

Stock Update Rail Vikas Nigam Ltd.

January 11, 2024





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Engineering	Rs 197	Buy in Rs 195-200 band & add on dips in Rs 172-176 band	Rs 218	Rs 237	2-3 quarters

HDFC Scrip Code	RAILTDEQNR
BSE Code	542649
NSE Code	RVNL
Bloomberg	RVNL IN
CMP Jan 10, 2024	197.4
Equity Capital (Rs cr)	2085.0
Face Value (Rs)	10
Equity Share O/S (cr)	208.5
Market Cap (Rs cr)	41158
Book Value (Rs)	37.9
Avg. 52 Wk Volumes	2,96,10,000
52 Week High (Rs)	199.3
52 Week Low (Rs)	56.1

Share holding Pattern % (Sep, 2023)	
Promoters	72.8
Institutions	8.2
Non Institutions	19.0
Total	100.0



HDFCsec Retail research
stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

RVNL is a project executing agency working for and on behalf of MoR (Ministry of Railways) which is likely to play a key role in the development of railway infrastructure in India. It has a strong order book visibility. RVNL has diversified into non-railway projects and over the past 2 years it has won orders worth ~Rs 32,000cr through competitive bidding. It has also forayed into other geographies and is executing a project in Maldives and signed a MoU with Govt. of Kyrgyzstan. The proportion of orders won through competitive bidding has been increasing, thereby reducing its dependence on Ministry of Railways nomination.

RVNL follows an asset light business model, which helps keep its fixed asset part lower, helping it to keep its balance sheet stress free, and resulting in lower inventory days. It has also commenced consultancy services which could lead to margin expansion. Its experienced management and execution team gives it a competitive advantage which has contributed significantly to increasing its project execution capabilities. Its orderbook of Rs 67,000cr at the end of Q2FY24 gives a visibility of ~3 years. The company has a robust balance sheet and strong operating cash flows.

On January 12, 2023, we had released a Stock Update note on the company ([Link](#)) with a recommendation to 'Buy in Rs 71-74 band & add on dips in Rs 64-66 band' for base case fair value of Rs 81 and bull case fair value of Rs 86.5. Both our targets were achieved within the given timeframe.

Financial Summary

Particulars (Rs cr)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Revenues	4914	4909	0.1	5572	-11.8	20,282	21,904	24,095	27,227
EBITDA	298	316	-5.6	349	-14.6	1,247	1,371	1,537	1,740
APAT	394	381	3.4	343	15.0	1,421	1,531	1,749	2,015
Diluted EPS (Rs)	1.9	1.8	3.4	1.6	15.0	6.8	7.3	8.4	9.7
RoE (%)						20.7	19.5	19.4	19.5
P/E (x)						29.0	26.9	23.5	20.4
EV/EBITDA (x)						36.7	32.9	29.1	25.6

(Source: Company, HDFC sec)



Valuation & Recommendation:

We have built in a conservative 10%/12% CAGR Revenue/PAT growth over FY23-FY26E over strong base of FY23. We have not considered any upside from the Govt. of Kyrgyzstan order. We feel investors can buy the stock in Rs 195-200 band and add further in Rs 172-176 band (18x FY26E EPS) for base case target of Rs 218 (22.5x FY26E EPS) and bull case target of Rs 237 (24.5x FY26E EPS) over the next 2-3 quarters.

Q2FY24 Result Update

Consolidated revenues came in flat YoY at Rs 4914cr and declined sequentially by 12%. EBITDA decreased by 6% YoY to Rs 298cr while EBITDA margin was down by 37bps at 6.1%. Adj. PAT, however, increased by 3.4% to Rs 394cr on account of higher other income which came in at Rs 296cr as compared to 222cr in Q2FY23.

At the end of Q2FY24 RVNL had an outstanding order book of ~Rs 67,000cr of which ~Rs 35,000cr was on nomination basis and ~Rs 32,000cr was won through competitive bidding. The order book provides strong visibility of ~3 years.

Recent updates

Strong order inflows

Order inflows have continued to remain strong for RVNL. Some significant orders bagged by the company in past few months include:

Date	Client	Order Value (Rs cr)
03-Oct-23	Himachal Pradesh State Electricity Board Limited	444.3
07-Oct-23	Maharashtra Metro Rail Corp.	256.2
07-Oct-23	Maharashtra Metro Rail Corp.	394.9
11-Oct-23	Northeast Frontier Railway	28.7
19-Oct-23	Western Railway	174.3
19-Oct-23	Western Railway	245.7
13-Nov-23	Central Railway	311.2
11-Dec-23	Madhya Pradesh Metro Rail Corporation (51% JV with URC)	543.0
2-Jan-24	Southern Railway (49% JV with KDRCL)	123.4

Besides these, RVNL has emerged as the lowest bidder in the few projects which are yet to be awarded. Regular order wins through competitive bidding process in different segments indicates the strength of the company and strong confidence shown by the clients.

REC Ltd. has on Jan 03, 2024 entered into an MoU with Rail Vikas Nigam Limited (RVNL) to finance up to Rs 35,000cr for Infrastructure Projects to be executed by RVNL over the next 5 years. These projects constitute multi-modal logistics hub projects, rail infrastructure projects, road, port, and metro projects where RVNL has forayed into.



Execution of Govt. of Kyrgyzstan order expected to begin soon

RVNL had signed a MoU with Govt. of Kyrgyzstan and identified four railway projects to be developed totaling to about 1,000km. As per the detailed project report, the total cost of the projects is estimated to be ~Rs 18,000cr. The Govt. of Kyrgyzstan is in final stages of tying up with a European fund company. The management believes execution of this project should begin soon. Successful completion of this project would give a huge footprint to the company in overseas market and could attract more projects from other countries.

Increasing order wins through competitive bidding

RVNL had an outstanding order book of ~Rs 67,000cr at the end of Q2FY24. Of these railways accounted for ~Rs 35,000cr which the company received on nomination basis from the Ministry of Railways. It has bid and won orders worth ~Rs 32,350cr through competitive bidding indicating the strength of the company. The outstanding order book provides a visibility of ~3 years.

Higher infrastructure capital outlay in Budget 2023

In Budget 2023-24, capital investment outlay for infrastructure has increased by 33% to Rs 10 lakh crore (US\$ 122 billion), which would be 3.3% of GDP. India's capital expenditure as a percentage of GDP increased from 1.7% in 2014 to nearly 2.9% in 2022-23. The Ministry of Railways received its highest-ever allocation of Rs 2.4 lakh crore, approximately nine times the allocation in 2013-14. The increased allocation to Railways would ensure a steady stream of orders on nomination basis while on the other hand competitive order wins could keep increasing.

The Indian Railways had earlier reported a massive plan amounting to Rs 4.2 lakh crore, targeting the multi-tracking of seven high-density corridors, including Delhi-Howrah, Mumbai-Howrah, Delhi-Mumbai, Delhi-Guwahati, Delhi-Chennai, Howrah-Chennai, and Mumbai-Chennai. The 10-year program, spanning from 2024-25 to 2033-34, aims to enhance capacity by doubling and adding third and fourth lines based on traffic demand. The proposal includes the construction of flyovers and underpasses.

RVNL has been granted Navratna status

In May'23 RVNL was granted Navratna status. The grant of "Navratna" status to RVNL leads to enhanced delegation of powers, more operational freedom and financial autonomy which will give huge impetus to RVNL's progress, particularly so, when RVNL is extending its footprints in sectors beyond Railways and even in projects abroad.



Improved performance of subsidiaries/SPV to aid profit growth

Some of the SPVs have shown remarkable growth in their operations. PAT of BDRCL (35.5% stake) increased from Rs 29cr to Rs 47cr in FY23. Kutch Rail Company (50%) reported PAT growth of 69% in FY23 to Rs 232cr. Similarly, for KPRCL (49.8%) its PAT stood at Rs 29cr from a loss of Rs 115cr in FY22. Efficiency and output of SPV have been increasing. BDRCL and HPRCL have paid dividends for the first time in FY23. Angul Sukinda Railway SPV have also commissioned operations. The combined revenue generated by all the SPVs was more than Rs 1 lakh crore. Improved profitability of SPV is likely to get reflected in consolidated PAT of RVNL.

Risks & Concerns

Slower execution of projects can hamper the margins:

RVNL's order book is a major attraction, its execution is also a matter of concern. Generally, companies marked with higher order book, suffer from execution delays. Any delay in execution would hamper the already thin margin line of the company. Till date only 40% of projects assigned could have been completed. Also delays in payments and government control, may make investors nervous.

Competition from other players pose a threat

Although, there are limited public companies present in the market which are fully owned by MoR, but, still competition, from other PSUs and even private players might pose a threat. However, RVNL scores over other railway peers, due to higher earnings growth and RoE expansion potential, led by scale benefits, focus on core competency, assured margin, and valuation gap.

Over dependence on Indian railways

Although, it has other clientele too, but its main business comes from Indian Railways. Thus, there is an overdependence, which creates a risk, when there would be lower business coming in future. This could be for number of reasons, like lower budgetary allocation, lower government incentives, opening to private players etc. Thus, RVNL needs to diversify its customer base to keep its business flowing.

Change in terms of agreement with Ministry of Railways (MoR)

RVNL's operating performance is highly dependent on Indian Railways orders. Any change or reduction in agreement in terms of aggregate cost plus margin model can have an adverse impact on company's operating performance.

Land acquisition and forest/wildlife related clearances:

The company is highly dependent on the MoR for securing various approvals including the facilitation in the land acquisition process for its projects. Any failure or delay by the MoR in identifying suitable lands in a timely manner or any failure to acquire suitable land or to obtain land-related approvals for the projects may adversely affect company's financial condition and results of operation.

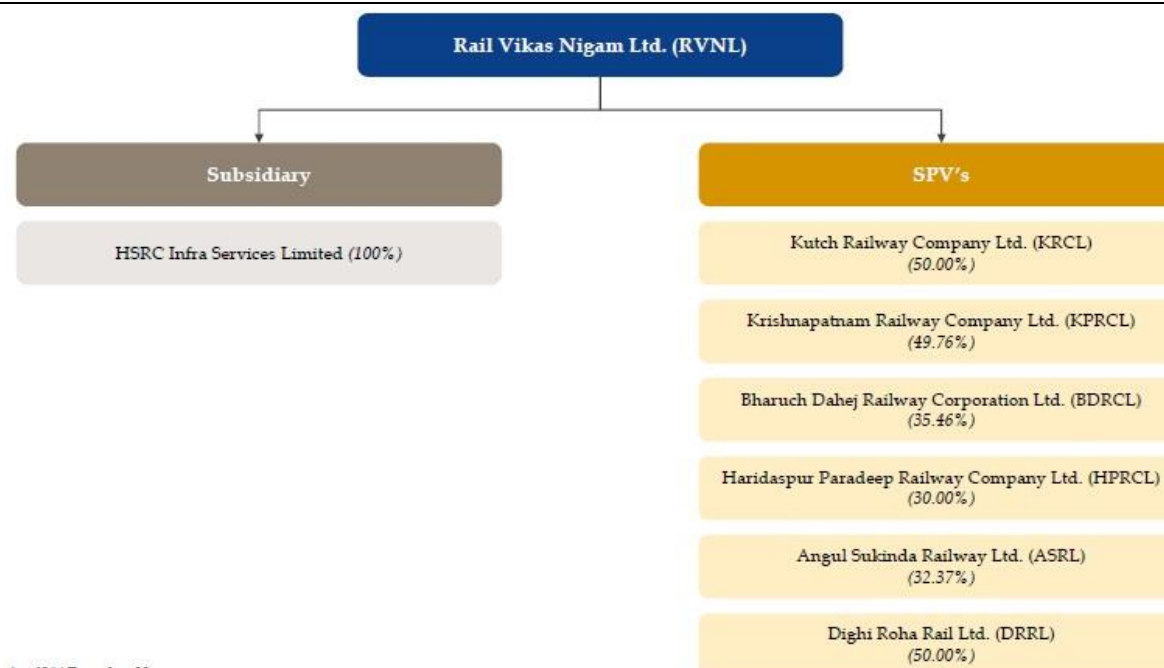


Company Background:

Incorporated in Jan-2003, Rail Vikas Nigam Ltd. (RVNL) is a Schedule A – Public Sector Enterprise and a Miniratna. RVNL is a project execution company and works for and behalf of Ministry of Railways. It executes all types of railway projects including new lines, doubling, gauge conversion, railway electrification, metro projects, workshops, major bridges, construction of cable stayed bridges, institution buildings etc. on a turnkey basis. The company's major client is the Indian Railways. Its other clients include various central and state government ministries, departments, and public sector undertakings. RVNL does not have any plant location, but had 30 Project implementing Units at 24 locations as of FY23.

RVNL works on a turnkey basis and undertake the full cycle of project development from conceptualization to commissioning (including stages of design, preparation of estimates, calling and award of contracts, project and contract management, and all stages of project execution upto the stage of commissioning).

Company structure



As of 31st December 20

(Source: Company, HDFCsec)



Rail Vikas Nigam Ltd.

RVNL is apex body of MoR with 30% share, the largest among PSU, and will benefit from the increase in railway capex over the next five years under NIP. RVNL is allowed consolidated management fee (inclusive of supervision charges) on project cost at the following margin: 10.00% for national projects, 9.25% for metro projects and 8.50% for other plan heads. Borrowings on books is a pass-through entry where interest and principal repayment are borne by MoR.

Since incorporation the MoR has transferred 220 projects to RVNL of which 140 projects have been fully completed as of FY23, 73 projects are under implementation and 3 projects are yet to be sanctioned.



Financials

Income Statement

(Rs cr)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenues	19382	20282	21904	24095	27227
Growth (%)	25.8	4.6	8.0	10.0	13.0
Operating Expenses	18199	19035	20533	22557	25487
EBITDA	1183	1247	1371	1537	1740
Growth (%)	34.5	5.4	10.0	12.1	13.2
EBITDA Margin (%)	6.1	6.1	6.3	6.4	6.4
Depreciation	21	22	24	25	26
Other Income	800	996	1117	1205	1307
EBIT	1962	2221	2464	2717	3021
Interest expenses	564	581	563	524	481
PBT	1399	1640	1901	2193	2540
Tax	319	378	466	548	640
PAT	1079	1262	1435	1645	1900
Share of Asso./Minority Int.	104	159	95	105	115
Adj. PAT	1183	1421	1531	1749	2015
Growth (%)	19.3	20.1	7.7	14.3	15.2
EPS	5.7	6.8	7.3	8.4	9.7

Balance Sheet

As at March (Rs cr)	FY22	FY23	FY24E	FY25E	FY26E
SOURCE OF FUNDS					
Share Capital	2085	2085	2085	2085	2085
Reserves & Surplus	4312	5240	6312	7519	8930
Shareholders' Funds	6397	7325	8397	9604	11015
Total Debt	6595	6408	6108	5808	5508
Net Deferred Taxes	-13	-14	-14	-14	-14
Total Source of Funds	12980	13719	14491	15398	16509
APPLICATION OF FUNDS					
Net Block & Goodwill	379	355	351	351	350
CWIP	1	1	1	1	1
Investment	1882	1982	2232	2582	2932
Other Non-curr Ass.	3124	7025	7235	7599	8182
Total Non Current Assets	5387	9363	9819	10534	11466
Inventories	50	59	51	63	71
Trade Receivables	938	969	1140	1320	1566
Cash & Equivalents	6824	1853	2161	2241	2100
Other Current Assets	6669	6164	6061	6337	6863
Total Current Assets	14481	9045	9413	9962	10601
Trade Payables	224	621	300	330	373
Other Current Liab & Provisions	6664	4069	4441	4767	5185
Total Current Liabilities	6888	4689	4741	5097	5558
Net Current Assets	7592	4356	4672	4864	5043
Total Application of Funds	12980	13719	14491	15398	16509



Cash Flow Statement

(Rs cr)	FY22	FY23	FY24E	FY25E	FY26E
Reported PBT	1502	1798	1901	2193	2540
Non-operating & EO items	-103	-136	-116	-249	-443
Interest Expenses	-234	103	563	524	481
Depreciation	37	42	24	25	26
Working Capital Change	3897	-5495	-7	-123	-344
Tax Paid	-299	-388	-466	-548	-640
OPERATING CASH FLOW (a)	4800	-4076	1899	1822	1620
Capex	-116	-10	-20	-25	-25
Free Cash Flow	4684	-4086	1879	1797	1595
Investments	0	0	-250	-350	-350
Non-operating income	-1310	1365	0	0	0
INVESTING CASH FLOW (b)	-1426	1355	-270	-375	-375
Debt Issuance / (Repaid)	472	-280	-300	-300	-300
Interest Expenses	-214	-309	-563	-524	-481
FCFE	3632	-3310	766	623	464
Share Capital Issuance	0	0	0	0	0
Dividend	-421	-421	-459	-542	-605
FINANCING CASH FLOW (c)	-162	-1010	-1322	-1366	-1386
NET CASH FLOW (a+b+c)	3211	-3732	307	81	-141

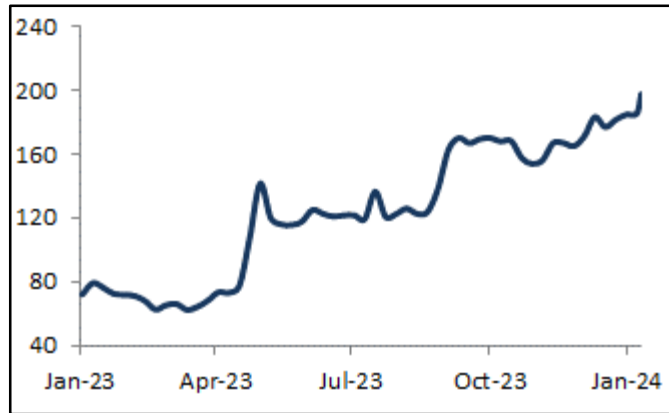
Key Ratios

	FY22	FY23	FY24E	FY25E	FY26E
Profitability Ratios (%)					
EBITDA Margin	6.1	6.1	6.3	6.4	6.4
EBIT Margin	10.1	11.0	11.3	11.3	11.1
APAT Margin	6.1	7.0	7.0	7.3	7.4
RoE	19.7	20.7	19.5	19.4	19.5
RoCE	16.0	16.6	17.5	18.2	18.9
Solvency Ratio (x)					
Net Debt/EBITDA	-0.2	3.7	2.9	2.3	2.0
Net D/E	0.0	0.6	0.5	0.4	0.3
PER SHARE DATA (Rs)					
EPS	5.7	6.8	7.3	8.4	9.7
CEPS	5.8	6.9	7.5	8.5	9.8
BV	30.7	35.1	40.3	46.1	52.8
Dividend	1.8	2.1	2.2	2.6	2.9
Turnover Ratios (days)					
Debtor days	18	17	18	19	19
Inventory days	1	1	1	1	1
Creditors days	5	8	8	5	5
VALUATION (x)					
P/E	34.8	29.0	26.9	23.5	20.4
P/BV	6.4	5.6	4.9	4.3	3.7
EV/EBITDA	34.6	36.7	32.9	29.1	25.6
EV/Revenues	2.1	2.3	2.1	1.9	1.6
Dividend Yield (%)	0.9	1.1	1.1	1.3	1.5
Dividend Payout (%)	32.3	31.3	30.0	31.0	30.0



Rail Vikas Nigam Ltd.

Price chart



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclical of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.



Rail Vikas Nigam Ltd.

Disclosure:

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