



RITES Limited
“Q1FY21 Post Result Conference Call”

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Management of RITES LTD:

Shri. Rajeev Mehrotra - Chairman & Managing Director

Shri. V.G. Suresh – Director Projects

Shri. B. P. Nayak - Director Finance

Shri. Parmod Narang - Chief Financial Officer

RITES Limited

Q1FY21 EARNINGS CONFERENCE CALL

Mr. Viral Shah

Welcome everyone. I welcome all the participants to the Q1 FY21 results conference call of RITES Limited. We have with us Shri Rajeev Mehrotra, Chairman and Managing Director of the company, Shri VG Suresh Kumar, Director Projects, Shri BP Nayak, Director Finance, and Shri Pramod Narang, CFO of the company. They would commence the call with the opening remarks from Shri Rajeev Mehrotra to give an overview of the company's performance. This would be followed by a Q&A. Now, I would request Mr. Mehrotra to begin with the opening remarks. Over to you sir, and thank you.

Mr. Rajeev Mehrotra - Chairman & MD, RITES Limited

Thank you, Mr. Viral Shah. Good afternoon to all of you. I am Rajeev Mehrotra, Chairman and Managing Director of RITES Limited. I am very happy to welcome you all to the earnings conference call for Q1 FY21 of RITES Limited. Hope all of you are keeping well during this time of pandemic. I am joined by our Director Projects- Mr. V. G. Suresh, Director Finance - Mr. B. P. Nayak and CFO - Mr. Pramod Narang.

RITES is a Miniratna (Category-I) Schedule 'A' public sector enterprise and a leading player of transport consultancy and engineering sector in India having diversified services and geographical reach. Now I will briefly take you through the highlights of the company's results of Q1 FY21, and then we can open the forum for questions and answers.

I hope you all have been able to access the financial results, the presentation and press release, uploaded on our website as well as on the stock exchanges for this quarter. I will cover consolidated results first.

Despite pandemic conditions, the company's results for the quarter remained satisfactory. We have been able to generate revenue as well as maintain margins during these tough times. I will now summarize the results on consolidated basis. As you know almost 97% of the consolidated income comes from the standalone results, so whatever I am talking is relevant for standalone also.

RITES' total consolidated revenue has decreased to Rs. 379 crore as against Rs. 573 crore in Q1 FY20. Similarly, operating revenue, excluding other income, stands at Rs. 335 crore in Q1 FY21, as against Rs. 538 crore in Q1 FY20. Decrease in revenue is mainly due to two reasons. First, we have very less exports in Q1 FY21, and the impact is of Rs. 128 crore and actually, the exports were not lined up during this quarter. The second is disruptions in supply chain and travel restrictions imposed due to pandemic. So certain field works could not be completed. If you see, approximately 22% fall in total income is due to exports only, which were not scheduled for this quarter.

EBITDA and PAT stand at Rs. 104 crore and Rs. 65 crore, against Rs. 167 crore and Rs. 102 crore, respectively, for Q1FY20. After making adjustments for one-time expenditure on CSR of Rs. 10.15 crore and donation of Rs. 7 crore to PM-CARES Fund which are of the nature of annual charge but came as quarterly charge, EBITDA and PAT stand at Rs. 121 crore and 80 crore, respectively, with improved margins of 31.9% and 21.1%, against 29.1% and 17.9%, respectively, for Q1FY20. We have been able to sustain margins by remotely working during lockdown, quickly resuming operations when things were permitted and implementing cost-control measures well in time.

Standalone results: RITES' total standalone revenue has decreased by 33.9% to Rs 366 crore against Rs. 553 crore. Similarly, operating revenue, excluding other income, stands at Rs. 323 crore in Q1 FY21 against Rs. 519 crore in Q1 FY20. EBITDA and PAT stand at Rs. 90 crore and Rs. 60 crore against Rs. 151 crore and Rs. 93 crore, respectively, in Q1FY20. After making adjustment for one time expenditure on CSR of Rs. 9.92 and donation of Rs. 7 crore, EBITDA and PAT stand at Rs. 111 and Rs. 75 crore, respectively with improved margins of 30.4% at EBITDA level and 20.6% at PAT level against 27.3% and 16.8%, respectively, in Q1FY20.

I will now cover performance of standalone segments. Consultancy continued to provide highest revenue to the company. This segment achieved revenue of Rs. 185 crore which is down by 20.7% over Q1FY20. But we could maintain the margins of 44.3% in consultancy. Rather, the margin has improved as a result of effective utilization of manpower resources and some cost-control measures.

Leasing revenue stands at Rs. 24 crore in Q1FY21, as against Rs. 29 crore in Q1 FY20. The decline was due to suspension of work at certain sites, ports etc. during the lockdown, and the locomotives could not be used. Despite cost rationalization, the margin got impacted due to depreciation expenditure which is fixed over the quarter.

Exports revenue during Q1FY21 stands at Rs. 0.5 crore against Rs. 129 crore in Q1 FY20 as no exports were lined up for Q1 FY21. The company has entered into cape gauge markets by securing a contract from Mozambique for export of locomotives and coaches, for which supplies are likely to start in H2 of FY21. H2 FY 21 is also going to see exports of coaches and diesel electric multiple units to Sri Lanka. Both these orders are now under execution.

Turnkey revenue during Q1FY21 stands at Rs. 114 crore against Rs.128 crore in Q1 FY20 but we were able to sustain a margin of 4.1% which is higher than the previous year-on-year margin.

Performance of our subsidiary, REMCL, also got impacted due to less traction power purchased by Railways during this quarter as they have a fee on each unit of power purchased by Railways. REMCL revenue stands at Rs. 15 crore against Rs. 20 crore in the previous financial year. Similarly, profit before tax has also decreased to Rs. 7 crore as against Rs. 12 crore in Q1 FY 20. This quarter has seen a good windy season and as a result, the revenue from power generation remained at Rs. 5 crore with a growth of 51.7% over Q1FY20.

So, these are the submissions on the performance. Now, I come to order book. Company's consolidated order book now stands at Rs. 6157 crore as of June 30, 2020 with new or extension of orders secured for Rs. 270 crore during this quarter. In addition to securing more than 60 new contracts, including some enhanced scope of ongoing work, RITES Limited signed an MoU with Coal India for providing railway infrastructure technical services for another period of 5 years.

During this period, we have also been shortlisted for allotment of work by Indian Railways for railway electrification, RoBs, bridges, signaling, and telecommunication on competition basis amongst PSUs, for which we will be submitting financial bids by mid of August 2020.

I believe comparison of the performance of this quarter which is unprecedented quarter, should not be used as a prelude to draw conclusions about the company's performance in the coming quarters, or year-on-year comparison with the previous quarter. Because this had various disruptions and despite this, my team continued to deliver whatever was best possible in the given circumstances.

Now, we can open the forum for questions and answers. And thank you very much for your attention please.

Moderator

Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question may press * and 1 on their touch tone 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 will wait for a moment while the question queue assembles. Reminder to the participants, anyone who wishes to ask a question may press * and 1.

The first question is from the line of Rohit Natarajan from Antique Stock Broking. Please go ahead.

Mr. Rohit Natarajan – Antique Stock Broking

Good afternoon. Thank you for the opportunity. Sir, in the investor presentation, you illustrate that there could be a moderate revenue growth in FY21. The first quarter completed and second quarter half way through. Are we in a position to quantify what that moderate revenue growth or what the outlook will be in FY21?

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

Well, this will definitely depend on the general recovery which H2 can see. We were hopeful that by Q2, things will look much better, but you can see the new cases coming in Delhi, Mumbai and other places. I still think if the working environment improves in Q2, it could be possible to record a single-digit growth. We are not looking at high growth numbers that we recorded in the last 2 years. Though we have orders, then the delivery itself is a challenge despite orders being in hand. So if things look normal, at least a single digit moderate growth is still possible.

Mr. Rohit Natarajan – Antique Stock Broking

That will be higher single digit, I assume.

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

Let me hope. We will try to be close to 10%, if possible. But then the underlying challenge is that, still there is no movement. Trains are stopped till September 30, airlines have restricted movement and field work is affected. Hopefully, this should improve by beginning of H2 and we will run faster than required. We have done this in the past. We are up since end of April or May beginning in terms

of following the projects and starting execution wherever it was permitted to do so. Hopefully that will continue in H2 if the things improve in general.

Mr. Rohit Natarajan – Antique Stock Broking

Sir, I appreciate that part. Moving on to exports which, you have said that, are scheduled in the second half, can we book a Rs. 550 crore in revenue terms for exports in the second half? Is that kind of scheduling what you have in mind?

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

Yeah, Rs. 550 crore looks very close to a realistic number. But we will try to push it higher. Maybe we could even see 600.

Mr. Rohit Natarajan – Antique Stock Broking

Okay, last question from my side sir. You also hinted that you are submitting some financial bids for the turnkey segment. And also you had hinted in the past that there were some talks in terms of consultancy orders probably something to do with metro as well. So is that any – could you quantify the financial bids... I mean in terms of what will be the volume, that you are targeting in turnkey? And what is the status of consultancy orders? That is it from my side.

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

Okay. So first answer is that certain businesses like electrification, rail/road over bridges, signaling work etc. bid list is already issued by the Ministry of Railways. And the offers are to be submitted on August 17th. And we hope to be targeting, Rs. 500 to Rs. 1000 crore of projects during this process, do not know to what extent it could be possible.

Mr. Rohit Natarajan – Antique Stock Broking

Sir and consultancy part?

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

No, these orders are only for turnkey. **Mr. Rohit Natarajan – Antique Stock Broking**

Correct.

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

Now I am coming to the other part.. We will also see, if we can generate some revenue from these new orders. Because a lot of these projects would require detailed engineering, approval of design, tendering, and then revenue would start flowing in. We will target that some revenue comes out of this by March'2021. But otherwise, these all would be actually yielding revenue in next financial year. Now coming to metro works for which we had given bids, no major work has been finalised yet. So, we will wait for this finalisation process to get over. There was another tender for DPR of three DFCs which is also not yet finalised. Of course, some smaller work of metro about Rs. 14 crore we have already plugged in consulting part. But the major general consulting works are yet to come

out. If you notice, the consulting order book is already gone up. So we have added about Rs. 250 crore in the last quarter. So if you see the consulting order book, we ended at Rs 2528 crore which is a good number to handle during the year.

Mr. Rohit Natarajan – Antique Stock Broking

Sure sir, I appreciate it. That is it from my side. If there is anything else I will come back in the queue,

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

Thank you, Rohit

Moderator

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

Mr. Chintan Sheth – Sameeksha Capital

Thank you for the opportunity and congrats on a decent numbers in the current environment. Sir, it was heartening to see **our** employee cost control this quarter. We have been able to reduce substantial employee cost in this quarter. How much do you see that sustaining over the coming quarters? Or will it increase as we ramp up our work?

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

Well, this was a tough call. But we have built-up flexibility in our system. We had some regular employees, some employees who are on projects specific contracts, some people who are on deputation, some people are hired post retirement for specialized activities. So looking at pandemic which could spill over to may be 3 to 5 months, we decided to reduce these numbers. We have reduced about 217 people during this quarter and this along with benefits rationalizations has given a savings of over 9%.-9.5%. Now I think this could last over the year and if at all we make any additions, this could be in Q4 when the job is picking up. I don't see any significant addition to this.

Mr. Chintan Sheth – Sameeksha Capital

Right. Sir if I look at our margins, even if there is no export contribution and there was an incremental higher contribution from turnkey which is a low margin business for us, which is excluding the CSR donations, we still will be able to deliver a very healthy set of margins. Apart from the lower employee and travel costs, how much do you think that this cost control measures will likely to sustain over the coming quarters? That is what I am trying to understand.

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

Well, we are trying to target about 8-10% control in manpower costs which ranges around Rs. 475-500 crore. So, it is one yearly reduction target in employee cost, which is the highest cost for us around 45% of total costs. And there is flexibility, if the projects go faster, we can go for further hiring on contract basis for projects, which could be required in Q3 and Q4. Let me clarify that no

project will suffer because a person is not there. No, we don't allow that to happen. At the same time, we need to control cost.

Mr. Chintan Sheth – Sameeksha Capital

Correct. And sir, the tunneling projects we were expecting. We got couple of them in this quarter, consultancy work. You hinted last quarter is around Rs 250 crore of opportunities that in the tunneling part. Is the tender over and we ended up with only one or two categories which we mentioned in our presentation? Or we expect more orders to come?

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

There are some more tenders in the pipeline. But not yet decided. One major tender for highway that is in Ladakh area, we have already shared about it sometime in June. After that, no major tunnel work has been finalized.

Mr. Chintan Sheth – Sameeksha Capital

Okay. So what kind of bids – I think it is difficult to provide that. But if you can, how much is being bid, financial bids we have submitted, during this quarter, that will be helpful to understand the activities on ground.

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

Well Chintan, I think it is not correct actually to start sharing the bid numbers. This happens across the departments and 12 locations of RITES. But I think let us follow the practice of sharing major success. We normally notify to stock exchanges all work awards above Rs. 50 crore.

Mr. Chintan Sheth – Sameeksha Capital

Right.

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

It does not mean that we are not working on less than Rs, 50 crore. Like this time we have accumulated about Rs. 250 crore during the quarter, except one or two others were not required to be notified. But it is very difficult to give you a number of tendering because that is decentralized at different locations. But not much has happened in this quarter actually. Bids have been submitted and the evaluation is going on.

Mr. Chintan Sheth – Sameeksha Capital

Sure sir. Sir can you repeat the turnkey projects quarterly targets you just mentioned a while back in the previous query?

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

Okay, I am just discussing a part of the turnkey profile which is only electrification, signaling and road over bridges, ROBs we call them. For this, we are committing price offers i.e. our fee offer, on

17th August. And in-case we can get anything between Rs. 500 to Rs. 1000 crore, we have capacity to take up those projects afresh.

Mr. Chintan Sheth – Sameeksha Capital

Okay so Rs. 500 to Rs. 1000 crore orders we are targeting to get. That is specific turnkey set of projects.

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

Yes, But that is only electrification, signaling and ROBs. The bigger one, which is doubling third line or new workshops, is yet to happen.

Mr. Chintan Sheth – Sameeksha Capital

Sure sir. Okay, I will get back into the queue. Thank you

Moderator

Thank you. The next question is from the line of Swachha Jain from ANS Wealth. Please go ahead.

Ms. Swachha Jain – ANS Wealth

Hi sir. Thank you for giving this opportunity. Sir I have a couple of questions. One was actually I think I missed the last part when you were talking about the order book, and I think you mentioned that we signed an MoU with Coal India for 5 years. Can you share, quantify the value of this MoU sir? It is signed for what quantum?

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

Okay, it is very difficult to say that these many projects are going to come this year or next year. This is a broad framework within which either Coal India or any of its subsidiaries, having a railway infrastructure project, can approach us and then we do not negotiate the commercials at every stage. This has been there since the last 7-8 years and we have notified earlier that we have been earning about Rs. 100 crore per year out of such arrangement with them. So, it is safe to believe this could be Rs. 100 crore or maybe more, because scope of work in MoU has slightly increased this time for us. Some more areas have been covered for technical services. It is very difficult to quantify because we do not know the extent of projects which will emerge. As of now, the clarity is that we should be able to maintain around Rs. 100-125 crore but two years down the line, it is difficult to say.

Ms. Swachha Jain – ANS Wealth

Okay, Thank you Sir. And sir have we filed the MoU with Railways for FY21?

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

We are still discussing this and maybe by end of this month or little later, we should be able to say something with conclusion. But the broad indication, I have already given you that this year we could have moderate growth and within this parameter, we will finalize the MoU targets. We will try to

maintain the margins even if it means cutting corners, we will do that. We are already doing it. People are doing sacrifices. We are reducing the numbers. So, the objective is a moderate growth with maintained profits by cost management. So, both the things are already in place.

Ms. Swachha Jain – ANS Wealth

So sir, can we assume the margins that we have, they are going to remain at this level? Q1 level?

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

- I think, I have hinted very clearly that we will try to maintain the margins even if it means taking some cost cutting measures.

Ms. Swachha Jain – ANS Wealth

Okay. And sir just a last question. In the last concall we were given a guidance of Rs. 400 crore of capex. So, can we assume that this is the capex number? The rough guidance.

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

I think this is slightly more than this. But I don't see any change over what was given in the last concall.

Ms. Swachha Jain – ANS Wealth

Sure.

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

Rs. 400 crore we are keeping for our working capital out of Rs. 1224 crore cash we have. Capex for locomotive purchases for loco leasing, Rs. 80 crore, for buildings including workshops for loco maintenance, Rs. 150 crore, for equity in REMCL for that solar work, IRSDC, and SRBWIPL, Rs. 200 crore, for some equipment, computer software etc, Rs. 40 crore. So this takes around slightly more than 400. Of course, dividend payment would not be coming as part out of working capital payment.

Ms. Swachha Jain – ANS Wealth

Okay, Sir I have one more question but I will join the queue sir. Thank you.

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

Okay, thank you.

Moderator

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

Mr. Ankit Merchant – Reliance Securities

Yeah, thank you for the opportunity. So the question is related to our turnkey bidding which is undergoing. So this turnkey bidding is as per the new process, and should we see any margin decline in these particular orders which we are going to undertake? Also, the second question is related to the exports. So what we have currently is near about Rs. 1400 crore of order book, and out of which almost Rs. 600 crore we are planning to complete in this particular year. So, do we see any more pipeline coming up in our exports segment?

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

Okay, the answer to first point is that we will try to maintain whatever net, we were earning in the turnkey contracts. This is only a procedure which has been changed to make certain compliances and not to cut the corners on PSUs. The export order of around Rs. 1400 crore is definitely to be completed this year plus next year. We are discussing with other clients but this is a long lead item, it takes almost 9 months to 18 months to complete one major export order negotiation. There are discussions going on with one client at least. There is a major requirement of coaches.

Mr. Ankit Merchant – Reliance Securities

Sure. And last question is related to consulting and within that the quality assurance part which we do for railways. So although close to Rs. 1.6 lakh crore is what the railway capex has been planned, so do you think that the quality assurance part, the revenue should be going up in this particular year? Considering that the government is spending so much capex, Ministry of Railways.

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

I don't see major impact but there will definitely be some minor impact. Especially, the new projects which we are going to put on hold. The projects which have not yet started, there may be some delay in starting. But I don't see this significantly affecting the quality assurance income, because this is one side of the view you are taking. Let me give you another view. A very regular inspection is done by us in Bhilai. For inspections of all the rails purchased by railways, we have a 24-hour setup there and our fee has been revised from 0.45% to 0.55% from 1st April. So this is going to give us 4-5 crore per quarter extra in the same work and with the same work force. This should compensate for any short falls incurred from these reduced orders as such and therefore, I am saying that we will be able to maintain the margins.

Mr. Ankit Merchant – Reliance Securities

Okay sir. That is it from my side. Thank you.

Moderator

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

Mr. Dikshit Doshi – Whitestone Financial Advisors

Hello?

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

Yeah.

Mr. Dikshit Doshi – Whitestone Financial Advisors

Thanks for the opportunity. Sir, first it is good to hear that the tendering is happening in the railway projects. But there was some news articles where they were mentioning the Government, Ministry of Finance or Railways are reconsidering the already approved projects, or there may be some issues with the finances. So are you seeing on ground, really the delay from the payments from Railways or Ministry of Finance? Or is it just a news article?

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

I think that order has been misunderstood widely. Maybe there would be a clarification. We have given our feedback. If a project has not been started at all then the owner has a right to review. But what they are now rolling out the projects which are in essential categories like electrification, the signalling and telecom, the safety works like the road over bridges; for this, there is allocation and therefore only these projects are coming out. Once they start coming out, I don't see any delay in payments. Whatever is already with us, we are not experiencing any delay in payments. 1 month here and there that can keep happening because of certain clarification or certain approvals. But, yes, there are non-essential types of project which can wait a little more. And I think that much right every owner has, to decide what to start and when. Per se there is no change in the policy on major extension works or the safety related works like ROBs or the cost management related works like the electrification or the signalling, these are going to get funded.

Mr. Dikshit Doshi – Whitestone Financial Advisors

Okay, that's good. Secondly, sir, you mentioned that on 17th of August whichever bid we are submitting that is only for electrification, rail over bridge and signalling, so the bigger ones doubling tripling when that tenders are going to happen.

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

They are working on it. I cannot give any time line but that is also set to happen..Maybe in couple of months.

Mr. Dikshit Doshi – Whitestone Financial Advisors

Okay, certainly, sir, in IRSDC you mentioned that we are going to invest around Rs. 200 crore in IRSDC and REMCL. Can you quantify how much we are investing in IRSDC for 24% stake. And what would be the business model of IRSDC? I mean, will the IRSDC invest a large chunk of money or will developers invest?

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

Okay, we have indicated Rs. 200 crore as equity investment lined up, of which Rs.48 crore is likely to be spent this year on investment in IRSDC. Only Rs.48 crore in IRSDC for 24% stake in their paid up capital. Their business model is a mix of stations they will do on developer model basis and 2 stations they might do on their own these are Brijwasan and Anand Vihar in Delhi. These are at very prominent locations and I think these are commercially viable. Besides this, most of the investments would be on developer model basis. Now with this seed capital, if I can call it because Rs. 200 crore is not much of a capital for such a big plan, they will have to see how developer model works. Looking at the overall scenario right now, they might plan depending on the market feedback. But, of course, these 4 stations they are going ahead and you already know about Gandhinagar and Bhopal.

Mr. Dikshit Doshi – Whitestone Financial Advisors

So whatever project IRSDC will do on their own, what will be the revenue, I mean how the revenue will come and what would be the, I mean; so entire redevelopment capex will be done by IRSDC and what would be the revenue then.

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

Well, I do not have project specific IRRs with me now but 2 stations would be done by them on their own and rest would be on developer model basis. So, they must have assessed the requirement, the possible built up area and their uses. And now they are allowed to do a commercial as well as residential development in these areas. So, to put together, the IRRs are definitely around 16 to 17%.

Mr. Dikshit Doshi – Whitestone Financial Advisors

Okay, and just one last question, sir, can you help us with the REMCL project of GW. How, so earlier you were saying that if it is only 1GW we will do it on our own. So any update on that all 3 GW, how much we are going to put and where we are just as a, we'll just kind of see on how much to put.

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

Well, let me clarify, there are 3 parts of the project. Part 1 is 1000 MW which we have increased to 1600 MW because land is sufficient to generate 1600MW. This is on developer model basis for which pre-bid meeting has been held and there are some queries raised by bidders which are being clarified. As of now, the submission date is 28th but I think we'll extend it by 10 days or so to give bidders at least 15 to 20 days. That's the 1st part which is clearly on developer model where the investors are going to put their money. The second question which you asked is related to part 2, where REMCL will not do 1000 MW but only 400 MW . Only 400MW on its books and taking a

ballpark figure of Rs.4.5 crore per MW investment cost, around Rs. 1800 crore investment would be there. For this, we may need to put about Rs. 180 – 190 crore of equity over 2 years, i.e. this year and next year.

Mr. Dikshit Doshi – Whitestone Financial Advisors

Okay, and this entire Rs. 180 crore by RITES or?

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

No, railways would be putting a matching (49%).

Mr. Dikshit Doshi – Whitestone Financial Advisors

Okay, so we'll put 180 and railways will put 180 and the rest will be debt.

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

Yes, 51:49 is the ratio we have. As a lot of people might be having these queries so let me clarify again. Part 3 is again on developer model which is on the land which is parallel to the tracks. So they are now trying to decide whether at each Traction Service Station (TSS), we get traction connections, we go to what extent to pick up the load in transmission for the stations. So these technical modalities are being closed, so this part will also see about 1000MW and more, if possible there. But no investment from REMCL and no equity from us. On all this, we'll get a fee of about 5 paise per unit.

Mr. Dikshit Doshi – Whitestone Financial Advisors

Thank you.

Moderator

Thank you. The next question is from the line of Hardik Jain from ISJ Securities, please go ahead.

Mr. Hardik Jain – ISJ Securities

Good evening, sir, just one clarification on IRSDC models so you are saying that on the developer model whatever stations will be redeveloped so IRSDC will get the commission or fee amount on the whatever the bid amount of the project which is there.

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

It is, yes normally they will get a portion of the returns from there and this will be partly used for station development and maintenance.

Mr. Hardik Jain – ISJ Securities

So when we say that 2 stations will be done by IRSDC, Brijwasan and Anand Vihar, so how much money will IRSDC will have to put in these 2 developments and will IRSDC need to take any debt for developing this.

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

They are in talks with IRFC but they are still in talks so I'll not be able to share more at this stage. Yes, this will be in combination of equity plus debt, possibly maybe 20 or 30% equity.

Mr. Hardik Jain – ISJ Securities

So in these kinds of project where we are developing, IRSDC is developing, the primary revenue model would be the lead income that those stations will generate and or other kind of revenue like advertising revenue or something like that.

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

All that will go to IRSDC.

Mr. Hardik Jain – ISJ Securities

Okay, and last question, sir, since you saying that the field work is still not going on smoothly but when you compare July or even half of August has gone, when you compare this last 1 and ½ months to June, has things improved or still as bad it is.

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

I must say people are taking risks and still delivering, that I must appreciate. Yes, things have improved but we still have difficulties in travel, people have difficulties in getting together, they have to maintain social distancing and then move or meet. But it is definitely much better than June.

Mr. Hardik Jain – ISJ Securities

Yeah, okay, sir.

Moderator

Thank you, the next question is from the line of Harshit Kapadia from Elara Capitals, please go ahead.

Mr. Harshit Kapadia – Elara Capital

Thank you for this and, sir, congratulations for a decent set of numbers in these challenging times. My question is that when we will get the consultancy margin they've seen an improvement by 400 bps from 42 to 46%. Now since there was a lockdown in at least one and half months of the quarter, we would assume that the quality assurance business which is largely inspection related where we had to do field with it, would have been impacted the most and that is the high margin business for you. But despite that the consultancy margin has improved, so what explains that, sir?

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

You know, Harshit, there is one steel rolling mill of Bhilai and all the rails are produced there. This plant continued throughout the lockdown, so that gave us a lot of revenue and not only that, they increased our fee on that business. So, these 3 quarters, we made this extra plus this business continued despite everything had been closed. And then, when things started in May, we tried to resume wherever possible from May onwards, including certain overseas sections which we could do some time in June and July. Where we could not travel, we appointed our counterparts on emergency basis, you know there are some agencies we can contact, instead of travelling, so all that helped us to fill the backlog. But now people are travelling, they do not have public transport but now the taxis are plying, when taxis were not there in May, we made sure that we provide them official vehicles to do this. So we could focus on this business which is a high margin business and we could get revenue from this, so biggest contributor was QA.

Mr. Harshit Kapadia – Elara Capital

Right, but why could they increase the margin, what could be the reason, sir, for them to increase this margin.

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

Periodically, we keep discussing this with the clients. I'm told, every three years there is a clause to reset margin there.

Mr. Harshit Kapadia – Elara Capital

Okay, every 3 years okay.

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

It is discussed upon time to time, and we negotiate every 3 years.

Mr. Harshit Kapadia – Elara Capital

And on the question somebody had asked on the Coal India subsidiary where we have signed a MoU, can you expect the margin similar to how we look on the nomination-based projects. So would it be, 45% is a safe assumption to make or here the margin is a bit lower.

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

Well, this is over all, somewhere you may make 35% and somewhere you may make 48% but indication is that, yes, broadly we will try to maintain those margins as they have not done tinkering on the pricing side, we'll try to maintain the margins.

Mr. Harshit Kapadia – Elara Capitals

Okay, and, sir, you had also mentioned that you're expecting a slight growth for the entire FY 21, so just wanted to understand would it be largely driven by turnkey construction and export business or you expect consultancy to also bounce back significantly.

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

We are trying to do consultancy also because there are foreign projects, where work is going to start again, we have activities started in Mauritius. We have got one highway project in Bangladesh, we have positioned people there. Similarly, we are expecting some more work in 1 or 2 countries, maybe things will start by September there. So, there will be revenue from foreign projects, there will be revenue from domestic as well as quality assurance. So, I think consultancy might see flat or moderate growth. My indication was on overall basis. Last time, we refrained from giving any assessment and you know people did not like it. But then that was the situation, we were not too sure what would happen in Q2. Atleast there is a lot of clarity what we are going through in Q2 and therefore, we thought that it is still possible to maintain a moderate growth on overall basis. I think the biggest driver this time could be exports. Whatever we are getting now in Turnkey will actually give meaningful revenue only in FY21-22 because there is a lead time of 6 months to design, tender and then start the ground work.

Mr. Harshit Kapadia – Elara Capitals

So that's it from my side, sir. Thank you very much and all the best.

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

Thank you.

Moderator.

Thank you, the next question is from the line of Manish Dhariwal, individual investor, please go ahead.

Mr. Manish Dhariwal – Individual Investor

Yeah, very good afternoon and congratulations and compliments for managing, you know, such tough times in such an admirable manner. Now although my questions were waiting to, you know, there were some press reports about Ghana emerging as an interesting geography for RITES, so any developments happening there?

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

Sir, actually, this is a country which is looking for expansion of railway network. They already have one Indian company working there and we are helping them in the technical part of it. We signed one MoU directly with the government of Ghana, this was sometime in the end of January when they were here for a major rail exhibition. We thought of sending a set of experts to Ghana but then the travel restrictions started sometime in early March itself. So, answer to your point is, yes, there are opportunities and we're looking at this country, and in fact we have an MoU with them. But now this might not be possible before October to launch anything there.

Mr. Manish Dhariwal – Individual Investor

No, like Mozambique has emerged as a very good destination and good amount of business has emerged. So can Ghana also, give us some idea about the growth visibility in terms of revenue for RITES. Are you seeing it in the same manner?

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

It's too early to say because they have to create first infrastructure that itself will take 3 to 5 years.

Mr. Manish Dhariwal – Individual Investor

Oh okay, okay, so it's like a long term kind of a thing.

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

Yes, they are just doing one major line now and an Indian company is doing the execution. They have a lot of plans to connect within the country and also with one or two neighbouring countries. Actually we will be taking up a study, then only, it will be better to comment, but yes, any meaningful role of exports is at least 2-3 years away.

Mr. Manish Dhariwal – Individual investor

Great, my next question was relating to the further equity dilution by the shareholder, key shareholder and dividend policy. Any light you could throw on that?

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

Well, right now the government holding is around 72 per cent. I do not have any knowledge of any decision to further dilute in the immediate weeks or months, but you know it's a public knowledge that the government is looking at the overall strategy for PSUs whether strategic or non-strategic, we are yet to know the outcome of this. So, let us wait and where the sector falls in and maybe a major view can be taken then. But right now, I have no knowledge of any further disinvestment, and we are actually not competent to comment on this. DIPAM will take a view on further dilution.

Mr. Manish Dhariwal – Individual Investor

Right, sir, and on the dividend?

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

Dividend, yes, if we keep making profits, we will be trying to see that we become a good dividend paying company. But I cannot comment whether same or more or less because again it is based on several factors which the board will consider, possibly we can change the outlook on this.

Mr. Manish Dhariwal – Individual Investor

Thank you and thank you for your valuable comments, sir.

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

Thank you.

Moderator

Thank you. The next question is from the line of Lokesh Nagpal, shareholder, please go ahead.

Mr. Lokesh Nagpal - Shareholder

Thank you to RITES team for their insight. My question is related to the order which is likely in the 2nd quarter ending September. Now the reason I ask this, is the fact that you're showing Rs.130 crore order wins for consultancy in the last quarter. So those are the bigger order where I am assuming given a Rs.4.8 order is considered there, the other orders would be very, very small and negligible.

So on a consultancy order book it is like Rs.2100 crore, the order wins are about Rs.150 crore in the last quarter and how is the order win situation in this quarter.

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

Well, let me correct here, what we have presented is consultancy order book as of 30th June is Rs. 2528 crore, the order book has seen inflows of Rs.250 crore which is mostly consulting. That is the position, not Rs.2100 but actually Rs.2528 crore, which is higher than the year-on- year basis comparison.

Mr. Lokesh Nagpal - Shareholder

But increase to that consultancy order book of Rs.2500 crore is roughly Rs 250 crore in the last quarter. Can I please understand, this seems to be prima facie low, I could be wrong given the difficult environment, but can you give a sense of what this order book will grow to in this quarter?

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

It is very difficult to predict with this precision but I can only tell you that hardly any major work awards have happened during this pandemic and we will see activities now onwards forrest of the year. So it is safe to believe, maybe at least Rs.1000 to Rs.1500 crore order book should be possible, if a bunch of orders start flowing out. But this is an assessment which is just based on information which we have, I cannot commit that this will happen. Normally whatever we are executing we are able to recoup.

Mr. Lokesh Nagpal – Shareholder

Sir, I am trying to get words out of your mouth now, I heard the answer to the dividend question, but I am just trying to connect the dots. Given the moderate revenue growth that you suggested even if it is single digit growth, are you at least likely to retain your dividend and the dividend payout policies for Navratna, I believe Navratna is very clear. So are you likely to at least retain the dividend payout last year, if you can give some insights to the retail shareholders it would be nice. And that's the reason why, and on one hand I feel that there is likely to be growth. Of course, the question you will propose the shares and if you don't propose the shares the board will not approve. Are you planning to propose to the board based on the performance that is likely to come.

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

Well, company has seen increase in profits and then you have seen increase in payouts also. Nobody can commit payouts, let us be optimistic. I have given you two major indicators that there will be growth, we will try to maintain the margins intact. So, there is no reason to worry about the dividend, dividend will be an outcome only.

Mr. Lokesh Nagpal – Shareholder

Thank you. Sir, my last question is if you have any stake reduction from the government likely, I think if I recall my memory is serving me right, June'18 was the last time the government reduced its stake, there was a follow-on offer. Is there anything on the cards right now that is to the best of your knowledge, sir?

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

No, last year we had two rounds of offering, I think one in November and the other one in March.

Mr. Lokesh Nagpal – Shareholder

I stand corrected, it was in 2019. 2018 as well there was one issue. Is there anything on the cards right now, sir?

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

No, not to my knowledge and let us wait for the overall government policy on PSUs, I think that will be bigger guidance for future rather than 5% here and there disinvestments which I am not aware of right now. I don't see anything on those lines.

Mr. Lokesh Nagpal – Shareholder

Thank you for your time.

Moderator

Thank you. The next question is a follow up question from the line of Swechha Jain from ANS Wealth. Please go ahead.

Ms. Swechha Jain – ANS Wealth

Hi, sir, there are two follow up questions, one was, I think earlier somebody had asked with respect to how are the things on the ground. So just wanted to understand do you think the worst is over like Q1 FY21 was the worst quarter for the company in terms of you know the pandemic, and do you think things will only get better every quarter from here on.

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

Look if you are comparing Q2 and Q1, Q2 is definitely better than Q1, and that will be visible when the results are there. The ground position has changed but not completely normal. So there are disruptions, like in Chennai last month, there was again 15 days lockdown, even now 2 days

lockdown in certain cities. And you know the number of cases emerging, 50,000 – 52,000 new cases per day in the country. But in business, we are trying to get to almost 75% to 80% normalcy. And there was a time in April when nothing was moving. So we are way better than April, but it is not normal, therefore I think that if we can actually see a better recovery in H2. There is enough to do in the company and people are willing to move faster if required.

Ms. Swechha Jain – ANS Wealth

Okay. Sir, just a connected question, sir, with respect to revenue, you know, you have guided that we will see moderate growth but we also believe that exports would be the biggest driver in this year. And what I understand is, correct me if I am wrong, that per se the margins in exports are comparatively lesser as compared to consultancy. And with respect to margin guidance we are thinking that we are going to maintain the margins, so I am just not able to you get those, I mean, can we assume that we may have moderate growth, but we may compromise a little bit on the margins?

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

Well, the correct understanding would be like this that this year we have started with a low turnkey order book because last year turnkey orders did not materialize in time. So, what we have seen, last two years were highly driven by turnkey growth, this year could be a flat growth on turnkey, but more on the exports and exports are way more profitable than turnkey. But then we have other businesses, we have consultancy, we have leasing, we have energy management, which are intact. So there is no reason, my only worry is if things do not normalize by December then the entire country and the entire industry would have challenges, not RITES alone.

Ms. Swechha Jain – ANS Wealth

Right, I agree, sir. Thank you, sir, All the best.

Moderator

Thank you, the next question is from the line of Parimal Mithani from Credential Investments, please go ahead.

Mr. Parimal Mithani – Credential Investments

Thanks for the opportunity, sir, I have question regarding the exports. In the last concall you mentioned that you have opportunities for 22 countries. Will you quantify in terms of the opportunity size and whom do you compete globally with in this market. Second question is in terms of your ISRDC, if I am correct, Anand Vihar and Brijwasan total project cost is close to, combined both is close to Rs 1200 crore.

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

Yes, maybe a little lower.

Mr. Parimal Mithani – Credential Investments

And, sir, I think it is divided into hospitality, retail and all that, can you, any indication in terms of the revenue potential from there. And, sir, recently, the railways has appointed you as consultant for private trains, if you can tell me the scope of that work with them. What are you handling in the entire process?

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

Okay, let me start with the first question. Cape Gauge is actually 1067 mm, which is slightly bigger than what we have in India, 1000 mm which we call meter gauge but way less than a broad gauge. So, this is a gauge which is not anywhere used in Asia also. Now in Africa, Mozambique and adjoining countries, Malawi, Zimbabwe, Botswana, they all would be using such gauges but till now we were not making any product for them. So, we could never export. See we have developed a platform for locomotive, we have developed something on self propelled trains we call them, DEMUs, these are multiple units and we are also giving coaches. So once these products go there, a lot of people will see, like what we exported to Sri Lanka, the YouTube video of that is seen by many countries and there are inquiries which keep on coming. So, unless you actually position a product in the market, it is very difficult to say how much more will come. But once we do a good job in a country of cape gauge, which is the first time we are entering, there is a lot of hope. Within Mozambique itself, there is more potential as it is a fast-growing country where mobility is needed. So I'm sure if we do a timely and a good job because of all these challenges we should be there for a good time to come, and then other countries. On IRSDC actually I do not have such precise revenue details in the Brijwasan, maybe on next con-call, I'll try to get some more details on these projects as well. But you are right, the cost could be around Rs 800 to 1000 crore. These are very, very well positioned or located stations with good commercial demand around.

Mr. Parimal Mithani – Credential Investments

Sir, your equity contribution is based on a milestone or it is like a one go sir, how do you this Rs.200 crore that you committed to them. It's on tranches or like?

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

We have committed Rs. 48 crore to IRSDC which might be done in one tranche or maximum 2.

Mr. Parimal Mithani – Credential Investments

Okay, sir, okay. If you can give the details in the next concall it will be much better for that.

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

I'll try to get more details about these 2 stations and possibly what are the revenue streams from the developer model stations. Let me not answer this just based on my ready knowledge but I will get some paper documented input from them. In PTO, we are a transaction advisor. For the PTO business, our role is to make the bid document, help them in finalization of routes. Now we are going through the pre-bid process where there are queries from people, where they may comment on the document. We take care of whatever can be accommodated and then come out with the final document. Then the bids will be invited, our role would end with evaluation and then we give a recommendation that for which segment which bidder is selected. I think that's the overall view right now.

Mr. Parimal Mithani – Credential Investments

And, sir, what's the value of this fee, consultancy value within the work that you have completed.

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

Can I request you that, you know we have a lot of competition. For individual transaction, if you can excuse me. This will be a fee which is then also has to be spent on somewhere hiring legal consultants, somewhere to take 1 or 2 experts along. So, my request is let us not go into any individual transaction but broadly anything quoted would have around same margins, 35 to 45% of gross margins we'll try to maintain on each transaction.

Mr. Parimal Mithani – Credential Investments

Sir, is it safe to assume that henceforth any bidding that comes or any this private opening up comes, RITES will be one of the consultants from the government side for other projects of similar size.

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

We are transaction advisors for several complex projects. Like when this Madhepura and Marhora locomotive factories were set up, we were the advisors. So there is a separate transaction advisory group in RITES which does such transactions. Have I answered that? Yes, if there is a complex transaction, normally we are there.

Mr. Parimal Mithani – Credential Investments

Thanks for taking my questions.

Moderator

Thank you, as there are no further questions, I would now like to hand over the conference over to Mr. Viral Shah for closing comments.

Mr. Viral Shah – Prabhudas Lilladher Pvt. Limited

Yeah, thank you, thank you to everyone who participated in the call. I specially thank the management for giving us an opportunity to host the call. Rajeev sir, I will hand over the floor to you for any closing comments, thank you.

Mr. Rajeev Mehrotra – Chairman & MD, RITES Limited

Thank you, Mr. Shah. Let me reiterate that this was a difficult quarter. Our employees took all the risk and were determined to deliver whatever they could, and they have done that. . Let us not compare this quarter too much to any of the other quarters because this is an abnormal situation which if we try to compare too much, we will actually be misled. We firmly have orders; we are a market leader in what we are doing and we are committed to deliver better than what we have done last year. A moderate growth, but that would be very important if under these circumstances we can still deliver moderate growth. Thank you very much for being with us, see you again, thank you.

Moderator

Thank you, that concludes the conference, thank you for joining us and you may now disconnect your lines. If you have any further queries you can write an email to gaurav.g@conceptpr.com or animesh.lodiya@rites.com

End-

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