



SMC Ranking

★ ★ ★ ☆ ☆ (3/5)

Issue Highlights

Industry	Telecom Services
Offer for sale (Shares)	87,153,369
Employee reservation	500,000
Net Offer to the Public	87,153,369
Issue Size (Rs. Cr.)	810-820
Price Band (Rs.)	93-94
Offer Date	16-Feb-21
Close Date	18-Feb-21
Face Value	10
Lot Size	155 Shares

Issue Composition

	In shares
Total Issue for Sale	86,653,369
QIB	43,326,685
NIB	12,998,005
Retail	30,328,679

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	100.00%	72.84%
QIB	0.00%	13.50%
NIB	0.00%	4.05%
Employee reservation	0.00%	0.16%
Retail	0.00%	9.45%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

- To carry out the disinvestment plan.
- To achieve the benefits of equity share listing on the stock exchanges.

Book Running Lead Manager

- ICICI Securities Limited
- IDBI Capital Markets & Securities Limited
- SBI Capital Markets Limited

Name of the registrar

- KFin Technologies Private Limited

About the Company

Incorporated in 2000, RailTel Corporation is a public sector business unit, wholly owned by the Government of India (GOI) and administrated by the Ministry of Railways. It is an information and communications technology (“ICT”) infrastructure provider and is one of the largest neutral telecom infrastructure providers in India. As of January 31, 2021, RailTel’s optic fiber network covers 59,098 route kilometers and covers 5,929 railway stations across towns and cities in India . RailTel offers diverse range of services across industries - Telecom Network Services, Telecom Infrastructure Services, Managed Data Center and Hosting Services and Projects (System Integration Services) . RailTel uses the latest technology like high dense wavelength division multiplexing (DWDM) and multi-protocol label switching (MPLS) network. The company has data centers in Haryana, Gurugram, Secunderabad, and Telangana.

Strength

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

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. The company 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. The company offers high capacity bandwidth of up to 800G at 87 locations in India, as of January 31, 2021. It also offers leased line and VPN facilities and also provide of IP-1 services. RailTel’s pan-India network comprises various technologies including next generation network (“NGN”), packet transport network, DWDM and IP-MPLS that are maintained by its network operations centers (“NOCs”) at Mumbai, Delhi, Kolkata and Secunderabad. The Company has developed a retail broadband network and applications to retail customers across India through its ‘RailWire’ platform. As of January 31, 2021, the Company had 305,746 users of its ‘RailWire’ service.

Diversified portfolio of services and solutions:

The company offers a diversified portfolio of ICT services and solutions including MPLS-VPN, leased lines 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 DWDM and an IP/ MPLS network over it to support communication requirements of the Indian Railways and other key customers. It has also built its optical fiber cable network across cities and towns in India to provide end-to-end bandwidth services through leased circuits, MPLS-VPN ports or Internet bandwidth ports. As of December 31, 2020, it had connected 5,034 MPLS-VPN ports and 895 Internet bandwidth ports for its customers. The company also offers digital subscriber line access multiplexer for broadband at railway colonies and provide Wi-Fi in various offices of the Indian Railways. The provisioned bandwidth for railway applications grew from 38.12 Gbps as of March 31, 2020 to 54.82 Gbps as of December 31, 2020 reflecting a growth 1.4 times.

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. The company is responsible for upgradation 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. The

company is also working with the Indian Railways to transform railway stations into digital hubs by providing public Wi-Fi at railway stations across India.

Experience in executing projects of national importance with a robust pipeline of projects: As on January 31, 2021, 5,929 railway stations were live with 'RailWire' Wi-Fi and it recorded over 16.04 million unique users per day in Fiscal 2020. The company recorded an average of 3 crore user logins per month in Fiscal 2020, and an average of 9,262 TB of aggregated data consumption per month in Fiscal 2020. It 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 6 months ended September 30, 2020, it has generated revenues of ₹ 118.73 crore, ₹ 115.29 crore, ₹ 283.14 crore and ₹ 128.01 crore, respectively, from services rendered to the Indian Railways. 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.

Strong track record of financial performance: The company has established a consistent track record of financial performance and growth. It has been profitable since Fiscal 2007 and has consistently declared and paid dividends since Fiscal 2008. The company's net worth has been positive since incorporation and has been consistently growing. Its operations have been funded entirely by internal accruals since Fiscal 2013 and it is a debt-free company.

Strategies

Continue to expand its telecom services and deploy latest technologies: The company believes its extensive network is a key differentiation and a key value proposition. The company continues to invest in expanding its network and deploying latest technologies to enable a high capacity next generation network to deliver sustained value to customers. It also intends to create open radio access networks small cell and enhance tower infrastructure at railways stations for hosting telecom players, create integrated network and build capabilities of managing NOC operations banks and financial institutions and create fiber network in the six states of North East. As of -January 31, 2021, it had empaneled over 180 partners / business associates with a range of skill sets covering various ICT opportunities. In addition, as part of its 'Digital Service Partner' program, it has created a platform for small agile ICT companies that provide unique solutions that are required for implementing various Digital India initiatives. It intends to collaborate with such companies to provide unique solutions using artificial intelligence and machine learning.

Further diversify services and solutions with a focus on Indian Railways: The company intends to continue adopting the ready business solution approach enabling its customers to scale faster and enhance their operational efficiencies. It plans to enhance its focus on provision of services that have high market attractiveness and in particular work with the Indian Railways. The company intends to work with the Indian Railways to develop and manage their proposed LTE network that will create a private network along a railway tracks. It believes that this network will provide connectivity for IoT initiatives of the Indian Railways. The company intends to monetize on opportunities generated by Indian Railways implementing ETCS level-2, MC PTT + Voice, IoT-based asset monitoring, passenger information display system and live feed video surveillance.

Expand its Services Outside India: The company intends to offer services selectively in jurisdictions outside India and leverage its existing technology to implement its capabilities other countries. The company is currently in the process of bidding for project in Africa (supply, delivery, installation and commissioning of goods and service for digital literacy in public primary schools in Kenya). Moreover, it is evaluating projects in Bangladesh and Jordan for modernizing and digitizing existing networks. Besides, it is also exploring business opportunities in Mauritius and in healthcare segment. The company also intends to leverage its existing technology and work with the GoI to implement its capabilities in other countries.

Risk factors

- 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.
- The 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. Any adverse changes in government policies and budgetary allocation resulting from a change in government policies or priorities, could materially and adversely affect its business.
- Internet security concerns and illegal distribution of third-parties could adversely affect its broadband internet access services.
- If the company does not continue to provide telecom or related services that have technologically up to date, it may not remain competitive and its business can affect.

Peer comparison

As per the RHP, there are no listed companies in India that engage in a business similar to that of the company.

Valuation

Considering the P/E valuation on the upper price band of Rs.94, EPS and P/E of estimated annualised FY2021 are Rs.2.83 and 33.09 multiple respectively and at a lower price band of Rs. 93, P/E multiple is 32.74. Looking at the P/B ratio on the upper price band of Rs.94, book value and P/B of estimated annualised FY21 are Rs. 44.87 and 2.09 multiple respectively and at a lower price band of Rs. 93 P/B multiple is 2.07. No change in pre and post issue EPS and Book Value as the company is not making fresh issue of capital.

Industry overview

Indian telecom players offer various services other than just voice and data services. Some of the key services of Indian telecom players include wireline and wireless voice services, wireline and wireless broadband services, leased line, video conferencing, enterprise services, data centre and other ancillary services. The industry is experiencing a shift towards higher speed bandwidth across all segments. In addition, higher discounts are being offered by players in high-data speed offerings in order to retain existing clients and larger orders typically result in higher discounts. The Government of India has launched many programmes to provide network/data connectivity in all regions. These programmes, by providing the pre-requisite platforms such as infrastructure and financial aids, would directly/indirectly drive the sector's growth. Apart from that, the Government itself is the end user of the telecom services under some of these programmes. End-use sectors, such as, IT/ IT-enabled services, banking and financial services, manufacturing, retail and logistics account for majority of the available bandwidth. Increasing e-governance primarily driven by the Government through various initiatives, such as, Digital India, is also expected to increase the demand for EDS. Among service lines, demand for VPN and VSAT is expected to increase at a faster rate compared to other connectivity solutions, given that enterprises are seeking 'on-the-go' wireless services.

Outlook

RailTel is ICT infrastructure providers to Indian Railways. The company is going to play a key role in digital transformation of Indian Railways. It has decent profitability with double-digit margins. It has managed to post revenue growth in the recent years and has no debt on its books. The management of the company is confident for slow and steady growth. Considering all these aspects, investors may consider investing in this issue with a long term perspective.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	February 16, 2021
Bid/Offer Closing Date	February 18, 2021
Finalisation of Basis of Allotment with the Designated Stock Exchange	On or about February 23, 2021
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	On or about February 24, 2021
Credit of Equity Shares to depository accounts of Allottees	On or about February 24, 2021
Commencement of trading of the Equity Shares on the Stock Exchanges	On or about February 26, 2021

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Sep-20 (6 Months)	Period ended 31-Mar-20 (12 Months)	Period ended 31-Mar-19 (12 Months)
Revenue from operations	537.40	1,128.05	1,003.27
Total expenditure	407.35	794.25	701.11
Operating Profit	130.05	333.81	302.16
OPM%	24.20	29.59	30.12
Other Income	16.38	37.95	35.00
PBDIT	146.44	371.76	337.15
Depreciation	81.74	130.90	111.58
PBIT	64.70	240.86	225.58
Interest	2.51	6.80	7.889
PBT before Share of profit/ (loss) of Joint Ventures	62.18	234.06	217.69
Exceptional Items	0.00	-49.30	0.00
PBT	62.18	184.76	217.69
Tax	16.60	43.69	82.33
Profit After Tax	45.58	141.07	135.36

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Sep-20	As on 31-Mar-20	As on 31-Mar-19
Non-current assets			
Property, plant and equipment	581.71	608.53	785.98
Capital work-in-progress	231.53	252.55	299.90
Right of Use Assets	167.51	172.96	0.00
Intangible assets	14.70	7.84	3.96
Financial Assets	0.00	0.00	0.00
Loans and Security Deposits	4.14	3.32	3.47
Other Non Current Financial Assets	82.69	219.30	0.65
Deferred tax assets (net)	8.25	0.00	0.00
Other non-current assets	2.91	18.06	31.00
Total non-current assets	1093.44	1282.56	1124.95
Current assets			
Inventories	0.15	0.49	0.87
Financial Assets	0.00	0.00	0.00
Investment	0.00	0.00	7.05
Trade Receivables	656.52	507.07	459.57
Cash and Cash Equivalents	74.47	134.52	71.63
Other Bank Balances	294.47	133.91	335.30
Loans and Security Deposits	5.37	4.87	4.32
Other Current Financial Assets	216.94	213.54	117.88
Current Tax Assets (Net)	36.61	27.48	32.73
Other Current Assets	104.18	93.67	73.38
Total current assets	1388.71	1115.54	1102.72
Total Assets	2482.15	2398.10	2227.68
Non-current liabilities			
Leasing Liabilities	17.99	34.80	4.12
Other Non Current Financial Liabilities	11.47	7.40	9.18
Provisions	10.38	9.90	4.69
Deferred Tax Liabilities (Net)	0	3.54	16.94
Other Non current liabilities	139.96	107.83	112.10
Total non-current liabilities	179.80	163.46	147.04
Current liabilities			
Borrowings			
Trade payables			
Total outstanding dues to MESE	103.67	64.81	38.67
Total outstanding dues of creditors other than MASE	304.27	314.06	228.10
Leasing Liabilities	6.26	7.74	1.36
Other Current Financial Liabilities	168.13	182.71	153.49
Provisions	13.68	20.09	36.71
Other Current Liabilities	311.71	275.87	333.22
Total current liabilities	907.72	865.28	791.55
Total	1087.52	1028.74	938.59
NET Worth	1394.63	1369.36	1289.09
Net worth represented by:			
Share capital	320.94	320.94	320.94
Other Equity	1073.69	1048.42	968.15
Net Worth	1394.63	1369.36	1289.09

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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