



**RITES Limited**  
**“Q4 & FY20 Post Result Conference Call”**

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**Moderator:** Ladies and gentlemen, Good Day and welcome to the Corporate Access Post Results Conference Call of RITES Limited to discuss the Q4 FY2020 Results hosted by Reliance Securities Limited and Concept Investor Relations. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Arafat Saiyed from Reliance Securities. Thank you and over to you, Sir!

**Arafat Saiyed:** Thanks, Faizon. Good afternoon everyone, first and foremost I hope you all are keeping safe and healthy. On behalf of Reliance Securities, I welcome you all for the conference call of RITES Limited to discuss Q4 FY2020 results. From the management, we have Mr. Rajeev Mehrotra, Chairman & Managing Director; Mr. V.G. Suresh, Director Projects; Mr. B P Nayak, Director Finance; and Mr. Pramod Narang, Chief Financial Officer. Good afternoon gentlemen. First of all, thank you for giving us the opportunity to hosting the call. Without any further ado, I will hand over the call to Mr. Rajeev Mehrotra for initial comments post which we will open the floor for Q&A. Thank you and over to you Sir.

**Rajeev Mehrotra:** Thank you Mr. Arafat. Good afternoon to all of you. I am Rajeev Mehrotra, Chairman & Managing Director of RITES Limited. I am happy to welcome you all to the Investor Conference call on RITES Limited financial results for FY2020 and the fourth quarter of FY2020. Hope all of you and your families are keeping well during these tough times. I have with me our Director Projects, Mr. V.G. Suresh, Director Finance, Mr. B P Nayak and CFO, Mr. Parmod Narang.

As you know, RITES is a Mini-Ratna category-I ‘Schedule A’ public sector enterprise and a leading player in transport consultancy and engineering sector in India, having diversified services and geographical reach. RITES Limited is the only export arm of Indian Railways for providing rolling stock overseas other than to Thailand, Malaysia and Indonesia.

Now, I am going to talk about the highlights of company’s results of FY2020 and Q4 FY2020 and then we can open the forum for questions and answers.

I hope you all have the access to the presentation we have uploaded on our website for investors’ information as well as the press release, we made yesterday and the financial results submitted to the stock exchange. In case any help is required, please free feel to contact my team on this.

After having a strong growth of 37% in FY2019, financial year 2020 has also been a very successful year for the company and it has achieved highest ever consolidated revenue and profits with a revenue and profit growth of 22% and 29%, respectively, and comfortably beaten the initial outlook given for revenue growth of 17% for this year. The company achieved operational profit margins of 23.28% against the target of 23.2%.

I will now summarize the results on consolidated basis and as you know, almost 97% of income is coming from standalone, so whatever I am talking is relevant for the standalone also. I would not repeat the numbers of standalone which you have been able to access through the detailed presentation and submissions made yesterday.

On consolidated basis, the company's total revenue has grown to Rs.2735 crore as against Rs.2240 crore in FY2019 registering a growth of 22.1% on YoY basis. Company's revenue from operations has grown by 20.9% to Rs.2474 crore from Rs.2047 crore in FY2019.

EBITDA and PAT have grown by 19.6% and 29.3% respectively and now stand at Rs.929 crore and Rs.633 crore respectively. EBITDA and PAT margins stand at 34% and 23.2%, respectively. These margins are the result of strategic focus on order execution and increased human resource productivity.

The earnings per share stand at Rs.24.64 as compared to last year EPS of Rs.18.78, up by 13.2% and please note that this is on the increased capital of 25 crore shares post bonus issued done in FY19.

Performance of our subsidiary REMCL has remained almost flat with revenue of Rs.81 crore against Rs.83 crore in the previous financial year. Revenue from the subsidiary has got impacted in Q4 FY2020 due to low demand from railways during lockdown period especially in March end and certain maintenance work was required in the windmill in the previous season of the generation i.e. April to October 2019.

Our wagon manufacturing joint venture SRWIPL has achieved profit of Rs.16 crore with revenue of Rs.265 crore during FY2020. This JV with SAIL has produced and refurbished 1066 wagons during the last financial year.

Driven by exports, leasing and turnkey construction business, our standalone operating revenue has gone up by 21.9% to Rs.2401 crore from Rs.1969 crore in FY2019.

I will now talk about the Q4 standalone results. Total revenue on standalone basis stands at Rs.596 crore in Q4 FY2020 as against Rs.765 crore in Q4 FY2019. Export and Turnkey segments have shown a very good growth till Q3 FY2020 and we have been able to exceed yearly target as a result. The revenue of turnkey has moderated due to lockdown and the last month's targets could not be completed. The targeted exports shipment was mainly completed till Q3 FY2020 and therefore, less export was scheduled for Q4 FY2020.

Operating revenue excluding other income stands at Rs.553 crore as against Rs.714 crore in Q4 FY2019. EBITDA and PAT margins stand at 31.9% and 22% respectively, which have improved from the last year on account of better margins from consultancy. I would also like to highlight couple of more points in Q4, if you see PAT of Q4FY20 is Rs.131 crore as compared to Rs.133 crore in Q4FY19, so although there is a visible fall in revenue of almost Rs.169 crore, but the profit was not impacted because the fall was mainly because of reduction in turnkey revenue by

about Rs.91 crore and you know that the turnkey is the lowest margin business and more or less offset by our key businesses of consultancy, leasing and exports. So, the PAT numbers look stable comparable to FY2019.

I will now give an overview of the segmental analysis, consultancy is our key segment and generated a revenue of Rs.1066 crore against Rs.1091 crore in FY2019. Consultancy has given a gross margin of 44.9% which is better than 43.9% of FY2019. Consultancy remained almost flat due to various reasons including disruptions in March 2020 and also certain foreign projects suffered due to lockdown. Some projects which we have overseas, have also faced lockdown impact. Though Q4 has remained flat, we have seen better margins from consultancy despite less revenue.

Coming to leasing now: company's leasing business, on account of increased client base and additional loco requirements by existing clients, has showed a steady growth of 16.5% over FY2019 and recorded income of Rs.121 crore in FY2020. Leasing business margin has remained healthy at 38.6% during the year. Revenue from leasing in Q4 FY2020 has shown a growth of 6.3% as compared to Q4 FY2019. This year, we have added 62nd locomotive to our leasing fleet, up by six from last year.

Coming to exports, exports revenue during the year FY has increased significantly by 161.6% and stands at Rs.541 crore as against FY2019 exports of Rs.207 crore. Export margins have been at 22.7%. In exports, we had two major achievements. We completed the supply of six diesel multiple units (DEMUs) Trainsets to Sri Lanka and as a result of good quality, they placed repeat orders for two more, which are under manufacturing now. Also, we completed supply of 10 locomotives during last year.

Another important development in exports is that we have forayed into Cape Gauge market with Rs.706 crore export contract of DEMU trainsets, and locos to Mozambique. In this, we became successful sometime in February beginning and we concluded negotiations on video calls and signed the agreement in June. This is a significant transaction because this is the first contract for exports from India for cape gauge and it opens up market in about 16 countries which are on the cape gauge (1067mm) for exploring the export business. Cape gauge is not used in India.

During the last quarter, exports have decreased against Q4 FY2019 due to major shipments completed till Q3 FY2020 as stated earlier and very less export was remaining for Q4 of FY2020. There is some impact on the export margins in Q4 because of provision for one of items of Rs.5.45 crore against a recoverable from a client which he has agreed to pay. This could not be settled in time earlier and it was more than three years so, we have provided for it but I am sure it is likely to be settled in FY2021.

Now, I will talk about the turnkey construction. The revenue from turnkey construction projects has reached Rs.676 crore in FY2020 with an increase of 18.7% over FY2019. Turnkey segment gross margins stand at 3.4%. Revenue in Q4 FY2020 has decreased because of some disruptions

in March and certain milestones for billing/completion could not be achieved. There were certain inspections scheduled for March and they were deferred and have been done in June now.

Order book - You will be happy to note that company's consolidated order book now stands at Rs.6223 crore as of March 31, 2020 with new or extension of orders secured for the amount of Rs.2457 crore during the year. This order book gives us revenue visibility for next two to three years. While this order book itself gives us enough headroom to go ahead, we are also catching whatever opportunities are coming in infrastructure sector both at domestic level as well as abroad in the areas of our operations.

You would have noticed that we signed one agreement with IRSDC for 24% equity stake in that company. The disbursement has not yet happened and once everything is implemented, we will have one director on their board and we hope to have some more engineering works from that company as well. You would have also noticed one important transaction already notified by us that the Government of India has mandated our subsidiary company REMCL for installation of 3000 megawatts of solar energy generating systems. There are three tranches in this and for two tranches, we already put the tenders on May 31, 2020 and June 15, 2020.

Dividend - A final dividend of Rs.6 per share has been recommended by the Board of Directors for the year FY2020, making it the highest ever annual dividend of Rs.400 crore that is Rs.16 per share with a dividend payout of 67% from PAT or if you compare the share price level of Rs.250, dividend yield is around 6.4%.

With this my submissions to you are over. Now we can open the forum for questions and answers. Thank you very much for your attention.

**Moderator:**

Thank you very much. We will now begin the question and answer session. The first question is from the line of Jonas Bhutta from Phillip Capital. Please go ahead.

**Jonas Bhutta:**

Congratulations on a great set of numbers despite the challenging environment. I have two questions Sir. First, the margin in the leasing business for the past two quarters has averaged around 33% or 34%. What was the earlier trend of 42%? Has there been any change in terms that is related to this marginal which is purely this quarterly aberration and we can expect those 40% margins in the following year?

**Rajeev Mehrotra:**

Well, I think we have said around 38% to 40% as sustainable margins. There is no change in the terms of lease. At times you end up buying some spares in some particular month or quarter, that could impact but I have no reason to worry. This is some correction that has happened and not a significant change in the pricing of our leasing products.

**Jonas Bhutta:**

That is helpful. Sir my second question is on this plan to build of one giga watt solar power project. If you can give us details on what is the kind of equity infusion that is expected out of RITES or REMCL? What is the capital subsidy and what will be the power purchase rate at

which you are going to sell that power. So that is my first part of the second question and I will follow it up?

**Rajeev Mehrotra:**

This may have to be a slightly longer answer but it is important for all the participants. This 3 giga watt transaction is in three components, component one is on railways' land and on developer model so the developer has to put equity and our job is to see that all are done as per technical specifications and then we get around 5-7 paise per unit throughout the life of the project. We are trying to negotiate for 7 paise per unit for the power transmitted from plant to consumption centers. That is the revenue model for this component where no equity is involved from REMCL. So, this is Tranche 1 or say case one where developer would put investment. Our job is only to supervise and to then see the supply management at a fee every year. Now second category or I will say the Tranche-2, this scheme is of again 1 giga watt, where the investment will be done in PSU investment model because this company is owned by RITES and Railways and can avail MNRE subsidy available under CPSE Scheme. Since more than 26% is there, this should be counted as own generation or own consumption especially in states where the open access is not there or the term for this is Captive Power, so this will become a captive power generator for railways. Therefore, it is necessary to put some equity. Out of this 1000 megawatts, we have so far identified land only for 400 megawatt and for this 400 megawatt, a tender has already been issued on June 15, 2020. So, let us talk of the equity requirement of this component first and this will involve equity subsidy from MNRE and borrowing by REMCL. It is estimated that for the total investment, equity of about Rs.350-360 crore will be required, half of which i.e. 51% would be done by RITES and balance by Ministry of Railways. We have not yet taken investment approval and not notified to the investors, as we are in the process of ascertaining the rates first, at what rate, on railways land this project would be doable and tie up for finances. Once the financial closer is nearing, if the rates are found acceptable, then only we will go for investment approval and this may need about Rs.180 crore to Rs.200 crore as equity. Investment would again be spread over two years. Now this is Tranche 2. Tranche 3 of this is another 1000 megawatts, and on land parallel to the railway tracks. There is huge land available parallel to the tracks and lot of these land pockets have already been identified, some more are in the process. Now this will again be on developer mode and railways will buy the power. Our role is to supervise and again see the technical issues and supplies throughout the life of the project and we get paid around 5-7 paise per unit. This scheme is very big and this is the first step. Let me tell you the potential is still more and once we successfully do this, more such land parcels which are in the process of being identified, would be opened up by railways. That is the overall umbrella of things to happen. Within this, equity stake for RITES to invest in REMCL could be in the range of Rs.180 crore to Rs.200 crore spread over two years FY2021-FY2022.

**Jonas Bhutta:**

For the full 1000 megawatt, it will be Rs.500 crore roughly?

**Rajeev Mehrotra:**

This might actually spillover to 2022 onwards because 400 megawatts, we have just tendered out and this is eligible for 20% subsidy from MNRE under CPSE scheme. Further installation we may take, once more land is available.

**Jonas Bhutta:** My allied question to this is you know we have always perceived RITES to be an asset light business model but when investment such as this or that in IRSDC come along, does this sort of indicate lack of opportunity for the company in its existing business? If you can first answer that and then may be highlight the kind of opportunities that are there in consultancy over the next two to three years may be you know not in FY2021 but you can spread it over a year period. What are the growth opportunities available in consultancy or should we expect rights to become as at any business like you know it make the investments and then get business?

**Rajeev Mehrotra:** All these businesses have emerged because we are predominantly a consulting company. We are a consultant and that is why, we could spot export opportunities, we could spot leasing, we could develop the open access model through REMCL for railways. Being a consultant, we are able to do the solar or the renewable portion required to be met by railways as they are deemed distribution licensee or we can say a distribution company. So, this is a logical offshoot of what has been done in the past for railways and our exposure as investment is not very high. Coming to the fee portion which is consulting part, 5 paise or 7 paise per unit, so I think the predominant nature of consultancy is intact there. If you just ignore these add-on businesses, then the impact of COVID and other things can be more. You will see that the diversity of our business actually has been helpful. Even during lockdown we kept generating wind power, we kept running our locomotives on lease, we kept inspecting steel rails at Bhilai but if role as a consultant only was there, he would have just operated something from home and remained low. Therefore, I think this is a part of our approach to grow faster. There is no conflict with consultancy and there is no move to shift away to asset heavy model. In 3,000 mega watt, only 400 is asset based, rest is asset light and the buyer is Government of India. It is a risk light investment where the Government of India is buying power on 25 years PPA basis. So, I think, the management has done enough exercise to see that where do we put our investments. On IRSDC, let me tell you, IRSDC is a beginning, there is a lot to happen in the segment and we as an engineering consultant hope to make significant revenue from there also. Every station would be a huge investment, a major station may need Rs.100 crore to Rs.400 crore. This is again an opportunity for which investment is being done and it has to be seen with that perspective in mind.

**Jonas Bhutta:** If you can highlight consultancy opportunities over the next opportunities in that base business over the next two to three years which segments do you think would perform?

**Rajeev Mehrotra:** The consultancy suffered in FY2020. we remained almost flat or had 2% fall on annual basis but that is not the end of it. We have enough order book. The order book of consultancy has gone up despite delivering about Rs.1100 crore of turnover in consultancy, our order book in consultancy is at almost Rs.2400 crore, which is higher than the opening. You can recall that there were concerns in the beginning that consultancy order book is not increasing but we have additional orders now. There are a lot of orders which are in the pipeline, untill we get success, we will not declare them. But I will cover again that the order book for consultancy as on March 31, 2020 stands at Rs.2464 against opening of balance Rs.2317. Similarly in exports Rs.1086 opening was there, we have ended year with Rs.1436. So I think consultancy and exports, I see predominantly helping RITES to grow in the next two to three years.

- Jonas Bhutta:** I will come back in the queue. Thank you for answering my questions.
- Moderator:** Thank you. The next question is from the line of Rohit Natarajan from Antique Stock Broking. Please go ahead.
- Rohit Natarajan:** Thank you for this opportunity so you said consultancy would be flat in FY2021 so if I understand it correctly are we maintaining that Rs.100 crore revenue billing every month also if you could touch upon the billing of turnkey that is happening at every month export and some bit on leasing?
- Rajeev Mehrotra:** Rohit, I have not said it will remain flat. We have not given any quantified outlook. We have given outlook based on the order book, based on the sectoral investments as appeared in NIP (National Infrastructure Pipeline) and we will predominantly remain a consulting company. Now, increasing our consulting by 10% this itself a big job Let me tell you because you are just going for the Project Management fee income which is almost 1/20<sup>th</sup> of the project costs, so when we are delivering 20 times project investment, then get consulting fee. Looking at the opportunities we did not have enough orders from metros in the last five, six months so all this impacted the FY2020 numbers, but we have submitted several bids. I think in metro alone, about Rs.1500 crore worth of bids we have submitted and we must get at least a reasonable share there. So there is no reason to be pessimistic about consulting.
- Rohit Natarajan:** Sir, I appreciate those points but my question was more on how this lockdown scenario has impacted your billing part?
- Rajeev Mehrotra:** Lockdown was there in last month, in fact almost entire March there were travel restrictions, people could not go to overseas. Then there are certain inspections done overseas and also in different cities in the country. In March, we had reduced travel and in last 10 days almost nothing moved. Peak 10 days of the year were lost because of the lockdown, so whatever downfall you are seeing in consultancy was quite possible to make up, if that had not happened. Further, there are milestones in multiple consultancy projects and billing cannot be done till the completion of the milestone.
- Rohit Natarajan:** On efficiency level, Sir would you want to quantify some efficiency level of numbers over there?
- Rajeev Mehrotra:** For FY2021, we will give the outlook in next quarter because let us see whether we will be able to open up in July or August or not. If this goes to September, then it is very difficult to make up the entire thing in remaining half of the year. The industry in general would have the impact. We are optimistic that by July end we should start seeing normalcy returning, and then there is a good reason to be more optimistic about the consulting part as well.
- Rohit Natarajan:** My second question is more on the order backlog part. We were targeting close to Rs.8000 crore of order backlog by the end of the FY2020.I understand those miss is largely probably from construction segments, the turnkey segment so is there anything that is already under talks in pipeline that immediately can be converted into an order inflow?

- Rajeev Mehrotra:** Yes, this is very important question and I would like to clarify that there was a change in policy in award of railway works to PSUs after that we have been asked to submit our expression of interest which we have done in May. So, I expect some outcome of that in July. There is every reason to believe that and you can see even in the order book, the order book of turnkey has gone down by almost Rs.500 crore because many of the orders are on the verge of being executed in 2021 or already done in 2020. So we are expecting new orders and my assessment of Rs.8000 crore was based on certain information I had about progress of turnkey, as well as this export order from Mozambique which has materialized already.
- Rohit Natarajan:** Sir, finally on those export orders, export margins you said some provisions on that front which have led to a dip in margin probably so if you could quantify how much is that sustainable EBITDA margins for export segments looking like?
- Rajeev Mehrotra:** This particular item of provisioning was done for a locomotive on lease, in a foreign country, which met with an accident in their train system. As per the contract, they are supposed to reimburse the cost of that locomotive to us and they have agreed to reimburse it. Because of lockdown, this is delayed and not to get into the audit issues, we thought we will provide for it. This is recoverable. The client has said that sometime in FY2021 that they will pay us.
- Rohit Natarajan:** So is it fair to assume that we can spring back to 20%plus kind of EBITDA margins in export segment?
- Rajeev Mehrotra:** I will say guideline on this has been 15% to 20%.
- Rohit Natarajan:** Sure that is it from my side if there is any other request I will get back in the queue.
- Moderator:** Thank you. The next question is from the line of **Uzair Fahmi** an individual investor. Please go ahead.
- Uzair Fahmi :** Thank you Sir for the presentation and congratulations. My first question is around the dividends so I look at the long term averages of how the company has been distributing the assets into the investment and dividend front now it looks that it would past one or two years, the dividends had increased as a percentage, so my question to you is that is this because you have a lot of excess cash and not that many opportunities to reinvest or you have opportunity to reinvest or but not for going to building a hurdle that you aspire to? Just wanted your understanding on that?
- Rajeev Mehrotra:** Dividend decision is already out. See the extent of profits, we have made. If we have made the best profits, the shareholder can expect the best dividend. We are offering Rs.16 per share total, Rs.6 is the final dividend and Rs.10 already paid so we have the highest profits this year and we have proposed the highest payout. Now whether this payout is high or low, a lot of debate goes into this before the Board when it takes the decision. Let me tell you that we are still retaining about one-third of the current years' profit, which we will be using for investments like the solar investments or the station development. I have been saying that this is an investor friendly company and we care for our investors. So it is a combination of profit, availability of cash & opportunities, investor friendliness etc and therefore, we have announced dividend of Rs.16 for the current year.

**Uzair Fahmi:** Looking not from an absolute point of view that I was looking as comparing the long-term average of the dividend payout ratio and the reinvested percent and in the last one year and that let us change the percentage given out of dividend is much higher compared to the last size of your average so is that on management strategic that this thing what you want to do and definitely under or is there something else just because you have just too much cash on hand?

**Rajeev Mehrotra:** If you are looking at last two years, these are the years which have given highest growth to this company and therefore the rewards to shareholders have also been higher. We have opportunities and despite being a consultant, we have been investing in locomotive design, we have been investing in windmills, we have been investing in locomotives for leasing and now solar power. So as and when the opportunities are emerging, we are investing. We have a completely debt-free balance sheet, so should it be necessary, we can even mobilize debt whenever we need. I do not see any requirement in next one or two years to do that but lack of opportunities is not an issue. Consultants are very conservative and look at things very, very minutely before making investments. To summarize the position on dividend, we have best two years, the best two years have seen best two payouts We have cash, we have opportunities and we will make sure that we keep evaluating the possibilities continuously.

**Uzair Fahmi:** One question on the reinstatement. I saw this export in the expense statement so that has gone down from Rs.125 crore in Q4 FY2019 and Rs.2 crore in the latest quarter; however, on an yearly basis the numbers are comparable so I just want to understand and also the fact that the exports have gone up in FY2020 versus FY2019 so why this purchases for export line has gone down Rs. 125 crore to Rs.2 crore in this quarter and what does this indicate?

**Rajeev Mehrotra:** I think one general observation I will make before answering this point in detail, that in our business, all the milestones in construction, exports or consultancy are not evenly spread in quarters. So it can be erroneous to draw results based on this quarter alone, you have a full year before you, so I will request that rather have a look on the yearly margins, are they in line with the guidance, are they stable or growing. That would be a more correct answer than just one quarter alone. Regarding purchases for exports it is clarified that the change in inventory is also needed to be added for right comparison and purchases for exports including change in inventory makes the figures comparable.

**Uzair Fahmi:** Sure understood Sir. One final question you mentioned on the aspiration side that the National Infrastructure Pipeline of Rs.110 lakh crore, how does RITES play a role in there and what are your expectations in terms of revenue or what will be role of RITES in those pipeline projects?

**Rajeev Mehrotra:** I think, we consider RITES as the consultant who gets into the formation stage or pre-formation state or we call it pre-feasibility, for mega projects. Once a project goes to DPR stage, normally we get associated with several of these projects and then once these projects go for detailed engineering, at that stage, again we get a chance to do this, and third stage is when the construction starts, then we do project supervision. It is not necessary that we get into all the three stages in all the projects, we may get one in some, may get second also in some, may be all

the three in some. If the investments of those scales are already been spelled out, may be there would be some delays because of the social costs which have certainly come up in the system, but I am optimistic that the infra spending would have to increase may be after H1, and therefore, we tend to gain from those opportunities.

**Uzair Fahmi:** When will that be in terms of when we expect to see any play of RITES particularly with respect to the projects that could come up with National Infrastructure Pipeline. What is your guidance in terms of what fiscal year or what is the timeline for this, for you to have a play in there?

**Rajeev Mehrotra:** It is very difficult to draw a definite correlation with the projects in the pipeline there but to give you an idea, I am just giving you a flair of the things which is already going on. For DPR of three DFC corridors, the tenders are already out, these are very high value tenders for preparing DPR so we have submitted our bids for this. For certain metro projects, the GC consultancy appointments are going on. We are also preparing for the involvement in high speed consultancy work, we are planning to join some Japanese consultants as the GC partner from Indian side. All these things are going in parallel, but finally in which month this will materialize and who would finally make it, is based on competition. NIP is a very strong guide, and we may soon see projects emerging out of it. I think, RITES will be one of the biggest beneficiaries of this because we are into railways, metros, highways, ports, airports and not only in India but also outside India.

**Uzair Fahmi:** Thank you so much. I have a question but I will wait for the queue.

**Moderator:** Thank you. The next question is from the line of Saurabh Poddar from Lucky Investment Managers. Please go ahead.

**Saurabh Poddar:** Congratulations on a strong performance despite typical outlook. Just wanted to understand I think understandably our order book because of policy changes etc., is impacted. Going forward do you see any structural change in terms of for the government's payment cycle, your receivable funds because given that it has been a tough environment for the government not only the central government but also the state government during the structural payment sort of a change in projects going forward, I just wanted to understand that?

**Rajeev Mehrotra:** Let me first answer this in reference to railway projects. If railways puts a project for execution, normally that work would be given in a year when they have already allocated funds for it. So once the capital funds are allocated, there could be few delays here and there because of certain procedures, but then there is no reason to believe that this will not be funded. We rather get, about 20% money upfront as the project advance and then we spend out of it, so the possibility of being out of cash for these projects is actually not there. Yes, what can happen that there could be a shift in the capex timing by the Government. For the projects which have been put to construction, I do not see such thing happening.

**Saurabh Poddar:** There is basically I think that was my biggest concern but yes I think that should be it from my end. Thanks.

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

**Chintan Sheth:** Thanks for the opportunity and congrats for your good set of numbers. Sir again on the consultancy part when we look at the margins we are consistently improving upon it. I am just trying to understand if you look at fourth quarter even our revenue was lower. We clocked around 50% kind of margins. So I am trying to understand what can be the sustainable margins or any lever available for further improving it in particularly for fourth quarter when revenue was lower, but margins are significantly higher?

**Rajeev Mehrotra:** Chintan, I will suggest that let us not go by one-quarter analysis for such major pricing impact analysis. Q4, yes we have improved margin, as there were some billing from major overseas projects that came at a higher dollar rate and positively impacted margins. But yes, we remained within the outlook given for consultancy fee income as we have hundreds of projects going on, 1% or 2% points up and down can be there. There is no major shift in the pricing of consultancy as such. It is safe to believe that we will attempt to maintain the margins we have seen in last two years.

**Chintan Sheth:** Sir, on the Mozambique presentation, provides that we will execute in FY2021 so we expect that entire revenue to accruing in FY 2021 or it can spillover to FY2022?

**Rajeev Mehrotra:** I had reserved for outlook to be given in next quarter, but since you are asking, yes, although the delivery period is longer and this can be one of the drivers for us to achieve our targets and we are trying actually to start deliveries from Q4FY21. Rest will spill over to FY2022.

**Chintan Sheth:** Q4 for this year, FY2021?

**Rajeev Mehrotra:** Let me clarify the supply terms are calendar year 2021. We have signed this contract only in June 2020. Chintan, we are trying to see that we start because that is going to help in pushing the exports this year. May be in Q4FY21, we will target some income from this new order also.

**Chintan Sheth:** Sure and bid pipeline paying for each segment if you can provide that, it will be helpful, that will be last? Bid pipeline as on date for each segment exports, turnkey and consultancy?

**Rajeev Mehrotra:** I think it would not be correct to quantify a pipeline that is more than what is already confirmed in hand. Just to give an example that we have applied for seven tunneling tenders where the value is Rs.250 crore, but this is a tender, I may get some or may not get at all. So it would not be correct to quantify a number to this forum at this stage. We are working for Metros, major DPRs, bridges, ROBs, flyovers, highway tunnels, a major order in the Ladakh for three tunnels, road projects etc. We have worked very hard to get a project of highway in Bangladesh. We have been declared eligible for one more rail consultancy project in Bangladesh. All this is a continuous

process and there are enough attempts for the pipeline but I would not like to quantify. I have given you a flair of the types of things we are working on.

**Chintan Sheth:** We have signed MoU for this year, with railways yet?

**Rajeev Mehrotra:** The MoU is still under discussion because a lot of companies want to revisit the target based on the outlook for this year and I hope this might be done may be sometime in July or August.

**Chintan Sheth:** Sure. I will join in the queue.

**Moderator:** Thank you. The next question is from the line of Akshay Bhor from Premji Invest. Please go ahead.

**Akshay Bhor:** First of all, congratulations for a steady performance throughout last year. Sir wanted to understand IRSDC model a little bit better so the first question within that is IRSDC going to be more of a consulting or IRSDC leads to capital of their own as well by developing a specific station and within that the participation of RITES is I understand it is an equity participation but are you also hoping for more work coming out of that overall station project I mean and if you could just quantify what is scope of work there?

**Rajeev Mehrotra:** I will start with the last point first. Yes, we do hope to get some technical work because we have a strong team, which has been trained in structural designs and construction supervision and that was one of the objectives. Station development has been going through different models over last four to five years, but now there is a lot of clarity on how they want to take it forward. They have increased the lease period up to 99 years for any property development. They also permitted mixed-use, mixed means commercial cum residential on railway lands. They are also working on an interesting revenue model, which will sustain those investments. You might hear about this very soon. So, it is not that somebody wanted investment and we have done there. We have gone through the process where we see value coming in two years, return on equity what we are putting and also engineering services. Third is that the IRSDC per se is going in a combination of their own investment, in a limited way. They have done only two projects on this and they are now bidding out stations to the developers, where they will have a revenue model from these earnings. I think it is not going to be an asset heavy company rather it will be company managing heavy assets.

**Akshay Bhor:** Clarification on the solar investment that you talked about, is it fair to say that in all the three plants put together 3 gigawatts of plants, you would be putting in one Rs.180 crore of capital, is that understanding correct? Secondly, just your revenue potential, all put together any rough estimate that you may have?

**Rajeev Mehrotra:** There are three tranches. First tranche is of 1000 megawatts, for which tender is already out on May 31, 2020. This is a developer model and there is no capital investment by REMCL. Now we come to tranche two. Tranche two is in PSU mode where the identified land is only sufficient for 400 megawatts, so this tender is out for 400 MW, which is in investment mode. That is where

Rs.180 crore to Rs.200 crore would be needed. They normally would be following the CERC guidelines of investments, the return on investment is good and the buyer is railways, so there are no risks of revenue realization.

**Akshay Bhor:** Understood. My question was if you go for that additional 400 megawatts, 600 megawatts, will you need to put in additional capital there or your investment is restricted to Rs.180 crore to Rs.200 crore?

**Rajeev Mehrotra:** It is a very important question and I think, I should have clarified this. It is informed to railways that the land which is being provided for tranche one, can actually take 1600 megawatts. Therefore, we have already written to them that the first tranche can be increased to 1600 MW and reduce the capex model to 400 MW. Should there be another land piece for 100 to 200 megawatts that is doable, but beyond that I do not think REMCL can borrow for the entire 1000 MW.

**Akshay Bhor:** Understood Sir, just revenue potential if you can just any ballpark numbers?

**Rajeev Mehrotra:** For revenue potential, we have notified this to be around of Rs.20 crore for fee component. If 5 paise to 7 paise per unit of fee would be agreed, then this would give at least Rs.20 crore per year to REMCL. There are very few costs with this and this might be very profitable because very limited number of people will be deployed for this project.

**Akshay Bhor:** Thank you so much.

**Moderator:** Thank you. The next question is from the line of Siddharth Mohta from Principal Asset Management. Please go ahead.

**Siddharth Mohta:** Good afternoon, Sir. Regarding this solar project, you said that once all the projects get commissioned and 5 paise to 7 paise rate is being fixed for all the three projects together, we will be earning Rs.20 crore to Rs.25 crore of fee income?

**Rajeev Mehrotra:** Yes.

**Siddharth Mohta:** So this is taking all these projects and then you said over and above there would be return?

**Rajeev Mehrotra:** Equity, yes.

**Siddharth Mohta:** What would be that amount Sir?

**Rajeev Mehrotra:** The return on equity as per the guidelines has been revised last week. I think first 20 years that is 16.45% and after that 17.87%.

**Siddharth Mohta:** This ROE of around 16% to 17%, this is applicable for 20 years?

- Rajeev Mehrotra:** Yes and first 20 years that is 16.45% and after that 17.87%..
- Siddharth Mohta:** Sir my final question, what is the impact of lockdown on revenue in Q4, if you are able to quantify that amount? Thank you.
- Rajeev Mehrotra:** It is very difficult to quantify, but yes, we did have some effect on the consulting business, site visits could not happen, the milestones could not be completed, certain construction billing was not done. I think the shortfall could have been possibly made up if we had those 15 days to work.
- Siddharth Mohta:** Thank you and best wishes for upcoming quarter.
- Moderator:** Thank you. The next question is from the line of Dixit Doshi from Whitestone Financial Advisors. Please go ahead.
- Dixit Doshi:** Thanks for the opportunity. Sir just couple of things. Firstly, earlier we were guiding that in the export segment we would be able to do Rs.550 crore to Rs.600 crore kind of top line in FY2021 since most of the deliveries are lined up for H2 for Sri Lanka, do you think we will be able to do that much this year?
- Rajeev Mehrotra:** Yes, I still hold on to that number.
- Dixit Doshi:** In terms of turnkey, there was some tendering supposed to happen in February, March among the PSUs for turnkey railway projects, has that happened or it is delayed now?
- Rajeev Mehrotra:** No, they first invited expression of interest to see who is eligible for how much capacity. They have asked how much you have executed on track work, electrification, workshop etc., and based on these they will decide. Then the pricing would happen. Stage one, expression of interest was over in May, the rest is still developing.
- Dixit Doshi:** By when you feel that the orders will start flowing in from that side?
- Rajeev Mehrotra:** In July within this month, we expect some outlook on this.
- Moderator:** Thank you. The next question is from the line of Harshit Kapadia from Elara Capital. Please go ahead.
- Harshit Kapadia:** Good evening, Sir. First of all congratulations for good set of numbers in these challenging times and I hope well at the RITES family. Two questions that I have is can you just give a revenue breakup of consultancy business which you generally give and second question is what could be the capex for FY2021?
- Rajeev Mehrotra:** Can I speak out the consulting, I will read out six, seven major numbers or you want all I will do that?

- Harshit Kapadia:** Six, seven major numbers will do, Sir.
- Rajeev Mehrotra:** Consulting big earner was railway sectors i.e. Rs.609 crore. This is only the consulting part, this includes PMC of Coal India, NTPC, this includes consultancy related to quality assurance and then followed by others.
- Harshit Kapadia:** What about metros, airport, and highways?
- Rajeev Mehrotra:** Airport is Rs.47 crore, highways is Rs.67 crore, metros and urban transport put together is around Rs.134 crore.
- Harshit Kapadia:** How much is quality assurance, Sir?
- Rajeev Mehrotra:** Quality assurance would be around half of railways i.e. Rs.360 crore, this got impacted in March because inspection could not happen. These are the key numbers. Rest is miscellaneous, port, IT etc.
- Harshit Kapadia:** Capex for FY2021?
- Rajeev Mehrotra:** We have available cash of around Rs.1102 crore, out of which we are keeping 400 crore for working capital, rest is now planned for investments like this. Equity participation in REMCL, IRSDC and SRBWIPL of Rs.200 crore, capex for building including workshops for locomotives, we are going to do workshop somewhere in Eastern India, of Rs.150 crore, capex for locomotives of Rs.80 crore. Dividend which is not capex item, but then out of cash flow we do account for Rs.150 crore as the final dividend, for survey equipment, software, computers etc we have kept Rs.40 crore, rest is in miscellaneous around Rs.40 crore.
- Harshit Kapadia:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Mohit Kumar from IDFC Securities. Please go ahead.
- Mohit Kumar:** Good evening Sir. Only one question Sir. Are you seeing any delay in finalization of consultancy tenders from all your clients be it metro, be it NHAI, be it your power plants and if there is any so when do you expect it to pick up?
- Rajeev Mehrotra:** I will not say delay in finalization, I will say that they have extended dates, there were lot of tenders which were due in mid March to end March, many of those have been shifted to June or July, so we are participating in several tenders. Yes, there is a delay of about three months. Therefore, the consulting work on these would not start before October –November and the new business in consulting can give returns only in H2, in H1 we are counting on the consulting works of Rs.2400 crore already in hand.

- Mohit Kumar:** What is the execution cycle of our consultancy order if I may ask?
- Rajeev Mehrotra:** Typically the consulting, if it is for a report, of course, this is a very small segment, maybe just 10% in the consulting, there are times where it would be six months to 12 months. For a project management consultancy i.e. PMC, in a typical metro project or a rail connectivity project, it may be two to three or four years in some cases.
- Mohit Kumar:** What is your execution cycle for our order book as this stands now for the consultancy?
- Rajeev Mehrotra:** I think, I will say around two years right now.
- Mohit Kumar:** Thank you Sir and best of luck.
- Moderator:** Thank you. The next question is from the line of Kunal Sheth from B&K Securities. Please go ahead.
- Kunal Sheth:** Thank you for the opportunity. I just needed one clarification about the solar project. We said that as of now we will have to invest in 400 megawatts in the second tranche and another 600 megawatt they still, there is no clarity if government agrees to put it under the other mode, we will have to only invest in 400, is it right?
- Rajeev Mehrotra:** Yes, as of now it appears that informally they have agreed that it is possible to get on developer mode, but I do not have any formal response as of now but 1600 MW will go into the tranche one as you rightly got it.
- Kunal Sheth:** Sir, I just wanted to check that at the management or at the board level, do we have any numbers in mind in terms of we know that we will not cross this x numbers as an investment in subsidiaries or JV to ensure that we do not become from an asset light, we do not become an asset heavy company?
- Rajeev Mehrotra:** Okay, the system of Mini Ratna category-I company in which we operate, there is a delegation regarding investment decisions to the Board of Directors by the Government, for upto 30% of networth in aggregate and 15% in each case. Our networth is around Rs. 2600 crore. Board of Directors can make investment decisions and we are well below that. So if I understood your question rightly, we cannot invest say more than 30% of Rs.2600 crore in equity in all ventures put together. If we have to exceed then we have to go to the Government for investment decisions.
- Kunal Sheth:** Thank you so much and best of luck for future quarter Sir.
- Moderator:** Thank you. The next question is from the line of Parimal Mithani from Credential investment. Please go ahead.

- Parimal Mithani:** Congratulation for wonderful number Sir and thanks for dividend since last two years. I am a happy shareholder. I just wanted to know about your consultancy fee business, if you can give a breakup of what was last year and this year and can you throw light in terms of consultancy growth, a rough figure Sir?
- Rajeev Mehrotra:** Thank you for being our happy investor. I want all the shareholders to be happy with the company. To be specific on the number, in FY2019-2020, in consultancy we have reported revenue of Rs. 1066 crore. This is in comparison to Rs. 1092 crore in 2018-2019. So there is a small 2% to 2.5% fall because of disruptions in March. Otherwise, I think, it would have been slightly higher than this.
- Parimal Mithani:** I wanted the Quality Assurance number for two years, if you can give me?
- Rajeev Mehrotra:** For Current year it is Rs.367 crore and last year it was Rs.331 crore.
- Parimal Mithani:** What percentage of revenue comes from Consultancy with Quality Assurance business going ahead?
- Rajeev Mehrotra:** May be 25% to 30%.
- Parimal Mithani:** That is a re-occurring business, inspection will be carried out whether tendering happening or not, right?
- Rajeev Mehrotra:** This inspection is for almost 40% of the purchases done by railways. So this is a continuous mandate going on us for years. We have strong network spread over 12 cities in India and we also do foreign inspection for railways.
- Parimal Mithani:** Sir you are the only player that inspect the railway right, there is no other PSU other private entity?
- Rajeev Mehrotra:** Certain inspections are done departmentally like railway girders are inspected by RDSO themselves. The machinery imported by any of the divisions or workshops is inspected by COFMOW which is again a Department of Railways. Other than that, it's with us.
- Parimal Mithani:** Sir any growth in this business for this year, how much would you expect from this side business to current year?
- Rajeev Mehrotra:** From the inspection business?
- Parimal Mithani:** Yes Sir.
- Rajeev Mehrotra:** This is directly impacted by the capex in railways and it is very important to clarify that the order book has taken only one quarter of inspection business.

- Parimal Mithani:** I have no further questions. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Dixit Doshi from Whitestone Financial Advisors. Please go ahead.
- Dixit Doshi:** Sir just one last question, if you can throw some light regarding how was the billing or the work is happening in terms of April, May and June or even July?
- Rajeev Mehrotra:** Certain business work was still going on in April, May and even now. Especially the inspection where we have a setup in Bhilai, where the rails are made, and 24 hours they do inspection. This was the case with leasing of locomotives as well, except few which had to be stabled because construction had stopped in some portions of DFC and less movement of good at ports, rest of the locos were up and running. Then the windmill, the windmill season is April to October, it has been doing a good generation since April. So you see some work was going on and as soon as construction was permitted sometime in early May, some remaining construction turnkey jobs were completed. We have completed 11 kilometers of CRS (Commissioner of Rly Safety) inspection of railway line doubling work last week, we have commissioned 188 kilometers of electrification of Vijaypur-Maksi section last week. All that was left in March, is being completed now.
- Dixit Doshi:** Just can we expect that Q1 we will not make losses, broadly?
- Rajeev Mehrotra:** Respecting all the regulations in this regard, I will say that yes, company was still having some activity and I am optimistic.
- Dixit Doshi:** Just one last question in terms of consultancy, let us say whatever we could not do in April, May and June, can we make up for it in the second half and still do reasonably good in FY20-21 or it is not possible.
- Rajeev Mehrotra:** We have already started operations more than a month ago. The inspections have been started except for foreign inspections and inspection at some industrial areas which are still under lockdown. Like in Tamil Nadu, suddenly 15 days lockdown was again there, in certain areas of Maharashtra where we are still not able to go and there are some difficulties in West Bengal also, some portions are under red zone or containment zone. I will say, if I can put one number, we are almost 75% up in terms of revenue generation.
- Dixit Doshi:** That is very helpful. Thank you.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Arafat Saiyed for closing comments.
- Arafat Saiyed:** Thank you once again for giving us opportunity Sir for hosting the call. Also thank all the participants who have participated in the conference call. All the best to the management going ahead. Thanks a lot.

*RITES Limited*  
*July 01, 2020*

**Rajeev Mehrotra:** Thank you gentlemen for being with us and raising your queries. I hope I have been able to answer all of them. If there are more questions, feel free to write to me or to Investor's Relations cell. Let me assure you one thing that we are firmly on the job. We have good order book in hand and the execution machinery is almost 75% up already and do not go by quarterly numbers too much, because in our case all these quarters do not have equal benchmarks for billing. So keep this distortion in mind while you see the numbers and more representative number would be annual numbers. Thank you very much. I hope we will catch up with you soon after Q1 results. Thank you.

**Moderator:** Thank you. On behalf of Reliance Securities Limited and Concept Investor Relations that concludes this conference. Thank you for joining us. If you have any further questions please send an email to gaurav.g@conceptpr.com. You may disconnect your lines.

**End-**

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