

Rail Vikas Nigam (RVNL)

BUY

Execution remain strong

Summary

RVNL Q3FY22 PAT came in line with our estimate and 9MFY22 PAT forms 74% to our FY22E PAT. Execution was strong as revenue increased by 35% YoY but due to higher tax rate and lower other income, PAT increased by 4% YoY in Q3FY22. Post the result we have retained our EPS estimate and TP at Rs52 (valued at 7x FY24E EPS). RVNL trades at 5x FY24E EPS and offers dividend yield of 5-7%. Catalyst for stock is new order win in competitive bidding. RVNL order book is Rs600bn (3.3x FY22E revenue) and has a pipeline to bid for new orders. In FY23E-24E, we expect its revenue to increase by 18-19% and with stable EBITDA margin, PAT to increase by 17-18%. Railway capital expenditure in union budget has been increased by 14% (vs FY22RE) to Rs2.5tn. This is positive for RVNL and we retain BUY Rating on the stock.

Key Highlights and Investment Rationale

- Q3FY22 Snapshot:** Revenue increased by 35% YoY to Rs50bn and EBITDA margin increased by 43bps YoY at 6.3%. And EBITDA has increased by 45% YoY to Rs3.2bn. Profit from Associates was stable at Rs110mn vs Rs131mn YoY. But YoY PAT growth was lower due to higher tax rate at 25% vs 18% YoY and lower other income at R0.7bn vs Rs1.2bn YoY.
- Union budget is positive:** Total Railway capital expenditure is increased by 14% (vs FY22RE) to Rs2.5tn. Baring rolling stocks and track renewal, other component has increased by 20%+. For FY23E railway physical target (in km) for new line, gauge conversion is flat vs FY22RE and for electrification physical target is up 8% and double line is up 6%. We understand physical outlay is moderate could be on account of complex lines being executed in FY23E.

TP	Rs52
CMP	Rs35
Potential upside/downside	+47%
Previous Rating	BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	(0.6)	(9.8)	14.4
Rel to Sensex	0.8	(7.3)	(0.4)

V/s Consensus

EPS (Rs)	FY22E	FY23E	FY24E
IDBI Capital	5.3	6.3	7.4
Consensus	--	--	--
% difference	--	--	--

Key Stock Data

Bloomberg/Reuters	RVNL IN / RAIV.BO
Sector	Infrastructure
Shares o/s (mn)	2,085
Market cap. (Rs mn)	73,914
3-m daily avg Trd value(Rs mn)	37.8
52-week high / low	Rs45 / 26
Sensex / Nifty	58,926 / 17,606

Shareholding Pattern (%)

Promoters	78.2
FII	0.9
DII	8.6
Public	12.3

Financial snapshot

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	145,306	154,038	183,863	217,734	258,157
Change (yoy, %)	44	6	19	18	19
EBITDA	7,865	8,799	10,692	12,963	15,843
Change (yoy, %)	48	12	22	21	22
EBITDA Margin(%)	5.4	5.7	5.8	6.0	6.1
Adj.PAT	7,533	9,224	11,144	13,035	15,425
EPS (Rs)	3.6	4.4	5.3	6.3	7.4
Change (yoy, %)	9.5	22.4	20.8	17.0	18.3
PE(x)	9.4	7.7	6.4	5.4	4.6
Dividend Yield (%)	3.4	4.6	5.6	6.6	7.8
EV/EBITDA (x)	1.4	1.3	1.1	1.0	0.9
RoE (%)	15.8	17.3	18.9	19.8	20.9
RoCE (%)	8.9	8.1	9.1	10.8	12.2

Source: IDBI Capital Research

Exhibit 1: Quarterly Snapshot

(Rs mn)

Financial snapshot	Q3FY22	Q3FY21	YoY Chg (%)	Q2FY22	QoQ Chg (%)
Net Sales	50,492	37,324	35	40,258	25
EBIDTA	3192	2198	45	2271	41
EBITDA margin (%)	6.3	5.9	43bps	5.6	68bps
Other income	749	1200	-38	557	35
PBIDT	3,941	3,398	16	2,828	39
Depreciation	42	44	-3	47	-10
Interest	82	61	34	57	44
Pre-tax profit	3,927	3,425	15	3,292	19
Tax	997	614	62	500	100
<i>Tax Rate</i>	25	18	745bps	15	1021bps
Profit after tax	2,930	2,810	4	2,792	5

Source: Company

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net sales	100,687	145,306	154,038	183,863	217,734	258,157
<i>Change (yoy, %)</i>	32.5	44	6	19	18	19
Operating expenses	(95,378)	(137,441)	(145,239)	(173,171)	(204,771)	(242,314)
EBITDA	5,309	7,865	8,799	10,692	12,963	15,843
<i>Change (yoy, %)</i>	38.8	48	12	22	21	22
<i>Margin (%)</i>	5.3	5.4	5.7	5.8	6.0	6.1
Depreciation	(57)	(203)	(229)	(244)	(265)	(285)
EBIT	5,252	7,662	8,569	10,448	12,698	15,558
Interest paid	(520)	(410)	(283)	(439)	(458)	(477)
Other income	3,538	2,291	3,089	3,735	3,836	3,942
Pre-tax profit	8,270	9,543	11,376	13,743	16,076	19,022
Tax	(1,517)	(2,010)	(2,151)	(2,599)	(3,040)	(3,598)
<i>Effective tax rate (%)</i>	18.3	21.1	18.9	18.9	18.9	18.9
Minority Interest	-	-	-	-	-	-
Net profit	6,753	7,533	9,224	11,144	13,035	15,425
Exceptional items	(124)	-	-	-	-	-
Adjusted net profit	6,877	7,533	9,224	11,144	13,035	15,425
<i>Change (yoy, %)</i>	20.8	10	22	21	17	18
EPS	3	4	4	5	6	7
Dividend per sh	1	1	2	2	2	3
<i>Dividend Payout %</i>	26	32	36	36	36	36

Balance Sheet

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Shareholders' funds	43,956	51,159	55,669	62,015	69,438	78,222
Share capital	20,850	20,850	20,850	20,850	20,850	20,850
Reserves & surplus	23,105	30,309	34,819	41,165	48,588	57,372
Total Debt	30,242	42,567	56,715	46,567	48,567	50,567
Other liabilities	2,007	2,999	3,778	3,778	3,778	3,778
Curr Liab & prov	44,681	27,188	25,357	34,722	42,283	49,885
Current liabilities	44,056	26,268	24,265	33,626	41,136	48,678
Provisions	625	920	1,092	1,096	1,146	1,206
Total liabilities	76,930	72,753	85,850	85,066	94,627	104,229
Total equity & liabilities	120,886	123,912	141,519	147,081	164,065	182,451
Net fixed assets	2,907	3,300	3,456	3,884	3,984	4,084
Investments	15,856	15,849	16,610	16,850	17,350	17,850
Other non-curr assets	23,325	22,236	23,912	28,913	32,161	36,037
Current assets	78,798	82,526	97,542	97,435	110,570	124,480
Inventories	45	92	235	235	235	235
Sundry Debtors	6,380	8,348	9,798	12,593	14,913	17,682
Cash and Bank	9,444	9,833	20,470	29,501	34,380	35,415
Loans and advances	4,864	25,681	6,609	6,609	6,609	6,609
Total assets	120,886	123,912	141,519	147,081	164,065	182,451

Cash Flow Statement

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Pre-tax profit	8,270	9,543	11,376	13,743	16,076	19,022
Depreciation	57	349	367	244	265	285
Tax paid	(1,576)	(1,464)	(1,505)	(2,599)	(3,040)	(3,598)
Chg in working capital	(6,762)	(16,202)	(916)	13,502	(3,944)	(9,148)
Other operating activities	(3,219)	(2,011)	(2,712)	(2,096)	(2,178)	(2,265)
Cash flow from operations (a)	(3,229)	(9,785)	6,609	22,795	7,178	4,297
Capital expenditure	(264)	(214)	(408)	(672)	(365)	(385)
Chg in investments	(2,702)	(401)	-	(240)	(500)	(500)
Other investing activities	2,142	2,380	2,282	2,535	2,636	2,742
Cash flow from investing (b)	(824)	1,765	1,874	1,622	1,771	1,857
Equity raised/(repaid)	-	-	-	-	-	-
Debt raised/(repaid)	8,047	11,453	11,640	(10,149)	2,000	2,000
Dividend (incl. tax)	(2,178)	(233)	(4,754)	(4,798)	(5,612)	(6,641)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(2,679)	(2,949)	(2,680)	(439)	(458)	(477)
Cash flow from financing (c)	3,190	8,271	4,206	(15,385)	(4,070)	(5,118)
Net chg in cash (a+b+c)	(863)	251	12,689	9,031	4,879	1,035

Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Book Value (Rs)		24.5	26.7	29.7	33.3	37.5
Adj EPS (Rs)	3.3	3.6	4.4	5.3	6.3	7.4
Adj EPS growth (%)	20.8	9.5	22.4	20.8	17.0	18.3
EBITDA margin (%)	5.3	5.4	5.7	5.8	6.0	6.1
Pre-tax margin (%)	8.2	6.6	7.4	7.5	7.4	7.4
Net Debt/Equity (x)	0.5	0.6	0.7	0.3	0.2	0.2
ROCE (%)	7.4	8.9	8.1	9.1	10.8	12.2
ROE (%)	16.5	15.8	17.3	18.9	19.8	20.9
DuPont Analysis						
Asset turnover (x)	1.0	1.2	1.2	1.3	1.4	1.5
Leverage factor (x)	2.5	2.6	2.5	2.5	2.4	2.3
Net margin (%)	6.8	5.2	6.0	6.1	6.0	6.0
Working Capital & Liquidity ratio						
Inventory days	0	0	1	0	0	0
Receivable days	23	21	23	25	25	25
Payable days	6	18	7	18	18	18

Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	10.3	9.4	7.7	6.4	5.4	4.6
Price/Book value (x)	1.6	1.4	1.3	1.1	1.0	0.9
EV/Net sales (x)	0.9	0.7	0.7	0.5	0.4	0.3
EV/EBITDA (x)	17.3	13.2	12.2	8.2	6.6	5.4
Dividend Yield (%)	2.5	3.4	4.6	5.6	6.6	7.8

Source: Company; IDBI Capital Research



Notes

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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