

Company Overview

Railtel Corporation of India Limited (“Railtel”) is an information and communications technology (“ICT”) infrastructure provider and is one of the largest neutral telecom infrastructure providers in India (Source: CRISIL Report). Railtel was incorporated with the aim of modernizing the existing telecom system for train control, operation and safety and to generate additional revenues by creating nationwide broadband and multimedia network by laying optical fiber cable by using the right of way along railway tracks. As of January 31, 2021, its optic fiber network covers over 59,098 route kms and covers 5,929 railway stations across towns and cities in India. The transport network is built on high capacity dense wavelength division multiplexing (“DWDM”) technology and an Internet protocol/ multi-protocol label switching (“MPLS”) network over it to support mission critical communication requirements of Indian Railways and other customers.

Objects of the issue

The issue consist of Offer for Issue (INR 8.19 bn) with an aim of :

- A) reducing its existing stake i.e by selling 87.1 mn equity shares to shareholders
- B) reaping the benefits of listing gains

Investment Rationale

largest neutral telecom infrastructure providers in India with pan-India optic fiber network

Railtel is one of the largest neutral telecom infrastructure providers in India (Source: CRISIL Report). As of January 31, 2021, they had exclusive right of way along 67,415 route kms connecting 7,321 railway stations for laying optical fiber cable. They have over 59,098 route kms of optical fiber cable network and have connected 5,929 railway stations across towns and cities in India as of January 31, 2021. They offer high capacity bandwidth of up to 800G at 87 locations in India, as of January 31, 2021. They offer leased line and VPN facilities and also provide of IP-1 services. Their pan-India network comprises various technologies including next generation network (“NGN”), packet transport network, DWDM and IP-MPLS that are maintained by their network operations centers (“NOCs”) at Mumbai, Delhi, Kolkata and Secunderabad to provide VPN, point-to-point leased line to enterprises, public sector banks, defense organisations and educational institutions. In addition, they have a central NOC located at New Delhi that monitors entire the pan-India network. They have installed point-of-presence (“PoPs”) across cities and towns in India.

Key partner to the Indian Railways in digital transformation

Company serves as a key network for the Indian Railways. They provide a variety of services to the Indian Railways and have implemented MPLS data network for integrated payroll and accounting system, unreserved ticketing system, freight operations information system and coaching operations information systems. As of December 31, 2020, its MPLS-VPN for railways intranet aggregated to over 74.7 Gbps capacity and Internet to over 25.06 Gbps capacity. They are responsible for up-gradation of RailNet over a WAN by providing centralized mailing system and security systems through the supply, installation and commissioning of IP-MPLS network at divisions, zones, production units and central training units of the Indian Railways. They are also working with the Indian Railways to transform railway stations into digital hubs by providing public Wi-Fi at railway stations across India. The company has implemented the ‘e-Office’ project for the Indian Railways. Other projects with Indian Railways include implementing Content on Demand (“CoD”) services to passengers and the Railway Display Network. In October 2020, the MoR has assigned them the task of implementation of hospital management information system (“HMIS”) for over 125 health establishments and 650 polyclinics of the Indian Railways.

Valuation and Outlook

RailTel Corporation of India is a PSU unit which is wholly owned by the Government of India and administrated by the Ministry of Railways. It is an Information and Communication Technology (ICT) infrastructure provider company where there are no listed peers. Company continue to expand its telecom services and deploy latest technologies and further diversify services and solutions with a focus on Indian Railways. On the valuation front, at the upper price band, the company is fairly valued at 21x P/E based on FY20 numbers. Its stable financial performance and strong pipeline of projects enables to provide growth visibility for long term. Considering all such factors, we give a “SUBSCRIBE” rating on this IPO issue for long term.

Issue Details

Offer Period	Feb 16th - 18th Feb 2021
Price Band	INR.93 to INR.94
Bid Lot	155
Listing	BSE&NSE
Issue Size (no. of shares in mn)	87.1
Issue Size (INR. in bn)	8.2
Face Value (INR)	10

Issue Structure

QIB	50%
Retail	35%
HNI	15%
BRLM	ICICI Securities, IDBI Capital, SBI Capital Markets
Registrar	KFin Technologies Pvt. Ltd

Particulars Pre Issue % Post Issue %

Promoter	100.0	72.84
Public	-	27.16
Total	100	100

(Assuming issue subscribed at higher band)

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Income Statement (In mn)

Particulars	FY18	FY19	FY20	1HFY21
Revenue				
Revenue from operations	9,768	10,033	11,281	5,374
Total revenue	9,768	10,033	11,281	5,374
Expenses				
Access and other Charges	2,501	2,635	2,490	1,491
License fee and spectrum charges	473	460	479	264
Expenses on Project	2,533	2,494	3,401	1,108
Employee benefit expenses	1,180	1,120	1,205	669
Other expenses	432	271	315	504
CSR Responsibility	8	30	52	39
Total Operating expenses	7,127	7,011	7,942	4,073
EBITDA	2,641	3,022	3,338	1,301
Depreciation and amortisation expense	1,186	1,116	1,309	817
Finance Income	15	(2)	(0)	8
Other income	429	352	380	156
EBIT	1,899	2,256	2,409	647
Finance costs	38	79	68	25
Exceptional Item	(265)	-	(493)	-
PBT	1,596	2,177	1,848	622
Current tax	794	581	560	284
Deferred Tax charge	(236)	210	(134)	(118)
Tax Impact of earlier years	(302)	33	11	-
Total tax	256	823	437	166
PAT	1,340	1,354	1,411	456
EPS	4.2	4.2	4.4	1.4

Source: RHP, BP Equities Research

Cash Flow Statement (In mn)

Particulars	FY18	FY19	FY20	1HFY21
Cash Flow from operating activities	409	354	1,733	208
Cash flow from investing activities	15	406	(480)	(557)
Cash flow from financing activities	(620)	(772)	(625)	(251)
Net increase/(decrease) in cash and cash equivalents	(196)	(12)	629	(601)
Cash and cash equivalents at the beginning of the period	924	728	716	1,345
Cash and cash equivalents at the end of the period	728	716	1,345	745

Source: RHP, BP Equities Research



Balance Sheet (In mn)

Particulars	FY18	FY19	FY20	1HFY21
Equity				
Share Capital	3,209	3,209	3,209	3,209
Other Equity	9,082	9,681	10,484	10,737
Net worth	12,292	12,891	13,694	13,946
Long-Term Provisions	19	47	99	104
Lease Liabilities	-	41	348	180
Other Non Current Liabilities	905	92	74	115
Deferred tax Liabilities	-	169	35	-
Other Non Current Financial Liabilities	2,602	1,121	1,078	1,400
Total Non Current Liabilities	3,526	1,470	1,635	1,798
Lease Liabilities	-	14	77	63
Trade payables	2,710	2,668	3,789	4,079
Other current liabilities	3,583	3,332	2,759	3,117
Short Term Provisions	384	367	201	137
Other Financial Liabilities	735	1,535	1,827	1,681
Total Current Liabilities	7,411	7,915	8,653	9,077
Total liabilities	23,229	22,277	23,981	24,822
Assets				
Tangible Assets	6,843	7,860	6,085	5,817
Right of Use Assets	3,642	2,999	2,525	2,315
Capital work in Progress	-	-	1,730	1,675
Intangible Assets	36	40	78	147
Loans	38	35	33	41
Other Financial Assets	-	7	2,193	827
non-current tax assets(net)	40	-	-	83
Other non-current assets	989	310	181	29
Total Non current assets	11,588	11,250	12,826	10,934
Inventories	-	9	5	2
Trade Receivables	4,667	4,596	5,071	6,565
Cash and Bank Balances	728	716	1,345	745
Other current assets	-	70	-	-
Other Bank Balances	4,364	3,353	1,339	2,945
Loans	25	43	49	54
Other Financial Assets	1,122	1,179	2,135	2,169
current tax assets	221	327	275	366
Other current assets	514	734	937	1,042
Total Current Asset	11,641	11,027	11,155	13,887
Net Current Assets	4,230	3,112	2,503	4,810
Total Assets	23,229	22,277	23,981	24,822

Source: RHP, BP Equities Research

Key Risks.

- ⇒ The Telecom industry in India is highly regulated and any change in law, regulations and government policies could impact business and future prospects of the company.
- ⇒ Internet security concerns and illegal distribution of third-parties could adversely affect its broadband internet access services.
- ⇒ Company derives a substantial portion of revenue from PSU customers, Indian Railways and other Govt entities which exposes risks inherent in doing business with them. This can affect its business.

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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