

Rail Vikas Nigam Ltd. (RVNL)

Rail Vikas Nigam Ltd. (RVNL) is a wholly owned Government Company, a Miniratna (Category – I) Schedule ‘A’ Central Public Sector Enterprise. RVNL is a project executing agency working for and on behalf of MoR (Ministry of Railways). It undertakes rail project development, mobilization of financial resources and implementation of rail projects pertaining to strengthening of golden quadrilateral and port connectivity coupled with raising of extra-budgetary resources for project execution. The role of RVNL is to mobilize finances and is restricted to forming of project specific SPVs with private participation.

Healthy order book with diversified revenue stream: RVNL’s order book stood at ~₹77,500cr as of December 2018, out of which ~₹43,000cr is expected to get executed over 2-3 years, and the remaining is with a longer gestation period. In the light of future investment opportunity in railways, we believe RVNL is in a sweet spot to tap the opportunities going forward. Moreover, RVNL has been successfully able to corner 20-30% of work from MoR (in railway electrification and doubling of line), which formed roughly 40% of December 2018 order book.

Expertise in undertaking all stages of project development and execution from conceptualization to commissioning: Initially RVNL undertook the execution of new lines, doubling, gauge conversion, and railway electrification projects. Further, upon establishing a good track record in the area of execution of these conventional type of projects, it has diversified and is now executing various types of projects including construction of new railway lines in hilly regions, metro lines, workshops and institutional buildings.

Outlook & valuation: In terms of valuations, PE works out to 6.9x FY18 EPS of ₹2.77 and annualized 6MFY19 PE works out to 7.8X (at the upper end of the issue price band) which is reasonably priced considering (a) healthy order book with near and long term execution visibility, (b) highly capable and experienced management coupled with asset light business model, (c) healthy dividend payout ratio around 30% in last three years, (d) diversified revenue segment, and (e) increasing revenue opportunity from railways due to new investment in electrification and infrastructure. Given that RVNL is an executing agency of MoR, we believe it is in a sweet spot to tap the upcoming opportunities in Indian Railways. On the basis of the above arguments, **we recommend SUBSCRIBE to issue.**

Key Financials

Y/E March (₹ Cr.)	FY15	FY16	FY17	FY18	FY19*
Net Sales	3,147	4,540	5,915	7,597	7,246
% chg	-	44	30	28	(5)
Net Profit	337	429	443	570	507
% chg	-	27	3	29	(11)
EBITDA (%)	146	217	282	389	323
EPS (Rs)	1.62	2.06	2.13	2.73	2.43
P/E (x)	11.76	9.23	8.93	6.95	7.81
P/BV (x)	1.29	1.16	1.11	1.01	0.98
RoE (%)	11.0	12.5	12.5	14.5	12.5
RoCE (%)	2.5	3.5	4.6	5.9	5.0
EV/EBITDA	41.6	30.0	23.5	20.6	26.0

Source: RHP, *Annualized calculated number, Note: Valuation ratios based on post outstanding shares and at upper end of the price band

SUBSCRIBE

Issue Open: March 29, 2019
 Issue Close: April 03, 2019

Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹2,085cr

Offer for Sale: ₹477cr

Retail & Employee Discount:
 ₹0.5/Share

Post Eq. Paid up Capital: ₹2,085cr

Issue size (amount): *₹426cr - **477 cr

Price Band: ₹17 - ₹19

Lot Size: 780 shares and in multiple thereafter

Post-issue implied mkt. cap: *₹3,545cr
 - **₹3,962cr

Promoters holding Pre-Issue: 100%

Promoters holding Post-Issue: 87.8%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

Post Issue Shareholding Pattern

Promoters	88%
Others	12%

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Company background

RVNL is a wholly owned Government Company, a Miniratna (Category – I) Schedule ‘A’ Central Public Sector Enterprise. RVNL is project executing agency working for and on behalf of MoR. It undertakes rail project development, mobilization of financial resources and implementation of rail projects pertaining to strengthening of golden quadrilateral and port connectivity coupled with raising of extra-budgetary resources for project execution. The role of RVNL is to mobilize finances and is restricted to forming of project specific SPVs with private participation.

Issue Details

The company is raising ~₹477cr through an offer for sale in the price band of ₹17-19 with retail and employee discount of Rs0.5/share. The offer will constitute ~12.15% of the post-issue paid-up equity share capital of the company, assuming the issue is subscribed at the upper end of the price band. The company is offering 25.34cr shares that are being sold by Government of India (GOI).

Exhibit 1: Pre and Post-IPO shareholding pattern

	No of shares (Pre-issue)	%	No of shares (Post-issue)	%
Promoter (GOI)	2,08,50,20,100	100%	1,83,15,62,820	88%
Other	0	0%	25,34,57,280	12%
Total	2,08,50,20,100	100%	2,08,50,20,100	100%

Source: RHP, Angel Research; Note: Calculated on upper price band

Objects of the offer

- As the issue is an offer for sale, RVNL will not receive any proceeds from the offer.

Outlook & valuation:

In terms of valuations, PE works out to 6.9x FY18 EPS of ₹2.77 and annualized 6MFY19 PE works out to 7.8X (at the upper end of the issue price band), which is reasonably priced considering (a) healthy order book with near and long term execution visibility, (b) highly capable and experienced management coupled with asset light business model, (c) healthy dividend payout ratio around 30% in last three years, (d) diversified revenue segment, and (e) increasing revenue opportunity from railways due to new investment in electrification and infrastructure. Given that RVNL is an executing agency of MoR, we believe it is in a sweet spot to tap the upcoming opportunities in Indian Railways. On the basis of the above arguments, **we recommend SUBSCRIBE to issue.**

Key Risks

High dependence on railway orders

RVNL receives most of the orders from the Railways, hence any slowdown in railway spending may adversely impact the financial performance of the company.

Income Statement

Y/E March (₹ Cr.)	FY15	FY16	FY17	FY18	FY19*
Total operating income	3,147	4,540	5,915	7,597	7,246
% chg	-	44	30	28	(5)
Total Expenditure	3,001	4,322	5,633	7,209	6,923
Raw Material	2,896	4,189	5,468	7,024	6,702
Personnel	77	97	117	134	155
Others Expenses	28	37	48	51	65
EBITDA	146	217	282	389	323
% chg	-	49	30	38	(17)
(% of Net Sales)	5	5	5	5	4
Depreciation & Amortisation	5	5	5	5	5
EBIT	140	213	277	384	318
% chg	-	51	30	39	(17)
(% of Net Sales)	4	5	5	5	4
Interest & other Charges	15	23	35	45	41
Other Income	123	180	248	225	295
(% of PBT)	50	49	51	40	52
Extraordinary Items	0	0	0	1	2
Share in profit of Associates	-	-	-	-	-
Recurring PBT	248	370	489	563	570
Share in Profit/(Loss) of Joint Ventures	128	129	54	100	49
% chg	-	49	32	15	1
Tax	0	0	0	0	0
PAT (reported)	376	499	543	663	618
% chg	-	33	9	22	(7)
(% of Net Sales)	12	11	9	9	9
Basic & Fully Diluted EPS (Rs)	1.62	2.06	2.13	2.73	2.43
% chg	-	27	3	29	(11)

Source: RHP, Angel Research

Note *Annualized number

Balance sheet

Y/E March (₹Cr.)	FY15	FY16	FY17	FY18	6MFY19
SOURCES OF FUNDS					
Equity Share Capital	2,085	2,085	2,085	2,085	2,085
Reserves & Surplus	975	1,337	1,472	1,840	1,977
Shareholders Funds	3,061	3,422	3,557	3,925	4,062
Total Loans	2,514	2,624	2,437	2,634	2,286
Other Liab & Prov	5	8	9	49	37
Total Liabilities	5,580	6,054	6,003	6,608	6,385
APPLICATION OF FUNDS					
Net Block	6	6	8	249	249
Other Investments	897	1,020	1,255	1,244	1,274
Investments	498	10	10	10	10
Current Assets	13,517	18,118	3,998	3,282	3,697
Inventories	11,565	14,824	766	2	6
Sundry Debtors	262	590	479	1,177	1,439
Cash & Bank	808	1,378	1,255	343	51
Bank	882	1,327	1,498	1,761	2,201
Loans & Advances	722	1,885	1,903	1,529	1,559
Other Assets	495	1,177	1,686	2,255	1,945
Current liabilities	10,556	16,162	2,857	1,960	2,348
Net Current Assets	2,961	1,957	1,141	1,322	1,349
Other Non Current Asset	-	-	-	-	-
Total Assets	5,580	6,054	6,003	6,609	6,385

Source: RHP, Angel Research

Cash Flow

Y/E March (₹ Cr)	FY15	FY16	FY17	FY18	6MFY19
Profit before tax	3,766	4,990	5,433	6,640	3,101
Share in (Profit)/Loss of JV	(1,281)	(1,289)	(542)	(998)	(244)
Depreciation	51	47	50	48	27
Others	(876)	(1,321)	(1,645)	(1,235)	(1,281)
Change in Working Capital	1,660	2,426	3,296	4,456	1,604
Adjustments for (Increase)/Decrease in Operating Assets:					
Adjustments for (Increase)/Decrease in Operating Liabilities:					
Direct Taxes Paid/Received	495	5,285	2,759	1,087	550
Cash Flow from Operations	1,134	6,519	5,698	(3,122)	2,119
(Inc.)/ Dec. in Fixed Assets	(84)	(104)	(1,798)	(974)	(95)
(Inc.)/ Dec. in Investments	(208)	1,101	1,544	790	914
Cash Flow from Investing	(292)	997	(254)	(184)	819
Issue of Equity	-	-	-	-	-
Inc./(Dec.) in loans	(1,523)	(1,823)	(6,684)	(5,812)	(5,860)
Others	-	-	-	-	-
Cash Flow from Financing	(1,523)	(1,823)	(6,684)	(5,812)	(5,860)
Inc./(Dec.) in Cash	(680)	5,693	(1,240)	(9,117)	(2,921)
Opening Cash balances	8,761	8,081	13,776	12,546	3,429
Closing Cash balances	8,081	13,774	12,537	3,428	507

Source: RHP, Angel Research

Valuation ratio

Y/E March	FY2015	FY2016	FY2017	FY2018	FY19*
Valuation Ratio (x)					
P/E (on FDEPS)	11.8	9.2	8.9	7.0	7.8
P/CEPS	11.6	9.1	8.8	6.9	7.7
P/BV	1.29	1.16	1.11	1.01	0.98
EV/Sales	1.92	1.44	1.12	1.05	1.16
EV / Total Assets	1.08	1.08	1.10	1.21	1.31
Per Share Data (Rs)					
EPS (Basic)	1.6	2.1	2.1	2.7	2.4
EPS (fully diluted)	1.6	2.1	2.1	2.7	2.4
Cash EPS	1.6	2.1	2.2	2.8	2.5
DPS	0.2	0.2	1.2	0.8	0.5
Book Value	14.7	16.4	17.1	18.8	19.5
Returns (%)					
ROCE	2.5%	3.5%	4.6%	5.9%	5.0%
Angel ROIC (Pre-tax)	4.1%	6.4%	8.5%	8.5%	7.7%
ROE	11.0%	12.5%	12.5%	14.5%	12.5%
Turnover ratios (x)					
Inventory / Sales (days)	1,342	1,192	47	0.1	0.3
Receivables (days)	21.7	38.7	17.2	44.9	59.3
Payables (days)	5.2	7.3	6.8	3.3	7.5
Working capital cycle (ex-cash) (days)	1,358	1,223	58	42	52

Source: RHP, Angel Research

Note *Annualized number

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2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No