

# RailTel Corporation of India Limited



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**Issue Opens On**  
Feb 16, 2021

**Issue Closes On**  
Feb 18, 2021

**Price Band (INR)**  
93-94

**Issue Size (INR Cr.)**  
819

**Rating**  
SUBSCRIBE

Incorporated in 2000, RailTel 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. It is information and communications technology (ICT) infrastructure provider and is one of the largest neutral telecom infrastructure providers in India. RailTel is a Mini Ratna (Category-I) Central Public Sector Enterprise, wholly-owned by the Government of India and under the administrative control of the Ministry of Railways. As of January 31, 2021, the company's optical fiber network covers 59,098 route kilometers 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.

## OFFER STRUCTURE

Particulars	IPO Details
No. of shares under IPO (#)	87,153,369
Net offer (# shares)	87,153,369
Price band (INR)	93-94
Post issue MCAP (INR Cr.)	2,985-3,017

Source: IPO Prospectus

Indicative Timetable	
Offer Closing Date	Feb 18, 2021
Finalization of Basis of Allotment with Stock Exchange	On or about 23 <sup>rd</sup> Feb-21
Initiation of Refunds	On or about 24 <sup>th</sup> Feb-21
Credit of Equity Shares to Demat accounts	On or about 24 <sup>th</sup> Feb-21
Commencement of Trading of Eq.shares on NSE	On or about 26 <sup>th</sup> Feb-21

Source: IPO Prospectus

Issue break-up	No. of shares (#)
QIB	Up to 50% of the Net Offer
Non-Institutional	15% of the Net Offer
Retail	35% of the Net Offer
<b>Net Offer</b>	<b>87,153,369</b>

Source: IPO Prospectus

Shareholding Pattern		
Name of the Shareholder	Prior Holding (%)	Post IPO Holding (%)
President of India	100%	72.8%
Others	0%	27.2%

Source: IPO Prospectus

Particulars (In INR Mn)*	FY18	FY19	FY20	Sep-20
Revenue	9,768	10,033	11,281	5,374
EBITDA	2,641	3,022	3,339	1,301
EBITDA Margin	27.0%	30.1%	29.6%	24.2%
PAT	1,340	1,354	1,411	456
PAT Margin	13.7%	13.5%	12.5%	8.5%
RONW	10.9%	10.5%	10.3%	6.7%
ROCE	11.8%	14.7%	14.5%	6.8%

Source: IPO Presentation, \* Restated Consolidated, # Proforma Ind AS

# RailTel Corporation of India Ltd.

## INVESTMENT RATIONALE

### Among the 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. As of January 31, 2021, RailTel had exclusive right of way along 67,415 route kilometers connecting 7,321 railway stations for laying optical fiber cable. RailTel has 59,098 route kilometers of optical fiber cable network and has connected 5,929 railway stations across towns and cities in India, as of January 31, 2021. RailTel has city wide access network that stands at over 18,000 kilometers as of January 31, 2021. Company offers high-capacity bandwidth of up to 800G at 87 locations in India, as of January 31, 2021. It offers leased line and VPN facilities and provides IP-1 services allowing company to offer a unique proposition to telecom service providers in India. RailTel pan-India network comprises various technologies including next generation network (NGN), packet transport network, DWDM and IP-MPLS that are maintained by company's network operations centers (NOCs) at Mumbai, Delhi, Kolkata and Secunderabad to provide VPN, point-to-point leased line to enterprises, public sector banks, defense organizations and educational institutions. In addition, company has a Central Network Operations Centre located at New Delhi that monitors the entire pan-India network. RailTel also has installed point-of-presence (PoPs) across cities and towns in India.

RailTel also provides strategic and critical network infrastructure to the Government of India and certain state governments including the NKN project, a national project aimed at connecting higher education and research institutions on a single high speed broadband network, where we have been selected as one of the implementing partners to provide high-capacity bandwidth services. RailTel is also an implementing partner for the Bharat Net project to create optical fiber cable base broadband infrastructure in laying optical fiber cable across 36,000 Gram Panchayats in India. As of January 31, 2021, company had completed laying over 25,000 kilometers of optical fiber cables for 9,473 Gram Panchayats and 7,764 Gram Panchayats were service ready.

### Diversified portfolio of services and solutions:

RailTel offers a diversified portfolio of ICT services and solutions including MPLS-VPN, leased lines services, Telepresence Services (TPaaS), e- Office services and data center services, large network hardware system integration, software and digital services. In addition to laying optical fiber cable network, its transport network is built on high-capacity Dense Wavelength Division Multiplexing (DWDM) and an Internet protocol/Multi-protocol label switching (IP/ MPLS) network over it to support communication requirements of the Indian Railways and other key customers. As of December 31, 2020, company had connected 5,034 MPLS-VPN ports and 895 Internet bandwidth ports for our customers.

RailTel have also entered into agreements with telecom companies and MSOs to lease bandwidth and offer last mile optical fiber cable network connectivity across cities and towns in India. In addition, co. provide NLD connectivity for Indian Railways exchanges on NGN technology handling over 0.89 million minutes per month, as of December 31, 2020.

### Key partner to the Indian Railways in digital transformation:

RailTel provides a variety of services to the Indian Railways and has 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, company's MPLS-VPN for railways intranet aggregated to over 74.7 Gbps capacity and Internet to over 25.06 Gbps capacity. RailTel is responsible for upgradation of RailNet over a Wide Area Network (WAN) by providing centralized mailing system and security systems. RailTel is also working with the Indian Railways to transform railway stations into digital hubs by providing public Wi-Fi at railway stations across India. As of January 31, 2021, 5,929 railway stations were live with 'RailWire' Wi-Fi and it recorded 16.04 million unique users in Fiscal 2020. Company recorded an average of 30.01 million user logins per month in Fiscal 2020, and an average of 9,262 TB of aggregated data consumption per month in Fiscal 2020, also recorded average data usage per user amounting to 577 MB per month in Fiscal 2020. In Fiscal 2018, 2019 and 2020 and in the six months ended September 30, 2020, the company generated revenues of INR 1,187.3 mn, INR 1,152.89 mn, INR 2,831.40 mn and INR 1,280.10 mn, respectively, from services rendered to the Indian Railways.

### Experience in executing projects of national importance with a robust pipeline of projects:

RailTel has successfully completed a number of long-term projects for provision of ICT services across India. These include the NKN and Bharat Net (formerly, the National Optical Fiber Network) projects for providing high-capacity bandwidth pipes for educational institutions of higher learning and laying optical fiber cable for connectivity of gram panchayats in India. Company is also executing projects for public sector enterprises. For ESIC, the company has undertaken operations and maintenance of the network and infrastructure operations in connection with implementation of social security programme that enables stakeholders to avail anytime, anywhere healthcare services across the country and creation of a medical database. As part of work for the MHRD, company role involves commissioning and maintaining secured campus Wi-Fi infrastructure in central universities in India. As of January 31, 2021, company had executed and were maintaining Wi-Fi at 26 universities. RailTel undertake, supply, installation and maintenance of RF Links and outdoor Wi-Fi access points across Rajasthan on a rate contract basis for Government of Rajasthan undertaking involved in IT consultancy, e-governance project conceptualization and implementation and provision of customized IT solutions

# RailTel Corporation of India Ltd.

## VALUATION & VIEW:

At the upper band of issue price, RailTel will trade at 21.4x its FY20 EPS. There are no listed companies in India that engage in a business similar to that of the company. RailTel has reported profit of INR 1,340 Mn/ INR 1,354 Mn/ INR 1,411 Mn/ INR 456 Mn in FY18/FY19/FY20/ H1FY21. RailTel is India's largest neutral telecom infrastructure provider with pan-India optic fiber network, diversified portfolio of service and solution, key partner to India Railways in digital transform.

RailTel was formed to undertake Indian railways' tasks of expeditiously modernizing their entire telecommunications system for train control, operation and safety. Railways have agreed to authorize RailTel to use their right of way for the purpose of establishing and Optical Fiber Cable (OFC) network by laying, amongst others, cables and pipes, and transfer their existing OFC assets to RailTel. The agreement between Ministry of Railways and RailTel also dictates that RailTel will commercially exploit the surplus capacity of the network while the Ministry of Railways will continue to make captive use of the same, thus making RailTel a key network for the Indian Railways. Accordingly, there are significant opportunities for companies, such as, RailTel pursuant to the Indian Railways ambitious plans. Given the Railway plan for modernization of its network, we expect RailTel to benefit from the opportunity going ahead and hence we give a "Subscribe" rating to the issue.

## KEY RISKS & CONCERNS

- The telecommunications industry in India is highly regulated and changes in laws, regulations or governmental policy could potentially adversely affect company business prospects, financial condition, cash flows and results of operations.
- Highly dependent on Public Sector Units (PSU) customers, the Indian Railways and other Government of India (GoI) entities as well as State Governments.
- Failing to upgrade technology for providing service could hamper the company growth going ahead.

## Company Overview

Incorporated in 2000, RailTel 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. It is information and communications technology (ICT) infrastructure provider and is one of the largest neutral telecom infrastructure providers in India. RailTel is a Mini-Ratna (Category-I) Central Public Sector Enterprise, wholly-owned by the Government of India and under the administrative control of the Ministry of Railways. As of January 31, 2021, company's optical fiber network covers 59,098 route kilometers 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.

## RailTel Operations can be broadly classified into :

- Telecom Network Services
- Telecom Infrastructure Services
- Managed Data Center and Hosting Services
- Collaboration Services

### Telecom Network Services (TNS):

Telecom Network Services comprised 66.02% and 74.72% of revenue from operations in Fiscal 2020 and in the six months ended September 30, 2020, respectively. TNS comprise of:

**NLD Services:** As a National Long Distance (NLD) service provider, the company provides the required digital capacity to carry long distance telecommunication service such as voice, data, fax, text, video and multimedia.

**Internet Service Provider (ISP) Services:** As part of ISP services, the company offers enterprise customers Internet leased line services with multiple bandwidth options ranging from 2 MBPS and above across India. Company also offers retail broadband services through our 'RailWire' platform.

### Telecom Infrastructure Services (TIS):

Telecom Infrastructure Services comprised 14.49% and 15.24% of our revenue from operations in Fiscal 2020 and in the six months ended September 30, 2020, respectively. TIS comprises of:

**Passive Infrastructure ("IP-1") Services:** Company provides storage, power, cooling, and physical security for servers and networking equipment of customers and connect them with a variety of telecommunications and network service providers.

**Tower Co-location, Rack and Space Utilization:** Company offers its existing nationwide network of microwave towers and other structures to wireless communications providers that enable them to provide cellular, high-speed data and other wireless communications services. Company also provides single core dark fiber for transmission of digital video signals to multiple system operators (MSOs) for cable distribution.

## RailTel Corporation of India Ltd.

### Managed Data Center and Hosting Services:

**Data Centre and Managed Hosting Services:** Offers a variety of data center services including Infrastructure as a Service or IaaS, dedicated hosting, managed services, cloud computing, managed e-Office services, disaster recovery services, Aadhar authentication services and other IT related services such as load balancing services, application hosting, bandwidth services and advanced firewall services.

**Telepresence Services (“TPaaS”):** Offers end-to-end, high-definition, secure, hosted multitenant video conferencing facility bundled with required bandwidth as a service.

**Security Operations Centre as a Services (“SOCaaS”):** Provides centralized and consolidated cyber security incident prevention and security event monitoring services.

### Collaboration Services:

**ICT Hardware, Software and Service System Integration Projects:** Company collaborates with partners and OEMs to undertake ICT hardware implementation, software delivery and digital transformation projects.

**Digital Services:** Company also collaborates with partners who offer solutions/ applications that are hosted on its data centers, company offer digital services including unified communications, Wi-Fi as a service, e-tendering/ e-auction/ smart payments and disaster management services.

### Management:

Key Managerial Personnel	Position	Experience
Puneet Chawla	Chairman and Managing Director	He has been in the position since 14 <sup>th</sup> December 2018. Prior to joining the company, he held positions such as E.D. in the Railway Board of Ministry of Railways, Government of India, General Manager, Rail Vikas Nigam Limited.
Sanjai Kumar	Director (Network/Planning and Marketing)/ Whole-time Director	He has over 27 years of experience of working as an officer of IRSE (Indian Railway Service of Signal Engineers), including over 18 years of experience of managing projects and marketing departments in the company
Anand Kumar Singh	Director (Finance)/ Whole-time Director	He was appointed as the Chief Financial Officer of the company from 26 <sup>th</sup> September 2019. He has over 33 years of experience of finance and accountancy. Prior to joining the company on 4 <sup>th</sup> September 2019, he was the E.D. (Finance) at IRCON International Ltd.
Umesh Balonda	Nominee Director/ Part-time Government Director	He has over 15 years of experience in Indian Railways undertaking various duties and responsibilities like policy formation and deployment of telecom system on Indian Railways.
Rashmi Jain	Part-time (Non-official) Director/ Independent Director	She has worked as a Joint Secretary and Financial Advisor to the Lok Sabha, Parliament of India from 2012 to 2017 and has held several posts in the Office of the Comptroller and Auditor General of India. She has over 14 years of experience of working in the field of finance.

Source: IPO Prospectus

# RailTel Corporation of India Ltd.

## Financials:

Ratio Analysis (%)	FY18	FY19	FY20	Sep-20
EBITDA Margin	27.0%	30.1%	29.6%	24.2%
PAT Margin	13.7%	13.5%	12.5%	8.5%
RONW	10.9%	10.5%	10.3%	6.7%
ROCE	11.8%	14.7%	14.5%	6.8%
AT (x)	22.5x	22.3x	21.4x	66.2x
Diluted EPS (INR) (Adjusted Post IPO)	4.2	4.2	4.4	1.4

Source: IPO Presentation, \* Restated Consolidated, # Proforma Ind AS

Income Statement (INR Mn)	FY18	FY19	FY20	Sep-20
<b>Revenues</b>	<b>9,768</b>	<b>10,033</b>	<b>11,281</b>	<b>5,374</b>
COGS	5,507	5,589	6,370	2,862
<b>Gross profit</b>	<b>4,260</b>	<b>4,443</b>	<b>4,910</b>	<b>2,512</b>
Employee cost	1,180	1,120	1,205	669
Other expenses	439	302	366	543
<b>EBITDA</b>	<b>2,641</b>	<b>3,022</b>	<b>3,339</b>	<b>1,301</b>
<b>EBITDA Margin</b>	<b>27.0%</b>	<b>30.1%</b>	<b>29.6%</b>	<b>24.2%</b>
Depreciation & amortization	1,186	1,116	1,309	817
<b>EBIT</b>	<b>1,455</b>	<b>1,906</b>	<b>2,030</b>	<b>483</b>
Interest expense	38	79	68	25
Other income	444	350	380	164
Exceptional Item	0	0	-4	0
<b>PBT</b>	<b>1,596</b>	<b>2,177</b>	<b>1,848</b>	<b>622</b>
Tax	256	823	437	166
<b>PAT</b>	<b>1,340</b>	<b>1,354</b>	<b>1,411</b>	<b>456</b>
Restated Basic EPS (INR)	4.2	4.2	4.4	1.4

Source: RHP

Cashflow Statement (INR Mn)	FY18	FY19	FY20	Sep-20
Net cash flow from operating activities	408.8	353.9	1733.0	2079
Net cash flow used in investing activities	15.4	406.5	(479.5)	(557.1)
Net cash flow generated from / (used in ) in financing activities	(620.2)	(772.4)	(624.6)	(251.3)
Net increase / (decrease) in cash and cash equivalents (A+B+C)	(196.0)	(12.0)	628.9	(600.5)
Opening Cash and cash equivalents	924.3	728.3	716.3	1345.2
<b>Closing Cash and cash equivalents</b>	<b>728.3</b>	<b>716.3</b>	<b>1345.2</b>	<b>744.7</b>

Source: RHP

## RailTel Corporation of India Ltd.

### Financials:

Balance Sheet (INR Mn)	FY18	FY19	FY20	Sep-20
Share capital	3,209	3,209	3,209	3,209
Reserves and surplus	9,082	9,681	10,484	10,737
<b>Shareholders' funds</b>	<b>12,292</b>	<b>12,891</b>	<b>13,694</b>	<b>13,946</b>
Long-term borrowings	0	41	348	180
Short term borrowings	0	0	0	0
<b>Total debt</b>	<b>0</b>	<b>41</b>	<b>348</b>	<b>180</b>
Deferred tax liabilities (net)	0	169	35	0
Long-term provisions/ Other Liabilities	3,526	1,260	1,251	1,618
<b>SOURCES OF FUNDS</b>	<b>15,818</b>	<b>14,361</b>	<b>15,328</b>	<b>15,744</b>
PPE	10,485	10,859	8,611	8,132
Other Intangible Assets	36	40	78	147
Non-current investments	38	35	33	41
Deferred tax Assets (net)	40	0	0	83
Other financial assets	989	317	2,374	856
<b>Non-current assets</b>	<b>11,588</b>	<b>11,250</b>	<b>12,826</b>	<b>10,934</b>
Inventories	0	9	5	2
Trade receivables	4,667	4,596	5,071	6,565
Cash and Bank Balance	5,092	4,069	2,684	3,689
Other current & financial assets	1,882	2,354	3,396	3,631
<b>Current assets</b>	<b>11,641</b>	<b>11,027</b>	<b>11,155</b>	<b>13,887</b>
<b>less: current liabilities and provisions</b>	<b>7,411</b>	<b>7,915</b>	<b>8,653</b>	<b>9,077</b>
Trade payables	2,710	2,668	3,789	4,079
Other current liabilities	3,583	3,332	2,759	3,117
Other financial & current tax liabilities	735	1,549	1,904	1,744
Short-term provisions	384	367	201	137
<b>Net current assets</b>	<b>4,230</b>	<b>3,112</b>	<b>2,503</b>	<b>4,810</b>
<b>APPLICATION OF FUNDS</b>	<b>15,818</b>	<b>14,361</b>	<b>15,328</b>	<b>15,744</b>

Source: RHP

# RailTel Corporation of India Ltd.

**ANALYST CERTIFICATION:**

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