

Rail Vikas Nigam Limited
IPO Note
(SUBSCRIBE)

Analyst:

Brijesh Bhatia

Rohit Rai

Menil Savla

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IPO details

Key Data	
Issue Opens	29-Mar-19
Issue Closes	3-Apr-19
Equity Shares Offered (in mn.)	253.46
QIB	Up to 50%
NIB	Min 15%
Retail	Min 35%
Face Value (₹)	10
Price Band (₹)	17-19
Max. Issue Size (₹ mn)	4,816
Lot Size (Eq. Shares)	780 and multiple thereof

Valuation	@ 17 per share	@ 19 per share
Market Cap (₹ mn)	35,445	39,615
Net Debt (₹ mn)	19,410	19,410
Enterprise Value (₹ mn)	54,856	59,026
EV/ Sales	0.7	0.8
EV/ EBIDTA	4.8	4.8
P/B	0.9	1.0
P/E	6.2	7.0

Source: Red Herring Prospectus, Destimoney Research

	Pre Issue		Post Issue [^]	
	# mn Shares	% Holding	# mn Shares	% Holding
Promoters	2,085.0	100.0%	1,831.6	87.8%
Public	0.0	0.0%	0.0	0.0%
Offer for sale			253.5	12.2%
Fresh Issue			0.0	0.0%
Total	2,085.0	100.00%	2,085.0	100.0%

Object of Offer for sale

- To achieve benefits of listing
- To carrying out disinvestment
- General corporate purposes

Recommendation

RVNL has an huge order book of Rs.775,042 millions which will provide Traction for further revenue growth for some years and also government projects on expenditure in infrastructure development will further provide inflows of further orders. At the IPO upper price band of ₹ 19, the stock is available at 7x FY18 EPS. Thus based on the business capabilities, industry growth prospects and fair valuations, we believe RVNL is attractively priced and recommend **subscribing** to the issue for long term.

Laying foundation for new India

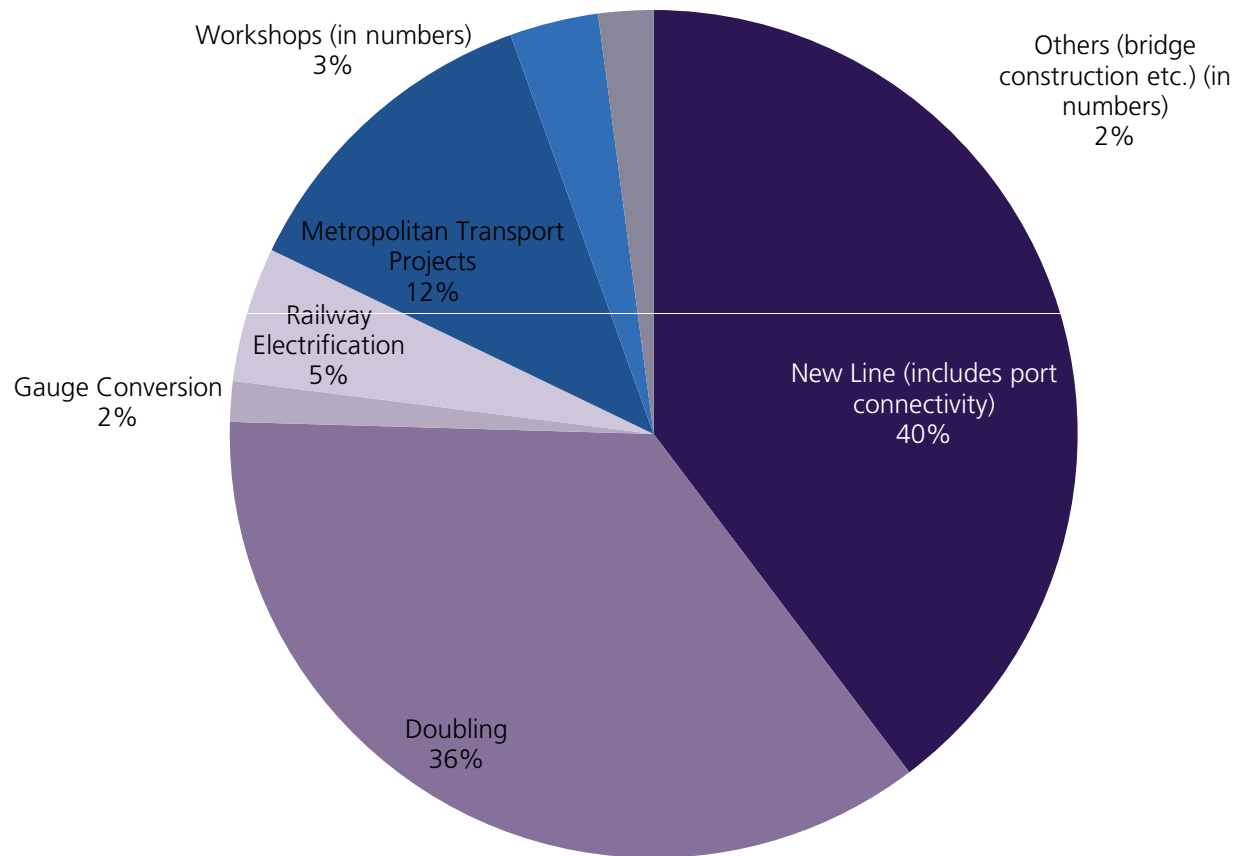
- ❑ Rail Vikas Nigam Ltd.(RVNL) a wholly owned government company, a Miniratna (Category – I) Schedule 'A' Central Public Sector Enterprise. It undertakes rail project development, mobilization of financial resources and implementation of rail projects pertaining to strengthening of golden quadrilateral and port connectivity and raising of extra- budgetary resources for project execution. However, in 2004, the MoR decided that company should restrict itself to project execution. The role of the Company for mobilization of finances is restricted to forming of project specific SPVs with private participation.
- ❑ Its business includes 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.
- ❑ Since inception in 2003, MoR has transferred 179 projects to RVNL of which 174 projects are sanctioned for execution. Out of these, 72 projects have been fully completed totalling to ₹205,672.80 million and the balance are ongoing. It has a order book of ₹775,042.80 million as on December 31, 2018 which includes 102 ongoing projects.
- ❑ During the financial year ending March 31, 2018, it has completed a total of 885.50 rkm of project length which included 315.20 rkm of doubling and 425 rkm of railway electrification.
- ❑ The projects undertaken by RVNL are spread all over the country and for efficient implementation of projects, 43 project implementation units (PIUs) as on December 31, 2018 have been established at different locations to execute projects in their geographical hinterland.
- ❑ Its major client is the Indian Railways. Other clients include various central and state government ministries, departments, and public sector undertakings.

Source: Red Herring Prospectus, Destimoney research

Revenue from the different activities

	For the six month period ended September 30, 2018	Financial Year ended March 31, 2018	Financial Year ended March 31, 2017	Financial Year ended March 31, 2016
New Line	9,261	19,844	10,390	6,489
Doubling	17,990	33,919	27,517	27,422
Gauge Conversion	2,302	4,883	5,847	2,124
Railway Electrification	3,523	7,475	3,846	1,787
Metropolitan Transport Projects (including metros)	1,790	6,387	7,055	5,433
Workshops	1,035	1,720	3,411	1,625
Others (bridge construction etc.) (in numbers)	328	1,336	1,084	518
TOTAL	36,229	75,566	59,151	45,399

Order book as on December 31, 2018



Strengths

- ❑ **Expertise in undertaking all stages of project development and execution from conceptualisation to commissioning:** Work on a turnkey basis and undertake the full cycle of project development from concept to commissioning including stages of design, preparation of estimates, calling and award of contracts, project and contract management etc. It has the expertise in undertaking all nature of railway infrastructure projects. This has also helped build its expertise in executing projects across a wide range of activities. It had contributed to more than 33% of the doubling projects and more than 21% of electrification projects of the total reported by Indian Railways for the last five years (FY13 to FY17).
- ❑ **Established financial track record:** Established a consistent track record of financial performance and growth. Revenue from operations on consolidated basis for the FY2016, FY2017 and FY2018 and the six month period ended September 30, 2018 aggregated to ₹45,398.54 million, ₹59,151.06 million, ₹75,973.58 million and ₹36,228.82 million, respectively. Net profit was ₹4,290.20 million, ₹4,430.91 million, ₹5,693.60 million and ₹2,536.35 million, respectively, for the same periods. Revenue from operations has increased at a CAGR of 29.36% from ₹45,398.54 million in the Financial Year 2016 to ₹75,973.58 million in the Financial Year 2018, and net profit has increased at a CAGR of 15.20% from ₹4,294.34 million in Financial Year 2016 to ₹5,699.20 million in the Financial Year 2018. As on December 31, 2018, its total order book value was ₹775,042.80 million.
- ❑ **Undertaken diverse categories of projects with an asset light model:** It has over the years, leveraged our expertise in diverse segments of the railway infrastructure such as doubling, railway electrification, gauge conversion, new line, metro rail projects, workshops/maintenance facilities for railway sector. Each of these segments / sub-segments require specific skill sets and experience which have been developed by our Company for the timely execution of the projects in these sectors.
- ❑ **Empowerment by MoR for sanctioning project estimates and award of contracts:** It has been authorised by MoR to sanction detailed estimates within prescribed limits and award contracts of any value to its contractors for implementation of its projects. This provides an advantage over its competitors in railway sector. This enables it to expedite its delivery timelines and reduce project delays resulting in controlling cost and time overruns.

Source: Red Herring Prospectus, Destimoney research

Future road ahead

- ❑ **To leverage its position as an executing agency in MoR's investment plan for ramping of rail infrastructure:** Since RVNL is an executing agency of the MoR for various infrastructure projects, it plans to leverage its existing knowledge and experience in execution of projects for assignment of further projects from the Indian Railways. For 2018-19, the total capital and development expenditure of railways has been pegged at ₹148,528 crore. Further, 100% FDI has been approved by Government for the activity of Indian Railways – construction, operation & maintenance of the entire railway segment.
- ❑ **Securing of rail infrastructure projects from other ministries/ PSUs:** Since RVL has gained expertise in execution of projects, on account of being executing agency for the MoR, it propose to utilise this experience to obtain orders from other ministries/government departments/PSUs for example strategic lines in border areas and sidings for military use, providing linkages to collieries and other mines etc.
- ❑ **Focus on high value projects:** It has recently been assigned the hill projects in the difficult terrains of the Himalayas for the construction of the new lines between Rishikesh-Karnprayag in Utrakhand and Bhanupalli – Bilaspur - Beri in Himachal Pradesh. The new line till Beri is likely to be extended upto Ladakh on strategic consideration, which may be considered for transfer to RVNL for execution on concurrent basis. Hence, in the coming years, it intends to increase our focus on projects with high value, especially in hilly terrains.
- ❑ **Implementation of railway workshops and factory projects:** Indian Railways has seven production units to manufacture locomotives, coaches and wheels and about 50 workshops to undertake periodic overhaul or midlife rehabilitation of rolling stock. Besides, there are a number of loco sheds and carriage and wagon depots for day-to-day maintenance. It has successfully completed seven projects related to construction of workshops including augmentation of production capacity at diesel locomotive works, Varanasi. At present, five further projects for sheds at Latur (Maharashtra), Kanpur (UP), Gaya (Bihar), Sonipat (Haryana) and Vishakhapatnam (Andhra Pradesh) are under execution. An increase in the Indian Railways' policies and budgetary allocation to expand and upgrade the workshops and maintenance depot will provide an opportunity to implement more such projects in the near future.

Source: Red Herring Prospectus, Destimoney research

Consolidated Summary Financials

Income Statement

₹ mn	Mar-15	Mar-16	Mar-17	Mar-18	Sep-18
Total Income	31,465	45,399	59,151	75,974	36,229
Operating Expense	30,009	43,225	56,333	72,086	34,614
EBIDTA	1,456	2,174	2,818	3,888	1,615
Depreciation	51	47	50	48	27
Other Income	1,232	1,804	2,478	2,249	1,475
Finance Costs	153	231	355	447	206
PBT & (EI)	2,484	3,700	4,891	5,642	2,858
Exp Income	1,281	1,289	542	998	244
PBT	3,766	4,990	5,433	6,640	3,101
Tax	397	695	998	941	565
PAT	3,368	4,294	4,435	5,699	2,536
Net Profit	3,368	4,294	4,435	5,699	2,536

Balance Sheet

₹ mn	Mar-15	Mar-16	Mar-17	Mar-18	Sep-18
Liabilities					
Share capital	20,850	20,850	20,850	20,850	20,850
Reserves and surplus	9,755	13,374	14,719	18,402	19,771
Other Financial Liabilities	-	-	-	3,748	3,225
Long-Term Borrowings	25,140	26,241	24,369	22,591	19,633
Other Long Term Liabilities	450	905	1,099	401	285
Long term provisions	51	75	89	92	82
Trade payables	6,657	7,662	9,122	684	1,489
Other Financial Liabilities	98,227	152,804	17,939	8,913	9,616
Other current liabilities	147	230	409	9,424	11,725
Short term provisions	77	16	-	451	613
Current Tax liability (Net)	-	-	-	129	35
Total Liabilities	161,354	222,157	88,596	85,685	87,324

Balance Sheet

Assets	Mar-15	Mar-16	Mar-17	Mar-18	Sep-18
Net Block	58	60	76	2,488	2,489
Intangible assets	0	0	0	1	1
Intangible assets under development	17	56	127	211	273
Investments in Joint ventures	8,957	10,139	10,785	12,222	12,466
Non Current Investments	-	100	100	100	100
Lease Receivables	4,985	6,368	11,468	17,195	14,799
Loans	34	49	66	65	69
Others	4,611	4,972	4,914	4,626	3,895
Deferred tax assets (Net)	292	375	410	656	676
Other non-current assets	8	9	1,641	3	2
Project-Work-in-Progress	115,647	148,241	7,663	19	62
Trade Receivables	1,869	4,808	2,790	9,353	11,767
Lease Receivables	752	1,090	2,004	2,413	2,627
Cash and cash equivalents	8,081	13,776	12,546	3,429	508
Bank Balances other than above	4,850	16,550	14,500	10,600	12,213
Loans	14	11	11	74	76
Others	2,190	2,212	4,412	4,521	3,251
Current Tax Asset (Net)	167	75	105	99	46
Other current assets	8,822	13,269	14,979	17,611	22,007
Total Assets	161,354	222,157	88,596	85,685	87,324

Source: Red Herring Prospectus, Destimoney research

Key Risks

- ❑ RVNL majorly depends on the MoR for sourcing of its projects. Recently, there have been reconsiderations by the MoR regarding the modalities of its project assignments. There can be no assurance that future projects will be granted to it, which may result in an adverse effect on business growth, financial condition and results of operations.
- ❑ RVNL completely depend on the project sponsoring authorities like MoR and state governments etc. for financing of its projects.
- ❑ RVNL largely depend on MoR for funds and manpower supply which may lead to a delay in execution of projects and limit the number of projects undertaken by it.
- ❑ Two of its projects viz. the hill railway projects of Rishikesh Karnprayag new line project and Bhanupalli- Bilaspur Beri new line project constitute a substantial portion of its order book. Any delay of these projects or delay in timely and adequate financing of these projects by MoR, may adversely affect business, financial condition and results of operations.

Source: Red Herring Prospectus, Destimoney research

Dealmoney Securities Private Limited

Plot No. A356/357, Road No.26,Wagle Industrial Estate, Thane (West), Maharashtra - 400 604.

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