Rites

Operator: Good morning to one and all present here. Today is the second day of the Bharat Connect Conference, September edition. I welcome you all to the call of Rites Ltd. From the management team, we have Mr. Krishan Gupta Agarwal, the Director Finance and CFO of the company. Before I hand over the call to management, I will lay out the format of the event. We will start with a brief introduction about the company, and then move forward to the Q&A round. Participants who would like to ask questions can raise their hands or write their questions in the chat box. Thank you, and over to you, sir.

Krishan Gupta Agarwal – Director Finance & CFO: Good morning. I am K G Agarwal, CFO of Rites Ltd., and welcome to this interaction. We will first start with a brief introduction about the company, and then take questions from you.

Rites Ltd. is a multidisciplinary consultancy company that was established in 1974. It is the first railway PSU established 52 years ago, and it operates in all sectors of infrastructure consultancy, including railways, highways, ports, airports, metros, sustainability, and roadways, covering all sectors except oil and natural gas. That is the beauty of this organization because this is the only organization in India, whether in the public or private sector, which operates in all these sectors of infrastructure consultancy.

We were listed in 2018. It is a debt-free company with a very strong balance sheet, and we have four streams of business. If we look at our balance sheet, we have four streams of revenue. Primarily, it is a consultancy organization, and the majority of the revenue comes from the consultancy business. Around 55%, or more than 50%, of the business is from the consultancy revenue stream. At any point in time, we are operating approximately 600 to 700 projects across India and various other geographies in the consultancy space.

We also show turnkey revenue in our balance sheet, but that is also primarily a consultancy business because the scope of work is consultancy in nature. However, the revenue flows on a cost-plus basis through Rites Ltd.'s balance sheet, which is why it is shown as turnkey. Otherwise, as far as the nature or scope of the work is concerned, it is consultancy only.

We have another stream of business, which is the export of rolling stock. Indian Railway production units manufacture rolling stock, including locomotives, coaches, and trainsets, for the requirements of Indian Railways. At the same time, they have the capability to manufacture products for various other geographies in the world, particularly Latin America, the African region, and Southeast Asian countries.

Rites Ltd. has been an exporter for Indian Railways and has been exporting products manufactured by Indian Railway production units for more than three decades. We have exported rolling stock, locomotives, trainsets, and coaches to various geographies in Latin America, the African region, and Southeast Asia.

That is also an important stream of business for us. As of now, we have orders for the export of locomotives to Mozambique and the export of coaches to Bangladesh. We also have good orders for the export of in-service locomotives, including in-service diesel locomotives, which have become spare in the Indian Railways network. By converting them into different gauges, including

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Cape gauge and standard gauge, we are planning to export them to the South African region and some other geographies.

We have another stream of business called leasing. We own approximately 100 locomotives on our books, and these locomotives are given to different steel plants, power plants, ports, and cement plants for the internal movement of raw materials and finished products within their premises on a wet-lease basis. This is also a good-margin business, and we have been doing this for many years.

For conducting this business, we have a presence in different geographies in India. We have six regional offices through which we operate. We also have regional offices overseas. We have already established regional offices in Guyana, the Philippines, South Africa, and Abu Dhabi. We are also in the process of establishing an office in Ghana to further our business interests in these and related geographies.

We have a very strong order book as of date. On March 31, 2026, we had our highest-ever order book. This order book of around 9,500 crores consists of turnkey business, which accounts for approximately 50%, consultancy business of more than 2,000 crores, and export business of approximately 1,800 crores.

We have been receiving regular orders from our clients in India and abroad, which is why you may have seen that we call ourselves a “one order a day” company. For approximately the last seven to eight quarters, we have been able to maintain this because we receive at least one order, on average, every day when we monitor it on a quarterly basis.

We also have two strong subsidiaries and joint ventures. One subsidiary is REMCL, which is a joint venture subsidiary of Rites Ltd. with a 51% holding, while the balance 49% is held by Indian Railways. This subsidiary has been assisting Indian Railways in procuring traction power for more than 10 years. It has also been assigned the responsibility of coordinating on behalf of Indian Railways for its net-zero objective.

Another joint venture is with Steel Authority of India Limited, namely SRBWPL. It is a 50:50 joint venture with SAIL and Rites Ltd. This joint venture manufactures railway wagons at a place called Kulti in West Bengal.

This is primarily how we operate in different sectors. With this, we can start the question-and-answer session, and we can discuss specific issues in further detail. Thank you.

Operator: Thank you so much, sir. I request participants to please raise their hands or write their questions in the chat box. We have received a few questions in the chat box, which we will address first. What is the FY27 revenue and PAT growth guidance, and what will become clearer by the end of Q2?

Krishan Gupta Agarwal – Director Finance & CFO: After three to four years of downturn, last year we registered revenue growth in FY25-26. For FY26-27, we are again targeting double-digit revenue growth. We have a very strong order book of more than 9,400 crores, but that order book is relatively young, and the revenue from this order book will definitely start maturing. We aim to achieve at least double-digit growth over FY25-26 in FY26-27.

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As you may have seen earlier, in Q1 and Q2, particularly for infrastructure projects, revenues are moderate and start picking up from Q3 onward when execution begins in full flow. In Q3 and Q4, we are definitely targeting very good revenue in order to achieve double-digit growth over FY25-26.

Operator: Ms. Priyal Shah wants to know, regarding international consultancy, which geographies—Africa, Bangladesh, the Middle East, and Nepal—are in the pipeline, and how much depends on multilateral or line-of-credit funding?

Krishan Gupta Agarwal – Director Finance & CFO: This is an important issue for us because, through our Rites Videsh initiative, we are targeting international projects in a significant way. We bid for these projects regularly.

Until three to four years ago, there used to be many projects funded through the Government of India's line of credit. Those projects have now dried up, and the Government of India's line of credit is practically not available today for overseas infrastructure projects or for the export of rolling stock. That is why most of the new projects we are receiving overseas are essentially on a global competitive bidding basis.

This includes the Bangladesh tender for 200 coaches valued at around 900 crores and the Mozambique locomotive tender. All these tenders have been won on a global competitive bidding basis.

For project consultancy business also, we are undertaking highway work in Guyana. We have two orders there, and we won both orders on a global competitive bidding basis. Similarly, we are undertaking consultancy work in Jordan and Nepal for an airport project, a highway project, and a multimodal project in Bangladesh.

We are providing incidental services for the rolling stock supplied in Mozambique to CFM and also in Sri Lanka. We definitely have good opportunities across these geographies, particularly Latin America, the African region, and Southeast Asia, and we are regularly bidding for these projects.

Recently, we have also started bidding in the Middle East. We have received one order for Jordan, and there are many other opportunities in the pipeline for which we are submitting bids regularly. However, all these bids are on a global competitive bidding basis. As of now, business through the Government of India's line of credit is not available for infrastructure projects.

Operator: Thank you so much, sir. We will take the next question from Babita Talreja. What are the business risks that management foresees?

Krishan Gupta Agarwal – Director Finance & CFO: Like any other business in today's scenario, these are risks, but at the same time, they are also opportunities because competition is fierce in the infrastructure consultancy business, both domestically and internationally.

Similarly, there is stiff competition in the export of rolling stock from countries such as China and other Southeast Asian countries that manufacture locomotives. The domestic market for infrastructure consultancy in India has also become quite competitive, particularly in certain sectors where the consultancy is not very high-tech.

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The infrastructure consultancy sector in India is sector-specific. For high-end businesses such as metros, tunnels, bridges, and sustainability, there is limited competition, and the competition is among top-tier players. Therefore, pricing does not fall to a level that becomes unsustainable.

However, there are sectors such as highways and buildings where the competition is huge, including competition from very small players, and pricing is at a level that is not remunerative. That is why we are focusing strategically on which businesses to target most. We definitely have a presence in all sectors and try to maintain that presence, but in certain sectors, unsustainable competition is becoming a challenge. That is one aspect.

The second aspect is that, as far as India is concerned, funding for overseas infrastructure projects is an area of challenge. All stakeholders are trying to address this because, when we compete globally, many countries offer a package of infrastructure consultancy, execution, and financing. So far, we have not been able to develop such a package in our country.

Earlier, we had this type of facility in the form of the Government of India's line of credit. Once that is not available, we are definitely not in a position to offer the host country a package for developing its infrastructure, which is otherwise available from some other countries operating in this business.

However, with the help of all stakeholders, we are trying to develop a model through which we can address this issue and create further space for ourselves in the overseas consultancy and infrastructure business.

Another challenge or risk that you mentioned is acquiring and retaining expert resources. Rites Ltd., being a consultancy organization, relies primarily on manpower as its main resource. We do not have machines, plants, or equipment; we have manpower, which is the main resource of the company.

We have approximately 3,000 people, of whom around 1,800 are on our rolls and 1,200 are engaged on project-based assignments. They are experts in different sectors of infrastructure. Acquiring good and expert talent, as well as retaining it, is also a challenge in today's business.

However, we are fortunate to have the interest of applicants, and people are joining this organization because of the varied experience they receive here. That is why, for our regular employees, the attrition rate is also very low, perhaps within 2% to 3%.

For us, although acquiring and retaining talent in infrastructure consultancy is a challenge, it has been quite comfortable so far. We hope to maintain the same environment so that people continue to be attracted to this organization.

Other than this, we do not foresee any major risk for the organization because the company is debt-free and has low CapEx. We do not commit very high amounts to investments or CapEx.

Operator: Ms. Priyal has another question: how much of your order book is from outside India, Indian Railways, and areas such as metros, highways, airports, ports, and urban infrastructure, and what is the target share?

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Management: We maintain the order book based on the revenue segments in the turnover, namely consultancy, turnkey, export, and leasing. As I mentioned, approximately 50% of the order book is from turnkey, around 25% from consultancy, and the balance 25% from export and leasing.

Indian Railways has definitely been a major client for us, whether for new rail lines, electrification, final location surveys, DPRs, or PMCs. The major share of business comes through Indian Railways and other railway-related clients.

Indian Railways is one client, but there are a large number of plants, such as cement plants, steel plants, power plants, and ports, which have their own internal railway networks. We are receiving substantial railway business from them as well, and even now, the majority of that work is coming on a nomination basis.

Overall, if we consider railway clients directly through Indian Railways as well as other clients for railway-related work, the order book is substantial. I will check the numbers and tell you, but it should definitely be more than 30% or 35% for Indian Railway business and other railway-related clients.

We also have business in metros. At present, we are providing services for Ahmedabad Metro Phase 2, Bangalore Metro, Haryana Orbital Railway work, and these metro facilities. Very recently, we completed the prestigious assignment of Mauritius Metro.

In all other fields, including ports, airports, and highways, we have a good order book. This diversified order book across different sectors is the strength of Rites Ltd. and gives us the opportunity to leverage overall revenue growth.

Operator: There is a question asking that, with the payout close to 94%, what is the capital allocation plan, and is there room for M&A, JVs, or CapEx in rolling stock, renewables, or leasing?

Management: As I told you, we are essentially a low-CapEx company. During the last 5 years, our CapEx has been in and around the range of 100 crores per year. This CapEx is primarily for purchasing locomotives. We have also added some office buildings in the recent past.

Going forward, we definitely intend to add locomotives to our fleet, and there will be CapEx for the purchase of locomotives. However, that is also not going to be very large; it may remain within an annual outlay of 100 crores.

Beyond this, as of now, we do not have any major CapEx plans. Regarding mergers, M&A, and related matters, we will definitely look for opportunities. If and when we find an opportunity that complements our strengths and provides us with an advantage in the market, we will evaluate those opportunities as they arise.

As of now, our CapEx or investment plan is only in the range of 100 crores per year. That is why we are able to maintain a dividend payout ratio of around 95%, and in the near future also, we expect to maintain a similar dividend payout ratio.

Operator: The next question is from Mr. Yash. Sir, can you provide some perspective on the competition in the consultancy segment?

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Management: As I told you, we operate in around 13 verticals. If someone asks us who our competitors are, it is really difficult to answer because there is no company or infrastructure consultant operating across all these infrastructure sectors in India. That is why we have different companies or competitors for different sectors.

There may be companies operating in 2, 3, or 4 sectors, but they are definitely not present in all sectors. As I told you earlier, for metros, we have different competitors that are essentially Indian arms of large overseas and global consultants.

For highways, we have many domestic competitors. In ropeways, the competition is very limited. Competition varies by sector, as does the intensity of competition, and the type of companies present in the competitive field also differs.

There are niche areas of consultancy, such as tunnels, bridges, and metros. In these sectors, the competition is with companies that have a global presence, and the competition is among equal players. That is why consultancy business in these areas is much more remunerative despite the competition.

However, there are sectors such as buildings and highways where the number of competing parties is much larger. Many small parties also bid at prices that are not realistic, which is why prices in those sectors are not as remunerative as of now.

Whether it is consultancy, leasing, or the export of rolling stock, we are receiving most of our orders on a competitive bidding basis. You may have seen that, in our order book, the proportion of orders received through competitive bidding is currently much higher.

Even the fresh orders that we are receiving now are mostly on a competitive bidding basis. That has put pressure on margins, which has been reflected in our margins over the last few years.

Operator: Who are the larger players bidding along with Rites Ltd. for consultancy projects?

Management: There are PSU firms in the consultancy business, as well as private firms. It would not be appropriate to name the competitors because there are different competitors in different sectors.

As I told you, the larger players are essentially Indian arms of global consultancy firms that have been operating in India for the last few decades. They participate mostly in niche areas of consultancy.

For the export of rolling stock, we face competition from neighboring countries and from countries that have the capability to manufacture rolling stock, particularly Southeast Asian countries.

For leasing, we earlier used to receive many orders on a nomination basis. Now there are also other parties, although they are very small, participating in some tenders, and orders are being received on a competitive bidding basis.

It would not be appropriate to name the parties because the parties differ across sectors. The larger players are essentially the Indian arms of global consultancy companies.

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Operator: On the question Priyal Shah asked earlier regarding where you have projects, she asks that, with half of the order book in turnkey, how do you maintain a 20% EBITDA floor, and what are the margins, receivable days, and working capital profile for turnkey versus consultancy?

Management: As I clarified earlier, the turnkey business is also consultancy in nature. The only difference is the way it is accounted for because these are all cost-plus orders.

For example, if an infrastructure project is worth 100 rupees, we may receive an order worth 5 rupees for providing consultancy. Alternatively, there may be a client that wants the order to be given for 105 rupees, comprising 100 rupees of cost plus 5 rupees of consultancy. In that case, 105 rupees passes through the Rites Ltd. accounts, but the nature of the work is practically consultancy.

The other part of your question relates to the working capital requirement. In the consultancy business, whenever we work for clients, we largely do so on a deposit-work basis. That means we receive the work and the money from the client, and, based on the client's money, we fund the execution of the projects.

That is why you will see in our balance sheet that we have our own cash of more than 800 crores, while at the same time, we have more than 2,200 crores of client funds provided by different clients for executing their projects.

Management: For consultancy and turnkey projects, normally the requirement for working capital is very low. It is only to the extent of the time between raising consultancy bills and the client releasing payment against those bills.

As most infrastructure clients are either central government organizations, state government organizations, or large PSUs, there may be some time lag in processing these bills, which is why receivables arise.

Otherwise, there is some working capital requirement for the export of rolling stock. Even there, we try to obtain a good amount of advance from the host-country client so that the initial investment or initial funds required for procuring subassemblies and spares, and for providing advances to Indian Railway production units, can be met from client funds.

Therefore, we expect a reasonable amount of working capital at any stage for operating the different sources of revenue, including turnkey, consultancy, leasing, and exports.

At any point in time, receivables may be in the range of 800 to 900 crores. These receivables are largely from government organizations, PSUs, and similar entities, and they are realized over a period of time. The time required is the normal time taken to process these bills.

For exports also, we receive part of the amount as an advance, while the balance is fully covered under a letter of credit. As soon as we export, most of the export receivable is received. Perhaps 10% of the amount, or some small amount, is retained towards commissioning and post-commissioning services.

Therefore, the working capital requirement in our business model is quite limited.

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Operator: Yash is saying that today's order book is 59... Mr. Yash, can you please clarify your question here?

Management: Today's order book is around 9,400 crores.

Operator: Yes, Yash.

Yash: Sir, I meant that approximately 50% of today's order book is in the turnkey segment. I wanted to understand the long-term mix that the company is targeting.

Management: Yes, Mr. Yash. Today's order book of 9,400 crores is approximately 50% turnkey. What we intend is that more than 50% of our revenue should come from consultancy, 25% to 30% from turnkey, and the balance from export and rolling stock.

This revenue blend will help us maintain the red lines we have projected for margins, around 20% for EBITDA and 15% for PAT. On a yearly basis, we are confident that we will be able to maintain this blend.

There may be some variations from quarter to quarter because, in some quarters, revenue from exports may not be present, while revenue from turnkey may be higher. Therefore, on a quarter-to-quarter basis, this targeted blend may not be achieved.

However, on a yearly basis, we will definitely try to achieve a blend of approximately 50% consultancy, 25% to 30% turnkey, and the balance through exports and leasing.

Leasing and consultancy are high-margin businesses, export is a moderate-margin business, and turnkey is a very low-margin business. The margin in turnkey is 1% to 3%. That is why, in our execution or revenue blend, we target this type of mix so that we can maintain our margins.

Of late, you may also have seen that, although a lot of turnkey business is available in the market, we are taking only selective business so that we can maintain the character of being a consultancy organization. We are not heavily focused on turnkey execution.

These turnkey orders are not EPC orders. EPC is different; these are all cost-plus turnkey orders.

Yash: Sir, I have one more follow-up question. What is the typical execution timeline for turnkey versus consultancy projects?

Management: When it is a turnkey project, it is an execution project, and the timeline for infrastructure execution may be around 3 to 4 years.

For a consultancy project, there are different milestones in the consultancy work. We can have a consultancy order for preparing a feasibility report, or an order for preparing a detailed project report, which is a DPR. The order may also be for project monitoring consultancy, or for working as an independent auditor or third-party inspection agency for an infrastructure project.

The execution period for different consultancy assignments varies significantly. If it is a report-related assignment, such as a feasibility report, it may take 3 to 6 months. A detailed project report may take 6 months to 1 year.

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However, if it is a PMC, or project monitoring consultancy, such as the work we undertook for Mauritius Metro or are undertaking for Gujarat Metro and many other projects, the execution of the consultancy order runs parallel to the execution of the physical work. Therefore, it may also take 3 to 4 years.

For consultancy assignments, the execution period may be anywhere between 3 months and 3 to 4 years, depending on the nature of the assignment and the part of the value chain in which we are engaged.

In the case of turnkey projects, these are all essentially project monitoring consultancy assignments, and therefore the execution period is normally 3 to 4 years.

Yash: Understood, sir. Thank you.

Operator: Thank you so much, Yash. The next question is from Mr. Akshay: how does management intend to deploy or utilize the cash reserve of nearly 3,000 crores?

Management: I will clarify. Regarding the 3,000-crore cash reserve, as I have explained earlier, it consists of two parts. One is approximately 800 crores, which represents the company's own funds. The other is approximately 2,200 crores, which represents client funds.

Client funds are project-specific funds provided by clients only for executing those projects. They are not company funds. That is why, in the balance sheet, they are shown as client funds and also as a liability.

The company's funds amount to only approximately 850 crores. We hold these funds to meet our working capital requirements, day-to-day expenditure requirements, and other such needs.

The availability of these funds enables us to maintain a dividend payout ratio of more than 95%. Whatever PAT we earn, most of it is distributed through dividends.

The approximately 800 crores of funds available with us can also be used to meet any larger working capital requirements that may arise for a particular export project or consultancy project. They are also used to meet our day-to-day operating requirements, in addition to CapEx of approximately 100 crores, within 100 crores.

Operator: There is also a question from Mr. Pravin: what is the target segment revenue mix that the company expects to maintain?

Management: I think I have answered this, but I will repeat it. The segment-wise revenue expectation or target for the company is more than 50% from consultancy assignments, 25% to 30% from turnkey business, and the balance from the export of rolling stock and leasing.

This is on a long-term basis, perhaps on a yearly basis. From quarter to quarter, there will definitely be variations because, in some quarters, there may be no export of rolling stock.

Although the manufacturing of rolling stock continues throughout the year, revenue is booked only when the rolling stock is actually shipped out of the country. Therefore, there may be some quarters in which there is no revenue from the export of rolling stock.

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In those quarters, these targets may not accurately fit into the revenue of that particular quarter. However, on a yearly basis, we will definitely try to maintain these broad guidelines of 50% consultancy, 25% to 30% turnkey, and the balance from leasing and exports.

Operator: I request participants with any further questions to please raise their hands or write them in the chat box. Since there are no further questions, I will take this as the last one. I would like to thank the management and the participants for sparing their time and sharing insights about the company. If participants have any further questions, they can connect with Arihant Capital's team. Thank you so much.

Management: Thank you very much for your interest in the organization. We look forward to continued interaction in the future as well. Thank you.

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