

ITES Limited

Issue Snapshot:

Issue Open: June 20 – June 22, 2018

Price Band: Rs. 180 – 185 (Discount of Rs. 6 per share to eligible employees and retail individual investors)

Issue Size: 25,200,000 Equity Shares
(Entirely Offer for sale)

Offer Size: Rs.453.60 crs – 466.20 crs

QIB Upto 12,000,000 eq sh
Retail atleast 8,400,000 eq sh
Non Institutional atleast 3,600,000 eq sh
Employee : Upto 1,200,000 eq sh

Face Value: Rs 10

Book value: Rs 108.2 (Dec 31, 2017)

Bid size: - 80 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity: Rs. 200.00 cr
Post issue Equity: Rs. 200.00 cr*

Listing: BSE & NSE

Book Running Lead Manager: Elara Capital (India) Private Limited, IDBI Capital Markets & Securities Limited, IDFC Bank Limited, SBI Capital Markets Limited

Registrar to issue: Link Intime India Private Limited

Shareholding Pattern

Shareholding Pattern	Pre issue %	*Post issue %
Promoter and Promoter Group	100.0	87.40
Public & Others	-	12.60
Total	100.0	100.0

Source for this Note: RHP

* = Assuming issue subscribed at the higher band

Background & Operations:

ITES Ltd (RL) is a wholly owned Government Company, a Miniratna (Category – I) Schedule ‘A’ Public Sector Enterprise and a leading player in the transport consultancy and engineering sector in India and the only company having diversified services and geographical reach in this field under one roof (Source: IRR Report). Based on Public Enterprise Survey 2015-2016, the Company is ranked no. 1 based on net profit and dividend declared in Industrial Development and Technical Consultancy Services sector (Source: IRR Report). It has an experience spanning 43 years and has undertaken projects in over 55 countries including Asia, Africa, Latin America, South America and Middle East regions. It is the only export arm of Indian Railways for providing rolling stock overseas (other than Thailand, Malaysia and Indonesia and is a multidisciplinary engineering and consultancy organization providing diversified and comprehensive array of services from concept to commissioning in all facets of transport infrastructure and related technologies.

It has significant presence as a transport infrastructure consultancy organization in the railway sector. However, it also provides consultancy services across other infrastructure and energy market sectors including urban transport, roads and highways, ports, inland waterways, airports, institutional buildings, ropeways, power procurement and renewable energy. It has, over the years, served various public sector undertakings, government agencies and instrumentalities and large private sector corporations, both in India and abroad. RL was incorporated by the Ministry of Railways, Government of India (“**MoR**”) and has the benefit of being associated with the Indian Railways, which is the fourth longest rail network in the world (Source: IRR Report). Since its inception in 1974, it has evolved from its origins of providing transport infrastructure consultancy and quality assurance services and has developed expertise in:

- Design, engineering & consultancy services in transport infrastructure sector with focus on railways, urban transport, roads & highways, ports, inland waterways, airports & ropeways;
- Leasing, export, maintenance and rehabilitation of locomotives and rolling stock;
- 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
- Wagon manufacturing, renewable energy generation and power procurement for Indian Railways through collaborations by way of joint venture arrangements, subsidiaries or consortium arrangements.

In India, RL’s clients include various central and state government ministries, departments, instrumentalities as well as local government bodies and public sector undertakings. It intends to increase its 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. it has been a debt free Company for more than a decade.

Objects of Issue:

The objects of the Offer is (i) 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 and (ii) to achieve the benefits of listing the Equity Shares on the Stock Exchanges. Further, RL expects that listing of the Equity Shares will enhance visibility and brand image and provide liquidity to its shareholders. Listing will also provide a public market for the Equity Shares in India. RL will not receive any proceeds from the Offer and all the proceeds will go to the Selling Shareholder.

Competitive Strengths

- Comprehensive range of consultancy services and a diversified sector portfolio in the transport infrastructure space
- Large order book with strong and diversified clientele base across sectors
- Technical expertise and business divisions with specialized domain knowledge
- Experienced management personnel and technically qualified team
- Strong and consistent financial performance supported by robust internal control and risk management system
- Preferred consultancy organization of the Government of India including the Indian Railways

Business Strategy:

- Leverage experience and continue to build on core competencies in transport infrastructure sector
- Strengthen EPC/Turnkey business
- Expand international operations
- Expand operations in the power procurement and renewable energy sector through 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

Key Concerns

- Dependence on the MoR, for a significant portion of RL's business;
- Competitive pressures from the existing competitors and new entrants in both public and private sector;
- Varying project related costs and revenue estimates due to long execution period of certain contracts;
- Influence of GoI on RL's actions;
- Quality of work performed by RL's agencies, suppliers, contractors and sub - contractors;
- Dependence on the expertise of RL's Key Managerial Personnel, Senior Management and skilled workforce;
- The refusal of suppliers, contractors and sub-contractors to maintain favourable payment conditions and / or performance defaults by suppliers, contractors, sub-contractors or consortium partners;
- Any delay in the initiation of the projects and / or postponement/putting on hold of previously awarded contracts; and
- Unanticipated technical problems with equipment or incompatibility of such equipment with existing infrastructure.

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