

Rail Vikas Nigam (RVNL)

BUY

Order inflow to improve margin

Summary

RVNL Q2FY22 PAT came in-line with our estimate. PAT (up 49% YoY) is led by execution (revenue up 26% YoY) and improved performance from SPV which has benefited from increase in the cargo movement. In Q2FY22, RVNL has received order inflow of Rs15bn. Orders are won on competitive bidding which has higher EBITDA margin. Post the result we have increased revenue by 4%/8% for FY22E/23E and PAT by 12%/15%. We have roll forward TP (valued at 7x PER) to FY24E and has BUY rating on the stock with an upside of 35%. H1FY22 Order book at Rs650bn provides revenue visibility for the next 3-4 years. RVNL trades at 5x FY24E EPS and offers dividend yield of 5-7%. Catalyst for stock is new order win in competitive bidding.

Key Highlights and Investment Rationale

- Q2FY22 Snapshot:** Led by improved execution, RVNL Q2FY22 revenue increased by 26% YoY to Rs40bn. EBITDA margin increased by 40bps YoY at 5.6% vs 5.2% YoY. Margin improvement is driven by operating leverage. Profit from Associates has increased by 278% at Rs568mn, this is led by improvement in cargo movement at SPVs particularly Kutch SPV. Q2FY22 PAT at Rs2.8bn (+49% YoY / +20% QoQ).
- Order inflow at higher margin:** RVNL has won orders of Rs15bn on competitive bidding in Q2FY22. We understand this is positive as lack of order inflow was one of the concerns for future growth with the company. Order inflow is won at improved margin vs current EBITDA margin at 5-6%. H1FY22 Order book at Rs650bn vs Rs750bn in FY21. RVNL has also commenced bidding for orders in international market, this could improve order inflow traction for the company.
- Introduce FY24E financials:** RVNL current order book is at 3.5x FY22E revenue. We expect revenue to increase by 18-19% pa over FY22E-24E. EBITDA margin to improve to 6.1% in FY24E vs 5.7% in FY21. This will result in EBITDA increase of 21-22% pa over FY22E-24E.

TP	Rs52
CMP	Rs38
Potential upside / downside	35%

V/s Consensus

EPS (Rs)	FY22E	FY23E	FY24E
IDBI Capital	5.3	6.3	7.4
Consensus	4.6	5.3	-
% difference	(2.2)	(2.9)	-

Shareholding Pattern (%)

Promoters	78.2
FII	0.3
DII	9.1
Public	12.4

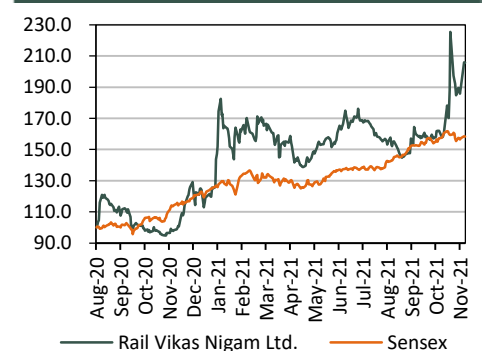
Price Performance (%)

	-1m	-3m	-12m
Absolute	24.4	31.6	103.2
Rel to Sensex	24.6	21.8	64.7

Key Stock Data

Bloomberg / Reuters	RVNL IN / RAIV.BO
Sector	Infrastructure
Shares o/s (mn)	2,085
Market cap. (Rs mn)	80,273
Market cap. (US\$ mn)	1,084
3-m daily avg Trd value(Rs mn)	44.0
52-week high / low	Rs45 / 18
Sensex / Nifty	59,923 / 17,881

Relative to Sensex (%)



Financial snapshot

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	145,306	154,038	183,863	217,734	258,157
EBITDA	7,865	8,799	10,692	12,963	15,843
EBITDA (%)	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
EPS Growth (%)	9.5	22.4	20.8	17.0	18.3
PE (x)	10.8	8.8	7.3	6.2	5.3
Dividend Yield (%)	2.9	4.1	4.9	5.7	6.8
EV/EBITDA (x)	14.5	13.4	9.2	7.4	6.1
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	Q2FY22	Q2FY21	YoY Chg (%)	Q1FY22	QoQ Chg (%)
Net Sales	40,258	31,826	26	38,691	4
EBIDTA	2,271	1,645	38	2,284	-1
<i>EBITDA margin (%)</i>	5.6	5.2		5.9	
Other income	557	660	-16	627	-11
PBIDT	2828	2305	23	2911	-3
Depreciation	47	54	-13	46	2
Interest	57	66	-14	67	-15
Pre-tax profit	3,292	2,335	41	3,004	10
Tax	500	458	9	681	-27
<i>Tax Rate</i>	15	20		23	
Profit after tax	2,792	1,878	49	2,323	20

Source: Company

Exhibit 2: Change in estimate

(Rs mn)

	Earlier Est.		New Est.		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue (Rs mn)	176,292	202,160	183,863	217,734	4%	8%
EBITDA (Rs mn)	10,157	11,856	10,692	12,963	5%	9%
<i>EBITDA Margin (%)</i>	5.8%	5.9%	5.8%	6.0%		
PAT (Rs mn)	9,950	11,300	11,144	13,035	12%	15%

Source: IDBI Capital Research

Exhibit 3: Order Inflow in Q2FY22

Got contract from	Projects Details	Amount (INR mn)
National Highways & Infrastructure Development Corporation Limited (NHIDCL)	A) Consultancy Services for preparation of detailed project report for 2 laning with hard shoulder in the state of Nagaland	84
	B) Consultancy Services for preparation for detailed project report for 2 laning with hard shoulder in the state of Nagaland	65
	C) Consultancy Services for preparation for detailed project report for 2 lane with paved shoulder of road section in the state of Mizoram	142
Madhya Pradesh Metro Rail Corporation Limited	Design and Construction of Elevated Viaduct between Ch. 14+488 & Ch. 25+415, viaduct connecting Depot leading upto interface locatiion, Nine (9) Elevated Mtero stations for Indore Metro Rail project Yellow Line	10,350
Madhya Pradesh Metro Rail Corporation Limited	Design and Construction of Seven (7) Elevated Metro Rail Stations	3,820

Source: Company

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: Dec.	FY21	FY22	FY23E	FY24E
Net sales	154,038	183,863	217,734	258,157
<i>Growth (%)</i>	6.0	19.4	18.4	18.6
Operating expenses	(145,239)	(173,171)	(204,771)	(242,314)
EBITDA	8,799	10,692	12,963	15,843
<i>Growth (%)</i>	11.9	21.5	21.2	22.2
Depreciation	(229)	(244)	(265)	(285)
EBIT	8,569	10,448	12,698	15,558
Interest paid	(283)	(439)	(458)	(477)
Other income	3,089	3,735	3,836	3,942
Pre-tax profit	11,376	13,743	16,076	19,022
Tax	(2,151)	(2,599)	(3,040)	(3,598)
<i>Effective tax rate (%)</i>	18.9	18.9	18.9	18.9
Net profit	9,224	11,144	13,035	15,425
Exceptional items	-	-	-	-
Adjusted net profit	9,224	11,144	13,035	15,425
<i>Growth (%)</i>	22.4	20.8	17.0	18.3
<i>Shares o/s (mn nos)</i>	2,085	2,085	2,085	2,085

Cash Flow Statement

(Rs mn)

Year-end: Dec.	FY21	FY22	FY23E	FY24E
Pre-tax profit	11,376	13,743	16,076	19,022
Depreciation	367	244	265	285
Tax paid	(1,505)	(2,599)	(3,040)	(3,598)
Chg in working capital	(916)	13,502	(3,944)	(9,148)
Other operating activities	(2,712)	(2,096)	(2,178)	(2,265)
Cash flow from operations (a)	6,609	22,795	7,178	4,297
Capital expenditure	(408)	(672)	(365)	(385)
Chg in investments	-	(240)	(500)	(500)
Other investing activities	2,282	2,535	2,636	2,742
Cash flow from investing (b)	1,874	1,622	1,771	1,857
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	11,640	(10,149)	2,000	2,000
Dividend (incl. tax)	(4,754)	(4,798)	(5,612)	(6,641)
Chg in minorities	-	-	-	-
Other financing activities	(2,680)	(439)	(458)	(477)
Cash flow from financing (c)	4,206	(15,385)	(4,070)	(5,118)
Net chg in cash (a+b+c)	12,689	9,031	4,879	1,035

Balance Sheet

(Rs mn)

Year-end: Dec.	FY21	FY22	FY23E	FY24E
Net fixed assets	3,456	3,884	3,984	4,084
Investments	16,610	16,850	17,350	17,850
Other non-curr assets	23,912	28,913	32,161	36,037
Current assets	97,542	97,435	110,570	124,480
Inventories	235	235	235	235
Sundry Debtors	9,798	12,593	14,913	17,682
Cash and Bank	20,470	29,501	34,380	35,415
Marketable Securities	-	-	-	-
Loans and advances	6,609	6,609	6,609	6,609
Total assets	141,519	147,081	164,065	182,451
Shareholders' funds	55,669	62,015	69,438	78,222
Share capital	20,850	20,850	20,850	20,850
Reserves & surplus	34,819	41,165	48,588	57,372
Total Debt	56,715	46,567	48,567	50,567
Secured loans	-	-	-	-
Unsecured loans	56,715	46,567	48,567	50,567
Other liabilities	3,778	3,778	3,778	3,778
Curr Liab & prov	25,357	34,722	42,283	49,885
Current liabilities	24,265	33,626	41,136	48,678
Provisions	1,092	1,096	1,146	1,206
Total liabilities	85,850	85,066	94,627	104,229
Total equity & liabilities	141,519	147,081	164,065	182,451
Book Value (Rs)	27	30	33	38

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: Dec.	FY21	FY22	FY23E	FY24E
Adj EPS (Rs)	4.4	5.3	6.3	7.4
Adj EPS growth (%)	22.4	20.8	17.0	18.3
EBITDA margin (%)	5.7	5.8	6.0	6.1
Pre-tax margin (%)	7.4	7.5	7.4	7.4
ROE (%)	17.3	18.9	19.8	20.9
ROCE (%)	8.1	9.1	10.8	12.2
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.2	1.3	1.4	1.5
Leverage factor (x)	2.5	2.5	2.4	2.3
Net margin (%)	6.0	6.1	6.0	6.0
Net Debt/Equity (x)	0.7	0.3	0.2	0.2
Working Capital & Liquidity ratio				
Inventory days	1	0	0	0
Receivable days	23	25	25	25
Payable days	7	18	18	18

Valuation

Year-end: Dec.	FY21	FY22	FY23E	FY24E
PER (x)	8.8	7.3	6.2	5.3
Price / Book value (x)	1.5	1.3	1.2	1.0
PCE (x)	8.6	7.1	6.1	5.2
EV / Net sales (x)	0.8	0.5	0.4	0.4
EV / EBITDA (x)	13.4	9.2	7.4	6.1
Dividend Yield (%)	4.1	4.9	5.7	6.8



Notes

Dealing

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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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