

Stock Update Rail Vikas Nigam Ltd.

January 12, 2023





Rail Vikas Nigam Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Engineering	Rs 72	Buy in Rs 71-74 band & add on dips in Rs 64-66 band	Rs 81	Rs 86.5	2-3 quarters

HDFC Scrip Code	RAILTDEQNR
BSE Code	542649
NSE Code	RVNL
Bloomberg	RVNL IN
CMP Jan 11, 2022	72.2
Equity Capital (Rs cr)	2085.0
Face Value (Rs)	10
Equity Share O/S (cr)	208.5
Market Cap (Rs cr)	15,054
Book Value (Rs)	33.7
Avg. 52 Wk Volumes	113,00,000
52 Week High (Rs)	84.2
52 Week Low (Rs)	29.0

Share holding Pattern % (Sep, 2022)	
Promoters	78.2
Institutions	9.2
Non Institutions	12.6
Total	100.0

Our Take:

Rail Vikas Nigam Ltd. (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. RVNL is a project executing agency working for and on behalf of MoR (Ministry of Railways) and has a strong order book visibility which is likely to play a key role in the development of railway infrastructure in India. RVNL has diversified into non-railway projects and looking to bid for projects in other countries as well. 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 in increasing its project execution capabilities. The Government has recently shown intention to introduce competition among PSUs for allotment of work by the Railway Board. This could impact order flows to some extent. The thrust on improving the infrastructure for rail transportation by adding new lines, doubling existing lines, electrification, etc. would continue to provide constant flow of business for the company. The company has a robust balance sheet and is available at an attractive dividend yield of ~2.5%. Execution of larger projects on a low base could propel growth higher in coming years.

Valuation & Recommendation:

The management expects revenue to grow at CAGR of over 20% in the coming few years on the back of strong order book and new order inflows. However, we have built in a conservative 16%/15% CAGR Revenue/PAT growth over FY22-FY25E over strong base of FY22. We have not considered any upside from the recent Govt. of Kyrgyzstan order. Looking at the strong prospects we believe the stock is available at reasonable valuation. Its cash and investments per share is Rs 22.3 which is 31% of its CMP. We feel investors can buy the stock in Rs 71-74 band and add further in Rs 64-66 band for base case target of Rs 81 (10x Sep'24E EPS) and bull case target of Rs 86.5 (10.75x Sep'24E EPS) over the next 2-3 quarters.

Financial Summary

Particulars (Rs cr)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	FY22	FY23E	FY24E	FY25E
Revenues	4909	4026	21.9	4641	5.8	19,382	22,677	26,305	30,119
EBITDA	316	227	39.1	281	12.6	1,183	1,433	1,640	1,937
APAT	381	279	36.5	316	20.7	1,183	1,400	1,569	1,791
Diluted EPS (Rs)	1.8	1.3	36.5	1.5	20.7	5.7	6.7	7.5	8.6
RoE (%)						19.7	20.4	19.9	19.9
P/E (x)						12.7	10.8	9.6	8.4
EV/EBITDA (x)						12.5	13.2	11.5	9.3

(Source: Company, HDFC sec)



**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

Fundamental Research Analyst

Atul Karwa

atul.karwa@hdfcsec.com



Q2FY23 Result Update

Consolidated revenues witnessed a growth of 21.9%/5.8% YoY/QoQ to Rs 4909cr. EBITDA increased by 39.1% YoY to Rs 316cr while EBITDA margin was up by 80bps at 6.4%. PAT came in at Rs 381cr a growth of 36.5% YoY on account of higher other income.

At the end of Q2FY23 RVNL had an outstanding order book of ~Rs 50,000cr on nomination basis which provides strong visibility of ~3 years. In addition to this, the company has won orders of Rs 8,200cr through competitive bidding in H1FY23 and Rs 1,000cr in its SPV model. It expects to get Rs 6,000-7,000cr worth of orders from bidding in the open market in H2FY23 and Rs 3,000cr in its SPV model.

The management has maintained its guidance of 15-20% topline growth and PAT of over Rs 1,100cr for FY23.

Recent updates

Strong order inflows

The company has bagged some strong orders (including new segments) in the past few months. Some of the significant orders include:

Date	Client	Order Value (Rs cr)
20-Oct-22	Ahmedabad Municipal Corp. (Development of Kharicut Canal)	484
04-Nov-22	Central Organization for Railway Electrification (OHE Modification Work)	138
11-Nov-22	GoI Project in Maldives (Development of Uthuru Thila Falhu-Island Harbour)	1545
22-Dec-22	Gujarat Metro Rail Corp.	199
05-Jan-23	Gujarat Metro Rail Corp.	166
11-Jan-23	Chennai Metro Rail Ltd.	1134

Regular order wins through competitive bidding process in different segments indicates the strength of the company and strong confidence shown by the clients.

JV with Govt. of Kyrgyzstan

RVNL had earlier 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 20,000cr. These projects would give a huge footprint to the company in overseas market and could attract more projects from other countries. However the execution of this project could extend over years depending on finance availability and regulatory approvals.



Order book of Rs 50,000cr provides strong visibility

RVNL had an outstanding order book of ~Rs 50,000cr at the end of Q2FY23, assigned by the Ministry of Railways (MoR) to be completed over the next 3 to 3.5 years. In addition to this, the company has won orders of Rs 8,200cr through competitive bidding and has signed many MoUs, which could also lead to increased order flows in the coming years. It is expecting additional orders of Rs 6,000-7,000cr of orders in H2FY23 through competitive bidding route. Additionally, it has secured orders of Rs 1,000cr through its SPV model and is targeting Rs 3,000cr more by the end of current financial year.

Likely classification to Navratna status

MoR vide office memorandum dated August 10, 2022 has also recommended to Department of Public Enterprises (DPE), the proposal for re-categorisation of RVNL a Schedule 'A', Mini Ratna -I, CPSE to 'Navratna'. Navratna Companies are a group of companies in the Central Public Sector Enterprises (CPSEs) that have enhanced financial autonomy. Due to the greater autonomy, the Navratna companies enjoy comparative advantages when competing in the global market.

National Rail Plan could boost revenue

Indian Railways have prepared a National Rail Plan (NRP) for India – 2030. The Plan is to create a 'future ready' Railway system by 2030. The NRP is aimed to formulate strategies based on both operational capacities and commercial policy initiatives to increase modal share of the Railways in freight to 45%. The objective of the Plan is to create capacity ahead of demand, which in turn would also cater to future growth in demand right up to 2050 and also increase the modal share of Railways to 45% in freight traffic and to continue to sustain it. This could provide a big uptick to the orders and revenue of RVNL.

Expanding to other countries

RVNL has now started participating in tenders of other countries as well. The experience of around two decades in India of being one of the lead execution agency for railway projects would help the company to evaluate, bid and execute projects in other countries. Many countries across the world are looking at expanding and improving their rail network. This would also diversify its revenues geographically, reducing its risk and dependence on Indian Railways.

Consultancy services to aid margin expansion

RVNL has entered into Project Management Consultancy (PMC) services and obtained three consultancy works of DPR preparation for important Highway Projects in North East region by NHAI. PMC contracts are higher margin contracts and assist in margin expansion.



Minimum Public Shareholder norms eased

The finance ministry has inserted a clause into the public listing norms to exempt public floats for listed PSUs for a “specified period” as required under the Securities Contracts (Regulation) Rules, 1957. The central government may, in public interest, exempt any listed entity in which the Central / State Government or public sector company, either individually or in any combination with other, hold directly or indirectly, majority of the shares or voting rights or control of such listed entity, from any or all of the provisions of this rule,” the fresh rule says. This nullifies the overhang of stake sale by the Govt. as it currently owns 78.2% stake in the company till such time as it is exempted.

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 from Indian railways in future. This could be for number of reasons, like lower budgetary allocation, lower government incentives, opening up to private players etc. Thus, RVNL needs to diversify its customer base in order 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.

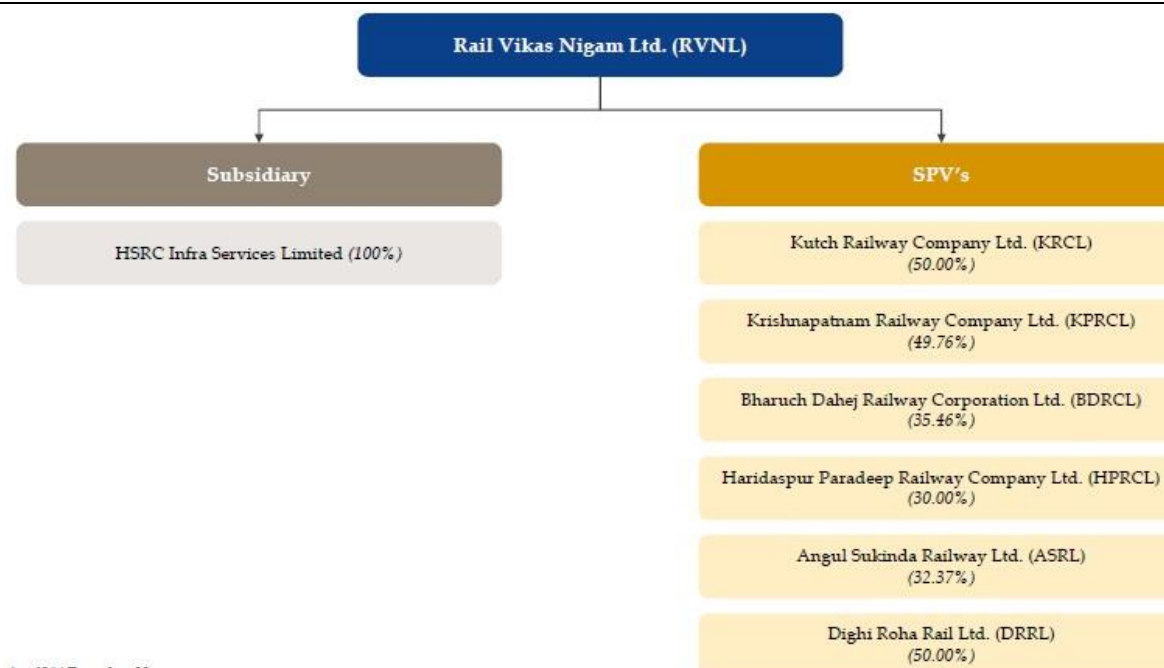


Company Background:

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 34 Project implementing Units at 26 locations as of FY22.

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 2x 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 195 projects to RVNL of which 120 projects have been fully completed as of FY22, 72 projects are under implementation and 3 projects are yet to be sanctioned.



Financials

Income Statement

(Rs cr)	FY21	FY22	FY23E	FY24E	FY25E
Net Revenues	15404	19382	22677	26305	30119
Growth (%)	6.0	25.8	17.0	16.0	14.5
Operating Expenses	14524	18199	21243	24665	28182
EBITDA	880	1183	1433	1640	1937
Growth (%)	11.9	34.5	21.1	14.4	18.1
EBITDA Margin (%)	5.7	6.1	6.3	6.2	6.4
Depreciation	23	21	24	27	30
Other Income	739	800	884	947	994
EBIT	1596	1962	2294	2560	2901
Interest expenses	458	564	624	683	739
PBT	1138	1399	1670	1877	2162
Tax	215	319	384	434	508
PAT	923	1079	1286	1443	1654
Share of Asso./Minority Int.	69	104	114	125	138
Adj. PAT	992	1183	1400	1569	1791
Growth (%)	31.6	19.3	18.4	12.0	14.2
EPS	4.8	5.7	6.7	7.5	8.6

Balance Sheet

As at March (Rs cr)	FY21	FY22	FY23E	FY24E	FY25E
SOURCE OF FUNDS					
Share Capital	2085	2085	2085	2085	2085
Reserves	3551	4312	5264	6311	7509
Shareholders' Funds	5636	6397	7349	8396	9594
Total Debt	5902	6595	6815	7265	7665
Net Deferred Taxes	-43	-13	-13	-13	-13
Total Source of Funds	11495	12980	14151	15649	17246
APPLICATION OF FUNDS					
Net Block & Goodwill	292	379	496	644	789
CWIP	53	1	1	1	1
Investment	1730	1882	1957	2057	2182
Other Non-curr Ass.	2118	3124	3255	3878	4539
Total Non Current Assets	4194	5387	5710	6580	7512
Inventories	23	50	36	50	61
Trade Receivables	980	938	1281	1477	1617
Cash & Equivalents	2047	6824	2944	3520	4800
Other Current Assets	6934	6669	9484	10631	11711
Total Current Assets	9985	14481	13745	15678	18188
Trade Payables	272	224	311	288	330
Other Current Liab & Provisions	2412	6664	4992	6321	8124
Total Current Liabilities	2683	6888	5303	6610	8454
Net Current Assets	7301	7592	8442	9069	9734
Total Application of Funds	11495	12980	14151	15649	17246

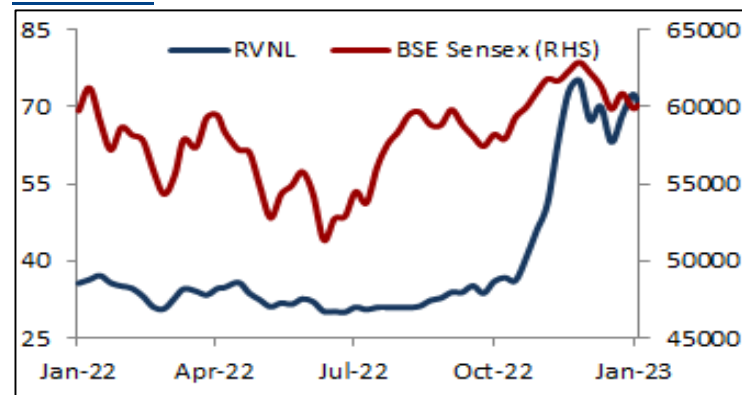


Rail Vikas Nigam Ltd.

Cash Flow Statement

(Rs cr)	FY21	FY22	FY23E	FY24E	FY25E
Reported PBT	1207	1502	1670	1877	2162
Non-operating & EO items	-122	-103	144	-425	-448
Interest Expenses	-222	-234	624	683	739
Depreciation	37	37	24	27	30
Working Capital Change	-329	3897	-4890	-124	538
Tax Paid	-151	-299	-384	-434	-508
OPERATING CASH FLOW (a)	419	4800	-2813	1605	2513
Capex	-143	-116	-140	-175	-175
Free Cash Flow	277	4684	-2953	1430	2338
Investments	0	0	-75	-100	-125
Non-operating income	455	-1310	0	0	0
INVESTING CASH FLOW (b)	312	-1426	-215	-275	-300
Debt Issuance / (Repaid)	1159	472	220	450	400
Interest Expenses	-245	-214	-624	-683	-739
FCFE	1646	3632	-3431	1097	1874
Share Capital Issuance	0	0	0	0	0
Dividend	-475	-421	-448	-521	-594
FINANCING CASH FLOW (c)	439	-162	-852	-754	-933
NET CASH FLOW (a+b+c)	1171	3211	-3880	576	1280

Price chart



Key Ratios

	FY21	FY22	FY23E	FY24E	FY25E
Profitability Ratios (%)					
EBITDA Margin	5.7	6.1	6.3	6.2	6.4
EBIT Margin	10.4	10.1	10.1	9.7	9.6
APAT Margin	6.4	6.1	6.2	6.0	5.9
RoE	18.4	19.7	20.4	19.9	19.9
RoCE	15.3	16.0	16.9	17.2	17.6
Solvency Ratio (x)					
Net Debt/EBITDA	4.4	-0.2	2.7	2.3	1.5
Net D/E	0.7	0.0	0.5	0.4	0.3
PER SHARE DATA (Rs)					
EPS	4.8	5.7	6.7	7.5	8.6
CEPS	4.9	5.8	6.8	7.7	8.7
BV	27.0	30.7	35.2	40.3	46.0
Dividend	1.6	1.8	2.2	2.5	2.9
Turnover Ratios (days)					
Debtor days	21	18	18	19	19
Inventory days	0	1	1	1	1
Creditors days	11	5	4	4	4
VALUATION (x)					
P/E	15.2	12.7	10.8	9.6	8.4
P/BV	2.7	2.4	2.0	1.8	1.6
EV/EBITDA	21.5	12.5	13.2	11.5	9.3
EV/Revenues	1.2	0.8	0.8	0.7	0.6
Dividend Yield (%)	2.2	2.5	3.0	3.5	3.9
Dividend Payout (%)	33.2	32.3	32.0	33.2	33.2



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. This 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 cyclicity 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.

Disclosure:

I, **Atul Karwa**, Research Analyst, **MMS**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or HDFC Securities Ltd. **does not have** any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate **does not have** any material conflict of interest.

Any holding in stock – No

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is meant for sole use by the recipient and not for circulation. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk.

It should not be considered to be taken as an offer to sell or a solicitation to buy any security. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from t date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murlil V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.