

Rail Vikas Nigam (RVNL)

HOLD

Order win continues

Summary

RVNL execution in 1HFY24 has increased by 10% YoY and EBITDA margin are maintained YoY at 6.2%. Company has commenced execution of competitive bided order and margin in this is better at 6-10% versus the margin it has seen in nomination orders at 6% only. Order book is moving away from low margin nomination orders and it contributes 48% to its book. Importantly, order win has been consistent for RVNL & it has received new orders and scope change of Rs72bn in Q2FY24. Q2FY24 order book of Rs673bn provides revenue visibility (3x TTM revenue) and RVNL has reiterated its guidance of order book of Rs1tn in the next couple of quarters. We have modeled revenue CAGR of 12% over FY23-25E. We value RVNL on SOTP basis to arrive at TP of Rs149, in this we value its EPC business at 20x FY25E EPS. HOLD rating.

Key Highlights and Investment Rationale

- **Q2FY24 Snapshot:** Revenue was flattish in the quarter at Rs49bn and RVNL has started executing orders from its competitive bid book. EBITDA in Q2 was Rs2.9bn down by 6% YoY with margins of 6.1% v/s 6.4% YoY. Despite EBITDA decline, PAT increased by 3%YoY at Rs3.9bn, due to lower tax rate i.e 18% v/s 21%YoY, higher other income.
- **Vande Bharat opportunity increases TAM:** RVNL has won bid to supply 120 train sets at cost of Rs1.2bn per train. The JV which plans to manufacturer the train has submitted Bank Guarantee, 3D modeling is under execution. And 24 months from now, first prototype train will be manufactured and post that actual train set will be manufactured in phases. With the winning of this order, RVNL has entered into manufacturing of rolling stock and has expanded its TAM (Total Addressable Market) in Indian railway capex by 15-16%. This has opened flood of opportunity for RVNL as per the management.

TP **Rs149**

CMP **Rs156**

Potential upside/downside -5%

Previous Rating -

Price Performance (%)

	-1m	-3m	-12m
Absolute	(3.1)	22.9	200.8
Rel to Sensex	(2.1)	24.5	194.4

V/s Consensus

EPS (Rs)	FY24E	FY25E
IDBI Capital	7.2	7.8
Consensus	--	--
% difference	--	--

Key Stock Data

Bloomberg/Reuters	RVNL IN / RAIV.BO
Sector	Infrastructure
Shares o/s (mn)	2,085
Market cap. (Rs mn)	325,784
3-m daily avg Trd value(Rs mn)	397.7
52-week high / low	Rs199 / 49
Sensex / Nifty	64,905 / 19,425

Shareholding Pattern (%)

Promoters	72.8
FII	2.3
DII	5.8
Public	19.0

Financial snapshot

(Rs mn)

Year	FY21	FY22	FY23	FY24E	FY25E
Revenue	154,037	193,817	202,816	226,460	254,768
Change (yoy, %)	6	26	5	12	13
EBITDA	8,798	11,831	12,468	14,463	16,958
Change (yoy, %)	12	34	5	16	17
EBITDA Margin(%)	5.7	6.1	6.1	6.4	6.7
Adj.PAT	9,915	11,827	14,206	15,083	16,294
EPS (Rs)	4.8	5.7	6.8	7.2	7.8
Change (yoy, %)	31.0	19.3	20.1	6.2	8.0
PE(x)	32.8	27.5	22.9	21.6	20.0
Dividend Yield (%)	1.0	1.2	1.4	1.5	1.6
EV/EBITDA (x)	5.8	5.1	4.4	3.9	3.4
RoE (%)	18.4	19.8	20.8	19.2	18.3
RoCE (%)	7.9	9.2	8.9	9.5	10.3

Source: IDBI Capital Research

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Conference call highlights

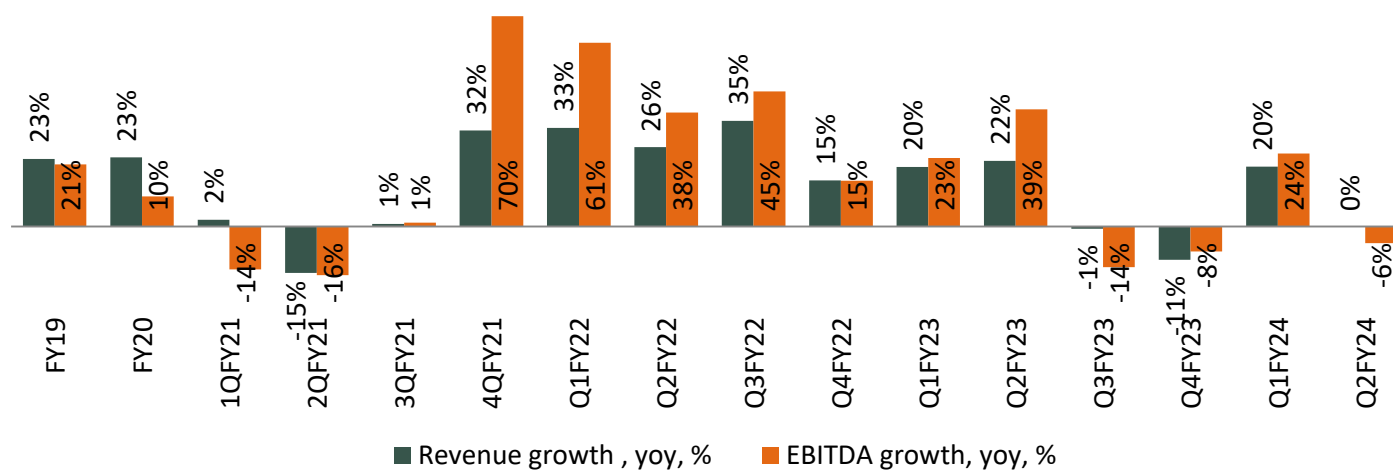
- Current order book is Rs323bn from bidding and Rs350bn from Railway and target to achieve Rs1tn order book and in on track to achieve this.
- In this order book, orders are largely from domestic market and in international its executing only one project of Rs16bn in Maldives.
- In FY24 till Nov-23, RVNL has received order inflow of Rs77bn and inflow in FY23 was Rs169bn. Order inflow in non-railway sector has been more than railway sectors for RVNL
- Bid pipeline looking at portfolio of projects, share wise in bid pipeline railway is at 30-35% and non-railway will be 65-70%. Earlier in nomination basis order, RVNL use to receive order of 10-15% and zonal railway used to execute orders maximum order at 85-90%.
- In terms of win ratio, RVNL has bided for orders of Rs200bn and its winning ratio is 35-40% in FY24E till date.
- Rail Vikas Nigam (RVNL) has formed a joint venture company for bidding orders of Kyrgyzstan railway system. RVNL is quiet hopeful as currently financial closure is under process and RVNL is pursuing is rigorously to get the orders.
- For new DFCC order, RVNL plans to submit 2 bid of Rs20bn. Expect order to receive in FY24-25E.
- Competitive bid project will earn RVNL EBITDA margin of 6-10% and will be more than nomination based projects where RVNL earn 6%.
- Going forward targeting competitive orders from new sectors like high speed, highway, metro, turnkey EPC. To get new orders RVNL has set up offices in Botswana, Africa, UAE, Oman and also planning to set up office in Vietnam to get international orders
- Revenue growth could be marginal in FY24E but bottom line growth target is 15% in FY24E
- India middle east rail corridor is in nascent stage and RVNL is upbeat about this opportunity and shall upside with more clarity
- Investment in JV is for Vande Bharat, HAM projects and plans to take MMLP investments in coming time.

Exhibit 1: Quarterly Snapshot

(Rs mn)

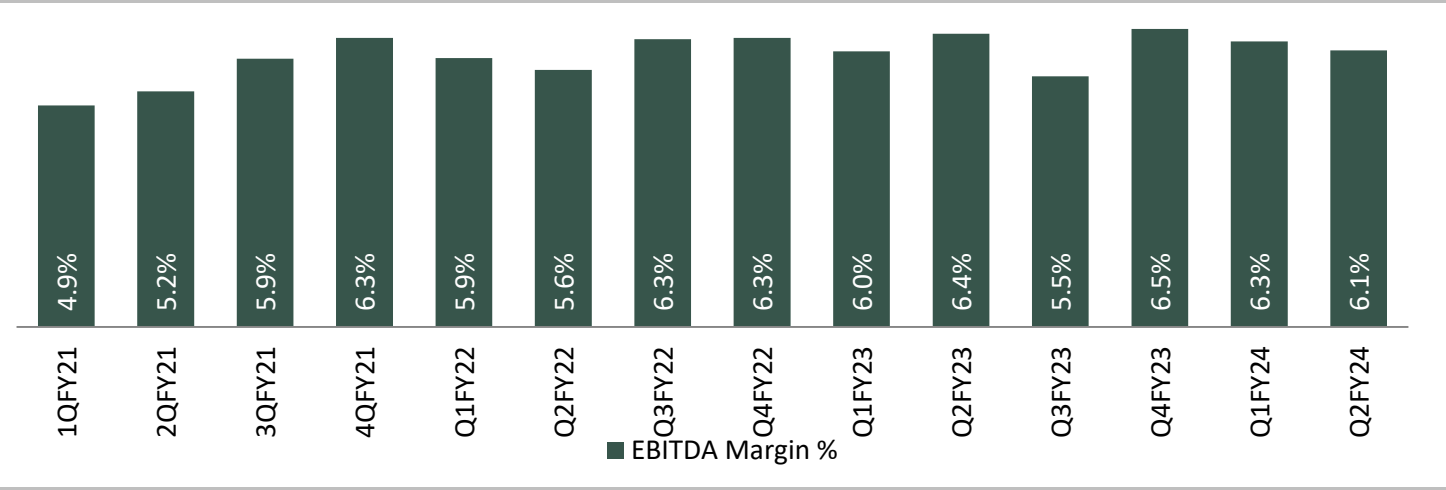
Financial snapshot	Sep-23	Sep-22	YoY Chg (%)	Jun-23	QoQ Chg (%)
Net Sales	49,143	49,089	0	55,716	-12
EBIDTA	2,983	3,160	-6	3,491	-15
EBITDA margin (%)	6.1	6.4	-37bps	6.3	-20bps
Other income	2,960	2,219	33	2,816	5
PBIDT	5,943	5,379	10	6,307	-6
Depreciation	62	48	29	55	13
Interest	1,327	1,308	1	1,461	-9
Pre-tax profit	242	787	-69	76	217
Tax	4,796	4,810	0	4,868	-1
Tax Rate	852	998	-15	1,437	-41
Profit after tax	18	21	-298bps	30	-1176bps

Source: Company

Exhibit 2: After strong performance in Q1FY24, revenue and EBITDA was muted in Q2FY24


Source: Company

Exhibit 3: EBITDA margin was maintained at ~6%



Source: Company

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Net sales	145,306	154,037	193,817	202,816	226,460	254,768
<i>Change (yoy, %)</i>	44	6	26	5	12	13
Operating expenses	(137,441)	(145,239)	(181,987)	(190,348)	(211,998)	(237,811)
EBITDA	7,865	8,798	11,831	12,468	14,463	16,958
<i>Change (yoy, %)</i>	48	12	34	5	16	17
<i>Margin (%)</i>	5.4	5.7	6.1	6.1	6.4	6.7
Depreciation	(203)	(229)	(209)	(223)	(244)	(262)
EBIT	7,662	8,568	11,622	12,245	14,218	16,696
Interest paid	(410)	(4,581)	(5,637)	(5,814)	(5,058)	(5,064)
Other income	2,325	8,079	9,038	11,551	9,932	8,994
Pre-tax profit	9,577	12,066	15,022	17,982	19,093	20,626
Tax	(2,010)	(2,151)	(3,195)	(3,776)	(4,009)	(4,331)
<i>Effective tax rate (%)</i>	21.0	17.8	21.3	21.0	21.0	21.0
Minority Interest	-	-	-	-	-	-
Net profit	7,567	9,915	11,827	14,206	15,083	16,294
Exceptional items	-	-	-	-	-	-
Adjusted net profit	7,567	9,915	11,827	14,206	15,083	16,294
<i>Change (yoy, %)</i>	10	31	19	20	6	8
EPS	4	5	6	7	7	8
Dividend per sh	1	2	2	2	2	3
<i>Dividend Payout %</i>	31	33	32	32	32	32

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Shareholders' funds	51,159	56,361	63,247	73,251	83,468	94,506
Share capital	20,850	20,850	20,850	20,850	20,850	20,850
Reserves & surplus	30,309	35,511	42,397	52,401	62,618	73,656
Total Debt	42,567	59,307	65,954	64,079	66,079	68,079
Other liabilities	2,999	3,666	2,921	5,927	5,815	5,815
Curr Liab & prov	27,188	22,878	68,534	40,967	43,810	45,853
Current liabilities	26,268	22,393	67,944	40,366	43,172	45,171
Provisions	920	486	590	601	638	682
Total liabilities	72,753	85,851	137,408	110,972	115,704	119,747
Total equity & liabilities	123,912	142,212	200,655	184,224	199,172	214,253
Net fixed assets	3,300	3,456	3,807	3,560	3,660	3,760
Investments	15,849	17,302	18,097	19,824	19,694	19,694
Other non-curr assets	22,236	23,912	34,173	74,159	79,947	86,876
Current assets	82,526	97,542	144,579	86,681	95,871	103,923
Inventories	92	235	499	589	589	589
Sundry Debtors	8,348	9,798	9,382	9,693	15,511	20,940
Cash and Bank	9,833	20,470	68,235	18,533	8,347	5,308
Loans and advances	25,681	6,609	31,192	26,012	26,012	26,012
Total assets	123,912	142,212	200,655	184,224	199,172	214,253

Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Pre-tax profit	9,577	12,066	15,022	17,982	19,093	20,626
Depreciation	349	367	371	423	244	262
Tax paid	(1,464)	(1,505)	(2,993)	(3,882)	(4,009)	(4,331)
Chg in working capital	(16,202)	(3,294)	38,973	(54,948)	(22,322)	(15,976)
Other operating activities	(1,873)	(2,941)	(3,371)	(337)	(3,256)	(2,231)
Cash flow from operations (a)	(9,614)	4,693	48,001	(40,763)	(10,251)	(1,651)
Capital expenditure	(214)	(408)	(143)	(97)	(344)	(362)
Chg in investments	(401)	-	-	-	130	-
Other investing activities	1,877	3,533	(14,125)	14,157	8,314	7,296
Cash flow from investing (b)	1,262	3,125	(14,268)	13,550	8,100	6,934
Equity raised/(repaid)	-	-	-	-	-	-
Debt raised/(repaid)	11,453	11,640	4,697	(2,800)	2,000	2,000
Dividend (incl. tax)	(233)	(4,754)	(4,212)	(4,212)	(4,866)	(5,257)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(2,949)	(2,729)	(2,353)	(3,349)	(5,058)	(5,064)
Cash flow from financing (c)	8,271	4,157	(1,868)	(10,360)	(7,924)	(8,321)
Net chg in cash (a+b+c)	(81)	11,975	31,866	(37,063)	(10,075)	(3,038)

Financial Ratios

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Book Value (Rs)	24.5	27.0	30.3	35.1	40.0	45.3
Adj EPS (Rs)	3.6	4.8	5.7	6.8	7.2	7.8
Adj EPS growth (%)	10.0	31.0	19.3	20.1	6.2	8.0
EBITDA margin (%)	5.4	5.7	6.1	6.1	6.4	6.7
Pre-tax margin (%)	6.6	7.8	7.8	8.9	8.4	8.1
Net Debt/Equity (x)	0.6	0.7	0.0	0.6	0.7	0.7
ROCE (%)	8.9	7.9	9.2	8.9	9.5	10.3
ROE (%)	15.9	18.4	19.8	20.8	19.2	18.3

DuPont Analysis

Asset turnover (x)	1.2	1.2	1.1	1.1	1.2	1.2
Leverage factor (x)	2.6	2.5	2.9	2.8	2.4	2.3
Net margin (%)	5.2	6.4	6.1	7.0	6.7	6.4

Working Capital & Liquidity ratio

Inventory days	0	1	1	1	1	1
Receivable days	21	23	18	17	25	30
Payable days	18	7	4	12	12	12

Valuations

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
PER (x)	43.0	32.8	27.5	22.9	21.6	20.0
Price/Book value (x)	6.4	5.8	5.1	4.4	3.9	3.4
EV/Net sales (x)	2.5	2.4	1.7	1.8	1.7	1.5
EV/EBITDA (x)	45.5	41.4	27.3	29.7	26.5	22.9
Dividend Yield (%)	0.7	1.0	1.2	1.4	1.5	1.6

Source: Company; IDBI Capital Research



Notes

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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