



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

No. RITES/SECY/NSE

Date: 04.03.2021

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

Dear Sir/ Madam,

Please find enclosed herewith transcript of the conference call with analysts and investors held on Thursday, 11<sup>th</sup> February, 2021 to discuss the results for the third quarter and nine months ended on December 31, 2020 of the Company.

This is for your information and record.

Thanking You,

Yours faithfully,  
For RITES Limited

**Ashish Srivastava**  
Company Secretary & Compliance Officer  
FCS: 5325



**RITES Limited**  
**“Q3 & 9MFY21 Earnings Conference Call”**

**February 11<sup>th</sup>, 2021**

**MANAGEMENT OF RITES LTD:**

- SHRI. RAJEEV MEHROTRA - CHAIRMAN & MANAGING DIRECTOR
- SHRI. BIBHU PRASAD NAYAK – DIRECTOR, FINANCE
- SHRI. PARMOD NARANG - CHIEF FINANCIAL OFFICER

**RITES Limited**  
**Q3 & 9MFY21 Conference Call**  
**February 11<sup>th</sup>, 2021**

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**Moderator:** Good afternoon, ladies and gentlemen. I'm the moderator for this conference. Welcome to the conference call of RITES Limited, arranged by Concept Investor Relations to discuss its Q3 and Nine Month FY21 results. We have with us today Shri Rajeev Mehrotra, Chairman and Managing Director, Shri Bibhu Prasad Nayak, Director Finance, and Shri Parmod Narang, Chief Financial Officer. At this moment, all participants are in listen-only mode. Later, we will conduct a question-and-answer session. At that time, if you have a question, please press “\*” and “1” on your telephone keypad. Please note this conference is being recorded. I would now like to hand over the floor to Shri Rajeev Mehrotra, Chairman and Managing Director. Thank you and over to you sir.

**Rajeev Mehrotra:** Thank you. Good afternoon to all of you. I am Rajeev Mehrotra, CMD of RITES Limited. I welcome you all to the investors' conference call of RITES Limited, financial results for Q3 FY21 and nine months of FY21. Hope all of you and your families are keeping well. I have with me our Director Finance Mr. BP Nayak and CFO Mr. Parmod Narang.

RITES is a Miniratna category-I Schedule A public enterprise of the Government of India and a leading player in transport consultancy and engineering sector in India, having diversified services and geographical reach. Now, I'll briefly take you through the highlights of company's results of Q3 FY21 and then, we can open the forum for questions and answers.

I hope you all have been able to access the financial results' presentation and press release uploaded on our website as well as the stock exchanges. I will cover the consolidated results first. Consolidated results for Q3 FY21---The results of the company for the quarter remained reasonable within the challenges faced due to COVID-19. Working towards post-pandemic economic growth, we have maintained focus on project execution, sustaining margins and consolidation of order book. This quarter remains a tough quarter, but we have been able to generate revenue as well as maintain our normal level of margins. And to summarize the results on consolidated basis, and as you know, almost 97% of income is coming from standalone. So whatever I'm talking here is actually relevant for the standalone also, although you have details available in the presentation and the numbers are already uploaded.

RITES total consolidated revenue has decreased to Rs.480 crore as against Rs.663 crore in Q3 FY20. Similarly, operating revenue that is excluding other income stands at Rs.449 crore in Q3 FY21 as against Rs.620 crore in Q3 FY20. Decrease in revenue is mainly due to export deliveries not scheduled during this quarter. The impact of which is about Rs.90 crore that was there in Q3 FY20 and disruptions in supply chain and restrictions due to pandemic.

EBITDA and PAT stand at Rs.159 crore and Rs.105 crore against Rs.214 crores and Rs.150 crore, respectively, in Q3 FY20. Efficient execution and timely implementation of cost-control measures helped us in maintaining margins. EBITDA and PAT margins are sustained in this quarter and stand at 33.1% and 21.9%, respectively, against 32.2% and 22.6% in Q3 FY20.

I will cover the performance of segments on standalone basis. Company achieved a revenue of Rs.244 crore from consultancy business which is down by 14.3% over Q3FY20. But with margins remaining 45.5% as against 46.5% in Q3 FY20.

Leasing revenue stands at Rs.29 crore in Q3 FY21 and against Rs.30 crore in Q3 FY20. So, the leasing income has almost reached to pre-Covid levels with margin of 39.8% improved as against 34% in Q3 FY20. So all locos, which were with us, have been placed in service now.

There were no export deliveries scheduled for Q3 FY21. However, Q4 FY21 is expected to see the beginning of export shipments for Sri Lanka and Mozambique.

Turnkey revenue during Q3 FY21 stands at Rs.159 crore which is down by 19.2% against Rs.196 crore in Q3 FY20. Turnkey margins were maintained at 3% as against 3.1% in Q3 FY20.

Revenue of REMC Ltd, which is our subsidiary, stands at Rs.17 crore as against Rs.19 crore in Q3FY20. Similarly, profit before tax has also decreased to Rs.9 crore as against Rs.10 crore in Q3 FY20. Performance of our subsidiary REMC Ltd was impacted due to less traction power requirement by the Railways during this quarter. But power generation from the windmill has shown significant growth on year-on-year basis.

Consolidated results for nine months of FY21. First nine months of FY21 have remained a challenging period for the company, where restrictions and supply chain disruptions due to pandemic adversely affected revenue and profits of the company. Total consolidated revenue has decreased to Rs.1356 crore as against Rs.2120 crore in nine months of FY20. Similarly, operating revenue, excluding other income, stands at Rs.1224 crore in nine months of FY21 as against Rs.1904 crore in nine months of FY20. EBITDA and PAT stands at Rs.452 crore and Rs.303 crore, respectively, in FY21 nine months as against Rs.719 crore and 489 crore, respectively, of nine months of FY20. However, during this nine month period, RITES has been able to maintain the margins of its business at the normal levels as we used to do in the past.

The company's consolidated order book now stands at Rs.6534 crore as of December 31<sup>st</sup>, 2020. The order book provides revenue visibility for two to three years. I believe that the emphasis on infrastructure development in the Union Budget of FY21-22, National Rail Plan and National Infrastructure Pipeline will help drive the growth of the sector; thus providing us opportunities to achieve double-digit growth in FY22 and beyond. Now, we can open the forum for questions and answers and thank you very much for your kind attention.

- Moderator:** Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Rohit Natarajan from Antique Stock Broking. Please go ahead.
- Rohit Natarajan:** Sir, my first question is more to do with the order inflow part, if I see in last one quarter, we minimum have had more than 500-odd crore kind of order inflow. Where exactly the big ticket numbers going to come, what exactly is the timeline, which are those projects, if you can guide us on that?
- Rajeev Mehrotra:** Order book executed during Q3 has almost been replenished by new orders. But yes, it's a continuous process, we keep working for new orders. And it is reasonable to expect that now when the budget has been presented, the new project line has been identified. So it's better to expect that from Q1 of FY22 onwards, more meaningful numbers should be appearing.
- Rohit Natarajan:** Sir if you could quantitatively guide some pictures like, this much should be from consultancy, which are those prospect orders?
- Rajeev Mehrotra:** Rohit, it's very difficult to really give a precise number, but I can give you the scenario. The way new projects are lined up here in railways or metros or highways, almost 35% increase in allocation for railways and highways and almost 20% come for metro is a significant increase than what used to be earlier a 15-20% increase. So, this opens up lot of opportunities for the company to try out. Consulting and exports will play a major role in FY22 performance. And we believe that it's possible to maintain a reasonable double-digit growth in FY22 turnover.
- Rohit Natarajan:** Sure sir. And from exports, I understand that these numbers were not scheduled in Q3, but what could be the quantum of exports you're looking at in Q4, because earlier we were talking about Rs 400-500 crore should be possible in exports in the second half. But now that picture seems to be a little bit difficult. Is that understanding right?
- Rajeev Mehrotra:** There is a spillover of couple of days or weeks here and there, what has happened that the production, which is done by production units of Railways, has a lot of sub-assemblies purchased from outside. So that is where the disruptions actually hit the target of Q3, most of that is now getting in order. So Q4 tentatively, we have actually booked a ship around 25th February for shipment of the first train to Sri Lanka. Similarly, by February-end, we are trying to book for exports to Mozambique. So, I'm very confident that February onwards we will start shipping out. But yes, there have been delays, still I would say, maybe we can see Rs.400 crore or we will try to push it higher. Just production is not enough for booking revenue to exports, it has to actually have more planning. Our effort is that to export maximum and book it as revenue by 31st March. To give a rough number, I will say almost Rs 1000 crore of exports are actually in the manufacturing process. So if there is a spillover of one to three weeks the orders remain qualitatively with you. And that's the update on the export position. There were delays in sub-assemblies, a lot of sub-assemblies are involved, especially locomotives and the DMUs.

**Rohit Natarajan:** Sure sir. And finally sir on the consultancy and construction business, what exactly is the manpower utilization looking like, because the numbers were softer in this particular quarter, is there any qualitative number that you want to put like 80% of the efficiency or some, optimally utilize some picture on that?

**Rajeev Mehrotra:** Yes, two issues I would like to highlight that looking at the scenario, sometime in April itself, whatever flexibility we had in the organization, we started reducing the job-related hiring or the contract hiring. And that was a very timely step, so as a result we could control the cost, which you can see has been appearing in the margins maintained despite challenge. If you want exact productivity number, we have put it on slide #19 in the presentation, which is uploaded. So, we ended December with total of 3005 people against, last year; 3286. So we are down by almost 281. So obviously, this cost has been controlled well, which is also visible in the operating expenses. Now, coming to the consulting part, what had happened, we have a good order book on consultancy almost Rs 2500 crore. Two major things happened, some inspections were delayed, whether it is rails or other capital items. Let me clarify, there are delays and not withdrawal. So, the expected pace of revenue in the last quarter did not match up. Also, we had some order from coal connectivity projects, I will not name the company. But then they could not acquire the land in time, they were supposed to provide land say by June or so, but due to pandemic, the land acquisition process also got delayed. So those projects where the land is not there, the construction or the consultants' revenue billing does not start. So that has actually impacted the consulting revenue. And I'm sure we will recover very fast once the backlog of the issues gets cleared maybe this quarter, within this quarter it should be better visible.

**Moderator:** Thank you. The next question is from the line of Kunal Sheth from B&K Securities. Please go ahead.

**Kunal Sheth:** Sir while you clarified about the performance of the consultancy as you mentioned that we have a good order book on the consultancy side. So, to do a double-digit growth next year in consultancy, will the current order book be sufficient or we will still need some more orders to do a double-digit growth next year in consultancy?

**Rajeev Mehrotra:** Very difficult because the orders will keep flowing. So, some orders will come for quick booking of revenue to give an example the inspection call of the quality assurance, this is basically a three-month cycle of order to completion. Similarly, for power management, as the rail operations pickup, we'll be back to that Rs.40-45 crore type of fee for the existing power procurement capacity. So all those things are instant conversion to revenue, but the difficulties came where we have the Project Management Consultancy (PMC) engineering work for green-field projects like rail connectivity projects where land acquisition was delayed by a couple of months in the new orders, so that affected the consulting revenue booking. So, looking at the scenario of today, a growth of 10% in consultancy looks doable in FY21-22. But

overall company would be targeting 10% to 15% or a little more depending upon how the pandemic things get controlled, maybe by Q1 of FY22. We are still not normal.

**Kunal Sheth:** Sure. And sir so, whatever disruptions we saw in Q3 now most of them have normalized and in Q4 we will see much better recovery, is that right understanding?

**Rajeev Mehrotra:** The quality assurance business execution is slightly delayed even in this quarter. For various reasons, but once the CAPEX for 21-22 increases, even the OPEX increases, we'll get a better hand on the quality assurance revenue.

**Kunal Sheth:** So sir this year, nine months consultancy is down about 14%, any sense you would like us to give in terms of where should we end the year with?

**Rajeev Mehrotra:** Let me not pre-empt the Q4 results, I have already given a hint that Q4 we also see a subdued quality assurance as rest of the year, but a very quick recovery expected on the power business. Also on the PMC work for rail connectivity projects, which is a fairly big portfolio with us.

**Kunal Sheth:** Sure. And sir lastly, about the solar project in REMC Ltd, any update there were few tenders that were likely to be bid so finally, now how many megawatts are going through and what is the commitment from our side that we will not have to put in... any clarity on that sir?

**Rajeev Mehrotra:** There was some feedback from developers, especially about the grouping of land parcels in tenders, we are looking at that. On the first model, we have already recommended the selected party for 299MW and the projects on ownership to RITES and Railways, where we will be putting equity, this tender is scheduled to be opened on 17th March. Also, for the project on land along the railway track, there was some more clarification required. So, we have extended the date to 5th March'21.

**Kunal Sheth:** Okay. So, now, as it stands today what is the quantum of work total size that you will be working with a consultant and what could be the potential size that you would be working as a developer?

**Rajeev Mehrotra:** Okay. The size as developer, where our equity is planned along with Railways is only 400 MW and rest is in developer mode, where they will put the investment. So, presently, the suggestions which have come from developers are been looked upon and some of which have already been incorporated.

**Kunal Sheth:** Okay. And on the consultancy side, how many megawatts are we working with?

**Rajeev Mehrotra:** Consultancy, we were almost handling 1400 MW purchases for the Railways. But then there was a dip when all over India the train services were curtailed. The revenue went down by almost one-third. Once the train operations will pick up, the power demand will also pick up

and so is our revenue booking. Hopefully by April, most of the operations should see a normalcy.

**Moderator:** Thank you. The next question is from the line of Arafat Saiyad from Reliance Securities. Please go ahead.

**Arafat Saiyad:** Sir, again I am asking the same question just want to understand the opportunity is there for you guys for next three to four years. And what kind of order inflow you are expecting similar in FY22 and 23. If you can guide on that?

**Rajeev Mehrotra:** Let me first cover FY21-22, The CAPEX is very phenomenally increased by 34% for infrastructure. So, we should see a lot of activity here. Then what flows from National Rail Plan, with this activity of new investments, aggregation of investments would continue till 2030. So, if the Railways is going to scale up their investments till 2030, it's reasonable to believe that companies, like RITES, which are present not only in railways, but also in highways, metros etc will get benefitted. Metros have also seen 20% increase and then for the smaller cities like metrolite or metroneo has been proposed. So, these things will open up opportunities for us to do consulting work. Therefore, in my previous question, I said it is reasonable to expect a 10% to 15% rebound in 21-22 itself.

**Arafat Saiyad :** Okay, fine. And sir my next question is on the margin front, what kind of revenue mix you're expecting from the turnkey segment going ahead, will it be significantly higher compared to consultancy or what kind of margin impact we have on the blended margins?

**Rajeev Mehrotra:** So, whatever turnkey projects we have executed till last quarter, we have maintained our margins as indicated to market i.e. in between 2.5% to 3%. We have already started work for the new electrification lines, which we got about four months back, for these projects tendering and work is going on. So the billing for this should start in FY22. All this is lined up in such a way that without adding much manpower, people who are free from these ongoing projects would actually be then taking up the next set of projects. I don't see much increase in the manpower from our side. But again, indicative around 20%-25% role would be played in the revenue composition by this segment of business.

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

**Harshit Kapadia:** Just asking on turnkey project basis, the revenue declined by 15%. When we look at the results of some of the EPC players, they have actually seen an increase, so can you sir highlight why would your revenue has declined?

**Rajeev Mehrotra:** The projects in hand had difficulties for first five, six months and now the electrification projects are nearing completion. By March, most of the electrification projects would be over.



The spillover whatever has remained in Q3, we hope to make up in Q4, but in any case turnkey is not my significant portion of the profits.

**Harshit Kapadia:** Okay, the ordering from turnkey project would be now Q1 is what you anticipate sir?

**Rajeev Mehrotra:** Yes, because this year what we have got so far, is mostly electrification projects, there's not even a single project for doubling or third-line. That is possibly because of the priority, they have settled for the current year. Looking at the expansion planned in FY21-22 onwards, we look up for more projects next year onwards, but within the doable category of the company.

**Harshit Kapadia:** No, so based on the capacity constraint which company has, which we do not want to go beyond certain percentage in turnkey so your capacity would be close to getting order inflow of 2500 to 3000 crore?

**Rajeev Mehrotra:** That is a safe upper limit, I will say. To clarify on the capacity issue, we can take more projects, but the issue is the margin is very less. So, we have to deploy manpower for other high-yield projects also. But we'll continue to do both.

**Harshit Kapadia:** Okay. And so just harping on the order inflow opportunity, on the budget you mentioned the opportunity in metro, etc.... Earlier you had commented that there were some 14 projects in metro where you had bid for consultancy in similar way can you highlight something on the metro side as well as on DFC some three new lines are being looked at where do think the consultancy would be awarded, what could be the opportunity size there, plus the suburban railway project was also approved some two years back, Bangalore suburban railway, but is there development on even Mumbai suburban as well, so if you can highlight some of the progress that?

**Rajeev Mehrotra:** We were actually associated in developing the Bangalore suburb DPR work. We are still hopeful that there should be some meaningful role going forward for us. It is yet to see the execution to start but we are following up that closely. The tenders for metro are going on, one major work is still going on. We have got some, some work for detailed design for depots or stations that we have already reported to market, we are soon going to share one more, I will not comment on beyond this today. We are soon going to share some more news and we are working on getting more orders for metro as well as rail projects.

**Harshit Kapadia:** Anything on DFC sir?

**Rajeev Mehrotra:** This tender, we have not been able to make it there, that was a very aggressively bid which we don't do pricing at that level. So, when we take up a work we believe that we should be doing in all segments professionally and not cut corners for the client. So, we have not got it.

**Harshit Kapadia:** All the three DFCs?

- Rajeev Mehrotra:** This was one tender.
- Harshit Kapadia:** And similarly also sir in metro as well for the Mumbai metro consultancy, 5, 7, and 9 lines were out where we also participated and didn't get it, there were also because of aggressive bidding we will see?
- Rajeev Mehrotra:** Yes, the pricing from others was very aggressive.
- Harshit Kapadia:** So, when we say aggressive pricing what kind of a differential one can anticipate here, sir?
- Rajeev Mehrotra:** We have to maintain certain margins otherwise you will not be happy if I don't maintain certain margins in the metro works. And doing a work at substantially aggressive pricing whether we makes profit or not, is not our way of working. Some people can do the predatory pricing to enter a segment, we cannot do that. We are seeing that happening, it is fine maybe one or two projects people can do like that.
- Harshit Kapadia:** Okay, but it is not something which is prevalent in the market at this point of time?
- Rajeev Mehrotra:** No, there is enough work so rather putting our manpower to unproductive, unprofitable projects, we will rather reserve our resources for better deployment. I'll repeat we are shortly going to share something.
- Moderator:** Thank you. The next question is from the line of Hardik Jain from White Stone Financial. Please go ahead.
- Hardik Jain:** Sir, if I heard you correctly, in the last call you mentioned that exports revenue in the Q4 could be in the range of Rs. 550 crore to Rs. 600 crore because of Sri Lanka and Mozambique. And now if I heard you saying that this could be around Rs. 400 crore, this Q4 and the remaining things will spill over into the next quarter, am I right? There was also some bidding for, which was to happen among three PSUs largely, three to four PSUs for railway project so, did we participate in any bid, anything happened, any update that you have?
- Rajeev Mehrotra:** Okay, let me start with the second question being answered first, we did participate in the electrification works and we have already reported works of around Rs 700 crore that we got on tendering basis, which has already been reported to the market. Now, let me explain the export-related issues of delay(s). First of all, these two orders are from different countries and on different gauges. So, Sri Lanka order is on broad gauge, which is being ready and first train would be shipped out, hopefully around 25<sup>th</sup> February. Client is expected to provide ship around 25<sup>th</sup> February. There were some issues, assembly, sub-assembly supplies because Chennai had a second spell of lockdown for few days. Some delays were faced in cape gauge related to supplies to Mozambique, because this not a routine gauge, which is manufactured in India. So, those people who were selected for procurement have some delays in starting,

but now things are controlled. And we still will try to make it Rs. 400 crore maybe a little higher, but Rs. 600 crore definitely looks very unlikely. But these orders may spill by one or two weeks because unless it is supported with bill of lading at port, we will not be able to book the revenue even if it is ready in workshop. But all these orders are under manufacturing.

**Hardik Jain:** Okay. And sir you mentioned that QA revenue will be really slow this year, so this is largely because CAPEX in this quarter was not very high?

**Rajeev Mehrotra:** Yes, this quarter had a subdued realization from inspection, as well as certain projects which we have in order book but then the work could not start there because of delays in land acquisition. That has been controlled now.

**Hardik Jain:** And now what is QA revenue last year for the same quarter?

**Rajeev Mehrotra:** We are 14% down on QA, it was Rs. 95 crore.

**Hardik Jain:** QA was 95 last year?

**Rajeev Mehrotra:** 95 versus 73 for the quarter.

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

**Chintan Sheth:** Couple of questions again, harping on execution side, as you did mention that in land and the QA side has faced challenges this quarter but if I look at sequentially as well, the revenue improvement to scale up both in consultancy and turnkey, has been softer. Y-o-Y understand that base will be different, sequentially once the, in the second quarter if we have delivered a certain revenue and we are coming out of the COVID issue, we should have certainly expected a much better revenue compared to the September quarter. But that has not been the case for us, so I'm just trying to understand most of the reasons you pointed out are external in nature and we couldn't control that and that led to execution or is there anything internally which also led to slower execution this quarter?

**Rajeev Mehrotra:** No, let me give you an example quality assurance, has seen a dip of Rs.45 crore in nine months. Now, even if you are fully ready to do a job, if the client says that I'm just postponing this procurements by two months or three months. So that has happened certain supplies just put on hold for a couple of weeks or months. So, this has been happening for six months, yes there were disruptions, but now we faced the delayed by a few weeks, this should normalize... this revenue is not lost, it will come back to us.

**Chintan Sheth:** That I agree because our orders, at least from the railways, are nominated orders. So we don't expect them to kind of replenish or kind of go away with, it will come back to us in the

subsequent quarter. But the execution looked very, very slow related to second quarter, when most of the challenges were at the peak, from Q1 and Q2, those are the peak period of COVID and Q3 things started moving on ground so, we were expecting at least sequential improvement in the execution that didn't happen. So, I'm trying to understand that and second is on the margins despite our execution being flat on a sequential basis, I see margin dip in consultancy on the sequential basis. So, if you can throw some light on what led to that?

**Rajeev Mehrotra:**

Okay, the main impact in consultancy came because of two components, one is the quality assurance which I have explained and second is PMC work, Project Management Consultancy. Whenever these rail connectivity, coal connectivity projects get underway and the complete chain of project i.e. land availability, design approvals, then the supplies, the manpower being available and the vehicles being permitted to run etc. This was not normal till say as close as to Diwali, people were not willing to go and work on projects. In some states even around Diwali that if somebody has come from other state, they have to report to the authority. So there were disruptions therefore despite being around Rs 2500 crore consulting order book, we could not execute. Even in Q4, there would be issues like the client delays inspection call by for 4-6 weeks, it can still go upto March. There's no underlying change in the structure of business or restructuring.

**Chintan Sheth:**

Yes, I understand and on the growth part, growth guidance that you will be able to do is 10% to 15% overall growth that will be based on FY20 or FY21, FY21 is already know a weak, so?

**Rajeev Mehrotra:**

Very good clarification asked. Let me tell you FY21 is a wasted year globally. I am sorry that I am saying so, but it was a wasted year for business. So whatever I am saying would be compared with the previous year. I am surely not going to misguide you by saying that, on lower revenue of FY 21, I will give you 15% growth, no way.

**Chintan Sheth:**

Yes, that is what I wanted to see.

**Rajeev Mehrotra:**

If you noted my hint I said that out of this Rs 1400 crore most of it is underway, so in the course of exports Rs 1000 crore gets executed in FY22, that itself gives you an idea that what's going to happen.

**Chintan Sheth:**

Right. And you see the export-led growth, so beyond this Rs 1400 crore, what are the pipeline we are looking at if you can comment on that?

**Rajeev Mehrotra:**

Yes, that actually is a very difficult question, because there have not been any tenders, these tenders have started rolling out now. One of the tenders for 240 coaches, they initially asked for expression of interest and that has been done. But calling it as an order in process is only correct until the tender or price has been quoted. Most of the countries are still struggling with Covid. In Africa the impact is reaching now, the COVID is still troubling them. We see

normalcy a lot in India, but the countries where we are working, they still have serious issues there.

**Chintan Sheth:** Right and that must have squeezed our international consultancy business as well?

**Rajeev Mehrotra:** Yes, people are not allowed to travel, people were not going to site and this is going to affect similarly to the companies having export business.

**Moderator:** Thank you. The next question is from the line of Bajrang Bafna from Sunidhi Securities. Please go ahead.

**Bajrang Bafna:** Sir just to understand that if we see the kind of confidence that you were showing in last quarter concall, in terms of growth and in terms of visibility and now what we are hearing 15%, 20% kind of growth on FY20, but if we see the kind of allocations that has come in the budget and the kind of NIP which is going to go through and even yesterday in Parliament even Prime Minister has spoken very strongly on the pickup in the infrastructure side, this is high time to deliver on that, and our channel checks are also suggesting that there will be huge pick up on the ground in terms of projects and all. So, in that kind of environment you are very close to that machinery and if I'm not wrong last time you said 20% was the growth in last five years when the execution was on the government side was a bit of slow and then next five years are going to be pretty robust. And in that environment growing double will be a possibility. So what is the precise reason of showing some sort of low confidence as compared to last quarter? Pardon me, for my ignorance, but just I sense and that is why I raised this question. Thank you.

**Rajeev Mehrotra:** So I don't want to run into the danger of creating over optimism, we believe in promising a moderate sort of scenario and delivering better than that. If the sector give us opportunity, we will not be sitting idle. What, I have indicated 15% is again, looking at disruptions may still continue for next 2-3 months, we are still to go through the vaccination at the mass level. So the disruptions of COVID are not out, I'll say we are almost 75% - 80% only normal, we are not able to travel freely. So with this, I am still counting that normalcy is expected in June, but once the projects come in hand, a lot of work which can be done in-house definitely will give us growth and whatever is promised in budget, there is a process to roll out the project. So you will get work by June or September, we will start working on implementation. So, revenue may not fully come in FY22 even out of the budgeted possibilities. We may get the orders, but converting that order into revenue is possible in some components like the quality assurance, yes, it will get converted, like the power procurement, it would get converted immediately.

**Bajrang Bafna:** Got it. And sir my second question is, we have a sizable cash on our balance sheet and in last three months, the interest rates have come down drastically in the economy and there are

little hopes that they will rebound anytime soon because there are RBI indications, they'll try their level best to keep interest rates low in the economy.

**Bajrang Bafna:** So in that scenario our ROEs will be unnecessarily depressed it create such a huge reserve from the balance sheet, so any thought process on that improvise the return on that if you throw light on that it will be really helpful?

**Rajeev Mehrotra:** I think there were two possibilities that we return the cash and surplus of shareholders. For that we did a buyback in November and dividend of Rs. 120 crore in December. On the investment side, I will not commit till we actually have internal processes done for that. So, we will definitely be looking at possibilities to optimize the returns. I fully share your concern.

**Moderator:** Thank you. The next question is from the line of Manoj Shah from Laxgov Investment. Please go ahead.

**Manoj Shah:** Just wanted to understand as you said that the margins are very lower turnkey projects roughly around 3% and in order book it has a 37% share so how do your existing order book of the turnkey projects are? These are fixed price contracts or there is escalation clause, can you comment on the packing of it or what is the thought process on that?

**Rajeev Mehrotra:** So Manoj, I could not fully hear what you are asking. Is that on the existing turnkey order book the margin certainty of around 3%, is this the question?

**Manoj Shah:** Yeah or basically while bidding for a turnkey projects are we mostly the fixed price contracts or we look for the cost escalation kind of point?

**Rajeev Mehrotra:** This is a cost plus contract and any deviation is passed on back to the railways. We are only doing railway turnkey projects and therefore the margin is very less because neither our cash nor our exposures to such deviations is taken.

**Manoj Shah:** So basically you are saying there is a margin follow but it is protected with 3% it is not that the cost component has gone up so you will get right?

**Rajeev Mehrotra:** This is cost plus and the plus component is almost you can say very carefully protected by us and not subjected to any such deviations in the project.

**Manoj Shah:** And while replying earlier to some previous questions you were saying that you need more turnkey more as a utilized the bandwidth which is lying idle at the company level that is what you are going for the turnkey projects because the margins will move and you want to protect 25% of your order book target?

**Rajeev Mehrotra:** I will just rephrase this explanation, if I gave incorrectly last time. What we are saying that we have people who are doing similar works for lot of other rail connectivity projects. So same

set of people can handle a little bit more and they have successfully done it for last 2-3 years without adding much of manpower. We decided to pick up this 3% margin business incrementally and without creating any extra capacity in the company. So therefore low margin business was accepted and even this new order has come through a competitive bidding.

**Manoj Shah:** And also can you comment on the regarding the payment and the receivables from the government on these projects like how what is the payment cycle if you can comment on that?

**Rajeev Mehrotra:** I hope you are only asking about the turnkey projects.

**Manoj Shah:** Overall the government projects whatever you are handling, how is the billing kind of it and your receivables, delays kind of it if you can give a concerns of it like once you bill, it how much time it takes you on an average to get the payment and so on kind of thing?

**Rajeev Mehrotra:** Let me first clear the turnkey where major cash flow would be happening, these are sizeable contract and here we get money in advance. 20% cost of the project is given upfront and then reimbursed, as it reaches certain level it will be replenished. So we do not put any working capital from our side for these projects. So my cash is not affected by any of such project activities. Coming to other business of quality assurance or PMC for projects or power procurements etc 3-4 months', 100 days cycle remains. This year may be we could see may be 10 to 15 days additionality, if this happens. There have been some delays, I mean this is not as efficient as it was last year, but not significantly worrying also. I mean there is nothing to worry about that may be 15-20 days higher than last year for some businesses.

**Manoj Shah:** During the current year, we have like receivables pending from the government or payment were on time kind of it or slight?

**Rajeev Mehrotra:** I will say all clients put together, it is was around 100 last year, this year it would be around 120 but still we have 45 or maybe 50 days to chase it and make it.

**Moderator:** Thank you. The next question is from the line of Parimal Mithani an Individual Investor. Please go ahead.

**Parimal Mithani:** I have question regarding the DIPAM guidelines which they come out in terms of MoU we are going to rate PSU on the basis of their performance as well as return on liquidity, return on ROC and all that for what we will be talking on in the media, are we aware of this, have the guidelines being percolated to you and in terms of quarterly dividends?

**Rajeev Mehrotra:** Let me tell you what has been happening so far, we have a MoU system which is signed by the concerned ministry based on the negotiation where DIPAM is also a party. So there are

three key financial parameters which carry a weight of 50%, the turnover increase, the profitability impact and the return on net worth. I think if any new parameter is suggested, it is not yet done and not yet signed by us.

**Parimal Mithani:** I am sorry, you are aware of in the media and all that with DIPAM sector coming on TV and saying in terms of performance we are going to rate you on ROE in terms of performance wise, in term of parameter market cap and they want their PSUs to perform and they are talking of quarterly dividend, they want to put markings on PSU how they perform and apparently your name has come in one of the divestment things also, so I just wanted to know what you think is in terms of have you been aware of it that is why I wanted to know?

**Rajeev Mehrotra:** I think there are three issues in your point. One is that the new parameters for evaluation, yes some deliberations is going on, but officially not yet notified and they are trying to do it online. So this should be an online system of submitting data and setting targets and then getting evaluated against it. As far as dividend is concerned, I will not comment on the current year though we have already paid one interim, but last year, we already paid two interim dividends and one final. So, typically we are there almost three times, may be the government says one more time, we will move within the requirement.

**Parimal Mithani:** Sir, secondly in terms of your export order, what is the possibility you think we will be able to deliver on the export or in the current quarter and you think that still what bottlenecks to deliver your best?

**Rajeev Mehrotra:** No, the bottlenecks have actually been handled now, otherwise we thought of starting exports from Q3, main problem came because of certain assemblies ordered for Mozambique Cape Gauge. So there was some delays from the suppliers, nothing to do with railways production units. Now things have started streamlining and hopefully, the first set of locomotives will be shipped by this month end. So all those issues are handled, but then you have a delay of two, three months by now.

**Parimal Mithani:** Last question if I can ask, just wanted to know your update in terms for your subsidiary REMC Ltd. I think the numbers are quite subdued considering we are moving more into electrification from diesel to electrification of railways locomotives and all, so how do you see that going ahead sir because I think the railway is the largest consumer of diesel and how does this help us in terms of our because we are delicensing and how does that revenue percolate to us going ahead?

**Rajeev Mehrotra:** We are right now handling around 1400-megawatt purchase of power for the Railways which is 65%-70% of their load. So there is a lot still to be done within the existing electrified capacity. Then electrification is happening and you would have seen that they plan to do whole thing by December 2023. The entire broad gauge network would be electrified and this is estimated that by then the requirement of power would be around 4,000 megawatt. The



power procurement should at least double from now. Now, why this was subdued this year because suddenly there was almost one-fourth demand or may be one-third demand of power then what was normally needed by railways. Trains were not moving, except the goods ones, mostly. So the fee we get from the Railways per unit purchase was directly affected by less purchase of power by the Railways, but the business model remain intact as the railways operations pick up, we are getting more and more now.

**Parimal Mithani:** You said some 400 you are currently procuring it will go to about 4,000 megawatt, is it correct to assume currently you are doing 400, will go to 4000?

**Rajeev Mehrotra:** We are doing 1,400 MW.

**Parimal Mithani:** And that you have 0.7 paisa basically?

**Rajeev Mehrotra:** In that 7 paisa and revenue from this will go up when 4,000 MW of the installed capacity would be fully electrified.

**Parimal Mithani:** Your guidance in terms of that business how do you see that going like three, four, five years like if you can just tell us something on that?

**Rajeev Mehrotra:** I think there is a lot of enthusiasm with the long-term view the government has set through the National Infrastructure Pipeline. There are other added projects to it and National Rail Plan which gives you a long term investment profile till 2030. So I think there is much more definiteness in the assessment of the sector possibly than what was there earlier and we will prepare to catch whatever maximum we can get out of these new investments.

**Moderator:** Thank you. The next question is from the line of Rohan Advant from Multi-Act. Please go ahead.

**Rohan Advant:** Sir my first question is when you say that FY22 is likely to be 10% to 15% growth over FY20 if I look at the exports alone we have a 1,400 crore order book and we do whatever 400, 500 crore this year we will end up with around 1,000 crores, 900 crores in FY22 versus 500 crores of exports in FY20 so that alone should give you a 15% kind of growth, so with the other business expected to be flat FY22 versus 20 can you just reconcile this for me?

**Rajeev Mehrotra:** Let me make a comment, there is no reason to such pessimism and optimism when I am saying 15% growth, I am assuming exports Rs 700 - 800 crore because that we have already set whatever we are trying to do now Rs 500 or 600 crore I cannot give a very definitive number because we are still trying to see whatever maximum shipments can happen, but whatever is spill over, it is correct to say that would be shipped in FY 21-22. Now 21-22 shipments you can see from the order book Rs 700 to 1,000 crore can happen. It does not mean that we will not grow on the turnkey or we will not be executing the turnkey contracts

taken. If it is possible to grow at 20% yes we will do it, but I do not want to give a very high indication at this stage let us wait to see the ground execution realities till June or July.

**Rohan Advant:** Sir, the overall expenditure buoyancy and commentary that we have been seeing from the budget what in terms of our consultancy business what you are saying is that this gives us a lot of opportunity for FY22 order book, revenue will flow maybe thereafter, but the order book possibilities for consultancy in FY22 are promising?

**Rajeev Mehrotra:** Yes, that part is correct what I have said that the whole execution would not happen because typical order book average delivery is two years, but what I explained during this conversation that some of the consulting works like the power procurement, like quality assurance would actually get executed within two to three months. If there is a metro project, if there is a rail project, if there is a rail connectivity project, the period could be three years. So the average ballpark number for the order book is say two years.

**Rohan Advant:** Sir lastly on the DFC orders where you said that we did not like want to go down in terms of bidding, was that won by the private sector and is that more and more why our consultancy order book is remaining constant or these two are not the same things?

**Rajeev Mehrotra:** I am sure we are not driven by one order only, but I will not plunge for an order what the company cannot sustain the margins or what inputs client wants to have for requisite analysis. If we take a project, we give our inputs by a certain standard and which we will not compromise for the sake of price.

**Rohan Advant:** Sir, this went to the private sector?

**Rajeev Mehrotra:** Yes.

**Rohan Advant:** Sir if I can squeeze in one last question, if you look at the budget allocations while there is an increase in the direct allocation the IEBR has been reduced, does that have any implication on us or it is the same whether it comes from this pocket or another?

**Rajeev Mehrotra:** I think our target number is Rs. 2.15 lakh crore. So that is on the expenditure side. CAPEX side is more of business interest to us and IEBR etc. is their internal allocation, how much comes from the budget or IEBR or others.

**Moderator:** Thank you. The next question is from the line of Pushkar Jain from Sequent Investment. Please go ahead.

**Pushkar Jain:** Just to put it in terms of figure we are approximately planning around 2,800 crore of top line in FY22?

- Rajeev Mehrotra:** Let me not give a definite number when I said 10% earlier, I was thinking to stretch it to 20%, but the range could be 10% to 20% and safer way would be to see a double-digit growth, it is definitely visible in 21-22.
- Moderator:** Thank you. The next question is from the line of DN Shah from SSPL Global Trade Wings. Please go ahead.
- DN Shah:** Sir, looking at the 9 months financial I am saying that there is some expense of something like on the purchase as per something like Rs 75 crore and we know hardly any export revenue, so does it mean we have already booked the expenses for the exports whatever is going to happen and we are going to when we book the revenue at that time the margin are going to be much higher than 20% which are going to be actual margin, but quarter by quarter it will differ that way?
- Rajeev Mehrotra:** You have to see the purchase and change in inventory together basically I think this offsets the numbers one is positive, one is negative if you are looking at the consolidated statement. We will book it only when the matching revenue is available and not otherwise.
- Moderator:** Thank you. The next question is from the line of Harshit Kapadia from Elara Capital. Please go ahead.
- Harshit Kapadia:** Just wanted to check with the export front the government has been very vocal about PSU looking to enhance the export business, so anything that we are working on can you share some insights in terms of because these two will be executed in let us say this quarter, next quarter, but then after which we do not have the order execution and order inflow visibility is there discussion is already going on with some country if you can highlight types, any new segment that you are looking to enter passing the locomotive and passenger coaches that would be helpful?
- Rajeev Mehrotra:** There is definitely a move to increase the exports. Atmanirbhar Bharat and then making locally all those items, we are addressing. This order is very important because first time a cape gauge order is going from India. Once this shipment goes and works well in those countries we will have lot of new customers. Because people are not travelling, so people will not put the tenders to international community till normalcy is felt. So there is lot of accumulated demand which I hope to see rolling out in one or two quarters next. One tender we are looking at for 240 coaches, I will not be able to tell the country and details, but yes there is a broad gauge 240 coaches' tender which is under discussion. Now, this export push definitely there is potential because what we are exporting is very less compared to the market size. There was need to increase the product variety this is what exactly we have done this year, we have added cape gauge locos and coaches to our portfolio and I am sure this will also give us growth going forward.

**Moderator:** Thank you. The next question is from the line of Gautam an Individual Investor. Please go ahead.

**Gautam:** Questions regarding the 10-year strategy for RITES so when we look at long term trend as a impacting RITES one big plus infrastructure is always going up, infrastructure expense, on the flip side renewable are picking over to some of our energy based plants they may be much smaller when we look at the long term and second sir there is a lot of divestment plans clearly and with that the margins also positively go down if you look at some 10 years, 15 years, sir just want to hear your thoughts on how this will probably impact price in the long run and what plans were there to mitigate this and how do you plan to diversify from this?

**Rajeev Mehrotra:** I think let me possibly handle the easiest one, on the divestment side we are not the one to really decide or comment and we will have to wait for the government announcements in this regard. As far as the sectors are concerned, they have said the railways is in the infrastructure sector. Now within the railway, which company would be taken up and we are also awaiting that. Now coming back to the growth, the segments which RITES has added, we started as a consultant. Within consultancy, we added portfolio of highways, airports, metros, metros outside India, we are doing Mauritius metro. Then we started locomotive exports, leasing in India and then power management. So whenever we find that there is a reasonable safe business model even out of consultancy, we have been tapping those areas immediately. There is nothing to really share with this forum right now, but we will be looking at the possibilities which will emerge in infrastructure sector in India going forward. The CAPEX increase in 21-22 is very high actually 35% increase in budget directly for government projects and then of course the NIP looks at private participation and states participation, which is additional. So there is lot to happen in this sector we have to remain relevant, we have to remain updated, we have to remain competitive in all these areas. I think this company, should create value whether in whatever ownership right it remains. If the business model is intact, business guys are intact I think the value will remain relevant.

**Gautam:** One little clarification I think some of the contracts which you bid some of them come from direct PSU company and some come from ministries also, so sir order from the ministry are would not be affected even if the ownership changes I guess ministries will still be the government, could you tell me what percentage comes from the ministries and what comes from the PSU company form of business?

**Rajeev Mehrotra:** It is almost two-thirds, one-third. Two-thirds is nomination and one-third is tender, but once everything will come through tender we are even getting through tenders, we are very shortly going to share one more development which has come through tender, it is a government project. So it is not true that if we go through competition, we will not get work this is only mode of selection. Earlier, for the government, it was easy to give a nomination they were doing it, but if the tendering route is there we will be competing and hopefully getting our share of business as well in the future. There is no reason to worry about the

private sector not giving, there are locomotives of RITES which are working with the private sector, we have done work for Private Player for their rail connectivity, and we are doing work for port connectivity for private ports. So I think the portfolio of RITES is wide, based in terms of ownership of projects, of the clients as well as our services.

**Moderator:** Thank you. The next question is from the line of Shreyans Mehta from Equirus Security. Please go ahead.

**Shreyans Mehta:** Sir two questions from my side one giving that this year we have revenue coming in from turnkey and next majority from the consultancy part and next year we will be having more from exports and turnkey, so do you see any pressure on the margins, that is number one and number two, sir, can you give we had planned in CAPEX of roughly Rs 250 to 300 odd crores, so what is the status out there?

**Rajeev Mehrotra:** Let me start with the first one, the export has reasonably good margin and that is certain. The orders are there and these orders are under implementation now. So, one should feel really about that at least this component is definitely there, then add on to this what I indicated turnkey, then consulting growth. So maybe the overall situation could be much better than possibly what has been guardedly made out and I think I have said what I wanted to say. Coming back to the CAPEX, this year the CAPEX has not been done much because of requirements subdued. We still have provision for locomotive purchase for leasing Rs 80 crore.

**Shreyans Mehta:** So this is the pending amount so we have invested Rs 20 odd crores right Rs 100 odd crores was to be invested I guess?

**Rajeev Mehrotra:** That is another, that is for the locomotive workshop for maintenance of our locomotives as well as locomotives of other companies. Now that we are trying to rethink that was Rs. 150 crore we tried to optimize this maybe at one-third by relocating and one of the facilities in our own Wagon factory that we thought of, we just put on hold.

**Shreyans Mehta:** And sir Rs 200 odd crores was on the office building so any status out there?

**Rajeev Mehrotra:** We have started work in one place in Kolkata that would be catering to North East and Eastern for the requirement, that is going on, the work has started.

**Shreyans Mehta:** So entire Rs 200 crore has been invested or how much has been?

**Rajeev Mehrotra:** That is for three, four, we were to do something in Lucknow we have not yet started, we were to do something in Delhi. We have just purchased few assets, I think around Rs 13 crore has been spent. We have invested in Delhi closer to our office, we have acquired some

properties. We have a land also in Gurugram, but we are going for construction shortly for our training needs.

**Shreyans Mehta:** Even next year?

**Rajeev Mehrotra:** Maybe next year also we may not do it, we will just wait and see how to optimize this. So Rs 200 crore would not be spent even in FY 21 - 22 fully.

**Shreyans Mehta:** So how much would be we might be invested till date and this office building and approximate number?

**Rajeev Mehrotra:** Approximate would be just may be Rs. 20-26 crore of advance payment we would have done.

**Shreyans Mehta:** Sir on the REMC Ltd side, what is the status?

**Management:** REMC Ltd, we have thought of investing up to Rs 200 crore. Our share is around Rs 180 - 190 crore that is 51% ours and then rest is of railways. Those tenders are not yet decided the dates for submission is 15<sup>th</sup> March. In FY21, this will not happen.

**Shreyans Mehta:** So this year, the majority would be one is ISRDC which is Rs 48 odd crore and the other is office building roughly Rs 20 - 25 odd crore?

**Rajeev Mehrotra:** Yes, some more small expenditure on computers, equipment etc. maybe Rs 15 - 20 crore would have gone there.

**Moderator:** Thank you. As there are no further questions from the participants I now hand the conference over to the management for their closing comments.

**Rajeev Mehrotra:** Thank you dear participants. Thank you for your patience and very probing questions. I know the expectations possibly were higher this quarter, but as I explained the reasons, there were various, I would say disturbances which did not allow us to maintain what we were thinking, but nevertheless there is no major change in the underlying capability or the order book or the capacity to execute. The management is looking at the ways to execute faster and also planning a good order book addition in FY22 when lot of these CAPEX, new projects will roll out. So believe in the company, believe in the management and I am sure we will get a meaningful performance from this company in the times to come. Thank you.

**Moderator:** Thank you all for being a part of this conference call. If you need any further information or clarification, please send an email to [Gaurav.g@conceptpr.com](mailto:Gaurav.g@conceptpr.com). Ladies and gentlemen this concludes your conference call for today. Thank you for using Chorus Call conferencing service, you may disconnect your lines now. Thank you and have a pleasant day.

-End-

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