



SMC Ranking
 ★★☆☆☆ (3/5)

Issue Highlights

Industry	Infrastructure
Offer for sale (Shares)	25,200,000
Employee reservation	1,200,000
Net Offer to the Public	24,000,000
Issue Size (Rs. Cr.)	453-467
Price Band (Rs.)	180-185
Discount offered to Retail & Employee investors	Rs. 6
Offer Date	20-Jun-18
Close Date	22-Jun-18
Face Value	10
Lot Size	80 Equity Share

Issue Composition In shares

Total Issue for Sale	24,000,000
QIB	12,000,000
NIB	3,600,000
Retail	8,400,000

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	100.00%	87.40%
QIB	0.00%	6.00%
NIB	0.00%	1.80%
Employee reservation	0.00%	0.60%
Retail	0.00%	4.20%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

The objects of the Offer are-

- To carry out the disinvestment of 24,000,000 Equity Shares held by the Selling Shareholder in the Company, equivalent to 12% of the issued, subscribed and paid up Equity Share capital of the Company as part of the Net Offer, and such Equity Shares that may be reserved for Employee Reservation Portion, if any, subject to necessary approvals
- To achieve the benefits of listing the Equity Shares on the Stock Exchanges.

Book Running Lead Manager

- Elara Capital (India) Private Limited
- IDBI Capital Markets & Securities Limited
- IDFC Bank Limited
- SBI Capital Markets Limited

Name of the registrar Link Intime India Private Limited

About the Company

Incorporated in 1974, RITES Ltd. is a Government of India Enterprise, under the aegis of Indian Railways. RITES Ltd., an ISO 9001:2008 company, is a multi-disciplinary consultancy organization in the fields of transport, infrastructure, and related technologies. It has developed expertise in (1) Design, engineering and consultancy services in transport infrastructure sector with focus on railways, urban transport, roads and highways, ports, inland waterways, airports and ropeways; (2) Leasing, export, maintenance and rehabilitation of locomotives and rolling stock, (3) Undertaking turnkey projects on engineering, procurement and construction basis for railway line, track doubling, 3rd line, railway electrification, up gradation works for railway transport systems and workshops, railway stations, and construction of institutional/ residential/ commercial buildings, both with or without equity participation; and (4) Wagon manufacturing, renewable energy generation and power procurement for Indian Railways through its collaborations by way of joint venture arrangements, subsidiaries or consortium arrangements.

Strength

Comprehensive range of consultancy services and a diversified sector portfolio:

The Company provides a comprehensive range of consultancy service offerings, primarily in the transport infrastructure space, in order to address the varied and expanding requirements of its clients across the market segments in which they operate. Its diversified sector portfolio in consultancy services in the transport infrastructure sector enables the company to access sectors with growth potential according to changing macroeconomic trends and also enables it to expand its operations in the sectors in which it already has significant presence.

Large order book with strong and diversified clientele base across sectors:

As of March 31, 2018, its order book stands at Rs.4818.66 Cr, comprising 53% for consultancy services, 29% for Turnkey projects, 15% for exports and the rest for leasing and power generation projects. Out of total contracts on hand 77% is from Central/State Governments and the rest from others. It has total 353 ongoing projects.

Technical expertise and business divisions with specialized domain knowledge:

In order to enable the company to provide tailored solutions for its clients and customers, the company has streamlined the divisions in its organization in order to meet the specific requirements of each such market segment. The company has enhanced its domain knowledge and technical expertise by participating in consortiums with several consulting partners including SYSTRA, EGIS Rail S.A, GEOCONSULT ZT GmbH amongst others from countries such as France, Japan, Austria, U.S.A, Germany and Denmark.

Strong and consistent financial performance supported by robust internal control and risk management system:

The Company has been consistently profitable over the last five years and have paid dividends regularly to the equity shareholders. Its financial position enables the company to satisfy the minimum financial eligibility criteria for bidding in its projects, which generally comprise of financial parameters such as net worth and profitability for various projects across all market segments.

Preferred consultancy organization of the Government of India including the Indian Railways:

Given its proven track record of financial performance, service offerings and the market segments in which it operates, the company occupies a key position in the growth plans of the Government of India with respect to the infrastructure and energy space. Thus it believes that it should enable the company to enhance synergies between the varied divisions in its Company and to strengthen its financial performance even further.

Strategy

Leverage its experience and continue to build on its core competencies in transport infrastructure sector: The company intends to leverage its domain knowledge and technical expertise across the various sub-sectors of the transport infrastructure sector for the purposes of entering into business opportunities and other emerging sectors either directly or indirectly, by way of alliances, joint ventures, subsidiaries and consortium arrangements. The company is seeking to increase its operations in emerging sectors and are currently undertaking projects in these sectors, such as renewable energy generation, power procurement, railway electrification as well as turnkey projects in up gradation of railway workshops, due to increase in demand in such sectors, government plans and macroeconomic trends.

Strengthen its EPC/Turnkey business: The Company plans to increase scale of operations in railway infrastructure sector by taking up turnkey projects and expansion of services for metro and airport projects etc. Also, through joint ventures and subsidiaries, it intends to increase share of business in renewable energy generation and power procurement for Indian Railways, manufacturing of wagons and joining upcoming opportunities like station development etc. So far, it has been awarded two projects for new railway lines and two projects for railway electrification. Considering the extent of new investments in electrification and railway infrastructure, the company intends to strengthen its organization for taking more such works.

Expand its international operations: The Company intends to continue expanding its international service offerings in order to acquire new clients. Over the years, it has expanded its service offerings to address new market opportunities and macroeconomic trends arising in the infrastructure sectors. It plans to expand its international operations by expanding its business of rehabilitation of locomotives and wagons overseas and the exporting of railway locomotives, rolling stock, railway equipment and other spares. The company is also planning to expand its existing range of products for export to various international customers by developing different types of locomotives for export and leasing.

To expand its operation in the power procurement and renewable energy sector: The company intends to expand its operations in the power procurement and renewable energy sector through its subsidiary, Railway Energy Management Company Limited, which is the only entity mandated for procurement of power from third parties and for captive renewable energy generation, for the Indian Railways.

Risk Factor

Depend on the MoR for a significant portion of its business: The company depends on the MoR for a significant portion of its business including equipment, technical staff etc. Any changes in the government policies or decisions by the MoR may result in an adverse effect on its business growth, financial condition and results of operations.

Certain competitive pressures from the existing competitors: The Company faces certain competitive pressures from the existing competitors and new entrants in both public and private sector. Increased competition and aggressive bidding by such competitors is expected to make its ability to procure business in future more uncertain which may adversely affect its business, financial condition and results of operations.

Dependent on the line of credit provided by the GoI and other funding agencies: The Company is dependent on the line of credit provided by the GoI and other funding agencies provided to countries that it operates in. In the event there is any change in the policies of the GoI or the funding agencies or the countries' utilization of line of credit or the line of credit is withdrawn or reduced, its business and operations may be adversely affected.

The company is subject to inherent risks associated with external suppliers, contractors and sub- contractors being involved in its projects: The Company relies upon certain agencies in order to meet its requirements of personnel and manpower with certain skills and competencies for executing certain projects. So, the company may have to face the risk of unsatisfactory quality of work

performed by its agencies, suppliers, contractors and sub – contractors, which could result in a negative impact on its business, reputation, financial condition and results of operations.

Peer comparison

As per the company , there are no comparable listed companies in India engaged in the same line of business as the Company

Valuation

Considering the P/E valuation on the upper price band of Rs.185 EPS and P/E of estimated annualised FY2018 are Rs.16.84 and 10.99 multiple respectively and at a lower price band of Rs. 180, P/E multiple is 10.69. Looking at the P/B ratio on the upper price band of Rs.185 , book value and P/B of estimated annualised FY18 are Rs.115.21 and 1.60 multiple respectively and at a lower price band of Rs. 180 P/B multiple is 1.56. No change in pre and post issue EPS and Book Value as the company is not making fresh issue of capital.

Industry overview

Gol has been very proactive and has brought in a variety of measures to step up public investments – which include substantial increase in budgetary outlays in high-impact sectors, push for private sector investments, building institutional capacity through establishment of new infrastructure PSUs, and intensive implementation follow-up for completion of projects. This is reflected in the strong growth of the infrastructure sector since 2002. Strategic management initiatives introduced in the Indian Railways include ‘Near Plan Holiday approach’ (i.e., not taking up new projects), prioritizing and completing on-going projects, accounting reforms, transparency in procurements and creating a decision support system for project implementation. Indian Railways may now be on a fast trajectory to growth, manifested in an INR8.56tn investment plan over the period FY15 – FY19 and supported by other systematic changes including funding support from LIC and the States. Gol realized that lack of adequate carrying capacity and the resulting congestion has accelerated Indian Railway’s loss of market share to other modal transports. Hence, in the last 3 years, Gol has made commendable progress in initiating infrastructure creation.

Outlook

The Company was incorporated by the MoR and have the benefit of being associated with the Indian Railways, which is the fourth longest rail network in the world. The company has an experience spanning 43 years and undertaken projects in over 55 countries including Asia, Africa, Latin America, South America and Middle East region. Moreover, it has been a debt free company for more than a decade. An investor may opt the issue for long term.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	June 20, 2018
Bid/Offer Closing Date	June 22, 2018
Finalisation of Basis of Allotment with the Designated Stock Exchange	June 27, 2018
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	June 28, 2018
Credit of Equity Shares to depository accounts of Allottees	June 29, 2018
Commencement of trading of the Equity Shares on the Stock Exchanges	July 02, 2018

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 31-Dec-17 (9 Months)	Period ended 31-Mar-17 (12 Months)	Period ended 31-Mar-16 (12 Months)
Total Operating Income	936.15	1,353.36	1,090.53
Total expenditure	636.50	995.08	734.15
Operating Profit	299.65	358.28	356.38
OPM%	32.01	26.47	32.68
Other Income	124.91	209.92	136.20
PBDIT	424.57	568.20	492.57
Depreciation	27.68	38.26	34.64
PBIT	396.89	529.94	457.93
Interest	5.27	11.33	4.71
PBT	391.61	518.61	453.22
Share of profit/(loss) of joint Ventures	-2.31	-11.47	-2.60
PBT	389.30	507.14	450.62
Tax	-136.76	-145.38	-167.69
Profit after tax	252.54	361.76	282.93

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 31-Dec-17	As on 31-Mar-17	As on 31-Mar-16
Non-current Assets	408.30	426.16	458.97
Financial Assets			
Investments	120.05	120.05	170.05
Loans	8.71	9.65	10.32
Other Financial Assets	172.18	244.68	196.69
Deferred Tax Assets (net)	28.74	46.80	27.51
Other Non Current Assets	123.35	120.40	90.57
Total	453.03	541.57	495.13
Current Assets			
Inventories	30.75	50.41	13.07
Financial Assets	4055.07	3784.08	3441.72
Total Current Assets	4085.81	3834.49	3454.79
Total Assets	4947.13	4802.22	4408.90
Non-current Liabilities			
Financial Liabilities	505.49	304.18	312.75
Total Non-current Liabilities	505.49	304.18	312.75
Current Liabilities			
Trade Payables	70.44	84.96	89.93
Other Financial Liabilities	1831.39	1926.27	1896.02
Provisions	99.71	150.55	104.65
Current Tax Liabilities (net)	0.03	0.01	1.01
Other Current Liabilities	215.85	250.33	114.99
Total Current Liabilities	2217.42	2412.11	2206.60
Total	2722.90	2716.29	2519.35
	2224.23	2085.93	1889.55
Net Worth Represented By:			
Equity Share Capital	200.00	200.00	200.00
Other Equity	1971.99	1841.10	1763.52
Non-controlling Interests	52.24	44.83	26.03
Net Worth	2224.23	2085.93	1989.55

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

E-mail: smc.care@smcindiaonline.com



Moneywise. Be wise.

Corporate Office:
11/6B, Shanti Chamber,
Pusa Road, New Delhi - 110005
Tel: +91-11-30111000
www.smcindiaonline.com

Mumbai Office:
Lotus Corporate Park, A Wing 401/402, 4th Floor,
Graham Firth Steel Compound, Off Western
Express Highway, Jay Coach Signal, Goreagon
(East) Mumbai - 400063
Tel: 91-22-67341600, Fax: 91-22-67341697

Kolkata Office:
18, Rabindra Sarani, Poddar Court, Gate No-4,
5th Floor, Kolkata - 700001
Tel.: 033 6612 7000/033 4058 7000
Fax: 033 6612 7004/033 4058 7004

SMC Global Securities Ltd. (hereinafter referred to as "SMC") is regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of broking, depository services and related activities. SMC is a registered member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited, MSEI (Metropolitan Stock Exchange of India Ltd) and M/s SMC Comtrade Ltd is a registered member of National Commodity and Derivative Exchange Limited and Multi Commodity Exchanges of India and other commodity exchanges in India. SMC is also registered as a Depository Participant with CDSL and NSDL. SMC's other associates are registered as Merchant Bankers, Portfolio Managers, NBFC with SEBI and Reserve Bank of India. It also has registration with AMFI as a Mutual Fund Distributor.

SMC is a SEBI registered Research Analyst having registration number INH100001849. SMC or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities market. SMC or its associates or its Research Analyst or his relatives do not hold any financial interest in the subject company interest at the time of publication of this Report. SMC or its associates or its Research Analyst or his relatives do not hold any actual/beneficial ownership of more than 1% (one percent) in the subject company, at the end of the month immediately preceding the date of publication of this Report. SMC or its associates its Research Analyst or his relatives does not have any material conflict of interest at the time of publication of this Report.

SMC or its associates/analyst has not received any compensation from the subject company covered by the Research Analyst during the past twelve months. The subject company has not been a client of SMC during the past twelve months. SMC or its associates has not received any compensation or other benefits from the subject company covered by analyst or third party in connection with the present Research Report. The Research Analyst has not served as an officer, director or employee of the subject company covered by him/her and SMC has not been engaged in the market making activity for the subject company covered by the Research Analyst in this report.

The views expressed by the Research Analyst in this Report are based solely on information available publicly available/internal data/ other reliable sources believed to be true. SMC does not represent/ provide any warranty expressly or impliedly to the accuracy, contents or views expressed herein and investors are advised to independently evaluate the market conditions/risks involved before making any investment decision. The research analysts who have prepared this Report hereby certify that the views /opinions expressed in this Report are their personal independent views/opinions in respect of the subject company.

Disclaimer: This Research Report is for the personal information of the authorized recipient and doesn't construe to be any investment, legal or taxation advice to the investor. It is only for private circulation and use. The Research Report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. No action is solicited on the basis of the contents of this Research Report. The Research Report should not be reproduced or redistributed to any other person(s) in any form without prior written permission of the SMC. The contents of this material are general and are neither comprehensive nor inclusive. Neither SMC nor any of its affiliates, associates, representatives, directors or employees shall be responsible for any loss or damage that may arise to any person due to any action taken on the basis of this Research Report. It does not constitute personal recommendations or take into account the particular investment objectives, financial situations or needs of an individual client or a corporate/s or any entity/s. All investments involve risk and past performance doesn't guarantee future results. The value of, and income from investments may vary because of the changes in the macro and micro factors given at a certain period of time. The person should use his/her own judgment while taking investment decisions. Please note that SMC its affiliates, Research Analyst, officers, directors, and employees, including persons involved in the preparation or issuance of this Research Report: (a) from time to time, may have long or short positions in, and buy or sell the securities thereof, of the subject company(ies) mentioned here in; or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company(ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender/borrower to such subject company(ies); or (c) may have any other potential conflict of interest with respect to any recommendation and related information and opinions. All disputes shall be subject to the exclusive jurisdiction of Delhi High court.