



“RITES Limited Q3 FY2020
Post Result Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the RITES Limited Q3 FY2020 Post Results Conference Call, hosted by SBICAP Securities Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I, now, hand the conference over to Mr. Santosh Hiredesai from SBICAP Securities. Thank you, and over to you, sir.

Santosh Hiredesai: Thanks, Aman. On behalf of SBICAP Securities, I would like to welcome all participants who have today dialed in for the call. Also, I would like to thank the management of RITES for giving us the opportunity to host them to investors and analysts.

To discuss the Q3 and nine months fiscal 2020 numbers and share the outlook, we have with us RITES management represented by Shri. Rajeev Mehrotra, Chairman & Managing Director; Shri. BP Nayak, Director Finance; Shri. Parmod Narang, Chief Financial Officer and investor relations' team.

I now hand over the call to the management for their opening remarks followed by questions and answers. Over to you, Sir.

Rajeev Mehrotra: Thank you. Good afternoon to all of you, I am Rajeev Mehrotra, CMD of RITES Limited, and with me, I have our Director Finance Mr. BP Nayak, CFO Mr. Narang and investor relations' team.

RITES Limited is a Miniratna Category-I Schedule “A” public sector enterprise and a leading player in the transport consultancy and engineering sector in India, having diversified services and geographical reach. RITES

Limited is the only export arm of Indian Railways for providing rolling stock overseas, other than to Thailand, Malaysia and Indonesia.

Now, I am going to talk about the highlights of company’s results of Q3 FY20 and nine months FY20 and then, we can open the forum for questions and answers.

Since almost 96%-97% of our revenue is from standalone business, we will just give the consolidated numbers, which are close to the standalone numbers and the standalone numbers are already available in the presentations we have uploaded yesterday on the website, if that is fine, I will just go through the consolidated numbers.

The company's total revenue on consolidated basis has grown to Rs. 663 crore as against Rs. 583 crore in third quarter of FY2020, registering a growth of 13.9% Y-o-Y basis. The company's revenue from operations (i.e. excluding other income) has also grown by 15.9% to Rs. 620 crore from Rs.535 crore in Q3 FY2020

Operating profit of the company for the quarter has increased by 8.1% and stands at Rs.157 crore against Rs.145 crore in Q3 FY2019. EBITDA and PAT have grown by 4.7% and 10.5%, respectively, and now stand at Rs.214 crore and Rs.150 crore, respectively. EBITDA and PAT margin stand at 32.2% and 22.6%, respectively.

The earnings per share stands at Rs.5.86 for Q3 FY2020 as compared to 5.19 for Q3 FY2019.

I would like to give a view on the segments. From consultancy segment, the company generated a revenue of Rs. 285 crore against Rs.278 crore in Q3 FY2019. Consultancy has given gross margin of 46.5%.

The company's leasing business has shown a steady growth of 14% over Q3 FY2019 and recorded income of Rs.31 crore in Q3 FY2020. Leasing business margin has remained healthy at 34% during the quarter.

Exports revenue during the Q3 FY2020 stands at Rs.91 crore as against Q3 FY2019 export of Rs 101 crore. Export margins have been at 21.3%. Supply of remaining two locomotives out of the one previous order of 10 locos from Sri Lanka is shifted to this Q4 quarter, these are already at the port.

The revenue from turnkey construction projects has reached Rs.196 crore in Q3 FY2020 with increase of 72.5% over Q3 FY2019. Turnkey segment gross margin stands at 3.1%.

The company's consolidated order book now stands at Rs.5782 crore as of December 31, 2019. Gross order inflows on standalone basis have remained at Rs.470 crore. This order book gives us the revenue visibility for next two to two-and-a-half years from now.

I would also like to comment on nine month of FY20 consolidated results. The company's total revenue on consolidated basis has grown to Rs.2120 crore as against Rs 1450 crore in nine months FY20, registering a growth of 46.2% year-on-year basis.

The company's revenue from operations has also grown by 45.3% to Rs.1904 crore from Rs.1310 crore in the comparable period in FY19.

Operating profit of the company for the quarter has increased by 28.2% and stands at Rs.464 crore. EBITDA and PAT have grown by 34.3% and 44.2%, respectively, and now stand at Rs.719 crore and 489 crore, respectively.

The earnings per share has grown by almost 47.1% and stand at Rs.19.08 per share for nine months of FY20 as compared to 12.97 for nine months of FY19.

With these numbers, I can say that the company is on track to achieve FY20 target and now, we can open the line for questions and answers. Thank you.

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 Akshay Bhor from Premji Invest. Please go ahead.

Akshay Bhor: Sir, the first question is more on the order book side. I think, the last quarter you said that maybe by the end of the year, you could be at Rs. 8000 crore kind of a number, any changes in your expectation and if you could give us some color on what is the kind of project that you are L1 on both export and domestic sides?

Rajeev Mehrotra: First, I will touch upon the export side, we have actually been successful in one major export order. I am giving you an indicative figure because the price is still being discussed so around Rs.650 crore is the export order and it is very significant for us because for the

first time, this order is coming from a cape gauge country. There are about 17 cape gauge countries. for the first time, we are securing a coach and loco order from cape gauge market and we are the only successful bidder now.

We are discussing the documents and further formalities. Hopefully by March, this order should be in our hands as the tender has been opened only in the first week of January.

Now, the second part. Yes, I did indicate that we hope to end the year with Rs 8000 crore order book. There were 2-3 important indicators in our mind when we said that, one was this export order which I already discussed, second is the inflow of turnkey contracts. If you notice, the turnkey order book has not seen much increase in this year. The reason is that the policy of turnkey contracts was under revision, which has been approved and notified only on December 27.

So, we would start seeing the projects under this scheme coming February and March onwards. I hope to see a reasonable share in that. So, we still maintain the optimism. I will say that we might end this March around Rs. 8000 crore, but then the entire Turnkey execution would actually would fall in at 2021 and beyond.

Akshay Bhor: Second question is on your export revenue. Should we assume that your Rs 700 crore of export order book, you should be executing in the next year of FY2021? I mean, should you be able to execute all of that in FY2021?

Rajeev Mehrotra: I think majority of this would be. If there is a shift, it may be of 15%-20% to next to next year. We will try to do at least Rs 550 to Rs 600 crore in FY2021. Sometimes, design changes or some changes in the composition of trains from the client side, delay the issues. The two DMUs which are on the existing design would be shipped in **next year**, and then there is another major order of 160 coaches from Sri Lanka, which would start by Q3 of next year onwards.

Akshay Bhor: Got it, Sir. Just one last question if I may, couple of new ventures are coming out....one is the station redevelopment, if you could give us some color on your participation there and what kind of opportunity you see that space. Second, private operators running the Indian

Railways on certain routes, do you see that as an opportunity for you or that is not something that you will be participating with? Then may be any color on these two will be helpful?

Rajeev Mehrotra: On first, we have been looking at station development as an opportunity area going forward. For the time being our equity commitment to them is 24% which is Rs.48 crore to be precise. We have not yet given any equity payout. We are discussing with other shareholders, the participation agreement etc to position RITES in this big expanding area and also see the possibility of using our engineering skill sets, at arm's length, for about 400 to 600 stations which are being planned to be taken up in first few years. So I think, this is a twin objective venture of, being a shareholder and also trying to see, if we can get some engineering business as well. RITES has a very strong engineering team and I think both look optimistic as of now. Few of the stations, you would notice, are already out for bidding like Amritsar, Chandigarh, Bijwasan, Anand Vihar etc. Further, the government has also reviewed the underlying conditions for leasing of this land for station development. So, my view is that this is an emerging area and these land parcels being in the heart of the city would definitely offer many more options to any real estate developer.

Akshay Bhor: Got it, Sir and on the second piece.

Rajeev Mehrotra: We are right now assisting the ministry as a transaction advisor for this transaction and this will take some more time before the final conditions are notified. Beyond the role of the transaction advisor in this, right now, we are not looking at any investment opportunity in this as such. We will see how this emerges and do we have any possibility or any way we can be associated, but nothing right now. But I should say that this is an interesting area because first time such operations on open access are being permitted in India. As of now, there is no investment proposal by RITES is in hand or under consideration of the company.

Akshay Bhor: Got it Sir, thank you.

Moderator: Thank you. The next question is from the line of Anupam Goswami from Pioneer Invest. Please go ahead.

Anupam Goswami: Sir, the first question is on the turnkey project, what sort of margins can we expect going forward right now? The second question is on how much are we focusing on non-railway kind of business opportunities in the coming future?

Rajeev Mehrotra: Currently, opportunities are definitely going to be there in railway sector whether it is doubling, third line or electrification and as I already said, the policy has been finalized in December. Earlier the policy was to offer 8.5% fee on cost plus basis, which is now put to bidding with-in IR PSUs to comply with the internal procurement requirements by railways. We are trying to see that we optimize the margins on the business already in hand and if you would notice that in Q3 margin has been at 3.1% which is slightly higher than the indication we had given that margins would be about 2% to 2.5%. So, currently the margins we are able to maintain at 3.1% but to your answer going forward, there is no upper cap. There was upper cap of 8.5%, we can build in the margin depending upon the level of difficulties in the project, location, remoteness, the other infrastructure issues in reaching out to that place. So, I think this actually is a better proposition than a fixed rate which is uniform for every location. There is nothing to worry on account of the margins in this segment going forward and in any case as we have said earlier also, we do not intend to become a turnkey company. It is safe to believe that 25% or may be maximum 30% revenue could be expected from this business segment.

Anupam Goswami: Secondly, Sir, what is your proposition on the non-railway project and how much opportunities can we see in that segment?

Rajeev Mehrotra: Well, I think I will take Metro first. Lot of metro projects have come to bidding stage. I am told that about 13 tenders are already out either for detail designing or GC work with the value aggregating to Rs 1400 crore. We are participating in almost all of them either alone or in consortium and even if we secure a reasonable portion, I think this would be a comfortable position in the metro sector opportunity. Similarly for the airports, a major announcement of 100 new airports. I think we are the largest consulting arm for Greenfield

airports here and we would see that to what extent we can grab these opportunities either solely or with other consultants depending upon the assignments. Also, we are looking at the highways, because highways sector is also undergoing a very big expansion. We will see in what way we can get more involvement with the highways sector which is expanding. Besides railways, I see good opportunities in metros, airports and highways, in terms of volume, but otherwise we are also looking at ports, inland waterways and our subsidiary REMCL has already got a mandate from railway for renewable energy. So, with the recent announcement of renewable installations around the tracks, we should be able to get reasonably good involvement there. One more area is the integrated check posts, we have been working for the Ministry of Home in developing integrated check posts on the Indian land bordering with different countries. Recently, we succeeded in getting one ICP on competition basis at Nepalgunj in Nepal side being funded by MEA. So, these projects give you a variety of our diversity and also the opportunity, which we see in other than railway sectors as well.

Anupam Goswami: Sir, right now what is the mix of railway and non-railway?

Rajeev Mehrotra: Railway consultancy revenue is 62% railways, rest is other sectors of urban transport, highways, urban development, airport, port etc.

Anupam Goswami: Okay, Sir I will join back in the queue.

Moderator: Thank you. The next question is from the line of Harshit Kapadia from Elara Securities. Please go ahead.

Harshit Kapadia: Sir, I just wanted to check with you that in the budget, there was announcement on the Bangalore suburban railway network of Rs 18600 crore. I remember you had mentioned that Mumbai-Delhi corridor is what we were looking at, so similarly, do you anticipate anything to get from the Bangalore suburban railway?

Rajeev Mehrotra: The prefeasibility for this project has been done by us. I have said that we are trying to get a meaningful role even in DPR and/or implementation stage and that positivity still remains. We are trying to see if we can, in anyway, either through competition or

nomination work as a general consultant. This will be implemented by a company called KRIDC, the Karnataka Railway Infrastructure Development Company, and let us see how this progresses, but it is a very significant project and we are trying.

Harshit Kapadia: And what could be the opportunity size of this Rs 18600 crore for us?

Rajeev Mehrotra: Well, it is very difficult to give any commercial, but normally such projects would see design and supervision element anything between 4% to 7%, can vary depending upon what type of responsibilities are given.

Harshit Kapadia: And any update on the Mumbai-Delhi corridor, Sir?

Rajeev Mehrotra: Yes, we are optimistic about it, it is a very challenging project. No decision has been taken as yet on this, we are hopeful that we will get some role there.

Harshit Kapadia: Second thing, Sir you had highlighted in the Q2 con call that you will be doing some Capex of Rs70 crore for this year with the locomotives buying some land that you will be looking at for offices. So, can you highlight what is the Capex number for this year... is that Rs 70 crore or are you looking at any additional Capex?

Rajeev Mehrotra: No, no this we are trying to restrict to 70 crore only. We were trying a combination of either new locomotives or in-service locomotives which are now available from railways. Actually instead of new, we are trying to get in-service locomotive which would be a better value proposition, as railways is reducing their use of diesel locomotive.

Harshit Kapadia: Sir, would this also reduce your Capex requirement as well, if you are looking at in service locos?

Rajeev Mehrotra: This might actually go down by almost 30% -40%.

Harshit Kapadia: Sir, what is the position of working capital cycle at this point in time?

Rajeev Mehrotra: An important payout in working capital cycle right now is dividend and dividend tax. If you look at December numbers, we had cash of Rs 1291crore against that, first and second

dividend, board has announced for the another dividend of Rs.4 per share, would be Rs 301 crore and rest is capex in locomotive, building etc., for working capital Rs. 400 crore, some software, office equipment etc. Rs. 36 crore and some towards employees retire benefits Rs. 40 crore. Roughly against Rs 1291 crore this is a plan or commitment available for Rs 1177 so roughly you can say Rs 120 crore is cash available.

Harshit Kapadia: How are the receivable, are they stretched in this very challenging business environment at this point in time or are you receiving payment across your client end?

Rajeev Mehrotra: The receivable recovery peak time is this quarter (Q4) and we are working on this and we hope to maintain the receivable at the end of March. Earlier, I had indicated that we have one major receivable from Sri Lanka, a part of this will be realized very soon. Balance sheet has not been put for the quarter. Half yearly and annually it is being disclosed, so, I think we would reserve this for detailed explanation with March numbers.

Moderator: Thank you. The next question is from the line of Rohit Natarajan from Antique Stock Broking. Please go ahead.

Rohit Natarajan: Sir, you hinted that in 6.5 billion export orders you are about to finalize and that will be concluded in March. Sir, could you throw some color on the margin profile of that export order? How would it look like because we are seeing even in the current order backlog, there are volatility in the margins that you book. So, what should be the margin assumption and when will the revenue start kicking in from this particular new incremental export order?

Rajeev Mehrotra: My sincere request is let us not discuss margin on a particular order in public domain because then it has impact on the competition. There is already an indication given that exports would typically see 15% to 25% range depending upon the level of changes, design changes or warranty period etc. So, what I suggest that since this order is still under concluding stages, we do not talk about the margins of this in particular and in-general indication I have already given.

Rohit Natarajan: I understand your constraints. Sir, moving onto the construction segment, we are expecting maybe close to 15 billion of order in the remaining months to conclude in FY2020, even if let us assume you win a good portion over there, when will the construction begin where I am coming from is that if I look at FY2021 numbers if these export orders do not conclude and even if the construction orders that incrementally you win that may not contribute significantly to FY2021. So, are we staring at a flattish growth in FY2022?

Rajeev Mehrotra: If you look at the order book of Rs 5700 crore, there is enough to keep us busy in FY2021 also. This new order of exports even it is signed say by March, because in several countries these orders actually go up to their higher officials maybe in the cabinet committees also, so maybe it may take a month extra here and there. But even it happens in April, initial 3-4 months would be actually spent in closing the design and first prototype is supplied and then based on that, the remaining shipments happen. So, effectively what order we are talking of export today should see shipment not before March 2021.

Rohit Natarajan: In terms of construction let us assume even if you win a good, what is the order inflow assumption that you have for construction business and when do you expect that to start kicking into the revenue?

Rajeev Mehrotra: Well, currently, we have got Rs 2200 crore in hand already. So the activity in FY21 would definitely be driven by execution of these. Estimated pipeline is about Rs 24000 crore of projects, expenditure portion only not the project value. We may get 5% to 10%-12%, so Rs. 1300 to 2000 crore seems to be reasonable but this would again depending upon the bidding. But we are targeting around Rs. 1500 to 2000 crore and based on this, I had indicated the order book might actually be Rs. 8000 crore at the end of FY2020.

Rohit Natarajan: In terms of the turnkey part you said that the new policy got approved and notified in the last phase of December and if I understand correctly, what is the current prequalification that we have in terms of winning the turnkey contracts, because currently, if I look at the situation, RVNL and IRCON probably are better placed to win the big-ticket orders...are we confine to smaller-ticket orders or how is the strategy going ahead in this particular space?

Rajeev Mehrotra: Well, I think this is too early to accept any sort of levels within this. But yes, if you are comparing with RVNL, their whole focus is on turnkey type projects. So we are not looking at the size, which RVNL would be looking, our indication I have already given you that out of likely Rs. 24000 -25000 crore expenditure in next year, it is safe to believe Rs. 1500 to 2000 crore order book and we are targeting around Rs. 400 to 500 crore of electrification projects and some 300 km of doubling line. So, as initially I have said, we will not be whole of the turnkey execution company but we would definitely like to keep around 25%- 30% in the turnkey portfolio also and that still remains valid.

Rohit Natarajan: That is it from my side as of now...should there be any other questions, I will get back in to queue.

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

Pankaj Bobade: Congratulations for excellent set of results. Sir, just in one of your remarks you mentioned that you will be go slow next year in execution... did I hear right and what do you want to convey regarding that?

Rajeev Mehrotra: . No. I think there is absolutely a serious communication gap. Rather we should go as fast as possible.

Pankaj Bobade: My mistake, Sir.

Rajeev Mehrotra: What I was trying to say that for turnkey execution, we already have an order book of say Rs.2264 crore as of 1st January. Assuming 10% of this is done in last quarter, still there is big turnkey order book in any case, which has to be executed significantly in next year. So, there is no question of slowdown. I can never commit that type of execution.

Pankaj Bobade: My mistake. Sir, just wanted to understand we have around Rs. 5700-odd crore sorry Rs. 5800 crore of order book what is the life of this and what was the gross order inflows for this quarter and lastly, in last question, you mentioned we would be targeting some turnkey projects and the numbers you had given... can you please just repeat those numbers?

Rajeev Mehrotra: Rs. 5782 crore is the order book. I have also indicated that in the pipeline is an export orders of about Rs. 650 crore. Now, beyond this, of course, a major proportion would be turnkey because turnkey orders would start flowing sometime in March only, and we are targeting that we should be able to take around Rs. 1500 to Rs. 2000 crore of new orders on the turnkey segment also.

Pankaj Bobade: 1500 to 2000 crore?

Rajeev Mehrotra: Yes, Rs. 2000 crore. You also asked about the net order inflow in Q3. this is 470 crore net inflow (standalone) and the consulting order book has gone up. You may like to take note of this, the consulting order book has gone up.

Pankaj Bobade: Okay, which is high margin right?

Rajeev Mehrotra: Yes.

Pankaj Bobade: What would be the life of these projects Rs. 5800 crore by when we will be completing it?

Rajeev Mehrotra: It is very difficult to give you a number.

Pankaj Bobade: Just ballpark.

Rajeev Mehrotra: Ballpark is two to two-and-a-half years, something will move fast like existing exports would actually be completed in about 12 months or maybe 13 months. The new turnkey contracts will take first three to four months to get the design clearances, then another three months for bidding etc. Any turnkey project which we get now would actually start looking at revenue from seven to eight months onwards.

Pankaj Bobade: Additional order which you are targeting which means like the turnkey Rs 1500 to 2000 crore, exports and others?

Rajeev Mehrotra: We report significant orders separately, the other smaller consultancy inflows will remain. Smaller contracts Rs. 5, 10, 15 crore that keeps accumulating as a routine. Comfortable position appears as of now and the best effort is going to be for the turnkey part now

because that is on bidding. The export order of Rs 650 crore, I have already said that we are almost certain, it maybe **March, maybe April**, depending upon how client approvals move.

Pankaj Bobade: So that would take our order book to Rs 8000 crore... so, anything beyond that?

Rajeev Mehrotra: No, let us first try to manage upto Rs. 8000 crore.

Pankaj Bobade: Will we be able to maintain our margins around this 20% to 25%?

Rajeev Mehrotra: The broad indication for margins we have told for EBITDA, when I say EBITDA, this includes other income component as well, is at around 30%-35% and at PAT level, 22% to 23%. This is a broad guideline we have been sharing and even in this quarter, we are there and also in nine months.

Pankaj Bobade: Sure Sir, thanks a lot and good luck.

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

Kunal Sheth: I have a few questions on the consulting side, so our consulting revenue has been muted for the first nine months, so while you tell that it was partly because of rain-led delay in Q2 so if you can give us some sense of how should we look in the consultancy revenue for this year as well as next year.

Rajeev Mehrotra: Yes, there has been some delay in inflows. We have got several orders in consulting, but the turning them into revenue would be possible from next quarter onwards. Coming back to the current position, I think it is safe to believe that in the remaining quarter or the Q4, the consulting revenue could be in the range of Rs 350 to Rs 400 crore or you can say the annual could be around Rs 1100 to Rs 1150 crore.

Kunal Sheth: Sir, next year what kind of number should we look at for turnkey as well as consultancy?

Rajeev Mehrotra: Target would be at least 10% growth in consultancy. With major projects coming up, I think it is safe to believe that a 10% growth is likely there.

Kunal Sheth: Sir, we mentioned that 62% of our consultancy segment is railways... can you give us some sense of within the consultancy segment, how much is nomination based and how much is competitively bid?

Rajeev Mehrotra: I will rather give you one more insight before I answer. If you see railway sector consulting, we said about 62%. Now, when I say railways consulting, this also has lot of non-railway clients. The sector is railways but the clients could be various power, mining and steel companies, port also. So we work with lot of them and put together, this becomes revenue from railways sector. Now, the question of nomination from railways, the entire turnkey segment is on nomination so far but after the December policy, this would still be counted as competition. About 25% to 30% of our turnover would be from turnkey and in remaining railway work, almost 50%- 60% would be on nomination and balance is on competition.

Kunal Sheth: This is within the consultancy segment you are saying, right?

Rajeev Mehrotra: Yes, within the consultancy also, there are projects coming on competition and in other segments also, we are getting work on competition. Also like in the beginning I talked about one ICP and metros, we got on competition. So mix of both methods is happening.

Kunal Sheth: Sir, can you help us with the breakup of the consultancy order book in various segments like you did last time between metro, rail, infra, airport size is building.

Rajeev Mehrotra: If you want breakup of order book in segment can I read out. The order book railway sector, when I say railway sector this includes railway infrastructure, electrification, exports, rail connectivity etc. 46%, airports 9%, highways 9%, urban transport 10%, ports and harbor 1%, railway energy management 1%, quality assurance 3%, others 21%.

Moderator: Thank you. We will take the next question that is from the line of Chintan Seth from Sameeksha Capital. Please go ahead.

Chintan Seth: Congrats for a good set of number. Sir, on the nomination, any changes to working capital requirement are in the policy document which you can highlight?

Rajeev Mehrotra: No, the working capital or the risk allocation, if I can say, would not change.

Chintan Seth: So, advances will be pretty much heavy to cover up the work execution right.

Rajeev Mehrotra: Absolutely.

Chintan Seth: And Sir on the SAIL JV, how's the performance if you can provide nine-month figure on the SAIL JV side.

Rajeev Mehrotra: SAIL JV is doing well, just give me one minute to get the numbers.

Chintan Seth: No problem, I will ask related question Sir. On the export, you say two locos are due for Q4 billing, what will be that amount?

Rajeev Mehrotra: This is waiting for shipping and would get billed in Q4, Let us not go into item-wise pricing detailing.

Chintan Seth: Sure, sure.

Rajeev Mehrotra: It's my request because it has further implications on company.

Chintan Seth: Yes, I understand. Sir, you mentioned about consultancy just a couple of queries back that little slower execution but Q4 will pick up well any point as you highlight through Q3 particularly the first half you mentioned earlier in the previous calls as well that due to heavy rains and project delays in terms of preparation and all led to lower execution at consultancy what has happened in Q3 because if you look at domestic growth has been very small or was flat on a Y-o-Y basis for Q3 consultancy perspective?

Rajeev Mehrotra: I think we have made up significantly in Q3 if you look at consulting revenue for nine months. It has already marginally surpassed last year's, so it has made up for Q2. In Q2, certain projects suffered long delays because of heavy rain specially in Madhya Pradesh,

Maharashtra, East also. So that has been made up, the consulting revenue has also driven by certain billing milestones for large projects, the billing happens with the project progress. At times, it may not fall exactly in a quarter or in every quarter, so I think that one has to be mindful of certain large projects of rail connectivity or airport we have, like one of the major projects overseas has a billing cycle where billing is due only in March, around 20 crore. These types of diversities do lead to deviations in consulting billing, but we are onto target range of around Rs 1100 to Rs 1150 crore of total consulting segment.

Moderator: Thank you. The next question that is from the line of Ankit Merchant from SMC Global Securities. Please go ahead.

Ankit Merchant: My first question is related to the budget. So in the budget, in the central sector schemes basically, what we have understood is for the new line construction, the budget estimate has gone up by close to Rs 4000 crore however further gauge conversion has either remained stable and for the rolling stock, it has come down by another 4000 whereas for the spare expense, it has gone up. So, I understand because we do the procurement quality checking for the railways, do you see any impact of this on your topline or on your order book, going ahead that is my first question?

Rajeev Mehrotra: I think the right number to understand the impact on quality assurance business would be the total investment and the total investment has actually gone up by 3% on about Rs 160000 crore or so. Further, the consulting income is not only impacted by Capex but also by Opex. Whatever has been procured earlier, the maintenances spares of these are also getting procured. The new Capex is actually 3% higher than earlier, there is no reason to believe that the quality assurance income will go down. Every year you procure more equipment then there is more supervision. So, there you see a consistent growth in about three-four years when the Capex of railways has gone up. Once the Capex goes, next the Opex cycle would be up for such projects.

Ankit Merchant: Yes, because for the rolling stock it has come down materially like by 4000 crore the allocation is part of that is little there?

Rajeev Mehrotra: I see your point but I do not see any significant impact on quality assurance business which is widely spread on the basic items like rails to steel sheets, electrical supplies, machines equipment etc. So that market is fairly big maybe that is not impacted by this small reduction. They are also now looking at private train operators beginning 150 trains, so maybe that is the thinking but I would not be in a position to comment on the lower number there.

Moderator: Thank you. The next question that is from the line of Dixit Doshi from White Stone Financial Advisors. Please go ahead.

Dixit Doshi: Sir, my questions are relating to this turnkey order book building which is going to happen as you mentioned that the size could be around Rs 24000 crore so the first question relating to that is due to this change in the policy, no orders have been given to any railway PSU after the last budget of 2019. So most of this 24000 crore order would be related to the 2019 budget and can we expect, even after this 24000 crores, in next four to six months another round of bidding out of this budget.

Rajeev Mehrotra: Let me clarify this number of Rs. 24000 crore, it is very important to understand what it is. This is based on three, four components which go into infrastructure creation and this is the outlay on these items for 2021, electrification we are taking around 7000 kilometers then the document has stipulated the numbers for doubling signaling third line etc., put together if you see the capex numbers could be around Rs.24000 crore to be spent in 2021, it does not mean that this is the project size only. This is the expenditure in 2021 against projects which will be put to bidding so ongoing projects could be still higher. Am I clear or you want me to repeat this?

Dixit Doshi: Understood and secondly, Sir so we know three companies like our self RITES, IRCON and RVNL, is there any other company also bidding in this?

Rajeev Mehrotra: Maybe... I am not too sure, maybe Konkan, Railway also, may try to take up some projects and Railtel may also be taking up some signaling work because there is a signaling Capex

of around Rs. 2700 crore. I think maybe this would also be impacted according to the strength of the companies to execute their work.

Dixit Doshi: Thank you.

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

Sagar Shah: First of all, many congratulations for a great set of numbers this quarter, Sir. So let me coming to your numbers actually, can you suggest for FY2021, you have suggested basically we have our export run rate would come around 550 to 600 crore so going by the order book, what is the appropriate mix you are comfortable with or are we likely that we were to achieve in FY2021. what is the likely mix of all these segments?

Rajeev Mehrotra: A very sincere request as we are very soon negotiating an MOU with the government and it would be correct to share the number only after we conclude this MOU document. That time we will be better placed to discuss such issues. We have already given the indication that company would like to maintain a CAGR of about 15%, if the order book permits, which obviously looks like the case but I would not like to be more specific numbers till we complete that process.

Sagar Shah: Coming to my second question...basically in turnkey projects, we have seen a fair revenue growth in this fiscal and in the next fiscal also you said we will be approximately meeting 25% to 30% of revenue.

So, which are these projects actually are we getting revenue or are we targeting, actually can you suggest some few projects or which are these the characteristic of these projects.

Rajeev Mehrotra: There are two projects of rail and doubling--- the one Gooty-Dharmavaram section in south-eastern railway and there is Annupur-Pendra road in south central. There are two electrification projects one is Sawaimadhapur-Jaipur-Ringas section and another near Jabalpur 120 kilometer section i.e. Vijaypur-Makshi. Two electrification projects, two

doubling projects and there are about five-six railway workshops either Greenfield or upgradation.

Sagar Shah: So all these basically would take around 2 to 2.5 years to execute.

Rajeev Mehrotra: That is normal time because lot of initial time goes into design specifications and then into bidding.

Sagar Shah: And basically, are we something like in our view in the next year are we getting some highway projects for the turnkey for the construction are we targeting.

Rajeev Mehrotra: We recently got one major consulting order from Bangladesh **of about** Rs.100 crore in consortium; we are bidding for various projects in India and outside India. Somewhere the bidding is going on but at this stage, we would not be able to commit any number. But looking at the opportunities in India, we are looking at more involvement in the sector.

Sagar Shah: Because in budget, it was said that for the Mumbai-Delhi expressway, the government was going to consider actually post for the FY2021. So, are we something like having at least if not the turnkey, but the consultancy thing for that project?

Rajeev Mehrotra: I can assure you that when the bidding happens for this consulting work, we will also try to participate.

Sagar Shah: So is it going to happen this year, according to you.

Rajeev Mehrotra: What is being said that it will be completed by 2023, I expect that this would be coming out for bidding very fast. Three years construction is not an easy target actually. I estimate that in next three months the bid should be floated, as this is the seed of the execution, the bidding has to happen first. We are positively looking at this prestigious project.

Sagar Shah: Thank you Sir.

Moderator: Thank you. The next question is from the line of Aman Thadani from Consortium Securities Pvt. Ltd. Please go ahead.

Aman Thadani: Sir, the rail board meeting that happened in December 2019 wherein they introduce limited competition, so my first question is will this impact or threaten our consultancy business.

Rajeev Mehrotra: We have already explained that consultancy is a different segment. What we have done with Turnkey is only addition, looking at the opportunities available and I do not think this is at the cost of consultancy. But this rather prepares RITES to present itself as a complete value chain provider from concept, design to implementation as well. So for projects maybe here or outside India, we can present as a complete value chain company. So, there is no competition between the turnkey or consultancy but this is only addition to our overall revenue.

Aman Thadani: So that limited competition is also introduced in the consultancy business, this is what I meant... is it so?

Rajeev Mehrotra: You mean to say that this would be done in consultancy business also.

Aman Thadani: Yes.

Rajeev Mehrotra: No.

Aman Thadani: Okay... this would still be a nomination basis, the consultancy business or else.

Rajeev Mehrotra: In consultancy, if they want to put for bidding and others also want to join, we have no problem. We have recently picked up a project from MEA which was on the competition. We have got highways work in Bangladesh on competition. We are bidding for metro projects almost entire business on competition. So, we are not afraid of losing if competition is put to,.

Aman Thadani: So, Sir this order book of ours in consultancy business what are the proportion of orders that we have received from nomination and what are the proportion of orders that we have revived from competition.

Rajeev Mehrotra: Only a broad indication, I can give you that almost 2/3rd, 1/3rd.

Aman Thadani: 2/3rd is competition.

Rajeev Mehrotra: No, nomination and 1/3rd is competition.

Aman Thadani: And Sir since limited competition is introduced in the EPC business so, will the margins in the EPC business come down due to intense competition among the rail PSUs?

Rajeev Mehrotra: No, I do not see any serious issue in this, rather, we can now position a project based on the level of difficulties and the level of manpower or resources to be deployed. It would be rather more fair in terms of maintaining the margin, rather than as a set margin for every case.

Aman Thadani: And Sir since there was one more policy wherein they said the advances given to the rail PSUs would be broken down and you will receive 10% of the job upfront and the rest on demand. So with this, will the working capital requirement increase going ahead?

Rajeev Mehrotra: No, I think, it is not correctly understood. The scheme is 10% will be given upfront. We are putting our resources for design etc. The moment, a bid is finalized, another 10% comes. So, it is not a question of us putting working capital, that is not the scheme let me clarify again.

Aman Thadani: Okay got it. Understood Sir. And Sir in the scheme, it was specified that they will also check the pending projects in hand of the rail PSUs and since we have the lowest order book amongst all peers, do we like stand to gain and do we have the maximum potential order book going ahead?

Rajeev Mehrotra: Well, I think this is an important question that it a strength that what we have delivered in the past. Normally, they will also see past performance. So in the past, we have been delivering at 500 - 600 crore levels. Now, we can have a reasonable growth on what we have executed. But at the same time, since we have a moderate order book on the turnkey side, we will not get major share going forward, we do not intend to increase to much now, because we have got other commitments or sectors in hand.

Aman Thadani: And Sir lastly and the budget that was announced this month so wherein there is no dividend distribution tax... it is abolished. So going ahead, can we expect a higher dividend payout?

Rajeev Mehrotra: I think, we have just yesterday announced second Interim dividend. Next let us wait, it would not be correct to comment on this. Let us see how the profitability moves overall and RITES has always been an investor-friendly company. so, let us hope the best.

Aman Thadani: Got it ,Sir. Thank you.

Moderator: Thank you. The next question is from the line of Ankit Merchant from SMC Global Securities. Please go ahead.

Ankit Merchant: My second question I think I was not get to complete. So it is related to the employees. What we have seen, we have started the year with an employee base of 3400 and now it has fallen down to 3286 so what is the plan. What we have seen over the quarters, this particular quarter, that cost per employee has gone up substantially so if I just take roughly an average, it stands at close to Rs. 408000 (per quarter). So what is the guidance going ahead on the employee addition and the employee cost.

Rajeev Mehrotra: Well, employee cost is the largest cost component. We have almost 45% to 50% employee cost in total expense, so attention of management remains on the productivity. We see that we do not replenish the categories where we can reduce the number or we can outsource on contract like facility management or vehicles etc., which is the trend almost in general. We do not try to replenish those retirements with same category, rather with technical category. Total number of employees is down by 59 over 2018 and this is largely we can say retrials and some reduction of number of contract employees almost 24 contract employees, that is how total has gone down. If you compare with last Q3FY2019, there is not significant increase in the employee cost, the pay package is not suddenly seeing spurt. It is a 10-year revision package. There is normal increase of 6% to 7% which we have already indicated.

Ankit Merchant: It used to be at close to 382000 (per quarter) across last year that usually in that range and it has now crossed 408000 (per quarter) so, I was little worried.

Rajeev Mehrotra: It would be correct if you actually see the nine months' number, from 357 crore it has gone up to 385 crore so which is only a 9% or Rs.28 crore only. there is a component of Rs. 9 crore of Performance Incentive only because of profitability rise. There is a component of variable pay-profit linked incentive scheme so that goes up, if the profitability is up, so this is the normal increase, I can say there is nothing abnormal in employee's package.

Ankit Merchant: Okay Sir, thank you.

Moderator: Thank you. The next question is a follow up question from the line of Harshit Kapadia from Elara Securities. Please go ahead.

Harshit Kapadia: Just one question Sir, can you let me know what is the quality assurance revenue in your nine-month consultancy business

Rajeev Mehrotra: You want quarterly or nine months number you want.

Harshit Kapadia: No, no, nine months would be okay, Sir.

Rajeev Mehrotra: Roughly Rs 270 crores, almost Rs 40 crore up over matching year-on-year basis.

Harshit Kapadia: So that means the guidance that we had given of 380-odd crore would still remain in quality assurance of FY2020.

Rajeev Mehrotra: Yes I also need to answer your wagon question, related to the Kulti factory where we are only 50% partner in this, has made 810 wagons in 9 months.

Harshit Kapadia: And what is the revenue here.

Rajeev Mehrotra: I will repeat the Kulti factory has made 810 wagons in nine months with a total revenue of Rs.197 crore and PAT of Rs 10.6 crore and out of this only 50% could be ours, 50% is of SAIL.

Harshit Kapadia: 50% will be your share right.

Rajeev Mehrotra: Have I answered your question?

Harshit Kapadia: Yes Sir, you have answered my question. Thank you Sir.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for their closing comments. Thank you and over to you.

Rajeev Mehrotra: Thank you. I would like to only summarize that we are progressing on the anticipated lines of performance for the year FY20. It is safe to believe that we will meet our MOU targets in terms of revenue as well as the profitability. We are also trying to build up on best effort basis an order book, which gives more execution opportunity in FY2021 and beyond. We would be sharing the position once we conclude the MOU with the authorities and thank you very much for joining the call today and I appreciate your questions. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of SBICAP Securities Limited, that concludes this call. Thank you for joining us and you may now disconnect your lines.

End-

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