



RITES Limited
Q2 FY19 Results Conference Call
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MANAGEMENT: MR. RAJEEV MEHROTRA, CHAIRMAN AND MANAGING DIRECTOR

MR. AJAY GAUR, DIRECTOR FINANCE

Moderator:

Good evening ladies and gentlemen. I am Aman, moderator for this conference. Welcome to conference call of RITES Limited arranged by Concept Investor Relations to discuss its Q2 FY19 results. We have with us today Mr Rajeev Mehrotra, Chairman & Managing Director, and Mr. Ajay Gaur, Director Finance. At this moment all participants are in the listen-only mode. Later we will conduct a question and answer session. At that time if you have a question, please press '*' and '1' on your telephone keypad. Please note that this conference is being recorded. I would like to hand the conference over to Mr.Rajeev Mehrotra. Thank you and over to you, sir.

Rajeev Mehrotra:

Thank you Mr. Aman. Good evening to all of you, this is Rajeev Mehrotra, CMD of RITES. I welcome you all to the investor's conference call on RITES' Q2 FY19 results. I am joined by our Director Finance, Mr. Ajay Gaur.

First a quick background of RITES. We are a mini-ratna category-I Schedule A company and a leading player in infrastructure consulting and engineering sector in India having diversified services and geographical reach. The company has an experience of spanning 44 years and it has undertaken projects in 55 countries so far, including Asia, Africa, Latin America, South America and Middle East regions. We are the only arm of Indian Railways for exporting rolling stock to countries other than Thailand, Malaysia and Indonesia.

Now, I am going to talk about the highlights of company's results, and then we can open the forum for questions and answers. All the numbers we are going to share now are on standalone basis.

So first, I will cover the quarterly numbers. The company has shown tremendous year on year growth in Q2 and strengthened its position as a leading organization in transport consultancy and engineering sector in India.

The total income has grown to Rs. 473 crore as compared to Rs. 245 crore in Q2 FY18 registering a growth of 93% year on year basis. Company's operational income has more than doubled and increased by 122% to Rs.433 crore from Rs.195 crore in Q2 FY18. The EBITDA for second quarter of FY19 has been recorded at Rs.182 crore which is nearly double on year on year basis.

EBITDA margins are also higher at 38.5% as against 37.4% in corresponding period of last financial year. The employee cost has almost remained constant as compared to the corresponding period of last financial year. Enhanced employee productivity has helped us to increase the margins in Q2.

PAT of the company is up by 59% to Rs.117 crore in the second quarter of FY19 as compared to second quarter of FY18 PAT of Rs.73 crore.

Now coming to half yearly analysis, the company has recorded total income of Rs.840 crore in the first half which is about 36.5% higher on YoY basis. Similarly, in the first half of FY19, EBITDA stands at Rs.312 crore which is 48% higher on year on year basis.

Looking at the half yearly PAT. The half yearly PAT stands at Rs.199 crore as against Rs.142 crore of previous year which is higher by 40%.

The earnings per share on quarterly basis stands at Rs.5.84 for Q2 FY19 as compared to Rs3.66 for Q2 FY18.

Company predominantly remains a consultancy organization with around 67% of the operating income coming from consultancy. Income from consultancy segment stands at Rs.292 crore which is 83% higher from Q2 FY18 income of Rs.160 crore. The growth can be mainly attributed to our overseas consultancy, quality assurance division, highway, airport and metro businesses.

Our domestic leasing business has also shown a growth of 23% over Q2 FY18 and recorded income of Rs.24 crore in Q2 FY19.

The share of turnkey business is 27% in company's operating income and is at Rs.116 crore in Q2 FY19. Now this is higher by Rs. 104 crore over corresponding period of previous year.

Company has an order book of Rs.1,284 crore as on 30th September, only export order book. The overall order book is Rs.6,183 crore. The present order book is likely to be executed in one to three year's time. Regarding exports, this will be over in 2.5 years. As per delivery schedule, company will start exporting rolling stock in second half of FY19. The first consignment of DMU train set for Sri Lanka is being shipped shortly maybe by this weekend will be shipped out from Chennai to Colombo. Also, one prototype locomotive from DMW is on the way for shipment to Sri Lanka. So that is the beginning of exports for this year.

The board has also approved in principal investment of Rs.50 crore in equity capital of Indian Railway Stations Development Corporation i.e. IRSDC. A company promoted by IRCON and RLDA. The company plans to provide engineering services for station development project also. So this will be resulting into additional business to RITES.

Company's standalone order book stands at Rs.6,183 crore as of 30th September 2018 which is expected to be executed in next one to three years. You may recall this order book was Rs.4,818 crore as on 31st March and Rs.5,517 crore as on 30th July 2018. So if you compare

with March, we have not only recorded income of Rs.743 crore which is out of the orders in hand, the order book has further accumulated to Rs.6,183 crore.

Based on the half yearly performance of the company, I expect that the company will achieve targeted 22% growth in its operating income over last year. With this we can open the lines for question and answers. Thank you for your patience.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. Anyone who wishes to ask a question may press * and 1 on their touchtone telephone. If you wish to remove yourself from the question queue you may press * and 2. Participants are requested to use handsets while asking a question. Ladies and gentlemen we would wait for moment while the question queue assembles. First question is from the line of Jonas Bhutta from Phillip Capital. Please go ahead.

Jonas Bhutta: Had a couple of questions. Firstly, based on the opening order book for the year and the current order book it seems that you have already won almost Rs. 2,100 odd crore kinds of orders is that correct?

Rajeev Mehrotra: Absolutely right, yes.

Jonas Bhutta: But the MOU that you have signed sir mention just about Rs. 1600 crore, so you sort of surpassed your MoU guidance already. So what would be the revised target for the full year and if you can also sort of break it up whether would it be consultancy heavy or turnkey heavy because the first half seems to be turnkey heavy.

Rajeev Mehrotra: In the MoU, target is excluding railway projects taken on turnkey so you have to exclude about Rs 730 crore orders which we got as turnkey work. So, the balance order secured is Rs.1370 crore. Yes looking at the overall progress of orders we may surpass the targets.

Jonas Bhutta: So you have already done, even I was to exclude that Rs. 730 crore so you still have already done.

Rajeev Mehrotra: And I think the MoU targets are a benchmark and not necessarily the upper cap.

Jonas Bhutta: So what would our sort of target be as in if you can if possible give such a number or even a range will do.

Rajeev Mehrotra: I don't know it is very difficult to really guess but it is safe to believe that at least another may be Rs.1000 crore should be possible.

Ajay Gaur: Jonas, I am Ajay Gaur. Basically what has happened in this particular quarter that we have secured a high value contract from Sri Lanka, it was about USD 85 million. Unless we get some big contract. I do not think we will be able to add that much but definitely we will

surpass the target given in the MoU, It is very difficult to guess right now, because we have submitted many offers we do not know how many we will secure.

Jonas Bhutta: Okay. Sir secondly, on the results. any insights that you can give us on what lead to such a sharp improvement in the consultancy execution and the margins as in, what pockets within consultancy sort of drove the performance and is this kind of replicable in the following two quarters as well. The kind of 52% kind of margin that is done in Q2.

Rajeev Mehrotra: This 52% is before un-allocated expenses, overall EBITDA level margins is 38.5%. Now what has contributed to growth of business? Basically, two factors due to which growth is higher, consulting income has grown by Rs. 132 crore and turnkey revenue by Rs.104 crore. So these two are the major drivers.

Jonas Bhutta: Yes, sir sorry. Just wanted to understand the quality of the consultancy business, so what is quality assurance or the bridges and highways or the airport subsector that is driving and was there a bit of a one-off as in there was one chunky order that needed to be executed or revenue recognized in this quarter and hence we saw the sharp uptick or this kind of run rate of Rs. 250-260 crore of quarterly revenues is expected sir.

Rajeev Mehrotra: The key drivers for the consulting income in this quarter has been certain divisions of RITES like quality assurance, this gave additional Rs. 38 crore followed by airports, urban transport and other railway related projects. Put together Rs. 132 crore increase in consultancy. Why the profitability has increased is important to understand. We did not incur additional man power cost, our man power cost has remained almost at the same level so this was a clear addition to the productivity and then profitability. We are trying to maintain the EBITDA level margin. We have a very good order book so the emphasis in this year is to deliver more and more on the orders with the same manpower and try to get more business

Jonas Bhutta: Sure. And if I can ask just one more question before I come back in the queue. Sir our sales targets of Rs.1,760 crore would now imply a second half top line growth of just 10 to 12%. Is that, do you think that is more than achievable can you beat that number and within that sales guidance you know the last time we spoke on the call after the Q4 results, you had given us a broad breakup that you expected exports to do about Rs.4 billion which is about Rs.400 crore, given that the exports is just about picking up can you achieve that number and similarly for turnkey you had expected Rs.250 to 300 crore kind of number but you have already done Rs. 190 crore. Will the mix change effectively and hence would have a bearing on the margins. So that is my last question.

Rajeev Mehrotra: Okay. The exports, we have started shipping this week and as of now Rs. 400 crore is doable. On the turnkey also Rs. 250 crore is doable, but on the overall view let me tell you that we say these are the targets we are trying to achieve as management as commitment to the government but it does not mean that we stop there. So every company should try and build

to achieve the target and the way we have the order book I am sure we will definitely meet this and possibly cross too.

Moderator: Thank you. The next question is from the line of Pratiksha Daftari from Equitas Investment. Please go ahead.

Pratiksha Daftari: Sir, if I were to look at the break up of your order book we understand that consultancy segment the order book is about constant and as a proportion it has come down from 43% to 37%. So just wanted to understand your outlook on consultancy segment its contribution to revenues in next one to three years and if this lower contribution will impact our overall margins.

Rajeev Mehrotra: The consulting order book is Rs. 2,296 crore. As a percentage it is 37%. We have delivered lot of projects in Q2 and we are also adding to the order book so at this stage drawing any conclusion about consultancy not going up is bit premature.

Ajay Gaur: Let me also add to this, because of increase in the turnkey business and export business which has gone up substantially, like turnkey used to be about Rs. 1,400 crore in March 18 which is now Rs.2,465 crore the percentage for consultancy looks on the lower side but consultancy will continue to grow.

Pratiksha Daftari: Okay. So sir we expect the margins, like overall EBITDA margins to be sustainable even if the turnkey order book contribution in the order book from turnkey has gone up.

Rajeev Mehrotra: EBITDA margins we have been targeting around 35-36% this year. This quarter it has been 38.5% so it is safe to believe that we are in a position to maintain the EBITDA margins. As increased cost of last year which includes the pay revision etc has already been absorbed. It's safe to believe that we will be able to maintain.

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

Nirav Vasa: My queries would be pertaining to the wagon tendering. Sir as I understand Indian railways is currently facing acute shortage of wagons, so just wanted to understand are you getting any inquiries from Indian railways as to how to sort this issue out and what can be our company's contribution towards solving of this issue of Indian railways.

Rajeev Mehrotra: Okay. I will confine to the role we have in this business. Our role is through our joint venture called SAIL Kulti Wagon Factory which is near Asansol. And we have an assured order position of 1200 new wagons with railways plus 300 rehab, so within that we will try to fulfill the order position but beyond that we do not have any other role to play in solving the wagon, procurement or pricing issue in the railways.

Nirav Vasa: So sir this 22,000 wagon tender which government has which is in process for which reverse bids and everything have been submitted are we a part of that?

Rajeev Mehrotra: In fact our 1200 wagons pricing would be impacted by the price which is discovered finally through this tender. It is applied to everybody.

Nirav Vasa: So sir this 1200 wagon procurement that we are going to do this is in confirmed offtake order by Indian railways which is going to happen every year or is it one time.

Rajeev Mehrotra: This is 10 years commitment. When we started this factory, the off-take agreement was for 1200 and of course we are looking at other opportunities also. So for 10 years 1200 per year is minimum assured and the price which is discovered through tender.

Nirav Vasa: Get your point sir. Sir my other question pertains to some kind of mega activity which is planned by Indian railways like Indian railways had planned DFC quite earlier and in 2018 and 2019 we are seeing lot of batches of DFC which would be commissioned. So this would be eastern and western DFCs so any such kind of mega projects of Indian railways on which we are offering consultancy.

Rajeev Mehrotra: I will not be able to speak on behalf of the Indian railways, but based on the public information I can share with you that three corridors government is looking at, these are corridors, connecting Howrah to Mumbai, New Delhi to Chennai via Vijaywada and then east coast Kharagpur to Vijaywada. So for these three, they are going into detailed engineering and based on their priority for investment these are sure candidates to come up.

Nirav Vasa: Sir can you just repeat first you said was Howrah to Mumbai, second you said was?

Rajeev Mehrotra: Kharagpur to Vijaywada this is east coast, this covers the entire east coast ports.

Nirav Vasa: And the third one?

Rajeev Mehrotra: Delhi to Chennai i.e. Delhi-Vijayawada-Chennai. We have done pre-feasibility for all the three DFCs. I believe that they are looking at these three on priority. Now when they will decide and how much will be taken up it is on the government to decide. I see possibility of these three being picked up soon.

Nirav Vasa: Got your point because I think most of the learning curve has been done in the first two DFCs and the next DFCs can be done at much faster pace am I right in my assessment of doing that.

Rajeev Mehrotra: Let me tell you the biggest learning we have is that it is extremely important to segregate freight trains and passenger trains on busy routes. So same learning is strengthening our confidence to invest further.

Nirav Vasa: Sir and with regards to electrification like currently only 40% of the Indian railway network has been electrified so based on the feedback and your interaction with Indian railways as I understand lot of emergency type situation is there to electrify Indian railways. So according to you how many kilometers of electrification can happen for Indian railways in this year and next because the target which are given by the railway minister are really very aggressive but how much of that are doable according to you.

Rajeev Mehrotra: They are actually working on very aggressive timeline, the entire broad gauge network is targeted to be completed by 2020-21.

Nirav Vasa: So they are saying that remaining 60% of the electrification must be done in next four years.

Rajeev Mehrotra: It would be safe to call it 2021-2022, and it is doable. So, earlier IR was doing 2000 to 2500km, it has already been increased to 4000 kilometers, this year the target is to do 6000km and IR is scaling up. So lot of agencies are involved in doing other than railways the electrification work including companies like RITES we are doing two electrification projects, we plan to take whatever more is available. Power grid is doing, RVNL is doing railways are doing, Ircon is doing. So there is lot of capacity added to execute the electrification projects also.

Moderator: Thank you. The next question is from the line of Srinivas Rao from HDFC Mutual Fund. Please go ahead.

Srinivas Rao: Sir my question is on the consultancy business, we see lot of volatility in revenues both on Q on Q and Y on Y. Can you explain what leads to this and what can we expect.

Rajeev Mehrotra: The growth driver of consultancy would be the order book which was strong in the beginning of the year and then lot of this revenue gets recognized with the progress or the milestone. In this quarter, we have increase in our quality assurance income because we got lot of orders for inspecting coaches at ICF Chennai, entire electrification, electric circuits etc is being checked by our QA division. New works were added in QA. Similarly, we got good revenue from overseas projects of airports, metro and other infrastructure. So these two have been major drivers plus there is increase in metros and airports revenue in India. A precise answer to your point is that we have got good order book in consultancy segment and this is linked to the delivery against the work orders and we are trying to focus on the delivery now. We are trying to expedite the delivery.

Srinivas Rao: Okay. So sir the order backlog for consultancy was about Rs2500 crore is it?

Rajeev Mehrotra: It is Rs 2300 crore or Rs 2296 crore to be precise.

Srinivas Rao: So what is the conversion time expected for this.

Rajeev Mehrotra: This should see about maximum one and a half to two years maximum.

Ajay Gaur: Some projects like metro and DFC it may take slightly longer but otherwise normal period is about one to two years time Consultancy has grown because of the quality assurance and other business which we have secured aboard. The variation is not much but normally Q1 is always subdued. As we said earlier, it will not be correct to compare on quarterly basis. We have done better in this Q2 and it is likely to continue.

Srinivas Rao: And Q4 is generally heavy sir, is that applies to you also?

Rajeev Mehrotra: Yes it applies and I would like to highlight the order book which we have today Rs.6183 crore. So beyond this I will not predict, you can see if we have added Rs2100 crore to order book in six months, we are focusing on delivery, so Q3, Q4 should see the impact of this definitely.

Srinivas Rao: Okay. And sir what is the manpower utilization rates in the consultancy business for you right now.

Rajeev Mehrotra: We normally go by turnover per employee and last year was Rs.49 lakh, this year we are slightly higher on half year basis.

Srinivas Rao: I am referring only to the consultancy business sir and then what can this become, is there a scope for it?

Rajeev Mehrotra: No, consultancy alone I do not have this is on overall corporate productivity basis. But definitely in consultancy we have not added proportionately higher number therefore the profitability is visible in the results you have before you.

Ajay Gaur: We are not allocating man months on the basis of the business like one person maybe handling consultancy and he may be handling turnkey project also. So we are not able to segregate it. Unless we start doing it we will not be able to know, what is the return per employee in consultancy business?

Srinivas Rao: Okay. And what is the manpower addition you plan for this year and next year sir?

Rajeev Mehrotra: Overall two years put together I should see about 5 to 7% increase in manpower. 5 to 7% might be needed.

Srinivas Rao: Okay. Sir coming to turn key projects what is the revenue you are expecting for the full year this year.

Ajay Gaur: They should be somewhere around Rs. 300 crore.

Srinivas Rao: Because you have already done about Rs. 190 crore in the first half.

Ajay Gaur: Yes, around Rs. 192 we have already done so about Rs. 300 or maybe slightly more we should achieve. Initially, we planned about Rs. 275-285 so we are doing better than that.

Srinivas Rao: And what is the order backlog sir in this turnkey because we are saying revenues will decline in the second half.

Ajay Gaur: Turnkey is about Rs.2,465 crore order book.

Moderator: Thank you. The next question is from the line of Mayank Goel from SBICAP Securities. Please go ahead.

Mayank Goel: All my questions have been answered. Thank you.

Moderator: Thank you. The next question is from the line of Ruchit Khare from Kotak Securities. Please go ahead.

Ruchit Khare: Sir my question basically pertains to the electrification projects that you mentioned so I believe there are few projects in which RITES is already involved into so these are consulting orders or these are more of a turnkey orders?

Rajeev Mehrotra: These are definitely turnkey orders let me name this. Jaipur to Sawaimadhopur electrification, we are doing and we will commission in this year. Vijaypur- Makshi, half portion we will commission in this year before March 19. These are definitely construction contracts and would be a part of turnkey revenue.

Ruchit Khare: Okay. Sir I just wanted to understand the kind of growth or the potential which RITES can cater to going ahead so these would be more, this would basically originate from what kind of projects within railways like this will be mainly through electrification projects or rolling stocks or something related to signaling systems, etc technology based. So if you could give the broader highlight of the opportunities that can come within the railways space would be helpful from next two years perspective.

Rajeev Mehrotra: Okay, very quick answer would be that railways are trying to decongest the existing busy routes so they are looking at projects of doubling or third line or fourth line. So this gives you the possibility of adding turnkey contracts for execution of infrastructure which is rail line. Now coupled with this all the broad gauge lines would be electrified. So as soon as there is a line there will be electrification requirement and then accordingly the signaling and communication lines would also be there. The way the expansion has been planned, I do not see any reason to be pessimistic on the future investments. As I said earlier, the three DFCs are in very advanced stage. They are also planning couple of other mega projects not exactly high speed but semi high speed. There will be couple of green field projects on which there is

thinking going on at different levels so even that could be a reality soon. But when this will happen and how much, we will have to wait.

Ajay Gaur: Besides DFC, electrification, and doubling of line, with the increased procurement by railways our quality assurance business is also likely to go up. So these are the areas where we can expect to improve revenue.

Ruchit Khare: Fine. And sir you mentioned about 5 to 7% increase in manpower cost going for next two years so you believe that this would be able to suffice the kind of growth which we are observing in the order book per say the kind of execution is likely to go up so. So is this the best estimate or there could be some surprise on this in terms of higher manpower cost going ahead.

Rajeev Mehrotra: No, I do not see any surprise because as people keep delivering the projects they are free to take up new projects also. And we are not really looking at a number which cannot be delivered by this moderate increase. Employees have got various advance tools, packages available to do what they were doing earlier. So it is reasonable to believe that productivity can consistently be moving up. And if we are not productive then we will not be able to compete actually.

Ajay Gaur: Let me also add, there will be growth in exports and turnkey sectors and in turnkey and export we do not require so much of manpower because the value is very high In case of exports and turnkey business, we do not require the equivalent manpower for that corresponding increase in revenue. In case of the turnkey projects as we are outsourcing everything to outside agencies, apart from doing some designing and the supervision, we don't see that much increase is required in the manpower.

Moderator: Thank you. We have a follow up question from the line of Nirav Vasa from B&K Securities. Please go ahead.

Nirav Vasa: I would like to continue with my last question which was pertaining to electrification. Sir the outlook for electrification in India looks really very rosy based on the guidelines that you have said and aggressive target which are set by the rail minister. But what I wanted to understand is like are there enough execution capabilities, are there enough vendors available in India who can execute projects at a very large scale.

Rajeev Mehrotra: Yes, last year there was a feeling of some constraint in the execution, but as I see these six, seven key players they are also adding to their capacity. So once they are sure of the order line, they can add capacity faster than possibly government setup or anybody else, a private construction company can add capacity faster.

Nirav Vasa: So if you have to just give an example like when PGCL was expanding Power Grid was expanding it's vendor base they would have done something like a vendor development scheme wherein they give small contracts on trial basis to contractors to judge their capability. And based on that some contractors got qualified for bigger electrification contracts, so is railway trying to do something like that to increase it's base of vendors, because I think getting mandatory pre-qualification with Indian railways is quite a difficult task because electrification work was earlier done by the in-house department of Indian railways.

Rajeev Mehrotra: No, even when they were doing departmentally like CORE was doing, the same contractors like these KEC, etc they were all doing for CORE as well. So CORE does not have a departmental execution machinery, they again contracted out. But yes, you are in a sense very right because can these guys expend to deliver three times of the capacity needed? There are challenges but they are coming up with this. This year you will see in March the extent of addition would possibly be much higher than last year.

Nirav Vasa: Effectively new vendors are added right.

Rajeev Mehrotra: New vendors are added. But in this anybody who has got experience of doing electrification can enter as it is not a very complex technical job.

Nirav Vasa: Exactly, it is more about. And sir in government of India is very focused on providing increased rail connectivity to North eastern states of India. So, and by the target, the timeline which has been set is by year 2020. So what kind of scope can that initiative of government provide us in terms of consultancy projects, in terms of turnkey and those kind of things.

Rajeev Mehrotra: Well I do not really have a definite number to say but they are looking at various prefeasibility studies, they are looking at connecting the remaining areas. A very definite view on this, I will not be able to give you right now. But we are doing some projects segmented, not as a one project like a DFC going from Guwahati to entire North East side. So there are definitely projects being seen by NFR and also workshops. They are trying to develop more railway presence in the North East. We are working on two workshops in that area which are green field. Rail connectivity is definitely expanding; we have seen Mizoram, we have seen Tripura getting connected and IR is trying to reach out. There are lots of tunnel involved from this area to reach Manipur. And then from Manipur site to Myanmar, there is a plan to reach out to that side also.

Nirav Vasa: Get your point sir.

Rajeev Mehrotra: I will not be able to give you very quantified answer to this that this is what it is but definitely we are looking at North Eastern activity.

Nirav Vasa: Got your point sir. Sir in the balance sheet stated on 2Q FY19 we have cash balance of around Rs.2,139 crore which is cash and equivalents which are old funds that is I believe would be your customer advances. Sorry client number is Rs. 1048 crore.

Rajeev Mehrotra: Ours is Rs. 1192crore besides investment in bonds and mutual funds.

Nirav Vasa: Yes, so sir the advances that you are getting from your customers are they interest bearing advances.

Ajay Gaur: Whatever clients' funds we have with us and whatever interest accrues on these funds, we pass it on to the client so it does not come to us.

Moderator: Thank you. We have a follow up question from the line of Jonas Bhutta from Phillip Capital. Please go ahead.

Jonas Bhutta: Sir three questions, firstly sir just going back on this order inflow bids, would you see sort of slowdown in orders for turnkey projects as the general election code of conduct sort of goes becomes active somewhere in the fourth quarter and in order to do that do you have enough other projects that can yield you new orders over the next maybe 12 months and if you can give a board qualitative touch on from which segments should one expect these new orders if it's not in turnkey, that is my first question.

Rajeev Mehrotra: In case of railways the code of conduct may prohibit announcement of new schemes during certain period but the way the system is there are lot of projects which are already enlisted in a book called pink book. Pink book is the book which has got all the capital works, programs listed and I think that is enough to execute in that. So the nearing of election is not a worry. Now how much RITES will take, how much RITES will get is again a question, which management will see in what areas we are present to execute this efficiently. We are definitely looking at more orders for rail infrastructure whether it is second line, third line or fourth line as well as electrification and also bridges.

Jonas Bhuta: Sir on the consultancy side could you give us some more color on from where should one expect orders as in would it be quality assurance, airports, roads and bridges.

Rajeev Mehrotra: In fact, Mr. Bhuta Ji we expect in all sub-segments. In quality assurance also we are trying to expand our reach. We have added new segments like complete checking of electrification of a coach at ICF, when they make a coach our team goes and inspects all the circuits, etc. This is a new addition. Similarly we are doing inspection overseas of certain rails they are importing from Japan. Similarly whatever new areas are emerging we are trying to do for railway sector also.

- Ajay Gaur:** Mr. Jonas we have already given one dozen reports on metro. Government can announce any metro project and we may secure some business in the metro sector also.
- Rajeev Mehrotra:** Infact that might happen before the code of conduct becomes applicable. Government may come out with priority projects announcements.
- Jonas Bhuta:** Sure. Sir my second question was on this investment of Rs.50 crore in IRSDC. To what maximum level would you invest as in what would be the maximum level that RITES would have to invest at the peak, last when I heard it was about Rs. 200 crore is that understanding correct.
- Rajeev Mehrotra:** Yes you are absolutely right we have taken the in principle approval to invest upto Rs.250 crore but based on the revised strategy or revised business model which is being agreed upon, Rs. 50 crore is enough. We are not going to put more. At the same time, we are also trying to secure business by providing engineering solutions for station development.
- Jonas Bhuta:** So what could be the revenue potential if any, I understand it has been early days but what could be the revenue potential from this particular investment and how early can we see it as it would it be a one year turnaround time or you expect this Rs.50 crore to yield some revenue maybe two years, three years down the line.
- Rajeev Mehrotra:** Rs. 50 crore will be as equity investment but once the projects takeoff; there will be lot of engineering solutions required. That is where you start earning your fee, in a project of this size it would be safe to believe that around 5 to 7% would be the engineering fees. If we are able to get a portion of it, I think we recover our money and also increase our presence in this segment.
- Ajay Gaur:** Mr. Jonas apart from PMC, we are expecting that we will be getting a fixed return. As per the agreement between IRSDC and RLDA, they have to give a fix return on the equity to Indian railway station development corporation which is committed around 22% pretax., So out of that we will also be getting a part as the shareholder.
- Rajeev Mehrotra:** Investment we are trying to cap at Rs. 50 only and not beyond.
- Moderator:** Thank you. The next question is from the line of Abhilasha Satale from Dalal & Broacha. Please go ahead.
- Abhilasha Satale:** Most of my questions are answered. Just one thing is, I want to know that how much time period is required for execution of turnkey project order and what has been the EBITDA margin for turnkey project for the quarter.
- Rajeev Mehrotra:** Typically a turnkey project would go into designing and approval for about six to nine months and then execution for about one and a half to two years. So you can say maximum two to

three years cycle would be there for a project of size of 100 kilometers. Fee structure is such that government pays us cost plus 8.5%. So the cost is passed on and 8.5% is gross, of which the operating margin would be around 2.5 to 3% and if we do more projects the margins could be enhanced.

Ajay Gaur: Well this quarter it is about 3.7% operating margin, because with the increased base the overhead allocation gets allocated to wider base so it comes down, so the margin is above 3% this quarter.

Moderator: Thank you. There is a follow-up question from the line of Pratiksha Daftari from Equitas Investments. Please go ahead.

Pratiksha Daftari: Sir while there was this discussion about railway electrification you said there are six vendors, six companies along with you in these projects. So if you could tell us which these six companies are and the second question is, sir an investment of Rs50 crore in IRSDC so that amounts to how much percent stake in the company.

Rajeev Mehrotra: Okay. Let me answer the first question, when I said railways is trying to expand their execution capacity, besides their own department which is CORE Allahabad, I meant the other companies which are doing these projects are RVNL, Power Grid, RITES, Ircon, but in turn all of us are again offloading to the contractors.

PratikshaDaftari: Which contractor sir?

Rajeev Mehrotra: 6-7 big names are there, if you were to ask me I will say likes of Kamanis, L&T, PC and then now a Kolkata based wagon company has taken over one electrification company i.e. Texmaco. So these companies are all competing and they are adding capacity to deliver more projects.

Pratiksha Daftari: Okay. And sir percentage stake in the investment IRSDC.

Rajeev Mehrotra: We were earlier thinking of a higher requirement there but based on the agreed plan Rs. 50 crore is enough i.e. Rs. 50 crore equity investment. As DF said the returns to IRSDC would be based on annuity based payment. Now along with this we are trying to get some engineering work for which fees will be received by us that may involve designing station, contract services, PMC, etc. So I think we are not only doing investment we are also trying to secure more engineering business for us.

PratikshaDaftari: Sir that bit I understand but this Rs. 50 crore will get us some equity stakes so I was just trying to understand how much equity stake do we get in the company by our investment of Rs.50 crore.

Rajeev Mehrotra: One third.

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

Dixit Doshi: Sir first question is on a consultancy order book is around Rs. 2300 crore can you break it up in terms of domestic and abroad.

Ajay Gaur: Consultancy abroad must be somewhere around Rs. 230 crore plus, exactly I don't know I do not have figures with me but like we have two projects one is about Rs.140 crore, the other is about 118 crore (some of which has been executed) and then we have few more project so it will be somewhere around Rs. 230 crore.

Ajay Gaur: Out of this Rs. 2296 crore.

Dixit Doshi: Okay. So the execution in this part can also be ramp up very fast because we have done only Rs. 47 crore in the first half sales.

Rajeev Mehrotra: The execution period (sales) will be slightly longer i.e. 2.5 years.

Ajay Gaur: Like the projects we are talking about of which one is metro project which is going to last for three to four years and then one more classified project has been secured by RITES that will also take about three years time. So it will come over a period of three years.

Dixit Doshi: Okay. Sir secondly in export so last time when we had a call at the end of July the export order book was Rs. 1,264 crore but still there was no sale recorded this quarter so if you can just highlight.

Rajeev Mehrotra: These orders are for locomotives and coaches and it takes about 1 year to get design approved from the client because there are lot of changes internally done in what we use in India and the orders are based on the requirement of client abroad. So all that takes some starting time but, as we have shared in the release today that the first shipment of 13 coaches DMU, diesel multiple unit, is ready and this will be shipped from Chennai this week to Colombo, so the revenue will come. One locomotive will also go in the same ship so the orders have started flowing out and once the design and everything is settled now the execution will happen.

Ajay Gaur: Regarding the export order, these are normally funded against Indian line of credit and once government of India decides to extend the line of credit to another country, then we have to do lot of leg work to secure the projects because it is up to that country to decide where to spend money. Two projects we are executing in Sri Lanka has taken more than two years to secure. We are trying elsewhere also to secure more overseas business for exports but it takes longer than the domestic business. Because they look for funding agencies and we have to finalize their design, specifications and then take up this with the railway production units.

So securing a project takes sometime in export but our hands are full for next two years. We are still trying to secure more projects and we are quite hopeful and it is progressing well.

Rajeev Mehrotra: Let me summarize the potential here, current year we are trying to target Rs. 400 crore billing in export and we are on track for that.

Dixit Doshi: Okay. Secondly sir, in terms of consultancy margin so typically we used to do 35% or let say segmented result 35 to 37%, this quarter it was almost upwards of 48-49% so is there any one-off there.

Ajay Gaur: No, actually if you see even last financial year 2018 also, the consultancy margins were about 40%. Here I am not including the unallocable expenses and what 50% you are talking about that also does not include unallocable expenses. This year it has gone up because of the increase in the consultancy abroad. Consultancy abroad margins are more and then again it depends on the mix of the consultancy business. If we do more business in the metros where fee is based on the man month, the margins are better, quality assurance has gone up this year about 80% so that has also contributed to higher margins.

Dixit Doshi: Okay. And lastly sir we were planning to purchase some office almost about Rs. 150-200 crore so I mean anything happened there.

Ajay Gaur: We have already committed for that and have already made one payment also. It is construction linked, it is in Delhi and we are going to buy it from NBCC. As and when there is a demand we will release payment.

Dixit Doshi: Okay. So how much we have already paid.

Ajay Gaur: I think we have paid about 10-15% of the total cost, so may be about Rs. 15-16 crore we might have paid in the first go, exact number is not with me right now.

Moderator: Thank you. The next question is from the line of Nirav Vasa this is a follow up question from B&K Securities. Please go ahead.

Nirav Vasa: Sir my question pertains to the billing that you do for consultancy. So sir just I understand that we must be having really niche and highly trained people in the consultancy business. So how does the billing actually happen so, do you charge them on hourly basis or like there is a fixed, how does actually the pricing of consultancy contract happen.

Ajay Gaur: In consultancy business, we have different sub-segments within consultancy. Some of the consultancy assignments are given to us for report writing like prefeasibility report or detailed project report. In these projects, we charge lump sum payment. Here we do our costing, we see how much time we are going to spend i.e. we add all direct cost and then add un-allocable expenses on that, then markup and then give a cost to client. You are talking

about the billing, it is based on the deliverables like we submit a draft report we get 15%, then we submit a final report we get another 40%, some of the payments are in advance also for mobilization. Some of the projects for example in the consultancy as I said earlier also like metro projects where we do general consultancy there the fee is based on man month. The number of expert we are able to depute, we get paid on monthly basis. We submit our offer, based on the number of experts and their category. As long as they continue at site of the client, we bill them accordingly on monthly basis. In some of the projects, it is based on the percentage basis like it in PMC and it is linked with construction as and when the construction takes place the consultancy fee is fixed around 7.5% or 8.5% which accrues to the company.

Nirav Vasa: So sir now if I understand the migration from consultancy aspect of the project to the actual execution can you give some kind of ratio so for example for every 100 reports that you submit what percentage of projects are done by yourself from which includes the entire phase from consultancy to the execution and turnkey contracting. Any number that you can give on those lines.

Ajay Gaur: Sorry can you repeat your question I did not get it.

Nirav Vasa: What I am trying to understand is, that the project that you take on consultancy basis and then eventually tender it out and get it executed for your customer and mainly your customer is Indian railways right. So wanted to understand what percentage of the project that you, for which you do all the brain work, you actually end up doing turnkey contracting and delivering the final contract to your customer.

Ajay Gaur: No, let me clarify. So far the consultancy business is concerned if you take the railway portion i.e. whatever consultancy business we do for railway, is 12 to 13% only. So we do not render consultancy service only for railways, we do it for number of clients which includes number of PSUs, government agencies, private client and foreign clients. So it is not only railway, railway contribute to only 12 to 13% in the consultancy business. Other Railway jobs secured by us are in the turnkey sector and that business we are doing only for railway not for anybody else, it is electrification job, doubling of line and workshop. So turnkey job is from railway but consultancy we are doing it for number of clients. Wherever we make out a report it is not necessary that we will do the execution work. It is up to the client to decide. Suppose we are asked to make out a DPR, we give a DPR to the client, and then it is up to the client whether they want to involve us in the PMC stage. It happens in some of the metro projects, we have done prefeasibility and DPR and then we were involved in general consultancy also. General consultancy means we supervise the work done by the contractor or we do the designing for the project. So it is up to the client to decide whether we are there or we are not there. But normally we have seen that in case of metro we are there along with the other consortium members, otherwise our job is over once we give a report.

Rajeev Mehrotra: Okay. Let me add to what Mr. Gaur has said. My experience of RITES' major project is that whatever projects we give to the clients almost 70-75% projects actually do take off for second stage. Whether we do turnkey or somebody else does, is another issue but if you are looking at the success rate of the reports being submitted about two third do get go ahead but may not come to us.

Ajay Gaur: So it is difficult to correlate that what business will flow to us out of the report submitted by us. Because it is up to the client and sometime they go in the market and tender it out. And since we are not into construction other than the railway job which is cost plus, which are the safer bet for us, we have not taken up any construction work. We do PMC for construction and do not carry out the construction work ourselves.

Moderator: Thank you. The next question is from the line of Chintan Sheth from Sameeksha Capital. Please go ahead.

Chintan Sheth: Sir on the bidding side you mentioned that we have already bided for number of projects apart from the order book we have currently. Can you broadly give us an indication versus what will be the proportion of those bid pipeline is for consultancy and how are we looking at turnkey over the scheme of things.

Rajeev Mehrotra: It is very difficult to give you a definite number or mix going forward. Because we will not give outlook beyond what we have already declared at this stage, but going forward we predominantly want to remain a consulting company with 50-55% business would be coming from consulting only.

Ajay Gaur: Turnkey works have been awarded to us on nomination basis by Ministry of Railway and that is why we have taken up these turnkey jobs but otherwise we do not participate in turnkey jobs. As CMD has rightly mentioned, main stream of business is going to be consultancy and then exports. Turnkey for railway we will do it because these are cost plus and there is no risk involved.

Rajeev Mehrotra: There was an opportunity and we have gone into it and we have done well.

Ajay Gaur: And now once the profile is built up, it is quite possible as you rightly asked, maybe in future we may try to take up some turnkey project outside railway also.

Chintan Sheth: Sure. So if I may ask how much of in our building pipelines the nomination for turnkey project we have already bided.

Rajeev Mehrotra: Turnkey have been awarded 100% on nomination basis.

Chintan Sheth: Participated in any additional order.

Ajay Gaur: No, we have not and these are all from Ministry of Railways.

Chintan Sheth: Sure sir. And sir the reason for increase in our debtor cycle in the first half is predominantly because of the execution we have done for in our turnkey side that can be the reason why there is a sharp increase in debtors?

Ajay Gaur: Our debtors have been more than 140 days in the past but last year we started following it up with the clients which are mostly government or state government. There is usually delay on their part, keeping in view number of things like acceptance or budget availability etc. This time it is higher but by end of the year we will try to bring it down like last year we were able to bring it down to 117 days. You are right that it is higher about Rs.660 crore as on date. We will start the exercise sometime in December and we will take it up with the clients and try to realize and bring it down as much as possible.

Chintan Sheth: Sure. And sir you mentioned that the client fund which are in your books right now, the interest you obviously don't take it in your books but pass it on to the customer but those are the advances for which we will be generating future revenue while executing the order, that is the way it will be or in some PMC project where you generally manage the payouts of the project but you do not entirely do the work. Those funds are also being parked in this advance just trying to understand.

Ajay Gaur: There are two kinds of projects, one is the project where the client says that we are giving you this work and you are going to be single window for me. Once the work is awarded, we ask for advance from the client and open a separate account. Like RITES has got a payment from client say "A", so we open an account "RITES A account project name" and keep those funds in these accounts and disburse payment to the contractors out of that particular account. Our fee is fixed, it is cost plus, for example, if the construction cost is Rs.100 and our fee is about 8%. So we will raise invoice for 8% only. Those funds will keep lying in that particular account and the interest accrued will be passed on to the client. We will be only a custodian of those funds. Same in case of the turnkey also, we take advance from ministry of railways and open a separate account, keep funds there, disbursed payment out of that particular account. In nutshell, we do not require any working capital for execution of these PMC projects and turnkey projects as clients' funds are available. We do not get benefit of the interest income. We get only our fees as a percentage which is decided with the client as per the agreement.

Chintan Sheth: Sure. But sir in the turnkey we report whatever the orders we receive right in our revenues but, #A the first one the formal example you gave where in you just earned the 8% fees or the consultancy fees you get, you do not actually report the entire project revenue in your book you just report the 8% margin or fees you will charge to the client. But still you end up holding entire money in your account or in the separate account on behalf of your client.

Ajay Gaur: You are right in case of the PMC we take only the percentage as our turnover and do not take the total value as turnover. In case of turnkey, we take turnover only to the extent work has been executed plus our fees, turnkey projects are also cost plus. Like the client says that I am giving you a project of Rs.100 plus 8% fee so total value is Rs. 108 at the end of the project total revenue from that project will be Rs.108 and expenditure will be 100 plus some more expenses from our side so we will take it on consolidated basis both side expenses as well as income. While in case of the PMC only where we are not the prime contractor we take only percentage as turnover. It has nothing to do with funding. Funding maybe more but the income will be accounted for or will be recognized based on the actual work done in both the cases.

Moderator: Thank you. We have a follow up question from the line of Nirav Vasa from B&K Securities. Please go ahead.

Nirav Vasa: Sir since you already have specialization in preparing DPRs and feasibility studies. So wanted to understand do we have any scope of work in the forth coming bullet train project and how is the pipeline for us in terms of DPRs for inland waterways and multi model logistics in India.

Rajeev Mehrotra: Okay. Let me answer the high speed first. We were associated with the first project which is now under execution Ahmadabad-Mumbai-Pune, out of this only Ahmedabad-Mumbai portion is under execution. Of course we did along with a foreign consulting company. We did second feasibility study for Delhi-Chandigarh-Amritsar, which has already been given. We have one more project but it is very difficult to say the pipeline because government will have to evaluate whether they will go for full high speed type of investment as they are doing for Ahmedabad-Mumbai or another possible solution is speed up to 250 kms, we call it semi high speed. So this issue is actually under policy consideration. And we are associated in all of these projects whether it is high speed, semi-high speed or DFC. We get associated in the beginning.

Nirav Vasa: And sir in multi model logistics and Indian waterways.

Rajeev Mehrotra: We are doing almost all such work for CONCOR, almost their entire logistic portfolio is with us. In some cases NHAI, etc., are also trying and come out with tenders where some smaller consultants are also competing but we have a dominant presence in this segment.

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

Rajeev Mehrotra: Thank you Aman. And I want to thank all the participants for joining this call and I can summarize the performance that we are consistently looking at implementation of the orders in hand. At the same time we are trying to generate more orders and the margins are

definitely very encouraging to us. We will try to see that we optimize on the manpower uses for future projects and I do not see any reason to believe that the margins will be under threat. With this, I thank you again for joining us this evening. Thank you.

Moderator: Thank you very much. On behalf of RITES Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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