of any other project except Mumbai-Ahmedabad, which has reached the approval stage in government. But yes there are different projects which are being thought of. As per publically available information, there is a very strong case for Delhi-Chandigarh-Amritsar line. There is again a very strong case for Hyderabad-Chennai- Bangalore and this is being now talked to be also connected to Vijayawada-Hyderabad-Chennai-Bangalore. These are some of the options being looked at. But I think at least one or two of them should come up.

Harshit Kapadia: Okay. And sir can you give us what would be the CAPEX that you plan for this in FY20 and breakup in terms of how many locomotives do you plan to acquire as well as you are also planning to get some real estate as in some office space for your business that would be helpful.

Rajeev Mehrotra: So right now, we are looking at CAPEX for locomotives of about ₹50 crore. Which may see about five to six locomotives but it will have to slightly go up by another ₹20 crore because there's some more possibility. So we will take CAPEX for locomotive as ₹70 crore. Then CAPEX for buildings - we are having a very well located plot in Calcutta, we need to construct our office, inspection office and a laboratory. We have a laboratory in Calcutta so we will put them all at one place, this is on Rajarhat road. Office buildings in Lucknow and Delhi will also be coming up. In all, we are keeping ₹200 crore for buildings.

Harshit Kapadia: Okay. So total CAPEX would be ₹ 250 crore?

Rajeev Mehrotra: As we talked about ₹ 50 crore for IRSDC, though we have not yet concluded the deal. That is what immediately in mind, rest will see how the situation emerges, whether we need to put more equity somewhere else. Nothing lined up so far.

Harshit Kapadia: And sir what would the cash and bank balance as on June 2019?

Rajeev Mehrotra: The total cash and bank balance on our own fund is ₹ 1153 crore.

Moderator: Thank you. The next question is from the line of Nihal Kumar from Axis Securities. Please go ahead.

Nihal Kumar: Sir my question is on the side of REMCL, one part is what is the power generation part and second within REMCL what are the other business areas, what is its outlook and how do we book revenues and profit in this?

- Rajeev Mehrotra:** Okay, I thought you are asking about the order book inflow composition?
- Nihal Kumar:** Yes, sir.
- Rajeev Mehrotra:** Okay, can I answer that and then come to the REMCL business?
- Nihal Kumar:** Yes, sir sure.
- Rajeev Mehrotra:** Net order inflow in Q1FY20 has been:- for consultancy ₹295 crore, exports 160, leasing 17, and turnkey 2 crore [this inflow includes the new orders secured as well as addition and deletion to the existing scope or work]. Now coming to the REMCL, basically it has got three key businesses. First, power generation through wind mill. There is one wind mill plant in Jaisalmer. Two units in this plant were down for about one and a half months for maintenance, therefore there is a slight fall in the generation and fall in revenue of approx ₹3 crore. All units are operational now. Second business is power procurement; we procure power for railways, on medium term contract basis. Now third one is doing solar power installation for railways. All solar related energy installations will be done, managed by REMCL. So these three businesses are there. In REMCL, consultancy has gone up by about ₹2 crore, consultancy here means the power procurement fee. Am I clear or you want me to explain further?
- Nihal Kumar:** So power generation we have a separate segment for reporting it, while the other businesses are inculcated in consulting part correct?
- Rajeev Mehrotra:** Yes, that's right.
- Nihal Kumar:** Okay, and sir regarding the order inflow number that you have just given so turnkey was little tepid during this quarter?
- Rajeev Mehrotra:** Because the budget has come in July so all the projects will now start rolling out. There was almost no net addition to order book in turnkey.
- Moderator:** Thank you. The next question is from the line of Chintan Sheth from Sameeksha Capital. Please go ahead.
- Chintan Sheth:** Sir couple of questions, in your commentary most of the order inflow or outlook guidance you mentioned about exports, you mentioned about PMC projects at railways and consultancy in overseas, highway side. We are going slowly on turnkey or that is a conscious decision or are we actually looking at more turnkey leading after the budget, as you mentioned going forward?

- Rajeev Mehrotra:** Final budget is out, so now actually projects have started being taken out. So it's not correct to say that we have not got the turnkey projects we will get, and we will get a reasonably good share in that.
- Chintan Sheth:** No, I am saying whether we are focusing on getting more turnkey orders after our experience of past two years, because that's a new line of business which we have started a couple of years back when we got the nomination orders from railways. So, I am just trying to understand whether our focus is there in getting more turnkey orders going forward or are we kind of, first to complete the existing order in hand and then as and when it progresses, we will opportunistically look into turnkey?
- Rajeev Mehrotra:** Actually Mr. Chintan. We are looking at new projects but any project which comes now, the signing of the contract will take two to four months, then you start designing and make engineering scale plan then submit to railways, about 12 to 15 months will be lost only in preparatory phase. So whatever I am taking now could actually start working in FY21 and or so. So we need to have projects in the basket to keep working on them. And not necessarily as soon as they come, they will start generating revenues. But we are ready to have a basket because this is risk free for me. There is no working capital blocked and the same set of people handled these projects too. Last year rather we had about 3% reduction in manpower. If same set of people are generating more profits for me, why we should not do turnkey jobs.
- Chintan Sheth:** Right. I am going to come to that question only, our employee count has also reduced from previous year. So, are we comfortable with this trend or we looking to add more employees is just a time lag between the old employees getting out and new employees getting recruited getting on board and we can see uptick in employee numbers as we go forward?
- Rajeev Mehrotra:** Okay, the manpower control is definitely a thought-out process. We are open to more when the orders expand. Just looking at June to June comparison, there is definitely a fall of about 87 employees over last year. There are some inductions going on and if we are able to get the projects which we are discussing, like there are some metro projects, there are some building projects then there is no reason to believe that more inductions will not happen. We are open to do that.
- Chintan Sheth:** So, we are looking at adding more employees. So the current quarterly generate of ₹ 130-135 odd crore of employee cost will continue for this year at least that we should bake-in current year?
- Rajeev Mehrotra:** Yes, there is no major expansion plan, in terms of employees cost.
- Chintan Sheth:** Here and there 2, 3, 5 crore may be but not major?
- Rajeev Mehrotra:** Absolutely.

- Chintan Sheth:** Okay. And sir lastly on the SAIL JV, we were hopeful that few more color on SAIL JV if you can provide a last year I remember January or last quarter we were running our shop almost 100% utilization. So, how was that JV is performing now and what kind of numbers we can expect for sale JV this year?
- Rajeev Mehrotra:** This has got a maximum capacity of 100.
- Chintan Sheth:** Yes, every month.
- Rajeev Mehrotra:** Yes, so we have brought it to that level but there is some shift in the way free items were given earlier, like certain free items are given by railways. But now they are asking us to procure ourselves. So, I think in that cycle, there could be a small spill over to lower side. Our ordering and supply system has started we are in a position to maintain this.
- Chintan Sheth:** Okay, and sir lastly on export. We supplied in last quarter Q4FY19 we supplied one DMU you said, this quarter looks like we have supplied one number?
- Rajeev Mehrotra:** One locomotive of 3000 horsepower and one train set.
- Chintan Sheth:** So it will get completed in Q2 that is first half or the one we already supplied which is not accounted for right now. And one is still pending right, there are four DMU you said train set order we got from Sri Lanka, if I remember correctly?
- Rajeev Mehrotra:** 6 DMUs.
- Chintan Sheth:** Okay, so you got 6 orders DMU set, one we supplied in fourth quarter of 19, one we supplied in this quarter Q1 of 19 and one we have supplied but he has not booked revenue that will come in second quarter of 20?
- Rajeev Mehrotra:** No, for one revenue is booked in July and one has gone in August also and one more is getting ready. So we try to complete all this by September, which we are already set to do.
- Chintan Sheth:** Then there will be December quarter will be kind of blank and March as you mentioned?
- Rajeev Mehrotra:** Two - three locomotives would spill over to Q3. One train set as I said, the target is to complete in September, and buyer is in a hurry. Actually they need to put all this into service.
- Chintan Sheth:** Okay. And the fourth quarter you will see if the shipment happens then some percent of ₹ 600 crore will come this year as well.
- Rajeev Mehrotra:** Yes. Absolutely. Right.
- Moderator:** Thank you. The next question is from the line of Swechha Jain from ANS Wealth. Please go ahead.

- Shraddha Jain:** Earlier you told me this inspection fees included in the ₹ 519 crore of revenue. Can you just give me the breakup of the inspection fee in this, Sir.
- Rajeev Mehrotra:** Okay. ₹ 85 crore of inspection fee is included in overall standalone order book of the ₹ 6052 crore.
- Swechha Jain:** Okay, and sir just a clarification, the MOU of ₹ 2300 does not account for the inspection fee for next year?
- Rajeev Mehrotra:** No, this is complete operational income and includes inspection fee. It does not include other income which could be in the range of ₹ 200 crore.
- Swechha Jain:** Okay, thank you sir.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for closing comments.
- Rajeev Mehrotra:** Thank you ladies and gentlemen, for your kind attention and questions. I hope we have been able to answer this to your satisfaction. Should you still have some more clarification, you can write to us. And let me again request you to understand the profitability in the right perspective. Because, I think there's a lot of misgiving on the fallen margins. If you compare, comparable numbers of Q1FY19 and then Q1FY20. With adjustment of ₹25 crore in other Income, the answers will be correct. There is no threat to our margin and we are on track to achieve or maybe cross our target of ₹ 2300 crore. Thank you very much for your attention.
- Moderator:** Thank you very much sir. Thank you all for being a part of this conference call. If you need any further information or clarification, please mail at gaurav.g@conceptpr.com. Ladies and gentlemen, this concludes your conference for today. Thank you for using Chorus Call Conference Services and you may now disconnect your lines.

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