

# Rail Vikas Nigam (RVNL) ACCUMULATE

Negligible order inflow is concerning

### SUMMARY

Rail Vikas Nigam (RVNL) Q4FY21 EBITDA was better than our estimate. For FY21 execution (revenue) increased by +6% YoY and EBITDA margin increased by 30bps YoY to 5.7%. RVNL has reported loss from its associate company at Rs4mn and losses has reduced from Rs166mn YoY. PAT increased by +22% YoY and was driven by higher other income. Post the result we have increased EPS by 9%/7% for FY22/23E and revised TP to Rs36 (valued at 7x FY23E EPS). But given uptick in the stock price we downgrade the rating to ACCUMULATE from BUY. FY21 Orderbook at Rs750bn provides revenue visibility for the next 4 years but company has received negligible orders in FY21. Catalyst for stock is new order win in competitive bidding.

### Key Highlights and Investment Rationale

- Q4FY21/FY21 Snapshot:** For Q4FY21, RVNL revenue increased by +32% YoY to Rs56bn. EBITDA margin increased by 142bps YoY at 6.3% vs 4.9%. Margin improvement is driven by the benefit of operating leverage. Q4FY21 PAT is at Rs3.1bn, up by 26% YoY.
- Healthy Order book:** FY21 Order-book is at Rs750bn vs. Rs822bn in FY20. Lower order book in FY21 is due to negligible order inflow in FY21. Ministry of Railway has moved to competitive bidding for awarding contract versus nomination base award. And to address this company has set up HSRC infra services Limited and is targeting to bid MoR projects. Company aims to execute the current order book in the next 4 years.
- Valuation and view:** In FY21, core ROE (excluding cash) is higher than reported ROE by 180 bps at 19%. Reported ROE at 17% is suppressed by losses at associate company and higher other income. Since IPO stocks has traded at an average valuation of 5.5x PER and it offers a dividend yield of 5-6%.

<b>TP</b>	<b>Rs36</b>
<b>CMP</b>	<b>Rs33</b>
Potential upside / downside	+9%
Previous Rating	BUY

### V/s Consensus

EPS (Rs)	FY21E	FY22E
IDBI Capital	4.5	5.1
Consensus	-	-
% difference	-	-

### Shareholding Pattern (%)

Promoters	78.2
FII	0.4
DII	9.4
Public	12.0

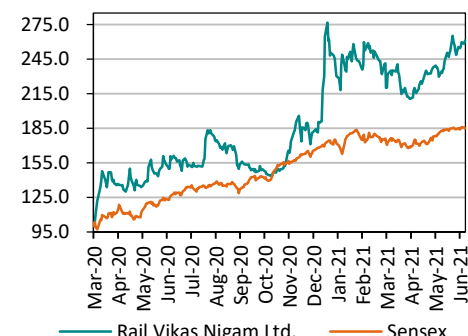
### Price Performance (%)

	-1m	-3m	-12m
Absolute	13.6	12.7	72.7
Rel to Sensex	11.5	5.4	22.4

### Key Stock Data

Bloomberg/Reuters Sector	RVNL IN / RAIV.BO Infrastructure
Shares o/s (mn)	2,085
Market cap. (Rs mn)	68,597
Market cap. (US\$ mn)	924
3-m daily avg Trd value(Rs mn)	309.4
52-week high / low	Rs36 / 18
Nifty / Sensex	52,550 / 15,748

### Relative to Sensex (%)



### Financial snapshot

	(Rs mn)				
	FY19	FY20	FY21	FY22E	FY23E
Revenue	100,687	145,306	154,038	176,292	202,160
EBITDA	5,309	7,865	8,799	10,157	11,856
EBITDA Margin(%)	5.3	5.4	5.7	5.8	5.9
Adj.PAT	6,877	7,533	9,224	9,329	10,662
EPS (Rs)	3.3	3.6	4.4	4.5	5.1
EPS Growth (%)	20.8	9.5	22.4	1.1	14.3
PE(x)	10.0	9.1	7.5	7.4	6.5
Dividend Yield (%)	2.6	3.5	4.8	4.8	5.5
EV/EBITDA (x)	16.9	12.9	11.9	8.4	6.9
RoE (%)	16.5	15.8	17.3	16.0	16.7
RoCE (%)	7.4	8.9	8.1	8.7	10.0

Source: Company; IDBI Capital Research

### Conference call takeaways:

- RVNL in the field of implementing the railway infrastructure and execute about 30-35% of the Indian Railway infrastructure capex every year. Company has commissioned 102 projects and it has been growing at a CAGR of 30%+ for the last 10 years (till FY20).
- Despite the covid RVNL could achieve strong physical parameters and the financial parameters in FY21. During FY21, RVNL has commissioned 1700 route km of railway electrification.
- As on 31 Mar' 21 Orderbook is at Rs750bn. Company expects to execute Rs200bn in about 4 years considering increasing its execution pace. For the first time, RVNL has set up a business development unit and expects business for infra services within 1-3 months.
- At present, RVNL is executing two kinds of project; a) Direct nomination by the Ministry of Railways, b) SPV route. In FY21 company did not get any assignment from MoR but in terms of SPVs there are some projects in the pipeline while some are in advanced stage
- RVNL has got 4 special purpose vehicles (SPVs) which are in operation and 1 SPV to get commissioned in FY23. Company also got few proposals which are at different stages of consideration for making new SPVs.
- RVNL got 8 SPVs which are in the pipeline and these are the future business.
- On High-Speed Rail Corporation front, RVNL has bought the main case from HSRC to HSRC infra services Limited and currently is in the phase of making it as a bidding arm of MoR for all kinds of infrastructure and the Railway infrastructures in particular in the foreign countries.
- On Pamban Bridge front, company is targeting to complete it by Q3FY23
- Considering the past trend for Railway Capex, RVNL has grown 3x times (in revenue) with respect to the FY15-FY21. And Indian Railway is targetting capex at Rs2tn vsRs1.7tn in FY21.
- Cash balance with RVNL is at Rs14bn.
- Going forward, RVNL is targeting (considering the sufficient fund from MoR) to execute Rs200bn of work.

**Exhibit 1: Quarterly Snapshot**

(Rs mn)

Financial snapshot	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)
<b>Net Sales</b>	<b>55779</b>	<b>42207</b>	<b>32.2</b>	<b>37324</b>	<b>49.4</b>
<b>EBIDTA</b>	<b>3541</b>	<b>2079</b>	<b>70.3</b>	<b>2198</b>	<b>61.1</b>
<i>EBITDA margin (%)</i>	6.3	4.9		5.9	
Other income	674	566	19.0	1200	-43.9
PBIDT	4214	2645	59.3	3398	24.0
Depreciation	52	78	-33.7	44	18.6
Interest	78	79	-1.5	61	28.2
<b>Pre-tax profit</b>	<b>3820</b>	<b>2988</b>	<b>27.9</b>	<b>3425</b>	<b>11.6</b>
Tax	694	515	34.9	614	13.0
<i>Tax Rate</i>	18	17		18	
<b>Profit after tax</b>	<b>3126</b>	<b>2473</b>	<b>26.4</b>	<b>2810</b>	<b>11.2</b>

Source: Company; IDBI Capital Research

**Exhibit 2: Change in estimates**

	Earlier Est.		New Est.		Change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue Rs mn	164,181	195,544	176,292	202,160	7%	3%
EBITDA Rs mn	9,248	11,112	10,157	11,856	10%	7%
<i>EBITDA Margin %</i>	5.6%	5.7%	5.8%	5.9%		
PAT Rs mn	8,545	9,969	9,329	10,662	9%	7%

Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
<b>Net sales</b>	<b>145,306</b>	<b>154,038</b>	<b>176,292</b>	<b>202,160</b>
<i>Growth (%)</i>	<i>44.3</i>	<i>6.0</i>	<i>14.4</i>	<i>14.7</i>
Operating expenses	(137,441)	(145,239)	(166,135)	(190,305)
<b>EBITDA</b>	<b>7,865</b>	<b>8,799</b>	<b>10,157</b>	<b>11,856</b>
<i>Growth (%)</i>	<i>48.1</i>	<i>11.9</i>	<i>15.4</i>	<i>16.7</i>
Depreciation	(203)	(229)	(244)	(265)
<b>EBIT</b>	<b>7,662</b>	<b>8,569</b>	<b>9,913</b>	<b>11,591</b>
Interest paid	(410)	(283)	(439)	(458)
Other income	2,291	3,089	2,030	2,016
<b>Pre-tax profit</b>	<b>9,543</b>	<b>11,376</b>	<b>11,505</b>	<b>13,149</b>
Tax	(2,010)	(2,151)	(2,176)	(2,487)
<i>Effective tax rate (%)</i>	<i>21.1</i>	<i>18.9</i>	<i>18.9</i>	<i>18.9</i>
Minority Interest	-	-	-	-
<b>Net profit</b>	<b>7,533</b>	<b>9,224</b>	<b>9,329</b>	<b>10,662</b>
Exceptional items	-	-	-	-
<b>Adjusted net profit</b>	<b>7,533</b>	<b>9,224</b>	<b>9,329</b>	<b>10,662</b>
<i>Growth (%)</i>	<i>9.5</i>	<i>22.4</i>	<i>1.1</i>	<i>14.3</i>
<i>Shares o/s (mn nos)</i>	<i>2,085</i>	<i>2,085</i>	<i>2,085</i>	<i>2,085</i>

### Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Pre-tax profit	9,543	11,376	11,505	13,149
Depreciation	349	367	244	265
Tax paid	(1,464)	(1,505)	(2,176)	(2,487)
Chg in working capital	(16,202)	(916)	15,366	(2,284)
Other operating activities	(2,011)	(2,712)	(1,596)	(1,562)
<b>Cash flow from operations (a)</b>	<b>(9,785)</b>	<b>6,609</b>	<b>23,343</b>	<b>7,080</b>
Capital expenditure	(214)	(408)	(672)	(365)
Chg in investments	(401)	-	(240)	(500)
Other investing activities	1,877	3,107	2,035	2,020
<b>Cash flow from investing (b)</b>	<b>1,262</b>	<b>2,698</b>	<b>1,122</b>	<b>1,156</b>
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	11,453	11,640	(10,149)	2,000
Dividend (incl. tax)	(233)	(4,754)	(4,016)	(4,591)
Chg in minorities	-	-	-	-
Other financing activities	(2,446)	(2,680)	(439)	(458)
<b>Cash flow from financing (c)</b>	<b>8,774</b>	<b>4,206</b>	<b>(14,604)</b>	<b>(3,049)</b>
<b>Net chg in cash (a+b+c)</b>	<b>251</b>	<b>13,513</b>	<b>9,861</b>	<b>5,188</b>

**Balance Sheet**

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net fixed assets	3,300	3,456	3,884	3,984
Investments	15,849	16,610	16,850	17,350
Other non-curr assets	22,236	23,912	28,187	30,667
<b>Current assets</b>	<b>82,526</b>	<b>97,542</b>	<b>95,749</b>	<b>106,749</b>
Inventories	92	235	235	235
Sundry Debtors	8,348	9,798	12,075	13,847
Cash and Bank	9,833	20,470	30,331	35,519
Marketable Securities	-	-	-	-
Loans and advances	25,681	6,609	6,609	6,609
<b>Total assets</b>	<b>123,912</b>	<b>141,519</b>	<b>144,670</b>	<b>158,750</b>
<b>Shareholders' funds</b>	<b>51,159</b>	<b>55,669</b>	<b>60,981</b>	<b>67,053</b>
Share capital	20,850	20,850	20,850	20,850
Reserves & surplus	30,309	34,819	40,131	46,203
<b>Total Debt</b>	<b>42,567</b>	<b>56,715</b>	<b>46,567</b>	<b>48,567</b>
Secured loans	-	-	-	-
Unsecured loans	42,567	56,715	46,567	48,567
Other liabilities	2,999	3,778	3,778	3,778
<b>Curr Liab &amp; prov</b>	<b>27,188</b>	<b>25,357</b>	<b>33,344</b>	<b>39,353</b>
Current liabilities	26,268	24,265	32,260	38,230
Provisions	920	1,092	1,084	1,123
<b>Total liabilities</b>	<b>72,753</b>	<b>85,850</b>	<b>83,689</b>	<b>91,697</b>
<b>Total equity &amp; liabilities</b>	<b>123,912</b>	<b>141,519</b>	<b>144,670</b>	<b>158,750</b>
<b>Book Value (Rs)</b>	<b>25</b>	<b>27</b>	<b>29</b>	<b>32</b>

Source: Company; IDBI Capital Research

**Financial Ratios**

Year-end: March	FY20	FY21	FY22E	FY23E
Adj. EPS (Rs)	3.6	4.4	4.5	5.1
Adj. EPS growth (%)	9.5	22.4	1.1	14.3
EBITDA margin (%)	5.4	5.7	5.8	5.9
Pre-tax margin (%)	6.6	7.4	6.5	6.5
ROE (%)	15.8	17.3	16.0	16.7
ROCE (%)	8.9	8.1	8.7	10.0
<b>Turnover &amp; Leverage ratios (x)</b>				
Asset turnover (x)	1.2	1.2	1.2	1.3
Leverage factor (x)	2.6	2.5	2.5	2.4
Net margin (%)	5.2	6.0	5.3	5.3
Net Debt/Equity (x)	0.6	0.7	0.3	0.2
<b>Working Capital &amp; Liquidity ratio</b>				
Inventory days	0	1	0	0
Receivable days	21	23	25	25
Payable days	18	7	18	18

**Valuation**

Year-end: March	FY20	FY21	FY22E	FY23E
P/E (x)	9.1	7.5	7.4	6.5
Price / Book value (x)	1.3	1.2	1.1	1.0
PCE (x)	8.9	7.3	7.2	6.3
EV / Net sales (x)	0.7	0.7	0.5	0.4
EV / EBITDA (x)	12.9	11.9	8.4	6.9
Dividend Yield (%)	3.5	4.8	4.8	5.5



# Notes

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