

# Rail Vikas Nigam (RVNL)

**BUY**

Order book in execution stage has increased

## SUMMARY

Rail Vikas Nigam Ltd (RVNL), a Rail EPC company's has received new orders of Rs61bn in H1FY21 and order book is healthy at Rs822bn (6x TTM revenue). We expect execution (revenue) to improve in H2FY21 (H1FY21 is -8% YoY), as order book in execution stage has increased to Rs462bn (Q2FY21) vs. Rs358bn QoQ i.e. order book in execution stage is now at 56% vs 44% QoQ. Company has made a capital infusion of Rs0.63bn in Angul Sukinda Railway Limited and total investments in JV / Subsidiary stand at Rs16.5bn (30% of networth). We have introduced FY23E financials and roll forward TP. Revised TP is Rs28 (earlier TP Rs24), valued on an unchanged PER multiple of 6x (stock has traded at an average PER of 5.5x since its IPO). It offers a dividend yield of 5% / 6% (FY21E / 22E). Maintain BUY rating.

## Key Highlights and Investment Rationale

- Execution:** RVNL execution (revenue) over the last 5 years has increased at CAGR of 37% (FY15-20). Company's H1FY21 revenue is down by 8% YoY. EBITDA margin in the last five years has varied between 4.5% to 5.4% and H1FY21 EBITDA margin stood at 5%. RVNL H1FY21 PAT forms 47% of our full year estimate. Though we expect EPS to decline by 6% YoY in FY21E but improve by 16-17% YoY in FY22E and FY23E.
- Strong Order Book:** RVNL H1FY21 order book of Rs822bn equals to 6 TTM revenue. Out of this order book, 56% is a firm order and execution is in progress. Order book in execution stage has increased from 44% in Q1FY21 and is primarily led by finalization of tenders. This has improved the probability of higher execution as we move in H2FY21.
- Outlook and view:** Re-iterate BUY rating on stock with TP of Rs28 upside of 38%. We like RVNL for its order book visibility, fixed cost business model, experienced management, and valuation at 4x FY23E EPS. Near term overhang on stock performance could be stake sale by Government of India.

## Company Update

### Key Stock Data

Bloomberg/Reuters	RVNL IN / RAIV.BO
Sector	Infrastructure
Shares o/s (mn)	2,085
Market cap. (Rs mn)	43,056
Market cap. (US\$ mn)	578
3-m daily avg Trd value(Rs mn)	97.2
52-week high / low	Rs29 / 10
Sensex / Nifty	44,077 / 12,927

<b>TP</b>	<b>Rs28</b>
<b>CMP</b>	<b>Rs21</b>
Potential upside / downside	+36%
Previous Rating	BUY

### V/s Consensus

EPS (Rs)	FY21E	FY22E	FY23E
IDBI Capital	3.4	3.9	4.6
Consensus	3.4	4.1	-
% difference	-	(4.9)	-

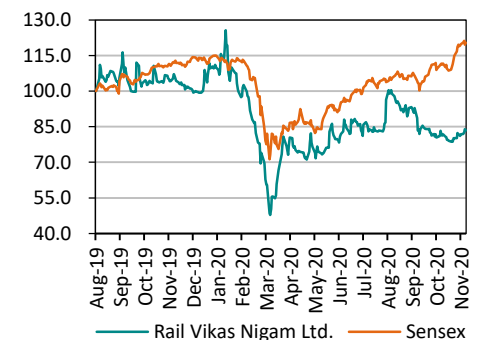
### Shareholding Pattern (%)

Promoters	87.8
FII	0.4
DII	1.5
Public	10.3

### Price Performance (%)

	-1m	-3m	-12m
Absolute	10.4	(9.2)	(13.8)
Rel to Sensex	1.8	(23.9)	(23.0)

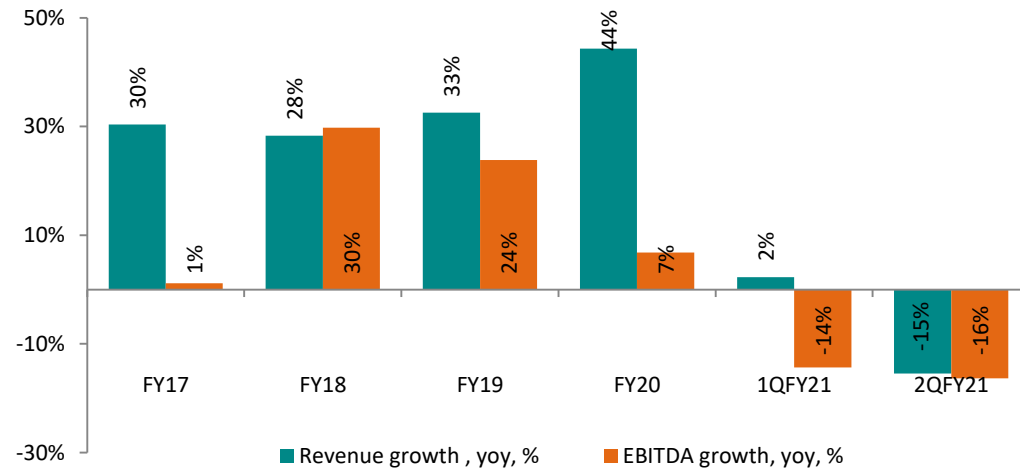
### Relative to Sensex (%)



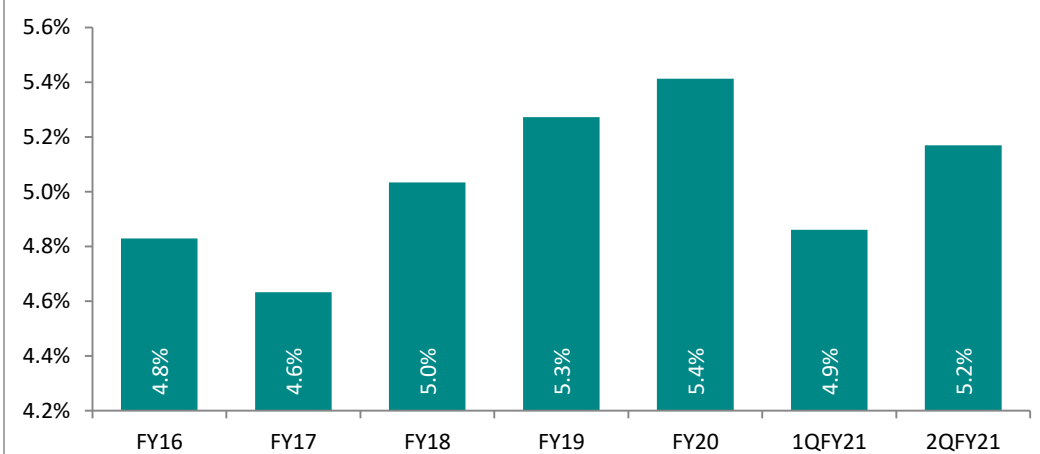
### Financial snapshot

	(Rs mn)				
	FY19	FY20	FY21E	FY22E	FY23E
Revenue	100,687	145,306	138,038	164,056	195,262
EBITDA	5,309	7,865	7,375	8,902	10,719
EBITDA Margin(%)	5.3	5.4	5.3	5.4	5.5
Adj.PAT	7,052	7,533	7,062	8,197	9,563
EPS (Rs)	3.4	3.6	3.4	3.9	4.6
EPS Growth (%)	23.8	6.8	(6.3)	16.1	16.7
PE(x)	6.1	5.7	6.1	5.3	4.5
Dividend Yield (%)	4.2	5.5	5.2	6.0	7.0
EV/EBITDA (x)	12.0	9.6	10.7	8.6	7.0
RoE (%)	17.0	15.8	13.2	14.1	15.0
RoCE (%)	7.4	8.8	7.2	8.1	9.2

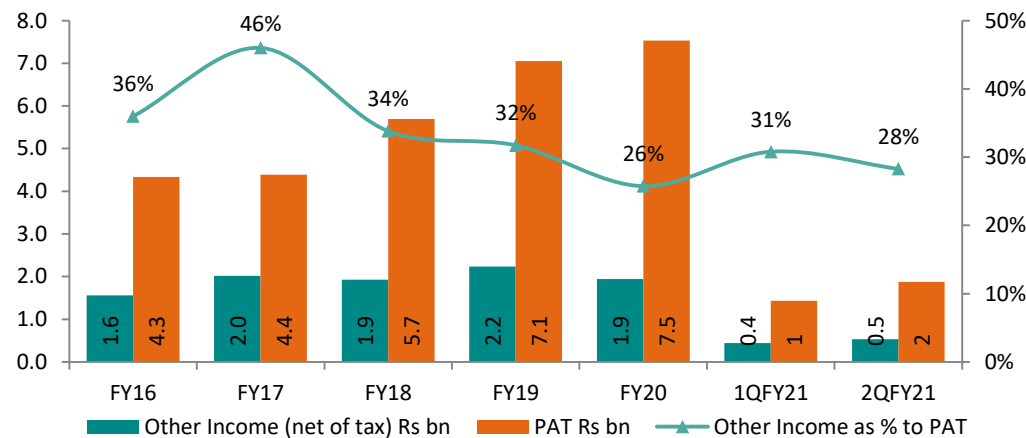
Source: Company; IDBI Capital Research

**Exhibit 1: Execution over the years, weak execution in Q2FY21 due to lockdown**


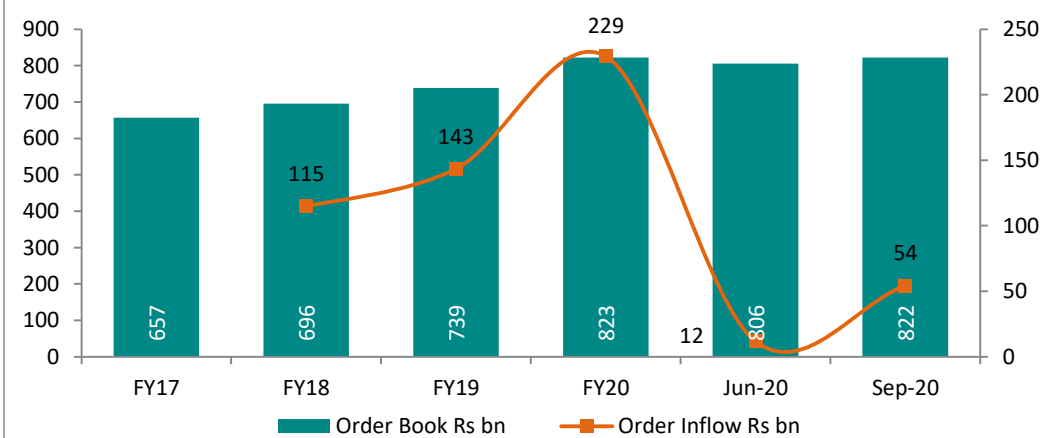
Source : RVNL

**Exhibit 2: EBITDA margin trajectory (%)**


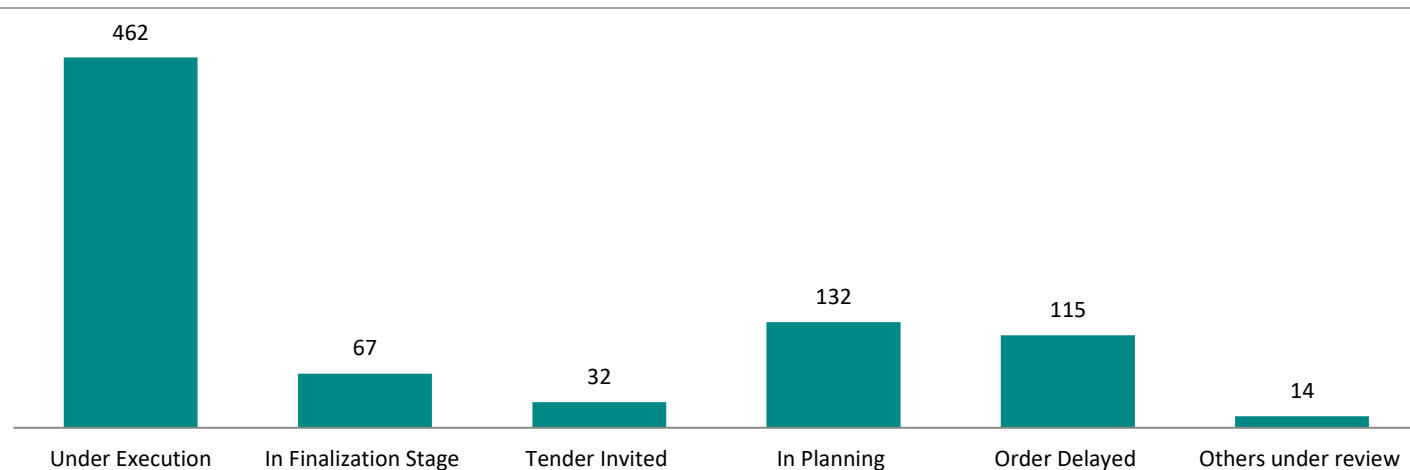
Source : RVNL

**Exhibit 3: Other Income as % to PAT at ~28% in Q2FY21**


Source : RVNL

**Exhibit 4: Order-book at 6x TTM revenue**


Source : RVNL

**Exhibit 5: Q2FY21 order book composition : Order book in execution at 56% of total order book (Rs bn)**


Source: RVNL

**Exhibit 6: TP revised to Rs28/sh**

	FY22E	FY23E
EPS Rs /sh	3.9	4.6
PER valuation x	6	6
TP Rs/sh	24	28

Source: RVNL

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
<b>Net sales</b>	<b>145,306</b>	<b>138,038</b>	<b>164,056</b>	<b>195,262</b>
<i>Growth (%)</i>	44.3	(5.0)	18.8	19.0
Operating expenses	(137,441)	(130,663)	(155,154)	(184,544)
<b>EBITDA</b>	<b>7,865</b>	<b>7,375</b>	<b>8,902</b>	<b>10,719</b>
<i>Growth (%)</i>	48.1	-6.2	20.7	20.4
Depreciation	(203)	(209)	(215)	(221)
<b>EBIT</b>	<b>7,662</b>	<b>7,166</b>	<b>8,687</b>	<b>10,497</b>
Interest paid	(410)	(419)	(439)	(458)
Other income	2,291	2,193	2,127	2,065
<b>Pre-tax profit</b>	<b>9,543</b>	<b>8,939</b>	<b>10,376</b>	<b>12,105</b>
Tax	(2,010)	(1,877)	(2,179)	(2,542)
<i>Effective tax rate (%)</i>	21.1	21.0	21.0	21.0
Minority Interest	-	-	-	-
<b>Net profit</b>	<b>7,533</b>	<b>7,062</b>	<b>8,197</b>	<b>9,563</b>
Exceptional items	-	-	-	-
<b>Adjusted net profit</b>	<b>7,533</b>	<b>7,062</b>	<b>8,197</b>	<b>9,563</b>
<i>Growth (%)</i>	6.8	(6.3)	16.1	16.7
<i>Shares o/s (mn nos)</i>	2,085	2,085	2,085	2,085

### Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
Pre-tax profit	9,543	8,939	10,376	12,105
Depreciation	349	209	215	221
Tax paid	(1,464)	(1,877)	(2,179)	(2,542)
Chg in working capital	(16,202)	(3,654)	(2,163)	(3,681)
Other operating activities	(2,011)	(1,939)	(1,854)	(1,773)
<b>Cash flow from operations (a)</b>	<b>(9,785)</b>	<b>1,679</b>	<b>4,394</b>	<b>4,329</b>
Capital expenditure	(214)	(2,937)	(266)	(321)
Chg in investments	(401)	(1,106)	(500)	(500)
Other investing activities	1,877	2,358	2,293	2,231
<b>Cash flow from investing (b)</b>	<b>1,262</b>	<b>(1,685)</b>	<b>1,527</b>	<b>1,410</b>
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	11,453	2,000	2,000	2,000
Dividend (incl. tax)	(233)	(2,686)	(3,118)	(3,637)
Chg in minorities	-	-	-	-
Other financing activities	(2,446)	(419)	(439)	(458)
<b>Cash flow from financing (c)</b>	<b>8,774</b>	<b>(1,106)</b>	<b>(1,557)</b>	<b>(2,095)</b>
<b>Net chg in cash (a+b+c)</b>	<b>251</b>	<b>(1,112)</b>	<b>4,365</b>	<b>3,644</b>

**Balance Sheet**

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
Net fixed assets	3,300	6,029	6,080	6,180
Investments	15,849	16,955	17,455	17,955
Other non-curr assets	22,236	23,503	24,107	27,099
<b>Current assets</b>	<b>82,526</b>	<b>82,495</b>	<b>93,614</b>	<b>104,939</b>
Inventories	92	92	92	92
Sundry Debtors	8,348	11,346	11,237	13,374
Cash and Bank	9,833	8,721	13,086	16,730
Marketable Securities	-	-	-	-
Loans and advances	25,681	25,681	25,681	25,681
<b>Total assets</b>	<b>123,912</b>	<b>128,982</b>	<b>141,256</b>	<b>156,173</b>
<b>Shareholders' funds</b>	<b>51,159</b>	<b>55,535</b>	<b>60,614</b>	<b>66,539</b>
Share capital	20,850	20,850	20,850	20,850
Reserves & surplus	30,309	34,685	39,764	45,689
<b>Total Debt</b>	<b>42,567</b>	<b>44,567</b>	<b>46,567</b>	<b>48,567</b>
Secured loans	-	-	-	-
Unsecured loans	42,567	44,567	46,567	48,567
Other liabilities	2,999	2,999	2,999	2,999
<b>Curr Liab &amp; prov</b>	<b>27,188</b>	<b>25,882</b>	<b>31,076</b>	<b>38,068</b>
Current liabilities	26,268	24,972	30,128	37,073
Provisions	920	910	948	995
<b>Total liabilities</b>	<b>72,753</b>	<b>73,447</b>	<b>80,642</b>	<b>89,633</b>
<b>Total equity &amp; liabilities</b>	<b>123,912</b>	<b>128,982</b>	<b>141,256</b>	<b>156,173</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	FY21E	FY22E	FY23E
Adj. EPS (Rs)	3.6	3.4	3.9	4.6
Adj. EPS growth (%)	6.8	(6.3)	16.1	16.7
EBITDA margin (%)	5.4	5.3	5.4	5.5
Pre-tax margin (%)	6.6	6.5	6.3	6.2
ROE (%)	15.8	13.2	14.1	15.0
ROCE (%)	8.8	7.2	8.1	9.2
<b>Turnover &amp; Leverage ratios (x)</b>				
Asset turnover (x)	1.2	1.1	1.2	1.3
Leverage factor (x)	2.6	2.4	2.3	2.3
Net margin (%)	5.2	5.1	5.0	4.9
Net Debt/Equity (x)	0.6	0.6	0.6	0.5
<b>Working Capital &amp; Liquidity ratio</b>				
Inventory days	0	0	0	0
Receivable days	21	30	25	25
Payable days	18	18	18	18

**Valuation**

Year-end: March	FY20	FY21E	FY22E	FY23E
P/E (x)	5.7	6.1	5.3	4.5
Price / Book value (x)	0.8	0.8	0.7	0.6
PCE (x)	5.6	5.9	5.1	4.4
EV / Net sales (x)	0.5	0.6	0.5	0.4
EV / EBITDA (x)	9.6	10.7	8.6	7.0
Dividend Yield (%)	5.5	5.2	6.0	7.0



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(91-22) 6836 1111

dealing@idbicapital.com

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**BUY:** Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto  $\pm 5\%$ ; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

**IDBI Capital Markets & Securities Ltd.**
**Equity Research Desk**

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

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