RITES Limited
Investor Conference Call Financial Results Q1FY22
August 13, 2021

Management

Shri Gopi Sureshkumar Varadarajan - Director Projects and Chairman & Managing Director

Shri Bibhu Prasad - Director Finance.

Moderator: Ladies and gentlemen, good day. This is Melissa, the moderator for your conference. Welcome to the conference call of RITES Limited, arranged by Concept Investor Relations to discuss its Q1FY22 Results. We have with us today, Shri Gopi Sureshkumar Varadarajan, Director Projects and Chairman and Managing Director and Shri Bibhu Prasad, Director Finance.

At this moment, all participant lines are in the listen-only mode. We will later conduct a question-and-answer session. If you have a question, please press '*' and '1' on your telephone keypad. Please note that this conference is being recorded. I would now like to hand the floor over to Shri Gopi Sureshkumar Varadarajan, Chairman and Managing Director. Thank you and over to you, sir.

Gopi Sureshkumar: First of all good afternoon and greetings to all of you. I, V.G Sureshkumar, Chairman and Managing Director, RITES Limited, welcome you all to Investor Conference Call on RITES Limited, Financial Results for Q1FY22. Hope all of you are keeping safe along with your families. I have with me our Director Finance Shri BP Nayak.

RITES Limited is Mini Ratna (Category-I) Schedule A Public Sector Enterprises and a leading player in the transport consultancy and engineering sector in India. Having diversified services and geographical reach RITES Limited is the only export arm to Indian Railways for providing rolling stock overseas, other than Thailand, Malaysia and Indonesia. The financial results presentation and press release has been uploaded on our website as well as the stock exchange yesterday. Hope all of you have been able to examine the same.

Let me begin with a Safe Harbor statement. The presentation which we have uploaded on our website yesterday and discussions during the call today, may have some forward-looking statements. These statements are considering the environment we see as of today and obviously carry a risk in terms of uncertainty, because of which the actual results could be different. And we do not undertake to update those statements periodically.

Now I am going to talk about the highlights of Company's result for Q1FY22 and then we can open the forum for question-and-answers.

We are pretty much back to pre-COVID level until March, till second wave hit us in April, affecting not only business but employees' health as well. Now I will briefly talk about the consolidated financials, first Quarter 2022 Results and as you all know almost 95% of our income is coming from standalone numbers as a part of the consolidation, so whatever I am talking about consolidated number is relevant to standalone also.

The Company's revenue from operations is up by 5.7% at Rs. 355 crore in Q1FY22 as against Rs. 335 crore in Q1FY21. Revenue growth softened mainly because of disruption caused by second wave of COVID, spillover of export shipments and first lot of turnkey projects getting substantially completed. The Company's total revenue on consolidated basis has remained flat at Rs. 377 crore as against Rs. 379 crore in Q1FY21. Flat total revenue can be attributed to decrease in other income on account of decrease in interest income and reversal of provision in Q1FY21. Core EBITDA stands at Rs. 97 crore against Rs. 60 crore up by 61.6% on account of consultancy and leasing growth. PAT stands at Rs. 78 crore against Rs.65 crore up by 19.8%. Core EBITDA and PAT margins were sustained at 27.3% and 20.6%. The earnings per share stands at Rs. 3 as compared to last year's Rs. 2.51.

Coming to segment now, Consultancy achieved a revenue of Rs. 204 crore against Rs. 185 crore in Q1FY21, up by 10.6% with sustained margin of 40.8%. Consultancy improved mainly due to increase in foreign income, however growth in domestic consultancy business softened by the second wave of COVID and less procurement by clients impacting Quality Assurance business.

Company’s leasing business has attained the pre-COVID level growth and Q1FY22 revenue stands at Rs. 32 crore as against Rs. 24 crore in Q1FY21. Leasing business margin has remained healthy at 41.5%.

Exports revenue has spilled over to Q2FY22, 30 coaches which were at port as on 30th June ‘21 has been shipped out in Q2FY22 and has already reached the destination. Out of the remaining export orders, two locomotives for Mozambique and 40 coaches to Sri Lanka are ready for shipment.

Revenue from turnkey construction project stands at Rs. 95 crore in Q1FY22 against Rs. 114 crore in Q1FY21. Turnkey revenue got impacted due to COVID disruption and first phase of turnkey projects getting substantially completed. However, revenue from recently secured electrification and new line projects to start reflecting in coming quarter.

Coming to REMC Limited, the revenue and profit of REMC Limited has reached the pre-COVID level and the revenue standing at Rs. 25 crore against Rs. 15 crore in Q1FY21. And profit after tax at Rs. 12 crore against Rs. 5 crore in Q1FY21.

Board of Directors have declared Rs. 2 per share of interim dividend. The Company's consolidated order book now stands at Rs. 6925 crore as of June 30, 2021, which is the highest ever for the Company. During the quarter Company secured new or extension of orders of about Rs. 1000 crore. We are continuously adding on to our order book and confident of achieving steady growth on account of efficient order execution. With this now, we can open the forum for question-and-answers please. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Arafat Saiyed from Reliance Securities. Please go ahead.

Arafat Saiyed: My first question is on the revenue part, I just want to understand what kind of growth you are looking FY22 and what would be the major segment that drives the growth?

Gopi Sureshkumar: As I pointed out, the major segment for driving the growth would be exports. The exports are spilled over from the previous year. And contractually we are to complete our export orders, which is of the tune of around Rs.1300 crore. We are focused on getting this order executed so, we expect that at least 80% of this export order will be executed this year and we will make a revenue share which will be substantial as a driving factor.

Our Consultancy segment is growing and we have enough orders to execute in the consultancy segment also. The QA has also reached a pre-COVID level *(during the ongoing 2nd quarter)*. So, we find that the QA will also contribute adding up to the consultancy revenue. Our Leasing is also in line, but our Turnkey segment which has the Phase-1 of turnkey segment is almost completed and the new orders which we have secured recently will be taking up from the 3rdQuarter. So I feel that there will be a reduction in the Turnkey segment. But overall, we find that the position would be slightly higher than the pre-COVID financial numbers.

Arafat Saiyed: My second question is on the railway expansion and the CAPEX on a railway side from the Government of India. Sir if you can throw some light on that, what kind of CAPEX you are looking and if you can guide on that and where it will be spending that would be great.

Gopi Sureshkumar: Railways have made a very ambitious CAPEX plan even for this financial year around, a little about Rs. 2 lakhs crore. Basically, it is for electrification, signaling and telecommunication, doubling and new lines etc. And also this time, there is a big amount of target given for the production units to produce around 750 locos and combination of coaches (about 8000). And there is an effective follow-up on these targets. So, I feel that in this target, RITES has an element to chip-in, particularly for the QA, we have already got the electrification orders for around Rs. 1200 crore. And our Turnkey for new lines is around Rs. 4000 crore. With this, we should be able to take it forward and sustain this Turnkey business for three to four years, as well as the QA will give us some amount of comfort in the bottom-line.

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

Chintan Sheth: So, sir one on the new Turnkey projects we got, which are new lines project for Rs. 4000 odd crore, those are the new line of business which we haven't received or executed earlier. And typically new lines are the high gestation projects which requires more than five years of timeline to complete. Can you elaborate on the timeline of those new service execution, how long we will take time to execute them? And second, you mentioned that 80% of the export order will be executed this year so, suffice to say that the entire Sri Lankan project and large part of the Mozambique project will get executed and small portion of Mozambique will get executed spill over to next year.

Gopi Sureshkumar: Yes, the new railway projects are new lines, I mean, these are greenfield projects, not Brownfield project. Some amount of land acquisition is also involved. And it has been awarded recently, there is some amount of modification and rechecking of the estimates and sanction of the estimates. So, these new projects would take off, it will take at least six months times to take off. And this will get completed in, as you rightly said, four to five year's time.

The first phase of turnkey projects which we are having are near completion, but still we have some residual work for the station development, as well as for one railway line, which will be around Rs. 300 crore to Rs.350 crore so, that will carry forward for us in the second and 3rd Quarter. And by that time, I think we should be able to start off the new line and, the electrification work which has been awarded a little bit earlier, that will also coming to the phase of execution. And by the 3rd or 4th Quarter, we should expect some revenue from the electrification projects. So, with that the new lines, we can just comfortably take that, it will go for four to five years' time.

The second question on Exports, you have rightly said that we will be able to complete all the Sri Lankan orders and there is a possibility that the part of the Mozambique orders may get slipped to the next financial year. This is happening because of the restrictions and some critical spare parts, these are cape gauge locos which we have been doing for the first time. And some critical parts are expected from other countries and there are some small delays here and there.

So rightly said that export around 80% will get completed by this year and Sri Lankan orders will get completed because they are already the broad-gauge locomotives and coaches, which is being done as a routine matter. Around 20% segment will get delayed in the Mozambique because of the new segment which we have entered through cape gauge, and it is dependent on certain critical spares which are to be imported. But we are making our efforts to see that this also is done within this financial year.

Chintan Sheth: And lastly, on the RLDA side, a lot of traction is getting from the station development and lot of projects being handed over to RLDA. Any color on what kind of revenues and what kind of potential we are looking at in that subsidiary?

Gopi Sureshkumar: Yes, RLDA is also connected with Station Development Corporation. There was some sluggishness in initial phase, but with the success of Gandhinagar and Habibganj getting completed now, there is some visibility in this type of modules. Additional stations have been added for expansion, around 49 stations have been now taken up for expansion. There would be good progress in this, in the coming future.

Chintan Sheth: Any revenue number or anything you would like to highlight, what can it contribute to over profitability?

Gopi Sureshkumar: Numbers, I can't say, but 49 stations have been added up for station development.

Moderator: Thank you. We have the next question from the line of Venkatesh Subramanian from LogicTree. Please go ahead.

Venkatesh Subramanian: My question is that we have a Rs. 11,000 crore order book at the moment. Could you please give us an idea of what is the execution timeframe for this Rs. 11,000 crore. Also, if you could just throw some light on what kind of orders did you expect for the current financial years?

Gopi Sureshkumar: With Rs. 11,000 crore order book, suppose if we take the pre-COVID level and the growth which we were trying to do from the pre-COVID level, so averaging out I think it should be in the tune of around Rs. 3000 crore. This means that we should have a visibility of revenue for around 3 to 4 years. Having consolidated this order books, now our focus is more on project execution and targeting business on the International Consultancy. We have already started submitting our bids. We have got some favorable results. And we are putting more emphasis on international bidding and as well as concentrating on getting some export orders. We have developed the standard gauge loco also; recently it has also been completed. With this our geographical reach for locos and rolling stock has moved from Southeastern Asian countries to African countries and now to Middle East countries also. So, we will focus more on getting some export orders as well as domestic , and international consultancy orders for railways, metros, airports as well as highway consultancy.

Venkatesh Subramanian: Some sort of a number sir, which is, what kind of order prospects for this year roughly some estimate?

Gopi Sureshkumar: We have been getting orders in a regular way for consultancy around Rs. 200 crore to Rs. 300 crore or Rs. 400 crore every quarter, I think that will continue. As we are closing on consultancy, we will be adding up orders also. And the export orders are something which we are looking out maybe we should strike something in the African countries of the same tune of around Rs. 1000 crore in the next year.

Venkatesh Subramanian: Sir REMCL Renewable, say in three to four years, how large can REMCL be, sir?

Gopi Sureshkumar: REMCL, this quarter has seen the highest turnover of Rs. 25 crore. If you can see earlier, we were doing around Rs.80 crore to Rs. 90 crore every year for REMCL in the pre-COVID situation. And the inflow was almost steady. One was the power procurement for Indian Railways which was almost constant and the power generation of the windmill, which was a variable element. And now with the ambitious plan of Indian Railways going for electrification 100%, the earlier requirement of around 2000[1] megawatt of power procurement, will get multiplied by at least two times. Therefore, we anticipate in the next four years, there could be a requirement of 4000[2] megawatts of power requirement which will take us through. Windmill will be constant. So we think we should have around 15% growth in coming years, aggregating to 60% (in next 4 years).

Venkatesh Subramanian: 15% CAGR --?

Gopi Sureshkumar: 15% CAGR for four years i.e. around 60% growth is anticipated in REMCL.

Venkatesh Subramanian: What is the current cash in the balance sheets as of 30th, June?

Gopi Sureshkumar: It's around Rs. 740 crore as our cash in the balance sheet.

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

Kunal Sheth: My first question is pertaining to the Consultancy segment. Sir, I just wanted some clarity in terms of revenue last time you had mentioned that, in consultancy, we will be able to grow this year over FY20's base. So, do we still hold that guidance or just wanted to check on that?

Gopi Sureshkumar: Yes, we should hold it, because the grey area in consultancy which affected due to COVID was the Quality Assurance. And now, we are once again coming back to the normalcy and the Quality Assurance is coming back to its pre-COVID level with the additional revenue of the overseas consultancy. Therefore we should be able to sustain the growth which we were earlier making.

Kunal Sheth: And secondly, sir, you mentioned that the export order book, what part of it is executable in the current year?

Gopi Sureshkumar: I would say maybe around Rs. 900 crore would get executed in the current year.

Moderator: Thank you. We have the next question from the line of Parimal Mithani, an investor. Please go ahead.

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Parimal Mithani: One is, I have recently attended one of your PSU conference call of Braithwaite, they have got award of 5000 wagons from Russia basically. I just wanted to know since we have a JV with SAIL for supply of wagons, how do we compete with it? And I think we are restricted to few countries not to supply, but the rest of the world we can supply, is my logic correct on that, sir?

Gopi Sureshkumar: Yes, we have a Joint Venture Company with SAIL, SAIL Kulti we have. We are manufacturing wagons for Indian Railways. Our production capacity is around 1000 wagons in a year. We are trying to leverage this expertise and our facility for bidding for rolling stock or wagon business. ADB is calling for some tenders, international tenders are coming up. But what is being stuck is that they require an export credential for wagons, which currently we are lacking. We have not exported our wagons elsewhere. So if we can join hands with somebody who has already exported, maybe we can be able to take this forward for other customers also.

Parimal Mithani: My question is in terms of how things, if I am not mistaken at the time of IPO it was mentioned that export will be a good area going ahead for foreseeable future. So how do we compete with the **other PSUs** and what's the, if you can just throw a light sir, I know it's, if you can just help us in understanding it? And do you have similar lines of --?

Gopi Sureshkumar: We are trying, making efforts, we will be submitting our first bid very shortly, one ADB project, we will try to know our numbers and where we have to strengthen ourselves.

Parimal Mithani: But is there a bifurcation between both the companies where they can bid where we cannot bid I just wanted to understand that sir if you can help me out?

Gopi Sureshkumar: No, nothing like that, Malaysia, Indonesia and Thailand is another counterpart of our Railway Ministry had been supplying, so we thought that we should not have conflicts within ourselves, that's all.

Parimal Mithani: Secondly, I wanted in terms of your Turnkey and Consultancy business, I think the Turnkey side of the business will be, order book is heavier now. And how do you see Consultancy because that will help in our main business going ahead. And how do you foresee in next three, four years from this?

Gopi Sureshkumar: Turnkey order book comes at a particular duration. Now, we have a Phase-II turnkey orders, and we cannot expect same level of turnkey year-to-year. Turnkey has a longer completion time whereas Consultancy has a very shorter completion time. Sometimes the consultancy is even three months, sometimes six months, maybe 60% of a consultancy (including QA) is between three to six months, except for the GC and PMC which is of longer duration. And in the same pace, we are getting orders also. If you see that we have got around 45 new works in consultancy, which then amounts to every second day we are getting some order, not the size, size may be small, but still we are getting jobs. So, the Consultancy will move on in this fashion and Turnkey will be a long lead item. So, it get balanced. I think the matter is how to balance the top-line and the bottom-line, that we will be working on it.

Parimal Mithani: And so in terms of Consultancy, you suffered little bit of in front of the COVID, the Quality Assurance business was not there this time. So, how do you see going forward from now and since --?

Gopi Sureshkumar: The last two months have brought us near to the pre-COVID situation. So, we anticipate that if the same situation exists, and there is no third wave effect then I think we should be able to sail through.

Moderator: Thank you. We have the next question from the line of Jonas Bhutta from Phillip Capital. Please go ahead.

Jonas Bhutta: So just wanted to pick on your comment where you said that your Turnkey revenues in FY22 may in fact decline. I am just curious to know, because you started the year with a backlog of Rs. 2200 crore which is more or less where it was in FY20. And in FY21, despite the COVID challenges, you ended up doing about Rs. 600 odd crore kind of top line, just wanted to know why with the same backlog we are building in lower sales, despite having a three year visibility on a Rs. 2200 crore backlog, you can easily sort of do about Rs. 700 plus kind of crore of revenues. So, wanted to understand the logic behind on this first one?

Gopi Sureshkumar: Actually, we had the electrification works and doubling works, plus some station development works which were awarded somewhere between 2016-2017.And with the normal estimation results, effectively these started to get executed in 2018. And we were making a revenue in Turnkey work to the tune of around Rs. 600 crore to Rs. 700 crore year on. So, the Rs. 2200 crore or whatever was there, it is almost Rs. 1800 crore to Rs. 1900 crore, is under completion.

And what is left with us now is some station development work and workshop works. The electrification works are completed, one doubling work is completed, and other doubling work is in the advanced stage of completion. So, the residual work, whichever is available with us, we hope to complete it and it may give us a revenue of around Rs.300 crore to Rs. 400 crore, this is what I am anticipating currently. And by the 3rd Quarter or 4thQuarter, we should be able to commence the next phase of turnkey that is the electrification work for which we have awarded the agencies are fixed, they should be able to give us revenue. So, I am not counting much on turnkey in this financial year, because export is going to give me that gap filling. So, I think with this we should be able to cross over the pre-COVID and then look forward for the next year for further incremental revenue.

Jonas Bhutta: So you are saying that out of a Rs. 2200 crore kind of opening order book, you will recognize just about Rs. 300 to Rs. 400 crore of sales this year?

Gopi Sureshkumar: Yeah, this Rs. 2200 crore. Recently awarded Rs. 700 crore of electrical work. The electrical works, RE work got awarded around say last I mean the 4th Quarter, I think 4th Quarter.

Jonas Bhutta: No sir, we didn't win any major, so the only biggest order that we won, I think was in Q2 of last year of about Rs. 600 to Rs. 700 crore, roughly.

Gopi Sureshkumar: Yeah, Rs. 600 crore to Rs. 700 crore, and this quarter we have consolidated around Rs. 600 crore of RE work, this quarter, the Q1 around Rs. 600 odd crore we have done RE work.

Jonas Bhutta: My second question was on export. So like you mentioned that you first developed Sri Lanka, and then you moved towards Africa and now Middle East. So from one to two year perspective, do you currently have any bids or any projects that you are working on which you can share with us that could potentially lead to order inflows either in the current year on the next year? So once you are done with this Rs. 1300 crore backlog effectively, by first half of next year, do you have bids in the pipeline which you think can come in?

Gopi Sureshkumar: Yes, there are three to four countries in Africa with whom we are already having discussions. I think that should come through, one or two should come through.

Jonas Bhutta: And the tentative size should be about $100 million each.

Gopi Sureshkumar: Yes.

Jonas Bhutta: Understood. And my last question, sir was to understand on the internationalization of your consultancy services business. So while we have already started to win orders in Nepal and Bangladesh, can you elaborate on today, what percentage of our consultancy book is international? And is there a target that we are working with where we want to take it to a higher percentage and how do we get there? If you can elaborate on that?

Gopi Sureshkumar: Percentage so far, I think it should be around 10% should be our consultancy, overseas consultancy, putting Bangladesh, Mauritius and some other countries which we are working on. Out of this, it should be around 10%.

Jonas Bhutta: And any target where you want to take this sir or you expect this to remain --?

Gopi Sureshkumar: I have a very ambitious target because we have been bidding for many projects and we are being shortlisted and winning it. We are being positioned high technically in bids. So with a little bit of fine tuning of our financials, I feel that we should be able to win much more projects. With that inputs with me, I feel that we should take our consultancy at least to a level of 20%.

Jonas Bhutta: And lastly if I can squeeze in one more sir. So the export execution that we are going to see in the current year and given that we have seen the sharp run up in metal prices or commodity prices, does this in any way impact the profitability of the Sri Lankan and the Mozambique order in any form or format?

Gopi Sureshkumar: Some slight impact maybe but mostly the steel part chassis and all these things have been done, of course the steel price got shoot up over the past three to four months, and then it has come down a bit but most of our fabrication work was over, it is more of the finishing work which is now left with us. So I don't find bigger fit on it, we will be able to sail through with the same margins.

Jonas Bhutta: About 25% kind of margins on exports can be expected?

Gopi Sureshkumar: Every segment, I mean every like a coach, DMU, loco, everyone has a different profit line and profit percentage. It depends on what we are shipping and how we are going to manage it.

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

Harshit Kapadia: With this getting a very high order inflow of Rs. 4000 crore would the working capital model remain the same where the funds will be provided by the Indian Railways or would RITES be using our own working capital to finance this project?

Gopi Sureshkumar: No Mr. Harshit, it will remain the same, the railways would be giving us the initial advances, there is nothing going from our CAPEX.

Harshit Kapadia: And second thing related to margins of this order. So, would we anticipate increasing the EBIT margin level which generally is around 2% to 3% with this higher order inflow, and with a better execution, with better volumes, can we move towards 5% margin for this segment or will it remain at 3%?

Gopi Sureshkumar: No, I anticipate a higher margin. First of all, we have got this work under bidding, and the project has been taken with a bit higher margin. Because of the volume, the percentage of overheads will be reduced. And with some efficient working, we should make some higher margins not less than the earlier ones.

Harshit Kapadia: And sir, if you can also highlight any big order opportunity you have on the Consultancy side, especially from the Indian Railways, any large project that you envisage, which could be coming in this year or next one or two years?

Gopi Sureshkumar: Actually, the COVID had pushed all the tendering activities by a year. So almost around six to seven Metro projects, we have submitted our bids very recently. We are awaiting the results and I am hoping and praying that, we should click one or two projects that will give us higher value of Consultancy, in India.

Harshit Kapadia: Anything on the suburban railway station or high-speed rail or semi-high speed trains anything on that front has been?

Gopi Sureshkumar: High speed, we are just waiting. Actually RITES is a diversified organization, if one door closes, we can open up the other door. Still nothing has been concluded in concrete, so we are just waiting for it and see which door we can open up.

Harshit Kapadia: And just the final question on the solar project side, can you update on what is the status of that 2.6 gigawatt of solar project that we were supposed to be --?

Gopi Sureshkumar: Solar project the initial CAPEX mode of 400 megawatts, has been reduced. We have reconsidered the land and the viability, and it has been reduced to 210 megawatt. And even earlier the 1600 PPP mode (phase – I) has also reduced to around 740 megawatt. And the 600 megawatt (phase -III) has also come down to 400 megawatt. Now the tenders are on and we hope that we will get some good positive response.

Harshit Kapadia: But why has the project size been reduced? Was it only because of land or is there any other issue that you are facing?

Gopi Sureshkumar: Actually the clusters of land, there are certain clusters of land which are not having the approaches. Bidders were asking us to do the approaches and land development, which was not addressed very precisely in the contract. So, then we thought that instead of keeping it hanging better to go for those lands, which are already having the right-of-way, and other development facilities. And we can work on the remaining part that who has to do whether railways will do or the developer will do that will come in later.

Harshit Kapadia: So what you are telling me is the only investment amount where RITES would be involved is only for a 200 megawatt solar project, where you would be putting your equity?

Gopi Sureshkumar: Yes.

Harshit Kapadia: Yeah, which will be called, let's say Rs. 150 crore odd?

Gopi Sureshkumar: Rs. 100

Harshit Kapadia: Rs. 100 odd crore for that.

Gopi Sureshkumar: Yes.

Moderator: We have the next question from the line of Kunal Sheth from B&K Securities. Please go ahead.

Kunal Sheth: Again sir, sorry to harp on this about this Turnkey project. So you mentioned about de-growth, but did you mention that then this year, we will only be taking up only Rs. 300 crore to Rs. 400 crore of revenue, because usually the timelines of the project are two to three years so does that means the next year we will see significant bunching up?

Gopi Sureshkumar: Next year, we will see significant bunching up, this year we will be completing our existing turnkey. And there will be a significant bunching up from the next financial year on turnkey.

Kunal Sheth: But this year you said it will be close to Rs. 400 crore.

Gopi Sureshkumar: Yeah, of course Rs. 400 crore.

Kunal Sheth: But sir, as Jonas was asking, this order booking from FY20, so contractually are these project back ended or we are seeing some delay in any of this project.

Gopi Sureshkumar: No, as per the timeline, we are completing. There are two segment, I will try to explain now, one is a doubling and electrification it's on time and it is getting completed. We have certain workshop projects, we have certain station development projects. There is a timeline but these are attached with the allocation of funds by the Indian Railways. So based on the allocation of funds the progress is going. it is a not the highest priority work for Indian Railways. And that's why there is a delay in the execution of these projects. As and when the fund is allocated, we start executing these projects. These are the residual projects now left with us. Electrification work which we have got, is about to takeoff, and the present turnkey work which we have got it will take of another three to four months max, it will be in the 4th Quarter onwards, we start building up the revenues.

Moderator: Thank you. We have the next question from the line of Jainam Shah from Equirus Securities Private Limited. Please go ahead.

Jainam Shah: I wanted to know more about the export, as we know that some export of Q4 has been rolled over to Q1, but during this Q1 as well we are not seeing much of an export. So you have guided for the Rs. 900 Crore of export orders, so can we have some quarterly timeline like how much we are going to have in this Q2 and then Q3 and Q4?

Gopi Sureshkumar: Yeah, we have made up our plans. We should be doing around Rs. 250 crore to Rs. 300 crore in Q2. And around Rs. 300 crore to Rs. 350 crore in Q3 and remaining we will be able to catch up in Q4.

Jainam Shah: And sir one more thing about this consultancy EBITDA margin, as you are saying that it was hovering around 45% during last year as well. And since last Q4 and this Q1 it was around 40%. So what is your guidance going forward, like whether it will be in the range of this 40% or it is just one or two quarter thing?

Gopi Sureshkumar: The impact is because of our QA business, which is down. Once that normalize, I think we should be in a level to come to that expectation.

Jainam Shah: And even for this turnkey project it was hovering around 3% to 4% however during this quarter, it was around 2%, so what is we are expecting going forward?

Gopi Sureshkumar: It is a volume and fixed cost. Once we do more revenue the fixed cost gets reduced and we make a bigger margin. Here now the fixed cost has become high.

Jainam Shah: So the revenue during this 1Q in this Turnkey segment was around 50% lower Q-o-Q so that's why the fixed cost has increased and debt was reducing, okay. And sir what will be the CAPEX guidance for the full year and what has been done during the 1Q?

Gopi Sureshkumar: Say our CAPEX is around Rs. 740 crore of that Rs. 500 crore we required for our working capital, advanced tax and the dividends or something like that. And out of this Rs.240 crore, approx Rs. 100 crore, we have committed for our office building in Kolkata, then lab facilities in Lucknow and Gurugaon. So 100 is there which we are keeping reserved for our REMCL CAPEX Solar projects, other states we are almost closing down our CAPEX. We have had, Rs. 50 for locos, our leasing is expanding so we will like to put some CAPEX on the leasing element.

Jainam Shah: So sir, basically you are telling about the FY23 revenue guidance like we will be having around Rs. 900 crore of export for FY22, which will be having our total revenue of around Rs, 2900 crore to Rs. 3000 crore for FY22. So like what will be the export for FY23, are we resizing any orders, new orders and that to we will be able to book in FY23 or the revenue top-line as a whole will be in the same line and there will not be much of growth for FY23.

Gopi Sureshkumar: No, the turnkey will be supplementing the export (in FY23). Exports orders received in future will take some to convert to revenue. So that will get further to the next but because of our turnkey order, and huge volume that will be supplementing and complementing and so that will maintain our top-line as for the desired growth which we are anticipating.

Jainam Shah: Sir in exports we are having margin of around 25% and in turnkey it will be around 3% to 4% so that will be impacting the EBITDA level.

Gopi Sureshkumar: Hoping that our consultancy margin should be balanced so that we maintain the bottom-line also.

Moderator: Thank you. We have the next question from the line of Keshav Garg from CCIPL. Please go ahead.

Keshav Garg: Sir, I wanted to understand why our export order book is flat since apart five years at around Rs. 1300 crore only. So basically are we getting only those export orders that Government of

India is funding or are we getting export orders to competitive bidding in private sector projects also?

Gopi Sureshkumar: The export order was not flat, I think it is a Rs. 1300 crore export order we have. We had taken order of Rs. 700 crore during 2020. The development of the new prototype, everything takes some time. We were targeting to complete this on in this financial year and we will be almost completing the 80% of it slipping over 10% for the next financial year. So-long export orders were driven by (Indian) Line of Credit only, but we have started bidding for ADB projects and other projects, wherever the opportunities are available. So in near future you will be seeing that we are competing with the private player or maybe we will be collaborating also with private players in winning some projects. So that is in line, it is in our thought process.

Keshav Garg: So that is very reassuring to know sir, we hope that our export order book picks up. And sir also, now the last year we did a share buyback, so I hope you do a share, what is happening that government will do OFS Offer-for-Sale and government is selling stock below market price. So, the stock is under pressure. Instead, if we do a share buyback at near the current market price, then shareholder there is incentive to subscribe to buyback offer at market price. So, government can subscribe to almost 90% to 95% of the share buyback and plus government will get 23% buyback PATs also. So it's a win-win situation. So please consider a share buyback instead of Offer-for-Sale.

Now my next question is regarding recently you got turnkey orders which is basically Project Management Consultancy what RVNL does. An RVNL got some Rs. 60 crore of consultancy orders. So basically you are fighting amongst each other, sir so the concern is that whether the 50% margins in domestic consultancy, whether that will be maintained or not going forward?

Gopi Sureshkumar: No, it is different, our consultancy is different and RVNL is having PMCs for executing their projects that is different. Our consultancy is quite diversified in various fields, in airport, highways, ports, buildings and so ours is much diversified and we are in-general not fighting for those consultancy. As a turnkey jobs of railways which was earlier being given on nomination basis have come into competitive mode and we are bidding and these orders have been taken under the competitive mode.

Keshav Garg: I understand that all the non-railways consultancies work that you are doing, RVNL can't do nothing about that. But as far as the railway work consultancy is concerned, over there if there is competition with RVNL and Ircon, so then what happens to our margin in the railway consultancy side?

Gopi Sureshkumar: No, see, I mean Ircon and RVNL are construction companies under Ministry of Railways and they are doing core business of railways. Ircon has some amount of highways, but RITES is different. We are basically consultancy organization with a diversified portfolio. And now after it was a type of pilot that we took up turnkey and since we have completed this project in time, we have the advantage and we have proven that we are able to do turnkey also. So we are able to beg and get some projects. We don't want to take big projects like RVNL and Ircon, we want to have limited turnkey to keep our top-line intact and also focus on consultancy to keep our bottom-line intact.

Moderator: Thank you. We have the next question from the line of Rohit from Antique. Please go ahead.

Rohit Natrajan: Sir, can you directionally guide us where this turnkey as a percentage of order backlog would look like, do you have further orders in pipeline. How big will it be in maybe some two or three years down the line?

Gopi Sureshkumar: No, we don't have any orders in pipeline. The focus would be to execute these orders so that we keep our turnkey business in the tune of 25% to 30% and concentrate and build up more orders to have the diversified field in other segments. We would like to maintain this trend. We don't want to take more and concentrate on that work, forgetting our real core strength.

Rohit Natrajan: So in terms of consultancy, the core business, I understand some export orders you are looking at $100 billion, can you quantified the consultancy part, how big the opportunity is there for you in the near terms?

Gopi Sureshkumar: Consultancy, the ideal would be 50% but it may vary between 35% to 45% and an ideal consultancy we would like to have it at 50%. It all depends on how much we are able to secure. Like in Metros, which we are bidding, how much we are able to win in these contracts, it depends on that.

Rohit Natrajan: Sir, can you quantify any number as in how big is that addressable opportunity?

Gopi Sureshkumar: The consultancy opportunity keeps coming to us. We have been executing consultancy to the tune of around Rs. 1100 crore to Rs. 1200 crore, and we have been adding up equivalent order books also year on. We have been growing in consultancy with 8% to 10% to 12%. So we like to drive and take forward this trend.

Rohit Natrajan: So on an average maybe it may grow 5% to 10% year-on-year basis.

Gopi Sureshkumar: Year-on-year, yes.

Moderator: Thank you. We have the next question from the line of Lokesh Mahajan from Gallant Capital. Please go ahead.

Lokesh Mahajan: My first question was if you are seeing any pressure of the recent rise in commodity prices in execution of projects or government delaying projects, projects that are coming out in the pipeline. So any pressure you are seeing on that front, government delaying projects or renegotiating contracts for that matter?

Gopi Sureshkumar: We did not come across government delay or renegotiation. Basically, the impact of commodity cost of projects, that comes on turnkey, agencies are protected with certain price variation clauses, so they get compensated to certain extent. But as far as the RITES business is concerned, since we are charging a fee on top of the actual execution cost, so we are not getting affected by the commodity costing.

Lokesh Mahajan: No, but would that impact the introduction of new projects by the government, would they go back and relook given the increasing prices?

Gopi Sureshkumar: No, the government is having very ambitious plans and they are going through and I don't think so, it will impact the government decision in any manner.

Lokesh Mahajan: And secondly, what is the growth rate that you are targeting in the consultancy business, both domestic and international in the next three to five years, a broad idea?

Gopi Sureshkumar: We should be growing at 8% to 10%, from the past experience, I think we should grow at 8% to 10%.

Lokesh Mahajan: This would be driven by international or domestic.

Gopi Sureshkumar: Domestic is there and international, we are finding it, after recently winning two contracts, we are hopeful for that we will be able to win more contracts.

Moderator: Thank you. We have the next question from the line of Venkatesh Subramanian from LogicTree. Please go ahead.

Venkatesh Subramanian: Could you give us an idea on two things sir, one is for FY22 as per the last call we were looking at pre-COVID levels, would it be safe to assume a top-line of about Rs. 2800 crore to Rs. 3000 crore top-line for FY23?

Gopi Sureshkumar: I think we should equate pre-COVID with the 5% to 6% growth, 8% to 10% maybe as we have safer ones.

Venkatesh Subramanian: Okay, 8% to 10% on better case scenario, that's what it is yeah.

Gopi Sureshkumar: Yes.

Venkatesh Subramanian: Sir you were talking about some prospective orders coming up for about six to seven Metros. So assuming that we are able to secure one or two orders, what will be the quantum of one order?

Gopi Sureshkumar: Generally the Metro sizes are bided with combination of partners. It varies from Rs. 150 crore to Rs. 250 crore. So two, three partners are there, so every Metro should give us around Rs. 40 crore to Rs. 45 crore of business.

Moderator: Thank you. We have the next question from the line of Keshav Garg from CCIPL. Please go ahead.

Keshav Garg: Sir, you just said that you expect the domestic consultancy business to grow by 8% to 10% per annum. But if you see then railway CAPEX itself is growing by let's say 20% to 25% CAGR and plus all the Metro and transportation, road sector is growing far higher. So then why are we only, our consultancy business growing in single digits, when the sector itself is growing in let's say double of that rate?

Gopi Sureshkumar: See, in a consultancy business, the railway CAPEX growth is not correlated with our consultancy business. So the turnkey business is correlated with what we are getting in the railway CAPEX. The consultancy business of the railway which we are doing is a coal connectivity project for NTPC, Coal India and all other companies. So most of these projects are in the finishing line. We have a number of coal connectivity projects with us, which is giving us consultancy revenue, feasibility, DPR, PMC, etc. But we don't have such projects in the railway CAPEX. So thereby the extent of growth is not foreseen. And for Metros, there are four or five international players, there are four or five domestic players, and it's a stiff competition is going on. We will be able to chip-in around say 10% to 15% of that segment that's a moderate growth, it's not a very huge growth. Until we get some other projects in the airport or port which we are eyeing, so till such time I think this consultancy growth of 8% to 10% is a good growth.

Keshav Garg: Sure. And just to get clarity about what you were talking about the competition in this consultancy side, in our domestic consultancy. So sir are we getting consultancy orders on nomination basis, at least from the railways or now even consultancy projects are being bided out and RVNL, RITES and everybody else's is competing, is bidding for railway consultancy.

Gopi Sureshkumar: As I told you this project which we got, was under competition. The nomination of works has been stopped by the government. Whatever works we are getting, we are getting it on a competitive mode.

Keshav Garg: So even consultancy, I am not talking about turnkey.

Gopi Sureshkumar: Even consultancy, except a few coal projects, where we have a long term MOU, all other projects were taken on competitive mode.

Keshav Garg: Sir so basically whatever current margins we are doing in domestic consultancy, it is already, those orders have come through competitive bidding, so I mean it is nothing new that is happening. It is not happening going forward. It is already in our existing numbers.

Gopi Sureshkumar: Two years before, it was not the case. Two years before we were getting certain consultancies on nomination basis, but now it has stopped. And we are in a competitive mode.

Keshav Garg: Sir but the orders that we are booking now the revenue --

Gopi Sureshkumar: Mostly competitive mode, it's almost competitive mode.

Keshav Garg: So basically what I am trying to understand that these margins should be maintainable and not reduced due to basically competitive bidding.

Gopi Sureshkumar: Actually competitive bidding is there, everybody is bringing down the rates. And the market is also, the consultant rates also are coming down. It is not that we bid a project at a lower rate and we are giving a consultant the same cost. It is also coming down so the expertise increases, the manpower is available to work at a comparatively lower cost. Like that we are maintaining the margin along with the competition.

Keshav Garg: So our employees strength is also reducing so that is very encouraging and productivity per employee is increasing, sir but since our core business consultancy will grow in single digits, and sir you know we are in a high inflation country, so until you do a share buyback and our number of shares reduces, then our rate is very hard to see, our earning per share really increases without a buyback. So please consider that.

Gopi Sureshkumar: Yes.

Moderator: Thank you. We have the next question from the line of Gopal Bansal from SML. Please go ahead.

Gopal Bansal: I was just seeing our presentation order book positions, we have order book as on 30th June in the breakdown, consultancy Rs. 2531 crore. So these orders, this consulting, one is, why there is a backlog, because there can be backlog in turnkey projects as you explained that railways have to do allocation of funds and then you can start turnkey projects. But why in consulting there is so much backlog? Secondly, if these consulting projects are on bidding basis or on a competitive basis obtained then we fear there will be margin pressure when you execute these consulting projects which are backlog of Rs. 2531 crore. So can you please explain that?

Gopi Sureshkumar: Actually what you see as Rs. 2500 crore is not backlog. It is recouping of a portion of order. Now consultancy, there are two segments in it, one is fast track segment, other is a long lead segment. Say a PMC consultancy, it's long lead. As GC consultant, what we do for Metro is, to place consultants and they plays experts and it is on monthly payment basis that also goes is a long lead. So, you can split it up that 40% of this consultancy, it's a long lead item, prolonging and 60% is a short duration consultancy, they are our QA, QA is only a three months duration. We don't take a consultancy order for QA at all, we only say three months consultancy what we have. So these orders keep coming and getting executed a DPR, feasibility study, these are all duration of three to six months. So we get this order, we complete it, it is closed. We get another order. So what you see this Rs. 2500 crore, maybe over the period if you have noticed it would have been in the range of Rs. 2000 crore to Rs. 2500 crore. But we have been executing around Rs. 1000 crore or Rs. 1000 plus crore of consultancy work year-on-year. So we have to view it in that manner.

Gopal Bansal: So is the amount Rs. 2531 crore is the orders which we will get as gross revenue in consulting, so if it is three to six months --

Gopi Sureshkumar: This is the unexecuted orders, on execution we will get this revenue.

Gopal Bansal: So then I mean our revenue should be more, now if these are to be executed in one or two years, then our revenue should go up substantially.

Gopi Sureshkumar: Actually, see I am telling you this is a consolidated figure of Rs. 2500 crore. This has got almost more than 800 consultancy going on. Each order is completed and we get another order.

Gopal Bansal: So that's why the revenue should be much higher from consulting, if that much orders --

Gopi Sureshkumar: 40% to 45% earning is very positive earning, we cannot have much more than that.

Gopal Bansal: No, of earning I understand 40% but revenue should, frankly that was my question, and --

Gopi Sureshkumar: The amount of consultancy we are executing year-on-year, we should be able to have a order booking equivalent or more than that to sustain it. And we are sustaining it.

Gopal Bansal: So how much a consulting revenue we can expect this financial year and next one or two years?

Gopi Sureshkumar: Around 1100, we should expect this year, 10% growth, already in the 1st Quarter we had 10% growth. So we are anticipating the same growth.

Gopal Bansal: But my second question was whether if these consulting projects which are in the order book, are mostly taken on bidding process, whether there is a challenge on the existing margins which we had, you know we had executed earlier project which were on nomination basis, but now everything is on bidding basis, so we will have a challenge on the margin, going forward.

Gopi Sureshkumar: This challenge we are reducing elsewhere, we have taken economy measures, so many other things we have got, to keep the target margins intact.

Moderator: Thank you. As there are no further questions I would like to hand the call over to the management for their closing comments. Thank you all for being a part of the conference call, if you need any further information or clarification, please email gaurav.g@conceptpr.com, sir please go ahead.

Gopi Sureshkumar: Thank you. Thank you so much for the patient hearing. Thank you all.

Moderator: Thank you. Ladies and gentleman, this concludes your conference for today. Thank you for using the Chorus Call Conferencing Service, you may now disconnect your line. Thank you and have a pleasant evening.

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