



Quick Insight

Rail Vikas Nigam Limited (RVNL)



Industry Construction and Engineering

CMP ₹28.9

M Cap ₹60.26bn

Buy Range ₹20-25

Target ₹35-38

Recommendation BUY

Highlights

- Strong Execution track record with Revenue CAGR of 36% and earnings CAGR of 31% over FY15-20. RoE doubled to 19.2% in FY20 from 7.9% in FY15.
- Focus intact even during COVID-19 crisis and turned it into opportunity by completing pending work and increasing its share in civil works. Highest order book of ₹822.5bn with limited slow-moving projects, providing strong revenue visibility.
- New lines and doubling projects form 80% of order book (are relatively high-ticket size projects compared to electrification and gauge conversion). Out of this order book, 56% is a firm order and execution is in progress providing visibility of 2.5x of TTM revenue
- RVNL receives projects on nomination basis and has been allowed a consolidated management fee (i.e., supervision charges and management fee) on the expenditure incurred for the execution of projects, at 9.25% for the metro projects, 8.50% for other plan (state) heads and 10% for national projects. In 1HFY21 the company received new orders worth ₹61bn
- RVNL share in MoR civil works is at 30% which is the highest among PSU (IRCON at 5%). Balance works executed by MoR internally through 16 zonal railway units.
- Projects funded through loans from Indian Railway Finance Corporation (IRFC) is a pass-through entry. MoR takes responsibility toward debt servicing.
- The Ministry of Railways (MoR) has delegated powers to RVNL for sanctioning estimates for the projects given to them upto 100% cost on account of price escalation and upto 20% cost on account of reasons other than price escalation (i.e., change in design) on the original sanctioned cost of the projects.

Background

Rail Vikas Nigam Limited (RVNL) was incorporated in New Delhi as a public limited company on 24 January 2003. The Company was issued its Certificate of Commencement of Business on 18 February 2003. The Company has been conferred the status of 'Schedule A - Public Sector Enterprise'. Further the company has the status of 'Category-I Miniratna Company'. The Company is a wholly owned government company as a project executing agency working for and on behalf of Ministry of Railways (MoR). It is in the business of executing all types of railway projects including new lines doubling, gauge conversion, railway electrification, metro projects, workshops, major bridges construction of cable stayed bridges, institution buildings etc. As part of the mandate of RVNL to undertake project development, mobilization of financial resources and to implement projects pertaining to strengthening of Golden Quadrilateral and better connectivity to various ports, six Special Purpose Vehicles (SPVs) as Joint Ventures (JVs) have been created. RVNL has a minimum equity participation of 26% in each one of these SPVs. Through these SPVs, RVNL has been able to mobilize a cumulative investment of ₹77.6bn out of which ₹26.94bn is equity and ₹50.67bn is debt. RVNL itself has invested a total of ₹9.84bn as equity among these 6 SPVs, which is approximately 12.68% of their Gross total investment. During FY20, the company has completed a total of 1960 rkm of project length which included 551 rkm of doubling and 1208 rkm of railway electrification. There are 91 projects under various stages of implementation by RVNL. The Company generally works on a turnkey basis and undertakes the full cycle of project development from conceptualisation to commissioning including stages of design preparation of estimates calling and award of contracts project and contract management etc. The projects undertaken by the company are spread all over the country and for efficient implementation of projects 38 project implementation units (PIUs) have been established at different locations to execute projects in their geographical hinterland. They are located at Delhi, Mumbai & Kolkata (4 units), Chennai & Secunderabad (2 units), Bhubaneswar (3 units), Bhopal (3 units), Jhansi, Kota, Jodhpur & Waltair (2 units), Bengaluru, Pune & Raipur (3 units), Lucknow (2 units), Rishikesh & Ahmedabad (2 units), Kanpur & Varanasi (2 units), Chandigarh, Mughalsarai, Ambala and Guwahati. The company's major client is the Indian Railways. Its other clients include various central and state government ministries departments and public sector undertakings. RVNL came out with an Initial Public Offering (IPO) on 20 March 2019 of 253,457,280 equity shares of Face Value of ₹10 each of the company through an offer for sale by the President of India acting through the Ministry of Railways Govt. of India (the selling shareholder) for a cash price of ₹19 per equity share aggregating to ₹4.77bn. Cumulatively, RVNL has completed a total of 3483.37 km of doubling; 1888.63 rkm of gauge conversion; 455.55 rkm of new lines and 4969.93 rkm of railway electrification. Thus, as on 31 March 2020, 10,839.48 rkm of project length out of a total length of 17,104.62 rkm of 183 sanctioned projects (5 projects of 733.5 rkm of length are yet to be sanctioned) assigned to RVNL, have been completed. In addition, Railway Electrification of 355.88 km was also carried out in other than specific Railway Electrification projects as part of Doubling. Out of 92 projects completed so far, 86 projects have been fully commissioned and handed over to Railways for operations and maintenance. From FY16-20, RVNL had received an amount of ₹475.93bn for project expenditure from Ministry of Railways (MoR) for execution of various works.

Nifty	14,200
Sensex	48,438
Key Stock Data	
CMP	₹28.9
Market Cap (₹)	₹60.26bn
52W High/Low	₹29.3/10
Shares o/s (mn)	2085
Daily Vol. (1M NSE Avg.)	42,302,363
Shareholding pattern (%) Sep'20	
Promoter	87.8
DII	1.5
FII	0.4
Public & Others	10.3

Source: Company Data, Way2Wealth Research

(₹ mn)

Particulars	FY18	FY19	FY20	1HFY21
Net Revenue	75,566	100,601	145,306	60,934
EBITDA	3,825	5,310	7,865	3,060
EBITDA Margin (%)	5.1	5.3	5.4	5.0
Net Profit	4,633	6,066	7,899	3,159
EPS (₹)	2.3	3.3	3.6	1.5
DPS (₹)	0.8	0.9	1.14	
RoE (%)	14.6	16.8	19.2	
RoCE (%)	10.5	12.3	12.9	
P/E (x)	12.6	8.8	8.0	
EV/EBITDA (x)	19.5	17.5	13.2	
P/BV (x)	1.3	1.2	1.1	

Source: Company Data, Way2Wealth Research

Investment Argument

- **Strong Execution track record** – Revenue CAGR of 36% and earnings CAGR of 31% over FY15-20. RoE doubled to 19.2% in FY20 from 7.9% in FY15. FY20 RoCE of 12.9% while adjusted RoCE at 22.9% as debt is a pass-through entry. 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 1HFY21 EBITDA margin stood at 5%. Net profit for 1HFY21 was at ₹3,159.1mn compared to ₹3,946.2mn in 1HFY20.
- **Key beneficiary of capex as well as freight growth** – RVNL is apex body of MoR with 30% share of civil works, the largest among PSU, to benefit from 2x increase in railway capex over the next five years under NIP. Its expertise is in concept-to-commissioning of high value, complex projects. Exposure to six SPV developing port-rail connectivity projects at key ports connecting the Dedicated Freight Corridor is likely to benefit from rise in freight movement via rail. RVNL's 1HFY21 order book of ₹822bn equals to ~ 6 TTM revenue, including the largest project of Rishikesh-Karnaprayag (125km new line) of ₹207bn. New lines and doubling projects form 80% of order book (are relatively high-ticket size projects compared to electrification and gauge conversion). Out of this order book, 56% is a firm order and execution is in progress providing visibility of 2.5x of TTM revenue. 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 in 2HFY21.

RVNL Share in Indian Railways Civil Work

Particulars	FY16	FY17	FY18	FY19	FY20RE	FY21BE
Railway expenditure (Budget + IEBR)	935	1,099	1,020	1,334	1,564	1,610
Growth (%)		17.6	-7.2	30.8	17	3
Civil works						
New Line	202	143	82	94	85	125
Doubling	105	91	112	154	238	215
Electrification	23	29	38	59	76	63
Gauge conversion	36	38	29	42	32	28
Total expenditure on Civil works	365	301	261	349	431	431
Share of Civil works in total budget (%)	39	27	26	26	28	27
RVNL execution	45	59	76	101	145	145
Estimated RVNL share (%)	12	20	29	29	34	34

Source: Company, Way2Wealth Research

RVNL Contribution to Infrastructure of Indian Railways

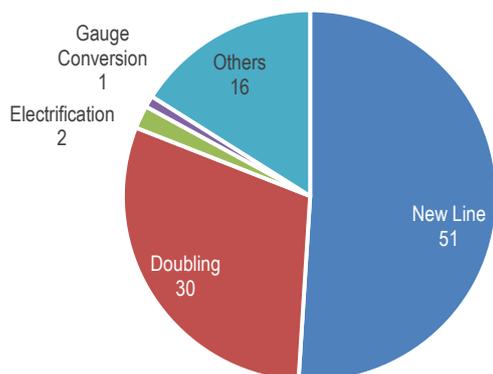
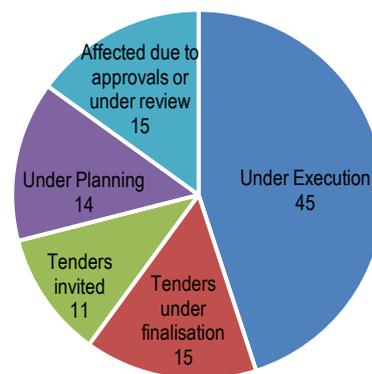
Years	Doubling			Railway electrification		
	By RVNL	Total on IR including RVNL	% Contribution of RVNL	By RVNL	Total on IR including RVNL	% Contribution of RVNL
2015-16	242	973	24.9	266	1,176	22.6
2016-17	310	882	35.1	498	1,502	33.2
2017-18	400	999	40	605	1,646	36.8
2018-19	465	1,519	30.6	1,122	5,276	21.3
2019-20	529	1,458	36.3	1,570	5,790	27.1
Since inception	1,946	5,831	33.4	4,061	15,390	26.4

Source: Company, Way2Wealth Research

Order Book (OB) trend

	FY15	FY16	FY17	FY18	FY19	FY20
Opening OB	852.8	1,029.4	1,031.2	1,020.2	944.6	948.1
Add: Inflow	208.1	47.2	48.1	-	104.1	19.7
Less: Execution	31.5	45.4	59.2	75.6	100.6	145.3
Closing OB	1,029.4	1,031.2	1,020.2	944.6	948.1	822.5
Book-to-Bill (x)	32.7	22.7	17.2	12.5	9.4	5.7

Source: Company, Way2Wealth Research

Order Book Mix (%)

Order Book Status (%)


Source: Company, Way2Wealth Research

- **RVNL receives projects on nomination basis** – RVNL has been allowed a consolidated management fee (i.e., supervision charges and management fee) on the expenditure incurred for the execution of projects, at 9.25% for the metro projects, 8.50% for other plan (state) heads and 10% for national projects. In 1HFY21 the company received new orders worth ₹61bn.
- **Financials are supported by MoR** – RVNL works on an asset light model which requires a) the contractor to provide machineries, plants and stores for execution, b) MoR makes available the working capital (funds) to execute a project.
- **All expenditure incurred on it is pass-through where interest and principal repayment are borne by MoR** – Projects funded through loans from Indian Railway Finance Corporation (IRFC) is a pass-through entry. MoR takes responsibility toward debt servicing. The MoR has delegated powers to RVNL for sanctioning estimates for the projects given to them upto 100% cost on account of price escalation and up-to 20% cost on account of reasons other than price escalation (i.e., change in design) on the original sanctioned cost of the projects.
- **Key beneficiary of increase in Railway capex (doubled in past five years) cornering more than one-third of the share** – RVNL share in MoR civil works is at 30% which is the highest among PSU (IRCON at 5%). Balance works executed by MoR internally through 16 zonal railway units. Among private companies, KEC International, L&T and Tata Projects are key beneficiaries.
- **Better alternative among railway PSU –**
 - 1) RoCE of 13% is higher than IRCON's 9% and core RoCE of 23% better than RITES 22%.
 - 2) cash to market cap ratio is the highest at 25%,
 - 3) Sturdy execution track record and higher growth potential
 - 4) Executable order book provides healthy book-to-bill visibility,
 - 5) Low risk to margin, and
 - 6) Efficient & profitable capital allocation to port-rail connectivity projects

Business Comparison between Railways PSUs

	RVNL	RITES	IRCON
Revenue breakdown	Segment-wise Doubling - 47% New lines - 18% Metros - 12% Gauge conversion - 10% Electrification - 6%	Sale of Services Consultancy fee - 56% Leasing services - 5% Sale of products Export sales - 10% Power generation - 1% Others Power generation - 1%	Domestic Railway - 71% International Railway - 8% Highways - 18% Electrical, Buildings, Others - 3%
Scope of work	Executes orders mostly for and on behalf of MoR. Includes new lines, doubling, gauge conversion, electrification, metro, workshops. Undertakes project development from concept to commissioning Port connectivity projects through SPV	Engineering & transport consultancy (railways, metro, roads, ports, airports, ropeways) providing service from concept to commissioning Turnkey EPC projects for new line, doubling, electrification Exports arm of Indian Railways providing rolling stock overseas. Also exports locomotives, coaches & other equipment manufactured by IR Wagon manufacturing, energy generation through SPV	Executes domestic & international railway projects Diversified to highways, bridges, buildings, airports, EHP substations and electrical & station building Operates in competitive and difficult terrains
Revenue from MoR	84%	30%	71%
Govt Shareholding	88%	72%	89%

Source: Company, Way2Wealth Research

Structural Comparison between railways PSUs

	RVNL	RITES	IRCON
Geographic presence	Only India	55+ countries including Asia, Africa, Latin America, South America and the Middle East (other than Thailand, Malaysia and Indonesia)	Presence in 21 countries including Malaysia, Nepal, Bangladesh, Mozambique, Ethiopia, Afghanistan, the UK, Algeria and Sri Lanka
Company structure	Associate	Subsidiaries	Subsidiaries
	50%-Kutch Railway (operational)	100% RITES (Afrika)	100% - IRCON Infrastructure
	35%-Bharuch Dahej (operational)	51% Railway Energy Management	100% - Bikaner-Phalodi Tollway
	50% Krishnapatnam (partially operational)		100% - Shivpuri-Guna Tollway
	29%-Haridaspur Paradeep		100% - Davanagere Haveri Highway
	32%-Angul Sukinda		100% - Vadodara Kim Expressway
	50%- Dighi Roha		
		Joint Ventures	Joint Ventures
		50% SAIL-RITES Bengal Wagon	50%- India Railway Station Redevelopment
		26% IRSDC	50%- IRCON Soma Tollway
			Associates
			26%- Chattisgarh East Railway
			26%- Mahanadi Coal Railway
			26%- Bastar Railway
			26%- Chattisgarh East West Railway
			26%- Jharkhand Central Railway

Source: Company, Way2Wealth Research

Key Risks

Cut in Railways capex due to fiscal constraints. Client concentration as MoR is its key client. Dependence on MoR for approving design and setting priority of the work. Delays in land acquisition, finalization of plans by users, timely clearance of permissions from other government departments (mainly Ministry of Environment and Forests), law and order problems, and the continued support from Ministry of Railways are main concern areas in project execution. Until 2018, the company received advance from MoR. This has changed to reimbursement model from FY18. Hence, average working capital cycle increased to 128 days.

Outlook

Focus intact even during COVID-19 crisis and turned it into opportunity by completing pending work and increasing its share in civil works. Highest order book of ₹822.5bn with limited slow-moving projects, providing strong revenue visibility. Focused approach toward civil works & port connectivity projects compared to non-core diversification by RITES & IRCON. Receives assured gross margin of 8.5% on sanctioned projects (treated at par with zonal railways) and low risk of downward revision. **Lean organization structure helps gain operating leverage. Asset-light model, debt-free considering it as a pass through with cash & equivalents balance of ₹13.8bn (24% of market cap) makes it a value BUY with fair value of ₹35-38.**

Financial and Operating Performance

Particulars	FY15	FY16	FY17	FY18	FY19	FY20	1HFY21	1HFY20
	(₹mn)							
Revenue	31,465	45,399	59,151	75,566	100,601	145,306	60,934	66,106
Gross profit	2,508	3,509	4,473	5,734	7,610	11,148	4,590	5,105
Gross margin (%)	8	7.7	7.6	7.6	7.6	7.7	7.5	7.7
EBITDA	1,456	2,174	2,818	3,825	5,310	7,865	3,060	3,617
EBITDA Margin (%)	4.6	4.8	4.8	5.1	5.3	5.4	5.0	5.5
PBT	2,483	3,699	4,889	5,514	7,583	9,908	4,002	4,622
PAT	2,086	3,004	3,892	4,633	6,066	7,899	3,159	3,946
EPS (₹)	0.9	1.5	1.8	2.3	3.3	3.6	1.5	1.9
DPS	0.15	0.18	1.23	0.8	0.9	1.14		
RoE (%)	7.9	10.4	12.8	14.6	16.8	19.2		
RoCE (%)	3.0	7.2	9.4	10.5	12.3	12.9		
Working capital cycle (days)	-1,028	-1,103	-8	82	108	128		

Source: Company Data, Way2Wealth Research

Order book Trend

Particulars	FY15	FY16	FY17	FY18	FY19	FY20
	(₹bn)					
Opening OB	852.8	1,029.4	1,031.2	1,020.2	944.6	948.1
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Closing OB	1,029.4	1,031.2	1,020.2	944.6	948.1	822.5
Book-to-bill (x)	32.7	22.7	17.2	12.5	9.4	5.7

Source: Company Data, Way2Wealth Research

6th January 2021**Disclaimer**

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Disclosure of Interest Statement in Rail Vikas Nigam Limited (RVNL) as on January 06, 2021

Name of the Security	Rail Vikas Nigam Limited (RVNL)
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
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