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Issue Details	
Price Band (Rs)	180 - 185
Face Value (Rs)	10
Issue Size (Rs)	466.20Cr
Issue Type	Book Building
Minimum lot	80 Shares
Issue Opens	June 20, 2018
Issue Closes	June 22, 2018
Listing on	BSE, NSE

Indicative Timeline	On or before
Finalization of Basis of Allotment	June 27, 2018
Unblocking of Funds	June 28, 2018
Credit of shares to Demat Account	June 29, 2018
Listing on exchange	July 02, 2018

Other Detail	
Book Running Lead Managers	SBI Capital Markets Limited, Elara Capital (India) Private Limited, IDBI Capital Markets & Securities Limited, IDFC Bank Limited
Registrar	Link Intime India Private Limited

“Retail investors and employees will receive a discount of Rs.6 on the issue price”

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RITES Limited

Company Background

Established in 1974, RITES Ltd. is a Government of India Enterprise under the aegis of Indian Railways. RITES Ltd. an ISO 9001:2008 company, is a multi-disciplinary consultancy organization in the fields of transportation, infrastructure and related technologies. It provides a comprehensive array of services and technology know how under a single roof to its clients. Company has presence in ~55 countries, actively developing cooperative links with local consultants and firms, to maximize utilization of local resources and creating world class transportation infrastructure.

RITES, a Miniratna (Category - I) Schedule 'A' Public Sector Enterprise is a leading player in the transport consultancy and engineering sector with forte in railways infrastructure. Besides they provide consultancy services across other infrastructure and energy market sectors including urban transport, roads and highways, ports, inland waterways, airports, metro rail, ropeways, power procurement, and renewable energy. Clientele includes various public sector undertakings, government agencies and large private sector corporations, both in India and abroad.

Issue Details

IPO offers 2.52Cr shares of face value Rs.10 each amounting to Rs.466.20Cr on the upper price band of Rs.185, which is 12.6% of post issue paid up capital. It is an offer for sale by President of India, promoter of company. Around 12 lac shares are allotted for employees after which net offer would be of 2.4Cr shares (12% of post offer paid up equity). **Retail investors and employees will receive a discount of Rs.6 on the issue price.** Objectives of the Issue are to divest Government's stake by 12.6% and achieve the listing benefits.

IPO share allotment pattern

Category	Allocation	Number of Shares	Issue Size (Rs.Cr) at	
			Lower Band (Rs. 180)	Upper Band (Rs.185)
QIB	50%	120,00,000	216	222
Non-Institutional	15%	36,00,000	64.80	66.60
Retail	35%	84,00,000	151.20	155.40
Employees		12,00,000	21.60	22.20
Total	100%	252,00,000	453.60	466.20

Source: Company RHP, ACMIIL

Outlook and Valuations

RITES is the largest transportation infrastructure consultant in country with expertise in railway and metro rail infrastructure. Moving further they are planning to intensify into international markets with exports of locomotives and other turnkey construction projects. At upper price band, asking price is at a P/E of 11.4X at FY18E EPS of Rs. 16.2. We recommend subscribing the issue for listing gains and also from a long-term prospective.

Business Overview

RITES is fully owned by Ministry of Railways. It was primarily set up for designing and consulting on railway transportation and engineering, offering services in transport infrastructure consultancy and engineering services consist of conducting techno-economic feasibility studies and preparation of detailed project reports, design engineering activities, procurement assistance, project management activities, quality assurance, inspection, training, construction supervision, materials system management, transaction advisory and commissioning support including operation and maintenance. The company also engages in leasing, export, maintenance and rehabilitation of locomotives and rolling stock, besides undertaking turnkey projects on EPC basis for a variety of railway-related projects. RITES have also commenced wagon manufacturing, renewable energy generation and power procurement for Indian Railways through collaborations by way of joint ventures, subsidiaries or consortiums. They are the only export arm of Indian Railways for providing rolling stock overseas other than Thailand, Malaysia and Indonesia.

RITES have strong overseas project experience. They are working in Nepal on two integrated check-posts at Birgunj and Biratnagar and are conducting construction supervision services of a road project in Botswana through its Subsidiary, RITES (AFRIKA). Company is in the process of executing a major export order for Sri Lanka comprising of 10 diesel locomotives and 6 DMU train sets. They have successfully exported 18 meter gauge locomotives in Myanmar and 120 broad gauge passenger services coaches to Bangladesh and have also recently completed detailed project report for airport at Rwanda and ports project in Sri Lanka.

Investment Rationale

Healthy Order Book

RITES 's order book as of March 31, 2018 stood at Rs.48,186.76mn, which includes 353 ongoing projects of value over Rs.10mn each. Of the total orders, 22 projects are in various international markets. On business segment basis, consultancy services is the highest with 53.4% of the order book followed by Turnkey Construction projects (29.2%), Export Sales (14.5%) and Leasing services (2.9%) which is in initial phase. Around 76% of orders are from State and Central Government received on nomination basis mostly and 23.2% are from other private players. Moving ahead, management is focused to procure more of turnkey projects and raise its export sales.

Revenue Segmentwise				
Revenue (Rs mn)	FY15	FY16	FY17	9MFY18
Consultancy Services	7,031	7,690	8,345	6,283
Leasing Services	693	902	933	699
Sales	1,492	1,859	3,774	1,577
Turnkey Construction	910	386	313	638
Sale of Power Generation	0	69	169	163
Total Operating Revenue	10,127	10,905	13,534	9,362

Source: Company RHP, ACMIL

Strong Clientele

RITES have a vast clientele in domestic market including various central and state government ministries, departments, instrumentalities as well as local government bodies and public sector undertakings. Clientele includes Indian Railways, NTPC, Dedicated Freight Corridor Corporation of India Limited, High Speed Rail Corporation of India Limited, Public Works Department, DMRC, Steel Authority of India Limited, Rashtriya Ispat Nigam Limited, Hindustan Petroleum Corporation Limited, Bharat Coking Coal Limited, Metro Link Express for Gandhinagar and Ahmedabad (MEGA) Company Limited, Indian Port Rail Corporation Limited, and Airports Authority of India.

In private sector, L&T Metro Rail (Hyderabad) Limited, Kanti Bijlee Utpadan Nigam Limited (KBUNL), Cimmco Limited, Titagrah Wagons Limited, Snowmex Engineers Limited, Unity Infraprojects Limited, Rajdeep Buildcon Private Limited, Mahalsa Constructions Private Limited, Marymatha Constructions Limited, AFCON Infrastructure Limited, INCAP, ARK Services, MNEC Consultants Private Limited, Indian Geotechnical Services Limited, Geokno India Private Limited and NATRIP Implementation Society are the clients.

International Presence

RITES have a strong global presence across 55 nations. Their first international project was in 1975 with Syrian Railways and as on today order book consists of projects from ten countries. The company have largely worked in Asia, Africa, Latin America, South America and Middle East regions. They have exported rolling stock to Benin, Senegal, Mali, Myanmar, Sudan and Vietnam and operated railway systems in Tanzania, Iraq, Ghana, Mozambique, Zambia and various other countries. Has completed three maintenance workshops for Sri Lankan railways. In the past, they have carried out feasibility studies for rail transport infrastructure in countries such as Ethiopia and

U.A.E and road infrastructure in countries such as Afghanistan, Bangladesh, Ethiopia, Ghana, Malaysia, Mozambique, Myanmar, Nepal, Tanzania, Uganda, U.A.E. and Zambia.

Lately they entered into an agreement with Government of Mauritius and Metro Express Limited for providing construction management services for the Metro Express Project and Trident Port Project. They are also undertaking project report preparation consultancy for East Bank-East Coast road linkage project in Guyana (South America).

Moving ahead they are expanding design and project management consultancy services for road safety audits, bridge condition surveys, bridge maintenance management systems and rehabilitation, with focus on other urban transport and transport infrastructure sectors including metro rail projects and high-speed corridor projects. Further they are intensifying international business of rehabilitation of locomotives and wagons, exports and leasing of railway locomotives, rolling stock, railway equipment and other spares which are in high demand in Africa, South Asia, Middle East and other developing nations.

Expanding Renewable Energy Services

RITES has recently formed a subsidiary named Railways Energy Management Company Limited (REMCL) for providing renewable energy to the Indian Railways and reduce the carbon footprint. REMCL is the agency mandated by the Indian Railways to undertake power procurement and facilitate contracts between power producers and Indian Railways including renewable energy projects and energy efficiency projects. REMCL provides project management and other consultancy services for the Indian Railways with regards to setting up of wind energy projects, solar energy projects, power procurement and construction of transmission lines connected to the Inter - State Transmission System (ISTS). Subsidiary has commissioned a wind power project of capacity 26 MW in Jaisalmer, Rajasthan and has also concluded power procurement contracts for approximately 1,175 MW across various states in India.

Financials

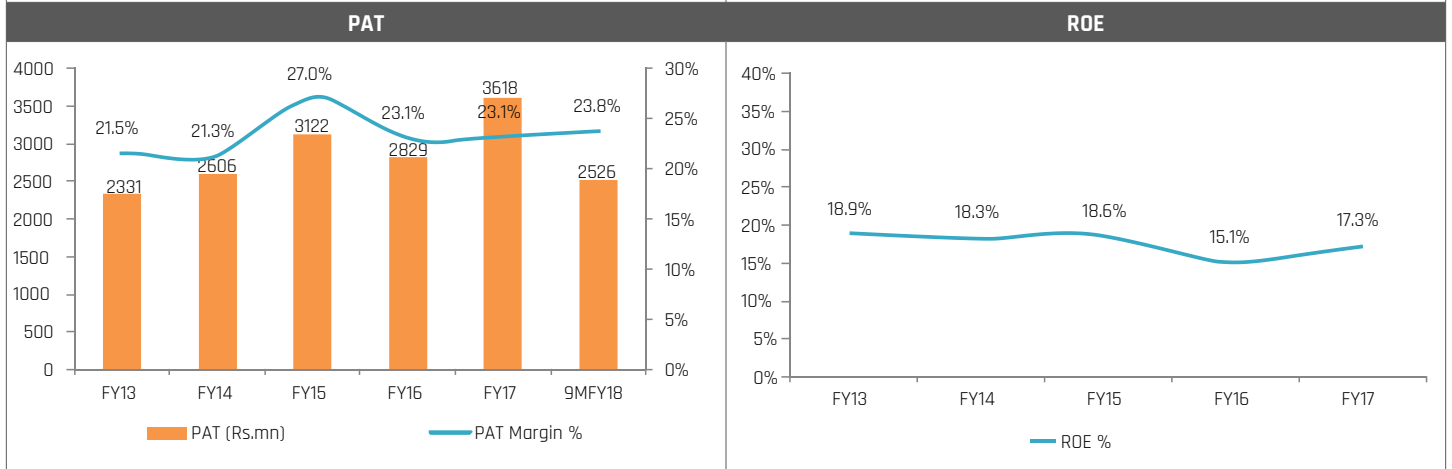
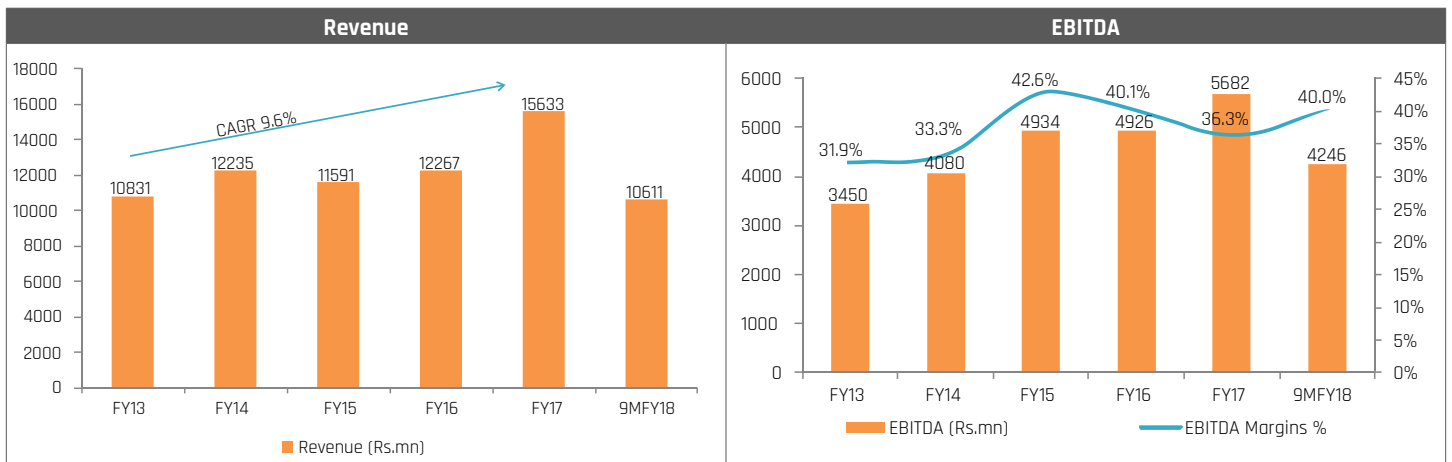
RITES's operating revenues have grown by a CAGR of 15.6% during FY15-17 to Rs. 13,533.56mn in FY17 whereas PAT grew by CAGR of 7.63% during the same period to Rs.3617.61mn in FY17. For the 9MFY18, operating revenues were Rs. 9,361.50 mn and PAT was Rs.2,525.37mn. On the standalone basis it is a debt free company with regular dividend payouts.

Risk Factors

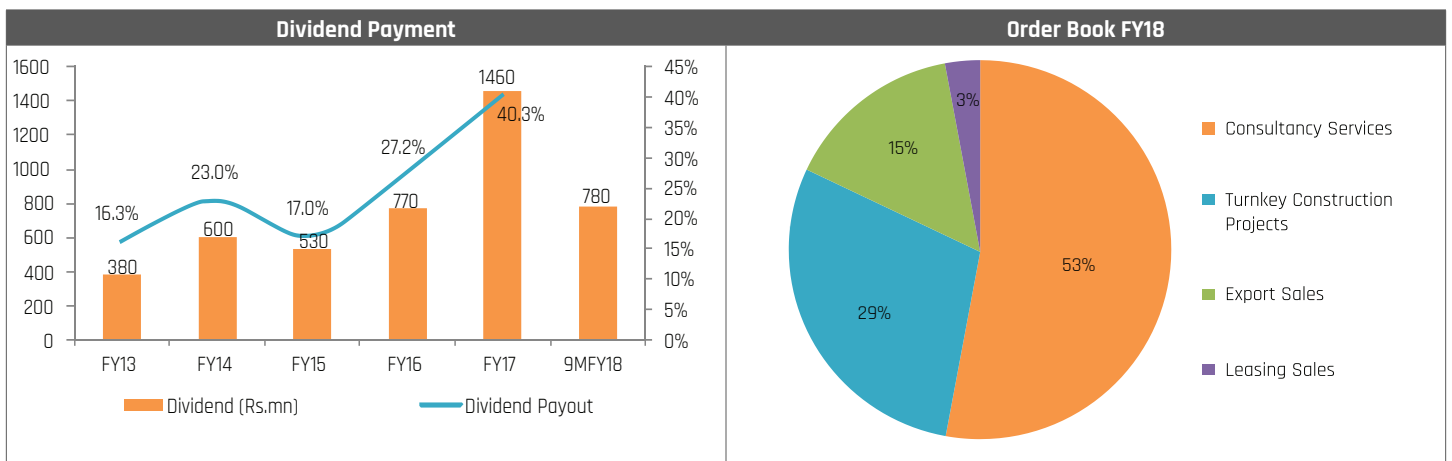
- Dependency on Government: RITES's order book majorly consists of Central/ State Government projects based on nomination. Any changes or fewer orders in future might impact adversely.
- Modification or delay in Projects: Any kind of delay or modifications in ongoing orders would impact the operations and financials.
- Outsourcing of resources: RITES is in contract with different external suppliers, contractors and sub- contractors for their various projects which led to inherent risk of outsourcing such as quality of work, delay in work, etc.

Peer Comparison

There are no comparable listed companies in India engaged in the same line of business as the Company, hence comparison with industry peers are not applicable.



Source: Company RHP, ACMIIL



Source: Company RHP, ACMIIL

Financials

Consolidated Income statement

Particulars (Rs. mn)	FY13	FY14	FY15	FY16	FY17	9MFY18
REVENUE						
Revenue from Operation	9,556	10,965	10,127	10,905	13,534	9,362
Other Income	1,274	1,270	1,464	1,362	2,099	1,249
Total Revenues	10,830	12,235	11,591	12,267	15,633	10,611
Operating Expenses						
Employee Benefit Expenses	2,859	2,707	3,245	3,410	4,169	3,231
Travel	310	346	325	355	395	275
Supplies & Services	797	746	785	971	1,064	697
Cost of Export Sales	2253	2732	805	1,569	2,961	1,140
Cost of Turnkey Construction Projects	546	882	835	353	278	539
Transmission and Whelling Charges	0	0	0	22	37	36
Other Expenses	615	741.91	664	662	1,046	447
Total Operating Expenses	7,380	8,154	6,657	7,342	9,951	6,365
EBITDA	3,450	4,080	4,934	4,926	5,682	4,246
EBITDA Margin %	31.86%	33.35%	42.56%	40.15%	36.35%	40.02%
Depreciation & Amortisation Expenses	155	203	262	346	383	277
EBIT	3,295	3,877	4,672	4,579	5,299	3,969
EBIT Margin %	30.43%	31.69%	40.31%	37.33%	33.90%	37.41%
Finance Costs	0	0	0	47	113	53
PBT before share of Joint Venture	3,295	3,877	4,672	4,532	5,186	3,917
Share of Profit/(Loss) of Joint Venture	66	-27	10	-26	-115	-23
Profit before Tax	3,361	3,850	4,682	4,506	5,071	3,893
Tax Expenses						
Current Tax	-1,089	-1,368	-1,424	-1,490	-1,647	-1,187
Deffered Tax (Net)	59	124	-136	-187	193	-181
Net Profits	2,331	2,606	3,122	2,829	3,518	2,526
Net Profit Margin %	21.53%	21.30%	26.94%	23.06%	23.14%	23.80%
EPS	11.65	13.03	15.60	14.07	17.63	12.15

Source: Company RHP, ACMIIL

Consolidated Balance sheet

Particulars (Rs mn)	FY13	FY14	FY15	FY16	FY17	9MFY18
Non Current Assets						
Property, Plant and Equipment	1,729	1,920	2,057	4,154	4,035	3,915
Capital Work in Progress	113	192	257	70	33	4
Investment Property	16	16	13	13	13	12
Intangible Assets	36	48	48	31	17	10
Intangible Assets under Development	2	5	7	16	16	16
Investment in JV	246	279	258	306	148	125
Investments	1,750	2,000	2,000	1,700	1,200	1,200
Loans	1,181	1,357	1,545	103	96	87
Other Financial Assets	2,128	2,715	1,948	1,967	2,447	1,722
Deferred Tax Assets (net)	474	599	462	275	468	287
Other Non Current Assets	799	785	1,210	906	1,204	1,233
Total Non Current Assets	8,475	9,916	9,807	9,541	9,677	8,613
Current Assets						
Inventories	260	175	67	131	504	307
Investments	1,225	0	0	500	1,930	2,492
Trade Receivables	2,944	3,258	3,808	5,355	4,645	5,481
Cash and Cash Equivalent - owned Fund	584	363	2,570	2,620	2,647	1,454
Cash and Cash Equivalents - Clients Fund	2194	2587	1994	1904	3334	4718
Other Bank Balances - Owned Fund	5,673	6,050	4,644	4,654	6,300	9,856
Other Bank Balances - Clients Fund	9,343	12,181	11,391	16,368	16,591	13,914
Loans	34	41	122	72	114	110
Other Financial Assets	1217	1318	1351	1735	1677	1593
Current Tax Assets (net)	63	16.19	16	387	104	63
Other Current Assets	856	458	286	824	499	869
Total Current Assets	24,392	26,447	26,247	34,548	38,345	40,858
Total Assets	32,867	36,362	36,054	44,089	48,022	49,471
Equity and Liabilities						
Equity						
Equity Share Capital	1,000	1,000	1,000	1,000	2,000	2,000
Other Equity	11,358	13,251	15,762	17,635	18,411	19,720
	12,358	14,251	16,762	18,635	20,411	21,720
Non Controlling Interest	5	51	147	260	448	522
Total Equity	12,363	14,302	16,909	18,895	20,859	22,242
Liabilities						
Non Current Liabilities						
Borrowings	0	0	0	1105	758	696
Trade Payables	37	32	27	7	0	0
Other Financial Liabilities	667	688	822	996	1,085	1,160
Provisions	1,448	1,128	1,045	999	1,127	1,204
Other Non Current Liabilities	51	135	64	21	73	1,995
Total Non Current Liabilities	2,203	1,983	1,958	3,127	3,042	5,055
Current Liabilities						
Trade Payables	1,426	1,075	863	899	850	704
Other Financial Liabilities	14,720	17,005	15,044	18,960	19,263	18,314
Provisions	313	1,084	767	1,047	1,505	997
Current Tax Liabilities (net)	0	0	0	10	0	0
Other Current Liabilities	1,841	913	513	1,150	2,503	2,159
Total Current Liabilities	18,300	20,078	17,187	22,066	2,4121	22,174
Total Equity and Liabilities	32,867	36,362	36,054	44,089	48,022	49,471

Source: Company RHP, ACMIL

Asit C. Mehta

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