



## Rail Vikas Nigam Ltd. Construction & Engineering

**STOCK IDEA**  
**Rating: BUY**

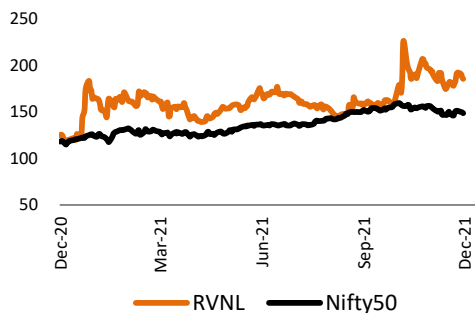
Date	23-Dec-2021
CMP	INR 34
Target Price	INR 44
Potential Upside	29%

### Market Data

O/S Shares (In Cr)	208.50
Mkt Cap (INR Cr)	7,078
52 Wk H/L (INR)	44.75/19.0
3M Volume Avg ('000)	816
Face Value	10
Bloomberg Code	RVNL IN

BSE Sensex	56,931
NSE Nifty	16,955

### Comparative Price Chart



### Shareholding Pattern

Particulars (%)	Mar 21	Jun 21	Sep 21
Promoters	78.2	78.2	78.2
FII	0.4	0.3	0.3
DII	9.4	9.3	9.1
Others	11.9	12.3	12.4

#### Anmol Das

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### Key Financials

Particulars (Rs Cr)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	14,531	15,404	19,255	24,068	30,085
EBITDA Margins (%)	5.41	5.71	5.69	5.82	5.93
Adj. EPS (diluted)	3.63	4.42	5.32	6.68	8.35
D/E (x)	0.8	1.0	1.2	1.4	1.6
RoE (%)	14.8	16.6	17.6	19.4	20.9
RoCE (%)	8.1	8.2	8.0	8.1	8.0

Rail Vikas Nigam Limited (RVNL) was incorporated in 24<sup>th</sup> Jan, 2003, as a Public Sector Undertaking (PSU) with mandate to undertake planning, implementation and execution of Indian Railways (IR) projects. RVNL is authorized to approach financial institutions, banks, domestic markets and bilateral & multilateral funding agencies for arranging funding for the projects. On completion of a railway project by RVNL, the concerned Zonal Railway will undertake its operation and maintenance under a specific financial arrangement. RVNL undertakes all types of railway infrastructure projects such as laying down new lines, gauge conversion, doubling/3rd/4th track, track electrification, hill railway projects, institutional buildings, mega bridges, metro railway, etc. For the efficient implementation of projects spread all over the country, 38 project implementation units (PIUs) have been established in close proximity of 26 locations. RVNL has minimum equity participation of 26% in each of the 6 SPVs. RVNL's revenue stream is from the projects that are done by RVNL on BOT concept, where Ministry of Railways (MoR) pays access charge/user charge. The number of projects completed up to March 2021 stands at 101, while projects under implementation is 86.

#### Investment Rationale:

##### RVNL pays dividends at a yield of 4-5% which will keep on increasing gradually:

RVNL, being a PSU has distributed dividends of Rs 329.43 Cr (i.e. a dividend payout of 35.75% for FY21). We expect the dividend payout to remain at 35% and increase gradually as the company's profits keep on increasing. This growth would increase its dividends to three times of last year's dividends in the next 5 years.

##### Baseline operating margin of 5% to increase with diversification:

RVNL earns revenue from the different projects through management fee (which are fixed in nature). It charges management fees for national highway projects at 10%, metro projects at 9.25% and its majority of railway projects at 8.5%, which after dividend & tax expenses, provide a baseline operating margin of +5%. The project margin can differ based upon the project bid won by the company, as management fees for metro projects and national highways is way higher than regular railway projects, pushing its EBITDA margins higher as it diversifies business.

##### No NPA as RVNL only helps project execution by EPC contractors for MoR:

Both RVNL and IRFC were formed for the up-gradation of Indian Railways to meet the increasing requirements of the burgeoning Indian economy. However, by 2006, when Government realized this, IRFC was left with the purpose of arranging funding for the railway projects from financial markets, while the project implementation, execution and formation of SPVs for EPC contracts became the primary job for RVNL. Since, almost all of its projects are originate from Government institutions, (Indian Railways, NHAI or Metro Rail), its borrowings pose absolutely zero risk.

#### Valuation & Outlook:

We estimate the revenue growth momentum of RVNL to pick up gradually back to the pre-covid era growth rates of >25%, and continue the pace for the next 5-10 years. This is in line with our belief that the central government remains focused towards easing the logistical challenges ahead of faster economic growth. RVNL with dividend payout of 35% is expected to witness dividend increase 3.0x over FY21 in the next 5 years. RVNL is currently trading at 5.2x/4.2x times of FY23/FY24E EPS. With our expectations propelling the topline & bottom-line growth of RVNL, **we value it at 5.3x of FY24E EPS of Rs 8.35 to value it at Rs 44 per share** using dividend distribution approach for terminal dividend yield of 13.6% at current prices.

**RVNL has an order-book of Rs 75,000 Cr as of Q1FY22. The Company is venturing into non-railway projects from NHAI and Metro Rail Projects in Indore.**

**RVNL being a PSU EPC player, will be generating healthy profits to be distributed as per its Dividend Distribution Policy of 35% of earnings or 5% of net-worth.**

**RVNL's major revenue comes from the laying down of new lines/doubling, etc. apart from the electrification of tracks. With the new & upcoming DFCs, the company will be getting large number of orders for developing multiple lines of tracks.**

#### **Indian Railways up-gradation acting as Tailwind:**

Indian Railways (IR) is the 4<sup>th</sup> largest rail network in the world with route of ~68,000 kms. It has 71% of the routes electrified that helps it cater to the freight transportation across the nation and generate ~72% of its revenue from there. IR has more than 13,000 passenger trains and around 8,500 freight trains plying 23 million passengers and 3 million tonnes (MT) of freight daily from 7,349 stations. Currently, IR is undergoing massive reforms for remaining competitive compared to air travel as well as supporting goods transportation for economic growth & boosting exports.

Therefore, we expect the future outlook for RVNL to remain positive under the context of:

#### **Strong Order Book:**

The company has strong order book for the current period as of Q1FY22 at Rs ~75,000 Cr. RVNL is also expecting to bag non-railway projects of Rs ~5,000 Cr in the next 1-2 year. It has won bid for Indore Metro Rail Project for Rs 1,035 Cr & signed an MOU with NHAI's sister company National Highways & Infrastructure Development Corporation Limited (NHIDCL) for consultancy services. RVNL is expecting new projects from Ministry of Railway to the tune of Rs ~15,000 Cr. The company is trying to find new opportunities in the EPC space to venture out for themselves.

#### **RVNL aims to double Rail Electrification project:**

Rail electrification project of RVNL will strengthen the rail infrastructure benefitting industrial infrastructure, reduce passenger traffic, freight, etc., helping IR in reducing fuel expenditure by promoting electrification of tracks. RVNL completed electrification of 1,700 km of routes in FY21 compared to 714 km of routes in FY20.

#### **Diversifying business to Non-Railway Projects:**

RVNL is gradually diversifying its business by grabbing opportunities in non-rail infra projects. Recently, RVNL signed an MOU with NHAI for construction of Multi – Modal Logistic Parks (MMLP) under Bharatmala Pariyojana to improve logistical support between industrial estates to seaports. It has also won bids for 2 more non-railway infra project.

#### **Gradual up-gradation of Indian Railway:**

Indian Railways (IR) despite its sheer size (route kilometres of >65,000 km) still requires up-gradation and expansion of its network across the country. To ease logistic complexities and boost trade, IR has started to focus on freight transport, with the laying down of Dedicated Freight Corridor (DFCs) between Delhi & Mumbai. This is expected to be followed by upto 5 other DFCs connecting distant major trade centres of the country port cities. Similarly, the replacement of diesel powered engines, track automation, renewal & doubling of tracks for high speed trains, increasing mobility of passengers leading to increase in number of passenger trains. Hence, we believe our assumption of >25% growth in revenue for the next 5-10 years is in line with the Railway Ministry's recent commitments.

#### **Government push for Infrastructure Development:**

Rail Vikas Nigam received 3 major projects from National Highways & Infrastructure Development Corporation Limited (NHIDCL) as a consultancy services in the state of Nagaland & Mizoram as SPV PIU (Project Implementation Unit). Their overall presence is in 38 locations.

Recently, RVNL bagged Indore Metro Rail Project of Rs. 1,034 Cr civil contract. The role of RVNL in Indore project would be in designing & construction of seven elevated metro rail station. RVNL will have to complete the work in 847 days. This contract is funded by equity contribution by Government of India & State Government of Madhya Pradesh. New projects will improve the EBITDA margins in coming future with the Management Fees for the Metro Projects at 9.25% and that of the National Projects with NHAI at 10.0%.

## Historical Payout and Business Opportunities for RVNL:

### RVNL's EBITDA Margins have a base line of 5%:

RVNL receives a management fees of 8.5% on the majority of projects it undertakes, most from Indian Railways. On National Highway Projects, it charges 10.0% Management Fees, and on Metro Projects at 9.25%. We expect the EBITDA Margins to increase gradually as RVNL diversifies its business to other areas of EPC scope & opportunity.

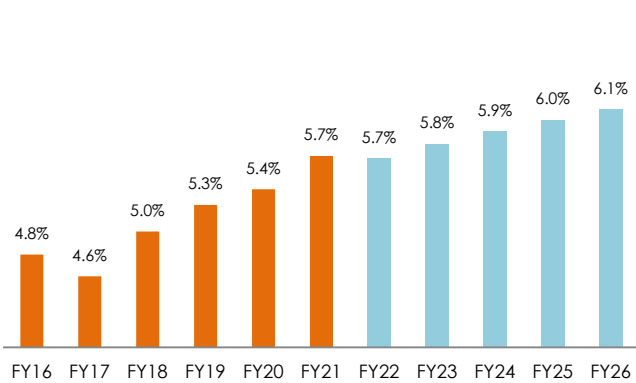
As per the management of RVNL, the company expects the non-rail order-book of the company to increase to approximately Rs 5,000 Cr in 1-2 years of time, helping it pull up its margins.

### Dividend Payout of 35% to grow with volume as revenue generating unit for the Ministry of Railways:

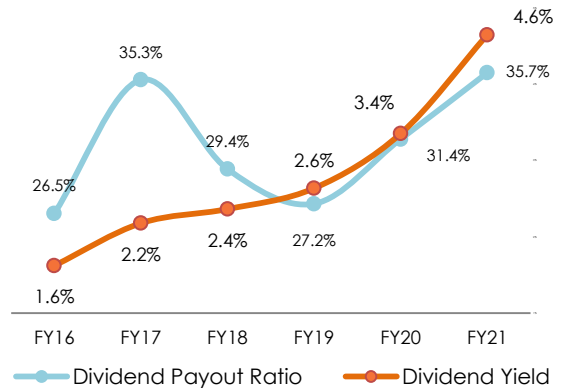
RVNL distributes 35% of its earnings as Dividend Payout. While the share of dividend to be distributed may remain consistent being a PSU, the underlying amount is expected to grow exponentially for the near term.

RVNL could become the profit making behemoth the Central Government needs to meet its expenses while most PSUs in similar business, i.e. Infrastructure and EPC engineering works, are reeling in to become profitable.

EBITDA Margins (%) (FY22 & beyond estimates)



RVNL - Dividend Payout & Dividend Yield (%)



Source: Systematix Research, Company Filings

## Electrification of Tracks:

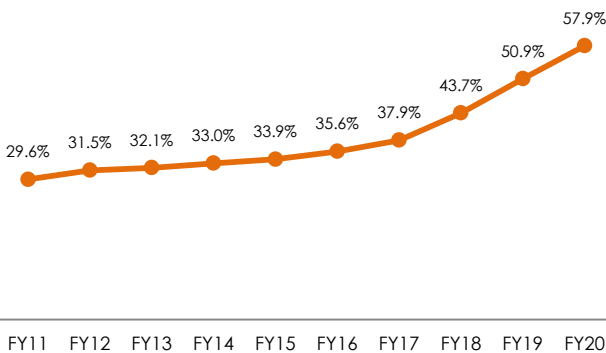
### RVNL wins most of the electrification projects of Indian Railways:

Indian Railways has completed electrification of 58% of total laid route kilometres as of FY20. The Projects for Electrification of tracks and doubling/multiple lines laying would continue in the longer future ahead as India's merchandise trade increases significantly. Also, the newer Projects for Dedicated Freight Corridors (DFCs) (Delhi-Mumbai) to be completed by March 2022, and other DFCs, will increase the scope of work for RVNL.

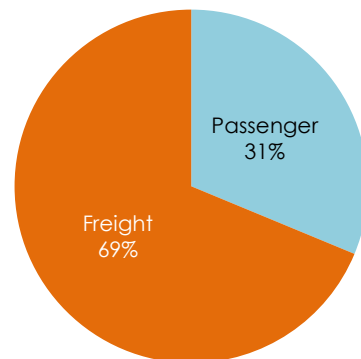
### Revenue mix for Indian Railways:

As the Indian economy matures, and industrial production increases, Indian Railways will witness a higher share of revenue from Freight transportation in the future. For better efficiency of IR and remaining cost-competitive against Private Peers, IR will be upkeeping its tracks both electrified and higher number of track lines to handle two-way traffic of freight trains.

Indian Railways- % Track Electrified



Indian Railways Revenue Mix (FY20)



Source: Systematix Research, Company Filings

## Peer Comparison

Comparable Peers (TTM)	Market Cap (Rs Cr)	P/E (x)	EV/EBITDA (x)	Debt/Equity (x)	RoE (%)	RoCE (%)	Dividend Yield	P/B
RVNL	7,089	6.41	8.49	1.02	17.26	11.31	4.65	1.16
IRCON International	4,232	8.68	1.34	0.21	9.03	13.37	5.22	0.93

Source: Systematix Research, Company Filings

## Key Management Personnel

Name & Designation	Brief Profile of Board of Directors
<p><i>Shri Pradeep Gaur</i> Chairman &amp; Managing Director</p>	<p>Shri Pradeep Gaur joined RVNL since 2005 &amp; assumed the role of C&amp;MD from 1 Sep, 2018. He completed Bachelor of Engineering in Civil Engineering from NIT, Kurukshetra in 1986 and Master of Technology in Structural Engineering from Punjab Engineering College, Chandigarh in 1987. He is a 1987 batch IRSE officer.</p>
<p><i>Shri Rajesh Prasad</i> Vice Chairman and Managing Director</p>	<p>Mr. Rajesh Prasad is the Director of Operations in RVNL with effect from March 2020. He is a graduate in Civil Engineering from IIT, Kanpur in 1987. He is also having M. Tech degree from IIT, Kanpur in Environmental Engineering. He is from prestigious Indian Railway Service of Engineers of 1988 Exam batch.</p>
<p><i>Shri Vinay Singh</i> Group Chief Financial Officer</p>	<p>Shri Vinay Singh is working as Executive Director Project &amp; Planning, RVNL since 2013. He completed the Bachelor Degree in Civil Engineering from I.I.T. Roorkee in 1986 and Master of Technology from I.I.T. Delhi.</p>

Source: Systematix Research, Company Filings

## Income Statement

Particulars (Rs Cr)	FY20	FY21	FY22E	FY23E	FY24E
<b>Revenue from Operations</b>	<b>14,531</b>	<b>15,404</b>	<b>19,255</b>	<b>24,068</b>	<b>30,085</b>
Expenses on Operation	13,416	14,229	17,762	22,203	27,754
Employee Benefits Expenses	190	208	233	260	291
Other Expenses	119	65	135	168	211
CSR Expenses	19	22	29	36	45
Total Expenses	13,744	14,524	18,159	22,668	28,301
<b>EBITDA</b>	<b>786</b>	<b>880</b>	<b>1,096</b>	<b>1,400</b>	<b>1,785</b>
EBITDA Margin (%)	5.4%	5.7%	5.7%	5.8%	5.9%
Depreciation & Amortization	20	23	39	42	45
EBIT	766	857	1,057	1,359	1,740
Finance Costs	41	28	40	79	140
Other Income	246	309	387	483	604
Profit Before Tax	958	1,138	1,404	1,763	2,204
Total Tax Expenses	201	215	295	370	463
<b>Profit After Tax</b>	<b>757</b>	<b>922</b>	<b>1,109</b>	<b>1,393</b>	<b>1,741</b>
EPS (Dilluted)	3.63	4.42	5.32	6.68	8.35

## Balance Sheet

Particulars (Rs Cr)	FY20	FY21	FY22E	FY23E	FY24E
<b>Assets</b>					
Property, Plant & Equipment	17	19	23	26	31
Rights-of-use Assets	265	253	241	228	214
Investments in JVs	1,578	1,651	1,816	1,998	2,197
Lease Receivables	1,386	1,263	1,151	1,048	955
All Other Non-Current Assets	531	855	1,069	1,336	1,670
<b>Total Non-Current Assets</b>	<b>3,879</b>	<b>4,167</b>	<b>4,468</b>	<b>4,860</b>	<b>5,352</b>
Trade Receivables	835	980	1,123	1,404	1,755
Cash & Cash Equivalents	274	1,421	2,420	3,688	5,471
Bank Balances other than Cash	708	626	782	977	1,222
All Other Current Assets	6,424	6,704	8,366	10,458	13,073
<b>Total Current Assets</b>	<b>8,516</b>	<b>9,985</b>	<b>13,004</b>	<b>16,918</b>	<b>22,005</b>
<b>Total Assets</b>	<b>12,395</b>	<b>14,152</b>	<b>17,472</b>	<b>21,777</b>	<b>27,357</b>
<b>Equity &amp; Liabilities</b>					
Share Capital	2,085	2,085	2,085	2,085	2,085
Reserves	3,034	3,482	4,203	5,108	6,240
<b>Shareholder's Funds</b>	<b>5,119</b>	<b>5,567</b>	<b>6,288</b>	<b>7,193</b>	<b>8,325</b>
Borrowings	4,257	5,672	7,543	10,032	13,343
Other Financial Liabilities	257	346	432	540	675
<b>Total Non-Current Liabilities</b>	<b>4,578</b>	<b>6,076</b>	<b>8,049</b>	<b>10,665</b>	<b>14,134</b>
Trade Payables	699	272	339	424	530
Other Financial Liabilities	1,455	1,445	1,806	2,258	2,822
Other Current Liabilities	473	702	878	1,097	1,371
<b>Total Current Liabilities</b>	<b>2,697</b>	<b>2,509</b>	<b>3,135</b>	<b>3,919</b>	<b>4,899</b>
<b>Total Equities &amp; Liabilities</b>	<b>12,395</b>	<b>14,152</b>	<b>17,472</b>	<b>21,777</b>	<b>27,357</b>

## Cash Flow Statement

Particulars (Rs Cr)	FY20	FY21	FY22E	FY23E	FY24E
<b>Cash Flow from Operating Activities</b>					
<b>Net Profit before Taxation</b>	<b>958</b>	<b>1,138</b>	<b>1,404</b>	<b>1,763</b>	<b>2,204</b>
Adjustments for:					
Depreciation, Amortization	35	37	39	42	45
Interest Income	-215	-222	-387	-483	-604
<b>Operating Profit before WC Changes</b>	<b>852</b>	<b>899</b>	<b>1,056</b>	<b>1,321</b>	<b>1,644</b>
<b>Adjustments for Changes in WC:</b>					
Trade Receivables (Current)	-197	-145	-143	-281	-351
Other Non-Current Financial Assets	261	214	-184	-230	-288
Other Current Financial Assets	-2,084	1,907	-308	-399	-498
Other Current Assets	1,920	-2,231	-1,511	-1,888	-2,361
Trade Payables	522	-428	67	85	106
Other current Financial Liabilities	185	108	361	452	564
Other Non Current Financial Liabilities	51	102	86	108	135
Other Current Liabilities	-2,523	229	176	219	274
<b>Cash generated from Operations</b>	<b>-815</b>	<b>808</b>	<b>-337</b>	<b>-576</b>	<b>-760</b>
Income Taxes Paid (net of refund)	-146	-151	-295	-370	-463
<b>Net Cash Flow from Operating Activities</b>	<b>-962</b>	<b>657</b>	<b>-632</b>	<b>-946</b>	<b>-1,223</b>
<b>Cash Flow from Investing Activities:</b>					
Capex on Property, Plant and Equipments	-18	-41	-13	-15	-17
Investment in Subsidiaries & JVs	-40	-91	-165	-182	-200
Interest Received	212	211	387	483	604
Bank Balances other than Cash	-50	82	156	195	244
<b>Net Cash Flow from Investing Activities</b>	<b>124</b>	<b>75</b>	<b>353</b>	<b>468</b>	<b>613</b>
<b>Cash flow from Financing Activities:</b>					
Proceeds from Long Term Borrowings	1,408	1,430	1,872	2,489	3,311
Repayment of Interests	-272	-245	-270	-297	-326
Dividend Paid (incl. DDT)	-23	-475	-388	-487	-609
<b>Net Cash Flow from Financing Activities</b>	<b>827</b>	<b>416</b>	<b>1,277</b>	<b>1,747</b>	<b>2,392</b>
<b>Net Increase/(Decrease) in Cash</b>	<b>-11</b>	<b>1,148</b>	<b>999</b>	<b>1,268</b>	<b>1,783</b>
<b>Cash at the beginning of the Year</b>	<b>285</b>	<b>274</b>	<b>1,421</b>	<b>2,420</b>	<b>3,688</b>
<b>Cash at the end of the Year</b>	<b>274</b>	<b>1,421</b>	<b>2,420</b>	<b>3,688</b>	<b>5,471</b>

## Key Ratios

Particulars (in Rs Crs)	FY20	FY21	FY22E	FY23E	FY24E
EBITDA Margin (%)	5.4%	5.7%	5.7%	5.8%	5.9%
EBITDA YoY (%)		11.87%	24.56%	27.78%	27.44%
Net Profit Margin (%)	5.2%	6.0%	5.8%	5.8%	5.8%
RoE (%)	14.8%	16.6%	17.6%	19.4%	20.9%
RoCE (%)	8.1%	8.2%	8.0%	8.1%	8.0%
EPS (INR)	3.63	4.42	5.32	6.68	8.35
Debt/Equity	0.83	1.02	1.20	1.39	1.60

Source: Systematix Research, Company Filings



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Disclosure of Interest Statement	Update
Analyst holding in the stock (%)	None
Served as an officer, director or employee	No

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**EXPLANATION TO RATINGS:** BUY: TP>15%; ACCUMULATE: 5%<TP<15%; HOLD: -5%<TP<5%; REDUCE: -1.5%<TP<-5%; SELL: TP<-15%

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