Date: 14th August, 2018

To:	To:
Listing Department, National Stock Exchange of India Limited. 'Exchange Plaza', C-1, Block G, Bandra - Kurla Complex, Bandra (E),Mumbai - 400 051	Corporate Relationship Department, BSE Limited, Rotunda Building, P J Towers, Dalal Street, Fort, Mumbai - 400 001
Scrip Code- RITES	**Scrip Code**- 541556

Sub: Transcript of the Conference call with analysts and investors

Dear Sir/ Madam,

Please find enclosed herewith Transcript of the Conference call with analysts and investors held on Monday, 30th July, 2018 to discuss the audited financial results of the Company for the year ended on 31st March, 2018.

You are requested to take this information on record.

Thanking You,

Yours faithfully,
For RITES Limited

राइट्स लिमिटेड गुड़गाँव Gurgaon RITES LIMITED

(Ashish Srivastava)
Company Secretary & Compliance Officer
Membership No.: FCS- 5325

RITES LIMITED

"RITES Limited Annual Results FY18 Conference Call"

Transcript

30th July, 2018

Management: Mr. Rajeev Mehrotra – Chairman & Managing Director, Mr. Ajay Gaur – Director Finance.

Moderator: Good Afternoon ladies and gentlemen, welcome to the conference call of RITES Limited, arranged by Concept Investor Relations to discuss its FY18 Results. We have with us today Mr. Rajeev Mehrotra – Chairman & Managing Director, and Mr. Ajay Gaur – Director Finance. At this moment, all participant lines are in the listen-only mode. Later we will conduct a question-and-answer session. At that time if you have a question you may please press '*' then '1' on your telephone keypad. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Rajeev Mehrotra. Thank you and over to you, sir.

Rajeev Mehrotra: Thank you, Aman. Good evening, this is Rajeev Mehrotra, CMD RITES and with me I have my colleague Director, Mr. Ajay Gaur. We are happy to share performance of RITES for FY18.

A brief introduction of RITES. We are a Mini-Ratna Category-I Schedule A public sector enterprise. We are a leading player in the transport consultancy and engineering sector in India. We have diversified services and geographical reach. The Company has an experience spanning 44 years so far and we have undertaken projects in about 55 countries, including Asia, Africa, Latin America, South America and Middle East. RITES is the only export arm of Indian Railways for providing rolling stock overseas other than Thailand, Malaysia and Indonesia.

Now, I am going to talk about the highlights of the company's results, and then we can open the forum for questions and answers. All the numbers being shared here are on consolidated basis, unless specified otherwise.

The company has ended FY18 with its highest ever revenue of Rs. 1,667 crore on consolidated basis, up by 6.8% from last year's total revenue of Rs. 1,561 crore. If the impact of sale of non-current investment in FY17 is adjusted, last year we had Rs. 71 crore capital gains from sale of non-current investment, then our total revenue has actually increased by 11.9% on comparable basis year-on-year.

Earlier I said total income which included other income as well. Now, the company's operational income is up by 11.2% to Rs. 1,503 crore compared to Rs. 1,351 crore in FY17. In fourth quarter of FY18 company added a revenue of Rs. 606 crore compared to first three quarters of FY18 where company had revenue of Rs. 1,061 crore. So we had a very good Q4.

Company has also achieved its highest ever PAT of Rs. 363 crore with a growth of 7.8% over FY17. This increase in PAT is achieved despite absorbing the full year pay revision. We had pay revision from 1/1/2017 for most of the employees, so we absorbed that cost in full year of FY18. And as against higher base due to sale of non-current investment in FY17. If we compare that element post tax, it was Rs. 56 crore. So the comparable PAT growth actually of FY18 over 2017 is 29%.

The earnings per share attributable to the company's shareholders stands at Rs. 17.42 for FY18 as compared to Rs. 16.42 for FY17. A final dividend of Rs. 40 crore has been recommended by Board of Directors today, which is about Rs. 2 per share. This is in addition to interim dividend of Rs. 70 crore already paid in January 2018.

Company predominantly remains a consultancy company and revenue from consulting segment is Rs. 1,015 crore which is 22% higher fromFY17 revenue of Rs. 833 crore. The Company's revenue from turnkey construction projects has increased by Rs. 115 crore to Rs. 147 crore in FY18 as compared to FY17. You noticed that the major drivers of growth this year has been consultancy growth as well as the turnkey increase.

The Company's revenue from export sales has come down by Rs. 146 crore to Rs. 232 crore in FY18, this is because we had completed all the export orders, but we have two major orders in hand which we will discuss at the end. The Company's revenue from leasing services has gone down slightly by Rs. 1 crore to Rs. 92 crore, this decrease was due to decrease in foreign leasing business. We sold some old locomotives we had in a foreign country. But the domestic leasing business has shown a strong growth of 16.4%.

The Company is able to reduce the account receivable number of days to 137 at the end of FY18 as compared to 146 at the end of FY17, so there is a decrease of 6.2% in the number of days outstanding.

On RITES's subsidiary company, we have a power management subsidiary, Railway Energy Management Company Limited, or REMCL. It has shown a revenue growth of 17.6% to Rs. 69 crore from the last year's revenue of Rs. 58 crore. Here we have 51% ownership of RITES and 49% of Indian Railways. The PAT of REMCL has also increased to Rs. 30 crore in FY18 from Rs. 18 crore in FY17, registering a growth of 72%.

Company's standalone order book stands at Rs. 5,517 crore which is the highest so far and we expect to execute these orders in next one to three years.

For FY19 we signed MoUs with our concerned governing ministry, where consolidated operational revenue, excluding other income, target for excellent rating has been kept at Rs. 1,835 crore which is up by 22% compared to FY18. So we have signed a commitment for 22% minimum growth over FY18 with the government.

Last but not the least, RITES has recently secured a major export order of Rs. 567 crore for supply of broad gauge passenger AC coaches and non-AC coaches which are expected to be exported within 27 months of opening of letter of credit by the client. This has been included in the order book I have referred above. Besides this, we already have two export order of about Rs. 680 crore which are under execution. So, put together, there are three major export orders.

This is an overview of the performance for FY18 as well as the number outlook for FY19.

We can now open for question and answers. Director Finance and I, will jointly take the questions. Thank you very much for your kind attention.

Moderator: Thank you very much. Ladies & gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Jonas Bhuta from Phillip Capital. Please go ahead.

Jonas Bhuta: Just wanted some more clarity, now that you have signed the MoU for FY19 which sort of translates into a sales growth of upwards of 20%, could you just share more perspective on which segment is likely to drive that delta in sales? Like in FY18 bulk of your sales came from the turnkey segment, as in the delta sales, so in FY19 should we assume the turnkey again would be a major contributor while the remainder of businesses would grow at a more modest %5 to 10%?

Rajeev Mehrotra: Normally we do not sign segment wise MoU numbers, but to give an overall perspective we hope that exports would be a major component, Rs. 400 crore, of course besides consultancy. The exports would be about Rs. 400 crore followed by turnkey contracts of around Rs. 300 crore. So these two additional contributors would be there, plus normal consultancy and leasing business.

Ajay Gaur: Basically, under the consultancy segment also we are expecting to increase in quality assurance which we have been able to reach about Rs. 249 crore this year, we expect to reach about Rs. 275 crore. And as well as in the overseas consultancy also this year is about Rs. 66 crore as against Rs. 29 crore of last year, we expect to have substantial increase because we have Mauritius based projects and one or two projects we are executing overseas. So, domestic as well as overseas consultancy and quality assurance which is also part of the consultancy are likely to go up. Exports will be in the range of Rs. 400 crore plus and then turnkey will be around Rs. 300 crore and the leasing could be around Rs. 95 – 96 crore.

Jonas Bhuta: And if you could also share your comments on margins, as in what is your outlook for margins next year given that share of turnkey is going to go up would the reported margins be lower than where they were? So we closed FY18 with about 25% EBITDA margins, how would FY19 look like?

Ajay Gaur: Should I give the segment wise margins or you want only for the turnkey?

Jonas Bhuta: Segment wise would be better.

Ajay Gaur: Segment wise basically in consultancy, this year our margins are about 42% in case we see the segmental reporting. There are unallocated expenses also about Rs. 155 crore which in case we allocate the margins in consultancy will be somewhere around 35% - 37% because the overseas component is going high so the margins are better, otherwise it used to remain around 30%. In terms of leasing margins, we expect to continue around 38%. And if you refer to the balance sheet you will find 40%, but again some of the unallocated expenses are to be allocated to the leasing business also. So, safely you can presume around 37% to 38% margins in leasing also. Exports will remain somewhere around 15% margins. And turnkey, margins will remain around 2.5% to 3%. But in turnkey since our base is increasing we are able to absorb the overhead cost in other ongoing projects. Although turnkey margins may be 2% to 3%, it is giving benefit to our other segments.

Jonas Bhuta: Sir, what lead to this almost three times jump in the unallocated expenses, from about Rs. 54 crore last year to about Rs. 150 crore this year?

Ajay Gaur: Last year it was not Rs. 54 crore, in case you refer our balance sheet it was Rs. 93 crore. And this year it is about Rs. 155 crore because we have made a provision for dues of one of the overseas project. We were doing a project in Tanzania, we signed an agreement with the Government of Tanzania. They were supposed to make payment in six installments of 3 million each. They made payment of three installments and three installments were not released by them. So, Rs. 59 crore was outstanding in our books of accounts. Therefore, this year in 2018 we have made a provision of Rs. 59 crore in our books of accounts. If you see our other expenses you will find an increase of about Rs. 59 crore in other expenses as compared to last year. So, it is on account of Rs. 59 crore which is unallocable, it has gone up.

So we have made a provision but we are going to take up the issue with the government of Tanzania as per the agreement where we have to invoke the arbitration clause which we are going to do very soon. So we are hopeful that we will be able to realize that. But on the conservative side we have already made a provision, because since June 2013 the payment was not released by them. We have been taking up the issue with them through our high commission. But since there was no positive response from them, so now as per the agreement we can go for arbitration and we are invoking the clause of arbitration.

Rajeev Mehrotra: Actually there is no dispute on the sum payable, it is only the inability to pay.

Ajay Gaur: There is an agreement between RITES and Government of Tanzania, as per the agreement they have released certain payments. Six payments which were to be released, out of that three payments were released and three payments are yet to be released. So now we are going to take it up with them and we are going to invoke the arbitration clause on them. And this is government to government, and it was signed by government of Tanzania, so we are very hopeful we will get it. But on the conservative side, we have provided for it and that is the reason for increase in the unallocable expenses.

Jonas Bhuta: Sir, in what quarter, was this taken in the fourth quarter or this was part of your nine months results that was part of DRHP?

Ajay Gaur: In the last quarter we have made a provision for Rs. 59 crore because auditors were also asking for that. Then we have written a letter to them, we have given a final notice for arbitration. Since there was no response, we had given notice sometime in January or February last quarter to them, otherwise we will invoke the arbitration clause unless you pay. So, since there is no favorable response hence we made a provision and then we will take up with them.

Rajeev Mehrotra: Just to clarify this agreement has been signed by the Secretary Finance of that country and they only sign other guarantees also. So, it is not due from a corporate but from a sovereign government.

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

Chintan Sheth: Sir, on the turnkey side if I look at cost of turnkey versus our revenue booking, it is coming around 10% gross margin we are booking quarterly as well as on an annual basis. But on the EBIT side we are guiding around 2% to 2.5%. So, does the balance expenses, overhead expenses which we need to allocate to the turnkey side?

Ajay Gaur: Let me clarify, you must be picking figures from the P&L accounts. P&L accounts you are linking the cost of the turnkey projects, to the revenue of the turnkey projects. But the expenditure like salary, travelling etc. is going to the respective head. So it is not only the expenditure of the turnkey, it is a direct cost what we are spending for turnkey. What we do is, this is a contract awarded to RITES, we outsource it to an outside party, so they do some job. Then we also spend on our manpower. So some of the expenditure has gone to the manpower, some of the expenditure is gone to the printing and stationary, office maintenance, administrative cost, it has gone to the travel also. If you see the total expenditure and total revenue, our total revenue from turnkey is about Rs. 147 crore. But the allocable expense is about Rs. 143 crore. So it gives you a margin of about Rs. 3.73 crore. So that is what we are talking about 2.5%.

Chintan Sheth: And sir on the order book, Rs. 5,500 crore, can you split the order book between the various segments we have?

Rajeev Mehrotra: The exports would be about Rs. 1,265 crore, on a broad basis you can say 55% would be consultancy.

Chintan Sheth: And project would be?

Rajeev Mehrotra: About half, say Rs. 2,700 crore, then exports Rs. 1,265 crore. I have the order book composition with me, this is uploaded on the presentation we have put on the website under investorhead.

Chintan Sheth: If that is there in the presentation I will refer to it. Next question on the cash component side, so if you look at client's money which we report separately in our cash, does it reflect similarly in our current liabilities as well in form of advances, the numbers should be mostly equivalent?

Ajay Gaur: Yes, you are right. So, one side it is being shown as cash and bank balances of client funds, and on the other side we are showing it as a liability.

Chintan Sheth: So, same figure can be presumed as advances received from the customers?

Ajay Gaur: It may not be exactly same as some of the advances we have given to the contractor on behalf of the client. So, may not exactly but roughly if you see it will be around Rs. 2,200 crore, both side we are showing.

Moderator: Thank you. Our next question is from the line of Ranjit Shivram from ICICI Securities. Please go ahead.

Ranjit Shivram: There is some confusion on the employee expense part. So, I think that Q4 there is a reduction compared to last year Q4 if you look at reported number.

Rajeev Mehrotra: Actually on overall basis there is increase of about Rs. 40 crore.

Ranjit Shivram: So why was it decreased in Q4 it?

Ajay Gaur: I will tell you, what happens is that it was not a listed company earlier. We were compiling our results but on quarterly basis for the actuarial valuation we were not approaching them and we were taking certain assumptions and doing it. Since we are listed now, we have done it. So, there is an impact of pay revision of about Rs. 40 crore. Last year employee expense was about Rs. 416 crore now it is Rs. 460 crore. It takes into account the provision to be made on account of the actuarial valuation and the assumptions taken by them for the gratuity, for leave encashment, for retiral and for long-term benefit. So, that is the difference you might be finding in the quarter results.

Ranjit Shivram: So next year what kind of increase in employee cost we are looking at?

Ajay Gaur: Our pay revision took place in from January 2017, so it was last quarter in 2017 and this year we have made a provision for the full year. Except the portion of some of the allowances and HRA which was effective from October. So we expect that it will not go more than 3% - 3.5%, i.e. 460 will go up by 3.5%.

Ranjit Shivram: And you also signed an MoU for PBT, right?

Ajay Gaur: It is not exactly PBT, it is the operational profit, as operating margin. So they do not include other income in the MoU segment.

Ranjit Shivram: How much we have signed for FY19?

Ajay Gaur: I think we have signed for 20.6, I will have to refer it & it is20.5 of operating income. This is operational margin, it does not include other income. And this is based on the standalone results of the company; this is not on the consolidated numbers because the MoU is different for each company

Ranjit Shivram: So the MoU of 22% growth you were mentioning was from the standalone or consol?

Ajay Gaur: It was standalone 22%, but the consol will also come around same. The standalone and consol only difference is railway energy management, REMCL. There the target is about Rs. 75 crore. So rest of i.e. 1,760 is RITES operating revenue.

Ranjit Shivram: So these margins whatever you were talking about will not change much in the consol and the standalone, it will be almost similar kind of range?

Ajay Gaur: Basically, the targets have been given to RITES and we have been able to achieve better than the target given every time in the past, so our results have been excellent, we have been rated excellent bY DPE always. So we will try to achieve these targets, we are very hopeful seeing the order book position we should be able to do better or maybe we should be able to achieve the target.

Rajeev Mehrotra: Just to clarify, in the consolidated margins the main contributor in consolidation would be REMCL margin, rest is not much. If we add Railway Energy Management Company's margin to our margin the consolidated numbers would be there.

Ranjit Shivram: And lastly, what kind of order intake you are looking for next year?

Rajeev Mehrotra: It is very difficult to say, order intake is a continuous process, but last year the net addition was around Rs. 2,600 crore. I would not comment on the future line, but I think the infrastructure CAPEX is giving a lot of hope.

Ajay Gaur: Let me also add, like 2017 our order book was about Rs. 3,761 crore and 2018 we had about Rs. 4,818 crore and before that it was about Rs. 2,600 crore. So we have been adding orders every year, and again it depends on the export orders and the turnkey projects. In case we get turnkey projects or export orders like CMD has already mentioned in the introductory part that day before yesterday he has been able to secure a high value project from one of the neighboring countries for export of coaches that is about Rs. 567 crore. So we are expecting that we will continue to do that we will try to increase it further.

Moderator: Thank you very much. We have the next question from the line of Sagar Shah from KSA Securities. Please go ahead.

Sagar Shah: My first question was, actually as we are seeing almost 30% growth in the consulting revenue on the domestic front, so wanted to know as you have signed MoU with defense, if I am not wrong, with defense industry, right?

Rajeev Mehrotra: That is a classified project.

Sagar Shah: So, I wanted to know that because of project going ahead we are going to see growth in which segment actually, is it in the consultancy, is it in export, is it in turnkey project?

Rajeev Mehrotra: Let me tell you, the revenue from that project has not yet started flowing in.

Sagar Shah: Okay. But it is in which segment?

Rajeev Mehrotra: Consulting.

Ajay Gaur: Let me add, this is part of consultancy business. Overseas consultancy we show it, but so far the balance sheet is concerned it gets added in the consultancy. So it is overseas consultancy, it is part of consultancy. We did DPR for the defense project you are talking about, some portion might have come this year, but the project you are talking about is yet to take off, revenue will come in the years to come, this year it will start coming. So it is really a small component on account of DPR which has been incorporated in this year's account.

Sagar Shah: So, to continue with that question itself, we have seen 30% growth in the consulting revenue domestic, can you give a breakup, I mean which segment did we see growth, did we see in roads or did we see in metro?

Ajay Gaur: Basically it is not 30%, it is 22%, it is not 30% in the consultancy sector. So, some growth has come from the quality assurance that is one particular segment where the growth is about 44%. Last year we did about Rs. 173 crore in the quality assurance sector, this year we have reached about Rs. 249 crore. So that is one segment which has given us growth. And in the overseas consultancy also last year our turnover was about Rs. 28 crore which is now about

Rs. 64 crore. That has also given increase of about 136%. Then there has been growth in the metro section also.

Rajeev Mehrotra: The work at Ahmadabad, Nagpur and now Pune, they are progressing, so metro is also giving revenue.

Sagar Shah: My next question is regarding, I wanted to ask in the order book actually which is currently over Rs. 5500 crore , how much is it from the government basis and how much is it from the private bidding basis?

Ajay Gaur: Are you talking about orders secured by us on nomination bid basis or are you talking about government sector and private sector?

Sagar Shah: Yes.

Ajay Gaur: So, normally it is about two-third is nomination basis and rest is through competition.

Sagar Shah: So two-third is from the nomination you are saying?

Rajeev Mehrotra: Yes, broadly.

Sagar Shah: And breakup of government and private.

Ajay Gaur: Government sector will be about 67%, 33% is other than government and PSUs.

Moderator: Thank you. We have the next question from the line of Hardik Jain from White Stone Financial Advisors. Please go ahead.

Hardik Jain: Sir, in the turnkey project I think we are planning to go for doubling and electrification project. So, can you help us understand what is the kind of budgeted expenditure that Railway has kept for doubling and electrification of the line?

Rajeev Mehrotra: Well, on this particular segment I do not have number right now, but I can give you an overview that if you see last three years CAPEX of railways which mostly has gone into infrastructure creation, has seen about 31% growth. So, FY2018 they had Rs. 1.48 lakhs crore. So, this is a priority area, the infrastructure development that is doubling third line or fourth line, and then electrification, these are top two priorities.

Hardik Jain: So the major order book in turnkey that we have is related to doubling and electrification?

Rajeev Mehrotra: And workshops also, they have given us three workshops, one is Greenfield and two are upgradation of workshops.

Hardik Jain: And any development on the planned Rs. 250 crore investment that we were supposed to do in subsidiary?

Rajeev Mehrotra: We have got some details from them last week, maybe next two, three weeks we will start discussion on the business model they have adopted for analysis. We have not yet concluded any discussion on that.

Moderator: Thank you. Our next question is from the line of Viraj Mehta from Equirus PMS. Please go ahead.

Viraj Mehta: In your credit rating report it is written that we do not get any business from nomination. On the call you are saying that we do get business on nomination, so there is a conflict, even in the RHP it is written we do get business on nomination. So, what is the correct part?

Ajay Gaur: I do not think that we have mentioned anywhere that we do not secure business on nomination basis. In fact, if you refer to the risk factor there also it has been mentioned that we get number of jobs on nomination basis. So far credit rating is concerned we have not got any rating for the company as such, we got ourselves rated only for the non-fund based facilities, like the guarantees we issue through banks.

Viraj Mehta: Yes, but that credit report mentions that you do not get, so it will be a humble request if you can correct that analyst in that credit rating report.

Ajay Gaur: I do not see that, we have some credit rating report like this, I will go through the reports given by them. Is it for RITES or some other company?

Viraj Mehta: No, RITES Limited sir.

Ajay Gaur: Which company has given, we have taken it from India Rating, so are you talking about the India Rating report.

Viraj Mehta: India Rating,.

Ajay Gaur: I do not know. Okay, we will see, in case they have published it like this. If there is some misunderstanding we will get it rectified, we do get job on nomination, as we already said about 67% to 70% jobs we get through nomination.

Viraj Mehta: Sure. Sir, our contingent liabilities keep on increasing every year. Now, can you make us understand what is the nature of this exact contingent liability? And has there been any actual outflow based on these liabilities in the past?

Ajay Gaur: No, I hope you understand our business, we are into PMC business, we do project management consultancy where the projects are taken on behalf of clients and we execute them and give the contracts for and on behalf of clients. So, whatever will be the contingent liability in the books of accounts, except Rs. 33 crore, in case you are talking about the total contingent liability, rest is for and on behalf of client, it is not going to come to RITES as per the contract. So, we are contesting for and on behalf of client, so it is not our contingent liability.

Viraj Mehta: And has there been any actual outflow based on this contingent liability in the past?

Ajay Gaur: So far for client, there is no question because it is to be passed on to the client. So, far RITES is concerned there has not been any outflow based on contingent liability. And whatever contingent liability of Rs. 33 crore or so,that is what I remember, we have a counter claim of about double of that amount on the other party.

Moderator: Thank you. We have the next question from the line of Aditya Mongia from Kotak Securities. Please go ahead.

Aditya Mongia: Sir, I wanted to focus on the receivables part. Now, as you were suggesting there has been a 6% reduction and a 10 day reduction on a YoY basis, could you suggest what is the reason behind and whether there can be further improvements on discount?

Rajeev Mehrotra: We have been consistently following for recoveries, so of course that is the major driver. Possibly, the denominator has also gone up, that will also be one of the factor.

Ajay Gaur: Let me also add to this, since most of the clients, about 67% are government clients and some of the payments are also linked with the final acceptance of the report whenever we submit to them. So, it takes normally about three months' time for them to clear report. And the final report, the acceptance part which is normally the 10% of the total reporting business whatever we do, it takes longer time. So, since past few years we have been following up with the clients and this year despite increase in the total turnover of about Rs. 140 crore we have been able to reduce the sundry debtors from 142 days to 137 days. If you see the December quarter the figure was about 160 days. So, in the last quarter we have done a lot of follow-up and we have been able to bring it down to 137. And the year our exports are high then this figure is to be likely on the lower side because the export payments are linked with letter of credit and the moment we present our documents to banks we immediately get paid. So, then the turnover, like in the year to come, 2018-2019 we are expecting about Rs. 400 crore plus exports, secured against letter of credit. So, this will further bring down, we are trying to improve it, we are making consistent effort to follow-up with the client and reduce it further.

Aditya Mongia: Sir, second question was on this Rs. 567 crore export order that we have bagged for broad gauge, essentially is this the same Sri Lanka order that we have been talking about earlier or was it a separate order?

Rajeev Mehrotra: We would not like to announce the name right now because till the customer opens LC, otherwise competitors try to create inroads in that country and crate problem for them. So, let the LC be established we will share the name.

Aditya Mongia: And finally, this operating profit number of Rs. 355 crore growing 8.8% is the MoU guidance. This would be standalone EBITDA or what exactly is this number that you are referring to over here?

Aditya Mongia: Sir, there is an operating profit guidance from an MoU perspective that you are giving for FY19.

Ajay Gaur: MoU is in terms of the percentage, 20.5% of the operating turnover. So this is a standalone 20.5% for RITES.

Rajeev Mehrotra: This is the minimum benchmark set to get rated at a particular level, it does not mean that only this will be done. Like this year we have exceeded by about 1.5%. That is the minimum hurdle rate, we are encouraged to do better than this.

Ajay Gaur: And these margins in the MoU are not EBITDA margins, these are the operating margins which include finance cost as well as depreciation also.

Moderator: Thank you. Our next question is from the line of Harshit Kapadia from Elara Capital. Please go ahead.

Harshit Kapadia: A couple of questions from my side. If you can highlight within the consultancy space which are the segments within which you are looking to grow by 22%? That would be the first question.

Rajeev Mehrotra: It is difficult to say that one sector will give 22%, but top three growing sectors are railways which includes railway quality assurance, high speed, DFCs work, followed by metro and then airports. Within this, overseas consultancy is going to grow because we have Mauritius project construction started, from there the fees will start coming. And India we have Ahmedabad progressing, Nagpur, Pune, they are growing.

HarshitKapadia: And Lucknow?

Rajeev Mehrotra: We are not there, we are working for phase 2 but it is not in hand as yet.

Ajay Gaur: I will add, we are already in Ahmedabad, Pune, Nagpur and then we are doing one big project in Mauritius whose fees is Rs. 144 crore, and that is going to come with-in about 36 to 40 months. We have already done 1 dozen studies, given to state government, some of the studies have been cleared by state government and some are at the approval of the Government of India. Once it is approved and they go ahead with the project so there is every chance that we will participate in the PMC, we call it General Consultancy, and during the execution we will be doing the supervision activity. So it is quite likely that we may secure some more projects in the metro sector. So, metro is going to drive the growth. Quality assurance also we are expecting the income to grow.

HarshitKapadia: Sir, just one clarification, in the P&L in the finance cost if you look at the quarter numbers there is a blank. And when you look at segment numbers there is an interest cost which is close to around Rs. 10 crore. So, if you can just clarify?

Ajay Gaur: So far RITES is concerned, it is zero debt company and there is no finance cost in RITES as standalone. The finance cost that gets reflected is of REMCL that is a subsidiary of RITES, where for setting up wind-mill we have taken a loan from the bank. So, that finance cost of Rs. 7 crore – Rs. 8 crore is towards the payment. And then some loan was given to the company, they have also provided for interest to be paid to the shareholders. So that is why you must be seeing Rs. 10 crore.

HarshitKapadia: And last question, what is the CAPEX number that we are looking at FY19, since you are adding more offices in your gross region as well as in your New Delhi.

Ajay Gaur: So far CAPEX is concerned, presently we are committed for one of the office complex in NBCC tower which is about Rs. 150 crore. But it is construction linked payment which depends on the construction how much will be the CAPEX for 2018-2019. But you can safely presume about 2-3 years they will take. Then we want to buy some locomotive for our leasing contract, so about Rs. 70 crore is the CAPEX we have identified for buying of the locomotive for leasing.

HarshitKapadia: How many locos you are looking at for buying?

Ajay Gaur: Maybe 7 to 8 locos. But what happens in loco also we take approvals from board, but we place order once we get a confirmed order from the client for taking locos on lease. So, presently we are expecting that 6- 7 loco orders will come to us and we have planned for it. So that is the planning, the moment we get more orders we will plan for more CAPEX in that sector.

HarshitKapadia: And this loco will be for domestic or for international market?

Ajay Gaur: So far it is for domestic, in case we are able to secure some project overseas also we will buy for overseas also, like we were doing one leasing contract overseas since last 10 years. Last August, we completed that project, and in case we secure some overseas leasing contract definitely, we will buy locos for leasing contract also outside India.

Moderator: Thank you. Our next question is from the line of Ashish Shah from IDFC Securities. Please go ahead.

Ashish Shah: Sir, on the turnkey business if you can just briefly run through the projects which we have from the south central railways, western railways and northern railways. If you can just briefly touch upon the status of each of them, whether we have started work on each of them or we are just waiting to start work?

Rajeev Mehrotra: There is one project Guti Dharmavaram. It is about a 100 kilometer line, work is going on. Then electrification we have two projects.

Ashish Shah: That is Vijaypur, Makshi and...

Rajeev Mehrotra: Vijaypur and Makshi is electrification, Jaipur-Swaimadhopur again is electrification.

Ashish Shah: Correct. So what is the status of both of them?

Rajeev Mehrotra: See, for all these four projects there are two doubling projects and two electrification projects. Projects have been awarded for all, billing has also started for all.

Ajay Gaur: And you can see last year we got turnover of Rs. 31 crore from turnkey, this year it is Rs. 147 crore. So, income has already been recognized from the turnkey projects.

Rajeev Mehrotra: The other one is Pendra Road to Anuppur, this is southeast central railway, again around 90 kilometers.

Ashish Shah: So even there the work has started?

Rajeev Mehrotra: All the works are awarded, and the billing is going on, and that is how the Rs. 140 crore – Rs. 150 crore revenue was booked, and this would be higher this year. Since all the projects are on, we believe it would be higher this year, maybe around Rs. 300 crore could be minimum.

Ashish Shah: Also, if you can just in the consultancy business if you can broadly tell us what will be the revenue from each of the main sub segments of consultancy? For example, let us say from metros, airports, DMC, just four, five critical parts, quality assurance you have already highlighted, but the other parts.

Rajeev Mehrotra: While my colleagues are getting the detailed numbers, in terms of priority this would be quality assurance. You want to know 2017-2018?

Ashish Shah: Yes, 2017-2018, what is the reported breakup within the consultancy, the key sub segments within that.

Rajeev Mehrotra: So, I am going to stick about seven, eight main components. Rail infrastructure Rs. 138 crore, regional projects in Nagpur, Sikandarabad, etc, again they do railway work to Rs. 289 crore. So, this the work in direct from railway sector. Then we have building and airport division which did Rs. 114 crore, highways and ports Rs. 76 crore, urban infrastructure which has mainly metros Rs. 135 crore. Exports were Rs. 242 crore, quality assurance Rs. 247 crore. Then we have one industrial engineering, consulting and rolling stock design, procurement, etc, which did Rs. 40 crore. And there is a railway equipment service, it has got leasing and O&M both, so maybe half, about Rs. 70 crore would be consulting.

Ajay Gaur: Rs. 152 crore is leasing as well as services, out of that about Rs. 82 crore is towards leasing, rest about Rs. 70 crore is towards the services. Broadly Rs. 135 crore is from urban infra, Rs. 75 crore is from highways and then building and airports is about Rs. 114 crore, and then railway job, if you exclude the turnkey part will be somewhere around Rs. 300 crore. So that is the major breakup of all the segments.

Moderator: Thank you. Our next question is from the line of Abhilasha Satale from Dalal & Broacha Securities. Please go ahead.

Abhilasha Satale: Sir, most of my questions were answered, just few things. You mentioned order book of around Rs. 5,400 crore and in that you gave breakup of consultancy and turnkey segment. So, what is the average execution period for each of these segments, and even for exports?

Rajeev Mehrotra: For exports it takes minimum 18 to 30 months, because a lot of issues are there, 24 months also in some cases because once the standard designs, etc, are completed. So it is safe to believe 18 to 24 months would be for exports. In consulting, those studies take about six months to nine months, one year. But then we go for project management consultancy where project supervision is involved, this will be then linked to project life which normally would be one to four years, like metro, metro would go for say four years, you earn project management fees as the project gets executed.

Ajay Gaur: Let me also add, in case of the export, as already mentioned it takes about 18 to 24 months. But on an average you can take it as 1.5 year to 2 years we are able to execute the order book and do the turnover. Except in case of the metro projects where we do the GC where the construction takes about three years, four years' time, so there the period could be slightly longer. But on the other side, like you take the quality assurance, the moment we get order and we depute our inspector to do the inspection of the material, so it is immediately over. So, roughly on an average you can take about 1.5 years to 2 years as the period of conversion of order book into the revenue.

Abhilasha Satale: And amongst these consultancies how much is project management order, like how much portion of that is project management?

Rajeev Mehrotra: That would be about 80% as project management consultancy.

Abhilasha Satale: Sir, one more thing, you talked about receivables going down and further you are expecting this to come down. So, do you have any target to reach to specific receivable days over a period of say 1 – 1.5 years?

Rajeev Mehrotra: I will answer it differently. I will say, if you are able to maintain within 100 days to 120 days then you are actually doing much better. Because such projects they go through various levels of scrutiny of the project proposals at the client end. And once that final approval comes then the procedure for payment takes about one to two months. So, if we can target about 110 days to 120 days outstanding that could be possibly an ideal situation on an overall basis.

Ajay Gaur: But in the MoU signed this year the target for excellent rating is 132 days, so we will try to get below that.

AbhilashaSatale: So, around 120 days – 130 days is possible in FY19?

Ajay Gaur: It is possible, again, it depends on export as I earlier also said because the payments are secured against letter of credit so immediately we get paid and in terms of the percentage it goes down. So, we will try to do it elsewhere also other than export, we try our level best with the clients. But being government clients, it takes some time.

Rajeev Mehrotra: FY19 has about Rs. 400 crore exports target. So what Director Finance says would get cleared fast through LC.

Moderator: Thank you. Our next question is from the line of Rita Tahilramani from SBICAP Securities. Please go ahead.

Rita Tahilramani: I had two minor questions. How many number of leased locos in FY18 stands at 44?

Rajeev Mehrotra: 44.

Rita Tahilramani: And if you could help me with the pay commission impact, as you mentioned it was Rs. 40 crore the Pay Commission impact. So if I exclude this Rs. 40 crore the employee cost is more or less flat compared to last year.

Ajay Gaur: No, actually what has happened is last year 2017 although we made a provision only for one quarter which is about Rs. 17 crore per quarter on account of the pay revision. But last year there was an enhancement in the gratuity ceiling from 10 lakhs to 20 lakhs, so last year we made a provision of Rs. 41 crore in our balance sheet. This year that gratuity provision is not there, so it has been offset with increase in pay revision for the full year. Otherwise it was Rs. 17 crore per quarter, about Rs. 68 crore it should have gone up, but some of the impact has already been taken away because of the extra provision made last year on account of gratuity enhancement.

Rita Tahilramani: And one more question, can you give us a breakup of other income?

Ajay Gaur: Other income is about Rs. 163 crore, out of that Rs. 102 crore is on account of interest what we have deposited in banks and the tax free bonds. And then about Rs. 25 crore has been on account of the provisions written back, like whenever we export locomotives or other rolling stock we make provision for warranty. So, about Rs. 25 crore has been reversed on account of extra provisionbecause the warranty period was over. And there is a gain of about Rs. 7 crore on account of exchange gain and then there is about Rs. 8 crore to Rs. 10 crore on account of export incentives, so that is the major breakup.

Rita Tahilramani: And how much do you expect, I know it is difficult to estimate from next year but how much do you expect next year other income could stand at considering the current level?

Ajay Gaur: Other income will continue to remain somewhere around Rs. 140 crore to Rs. 150 crore.

Moderator: Thank you. Our next question is from the line of Viraj Mehta from Equirus PMS. Please go ahead.

Viraj Mehta: Just wanted to understand how much capital is employed in the leasing business?

Ajay Gaur: Leasing business, WDV as on date it is about Rs. 170 crore.

Viraj Mehta: And also recently there was an article in the paper that defense ministry has selected SBICAP and RITES for selection of partner in strategic partnership. So, can you put some light on that and how much revenue we can hope to get from that?

Rajeev Mehrotra: Yes, we are under discussion with them, we have not concluded any commercials as yet. So I would not be able to comment. But yes these are going to be significant PPP projects.

Viraj Mehta: So, till now have you done any consultancy work for Defense Ministry?

Rajeev Mehrotra: Yes, it varies from types of projects, sometimes just residential housing for army man, or this could be a airport or some installations at the airport, or this could be some secret base for navy or air force. All these works we are doing. Now this procurement is basically flowing with the coordination we have had with them in the past, so they know the transaction advisory service which RITES can provide.

Moderator: Thank you. Our next question is from the line of Viraj Kachariya from Securities Investment Management. Please go ahead.

VirajKachariya: Sir, just had a couple of questions. First is, if I look at over a medium-term basis over next three years, four years, if you look at our current order book around 30% is turnkey wherein terms of profitability it hardly earns 2% PBT margins. We would have a much more better yield on cash which we are earning. So, just want to understand in terms of medium-term how are we looking at the overall order book? And second, when you say turnkey there are other PSU companies, you have IRCON who also cater to the EPC segment. So, what is the scope or the areas where we can compete or the sectors where we can compete?

Rajeev Mehrotra: It is not correct to say that only turnkey contracts will go in the order book. Yes, in the figure of March they had about Rs. 1,400 crore, but today we announced a major export order, Rs. 567 crore, so put together it takes exports to about Rs. 1,300 crore. And the margins are high in consulting business, margins are high in exports, margins are high in leasing business. And the turnkey is definitely helping us to use the existing manpower or infrastructure. So, doing turnkey even at a lesser margin is increasing overall margin.

Ajay Gaur: Let me also add to that, the turnkey business whatever we are doing is only of the railways.. You see that there is a lot of pressure on Ministry of Railway also to improve infrastructure, so earlier they were handling all construction work themselves. But they could not handle the total work, the kind of expansion that is taking place so they have started giving works to other PSUs also coming under Ministry of Railways. So, we were also offered some of these jobs, it was up to us to pick up the jobs, we have picked up the jobs on our will, wherever we had our offices we have picked up these jobs so that we can utilize the services of that particular office in that particular segment. We have picked up turnkey to build up our profile. Also that in future if we would like to do the turnkey jobs on lump sum basis or maybe cost-plus basis. These are cost plus contracts, so there is no risk. With back to back agreement we give work to the contractors. So we are pretty safe in that. In case we are able to build up our profile in future it may happen that we may go for turnkey assignments also. But so far it is restricted to the railway assignments only.

Rajeev Mehrotra: You asked about medium-term outlook, I would indicate that it would be safe to believe that about half of the business would continue to be consulting than rest of the businesses put together, exports, leasing and turnkey would make up for another 50%, that could be down the horizon.

VirajKachariya: **IRCON** they also do a lot of EPC works for railways and PSUs which are associated with railways.

Rajeev Mehrotra: This is not my only area, we are multi spectrum, multi types of work we are doing. IRCON is a Construction Company, mainly they were made for overseas projects, and they are also being given domestic projects because there is so much to do.

Ajay Gaur: One thing let me tell you, the segments are pretty well defined by Ministry of Railways, there are many PSUs under Ministry of Railways like IRCON was created only for construction, RITES was created only for consultancy, Container Cooperation is only for container business. So like that we were doing only consultancy. If ministry offered work to all PSUs on the same terms and conditions, so some of these projects were picked up by IRCON and we also picked up projects which we thought that those are doable and it is obviously good for us because we had our presence in that particular state. And in case we get some more opportunities in the same sector from Ministry of Railways we will definitely take up those jobs also.

VirajKachariya: Second thing is, you talked about us having relatively under utilization in terms of employee strength and hence we are looking for bidding for more of these turnkey projects. So, if we really look on a consultancy business perspective, given the current strength we have what is the peak business we can do from this current scale?

Rajeev Mehrotra: I did not say we are doing because it is underutilized, we are trying to over utilize. If you see the employee turnover per person we are consistently increasing every year. So, unless people are more productive the profitability would not come in.

Ajay Gaur: You see, our turnover per employee is Rs. 49 lakhs. So, in turnkey also we do not need much manpower. What happens is that the moment we are awarded job we outsource it to contractors through open bidding and the job is to be done by them. We only require manpower to supervise the work for designing and supervision of these jobs. So, there is not much requirement of the manpower to do turnkey jobs. So, we are able to increase the top-line without adding to the manpower.

Moderator: Thank you. Our next question is from the line of Jonas Bhuta from Phillip Capital. Please go ahead.

Jonas Bhuta: Just wanted to reconfirm the math on the way the MoU is signed on an operating profit level. It is basically PBT minus other income?

Ajay Gaur: Yes, PBT minus other income, right.

Jonas Bhuta: And you do that for REMCL and that is how you give the MoU guidance. So you sign the MoU on a consolidated basis or on a standalone basis?

Ajay Gaur: It is on standalone basis, so Rites standalone is 20.5 operating margin.

Jonas Bhuta: And you do not give similar thing for EBITDA?

Ajay Gaur: It is not the parameter there in the MoU, they have certain percentage for the financial parameter which is about 50%. So some part they have kept for operating turnover, some they have kept it for operating margins, and then some for return on the capital employed.

Moderator: Thank you. Ladies & gentlemen, that was the last question,. I now hand the conference over to the management for their closing comments. Thank you and over to you.

Rajeev Mehrotra: Thanks to all of you for a very active participation. I would like to conclude by saying that we have maintained growth and we have also maintained our profitability at EBITDA level as well as PAT level. And the strong order book which we are building up fast should see a reasonable growth, possibly better than the MoU level. And let us see, as we go forward there is a reason to believe that orders will keep flowing, because of investments in railway sector, metros, airports and of course the defense work which we are doing.

Ajay Gaur: Thank you very much for all your support in past. I hope it will continue in future also. Thank you very much.

Moderator: Thank you very much. Thank you all for being a part of this conference call. If you need any further information or clarification, please mail at snighter@conceptpr.com or pratik@conceptpr.com. Thank you for joining us and you may now disconnect your lines.

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