

InvAsset's Voice



Riding The Rail

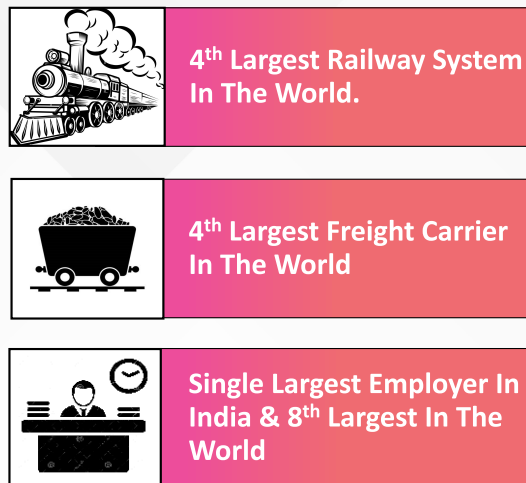
6th March, 2023



India's Best Performing and Most Customer Centric PMS

Industry Overview

The Indian Railways is a vast and complex network that plays a crucial role in the transportation infrastructure of India. It is one of the largest railway networks in the world, with a total track length of over 121,000 km and more than 7,000 stations. It transports both passengers and cargo over large distances and remains the most preferred mode of transportation of maximum Indians for its low cost and efficient operations. The railways operate 13,523 passenger trains and 9,146 freight trains daily. The railway sector in India has loaded 1418.1 MT of freight during FY 2021-22, registering a 15% increase in freight loading from the last year. Indian Railways is the single largest employer in India and the eighth largest in the world, employing approximately 1.3 Mn people.



The railway system is divided into several sectors, each with a specific purpose and function.

Passenger Sector: This is the primary sector of Indian Railways, and it deals with the transportation of passengers across the country. The industry comprises various types of trains: local, express, superfast, and luxury. The sector is also responsible for providing passenger amenities like waiting rooms, catering, and medical facilities at stations.

Freight Sector: The freight sector of Indian Railways is responsible for transporting goods and raw materials across the country. The industry provides various freight services, including container, bulk, and parcel transportation. The freight sector is an essential component of the Indian economy and is significant in transporting agricultural products, industrial goods, and other basic commodities.

Engineering Sector: The engineering sector of Indian Railways is responsible for the construction and maintenance of railway tracks, bridges, tunnels, and other infrastructure facilities. The industry is also responsible for producing railway equipment and supplies, including locomotives, wagons, and signaling equipment.

Electrical Sector: The electrical sector of Indian Railways is responsible for the electrification of railway tracks and the maintenance of electrical equipment, including traction motors, transformers, and overhead lines. The sector also provides power to trains, stations, and other railway facilities.

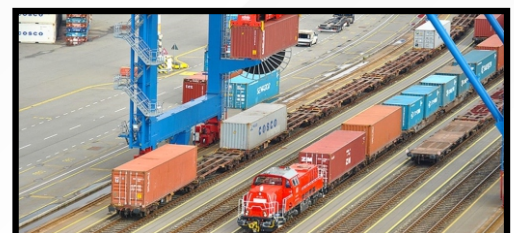
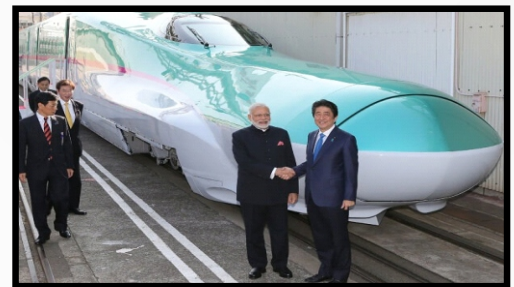
Mechanical Sector: The mechanical sector of Indian Railways is responsible for maintaining and repairing locomotives, wagons, and other railway equipment. The industry also provides manufacturing and overhaul services for locomotives and wagons.

Tourism Sector: The tourism sector of Indian Railways promotes tourism through various luxury trains and tourist trains. The industry offers multiple packages, including sightseeing, accommodation, and food.

Research and Development Sector: The research and development sector of Indian Railways is responsible for developing new technologies and improving existing ones to enhance the efficiency and safety of the railway system. The industry researches various aspects of the railway system, including signaling, track maintenance, and security.

Recent Developments In The Sector.

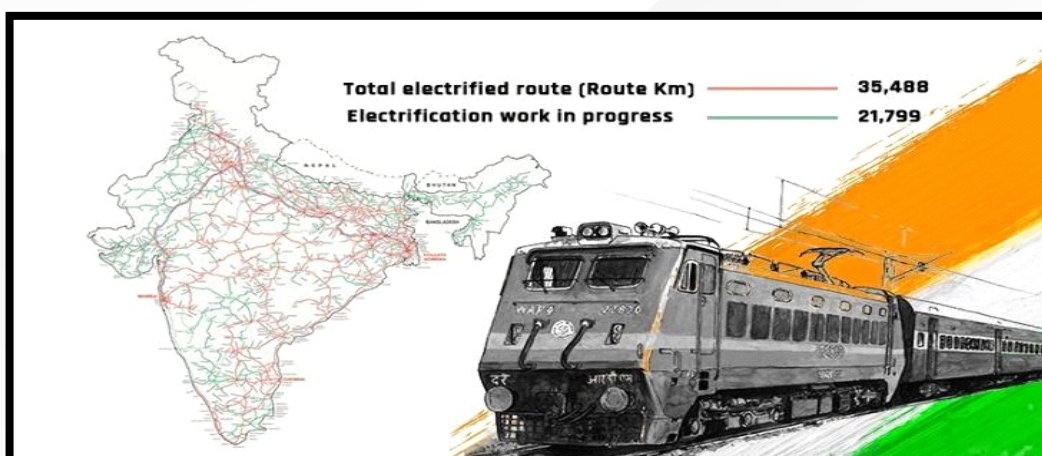
- Vision 2024 has been envisaged to achieve 2024 MT freight loading targets by 2024.
- The Mumbai-Ahmedabad high-speed rail project was sanctioned at a total cost of \$14.27 Bn.
- The railway sector of India aims to electrify the entire network by 2023, which will lead to annual energy savings of \$1.55 Bn.
- Record electrification of 6,366 RKM has been achieved in IR history during FY 2021-22. As of 30.11.2022, 83% of the Broad-Gauge network has been electrified. During 2022-23, electrification of 1,973 Route km (2,647 TKM) was achieved, which is 41% higher than the 2021-22.
- Indian Railways has commissioned Wi-Fi at 6,089 Railway stations across the country.
- To achieve its green mission, Indian Railways has solarized more than 1000 stations.
- 2000 Km of the railway network to be brought under Kavach, the indigenous world-class TCAS, in 2022-23. Kavach was commissioned at over 850 Rkm in FY22.
- 400 new generation Vande Bharat Trains to be manufactured during the next three years.
- 100 PM Gati Shakti Cargo terminals for multimodal logistics to be developed during the next three years.
- During 2014-22, 1544 km (377 km new line, 972 km Gauge conversion and 195 km Doubling) sections, falling fully/partly in Northeastern Region, have been commissioned at an average rate of 193 km per year, which is 190% more than average annual commissioning achieved during 2009-14 (66.6 km per year).



Industry Analysis

Under the motto "Hungry For Cargo," Indian Railways has consistently worked to increase the ease of doing business and service delivery at affordable pricing, which has led to an increase in both traditional and non-traditional commodity streams as sources of additional train traffic. In the Financial Year 2021–22, the Railways exceeded the 1400 MT Freight Loads milestone for the first time ever thanks to a customer-centric strategy, the efforts of business development units, and flexible policymaking. As a consequence, Indian Railways' Originating Freight Loads for the FY 2021–22 was 1418.1 MT (provisional), 15% greater than the previous record of 1233.2 MT from the FY 2020–21.

- The railway sector in India aims to contribute about 1.5% to the country's GDP by building infrastructure to support 45% of the modal freight share of the economy.
- Two Dedicated Freight Corridors (DFC), one on the Western route (Jawaharlal Nehru Port to Dadri) and another on the Eastern route (Ludhiana to Dankuni), have been fast-tracked.
- Freight earnings increased by 16% as compared to the same period last year (INR 91127 Crores).
- Railways earn INR 135387 Cr from Freight loading in this financial year till January 2023
- The average Freight Train speed has increased to 44.36 kmph during 2021-22 compared to 42.97kmph during 2020-21 (+3.23 %) (up to 31.12. 2021).
- National Rail Plan aims to increase the share of freight traffic from the current 27% to 45% by 2030.
- Electrification of 1,973 Route km (2,647 TKM) has been achieved during 2022-23, which is 41% higher as compared to the corresponding period of 2021-22. In addition, 1,161 & 296 km of electrification of double lines & sidings, respectively, have also been completed to date. Thus, a total of 4100 TKM have been electrified during 2022-23.



- Record electrification of 6,366 RKMs has been achieved in IR history during FY 2021-22

- New Line/ Doubling/ Gauge Conversion: 2904 km was achieved in FY 2021-22, which is 23% higher than last year. It is also the Highest ever commissioning (excluding DFC)
- The IR achieved the Highest ever Electric Loco Production & induction of 1,110 Locos in FY 2021-22. With the production of 614 Electric Locomotives in FY 2022-23, till 30th November, from 490 electric locomotives during the same period last year, Indian Railways has recorded a growth of 25.3%. 6 pairs of Vande Bharat Express and four pairs of Tejas Express services are being operated by Indian Railways.
- During FY22 till 30th November, 109 TKM of New Line, 102 TKM of Gauge Conversion and 1811 TKM of multi-tracking have been completed.
- Currently, 2359 trips of Kisan Rail trains have been operated on 167 routes, wherein nearly 7.9 lakh tonnes of consignments have been transported.

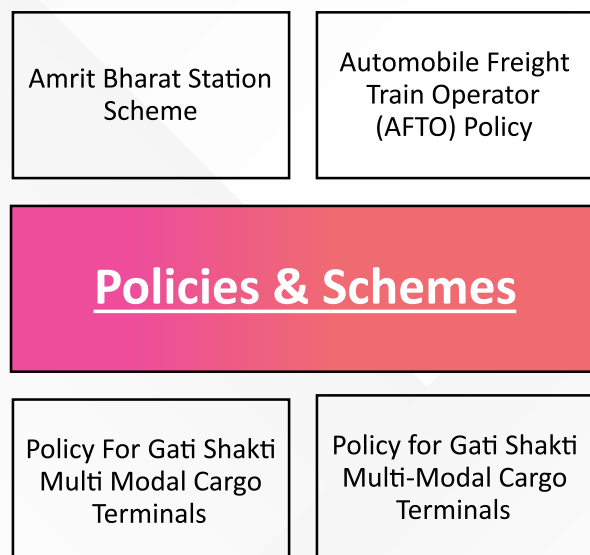
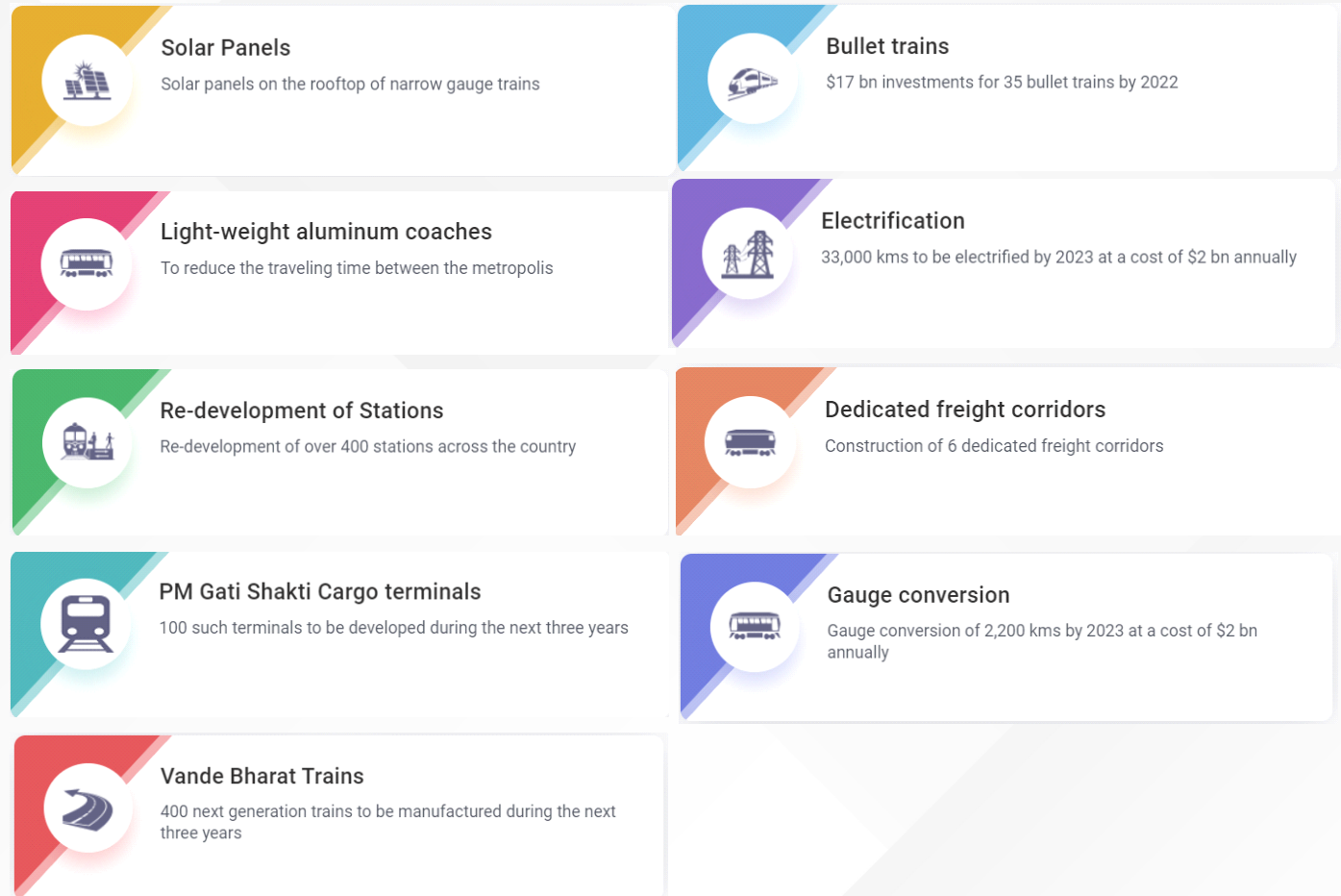
Key Matrics & Targets Set By Indian Railways

12 Bn	8 MT	2,024 MT	\$16 Bn
Annual Estimated Passengers in 2031	Annual Estimated Freight Demand in 2031	Freight Loading by 2024	Revenue from freight traffic (2021)

Growth Drivers

- Atmanirbhar Bharat Abhiyaan - Self-Reliant India: Special economic and comprehensive package of INR 20 lakh Cr towards promoting manufacturing in India.
- Diamond Quadrilateral network of high-speed rail: Connecting major metros and growth centers of the country
- Freight Business Development Portal: One-stop cargo solution for seamless goods transportation
- Dedicated freight corridor: Six high-capacity, high-speed dedicated freight corridors
- Exponential Rise in passenger & freight traffic: Railway passenger traffic is projected to reach around 12 Bn per year by 2031 and Freight traffic is expected to cross 8,220 Mn Tonnes by 2023.
- Freight shift towards railways: National Rail Plan aims to increase the modal share of Railways in freight to 45% by 2030 from existing 27%

Key Initiatives



Railway Engineering Sector

The government has been quite explicit about its goals and priorities for railway capital expenditures throughout the course of the last several years. These expenditures are intended to expand, modernise, and improve overall services. In the most recent budget, the government allotted over 10 lakh crores Rs for capital expenditures. The railroads would get Rs 2.4 lakh crore of this total. The effects of the hit may also be seen on the ground. The impact is also visible on the ground. Until the end of December 2022, the railways incurred capital expenditure of close to Rs 1,15,100 crore, up by close to 77 per cent on a year-on-year (YoY) basis.

Order Book Analysis						
Company	Q3 FY22		3Q2 FY23		Q3 FY23	
	Order book	Order book to revenue (X)	Order Book (In Crs)	Order book to revenue (X)	Order Book (In Crs)	Order book to revenue (X)
Ircon International Limited	43,500	9	40,200	9	38,023	5.2
Rail Vikas Nigam Limited	60,000	4	55,000	4	52,000	2.7
RITES	5,300	3	4,900	3	5,500	2.1
Total	1,08,800	4.9	99,920	3.4	95,523	3.2

Source: Company, figures in Rs Crores

Improving Visibility Of Expansion In Revenues & Profitability

Higher capex also means that there are a lot of orders coming in. Companies like RVNL (Rail Vikas Nigam Ltd), which has a success rate of between 24 and 25%, have bid close to Rs 70,000 crore. Its current order book is worth about Rs 52,000 crore, which is almost 3 times its annual revenue. Ministry of Railways (MoR) has given RVNL a number of Rail infrastructure projects to work on. These include doubling, gauge conversion, new lines, electrification, major bridges, workshops, Production Units, and sharing freight revenue with Railways. This is all part of the concession agreement RVNL has with MoR.

RVNL wants to have close to Rs 1 lakh crore in orders by the end of the next two years. Some of these orders will come from international markets.

Also, companies are looking for projects with more added value, and opportunities are shifting towards building new railway infrastructure, mostly through competitive bidding. Because of this, high-speed corridors, Metro rails, bullet trains, the building of stations, and many other things are becoming possible.

Trend In Growth Of Revenues Of RVNL, Ircon & Rites (Cummulative)	
Period	Revenue
H1 FY22	11,681
H1 FY23	15,055
Year on year growth (%)	28.9
9M FY22	19,267
9M FY23	23,090
Year on year growth (%)	19.8
Q3 FY22	7,586
Q3 FY23	8,036
Year on year growth (%)	5.9

For instance, RITES Limited is a public sector enterprise and a leading player in the transport consultancy and engineering sector in India, having diversified services and geographical reach. The company is the only export arm of Indian Railways for providing rolling stock overseas (other than Thailand, Malaysia and Indonesia). RITES is currently developing Varanasi and Ayodhya station. Recently, it received an order for developing the Somnath station as well.

IRCON is an integrated engineering and construction PSU specializing in large and technologically complex infrastructure projects in various sectors, such as railways and highways. IRCON has the highest visibility, with an order book of Rs 38,000 crore. Companies are already sitting on large orders.

On a cumulative basis, its order book stands at Rs 95,500 crore, 3.4 times its annual revenue. Existing orders continue to rocket beyond the next 2-3 years' annual income. Still, firms catering to this market, notably engineering PSUs, concentrate on execution and improved profitability as the overall picture grows.



Rishikesh- Karnaprayag (new line) In Construction, RVNL

Financial Performance in Q3FY23

Company Name	Net Revenue		YOY	Net Profit		YOY
	Q3 FY23	Q3 FY 22	% Change	Q3 FY 23	Q3 FY 22	% Change
Ircon International	2346.51	1761.85	33.2	199.03	122.29	62.8
Rail Vikas Nigam Limited	5012.09	5049.24	-0.7	338.51	281.97	20.1
RITES	677.34	775.2	-12.6	146.22	144.28	1.3
Total	8035.94	7586.29	5.9	683.76	548.54	24.7

After several quarters of solid growth, the companies in this space, IRCON International, Rail Vikas Nigam and RITES, have delivered single-digit increases in revenue. In addition to other factors like delays in approvals and deliveries, the December quarter typically has a slower growth because projects are bunched up for the year-end. In the first half of the current fiscal, the cumulative growth was at 29 per cent YoY. This has slipped to a low of 5.9 per cent in the quarter that ended in December 2022.

As some of these companies suggested, the focus has remained on higher profitability. During the quarter, despite higher prices and wage inflation, gross margins, on a cumulative basis, improved drastically by 190 basis points to 12.7 per cent. This is also why, despite the lower scale and cost pressure, they reported a good 24 per cent YoY growth in net profits. Among companies, IRCON, which gets 90 per cent of its revenues from railways, saw a substantial 63 per cent growth in net profit because of the highest increase in income among engineering PSUs.

The focus is now on the March quarter, and companies have been guided to achieving higher growth with some of these projects getting bunched up. For instance, IRCON has revenues of close to Rs 6,578 crore (up 49 per cent YoY) in the first nine months and intends to close the fiscal with a turnover of around Rs 9,000-9,500 crore. Close to Rs 3,000 crore in revenue is expected to be booked in the current quarter. RVNL has a revenue target of nearly Rs 20,000 crore in the current fiscal year. So far, in the first nine months, it has clocked close to Rs 14,500 crore. The remaining Rs 5,500 crore is expected in the March quarter.

Overall, with solid orders and a robust pipeline of projects, the companies should continue to deliver good growth. Moreover, with the expected improvement in margins because of larger scale, value-added projects, selective bidding and easing of cost pressure, they should deliver strong earnings growth.

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