

Incorporated in 2003, Rail Vikas Nigam (RVNL) is a project executing agency working for and on behalf of the Ministry of Railways (MoR). The company executes all types of railway projects including new lines, doubling, gauge conversion, railway electrification, metro projects, major bridges, construction of cable stayed bridges, institution buildings, etc. The company's project scope involves full cycle of project development i.e. from conceptualisation to commissioning including design, preparation of estimates, calling and awarding contracts, project & contract management etc. As on December 2018, RVNL has an order book of ₹ 77,504 crore.

Investment Rationale

Strong executable order book provides medium term visibility

RVNL currently has an order backlog of ₹ 77,500 crore. The management says ~₹ 30,000 crore worth orders are long gestation projects with execution timeline at five to seven years. Orders of ~₹ 45,000 crore are related to doubling, new lines, etc, where execution timelines are two to three years. These provide near-medium term revenue visibility for RVNL (refer Exhibit 3).

Expertise in project development & execution

RVNL works on a turnkey basis, upon establishing themselves in execution of conventional type of projects. The company has diversified and are executing various types of projects including construction of new railway lines in hilly regions, metro lines, workshops and institutional buildings, etc. The company has contributed >33% of the doubling projects and >21% of electrification projects of the total reported by Indian Railways in FY13-17.

Large ongoing & upcoming investment opportunity in Railways

There have been consistent efforts to improve/upgrade rail infrastructure of both passenger and freight services. Indian Railways has planned an aggressive five year plan to spend on infrastructure to be competitive enough to be a preferred mode of transportation. These spends provide many investment opportunities over the near to medium term for companies like RVNL (refer Exhibit 7).

Key risks and concerns

- Sole dependence on MoR for sourcing projects
- Quantum of future profitability subject to Ministry of Railways
- Power to sanction detailed estimates of works assigned by MoR
- Further delay in major long gestation projects

Priced attractively in comparison to listed peers...

At the IPO price band of ₹ 17-19, the stock is available at a price to earnings multiple of 7x while comparable peers are trading at an average multiple of 6.6-12.7x. The company has a robust balance sheet and is available at an attractive dividend yield of ~4%. Backed by a solid order backlog and strong execution capabilities, we recommend **SUBSCRIBE** to the issue at the offer price.

Key financial summary

(₹ crore)	FY15	FY16	FY17	FY18
Net Revenues	3,146.5	4,539.9	5,915.1	7,597.4
EBITDA	145.6	217.4	281.8	388.8
EBITDA margins	4.6	4.8	4.8	5.1
PAT	336.8	429.4	443.5	569.9
EPS	1.62	2.06	2.13	2.73



Particulars

Issue Details

Issue Opens	29-Mar-19
Issue Closes	3-Apr-19
Issue Size (₹ crore)	431 - 482
Price Band (₹ per share)	17 - 19
No. of Shares on Offer (crore)	25.3
Retail discount (₹ per share)	0.5
QIB (%)	50.0
Non-Institutional (%)	15.0
Retail (%)	35.0
Minimum lot size (No of share)	780.0

Shareholding Pattern

	Pre-Offer	Post-Offer
Promoters & Group	100.0	87.8
Others	0.0	12.2

Peer valuation comparison

(x)	RVNL	IRCON	RITES
P/E	7.0	6.6	12.7
P/B	1.0	0.9	2.2
P/S	0.5	1.0	2.8

*TTM values for IRCON, RITES; FY18 for RVNL

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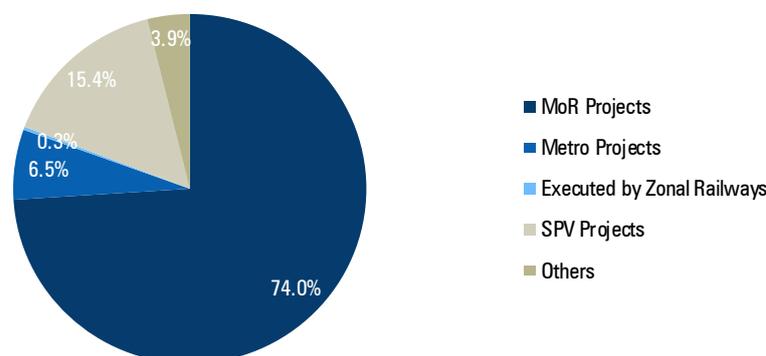
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Company Background

Incorporated in 2003, RVNL is a project executing agency working for and behalf on Ministry of Railways. The company executes all types of railway projects including new lines, doubling, gauge conversion, railway electrification, metro projects, major bridges, institution buildings, etc. The company's project scope involves full cycle of project development i.e. from conceptualisation to commissioning. It gets into a contract for execution and also assigns PMC firm for supervision of execution.

Indian Railways is divided into 17 zones. Each zone has its departmental unit that carries out works assigned by Indian Railways. However, bigger and complex works are assigned to likes of RVNL, IRCON, RITES, Konkan Railway, etc. MoR assigns projects to RVNL. It does not bid for projects unlike its other rail CPSEs IRCON and RITES, where they bid for contracts under Ministry of Shipping, Roads, etc. In addition, they are also assigned work by MoR. RVNL also has the power to sanction their own detailed cost estimates of the projects with scope for 100% price escalation clause and up to 20% of any other costs incurred in the scope of project.

Exhibit 1: Revenue break-up for FY18



Source: Company, ICICI Direct Research

RVNL derives a consolidated management fee of 8.5% for conventional projects and 9.25% for metro projects. The company's strategy is to explore select high value contracts rather than looking to execute a bunch of smaller ones. This helps to bring in large, experienced and renowned EPC contract players who have requisite expertise in execution.

The company has six special purpose vehicles (SPV) operating in a joint venture between public and private players. Kutch Railway Company and Bharuch Dahej Railway Company are fully operational while three others are in different stages of completion, with an expected timeline of FY21E. However, one SPV (Dighi Roha Rail Company) has not taken off.

Exhibit 2: Revenue break-up by segment

Revenue break up by segment (₹ crore)	FY16	FY17	FY18
New Line	649	1,039	1,984
Doubling	2,742	2,752	3,392
Gauge Conversion	212	585	488
Railway Electrification	179	385	748
Metropolitan Transport Projects	543	706	639
Workshops (in numbers)	162	341	172
Others (bridge construction etc.) (in numbers)	52	108	134
Total	4,540	5,915	7,557

Source: Company, ICICI Direct Research

Investment Rationale

Large ongoing & upcoming investment opportunity in Railways

There has been a consistent effort to improve/upgrade the rail infrastructure of both passenger and freight services. Indian Railways has chalked out an aggressive five year plan to spend on infrastructure to be sufficiently competitive to be a preferred mode of transportation. These spends provide many investment opportunities over the near to medium term for companies like RVNL.

Exhibit 3: Indian Railways investment plan - FY16-20

Key segments	₹ crore
Network Decongestion (DC+electrification, Doubling+electrification & traffic facilities)	199,320.0
Network Expansion	193,000.0
National Projects (North Eastern & Kashmir connectivity projects)	39,000.0
Safety (Track renewal, bridge works, ROB, RUB and S&T)	127,000.0
Information Technology/Research	5,000.0
Rolling Stock (locomotives, coaches, wagons)	102,000.0
Passenger Amenities	12,500.0
High Speed Rail and Elevated corridor	65,000.0
Station redevelopment + logistic parks	100,000.0
Others	13,200.0
Total	856,020.0

Source: Company, ICICI Direct Research

Strong executable order book provides medium-term visibility

The company currently has an order backlog of ₹ 77,500 crore. As per the management, ~₹ 30,000 crore worth orders are long gestation projects with an execution timeline at five to seven years. Orders worth ~₹ 45,000 crore are for doubling, new lines, etc., where estimated execution timelines are two to three years. These provide near to medium term revenue visibility for RVNL.

Exhibit 4: Order book backlog – break-up

Key Segmental order book	Length in route kilometres	Order book value (₹ crore)
New Line	977	30,764
Doubling	3,653	27,721
Gauge Conversion	344	1,189
Railway Electrification	3,813	3,992
Metropolitan Transport Projects	157	9,594
Workshops	16	2,618
Others	15	1,627
	8,944	77,504

Source: Company, ICICI Direct Research

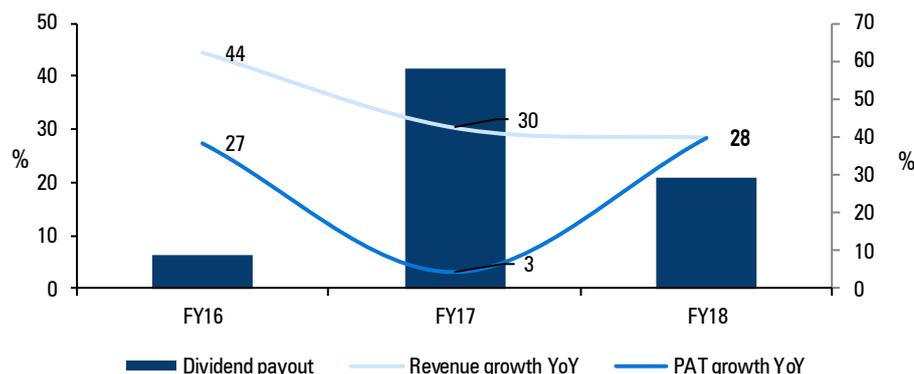
Works related to execution of new lines, doubling and electrification are to be acted on a priority basis by the Ministry of Railways. RVNL is poised to benefit from its large existing order backlog.

Solid earnings power, balance sheet & healthy dividend payout

RVNL has a consistent track record of solid financial performance indicating superior execution skills. Over FY15-18, the company has grown its topline from ₹ 3,146.5 crore in FY15 to ₹ 7597.4 crore in FY18 translating to 34.2% CAGR. Profitability though has grown at robust pace of 19.2% CAGR during the same period i.e. from ₹ 336.8 crore to ₹ 569.9 crore in FY18. Debt servicing of RVNL is being carried out by MoR with cash balances to the tune

of ~₹ 1,300 crore in H1FY19 indicating solid balance sheet strength. In addition, the company has also maintained a healthy dividend payout of 30% in FY18 translating to a yield of ~4%.

Exhibit 5: Financial snapshot



Source: Company, ICICI Direct Research

Expertise in project development & execution from conceptualisation to commissioning

RVNL works on a turnkey basis and undertakes roles from concept to commissioning including stages of design, preparation of estimates, calling and award of contracts, project and contract management, etc. The company has contributed to more than 33% of doubling projects and more than 21% of electrification projects of the total reported by Indian Railways for the last five years (FY13-17). Further, upon establishing themselves in the areas of execution of conventional type of projects, the company has diversified and are executing various types of projects including construction of new railway lines in hilly regions, metro lines, workshops and institutional buildings, etc. The company has an experienced management and execution team enabling them to contribute significantly in increasing their project execution capabilities.

Exhibit 6: Doubling completed

Year	Total for Indian Railways (km)	Contribution by RVNL (kms)	% contribution by RVNL
2012-13	705	273	38.7
2013-14	708	241	34.0
2014-15	705	260	36.9
2015-16	972	242	24.9
2016-17	881	310	35.2
Total	3,971	1326	33.4

Source: Company, ICICI Direct Research, CARE

Exhibit 7: Railway electrification

Year	Total for Indian Railways (km)	Contribution by RVNL (kms)	% contribution by RVNL
2012-13	1,317	301	22.9
2013-14	1,350	240	17.8
2014-15	1,375	264	19.2
2015-16	1,502	335	22.3
2016-17	1,646	380	23.1
Total	7,190	1520	21.1

Source: Company, ICICI Direct Research, CARE

Operates on asset light model

RVNL has leveraged its expertise in diverse segments of railway infrastructure like doubling, railway electrification, gauge conversion, new line, metro rail projects and workshops/maintenance facilities for railway sector. The company works on an asset light model. For every project assigned to RVNL by MoR, the company enters into various contracts for the execution and supervision. RVNL's contractors provide for the machinery, plants and stores for execution of works. The company also relies on the MoR for deputation of manpower to perform supervisory tasks, etc.

Objects of issue

The offer comprises an offer for sale by promoter (President of India) up to 25.34 crore shares including 0.06 crore equity shares reserved for eligible employees. The object of the offer is to carry out the disinvestment of 25.34 crore shares held by the selling shareholder in the company equivalent to 12.16% of the company's paid-up capital. In addition, the company also seeks to achieve the benefits of listing on the stock exchanges.

Key risks and concerns

Sole dependence on MoR for sourcing projects

RVNL primarily operates as a project executing agency, working for and on behalf of MoR that assigns projects to the company. Recently, works have been assigned to other CPSEs like IRCON, RITES, etc. In November 2018, MoR directed the Railway Board to reconsider the practice of giving railway works on a nomination basis and consider giving projects/works to CPSEs through limited competitive tenders. In the event of MoR deciding to go for competitive bidding for giving projects to CPSEs, RVNL's business operations are expected to be impacted.

Quantum of future profitability subject to Ministry of Railways

RVNL earns a management fee on the project executed by them. These fees are decided by the MoR. The last revision in management fees for conventional projects was from 5% to 8.5% in 2012. However, future downward revisions, if any, cannot be ruled out either and pose a risk to the profitability of company.

Power to sanction detailed estimates of works assigned by MoR

RVNL is currently authorised to sanction detailed estimates of the works assigned by the MoR, including 100% cost on account of price escalation and up to 20% cost on account of reasons other than price escalation on the original sanctioned cost of the projects. However, the MoR in November 2018 review meeting has observed that only zonal railways/railway board shall have the power to revise the estimated cost of a particular project. Thus, there is a likelihood that RVNL's ability to sanction estimates may be withdrawn. Consequently, sanctioning of detailed estimates with costs more than advised project costs by Railway Board are expected to require approval of Railway Board/zonal railways. This may cause delays in sanctioning, thereby delay in execution of the project or chances of not getting approved. This factor could adversely affect the ability to complete projects timely, impacting business.

Further delay in major long gestation projects

The company has two projects viz. Rishikesh Karnprayag new line project and Bhanupalli- Bilaspur Beri new line project worth ₹ 15,001 crore and ₹ 6413 crore, respectively, and constitute 27.6% of the order book. Any delay on account of land acquisition, forest & environmental clearance issues, etc, or delay in adequate financing of these projects by MoR, could adversely affect RVNL. In addition, four metro projects currently ongoing in Kolkata are also facing delays, timely resolution. Execution of these works remain critical to the performance of RVNL.

Financial Summary

Exhibit 8: Profit and loss statement

(₹ Crore)	FY15	FY16	FY17	FY18
Net Revenue	3,146.5	4,539.9	5,915.1	7,597.4
Operational expense	2,895.7	4,188.9	5,467.8	7,024.0
Employee expense	77.1	96.7	117.0	134.0
Other expense	28.1	36.9	48.5	50.6
Total Operating Expense	3,000.9	4,322.5	5,633.3	7,208.6
EBITDA	145.6	217.4	281.8	388.8
Operating margin	4.6	4.8	4.8	5.1
Other Income	123.2	180.4	247.8	224.9
Interest	15.3	23.1	35.5	44.7
Depreciation	5.1	4.7	5.0	4.8
Share in Profit/(loss) in JV's	128.1	128.9	54.2	99.8
PBT	376.6	499.0	543.3	664.0
Tax	39.7	69.5	99.8	94.1
Profit after tax	336.8	429.4	443.5	569.9

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet

(₹ Crore)	FY15	FY16	FY17	FY18
Equity capital	2,085.0	2,085.0	2,085.0	2,085.0
Other equity	975.5	1,337.4	1,471.9	1,840.2
Networth	3,060.5	3,422.4	3,556.9	3,925.2
Total debt	2,514.0	2,624.1	2,436.9	2,259.1
Other long term liability	0.0	0.0	0.0	414.9
Provisions	5.1	7.5	8.9	9.2
Total Liabilities	5,579.6	6,054.0	6,002.6	6,608.5
Fixed Assets	5.8	5.9	7.6	248.9
Capital Work in progress	1.7	5.6	12.7	21.1
Investment in Joint Ventures	895.7	1,013.9	1,078.5	1,222.2
Other non-current assets	993.0	1,187.3	1,859.8	2,264.5
Current assets				
Trade receivable	186.9	480.8	279.0	935.3
Cash and equivalent	1,293.1	3,032.6	2,704.6	1,402.9
other current assets	12,759.2	16,489.6	2,917.4	2,473.7
Total current asset	14,239.2	20,003.0	5,901.0	4,811.9
Current Liabilities				
Trade payable	45.0	90.5	109.9	68.4
other current liabilities	10,510.8	16,071.2	2,747.0	1,891.6
Total current liabilities	10,555.8	16,161.7	2,856.9	1,960.1
Net current assets	3,683.4	3,841.3	3,044.0	2,851.8
Total assets	5,579.6	6,054.0	6,002.6	6,608.5

Source: Company, ICICI Direct Research

Exhibit 10: Ratios

(Year-end March)	FY15	FY16	FY17	FY18
Per Share Data				
EPS (₹)	1.6	2.1	2.1	2.7
Cash & equivalent per share (₹)	6.2	14.5	13.0	6.7
BV per share (₹)	14.7	16.4	17.1	18.8
Dividend per share (₹)	0.2	0.2	1.2	0.8
Dividend payout ratio (%)	9.4	8.7	58.0	29.3
Operating Ratios				
EBITDA Margin	4.6	4.8	4.8	5.1
PAT Margin	10.7	9.5	7.5	7.5
Return Ratios				
RoE	11.0	12.5	12.5	14.5
Valuation Ratios				
P/E	11.8	9.2	8.9	7.0
Market cap / Sales	1.3	0.9	0.7	0.5
Price to Book Value	1.3	1.2	1.1	1.0
Turnover Ratios				
Debtors Turnover Ratio	16.8	9.4	21.2	8.1
Creditors Turnover Ratio	69.9	50.2	53.8	111.0
Solvency Ratios				
Debt / Equity	0.8	0.8	0.7	0.6
Current Ratio	1.3	1.2	2.1	2.5

Source: Company, ICICI Direct Research

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