



राइट्स लिमिटेड
(भारत सरकार का प्रतिष्ठान)
RITES LIMITED
(Schedule 'A' Enterprise of Govt. of India)

No. RITES/SECY/NSE

Date: 21st June, 2019

To: Listing Department, National Stock Exchange of India Limited. 'Exchange Plaza', C-1, Block G, Bandra - Kurla Complex, Bandra (E), Mumbai - 400 051	To: 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 Investors'/analysts' meet

Dear Sir/ Madam,

Please find enclosed herewith Transcript of the Investors'/analysts' meet held on Thursday, 30th May, 2019 to discuss the Audited financial results of the Company for the quarter and year ended on 31st March, 2019.

You are requested to take this information on record.

Thanking You,

Yours faithfully,
For RITES Limited

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



कॉर्पोरेट कार्यालय: राइट्स भवन नं०, १, सेक्टर-२९, गुडगाँव-१२२ ००१ (भारत) Corporate Office: RITES Bhawan, No. 1, Sector-29, Gurgaon-122 001 (INDIA)

पंजीकृत कार्यालय: स्कोप मीनार, लक्ष्मी नगर, दिल्ली-११० ०९२. (भारत) Registered Office: SCOPE Minar, Laxmi Nagar, Delhi-110 092, (INDIA)

दूरभाष: (Tel.): (0124) 2571666, फ़ैक्स (Fax): (0124) 2571660, ई-मेल (E-mail) info@rites.com वेबसाइट (Website): www.rites.com

CIN: L74899DL1974GOI007227

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“RITES Limited’s Analyst Meet on Company’s Financial Result and Annual Result”

May 30, 2019

**MANAGEMENT: MR. RAJEEV MEHROTRA – CHAIRMAN & MANAGING
DIRECTOR, RITES
MR. AJAY GAUR – DIRECTOR (FINANCE), RITES
LIMITED
MR. V G SURESH – DIRECTOR (PROJECTS), RITES
LIMITED
MR. PRAMOD NARANG -- GENERAL MANAGER
(FINANCE) RITES LIMITED**

Moderator: Good evening, everyone. Today, on behalf of RITES Limited, I welcome you all to the Analyst Meet to discuss Company's Financial Result for FY18-19. Now, I would like to call Mr. Rajeev Mehrotra – CMD, RITES to take it further.

Rajeev Mehrotra: Very good afternoon to all of you, ladies and gentlemen and warm welcome to our annual meet with investors and analysts. With me, I have Director Finance – Mr. Ajay Gaur; Director Projects – Mr. V G Suresh; General Manager/ Finance – Mr. P. Narang. Besides these two Directors, there is one more Full Time Director (Technical), six independent directors, and two government nominee directors. Put together 12 people on the board.

A brief presentation and then we will be open to questions-and-answers. Few slides on introduction of RITES has been included as, to some of you, we are meeting for the first time. We started operations in 1974. Initially the name was Rail India Technical Economic Service and 22 years ago, it was changed to RITES Ltd. We started exports in 1994, because we were already working in many countries. We found there is a scope to export rolling stock from India and since then we have been into this business stream also. When we became a Schedule-A company, Miniratna company, the board of directors of the company got empowered to make investments upto a certain limit out of its network. In FY 2009-10, we made a JV with SAIL to manufacture wagons at a place near Asansol, Kulti. In FY 2012-13, we made a subsidiary company; 51% RITES and 49% Indian Railways, to take up railways energy management and renewable energy business. We also started taking up turnkey projects, mainly railway projects doing electrification, third line, fourth line and workshops which has helped us in getting good growth. We became a listed company in 2018-19 and got listed on 2nd July. So, this is our first annual full year performance review after listing.

We are a technical consulting company with about 3,000 employees, of which about 2,000 are regular and of them 1,600 are engineers in different fields. We have been profitable since beginning. Since beginning, this company has been paying dividend. We sign annual MoUs with the government every year and for last 10-12 years, we have achieved excellent rating in the performance under these agreements.

We have been associated with several mega projects in the country and infact, we get associated in the pre-feasibility or the conceptualization stage itself.

We have worked in India and abroad. Almost 55-countries we have worked so far and presently we are working in about eight countries. Our key working areas are Railways, Urban Transport, Roads and Highways, Ports, Airports, Inland Waterways, Ropeways and then we have added Railway energy management few years back.

The organization is set up into seven key divisions. I will briefly talk about them and then we will come to the financial part.

We have Railways Infrastructure division which does all the rail connectivity, feasibility study, design-related works, not only for Railways but also for several major clients in the country

who have rail connectivity projects like NTPC, Coal India, several other PSUs, private power producers, State Governments etc..

Quality Assurance: We take up third-party quality assurance for Indian Railways and other parties. About one-third of the procurement by Indian Railways goes through our quality supervision.

We have Urban Infrastructure division which largely handles Metro projects, Urban Mobility and suburban services like recently we did a project report for Bangalore suburb rails.

Highways and Ports. EXPOTECH, they are handling all the rolling stock exports and its spare parts exports.

Building and Airports. We have worked on several airport projects in India and abroad. We are also into institutional buildings, large universities including IITs, IIMs, Hostels, etc.,

Technical Services: They do design work and operation & maintenance of rolling stock and siding and leasing of locomotives etc.,

So these seven divisions are giving us growth and profitability continuously.

Going forward, what we believe is that we will leverage on our experience and continue to build our core competencies. Predominantly, we shall remain a consulting company because that is where lot of business gets generated from.

Expand our International Operations: We are right now working in some countries but the focus now is to increase our international footprints.

Strengthen our EPC Turnkey Business: We had a few orders in the beginning. We concentrated on the execution and the results are before you, that it has given us good revenue during the year.

Expand our Operations in Power Procurement and Renewable Energy: This Railways Energy Management Company is handling entire railway power procurement under open access route, doing complete advisory on technical, legal, commercial issues in power procurement. Right now, about 60% of Railways power requirement is through open access. You know that the government has already approved full electrification of Railways by 2022. As the electrification increases, the business of this company will increase. Not only the power procurement, we are also going for the power purchase from exchanges. We have so far done medium-term agreements; we plans to do long-term agreements and we also want to take up the short-term power purchase requirements for Railways. This company is also handling the renewable energy portfolio for railways, as railways is now defined as a (DDL) Deemed Distribution Licensee and they are also required to comply with the renewable purchase obligations. They are preparing for that and we have that portfolio with us.

This is all about, what we are doing and how we are organized.

Now an overview of the financial year FY 18-19: I am happy to share that this was the best year we have had so far.

- We achieved highest ever revenue and profits.
- We got listed in July 2018 with 67 times over-subscription.
- We have achieved MoU targets with GoI for FY18-19, so the company expected to get the excellent rating this year as well.
- Started export of state-of-the-art DMU sets and locomotives to Sri Lanka. In December only we exported the first set of DMUs and Loco and others are in the pipeline. Four DMU sets have actually already gone, two more will go.
- The country got its longest rail-road bridge near Dibrugarh over Brahmaputra river. It's a two story (one rail and one road) bridge of about 5 Kms. I am happy to share that we were the technical consultants for this since beginning.
- We have a stream of locomotive leasing. When we were listed, we had about 46 locomotives. We have added more. Today, we have 56 locomotives in leasing business as well.
- We delivered two integrated check posts at Birgunj in Nepal and Moreh in Manipur. These are airport like facilities for surface transfer of passengers and goods. We are the sole advisor to the Ministry of Home Affairs for these projects so far.
- We were working with Ahmedabad Metro as part of the General Consulting (GC) consortium. 6.5-Kms of track is already completed and operationalized in last quarter.
- We got India Pride Award for Excellence in Performance from Dainik Bhaskar Group
- EPCC Gold Trophy for Exports from EEPCC.

Now, coming to Financials: We achieved a consolidated turnover of Rs.2,240 crore, which is 35.7% higher than the previous year. On a standalone basis also, almost a similar growth of 36.4% has been achieved by the company. Standalone turnover was recorded at Rs. 2,164 crore. As I said, we have four business segments. All the segments have grown in FY19 except some dip in exports which we will explain why that is so. We not only maintained our growth but also the margins, rather we marginally improved over it. So on consolidated basis we recorded EBITDA of Rs.776 crore, which is 37% higher than previous year. PBT of Rs.730 crore which is 40% higher than the previous year and PAT was Rs.490 crore which is 37% higher than the previous year. In terms of margins you will see that in FY'19, we have maintained EBITDA level margin of 34.6%. People who have been interacting with us since IPO, had issues about maintain-ability of these margins when they were around 32-33, so we have not only maintained, we have improved upon them in FY'19.

Now, Standalone Margins: We recorded EBITDA of Rs.712 crore, which in terms of percentage is 32.8% of the revenue. This is 37.5% higher than the previous year. At PBT level, this is 39.6% higher and at PAT level this is 34% higher than the previous year. This has been contributed by focus on high margin consultancy. We have a couple of foreign projects which

are giving us good margins. Economies of Scale in turnkey projects and then better margins, we achieved in leasing and exports business.

In terms of segmental growth, we have four segments mainly. If you look at the first segment, Consultancy, this has grown by 13.3% from Rs.963 crore to Rs.1,092 crore Leasing has grown by 12.3%; leasing grows in line with the requirement of ports, power projects, coal companies, etc., So once the investments pick up, this can further scale up.

Exports against Rs.232 crore last year, we could ship only Rs.207 crore. Due to some logistic issue, shipment could not be done in March which was done in first week of April. Otherwise, these numbers also would have been higher.

Turnkey has increased by 287% from Rs.147 crore to Rs.567 crore. This also indicates that the projects we took, we executed as per the agreed timelines with the owner. In all, we have recorded 36.4% growth in the total revenue. Other income also has seen an increase of 28%.

The segmental profits before allocation of un-allocable expenses have been like this: FY'18 consultancy had 40.5% margin and in FY19 it has improved to 43.9%. In exports we had 23.4% which has increased to 30.2%, similarly in leasing we had 39.8% margin which has improved to 42.6%.

Turnkey Projects: We had explained earlier that the turnkey margins would typically be between 2-2.5% because we get fees of around 8-8.5%. Due to economies of scale, we have been able to increase this to 3.3% and this has also added to the profitability. We did not hire any manpower for the turnkey projects, rather there is a reduction of 3% in the regular manpower. So we have controlled the manpower expenditure and expanded business by almost one-third before the profitability impact has been there.

Then coming to last quarter at a glance: We had a fantastic Q4, last year. The EBITDA has improved by 66.3%; PBT has improved by 68.9% and then PAT has gone up from Rs. 77 crore to Rs. 132 crore, there are a few items we will explain as we go through questions-and-answers. There was increase in interest income by Rs. 20 crore, exchange gain of Rs.17 crore and some export incentives. So other income also looks much higher because of that as well. There was a provision of about Rs.58 crore last year which is not there this year, which makes the Q4FY19 profit improvement very significant.

A significant effort was made to reduce the trade receivables cycle. I am happy to share that we have been able to reduce it in last 2-3 years from 161 days to 97 days. This helps us reduce the working capital requirement and gives us funds to invest as per our investments policy which in-turn gives us additional interest.

Value generation for investors: our networth has gone up to Rs.2,384 crore; EPS on a standalone basis has increased by 34% from Rs.16.59 per share to Rs.22.23 and on consolidated basis this is Rs.23.5 per share.

Last but not the least, Dividend: Based on the standalone PAT, the dividend payout comes to 57%. I would like to draw your attention to FY'19 numbers. First, Rs.40 crore (Rs. 2 per share) was of last year, paid in the current year, then Rs.95 crore first interim i.e. Rs.4.75 per share, then Rs.4 per share second interim, and now the board has proposed another Rs.4 per share as the final dividend. So in this year, shareholders will be getting Rs.12.75 dividend per share which is about 127% dividend.

We managed productivity well this year, from turnover of Rs. 49 lakhs per employee in FY18, we could get turnover of Rs. 65 lakhs per employee in FY19. Instead of increasing, we actually fine-tuned by not filling some retiral vacancies. So this enhanced employees' productivity has given us additional profitability.

Order Book: We had started with a order book of Rs.4,800 crore and we ended the year with an order book of Rs.6,097 crore and whatever was converted into revenue was also very high. So there was a substantial increase in the order book which now comprises of Consultancy of Rs.2,300 crore, Exports of Rs.1,086 crore, Leasing of Rs.152 crore and Turnkey of Rs.2,542 crore. Some of the projects secured in Q4FY19 are; station development, third-party quality assurance for 30-new AIIMS, PMC for certain railways network for Jawaharpur Vidyut Utpadan Nigam; DPR for Rail Infra for Tata Steel, O&M of nine locos for SAIL, Jodhpur Workshop Modernization, then one shifting of workshop and new workshop at Sabarmati for High Speed Rail Corporation; Wet leasing for two locomotives for CONCOR. I think that is all about the performance.

Outlook: We sign one agreement (MoU) with the Government every year to set targets for the company and for the management, we call it KPAs. For FY19-20, we have signed 17% growth over actual revenue of FY'19. So Rs.2,300 crore is operating revenue. To that we add other income which could be in the range of Rs.150-200 crore. Operating margin is Rs.534 crore, which is higher by 11%. So that is the minimum we should be striving for and more will depend upon, how many new orders we get, how do we execute the order book in hand, etc.,

With this, thank you very much for your kind attention and we are open to questions-and-answers.

Participant:

Thanks, Rajiv for that very informative presentation. At the outset, let me congratulate you for numbers which has beaten what the street expected. So two very basic questions: One, some of your sister concerns have been talking to us about this minimum fee that is being paid by the ministry of 8.5% which could be relooked at. Of course, it should be applying to you because your EBITDA is 4x that number. So now that we have a government in place, what does this 8.5% actually mean for the work that happens?

Rajeev Mehrotra:

This was based on a decision by the government that any such project given by them would be uniformly extending 8.5% execution fees to the company. Some companies who are doing only these projects, for them it may be a concern. On the other hand, we are a several sector company doing variety of projects, we are doing railways projects, we are doing airports and we are into metros significantly. I don't think anybody can guarantee same pricing for ever for

any product. But if there is a consideration, I am not aware of any such decision. Should there be any such review, we will see in terms of what is best suited for this company in terms of maintaining our growth and profitability and I am sure nobody will do an unreasonable deal.

Ajay Gaur:

I will also add something to that. How this 8.5% happened? Basically, Railways was doing all projects themselves earlier, and then they decided to give it to PSUs under the Ministry of Railways. It is understood that Railways was spending 8.5% on administrative cost. Railways decided to give it to PSUs in case PSUs are willing to take up the projects at 8.5%. With 8.5% fee where margins are around 3%, which is low, it is not expected that it will be further reduced.

Participant:

Second question sir is consultancy. Everything originates from consultancy. So how much are you able to upscale consultancy, into may be execution, into some sort of order being realized from that. From your past experience and going forward how much more do you expect this can get upscaled?

Rajeev Mehrotra:

For consulting business, we record only the fee as our income and not the value of projects executed. So one has to compare this differently from other companies. In a consulting company, if you are able to achieve a double-digit growth, you are actually doing a good job. So 10%-15% is the maximum range of the consulting company can grow, because there is competition, and then people starts getting foreign consultants, if you are too expensive. So keeping view of this, if we are able to get 10% growth in consulting segment, I say, it is reasonable. But put together is a package we may grow faster because we have other businesses which are growing faster.

Consulting growth, I will say now we can achieve more than 10% as I see several infra projects coming out after the budget. We have been involved at initial stage in several mega projects which could not be announced before the election process started. So I am very optimistic that these projects will definitely come out. To name one is Bangalore Suburb rail connectivity project where we did a quick study. This is at very advanced level of decision-making but it takes time to implement that. Such projects are there, whether it is DFCs, whether high speed corridors or semi high-speed corridors or doubling or third line or fourth line etc. A big bouquet of projects which is waiting investment decisions. So, I am optimistic that the consulting per se would also see growth and a reasonable expectation would be around 12-15%.

Participant:

You were in the news recently for some sort of fund raising where the government is looking to divest some portion and you are looking to raise some fresh capital. Could you throw some light on that?

Rajeev Mehrotra:

We are not raising any fresh capital. Right now we are a debt-free company but we are a cash surplus company. People know that, we still have about Rs.1,200-1,300 crore in our books, so we are not raising any fresh capital. 12.6% was earlier offloaded through IPO, now government has decide to offload 15%, put together 27.6% of the company's equity would be in the market which is not a surprise because you are required to do 25% float in any case.

They are offloading just 2-3 percentage points more, but I believe after that, although I am not the decision maker on this issue, there will be a pause after that.

Participant: Sir, firstly, in export order, after the Q3 results, we have Rs.1,200 crore order book and you mentioned Rs.600 crore of Sri Lanka would be executed in Q4 and something in Q1 FY'20 which got little bit delayed. So if you can explain how it will come back going forward. I mean, remaining Rs.500 crore from Sri Lanka will come in Q1, Q2?

Rajeev Mehrotra: Yes, this will be executed before end of Q2. Already two shipments have happened in April and May.

Participant: Remaining Rs.600 crore you mentioned that second half...?

Rajeev Mehrotra: Yes, by second quarter this order of Rs.600 crore would be executed. We have another order of Rs.600 crore from them, on which design issues are being finalized. We will try to start shipment this year itself, if designs issues are finalized. If not last quarter of FY20, definitely the Q1 of FY21 would see shipments of those 160 air conditioned, non-air-conditioned coaches put together.

Participant: Secondly sir, in our redevelopment subsidiary, how much we have, till now invested and how much stake we have?

Rajeev Mehrotra: Station Redevelopment, we had expressed our interest to do it. We are yet to conclude the modalities actually. We have got some work from them, about Rs. 80 crore work, because we saw engineering solutions required there to be of our business area, so we entered there. We already have got business, but the investments are yet to be concluded and I am sure now soon this will be. We are just talking Rs.50 crore now and not Rs.250 crore.

Participant: Rs.50 crore would be how much stake?

Ajay Gaur: It will be about 20% of their equity. Initially, at the time of DRHP it was Rs.250 crore. We asked for information regarding business plans and haven't put in any money till now. The requirement is reduced to Rs.47 crore as against Rs.250 crore. So RITES will be investing up to Rs.50 crore as of now, if we go ahead with the proposal.

As regards to the export, around Rs.450-470 crore will be the likely turnover, because other than Sri Lanka, there is a small order from Myanmar also which we will be exporting. Against exports of Rs.206 crore of this year (FY19), in the next year we see it will be around Rs.450 crore plus. Exports of coaches should start sometime next year, FY20-21.

Participant: Lastly, there was some impression earlier that we might look to enter into the hybrid annuity model road project which one of our peers is doing. So are we planning to do or we will not?

- Rajeev Mehrotra:** We have funds; we can pick, if we have to pick up one or two medium size projects. We do not have any project under consideration right now but this possibility cannot be ruled out. That is also not a priority area.
- Participant:** Sir, on the turnkey projects, what is the relation between the consulting assignment and the turnkey projects, what is the cause and what is the effect? Secondly, the certain hike in revenue there. Can we see this as a tipping point that we have reached that or will go to the next level or this was one-off and what are the margins like?
- Rajeev Mehrotra:** When we quote this 8.5% fee, we are supposed to do the key components of design, tendering and project supervision and build to design. Now, this complete chain pays us 8.5%. So I think it does not compete with consultancy rather this creates a component of consultancy also, but then that comes as a project fee on turnkey basis. To your second question, we want to keep a reasonable portion of this also in the portfolio. So from here this might increase.
- Ajay Gaur:** Let me also add to this. You asked about the relationship between consultancy and turnkey. Normally we do number of projects for and on behalf of clients, there we get a PMC fees and we work as an agent i.e. representative of the client, the work remains same. We engage contractors on behalf of the clients. We get the work executed but get paid only fee and fee portion only goes as revenue. But in case of the turnkey projects, RITES is termed as a principle contractor, the total project value goes to turnover. So, the basic difference is that in turnkey, it's the total value of the work done goes to the turnover and in case of the consultancy, it is only percentage of fee goes to the turnover. So far going forward is concerned the order book for turnkey projects is Rs 2500 crore plus.
- Participant:** This is the contractor replacement that is coming to you?
- Ajay Gaur:** So far all turnkey projects are being executed on behalf of Ministry of Railways, there we are termed as prime contractor. We outsource it on back-to-back terms and conditions and terms sometimes are more stringent what we outsource to the contractor(s). So there is no additional risk.
- Participant:** As a consultant, you will always say that my turnkey business is the best and best terms?
- Ajay Gaur:** In turnkey business margins are different. All these turnkey projects we are doing are on behalf of Ministry of Railways where we are paid on cost plus basis. Whatever is the cost, we get 8.5% on that and then we spend money for our administrative, manpower and traveling cost, margins are around 3% in that. But in case of the consultancy margins are around 35-40%. Consultancy will continue to remain the predominant area for doing our business. But we are taking up the turnkey projects also to improve our profile. In future we want to participate in the turnkey projects and these projects will qualify us to participate. These are given by the Ministry of Railways, our parent organization, the terms and conditions are same for all the PSUs and therefore we have taken up these projects.

Rajeev Mehrotra: Can I answer last point you raised? What is the risk to the company? The owner is giving you funds to execute the project, so there is no working capital blocked. Same number of employees, rather 3% reduction in the regular number of employees in the company, has added to this turnover. So what is the harm in taking an additional business if it gives you more profit? Without working capital, without losing productivity, rather increasing productivity. Therefore I think this has to be seen with positivity rather than replacement of the business because we will predominantly be a consulting company.

Jonas: Just wanted clarity on the FY'20 MoU guidance of Rs.2,300 crore. If you can give us a breakup of various segments like you said you expect exports to do about Rs.450 crore. What would your other major segments do because your FY'19 closing order book for consultancy is down 10%, so should we sort of build in a decline in consultancy revenues while turnkey revenues go up and that has a sort of impact on the margins as well, so how should one break up the Rs.2,300 crore?

Rajeev Mehrotra: The Rs.2,300 crore is not further segmented in the signing. It is left to the company. We have internal target. But let me assure you there is no reason to believe that consultancy will fall. Rs.2,300 crore is a benchmark and not the benchmark, we can always cross this. This is something which you must do but not necessarily stop there. We had 22% this year, we did 37% output. So again, if it is 17%, one has to be optimistic and then you will see growth in exports also, you will see growth in consulting.

Ajay Gaur: Mr. Jonas, since you are asking for the breakup of Rs.2,300 crore, the break up is as follows; consultancy is likely to be Rs.1185 crore, exports will be around Rs.450 crore and leasing should be somewhere around Rs.110 - 115 crore and Rs.560-570 crore should be turnkey. We are expecting a growth of about 9-10% in consultancy, exports will grow maybe more than double of this year and turnkey should remain same.

Jonas: So the question was sir, when you have a decline in your opening order backlog for consultancy of about 10%, so if you want to grow 10% in consultancy effectively then your order inflows in the first half need to grow by 20% if I assume that they are short cycle in nature. So what are prospects then you are looking at if you are calling for such a large delta?

Ajay Gaur: In the consultancy order book of about Rs.2,300 crore, we do not include inspection fee for the entire year. Inspection order are executed immediately maybe in a month or two months time. The turnover for this year inspection fee has been Rs.331 crore. Next year we expect to do about Rs.380 crore. This year we have been able to increase the inspection fee to Rs.331 crore from Rs. 249 crore of last year. But so far order book is concerned; we have taken inspection fee for about one quarter in the order. If you add balance of Rs.280 crore, order book for consultancy will be more than the turnkey job or maybe equivalent to that. We normally expect to execute these orders in 2-2.5-years time and consultancy business is likely to grow. We are expecting more projects to flow now as the new government has taken over. So earlier because of general elections there was some slowdown.

- Rajeev Mehrotra:** Our Director Projects has informed that in last few days he has signed order worth Rs.150 crore for consultancy. You did not connect to my first explanation that we are involved in certain mega projects which will see outcome as soon as the government starts investment decisions. So if you connect this, there is no reason to believe consultancy will not grow and we will remain a consulting company predominantly and growth will come.
- Jonas:** The second was the impact of increasing turnkey revenue in our mix. Does it have any impact on receivables because you have a very healthy receivable cycle of almost less than 100-days now. So how do you route the receivables on projects?
- Rajeev Mehrotra:** This is best in terms of receivables management because somebody gives you money in advance and then only you spend, so there is zero receivable against turnkey.
- Ajay Gaur:** Turnkey projects, these are called deposit works where we get paid in advance. We open a separate account for the client, in the name of RITES and client. Keep advance money there and out of that money we disburse payments to contractors. We are able to set off our fee against the deposits lying with us so there is no question of outstanding there at the end of the day.
- Nitin Rao:** My name is Nitin Rao. One slide showed the trade receivable days coming down significantly. Since you have basically one major client, is this sustainable in terms of the receivable days, how is it dependent on the ...?
- Rajeev Mehrotra:** We will try to manage in about 100-days.
- Ajay Gaur:** Like you said one major client, let me clarify it. Till last year and maybe earlier, the contribution of Indian Railways in the total turnover used to remain around 12%- 14%. This year because of the turnkey projects it has gone up to 36%. So 64% still comes from other clients. Against exports, all payments are secured against LC. The moment exports take place, we get paid. In turnkey projects, deposits are already lying with us, so we get paid immediately. Therefore the number of debtors days are likely to be in control. Debtors are high wherever we submit our reports. There the debtor days are more because the report acceptance takes time and the client has to disburse payment based on their budget. It is not one client, let me clarify it, we do projects for number of clients like NHAI, Container Corporation, NTPC, MEA, many other ministries and Govt. Departments and private sector etc.
- Nitin Rao:** Government is still owing 87%. So any plans to come down to 75%?
- Rajeev Mehrotra:** We already discussed this. Government has already decided to offload another 15%. So put together 15 plus 12.6, 27.6% would be with the public, maybe in Q3 this should happen.
- Ajay Gaur:** Government has already floated RFP for engaging bankers and law firms. Otherwise also we are supposed to do it by July 2020. Government is planning to come out early and it has already decided to further offload 15%.

- Pritesh:** This is Pritesh here. Sir, on the consultancy part, we do a lot of business for Railways. So just wanted to understand, if those projects are awarded on nomination basis or tender and if it is let us say awarded on nomination, then have we ever looked at the pricing that we give out, any comparable that we have in the engineering space? If it is nomination, then does it gets reviewed eventually or altered eventually?
- Rajeev Mehrotra:** For getting any project on nomination, there is a justification, there is a comparable fee structure, then only the owner agrees to pay that money. We also participate in the tenders floated by others. Some Railway divisions have started floating tenders for certain works. We are participating there also. We are getting projects on tender basis also. So we will see as the market evolves, we will be following that structure. It is not correct to believe that if nomination stops, we stop getting order, no.
- Pritesh:** No-no, so my question was is it today on nomination?
- Rajeev Mehrotra:** Two-third nomination, one-third is on competition broadly. That is not railways alone, several ministries, whether it is Home Ministry, MEA, Ministry of Health, most of them prefer to go to a government consulting company.
- Pritesh:** So if it is on nomination and if a pricing is offered, how is it compared on the pricing side?
- Rajeev Mehrotra:** I am sure they come to us for repeat orders. For the owner they must be comparing the market conditions before they give it to us. We should not be unduly worried about it. If the whole thing goes through competition, we will be in the competition. If we are there predominantly, we will structure our things to suit that. But this fear, I think, has been given too much weightage that if nomination stops we will not be able to compete. We have 3,000 employees who have worked in India and abroad on variety of projects, they will not sit idle.
- Participant:** Our market share would be plus 75% in the engineering side of the...?
- Rajeev Mehrotra:** I do not have any market size estimation on this because we are into railways, metros, highways, then rail connectivity projects of coal companies, mining companies, power companies, port companies. So put together we are there in significant, role say more than 50%.
- Participant:** Who would be the other competitor alongside you taking the projects?
- Rajeev Mehrotra:** In consulting, there are smaller consultants, two, three, four people do it together, but not of the size we are.
- Participant:** Your growth in consultancy mirrors a lot with the railway CAPEX growth. So if you would plot that for the last 10, 12-years? Right now there is this whole thing about focus on railways spend. So just wanted to take a couple of insights from you as to the extent of spends and where is it planned over the next couple of years because obviously you would have bird's eye view on being a consultant, so ideas there?

Rajeev Mehrotra:

Look, we are not a single sector company. Predominantly, yes, 70% of business comes from railways sector, not Ministry of Railways alone other clients of Rail Connectivity needs are there. So if railways investments are going up, definitely there is a reason to believe the growth will continue. But we are also into metros, highways, airports we are doing projects outside India also, we are doing metro rail project in Mauritius. We believe that if such metro projects are done in India as well, we might have a simpler or a cheaper solution for metro. So, the story will not end with one sector investment. We were growing even when low investments were going into railways. I think we have to grow faster with this. Now, getting a sense of what is going to happen is very difficult to say. We are privy to certain projects which are at various stages of approval. I gave few names say, Bangalore Suburb Rail, then four DFCs, I do not know which one is picked up first, but definitely the other DFCs are also candidates of merit, they will get due attention. Then there is complete electrification which has already been announced. Workshops being modernized. The new Train 18 has been introduced. For that also, workshops and maintenance facilities are being created. Then the complete upgradation of Delhi-Mumbai, Delhi-Kolkata track to increase speed to 160km/hr. These are the mega investments on which we will see decisions as the investment basket increases. I am very optimistic that next 5 to 10-years should see, a several mega projects coming from railways, metros and of course highways and airports. We should not underestimate the metro size investment. This week only we did Gurgaon metro report and we discussed the same with the Government of Haryana. Also, we has submitted 14 metro pre-feasibilities reports in last 2, 2.5-years, of which I think four have already been announced for investment. And 8-10 metro reports are already with the government. Some decision will come at some stage on that segment also.

Ajay Gaur:

I would also like to add; it is very difficult to correlate directly with the CAPEX of the Indian railways and our revenue. Because CAPEX of Indian railways will include rolling stock, signaling telecommunication, purchase of plant and machinery, but we are not into that business as we are primarily a consultant. So whatever consultancy assignments come up or maybe turnkey projects from Government of India, we will take up. But definitely, the government is planning to increase CAPEX and we will get benefit of the same. But it is not purely railways, we do other number of projects as CMD has already mentioned. We have already given metro studies for 14-states; 3-4 have already been approved by government, some are at the approval stage of the state government. Once these are approved, we will be participating in the open tender and we are quite hopeful that we will get more projects.

Ramesh Bhojwani:

Ramesh Bhojwani from Mehta & Vakil. Sir for decades, our railways network has been stagnating at 65,000 Kms and over these decades, the usage of railways by the number of people, the masses has gone up manifold. So the thought which comes to my mind, you have a tremendous technical brilliance and expertise and the best team of engineers. Why not the existing infrastructure with the help of technology retrograde and retrofit, we can increase the speed as well as what we are seeing at least in Mumbai? Nine coach trains have become 12, and GM, western railways, he retired, he gave an interview saying that 12 coaches will become 15 only on the fast trains. So the thought which is coming is the existing infrastructure, if with

technology of retrograde, retrofit and renovation, we can increase the speed say by 50%, the capacity increases by 50%, we will solve a lot of problems.

Rajeev Mehrotra: Exactly on this thinking. There are certain projects already announced, like removing level crossings completely several zonal railways have already done it. Now, DFCs, the entire DFC route is without any level crossing, all flyovers, ROBs, RORs wherever required. So unless you do this basic safety requirement, the speed cannot increase. And I said earlier that government is looking at increasing or augmenting the Delhi-Mumbai, Delhi-Kolkata route to 160 Kms/hr. The first requirement for the same is that people cannot cross the way they do. That is being done, level crossings are being removed and I am sure government is having that in mind and you will find some interesting solutions, people are looking at the solutions.

Ramesh Bhojwani: Because in 2018, after very-very long time, the government publicly announced expenditure outlay of Rs.1 lakh crore for the upgradation as well as addition in the railways. So, it opens up a huge unexplored possibility and opportunity for you.

Rajeev Mehrotra: I am very optimistic that government is fully seized of this issue. We are aware of certain projects which will be unfolding.

Ramesh Bhojwani: This 37% CAGR growth will become a standard norm in your company.

Rajeev Mehrotra: Thank you, for sharing my optimism.

DK Bhargava: My name is DK Bhargava. I would like to know about Ahmadabad projects. Ahmadabad Metro is operational. So how much time is the lease and how much CAPEX you are expecting from Ahmadabad Metro project?

Rajeev Mehrotra: We have limited role there in high speed, so I would not like to comment more on this. I will say what we are doing there; we were initial consultants for doing pre-feasibility for Mumbai-Ahmadabad High Speed along with a company from France. We did the initial study for Ahmadabad-Mumbai, then we were involved in doing geotech investigations there. Right now we are creating a station facility for them, some changes required in Sabarmati workshop, we are doing. Beyond this, I would not like to give more details because we neither owner of this nor involved in planning of it. I think 2021-22 is the target for them and this is on.

DK Bhargava: Any other project in Ahmedabad or Gujarat or Rajasthan for metro for our company?

Rajeev Mehrotra: We have recently got a metro project in Pune. For high speed, we have worked on another report between Delhi-Chandigarh-Amritsar and that is also very feasible route, but at what stage government would decide, that is of course to see there, but it is again a very viable route. There are some other routes being studied. But this being so capital-intensive that it cannot be decided overnight. I again take to his point, government is also looking at possibility of doing semi high speed tracks rather going into full high speed alone, because that is a very costly investment. So, you will see a combination of these two solutions coming

Ajay Gaur: You asked about the value. In Ahmadabad metro project, RITES fees is 30% of the total fee and it is around Rs.112 crore and now the project is being extended till 2020 October. Apart from Ahmedabad, we are in Nagpur Metro and Pune Metro. We are likely to get one more metro project which I cannot name as it is awarded. Then we are working for Mauritius Metro also where RITES fees is about Rs.144 crore.

Participant: Sir, you have given MoU target for FY'19 of Rs.1,760 crore in terms of revenue which went up to Rs.1,960 crore which was an increase of about 12% and simultaneously the operating profit also grew by about 34% as compared to MoU target of Rs.534 crore. So it means that you are very conservative somewhere when you gave your targets, right. Now for FY'20, you have given a target of Rs.2,300 crore for revenue vis-à-vis you also gave Rs.534 crore as net operating profit. So increase of target is 17%. So my question is firstly is it a conservative target? Secondly, if you are saying that 17% would be the increase in revenue, why for operating profit is only about 11% your target is there?

Rajeev Mehrotra: The profit is only operating profit; it does not include other income...

Participant: Yes, so operating profit what you are saying is Rs.534 crore, which is about 11%.

Rajeev Mehrotra: This process of MOU starts sometimes in November – December for next year. So at that time, what performance for the current year you assess, we start working on that. It gets concluded at the end of the financial year. At that time FY'19 would cross to that level was actually not foreseen. So at that time for FY20, we had in mind 20% growth and we worked on that. When this was done, it was around 20% growth, but when the FY19 number shot up, this became 17% growth over the actual performance of FY19. Now this is again a realistic assessment based on the conditions at a particular point of time, but it does not stop you from exceeding, in the interest of the shareholders.

Participant: That is really a good sign because you are taking conservative estimates and when you give your future projections, the conservatism is always helpful, but my other question is that currently now we are seeing Rs.2,300 crore as revenue which you are expecting in FY'20 which is about 17% growth, but the operating profit what you are simultaneously saying is about 11% only. So why the operating profit you are showing 11% vis-à-vis 17% of your revenue growth?

Ajay Gaur: The profit what we are talking about is the profit before tax (PBT), but the targets given in the MoU are only the operating profit margins. Rs.195 crore earned from other income is to be excluded. 20.5% was the target given to us for operating margins, which is 24.4% so the variation is not 34% vs 20.5%, it is 24% versus 20.5%. The target for turnover growth was 22% last time, we did better i.e. 37%. Now for FY20 on the increased scale, it is 17%. We are hopeful of getting it. This is the minimum target to evaluate our performance which has been given by the government. We can always do better than this. It is not that we take soft target from the government. We try to take realistic target and then we try to improve it and we have been able to do it since past many years. Do not compare PBT of 34% with 20.5% which is the operating margin in the MoU.

Participant: Sir, you have said operating profit in your investor presentation on the last page. So I am referring to that. You have said from Rs.482 crore it goes up to Rs.534 crore is expected for FY'20 which is about 11%, that is what I am trying to tell you, so that talks about operating profit, so I am talking on that line, so that is my precisely the question is.

Ajay Gaur: This is derived figure, In MoU we have operating margin and then based on the Rs.2,300 crore revenue under target, we are working out this information. And operating profit growth we are talking about when we say 10.8% over FY19. Last year, the target was 20.4%, this year target has been given as 23.2% for the operating margin in MoU.

Participant: Sir, last year we signed an agreement with the Government of Japan when our prime minister visited Japan for three bullet trains and the funding will come absolutely by the Government of Japan, repayable at over 50-years. I think with the new government in place, the work for all the three bullet trains will start simultaneously. So that will open up another avenue of opportunity for you.

Rajeev Mehrotra: To the extent I know, this agreement has been signed only for Ahmedabad and Mumbai high speed link. There they will be running more trains, but there is no other stretch which has been taken up for investment decision as yet. There are some very interesting solutions emerging how to optimize the railways cost. At this stage it will not be correct in this forum to speak about it, but very soon you will find.

Participant: We have outgrown our margin targets, most of the segments, our margins have improved in consultancy, exports, leasing. So going forward when you have taken this operating margin target or the growth, so what kind of margin we are estimating for each of the segment – specifically for consultancy and leasing I want to know the margins posted in FY'19, are those sustainable and what has led to this margin growth per se whatever like 200, 250 basis points margin improvement we have posted in consultancy business during FY'19, so what are the contributors towards it and how should we extrapolate going forward?

Rajeev Mehrotra: The consulting and leasing are high margins businesses for us. There is no threat to the margins there. We had been raised this question during the IPO also, can you maintain this? We have not only able maintained the margins but also marginally improved upon it. These are hi tech consultancies, where the rewards are higher, whether domestically or internationally, this is not just making buildings. So I believe that we will be able to maintain, but how much competition we face, all that is very difficult to say, but the answer right now is yes, we hope to maintain these margins in these two segments.

Participant: My question is regarding electrification by 2022. So can you just elaborate how many kilometers we will be completing by 2022?

Rajeev Mehrotra: About 30,000 Kms have been identified, of which it is estimated that IR have already done 5400 route kilometers last year, which is again a record. The exact numbers will come in the final reports. Already there is a significant execution reported. Because at times, when I talk to people they say, Projects are not being executed but projects are being executed actually. This

year target is around 8,000 route kilometers electrification. By 2022 we should be targeting to do most of electrification.

Participant: What will be the role of RITES in that?

Rajeev Mehrotra: We have role as a consultant also. We are doing designs or feasibility, but in this case feasibility is not an issue, turnkey would be actually more straight business coming because these are standard designs for electrification. So we see electrification projects coming to us in this year also in larger proportion than what we had.

Participant: So one completely different question. Nothing to do with you or your financials. Ministry of Railways has a number of different arms. Some of which are quoted. Do you at a ministry level have a joint meeting of the various companies to discuss broad railway plans and sort of the roadmap ahead? I do not want details but just how it happens?

Rajeev Mehrotra: We do get involved in mega projects discussion at times jointly and at times singly, depending upon who is best fit for reporting on the project situation.

Participant: There is this Rail Vikas Nigam. We are RITES, there is IRCON. How different is each one's role versus one another, can you just explain in simple terms for all of us?

Rajeev Mehrotra: IRCON's main focus is railway projects internationally and domestic also now they are doing, Their main focus is supposed to be international projects execution. RVNL is basically doing railway projects execution whether doubling third line or New line or electrification but only railway projects. They do not take any other sector projects. RITES, we are a consultant first and then we are also into metros, we are also into airports, highways, ports, certain critical projects for Ministry of Home and MEA etc. Our portfolio is beyond one sector. At times, when we go outside people try to give work to a consultant who can conceptualize, design, execute and give it as ready or "turnkey" that it is called. When we got the opportunity to do this in India, we start doing doubling, third line and fourth line and also electrification of railway network, so that we have a better portfolio when opportunity arises. I think this has been a fairly satisfying experience without adding much to the manpower, rather by reducing we have achieved Rs.580 crore revenue from construction projects. There is a definite given scope to each Railways company. We also do exports of rolling stock.

Ajay Gaur: To your question, let me also add, what government has done is to avoid competition amongst all PSUs within the control of the ministry. RITES was the first PSU to be set up by Government of India to render consultancy assignments in railways sector outside India. It was primarily meant only for overseas consultancy assignment in railway sector, but over a period of time since railways were privatized outside, we diversified our activities. Now we have become a transport consultant where we are rendering consultancy service in railways, ports, highways, airports, inland waterways. Whatever transport sector you name, we are there. Then we are into exports, leasing also. IRCON was formed for carrying out construction activities which they are doing for Railway and other clients. Even in export also, apart from three countries all countries have been given to RITES to avoid competition. Therefore we do not

end up competing with each other outside India. Then Container Corporation is meant for container business, railway catering corporation is altogether different. IRFC is for the financing, so there is no competition so far as the companies under Ministry of Railways are concerned. So far as Government of India, Ministry of Railways is concerned roles has been clearly defined for all PSUs.

Participant: One simple question again is on RITES, how much of our business comes from government entities and how much is from private or non-government?

Rajeev Mehrotra: About 75% business is with government, not one ministry alone. There are major projects coming in government sectors. We are getting many projects on nomination. We are executing these as per our client satisfaction and therefore we are getting repeat orders as well from them.

Participant: What is the average execution time for this order book if you can share segment wise?

Rajeev Mehrotra: This is a composition of all the four segments, but typically one to three years, three years for a project like metro, one year for a small consultancy work, exports would typically be 18-24-months.

Participant: Including turnkey?

Rajeev Mehrotra: Turnkey we have done 100 Kms of electrification in about 18-months, this last week only Vijapur-Makshi in Western Central Railway near Jabalpur has been handed over.

Participant: Can we have breakup of wagons and non-wagons?

Rajeev Mehrotra: Wagons, we are not exporting. Indian Railways' workshops produced locos and coaches which are for broad gauge or meter gauge market, we are exporting. Now we are trying to explore other markets which are having cape gauge and standard gauge requirement.

Ajay Gaur: Presently in the order book we have order for export of locomotive, out of 10 locomotives we have already exported three or four locomotives till current financial year. Till 31st March, we exported only two locomotives. We have order for six DMU sets with 13 coaches each, then we already have order with us for supply of 160 coaches and about 5 or 6 million is left over of Myanmar project where we have to supply spare parts for the rolling stock. That is the breakup. Normally it is DMU, locomotives, coaches; wagons we are not exporting. Wagons we did once in Myanmar, but that was two or three years ago.

Participant: So DMU coaches plus locos put together will be how much amount?

Ajay Gaur: DMU and loco contract was awarded to us for Rs.680 crore. Out of Rs.680 crore about Rs.200 crore, we have already exported till 31st March. The rest will be exported in this current financial year '19-20. And then contract for coaches is about US\$82 million the export against which may start in 2020-21.

- Participant:** Can I have a breakup of opening order book of Rs.4,800 crore?
- Ajay Gaur:** Rs.4,819 crore was the last year. The break up was Rs.2,572 crore was Consultancy, Rs.141 crore was Leasing, about Rs.698 crore was Export, and Rs.1,408 was Turnkey projects.
- Rajeev Mehrotra:** Presentation, we have already uploaded on our website under investor icon. I am sure you would have seen. If not please have a look at it.
- Participant:** On Railways Energy, can you share what is the potential and how is our billing income to be netted out from five years perspective?
- Rajeev Mehrotra:** Initially, it was a consultancy assignment, but then we found value in this. We thought we must stay there for long time, we made a company Railways Energy Management Company where 51% is our investment and 49% is railways. It has three mandates – First, whatever is to be purchased, try to do it on open access basis. We have implemented about 60% of railways entire energy requirement which is 2000 MW, is actually coming from open access. Certain states have raised some issues, there are some technical issues and some legal issues. With resolutions of these issues, procurement through open source will increase. We are adding electrification very fast, then DFCs would be ready by 2021. All these projects would need electric traction and this company has got mandate from all of them to do the energy management. So far, we did only medium term purchase. Now we find that there is a possibility of going into long-term agreements because the legal environment on this is now settled. We got railways notified under Electricity Act 2003 as DDL (Deemed Distribution Licensee) because they were already a licensee under Railways Act 1908, which has not been superseded by Electricity Act of 2003. So this came as very handy solution for railways which we evolved and got through CERC.
- Coming to the business potential, last year REMC gave Rs.80 crore of revenue and almost 50% profitability because about 12-people are managing the entire show. But then we are moving up in the value chain, we are trying to see that the short-term gaps in the requirement are met through power exchanges. We are working on it. The railways own generation; they have got a plant in Nabinagar, their distribution, where the power will flow under what arrangement, who pays and other commercials legal requirement; they have delegated this also to REMC. So on this REMC is the power manager. Second mandate is renewable. Since it is a deemed distribution licensee, it has to make up at about 10% or 15% requirement of renewables. Initially we thought we will do renewables in our balance sheet; we did one windmill. And after that, we are facilitating rooftop solar power installations, we are also going for installation on railways land, all those projects are lined up, very soon you will see these projects coming out. So the second mandate to this company is to do renewable energy management for the railways. Third is energy efficiency on which we are yet to scale up our operations. These three looking at the way we are going for electrification, the way we are going for more route kilometers being added in terms of infrastructure, there seems to be a definite way forward at least in five to seven years.
- Participant:** As far as consultancy business is concerned, who are our one or two main competitors?

Rajeev Mehrotra: In railways, there is not much competition, but in metro we compete with AECOM, Systra from France and Japanese consultants. Actually for Japanese consultants, we supplement their efforts in India. Any JICA funded project, they have to have a Japanese consultant and we work with them in whatever projects they are associated. So there is a limited competition more so in the metro segment rather than the rail per se.

Participant: How much is CAPEX per kilometer for electrification?

Rajeev Mehrotra: Roughly around 80 lakhs to 1 crore. At times you have to acquire land for substations if it is not on railway land, so that add to this cost.

So, I think that is the end of questions. I will request Director, Finance to say closing comments.

Ajay Gaur: On behalf of RITES management, I would like to thank you all for your presence here and for giving us an opportunity to reply to your queries. I hope we have replied all your queries satisfactorily. In case not and you have some more questions, we will be here for some more time and you can ask us. We hope that your support will continue. Please join us for a cup of tea. Thank you very much.