RITES Limited

"Q2 & H1FY21 Post Result Conference Call"

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MANAGEMENT OF RITES LTD :

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Moderator: Good afternoon, ladies and gentlemen. I am Raymond, moderator for this conference. Welcome to the Conference Call of RITES Limited, arranged by Concept Investor Relations, to discuss its Q2 & H1 FY 2021 results.

We have with us today Shri. Rajeev Mehrotra – Chairman & Managing Director, Shri. Bibhu Prasad Nayak – Director Finance, Shri. Pramod Narang – Chief Financial Officer, and today's special invitee, Shri. Sanjeev Kumar Lohia – Managing Director & Chief Executive Officer, IRSDC.

At this moment, all participants are in the listen-only mode. Later, we will conduct a questions-and-answer session. At that time, if you have a question, please press "*" and "1" on your telephone keypad. Please note this conference is being recorded.

I would now like to hand over to Shri. Rajeev Mehrotra – Chairman & Managing Director. Thank you and over to you, sir.

Rajeev Mehrotra: Thank you. Good afternoon to all of you, ladies and gentlemen. I am Rajeev Mehrotra, Chairman and MD of RITES Limited. I am happy to welcome you all to the investor conference call on RITES Limited's financial results for Q2 FY 2021. Hope all of you and your families are keeping well during this time of pandemic.

I have with me Director Finance, Mr. B.P. Nayak; CFO, Mr. Pramod Narang. As you all know, we have invested Rs. 48 crore in IRSDC for 24% stake and we have also taken a Board position there. And there have been a couple of questions on the business model of IRSDC in the past, so we decided to request MD & CEO of IRSDC to join us. If there are any clarifications on the business model of IRSDC, we will request his guidance to the investors.

As you know RITES is a MiniRatna (Category 1) Schedule 'A' Public Sector Enterprise, and a leading player in the transport consultancy and engineering sector in India, having diversified services and geographical reach.

Now, I will briefly take you through the highlights of company's results for Q2 FY2021. And then we can open the forum for questions and answers. I hope you all have been able to access the financial results, presentation and press release uploaded on our website as well as on the stock exchanges.

Let me first talk about the consolidated results for Q2FY2021. Despite pandemic conditions, I see that the results of the company for the quarter remained satisfactory. We have been able to generate revenue as well as maintain margins during these tough times, attributable to our committed workforce, strong order book which we had in the beginning and quick execution of projects wherever normalcy was found to be returning.

I will now summarie the results on consolidated basis. And as you all know, almost 97% of our income is coming from standalone numbers as a part of the consolidation. So whatever I am talking about consolidated numbers is relevant to standalone also.

RITES total consolidated revenue has decreased to Rs. 500 crore as against Rs. 888 crore in Q2FY 2020. But if you see the quarter-to-quarter comparison, it has risen by 33% against Q1FY 2021. So, I believe that this is a strong scale-up in difficult working conditions. Similarly, operating revenue, excluding other income, stands at Rs. 439 crore in Q2FY 2021 as against Rs. 746 crore in Q2 FY2020 but has increased 31% over Q1 FY 2021. You will notice that this decrease in revenue is mainly due to export deliveries not scheduled during this quarter, an impact of Rs. 262 crore is coming only because of this item, and certain disruptions in supply chain and travel restrictions imposed due to pandemic.

In Q2FY2020, there was also a receipt of final settlement amount of Rs. 91 crore from a foreign client. If you see, there is only a fall of 9% in the operating revenue on Y-o-Y basis If we exclude the effect of exports, that were not scheduled this quarter, and this looks moderate considering difficult circumstances we have throughout the country as well as overseas.

EBITDA and PAT stand at Rs. 189 crore and Rs. 132 crore, against Rs. 339 crore and Rs. 237 crore respectively in Q2FY 2020. EBITDA and PAT in Q2FY2021 has increased 83% and 104% respectively, in comparison to Q1FY 2021. Why we are giving previous quarter number is because still we are not completely out of the difficult scenario which existed in Q1 comprehensively. We have been able to sustain margins as a result of expeditious execution and timely implementation of cost control measures. EBITDA and PAT margins stand at 37.9% and 26.5% against 38.2% and 26.7% respectively in Q2FY2020. So, we have been able to broadly control the levels of EBITDA and PAT in the operations.

Now about performance of the standalone segments. Company achieved a revenue of Rs. 242 crore from consultancy business, which is down by 5.2% over Q2 FY2020. But the company has improved margins in this segment at 47.4% as against 44.5% in Q2 FY2020. The margin has improved as a result of effective utilization and rationalization of manpower.

Leasing revenue stands at Rs. 27 crore in Q2 FY2021 as against Rs. 30 crore in Q2 FY2020. The decline was due to temporary suspension of work at certain sites, construction sites mainly, and ports during the lockdown. Profit margins of leasing got impacted because of fixed costs associated with this, like depreciation remaining intact during this period. There were no export deliveries scheduled for Q2 FY2021. However, H2 FY2021 is expected to see exports to Sri Lanka and Mozambique, and all these products are under manufacturing at production units.

Turnkey revenue during Q2 FY2021 stands at Rs.154 crore against Rs. 179 crore in Q2 FY2020. Turnkey margins were maintained at 3.6% during this quarter.

Performance of our subsidiary i.e. REMC Ltd, also got impacted due to less traction power required by railways during this quarter. REMCL revenue stands at Rs. 18 crore as against Rs. 22 crore in Q2 FY2020. Similarly, profit before tax has also decreased to Rs.8 crore as against to Rs. 14 crore in Q2 FY2020. The revenue from power generation grew at 17% over Q2 FY2020. In fact, the wind mills actually generated much more than what it did last year.

Company's consolidated order book now stands at Rs. 6,661 crore as of September 30, 2020, with new or extension of orders secured for Rs. 948 crore during this quarter alone. During this period, RITES secured more than 60 new projects or contracts, including enhanced scope of work in the existing contracts. RITES has received turnkey works for electrification and construction of ROBs (road over bridges), consultancy works for metros, highways and also secured first order for locomotive leasing to a fertilizer plant. RITES has also been able to secure detailed design work for Indore and Bhopal metro depots, technical consultancy for construction of airport at Shivmoga, and project against MoU signed with Coal India, they have also started giving some projects for implementation.

I believe that the results of this quarter reflect positivity, about sharp recovery in business operations. And going ahead, company is still hopeful of a moderate growth in FY 2021, in anticipation of further easing of COVID related restrictions or return to normalcy.

Now we can open the forum for question and answers. Thank you very much for your kind attention.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from Rohit Natarajan from Antique Stock Broking. Please go ahead

Rohit Natarajan: Sir, now that we have already concluded the first half of the fiscal, and in the initial remarks, and in the last quarter you said that this year, in FY 2021, the revenue target is to have some single-digit growth. And if I see the numbers currently, if you have to get that flat revenue growth, you will have to do a 43% kind of Y-o-Y growth in the second half execution. What exactly in the pipeline over there? I mean, are we on that guidance trajectory, is that intact?

Rajeev Mehrotra: Yes, very important question. And the factual position is that, we wanted to start exports from Q3 onwards, but even now there are disruptions on certain components like crankshaft, axle and wheels which are being imported for these exports. There have been delays of one to two months in this. Considering these delays, so far we are hopeful that from January onwards the shipments will start to Sri Lanka, and possibly February mid or end onwards to Mozambique. This should take us to almost Rs. 550 crore, and possibly even Rs. 650 crore of shipments by March. Now, if this comes through, rest of the activities would take care of possibly a single-digit moderate growth. But I am still putting a sort of flag on this that if the situation does not improve or deteriorates, as we have seen things happening overseas. Except that rider, I believe that we should be giving a reasonable moderate single-digit growth, and mainly in Q4.

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

Ankit Merchant: I just have a few queries, one is related to the order book structure. So, what we have seen is that the consultancy order book is still flat at Rs. 2,500 crore. So can you give some guidelines or what do we have in the pipeline? And do we see the order book improving in the consultancy segment? Also, if you could shed some light on the leasing, because the leasing order book has dropped significantly, so if you could guide me on that.

Rajeev Mehrotra: The consultancy order book per se is actually strong, Rs. 2,500 crore order book is almost there to execute in 18 months to two years. There are some other major orders being followed, but we have to wait a little more to see the outcome. There are major tenders for three new DFC's and soon a tender is likely for PMC work for high speed rail corridor. We are eyeing all those projects, and this may take a little more to materialize. All these are on competition business. We believe that we should remain with a significant role in these projects. So we are eying those major consultancy contracts.

Commenting on the leasing order book, when suddenly the construction activities were stopped, port operations got stopped, certain plants desired to stop the lease for some period. So, about six to seven locomotives had to be put on rest. And except one or two, all have again been put to use at different locations or to a fertilizer plant and one to a steel plant. So, this drop is mainly because of certain locos which we had to withdraw, and now being re-deployed. But per se, there is no excess capacity, possibly just one still remains to be deployed, compared to the pre-COVID period.

Turnkey order book, we have seen a rapid growth in this quarter because a few projects came now. We are still trying to get some more work because we believe that we have the capacity to execute more. Hopefully, that should also be seen through.

Exports, we have not seen any increase in this year because we had actually enough in hands to do this year as well as next year. Because of the travel restrictions, new export orders are not yet out and we will be pursuing those orders as soon as the travel and other activities start.

So, summarizing on the order book, I will say that Rs. 6,661 crore is the highest we have had so far. There is a good visibility for 18 to 24 months. We would continue to remain vigilant about the important additional projects coming, whether on nominations or on competition.

Ankit Merchant: Sure, that's helpful. And the new turnkey projects which have been awarded to us, so do we see any margin dilution in those particular projects going ahead? And also, if you could highlight the measures which you have taken to improve EBITDA margins, because on year-over-year basis also, we have seen some improvement. And how likely are they going to sustain in the next two to three quarters?

Rajeev Mehrotra: Well, there was a very moderate, maybe 5 to 10 basis points reduction in the price offered by us for the new turnkey orders. I think we have clarified that this small moderation, we can always try to make through the cost optimization for such projects, which we have already started doing, not only for turnkey but for other projects also. The cost profile of RITES is that manpower cost is almost 35%, maybe 40% of the total cost. So when a situation of this was seen, in March itself we started positioning that if this goes longer? So we took two, three steps, certain positions which were on deputation were cut short to the tenure and people went back to their departments, certain positions on contract were not renewed, certain positions which were in senior age group were foreclosed because of the health challenge etc. and we have not filled retirement vacancies. So put together, so far, we have been able to achieve a reduction of about 281 numbers in last, say, about twelve months. Which is not very usual in the RITES' operations I have seen in last 13 years. But the business model permitted us to look at this possibility. And I think this has come very handy during this pandemic.

Ankit Merchant: Sure. If the operator allows, I just have one more question, that's related to CAPEX. So we were expected to spend close to Rs. 400 crore sort of CAPEX, Rs. 80 crore for locomotives. So have we already done that? And Rs. 150 crore we were doing some CAPEX for the building as well, so any update on that?

Rajeev Mehrotra: Yes, building work in Calcutta, where we have regional office for East and Northeast, has started. There is a new office complex namely World Trade Tower near AIIMS, we have to make a payment of second installment. On locomotive side, yes, we have placed orders but we have cut down the requirement to Rs. 40 crore, because this year already there's pressure on the new leasing demand. So, that still remains for Rs. 40 crore.

Moderator: Okay. Thank you. The next question is from Jonas Bhutta from PhillipCapital. Please go ahead.

Jonas Bhutta: Sir, just one question, wanted to understand. So, in one of the prior questions you highlighted that you are also vying for some consultancy projects in the upcoming HSR projects. So, these are the one between Delhi-Bombay or Delhi-Ahmedabad, right? Just wanted to understand from a qualification perspective, how much of RITES did benefit from the existing HSR project, basically in terms of consultancy? And whether you see scope for expansion, given that you have got the experience from the Mumbai, Ahmedabad In context to what the total project size is versus how much is RITES opportunity within this entire HSR ecosystem, if you can elaborate on that.

Rajeev Mehrotra: Well, I think in the one of the previous briefings, I had said that we are in touch with certain Japanese consultants as because this is being funded by JICA, so they will have to have a Japanese consultant as the lead consultant for such project. We are in very advanced stage of discussion on this issue, but I will like to be excused from sharing more details on this. I will clarify what we are doing. We are almost about to conclude our understanding with some leading consulting companies to make a consortium to submit a bid for this project. Now, whether we get this or somebody else is still an issue to be seen. But as far as our preparedness to eye this opportunity, we are very strongly after this. And I am sure we will get a meaningful role.

Now, to get an idea what could be the size of this pie, I would say that, for such large projects, the consulting part or we call it PMC part, could actually range from 3% to 5%. I would not be very specific to the price which might actually finally emerge. So, I am giving you the range, 3% to 5%. And you would have heard that they have already awarded construction work to L&T for Rs. 25,000 crore. So, on an average there maybe a fees possibility of Rs. 1,000 crore where three or maybe four maximum, consultants could join in, a combination of Indian and foreign consultants, to present a technical team for this project, which is going on as perceived by us.

Jonas Bhutta: So, just on that question. So, the total EPC pie within this Rs. 1,08,000 crore Bombay Ahmedabad project is about Rs. 60,000- Rs. 65,000 crore and the 3% to 4% bandwidth that you mentioned, range that you mentioned will be applicable on the on the Rs. 65,000-odd….

Rajeev Mehrotra: Construction, electrification, signaling part, not on the rolling stock part.

Jonas Bhutta: So, basically we are looking at anywhere close to Rs. 2,000 crore to Rs. 2,500 crore kind of total opportunity, and within it will be distributed amongst three or four consultants.

Rajeev Mehrotra: Actually, to my knowledge, they would go stepwise. They might just go for certain works which are already decided to be started. So, this might go in phases. So, we see a major phase coming out very soon and we are actively pursuing it, yes.

Jonas Bhutta: Got it. And sorry, if I can squeeze in one more. Sir, in terms of not from the current year perspective but over the next two to three years, so you had elaborated in your previous conference calls the roadmap to expand the scope of your consultancy business, beyond what we typically look at, which is slightly railway heavy. You had talks about getting into certain road projects internationally, I think one in Bangladesh or something like that, then you are trying to get into certain infrastructure management projects in Kerala and stuff like that. Can you just help us understand where in the journey are we? In the last six, nine months whether much development has happened? And when can we start seeing meaningful fruits in terms of order inflows from the diversification, if one can call that?

Rajeev Mehrotra: Jonas, we have already won this highway work in Bangladesh, we have already started deploying team there.

Jonas Bhutta: There was more expected as in, it was supposed to sort of…

Rajeev Mehrotra: Yes, there are one or two projects which are in very advanced stage of award, and due to limitation, I cannot announce the project till we have been declared L1. So, wait a little more,

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

Pakaj Bobade: Sir, you mentioned about manpower cut down in order to save on costs. So can you please elaborate more? How much savings have we done this quarter? This quarter we have booked around Rs. 113 crore of employee cost. So would this be the new normal or is there anything more to come? And second question would be, we have the chief of IRSDC, I would like to understand what is the business model of the subsidiary, the JV where we are partners? And would it be a game changer for our business going forward?

Rajeev Mehrotra: Okay. Pankaj, taking your two questions, let me start with the second one. I request Mr. Lohia, who is the MD and CEO of IRSDC. Once we finish first round of questions, then I will request him to brief, because there might be questions from others also on IRSDC, so let us hear the questions. Once we finish first round on our RITES questions, then we will request Mr. Lohia to chip in and give his views.

Coming to your first question on the manpower; Look, in H1 I will say, because April onwards we started doing this exercise. We have been able to reduce manpower cost by 8.4% and manpower restructuring in this company is a combination of regular, deputation, contract and then retired and re-employed for certain expertize. So, this combination actually proved to be very helpful in cutting down the requirements for about six months to nine months. But it does not stop us from expanding should the business require. And you would have noticed in our website, there is already an employment ad for certain postions of maybe 140 or so, but this would take care of next six months to one and a half years or two years. So this is a flexibility which we have very carefully used to manage the cost during this time. And you said about the new normal, yes, we are required to control the manpower cost for the business to be competitive and relevant to the cost which client can bear.

Pakaj Bobade: So, manpower cost per quarter, would it be in the range of Rs. 100 crore, Rs. 120 crore?

Rajeev Mehrotra: By and large this has been like this. Yes, I think Rs. 480 crore, Rs. 500 crore per year. For new induction, we will be very careful and only when the new business is in hand we will act on it.

Pakaj Mogre: So, this is structural, I mean, there would not be any reinstatement or revision on the same, right, unless and until we have a new business?

Rajeev Mehrotra: If for last nine months we have paid salaries and incurred costs, it would have been a wastage, because nine months have gone like this. We again see still one or two months going like this. Pandemic condition is not normal in Delhi, I believe, this is not normal in Mumbai as well. And we hear the same from Bangalore also, it's not normal there as well. So two, three key business activity areas we are seeing are still affected. It's good that we rationalized manpower. The moment we feel that the projects can shape up, we can hire the same or others when the business picks up.

Moderator: We move to the next question. Next question is from the line of Parimal Mithani from Credential Investment. Please go ahead.

Parimal Mithani: Sir, recently a lot of high speed contracts have come up for bidding. And since you being the only three players being a competitor, none of the players have got any contract as of right now, most of have gone to the private here. Is it because they are putting a low bid price or how the thing is, because especially towards the turnkey projects and in the quarter gone by we have won almost Rs. 860 crore of turnkey projects. Is it on a low bidding price, if you can explain.

Rajeev Mehrotra: Mr. Parimal, if I got your questions right, you are referring to the NHRC contracts?

Parimal Mithani: Yes.

Rajeev Mehrotra: So far only EPC contracts have been announced and this one package has gone to L&T. We are nowhere in the league of this type of EPC contracts. See, we have started doing a moderate size of maybe Rs. 1,000 crore per year EPC contracts, mainly rail line doubling, electrification, signaling and workshops. So, we do not even qualify to bid for such mega construction projects. And we are not actually equipped to handle that construction site. But having said that, in just one of the previous questions I answered that we are seriously working on closing on a consortium which would be a serious bidder for the PMC work for this. Wait a little more and then see the outcome.

Parimal Mithani: But sir, this consultancy work, would it be a competition for any private player here? Because, my understanding is consultancy work we are number one in India in terms of bidding for the railways. Do you see any competition from any private playercoming for that in terms of gapping orders?

Rajeev Mehrotra: It is very difficult to say because the tender is not yet even out, so how many bidders would be there, but I can assure you one thing that we will be one of the most serious bidders in this game, whether private or international players come or local come. And we have already done a very meaningful exercise to make a group to put a serious bid for this.

Parimal Mithani: And sir last question on IRSDC, if you can highlight afterwards on the con-call, it will be much better, the model and all that.

Rajeev Mehrotra: Yes. I think once we finish round one, Mr. Parimal, we will request MD IRSDC to share his views. Thank you.

Moderator: Thank you. The next question is from the line of Dikshit Doshi from Whitestone Financial Advisors. Please go ahead.

Dikshit Doshi: Most of my question have been answered, just one question. Sir, you mentioned that there will some one-off in Q2FY2020 of Rs. 91 crore, some settlement with the overseas clients. So, that Rs. 91 crore is recorded in the other income?

Rajeev Mehrotra: Yes, other income of Q2FY 2020.

Dikshit Doshi: So this Rs. 141 crore has come down to Rs. 60 crore, so that is mainly due to this Rs. 91 crore of one-time thing?

Rajeev Mehrotra: Yes.

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

Rohit Natarajan: Sir, my question is more to do with the consultancy segment. Sir, what could be the quality assurance opportunity that you have within this space? And also on sector piece, that is railway CAPEX of usually happening on Rs. 1.5 trillion, what exactly is the quality assurance component within that complete amount that is distributed every year? And what is RITES' market share in it?

Rajeev Mehrotra: Okay. This, we have, in fact, clarified earlier also, let me just put together the whole process. The procurement of certain items is inspected by RDSO, like the girders, etc. Machinery is by Cofmow and all other items like rails, electrical items, certain mechanical items, springs, axles, wheels etc., all this is being done by RITES. Now, these items are not necessarily CAPEX items. But these are CAPEX ones the new line is being set up, there is a significant consumption in the refurbishment or rehabilitation of tracks also. So, quality assurance income is impacted by CAPEX as well as OPEX. A ballpark figure could be that in the procurement of railways, about 35% to 40% items would be relevant to our inspection. And our inspection fee would be around 0.9%. So, you can see around Rs. 350 crore to Rs. 450 crore of revenue per year can be generated right now. This may get impacted if the purchase is delayed or it is shifted to other quarter or other year. . We have about 12 offices throughout India, which are providing this service to railway across the country, and hundreds of items are being inspected.

Rohit Natarajan: So, if I understand it correctly, at least we should get Rs. 350 crore to Rs. 400 crore of quality assurance every year, that should be the order inflow.

Rajeev Mehrotra: Yes, I think based on today's assessment, yes, that's correct.

Rohit Natarajan: Okay. Sir, my second question is more to do with the non-high-speed or non-railway consultancy orders, any big ticket opportunity that you are looking at?

Rajeev Mehrotra: Metros is a second segment, we have given two bids for metro GC (general consultancy). I will take excuse for not naming them, because I would not like to name a client without his consent. These are projects in India where we expect announcement in next maybe one or two months. So, other than railways, our next forte is metros. The next emerging mega project is national high speed rail where I have already said that we have already closed in on a consortium agreement. So, other than railways, metros, high speed, we are already working on DFC and we are looking at highways also in India.

Rohit Natarajan: So, if you could quantify that number, do you want to give a ballpark figure, how will be the non-railway, non-high-speed consultancy order book look like?

Rajeev Mehrotra: Order book also I have with me, but to give you a flair on the…

Rohit Natarajan: No, in terms of even in the future trajectory of order inflow and how that overall scheme of things would look like, that will also help.

Rajeev Mehrotra: I think the metro investments are going to look up.

Rohit Natarajan: Sir, any number, what would be the consultancy portion over there, any number as such that you want to give?

Rajeev Mehrotra: No, RITES targets could range around Rs. 200 crore to Rs. 300 crore value of contracts on PMC side consulting for metros. Highways. We are currently doing Rs. 100 crore, Rs. 110 crore. So, I see another 20%-30% up in the near future, because we are getting foreign projects which are slightly more rewarding. Then on the high speed, I have indicated that the consulting part could be around Rs. 1,000 crore to Rs. 1,200 crore approximately, and this will come in three, four years. So, whether we get one-third or 20% or 25% of this, to know we have to wait a little more. This is a major consulting assignment which is unfolding. And other than this, there is a mega consulting tender going on for three DFCs, which is yet to close. Other than Railways, we are also looking at metros, highways and also other possibilities of MoUs and a limited way participation in highway HAM model projects.

Rohit Natarajan: So you mean to say, you would participate in a HAM model project?

Rajeev Mehrotra: On a very limited scale, to begin with. But we have appetite to execute highway projects, the balance sheet is completely debt free, so why not try a little more on the highway side. A lot of highway projects are actually coming up in the country. I again use the word limited way.

Rohit Natarajan: Yes, any quantum of the investments, what would it would look like?

Rajeev Mehrotra: No, not yet decided. But yes, since you are asking for the possibility, this is a possibility being evaluated.

Rohit Natarajan: Sir, there was a proposal by NHAI, stating that even a completely integrated package, including consultancy will be outsourced to GC scope of work. Is there some thought that you have given on it?

Rajeev Mehrotra: I have not seen any concrete order on this issue, but let us wait a little more. And that makes sense actually to have a complete responsibility from design to execution.

Rohit Natarajan: Sure. I will get back in the queue, I have a few more question, I will get back in the queue.

Rajeev Mehrotra: Yes. If we are through round one, maybe we can take Mr. Lohia for IRSDCs. Mr. Raymond, if the round one is over, can we have him for five minutes?

Moderator: Yes. Mr. Lohia is on the line.

Rajeev Mehrotra: Yes. Mr. Lohia, just brief us on your business model.

Sanjeev Kumar Lohia: Good afternoon. Thank you for giving this opportunity. In fact, as far as IRSDC is concerned, very briefly, we are the nodal agency for entire station development in the country as per the approval of the Union Cabinet. And we are also the main project development agency. The tasks assigned to IRSDC is the project development and management. The consession etc. would be awarded by IRSDC of projects, directly entrusted by Ministry of Railways or through Rail Land Development Authority, which is also one of our promoter, 50% owner. The entire station development has to be done using the land which is available in and around the station. Recently, the government has also approved in-principle, the user charges on passengers, for which a notification is to be issued by the Ministry of Railways soon after some more approvals within the government. For the entire process, we get a success fee, that success fee presently is 10% of the total premium, which includes the cost of the station development also. That is the fee which IRSDC gets as a success fee.

We also have one vertical which is station facility management where we become the operators of the station. Union Cabinet has also approved that IRSDC can take up the station facility management for the stations which are not likely to be developed in near future or they are not envisaged presently. We have taken up such five such stations, 90 more stations are going to be offered to us very soon. We will take up the facility management of those stations, just like you have the model for the highways where you give it to certain private player on O&M, and here we will do it on PPP basis. The experience of five stations in last more than one year suggest that we have been able to make substantial improvements. This was a new vertical, absolutely new vertical in the country, and we did it on a different model, which is called the management contract model as is the practice in Hotel industry. Based on the confidence generated in Ministry of Railways, , railway is now confident of giving us 90 more stations.

So that is a brief of the business model. The 10% fee is also variable. In case the target return to our promoters is less than 22.5%, in that case, after we award a few more projects, then this can be revised upwards, so that we are able to give to our promoters a target return of 22.5% on the equity invested.

Rajeev Mehrotra: Good. So, I think that's good to begin with. We can now continue with the questions, Mr. Raymond.

Moderator: Thank you. The next question is from the line of Venkatesh Subramanian from Logic Tree. Please go ahead.

Venkatesh Subramanian: I have actually a big picture question, sir. Because all the specifics have been talked about, if I have to take a three to five year view on RITES as a company, and I think it's a great play on the Indian railway sector. What do you think investors like us can look at as a vision? Is there a possibility that RITES can actually have a top-line of $1 billion, which is roughly Rs. 7,000 crore over a three to four year period? That's questions number one.

And number two, the whole thing put together, station development, REMCL, everything together, if I have to do a crystal ball gazing, say four years down the line, what do you think is a kind of order book that RITES can have at that point of time? I know that it's a very kind of forecasting kind of a question, I won't hold you to it, but we want to kind of visualize what this company could be.

Rajeev Mehrotra: Well, Mr. Venkatesh, very straight but a very difficult question, interesting as well. In last five years, we have seen a CAGR of 19%-20% . We have proven that for an infrastructure company it is possible to grow at this rate. And now going forward, when the government is saying that it will make a lot of investment in infrastructure in next five years, I mean, forget the temporary disruption we have, but look at the plan and their reaffirmation for implemention of the NIP pipeline last week. If the NIP pipeline starts rolling out, say, more liberally now, the companies like RITES, which is diversified into our railways, highways, metros, airports, ports, and then also the energy management, leasing etc will have new opportunities and we will definitely be chasing them. The growth of 19%-20% was there when the investment in the country was at almost half of the level than what has been perceived in NIP. So, if National Infrastructure Pipeline is targeting double investment than what has been done in the past five years, so it would be very reasonable for anybody to expect slightly accelerated growth from RITES. I am not saying that, maybe 40%. But since you are asking a possibility, I am getting an answer about possibilities which is in public domain. The NIP is at double the investment rate per year.

So within the country, the opportunity for acceleration at double rate exists. Then added advantage is that this company has worked in so many countries so far. Right now, also, we are working in a couple of countries and we are pursuing certain projects overseas. But I would not like to specify what type of projects and where they are, let us wait a little more, when the time is right we will share. So I think put together, yes, there is reason to believe that such companies have potential to grow faster. But we are not an overnight surprise, it's a steady but definitely moving up scenario. And I think that my team is firmly placed in those sectors, which are growing in India and growing outside India. We have done a metro project in Mauritius, of which one phase is already operational, we are doing a port project outside, we are doing highway project, we are likely to get one or two projects soon, more maybe before this year ends. Put together, this is a company which is working like an MNC from India, and we believe that it can grow faster.

Venkatesh Subramanian: Super. Thank you, sir. And just one more, just to add on. So in a kind of a conservative scenario, in the last five years we have still grown at 20%. So if the prospects are good, we can grow much about that. I think that would be the summary of that, isn't it?

Rajeev Mehrotra: That’s correct, actually, seeing the assessment of the situation.

Venkatesh Subramanian: And the second question is in terms of order book, right now we have an order book in excess of Rs. 7,000 crore. So as I said, if all these opportunities that you are talking about and RITES is uniquely positioned to exploit these opportunities, would it be fair to assume, say, something like 20%-25% order book growth every year?

Rajeev Mehrotra: I think just allow me to stay short of a definite number. I think the investments are growing at double the rate, I think this year 2020 has actually gone. So any meaningful forecast, now, should actually look at 2021-2022. And I see the CAPEX plan being pushed up by the government soon.

Venkatesh Subramanian: Sure. Okay. And do you believe that the government will, considering the financial situation and all that, they are committed to the financial budgets in terms of allocation to railways?

Rajeev Mehrotra: I think in case of allocation to railways, even this year commitments are being met. Next year also, I see some moderate increase, because we believe that the highly utilized networks will definitely be doubled and electrified. So there is a lot to be done on HUN networks. So I believe that this CAPEX program would continue.

Moderator: Thank you. The next question is from Dikshit Doshi from Whitestone Financial Advisors. Please go ahead.

Dikshit Doshi: Sir, you mentioned that we are targeting, let's say, Rs. 550 crore or maximum Rs. 650 crore of export in this year. So let's say, whatever it be, Rs. 550 crore or Rs. 650 crore, the remaining portion out of Rs. 1,430 crore of order book, all that will be executed in FY2022 or some will flow to FY2023 as well?

Rajeev Mehrotra: The benefits of export orders would definitely be done in FY2022.

Dikshit Doshi: Okay. So balance of whatever is left will be done in FY 2022?

Rajeev Mehrotra: Absolutely. The remaining export balance would be done in 2021-2022.

Moderator: Thank you. The next question is from Keshav Garg from CCIPL. Please go ahead.

Keshav Garg: Sir, I wanted to understand, our turnkey division which last year did around Rs. 670 crore of business, sir, how much approximately is capital employed in this division?

Rajeev Mehrotra: Let me tell you that the business model of turnkey is such that this operates on almost a zero cash flow basis from RITES. The client gives 20% advance, and this is recoupable in a lot of 10%. So, whenever we receive money it is disbursed to the project and we get as a PMC charge of, currently at 8.45%. For one or two months we have to pay salaries and then recoup from the fee which is given in advance. So, to that extent, a small component of working capital is used, which is insignificant compared to the projects in pipeline. So, this turnkey business is almost a no capital using proposition.

Keshav Garg: Okay, sir. And sir, also you mentioned about getting into road construction. So, sir, is it road construction consultancy or EPC?

Rajeev Mehrotra: This should be taking concessions on ownership basis, as per our existing profile we have done some turnkey work, we have done some consultancy, we may not be allowed to take more than Rs. 1,000 crore worth of project.

Keshav Garg: Sir, but actually we are in a very high return on capital business of consultancy and you are getting into a totally third rate business of road construction, which is totally, I mean, nothing compared to our existing business. So, actually, sir, it will pull down our return on capital of the whole business. So, it is a highly avoidable part of business, I mean, why not we concentrate in railways when there is so much opportunity?

Rajeev Mehrotra: We are only evaluating a possibility; we have not even gone for investment approval on this. But looking at the expansion of roads in India, every district road in this country is announced to be connected by a four-lane road. Such a big construction work is scheduled in the next four or five years, we cannot say that we will be looking at the return on capital alone. I am saying, we will choose a good project which will give some return on equity, which can give some fees, which can give some EPC income. And put together, if you are reaching that return on equity, what is wrong in that. But in a very limited way.

Keshav Garg: Sir, so what is your bare minimum IRR below which you will not proceed with any project?

Rajeev Mehrotra: We are just evaluating. If we find this meets 18% to 22%, then only we will look at it. Right now, I am only looking at the possibilities. See, we cannot shut our eyes from reality that this is very fast growing sector in India. Liberally money is put for roads, whether it's state highways, national highways or district connectivity and somewhere we have to see some more meaningful role for experienced companies like RITES. But we are not yet decided, we have not even gone to our Board for a specific approval, we are only talking about possibilities in this sector. In that reference I said, yes, we are looking at it. I did not say that we have closed Rs. 1,000 crore investment, not at all.

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

Rohit Natarajan: My question is more to do with the IRSDC front. If you could elaborate, I mean, how are these projects different from what RLDA awards it? Like, currently there is a Delhi station redevelopment tenders being floated around and even some talks about Mumbai station redevelopment going on. So how are these station identified? And how are they awarded? Also, there are some projects IRSDC has done, like Habibganj and Gandhinagar, what was the model over there? What was the land monetization done? How much was the projects done? And what is the kind of ROA on returns that you have made so far?

Rajeev Mehrotra: Rohit, I thought we will have Mr. Lohia for policy related clarification, but let me just reiterate what he has clarified, that IRSDC is looking at very limited number of projects with its investment. It is also looking at facility management service for 90 projects. It is also the sole agency nominated to manage the construction of railway development being done on the railway land. So I think a mix of these three for business possibilities, will take IRSDC forward.

And looking at that, we have also decided to do our investment there. Now, if you want a specific answer on Habibganj and what else you said, Rohit?

Rohit Natarajan: Gandhinagar project.

Rajeev Mehrotra: I will request Mr. Lohia to give some brief response on this as well.

Sanjeev Kumar Lohia: Okay. Thank you, Rohit. See, we have been entrusted with all the 8,600 stations on 1st November, 2018, by Ministry of Railways, with a proviso that we have to do the bundling of the stations so that it is overall cost neutral to railways. Definitely we could not have started the project development exercise of the entire number of stations, so, we based our choice for first set of stations based on BCG report, which were appointed as the strategic advisors. And accordingly we are presently working on 61 stations. As far as New Delhi is concerned, New Delhi is assigned to RLDA and RLDA is doing the bidding for that, whereas CSMT is being done by IRSDC. As far as Habibganj and Gandhinagar projects are concerned, Habibganj is the first project in the country which has been done on PPP model, where only land monetization is the funding source for the station redevelopment, and it has been given for 45 years lease. The project is in advanced stage of completion. The entire station would be redeveloped by December 2020 and it is coming out very nicely. Though it has been hit slightly by COVID, because of the COVID, the real-estate sales have taken a hit, however, the station work is going on. Gandhinagar station is a very unique project which is being done in partnership model with the state government, where state government have combined their two already developed properties, namely Mahatma Mandir, which is one of the biggest convention Centre in the country, and helipad exhibition ground. With the station redevelopment afive-star hotel is being built on the top of tracks. So, for this we have a JV with the state government called "Garud" where 74% is owned by the state government and 26% is owned by IRSDC. And we have invested a small portion of equity, the major funding has come **(as** grant for whatever 26% of the total project cost is concerned, and quasi equity. So, that is on EPC mode. We have appointed M/s Leela as the operator for the hotel and the Mahatma Mandir convention Centre, that will also be completed by December 2020. The first ever hotel on top of tracks in the country and very few in the whole world, it is a unique project. In fact, I would request you to go to our website and see more details on these projects.

Rohit Natarajan: Sure, I appreciate those remarks. My second question is more to do with what will be the balance sheet exposure, like how much will be the quantum of capital required for doing all these projects? And will there be a support from a further equity contribution or maybe some loans and advances from RITES to this particular joint venture?

Sanjeev Kumar Lohia: Number one, as far as Gandhinagar is concerned, as I said, we have invested only a very small portion of equity, remaining is in the from grant or quasi-equity. So, all money has been given by the Ministry of Railways towards the 26% of the total project cost, which is standing at Rs. 750 crore today. We do not foresee any further investment requirement, especially from

RITES. If there is some fund requirement, that would be met through cash generations from Mahatma Mandir and the helipad exhibition ground. In fact, the state government is contributing 74%. Habibganj is no cost to us because it was on PPP. The cost which we incurred was towards project development and the project management. And I am also very happy to share that the developer had asked for additional built-up area and yesterday only he deposited Rs. 2.93 crore for the additional built-up area in one of the subplots. So whatever money we had spent for the project development, it is getting recouped from the fee which developer is paying for the additional built-up area which developer had asked. In other projects, for project development we incur a cost, but ultimately we get as part of the success fee which I had mentioned is 10% of the total premium. So we do not foresee any further equity infusion from RITES into IRSDC.

Rohit Natarajan: Okay, I appreciate that part. On REMCL part sir, if you want to touch upon what exactly is the status of that Phase 2 and Phase 3 tenders looking like?

Rajeev Mehrotra: Yes, there are three tenders already going on. The first one is for 1,600 megawatts, this is scheduled to be received today, with the completion time of 18 months, 1,600 megawatts on developer mode on railway line, no investment by RITES or REMCL, is scheduled to be received today. The next is 400 megawatts, this is shown to be received on 4th December where equity component would be put by RITES and Railways together through REMCL. Next one, 1,000 megawatts is parallel to the tracks and for which there were clarifications on land and then they have clarified that any place where more than 3.5 meters is available freely on each side, only those sections would be taken up in the first phase. So, I think they have accordingly revised the tender opening date to 24th November. So, today we receive for 1,600 megawatts, 4th December next 400 megawatts on PSU model, 1,000 megawatts is on 24th November. And I believe there is reasonable opportunity in the market on this.

Moderator: Thank you very much. That was the last question in queue. As there are no further questions, I would like to hand the conference back to the management team for closing comments.

Rajeev Mehrotra: Thank you very much, all the participants, for very interesting questions. I would like to summarize the operations like this, that despite challenges, in taking up the projects for execution, availability of labour, material or machinery, spares, my team has scaled up the execution in this quarter. The order book addition is also very encouraging. And I am sure we are going to focus on execution in remaining months of this year. The production for exports has been lined up adequately in three production units, which are ICF, MCF and DLW. And hopefully, from January onwards, the shipments will start. There is a reason to be optimistic about the companies like RITES, which have a proven track record. And not to get disturbed by the temporary disruptions, we are looking at business expansion and cost management simultaneously. Thank you very much for being with us in this call today. All the best and have a nice Diwali.

Moderator: Thank you very much. Thank you all for being a part of this conference call. If you need further information or clarification, please mail at gaurav.g@conceptpr.com. Ladies and gentlemen, this concludes your conference for today. Thank you for joining us. You may now disconnect your lines.

End-

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