

Promising 5 Investment Ideas for next 5 Years – 2019 to 2024

We tried to find out investment ideas which will do well for next 5 years, irrespective of whether a stable/unstable government takes charge at centre (Lok Sabha 2019). Now, with exit polls out, incumbent Government is likely to continue at Centre ensuring continuity of structural reforms & policies. While identifying investment picks, we followed under mentioned rationale:

- ✓ Emphasis was on steady businesses;
- ✓ Top & bottom line compounding in excess of 10% for last 5 years;
- ✓ Healthy return ratios (ROE 10% plus), low or negligible debt, insignificant promoters pledge;
- ✓ Valuation comfort with respect to fair value;
- ✓ We picked up 5 companies from different businesses which fits the bill of reforms/policies favouring doubling of farmers income, developing infrastructure, railways & roads, health care, education, defence, DBT, up trending pay checks of government employees to name a few.

Read on for details

HAPPY INVESTING!!

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RESEARCH

FIEM INDUSTRIES

CMP 436 Target 581

STOCK INFO

BSE	532768
NSE	FIEMIND
Shares O/S	1,31,59,830
FV	10
Mcap (Cr\$)	581
52wk High/Low	943/423

SHAREHOLDING PATTERN (%)

Promoters	64.32
Public	35.68

(As on March, 2019)

STOCK PERFORMANCE (%)

	3M	6M	12M
FIEM	(5.25)	(30.47)	(50.12)
NIFTY	6.26	7.05	7.65

Source : Company filings / IndiaNivesh Research

Investment Rational

- ✓ **Select auto ancillary company's looks attractive** given the steep correction in stock price and robust business model they operate on.
- ✓ **Fiem stands out** in the space being leading manufacturer of automotive lamps, mirrors, led bulbs among other useful plastic parts.
- ✓ It primarily caters to **two wheeler segment** which usually is **lead indicator of demand driven economic recovery**. Good Monsoon will ensure strengthen existing steady pick up in rural & semi-urban economy which will be a boon for entry level two wheeler segment.
- ✓ The **company's business is B2B** having healthy cash flows and steady margins. It has able to hold on to operating margins at around 11% and sub 1 current ratio for past 5 years.
- ✓ **Healthy balance sheet** having debt/equity at 0.28 which has been consistently sub 0.5 in previous 5 years. Management focus to keep low and favourable current ratio is reflected in prior year's operation. Company's D/E has come down from 1.42x in 2005 to 0.28x presently.
- ✓ Company has delivered **revenue compounding of 15%** and operating profit CAGR of around 11% **for past 5 years**. It's return ratios currently stands at ~ROCE of 17.5% and ~ROE of 11.50%.
- ✓ Fiem's **business is insulated from any change in dynamics of automotive business**. Be it transition to electric or solar powered vehicles from petrol/diesel fuel powered vehicles.

VALUATION : Fiem is presently trading at a PER of 9.79x (ttm basis). At the upper end of valuation multiple it has commanded PER of 30x (ttm). We believe turnaround for two wheeler automotive segment is round the corner. Good/ normal monsoon coupled with prevailing low interest regime is tailor made platform for momentum to pick up. We expect top line to continue growing by 15% for next couple of years with stable margins. **Conservatively, valuing the company at a PER of 10x FY21e, per share target price comes at around Rs. 581 implying an upside of over 40%.** We recommend to accumulate FIEM industries.

Financial Summary

Rs Cr.	FY 17	FY18	FY19	FY20E	FY21E
NET SALES	1131.34	1274.5	1449.02	1,666.37	1,916.33
EBIDTA	117.6	140.73	157.15	183.30	210.80
EBIDTA Margin (%)	10.39%	11.04%	10.85%	11.00%	11.00%
PAT	32.82	52.55	55.64	66.65	76.65
PAT Margin (%)	2.92%	4.12%	3.84%	4.00%	4.00%
EPS (Rs)	24.94	39.93	42.28	50.65	58.25
ROE (%)	8.06%	11.70%	11.66%	12.26%	12.35%
P/E	37.37	21.36	12.04	8.15	7.09
P/BV	2.99	2.50	1.40	1.00	0.88

Source : Company filings / IndiaNivesh Research

Product Offerings

- ❑ FIEM manufacture a wide range of **automotive systems and parts** i.e. automotive lighting systems & signaling equipments, automotive LED lighting systems, rear view mirrors, sheet metal parts and plastic parts for two, three and four wheelers.
- ❑ Company's diversified products portfolio ranges from automotive head lamps, LED head lamps, tail lamps, signaling lamps, LED tail lamps, LED signaling lamps, rear view mirrors, roof lamps, warning triangles, complete rear fender assembly, frame assembly, mudguards and various sheet metal & plastic parts etc. are capable of catering to the needs of almost all segments of automobile industry viz., two wheelers, three wheelers, four wheelers, LCVs, HTVs, tractors and Electrical Vehicles as well.
- ❑ In **LED Luminaries segment**, they have developed more than 100 new generation LED luminaires including LED Bulbs, Tube Lights, Down Lighters, Panel Lights, Street Lights, Bay Lights, Flood Lights etc. catering to all segment of customers like domestic, commercial, industrial institutional and government and both of their indoor and outdoor lighting requirements.
- ❑ In **IPIS (Integrated Passenger Information System)**, they are manufacturing and supplying large number of products to Indian Railways for modernization of Indian Railways, besides that they also supply various LED display systems for Buses to State Road Transports, Schools etc.

Manufacturing Facilities

Unit	Location	State	Established in	Products manufactured
Unit#1	Kundli	Haryana	1994	Automotive Lights and Rear View Mirrors
Unit#2	Hosur	Tamil Nadu	2004	Automotive Lights, Rear View Mirrors and Rear fender assembly
Unit#3	Hosur	Tamil Nadu	2005	Sheet Metal Parts
Unit#4	Mysore	Karnataka	2005	Rear Fender Assembly
Unit#5	Hosur	Tamil Nadu	2006	Automotive Lights and Rear View Mirrors
Unit#6	Nalagarh	Himachal Pradesh	2006	Automotive Lights, Rear View Mirrors and Plastic Parts
Unit#7	Rai	Haryana	2010	Automotive Lights, LED Luminaires & IPIS
Unit#8	Tapukara	Rajasthan	2011	Plastic Injection Moulded Parts and LED Luminaires & IPIS
Unit#9	Ahmedabad	Gujarat	2015	Automotive Lights and Plastic Parts

Clientele



Company Financials

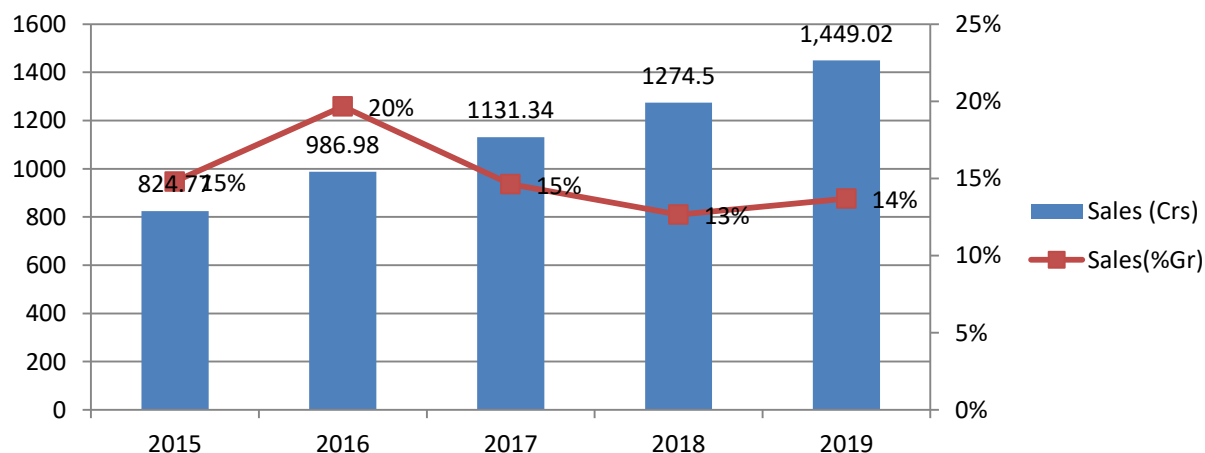
Income Statement			
Particulars (Rs. In Cr.)	FY17	FY18	FY19
Revenue	1131.34	1274.5	1,449.02
EBITDA	117.6	140.73	157.15
EBITDA Margin	10.39%	11.04%	10.85%
PAT	32.82	52.55	55.64
PAT Margin	2.92%	4.12%	3.84%

Source : Company filings / IndiaNivesh Research

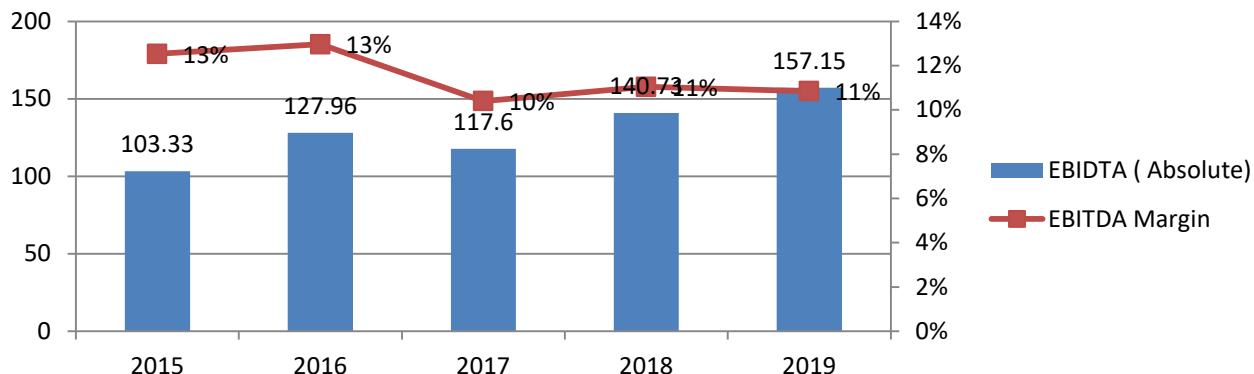
Balance Sheet			
Particulars (Rs in Cr.)	FY17	FY18	FY19
Equity	410	449	477
Non-Current Liab	157	136	152
Total Liab	567	585	629
Non Current Assets	515	586	626
Working Capital	52	0	3
Total Assets	567	585	629

Source : Company filings / IndiaNivesh Research

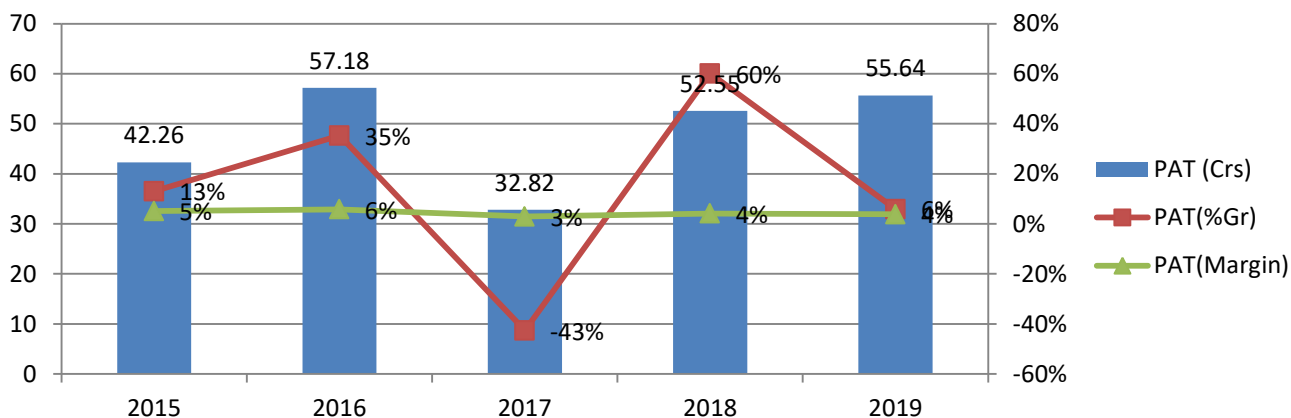
Sales and sales growth



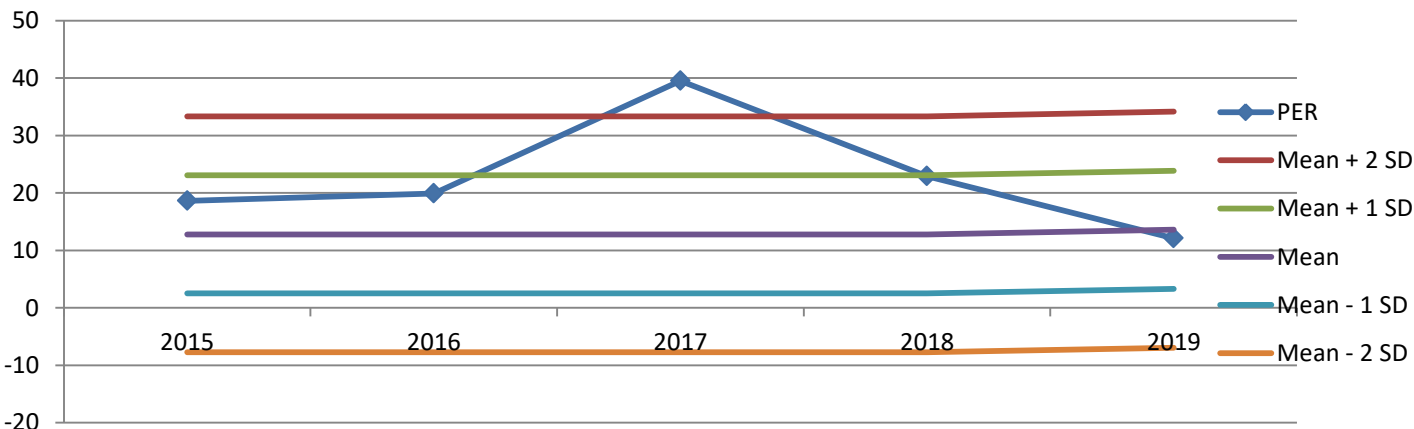
EBITDA and EBITDA margin



PAT and PAT margin



PE Band



About the Company

- ❑ Fiem Industries Limited (FIEM) is one of the **leading manufacturers** of Automotive Lighting, Signaling Equipments, Rear View Mirrors, Sheet Metal and Plastic Parts in India with latest addition as Canister.
- ❑ Leading player in the auto ancilliary sector.
- ❑ **Strong presence in automotive components industry**, company has also diversified into **LED Luminaries** for indoor and outdoor applications and **Integrated Passenger Information System with LED Display (IPIS)**.
- ❑ Company was founded by Mr. J.K. Jain, who is a first-generation entrepreneur .
- ❑ Major business comes from the two-wheeler segment of the automobile industry.

Few of Company's Products



RESEARCH

HERO MOTORCORP LTD.

CMP 2716 Target 3300

STOCK INFO

BSE	500182
NSE	HEROMOTOCO
Shares O/S	19,97,26,884
FV	2
Mcap (Cr\$)	54,465
52wk High/Low	3819.00/2478.00

SHAREHOLDING PATTERN (%)

Promoters	34.63
Public	65.37

(As on March, 2019)

STOCK PERFORMANCE (%)

	3M	6M	12M
Hero	(0.04)	(9.71)	(24.10)
NIFTY	6.26	7.05	7.65

Source : Company filings / IndiaNivesh Research

- ✓ Hero Motocorp is the largest two wheeler maker of our country and has distinctly maintained its leadership position over last several years.
- ✓ It primarily sells Motorcycles in entry level segment. For FY19 it sold around 78 lacs units averaging 6.5 lacs units a month.
- ✓ Adaptability and quickly sensing customer preferences have been instrumental in its holding on to leadership position irrespective of economic cycles. From 33 lacs in FY08 to 78 lacs units by FY19 it has come a long way.
- ✓ Its foray into scooters, overseas market and now the entry into premium segment will help it negotiate the present automobile down cycle.
- ✓ We believe HeroMotocorp will be immediate beneficiary of normal/good monsoons.
- ✓ This fiscal will launch of Xpulse, a premium segment bike will make product offering more inclusive. The company is firmly geared to capture upcycle.
- ✓ Valuations look attractive; stock has corrected almost 30% from peak levels. Historically it trades at a PER of 18x (ttm basis) while it is now available at a PER of 15.16x (ttm). A net debt free company, healthy return ratios and management's guidance of stable margins makes it an attractive investment option.

VALUATION: We believe management conviction of growth picking up from H2FY20 will hold. Lower interest rate scenario and stable input prices augurs well. Entry into premium segment will blended realisation accretive. Conservatively, valuing the company at a PER of 15x FY21e, per share target price comes at Rs.3300, implying an around 25% from current levels. We recommend accumulating HeroMotocorp.

Financial Summary

Rs Cr.	FY 17	FY18	FY19	FY20E	FY21E
NET SALES	28,610	32,458	33,971	37,368	42,973
EBIDTA	4,576	5,325	5,018	5,519	6,347
EBIDTA Margin (%)	15.99%	16.41%	14.77%	14.77%	14.77%
PAT	3,546	3,722	3,466	3,812	4,383
PAT Margin (%)	12.40%	11.47%	10.20%	10.20%	10.20%
EPS (Rs)	178	186	174	191	219
ROE (%)	34.16%	30.85%	26.19%	22.36%	20.45%
P/E	17.20	18.45	14.71	13.74	11.95
P/BV	5.87	5.69	3.85	3.07	2.44

Source : Company filings / IndiaNivesh Research

New Launches

Catapulting into a new era of premium biking the company launched three next-gen motorcycles for its domestic and global markets. The new range of highly anticipated Premium motorcycles includes – the XPulse 200, the XPulse 200T and the Xtreme 200S. Price (ex-showroom, Delhi) of these bikes are as under

Bike	Price
X Pulse 200	97,000
X Pulse 200T	94,000
Xtreme 200S	98,500

Source : Company filings / IndiaNivesh Research

New launch will help HMCL compete with it's peers in the premium segment and will help gain market share. Price and volume details of peers in premium segment are as under.

Company	Bike	Price	Units Sold
Hero MotoCorp	X Pulse	95,000	New Launch
Baja Auto	Avenger	88,000	7,20,000*
Baja Auto	Pulsar	78,000	
Baja Auto	KTM	1,50,000	46,321*
Eicher Motors (FY 18-19)	Royal Enfield	1,50,000	8,26,098

Source : Company filings / IndiaNivesh Research

- Figures mentioned pertains to FY 17-18

Takeaway form ConCall (Q4 FY19)

- ✓ Mid Single digit growth expected for FY20, wherein H1FY20 will remain weak and H2FY20 is expected to grow 8-10% owing to pre buying before BS-VI rollout.
- ✓ Rural demand continue to remain weak due to lower liquidity
- ✓ Current inventory level at 45-60 days
- ✓ Margins are expected to remain at current level
- ✓ India's 2 wheeler penetration is 10.2% which is well below its Asian peers like Malaysia (16.6%), Indonesia (28.1%), Thailand (29.1%).
- ✓ Launch of new premier bikes will enable hero to gain market share in the high end segment.

Company Financials

Income Statement

Particulars (Rs. In Cr.)	FY17	FY18	FY19
Revenue	28,610.43	32,458.37	33,970.82
EBITDA	4,575.97	5,325.05	5,018.43
EBITDA Margin	15.99%	16.41%	14.77%
PAT	3,546.30	3,722.17	3,466.35
PAT Margin	12.40%	11.47%	10.20%

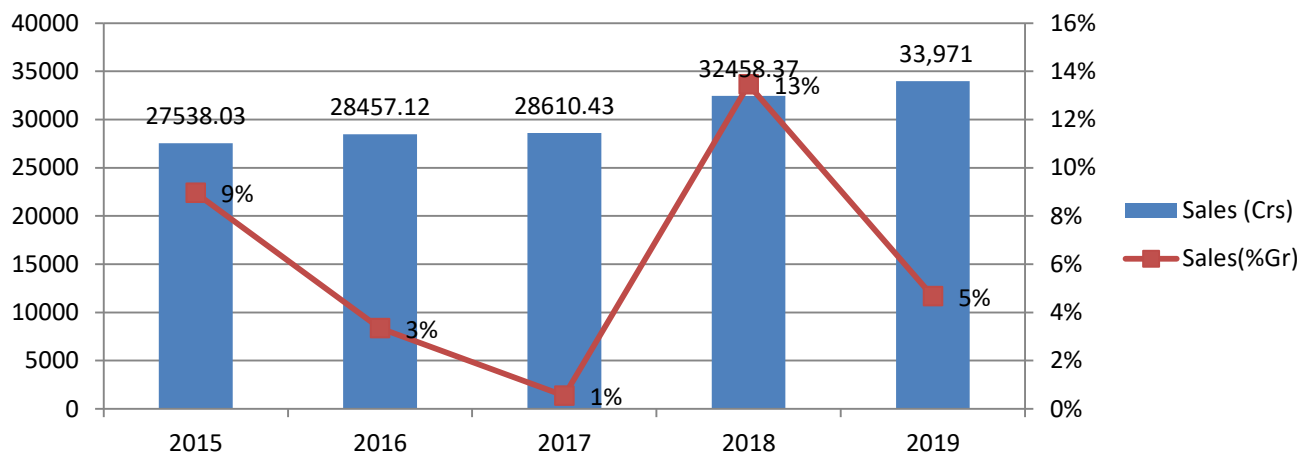
Source : Company filings / IndiaNivesh Research

Balance Sheet

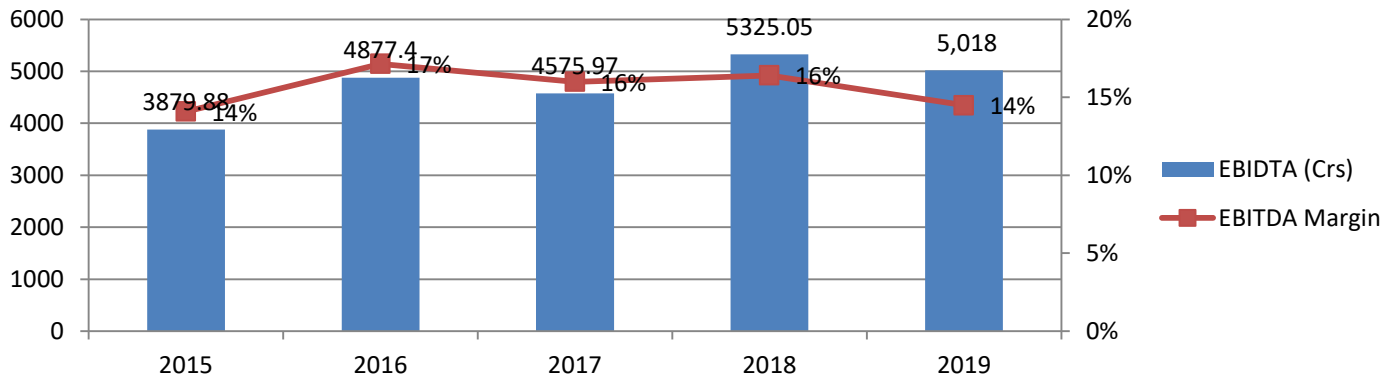
Particulars (Rs in Cr.)	FY17	FY18	FY19
Equity	10,382.89	12,064.67	13,236.52
Non-Current Liab	752.42	850.7	858.66
Total Liab	11,135.31	12,915.37	14,095.18
Non Current Assets	7,741.49	8,394.50	10,091.15
Working Capital	3,393.82	4,520.87	4,004.03
Total Assets	11,135.31	12,915.37	14,095.18

Source : Company filings / IndiaNivesh Research

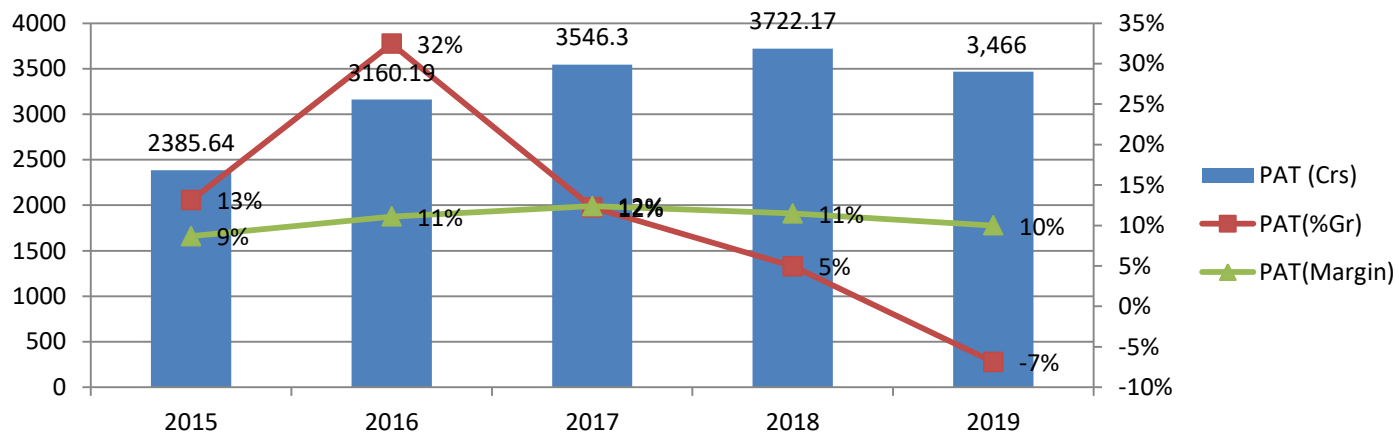
Sales and sales growth



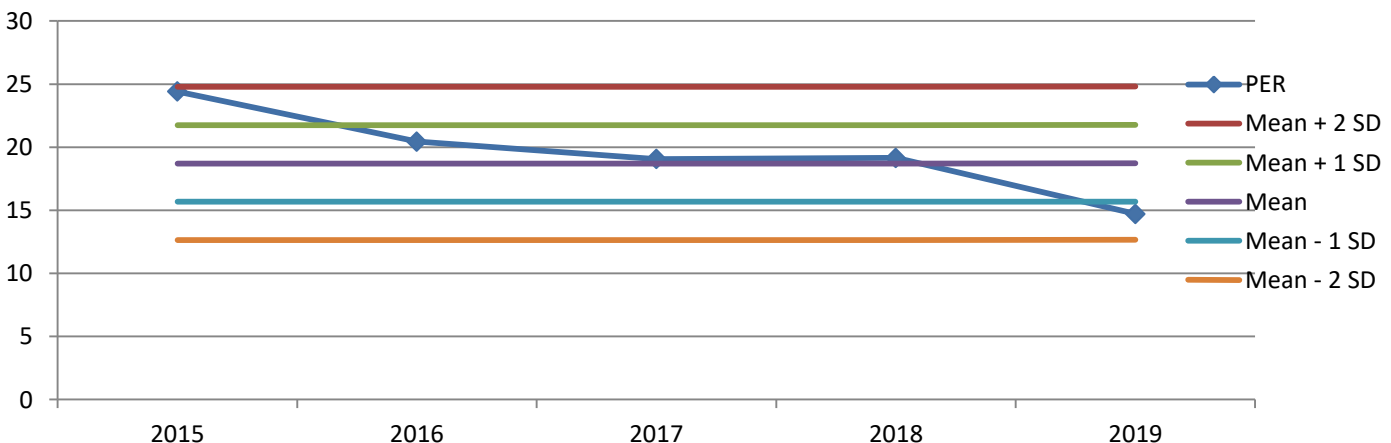
EBITDA and EBITDA margin



PAT and PAT margin



PE Band



About the company

- Hero MotoCorp has been at the forefront of designing and developing technologically advanced motorcycles and scooters for customers around the world. It became the world's largest two-wheeler manufacturer in 2001, in terms of unit volume sales in a calendar year, and has maintained the coveted title for the past 18 consecutive years.

Manufacturing Facilities

- Company has 5 manufacturing facilities in India and two overseas (Colombia and Bangladesh). Company has commenced construction of new manufacturing facility at Chitoor, Once operational, the Chitoor plant will take overall installed capacity to about 11 million units.

LOCATIONS	CAPACITY (Mn Units p.a)
Gurgaon, Haryana	2.1
Dharuhera, Haryana	2.1
Haridwar, Uttarakhand	2.7
Neemrana, Rajasthan	1.1
Vadodara, Gujarat	1.2
Villa Rica, Colombia	0.08
Jessore, Bangladesh	0.12
Total	9.4

- In addition company has a R&D centre at Jaipur with key focus on building premium portfolio, enhance scooter offering, address regulatory changes (viz. BS VI), prepare for EV's.

Source : Company filings / IndiaNivesh Research

RESEARCH

HIKAL LIMITED

CMP 174 Target 222

Investment Rationale

STOCK INFO

BSE	524735
NSE	HIKAL
CMP	174.90
Shares O/S	12,33,00,750
FV	2
Mcap (Cr\$)	2,120
52wk High/Low	207/135.45

SHAREHOLDING PATTERN (%)

Promoters	68.77
Public	31.23

(As on March, 2019)

STOCK PERFORMANCE (%)

	3M	6M	12M
Hikal	14.29	10.53	9.09
NIFTY	6.26	7.05	7.65

- ✓ Hikal is B2B play on Active Pharmaceutical Ingredients (API) and intermediaries for speciality chemicals and crop protection companies.
- ✓ Having over 3 decades of expertise in domain businesses it has carved a niche for itself. Primarily in API and solutions across life sciences value chain.
- ✓ Around 60% of revenue comes from API and 40% through ingredients of crop protection.
- ✓ In the Pharmaceutical space currently, the company has around nine products in the generic portfolio and five to six products in CDMO. In the CDMO business, the company focuses on developing APIs for the commercialised products of innovator companies that are in the late stage of patent expiry.
- ✓ In crop protection segment Hikal partners with crop protection companies for custom synthesis and custom manufacturing of intermediates and active ingredients. It manufactures insecticides, fungicides and herbicides for customers with a major chunk from insecticides.
- ✓ It has delivered revenue CAGR of over 15% in last five years while net profit CAGR of 26% in the same period.
- ✓ We expect continuity of momentum given its industry positioning. Margins have largely been stable with healthy return ratios. The two segments in which company operates are largely insulated from Government policies and vagaries of nature.

Valuation: Historically, the company has commanded higher valuation multiples. Recent price correction is an attractive buying opportunity for investors. We expect it to deliver revenue CAGR of 15% over next couple of years while margins being stable. Valuing the company at a PER of 20x FY21e per share target price comes at around Rs.222. Implying an upside of around 33% from last traded price. We recommend accumulating Hikal.

Financial Summary

Rs Cr.	FY 17	FY18	FY19	FY20E	FY21E
NET SALES	1033.96	1300.09	1,589	1,827.35	2,101.45
EBIDTA	198.36	241.75	297.51	342.08	393.39
EBIDTA Margin (%)	19.18%	18.58%	18.72%	18.72%	18.72%
PAT	67.71	77.22	103.06	119.14	137.01
PAT Margin (%)	6.55%	5.94%	6.48%	6.52%	6.52%
EPS (Rs)	5.49	6.26	8.40	9.66	11.11
ROE (%)	11.19%	11.54%	13.70%	13.61%	13.53%
P/E	25.84	21.88	20.45	17.36	15.09
P/BV	2.89	2.52	2.80	2.36	2.04

Source : Company filings / IndiaNivesh Research

RESEARCH

HIKAL LIMITED

About the Company

- ❑ Hikal offers solutions across the life sciences value chain.
- ❑ It provide world-class active ingredients, intermediates and R&D services to global pharmaceuticals, animal health, biotech, crop protection and specialty chemicals companies.
- ❑ It Amongst the few Global Company to offer customized, cost effective and sustainable solutions from R & D to commercial manufacturing

Pharma Segment

- ❑ Hikal ventured into the Active Pharmaceutical Ingredients (API) business by virtue of acquisition of Novartis' Panoli plant in the year 2000. In a short span of time, banking on its chemistry skills, the company has been able to tap incremental customers via the Contract Development & Custom Manufacturing (CDMO) route. Hikal also operates as a dedicated Active Pharmaceutical Ingredients (API) supplier as it expands its portfolio.
- ❑ Pharma business contributes 60% of revenues -- The pharma business is currently divided almost equally between the generic APIs and CDMO businesses.
- ❑ Currently, the company has around nine products in the generic portfolio and five to six products in CDMO. In the CDMO business, the company focuses on developing APIs for the commercialised products of innovator companies that are in the late stage of patent expiry.

Crop protection Segment

- ❑ Hikal started operations as a crop protection company in 1991 after acquiring Merck's facility in Mahad. Since then, it has come a long way with a predominantly CDMO focused business model catering mainly to global innovators. Over the years, the company has increased its product offerings with a foray into niche products and specialty chemicals.
- ❑ Crop protection (40% of revenues) - Hikal partners with crop protection companies for custom synthesis and custom manufacturing of intermediates and active ingredients. It manufactures insecticides, fungicides and herbicides for customers with a major chunk from insecticides.
- ❑ In CDMO (70% of crop protection business) the company works with global innovators, which involves developing crop protection products from gram to kilo to tonne scale at its kilo lab, pilot plants and commercial plants meeting the stringent regulatory and customer requirement. Majority of the crop protection business is export oriented

Company Financials

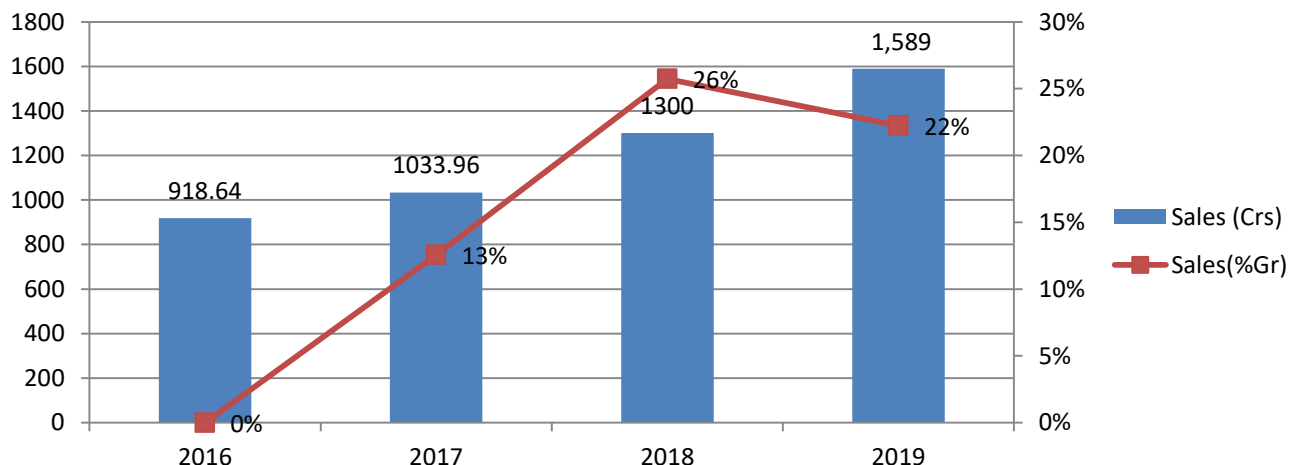
Income Statement			
Particulars (Rs. In Cr.)	FY17	FY18	FY19
Total Income	1033.96	1300	1,589.00
EBITDA	198.36	241.56	297.51
EBITDA Margin	19.18%	18.58%	18.72%
PAT	67.71	77.22	103.06
PAT Margin	6.55%	5.94%	6.52%

Source : Company filings / IndiaNivesh Research

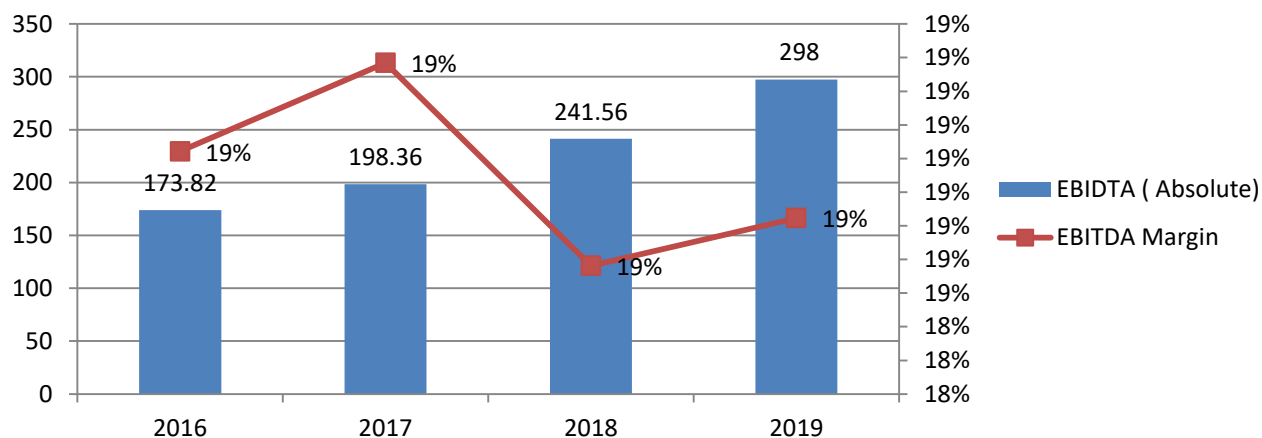
Balance Sheet			
Particulars (Rs in Cr.)	FY17	FY18	FY19
Equity	605	669	756
Non-Current Liab	334	312	327
Total Liab	939	982	1,083
Non Current Assets	803	852	855
Working Capital	137	130	227
Total Assets	939	982	1,083

Source : Company filings / IndiaNivesh Research

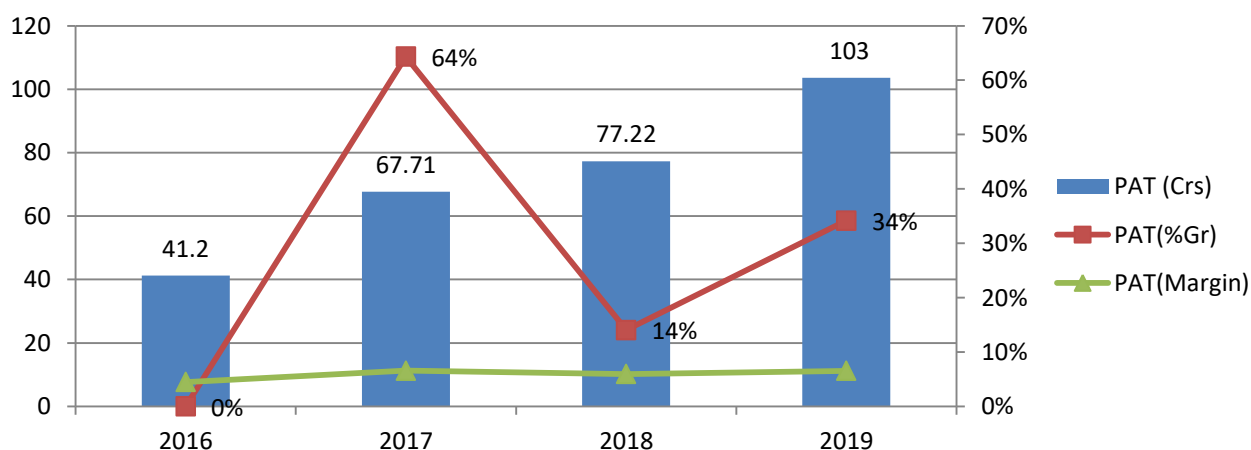
Sales and sales growth



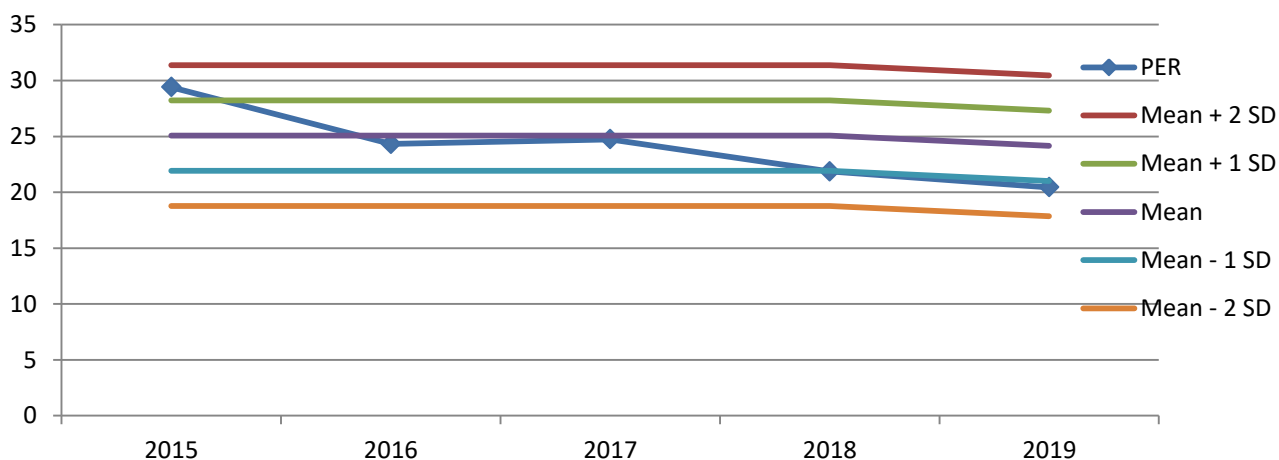
EBITDA and EBITDA margin



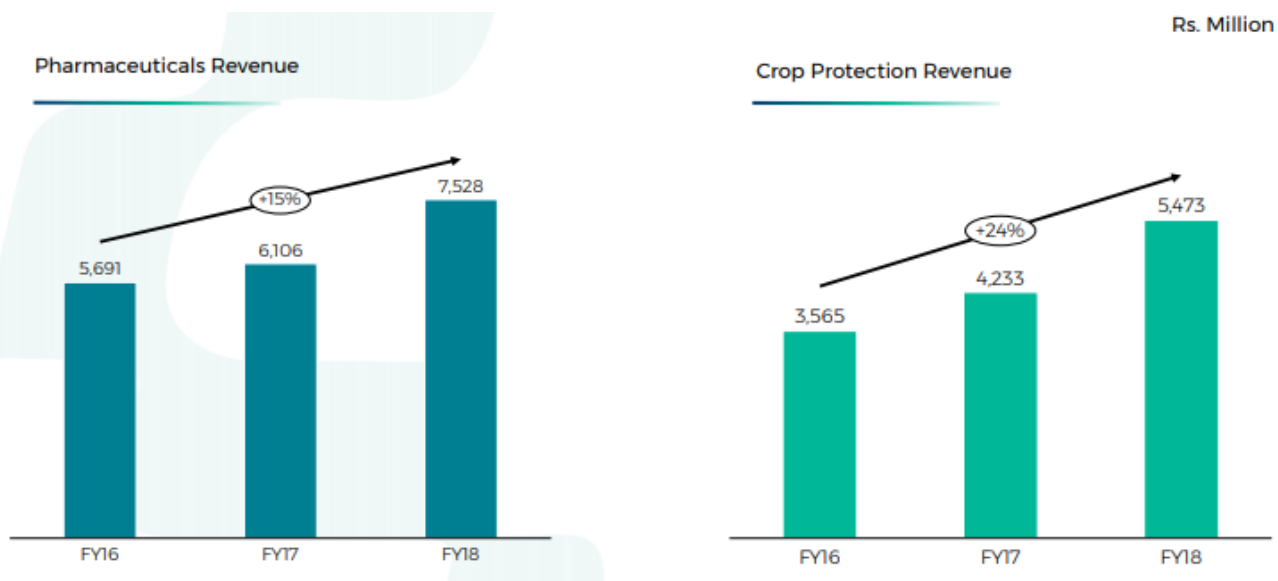
PAT and PAT margin



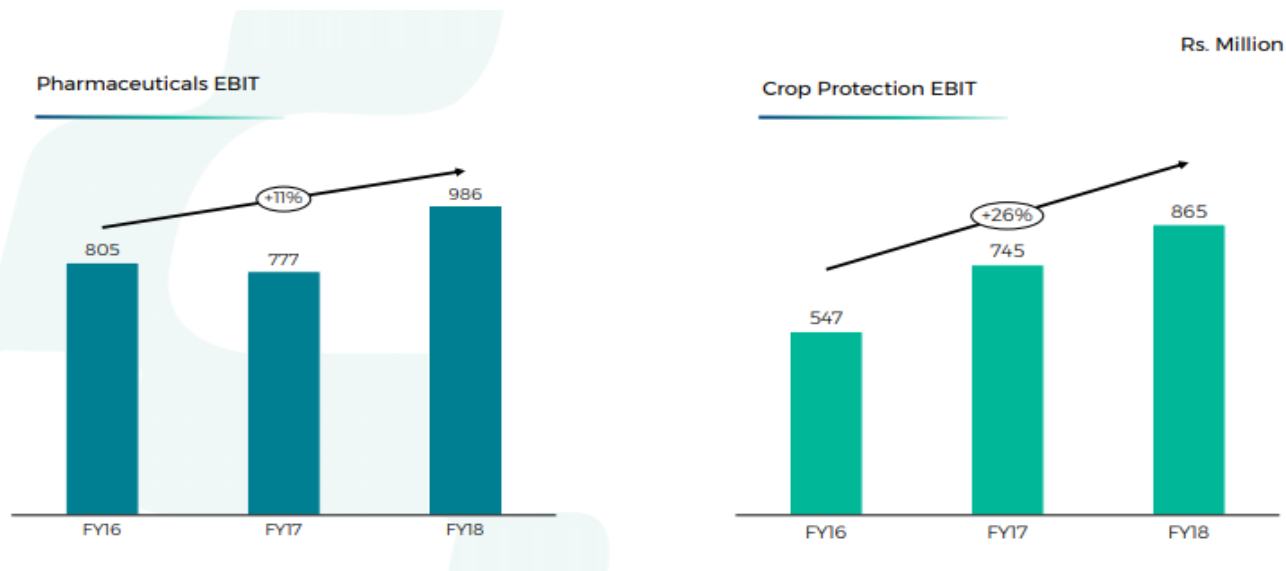
PE Band



Segmental Revenue Breakup



Segmental EBIT Breakup



Pharmaceutical Manufacturing Facilities



Jigani, Bangalore

- Products : API's & Bulk Drug Intermediates
- Accreditations: USFDA, KFDA, TGA, PMDA (Japan) & ISO 9001, ISO 14001, OHSAS 18001
- Offers scale up capabilities and can provide validation and launch quantities under cGMP conditions
- Audited frequently by Innovator companies from US, Europe and Japan
- Debottlenecking completed at two API blocks
- Commissioned a large bio-mass boiler & a co-generation plant



Panoli, Gujarat

- Products: Bulk Drug Intermediates
- Accreditations: US FDA certified, PMDA (Japan)
- ISO 9001, ISO 14001, OHSAS 18001
- Manufactures cGMP Intermediates & Regulatory starting Materials
- Audited & Approved for supply by Innovator Companies
- Expanded capacity for key starting raw materials
- Evaluating further expansion plans which would de-risk our Bangalore site for the manufacture of final APIs

Crop Protection Manufacturing Facilities



Taloja, MH

- Products: Crop Protection AIs & Intermediates
- Accreditations : ISO 9001, ISO 14001, OHSAS 18001 & ISO 17025 (GLP)
- Manufactures Fungicides, Insecticides and Intermediates
- The site manufactures on patent active ingredients for innovator companies



Mahad, MH

- Products: Crop Protection AIs & Intermediates
- Accreditations : ISO 9001, ISO 14001, OHSAS 18001
- Manufactures Intermediates
- Audited frequently by several Fine Chemical and Multinational Companies
- Commissioned a new state-of-the-art plant to manufacture an advanced intermediate for a key herbicide for a global innovator client

RESEARCH

RVNL

CMP 23.80 Target 29

Investment Rational

STOCK INFO

BSE	542649
NSE	RVNL
Shares O/S	2,08,50,20,100
FV	10
Mcap (Cr\$)	4993.62
52wk High/Low	26.95/18.60

SHAREHOLDING PATTERN (%)

Promoters	87.84
Public	12.16
	(post listing)

- ✓ RVNL is a wholly owned government company, a **Mini Ratna** (Category – I), incorporated under the Ministry of Railways, on January 24, 2003. The basic objective of RVNL is to execute projects of Ministry of Railways as an agency.
- ✓ The company is in the business of **executing all types of railway projects** which includes laying of new railway tracks, doubling of existing tracks, gauge conversion, electrification of tracks, metro projects, workshops, building of major bridges, institution buildings among other allied activities.
- ✓ RVNL sits on a large order book of over Rs. 77,000 crores as per company's filing giving it a visibility of over 10 years of constant revenue.
- ✓ The company has a strong balance sheet, having D/E at 0.6x, consistent cash flows, stable margins and high treasury income. If one considers non-current investments then the company is net debt free.
- ✓ High return ratios having ROE at 14.50% and dividend yield of around 4%.
- ✓ RVNL primarily operates on asset light model. It procures order from the railway ministry and gets them executed through contractors.
- ✓ Improving return ratios and falling debt levels highlights the consistent execution and efficiency improvement along with sound financial prudence.

Source : Company filings / IndiaNivesh Research

VALUATION: The Company has delivered revenue CAGR of 34% and PAT CAGR of 19% during past four years of operation. Post listing the company has got re-rated, trading at a PER of 7x (FY19e). We expect further re-rating to happen, considering huge order book status and ROE of around 14.50%. **Conservatively valuing the company at a PER of 7x FY21e, per share target price comes at Rs. 29.** We recommend accumulating RVNL.

Financial Summary

Rs Cr.	FY 17	FY18	FY19E	FY20E	FY21E
NET SALES	5,919.62	7,597.35	8,736.95	10,047.50	11,554.62
EBIDTA	274.25	382.42	436.85	502.37	577.73
EBIDTA Margin (%)	4.63%	5.03%	5.00%	5.00%	5.00%
PAT	438.74	569.51	655.27	753.56	866.60
PAT Margin (%)	7.41%	7.50%	7.50%	7.50%	7.50%
EPS (Rs)	2.10	2.73	3.14	3.61	4.16
ROE (%)	12.31%	14.51%	14.31%	14.13%	13.98%
P/E	-	-	7.00	6.09	5.29
P/BV	-	-	1.00	0.86	0.74

Source : Company filings / IndiaNivesh Research

Broad Activities

- ✓ New Railway Tracks: Augmenting the existing rail network by laying new tracks. National rail connect through seamless transportation and connecting remote areas has been focus of Indian Railways.
- ✓ Doubling of existing rail tracks: Doubling involves the provision of additional tracks with intent to ease out traffic constraints of single line and/or to address high congestion by laying 3rd/4th line to increase the charted capacity. RVNL is a significant contributor to the doubling projects and has been contributing to approximately one third of the total doubling being completed / commissioned by Indian Railways in the last three years. (Source: CARE Report)
- ✓ Gauge conversion: This is conversion of meter/narrow gauge to broad gauge railway tracks.
- ✓ Railway electrification: Primarily, electrification of current un-electrified rail network and electrification of new rail network.
- ✓ Metropolitan transport projects: Setting up of metro lines in cities.
- ✓ Workshops: The Company also does repairing and manufacturing of rolling stock in their workshops.
- ✓ Others allied activities: Railway safety works, building of sub-ways in lieu of crossings, other electrification works, training works, surveys etc.

About the Company : RVNL is a wholly owned government company, a **Mini Ratna** (Category – I) Schedule 'A' Central Public Sector Enterprise, incorporated under the Ministry of Railways, on January 24, 2003. The basic objective of RVNL is to execute projects of Ministry of Railways as an agency.

The company is in the business of **executing all types of railway projects** which includes laying of new railway tracks, doubling of existing tracks, gauge conversion, electrification of tracks, metro projects, workshops, building of major bridges, institution buildings among other allied activities.

Since its inception in 2003, 179 projects have been earmarked to RVNL of which 174 projects are sanctioned for execution. The company has successfully completed 72 projects pencilling revenue of ₹20,567 crores.

Company Financials

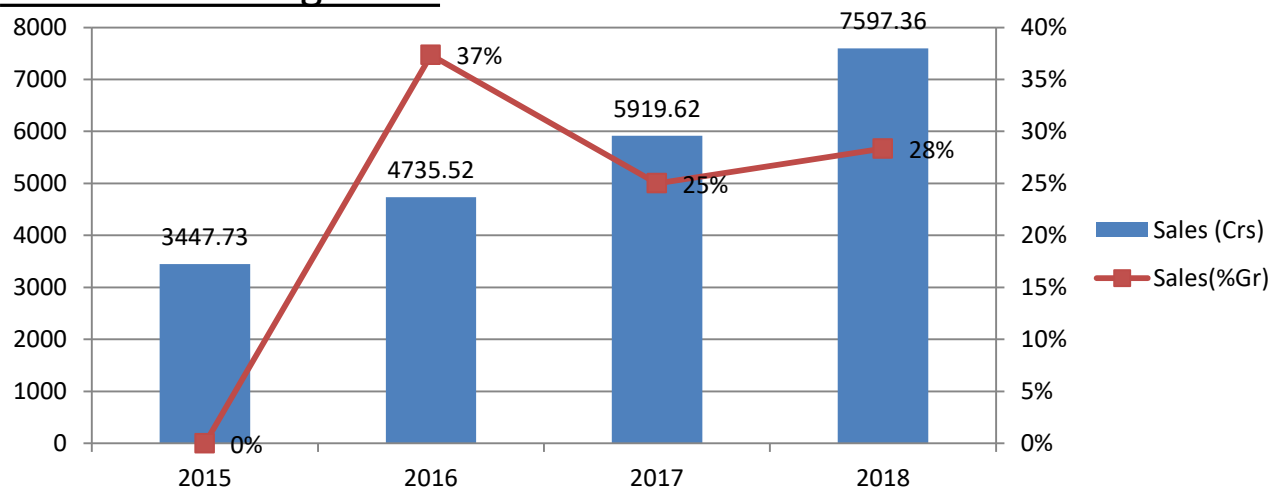
Income Statement			
Particulars (Rs. In Cr.)	FY16	FY17	FY18
Revenue	4735.52	5919.62	7,597.36
EBITDA	368.06	274.25	382.42
EBITDA Margin	7.77%	4.63%	5.03%
PAT	407.73	438.74	569.51
PAT Margin	8.61%	7.41%	7.50%

Source : Company filings / IndiaNivesh Research

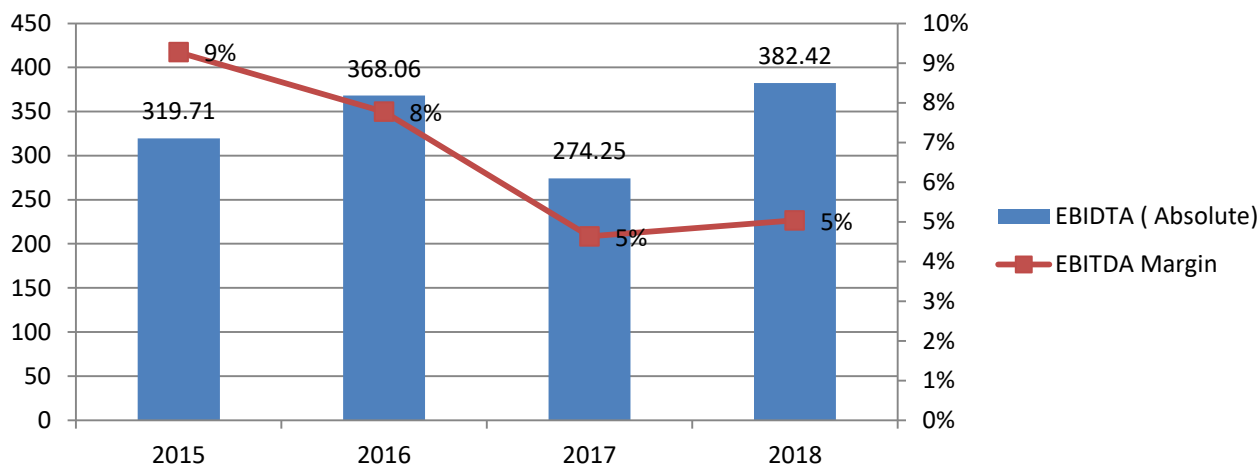
Balance Sheet			
Particulars (Rs in Cr.)	FY16	FY17	FY18
Equity	3,434	3,563	3,924
Non-Current Liab	2,632	2,446	2,683
Total Liab	6,066	6,009	6,607
Non Current Assets	2,216	2,964	3,759
Working Capital	3,849	3,044	2,848
Total Assets	6,066	6,009	6,607

Source : Company filings / IndiaNivesh Research

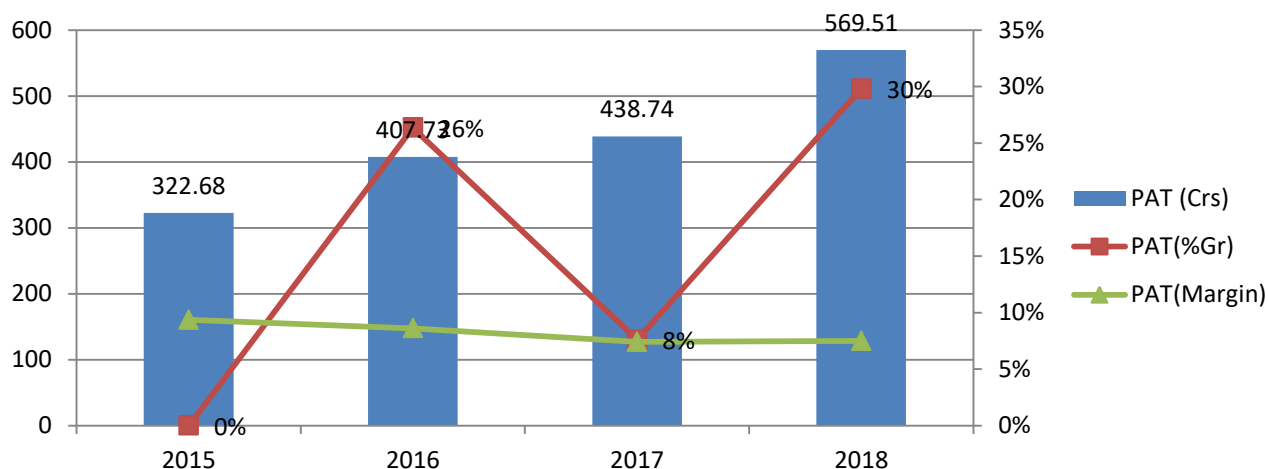
Sales and sales growth



EBITDA and EBITDA margin



PAT and PAT margin



CAUTION FACTORS:

- Company is **dependent on 'Ministry of Railways'** for allotment of projects. It functions as an SPV of Indian Railways for their project execution.
- There is a **contingent liability of Rs. 3,774 crores** on account of arbitration not acknowledged as debt by the Company.
- As per Minimum Public Shareholding requirements specified in rule 19(2) and rule 19A of the Securities Contracts (regulation) rules, 1957. All listed companies including PSUs shall be required to achieve and maintain minimum public shareholding of 25%. Therefore, there will always be share supply overhang on 'RVNL' quantum of which will be around further 13% of disinvestment.

RESEARCH

NBCC (INDIA) LTD.

CMP 57.10 Target 71.50

STOCK INFO

BSE	534309
NSE	NBCC
Shares O/S	1800000000
FV	1.0
Mcap (Cr\$)	10,314
52wk High/Low	102.25/46.55

SHAREHOLDING PATTERN (%)

Promoters	68.18
Public	31.82

(As on March, 2019)

STOCK PERFORMANCE (%)

	3M	6M	12M
NBCC	3.92	(10.17)	(44.21)
NIFTY	6.26	7.05	7.65

Source : Company filings / IndiaNivesh Research

Investment Rationale

- ✓ **Niche Infrastructure Play:** NBCC is a big beneficiary of Infrastructure and housing for all (affordable housing) thrust by government in concurrence with improving rural and semi-urban economy.
- ✓ **Strong Order Book:** Its standing order book has swollen above INR 80,000 crore at a healthy annual run rate. For FY19 it has received INR 9,100 crore, worth of orders.
- ✓ **Strong Revenue visibility & Earnings Profile:** In FY18 it registered a top line of around INR 7100 crore and a net profit of INR 372 crore, for 9 months FY19 it has done a top line of Rs. 6805 & net profit of Rs.249 crores. Present order book gives a revenue visibility for next 8 years at constant top line based on FY19e. Topline CAGR stands at 15% and PAT at 10% for last five years (FY18).
- ✓ **Asset Light Business Model:** It is insulated largely from rising input costs as primary business is Project Management Consultancy (PMC) driven by asset light business model. PMC contributes around 90% to top line & almost 100% to bottom after covering costs of other business forays.
- ✓ **Foray into Real Estate:** It has recently forayed into Real Estate with an eye on affordable housing, housing re-development projects and building of new townships and smart cities.
- ✓ **Execution:** We expect execution to pick up steam on existing order book, delivering revenue CAGR of over 20% in next two years; which translates into an EPS of Rs.3.57 for FY21e. The stock is currently trading at a PER of 13.72x based on EPS estimate for FY21e.
- ✓ **Valuation: Valuing the company at a PER of 20x based on FY21e, per share price comes at Rs 71.50.** We recommend accumulating NBCC.

Financial Summary

Rs Cr.	FY 17	FY18	FY19E	FY20E	FY21E
NET SALES	7424.7	6941.6	8329.9	9995.9	11995.1
EBIDTA	405	422.3	499.80	599.80	719.70
EBIDTA Margin (%)	5.45%	6.08%	6.00%	6.00%	6.00%
PAT	325.5	372.1	446.60	535.9	643.1
PAT Margin (%)	4.38%	5.36%	5.36%	5.36%	5.36%
EPS (Rs)	1.81	2.07	2.48	2.98	3.57
ROE (%)	16.85%	17.57%	19.08%	18.92%	18.79%
P/E	47.59	46.04	19.75	16.46	13.72
P/BV	8.02	8.09	3.44	2.84	2.36

Source : Company filings / IndiaNivesh Research

Company Financials

Income Statement

Particular (Rs. In Cr.)	FY16	FY17	FY18
Total Income	5826.38	7424.7	6,941.60
EBITDA	314.87	405	422.30
EBITDA Margin	5.40%	5.45%	6.08%
PAT	289.28	325.5	372.10
PAT Margin	4.97%	4.38%	5.36%

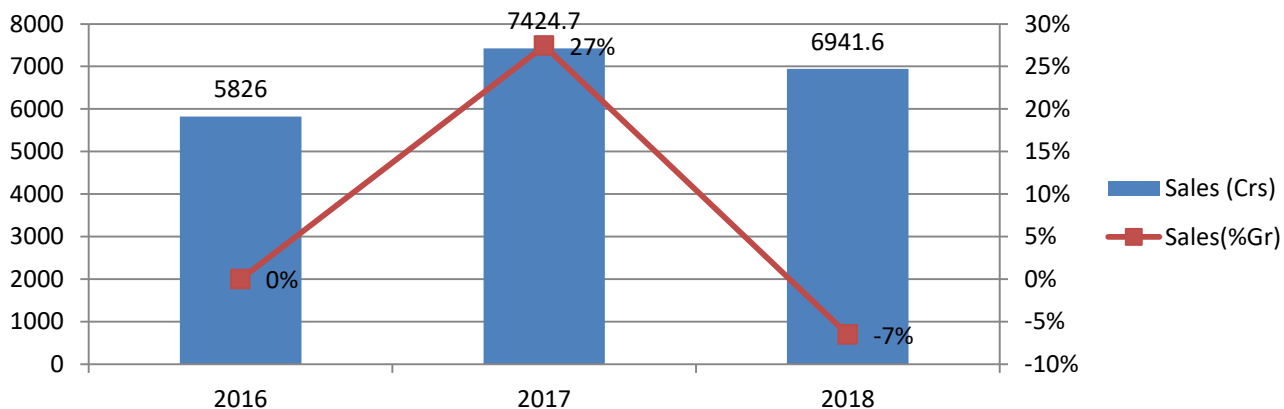
Source : Company filings / IndiaNivesh Research

Balance Sheet

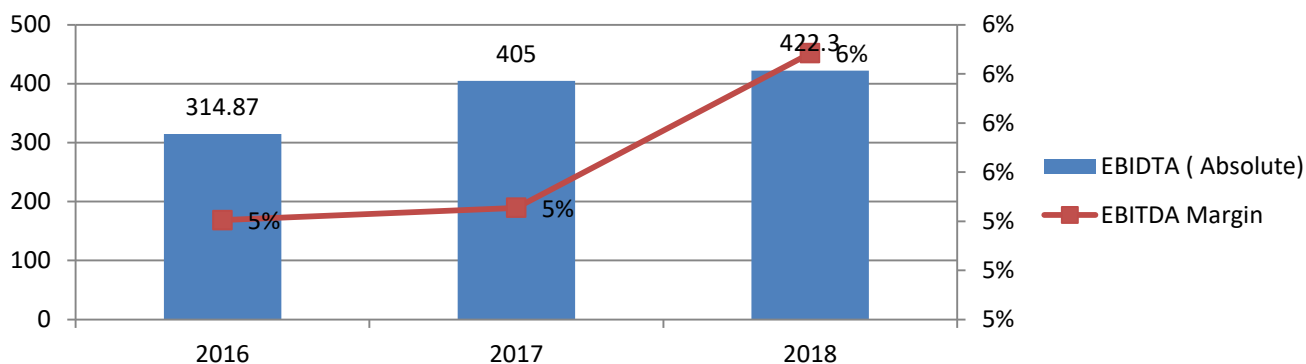
Particular (Rs. In Cr.)	FY16	FY16	FY18
Equity	1,543	1,932	2,118
Non-Current Liab	66	194	98
Total Liab	1,609	2,126	2,216
Non-Current Asset	252	438	378
Working Capital	1,357	1,688	1,838
Total Assets	1,609	2,126	2,216

Source : Company filings / IndiaNivesh Research

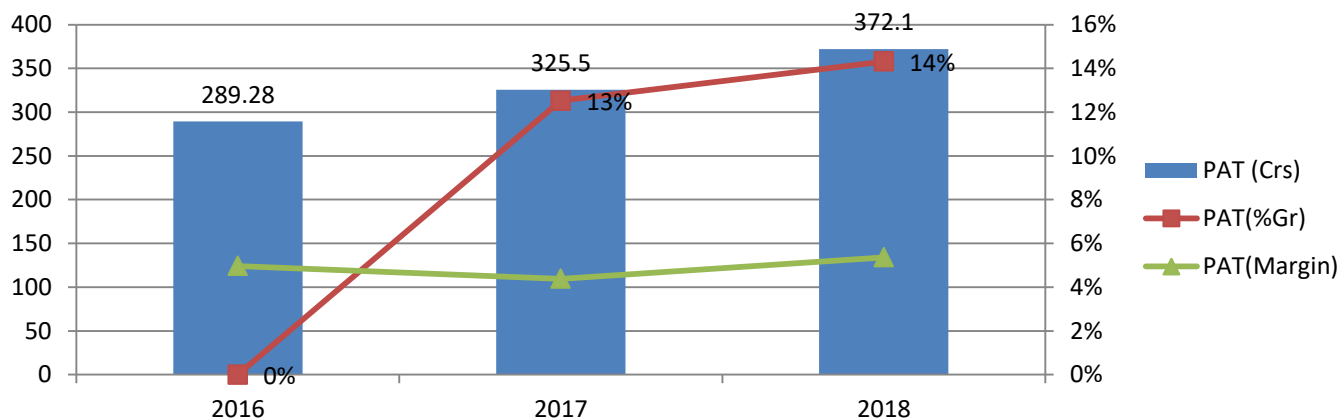
Sales and sales growth



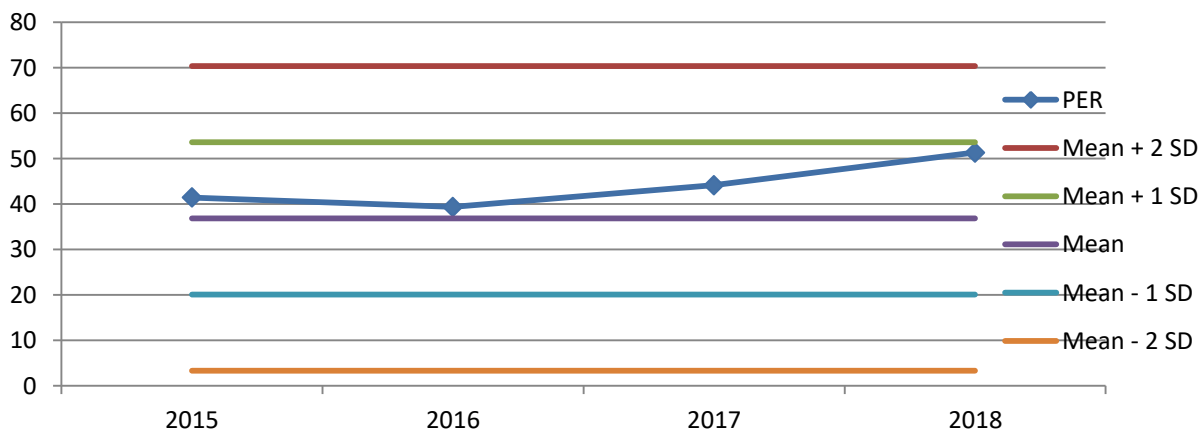
EBITDA and EBITDA margin



PAT and PAT margin



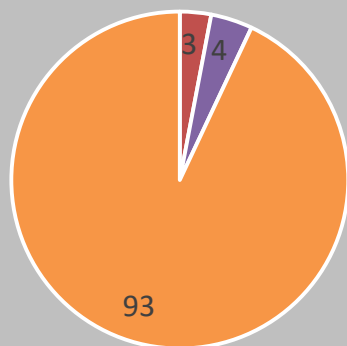
PE Band



RESEARCH

NBCC (INDIA) LTD.

Segment Revenue



RE EPC PMC

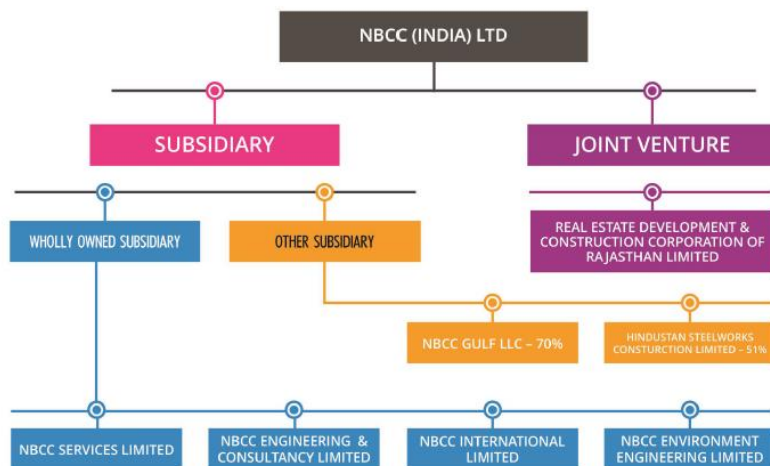
About the company

NBCC (India) Limited (National Buildings Construction Corporation Limited) is a blue-chip Government of India.

The Company's present areas of operations are categorized into three main segments

- ❖ Project Management Consultancy (19,96.252)
- ❖ Real Estate Development (-0.031)
- ❖ EPC Contracting (173.921)

Major Clients of NBCC are Ministries of "GOVERNMENT OF INDIA" and some PSUs / AUTONOMOUS BODIES



NBCC Major Sector :- Metro Station, Airports, Bridges, Border Fencing, Medical College/Hospitals, Roads & Border Roads, Corporate Office, Govt. Colonies, Township & Residential Apartment.

NBCC worked in more than 10 countries.

Major Projects in India

1. 2400 Seater Auditorium, Kolkata
2. ESIC Medical College & Hospital, Coimbatore
3. Twin Tower Trade Centre, Guwahati
4. National Centre for Disease Control, New Delhi
5. Redevelopment of Railway Station

Major Projects Outside India

1. Supreme Court Building, Mauritius
2. National Police Academy at ADDU, Republic of Maldives

Source : Company filings / IndiaNivesh Research

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2	Details of Disciplinary History of INSL	No disciplinary action is / was running / initiated against INSL
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4	Research analyst or INSL or its relatives'/associates' financial interest in the subject company and nature of such financial interest	No (except to the extent of shares held by Research analyst or INSL or its relatives'/associates')
5	Research analyst or INSL or its relatives'/associates' actual/beneficial ownership of 1% or more in securities of the subject company, at the end of the month immediately preceding the date of publication of the document.	Please refer to the important 'Stock Holding Disclosure' report on the IndiaNivesh website (Investment Research Section - http://www.indianivesh.in/Research/Holding_Disclosure.aspx?id=10 link). Also, please refer to the latest update on respective stocks for the disclosure status in respect of those stocks. INSL and its affiliates may have investment positions in the stocks recommended in this report.
6	Research analyst or INSL or its relatives'/associates' any other material conflict of interest at the time of publication of the document	No
7	Has research analyst or INSL or its associates received any compensation from the subject company in the past 12 months	No
8	Has research analyst or INSL or its associates managed or co-managed public offering of securities for the subject company in the past 12 months	No
9	Has research analyst or INSL or its associates received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months	No
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12	Has research analyst served as an officer, director or employee of the subject company	No
13	Has research analyst or INSL engaged in market making activity for the subject company	No
14	Other disclosures	No

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