

## RailTel Corporation of India Ltd

### Largest Neutral Telecom Infrastructure Provider

RailTel is an information and communications technology ("ICT") infrastructure provider and are one of the largest neutral telecom infrastructure providers in India. Company 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.

**Positives:** (a) Company is amongst the largest neutral telecom infrastructure providers in India with pan-India optic fiber network (b) Company has a diversified portfolio of services and solutions (c) Key partner to the Indian Railways in digital transformation (d) Experience in executing projects of national importance with a robust pipeline of projects (e) Professionally managed with strong corporate governance and senior management team with significant industry experience.

**Investment concerns:** (a) The telecommunications industry in India is highly regulated and changes in laws, regulations or governmental policy could potentially adversely affect the business, prospects, financial condition, cash flows and results of operations (b) Company is dependent on and derive a substantial portion of their revenue from PSU customers, the Indian Railways and other Govt entities as well as State Governments (c) Not updated with technological changes.

**Outlook & Valuation:** Company is going to play a key role in digital transformation of Indian Railways. Company's margins & return ratios are better compared to other telecom players in India. Company also has a strong financial position (debt free) and has been consistently paying dividends since 2008. There are no listed peers for the Company. Company has priced its issue at 21.4x PE on a FY20 trailing basis, which is quite reasonable by looking at the strong future growth rates of the Company. We expect a good listing for the Company. We are positive on the long term prospects of the industry as well the Company, **we recommend "SUBSCRIBE" to the RailTel IPO for long term as well as for listing gains.**

### Key Financials

Y/E March (₹ cr)	FY18	FY19	FY20
<b>Net Sales</b>	976.8	1,003.3	1,128.1
% chg	-	2.7	12.4
<b>Net Profit</b>	134.0	135.4	141.1
% chg	-	1.0	4.2
EBITDA (%)	27.0	30.1	29.6
<b>EPS (Rs)</b>	4.2	4.2	4.4
P/E (x)	22.5	22.3	21.4
P/BV (x)	2.5	2.3	2.2
ROE (%)	10.9	10.5	10.3
ROCE (%)	12.1	15.4	15.3
EV/EBITDA	9.4	8.2	7.1
EV/Sales	2.5	2.5	2.1

Source: Company, Angel Research.

Note: Valuation ratios at upper price band.

## SUBSCRIBE

Issue Open: February 16, 2021

Issue Close: February 18, 2021

Face Value: Rs 10

Present Eq. Paid up Capital: Rs 320.9 cr

Offer for Sale: 8.7 cr share

Fresh issue: NIL

Post Eq. Paid up Capital: Rs 320.9 cr

Issue size (amount): Rs 819.2 cr

Price Band: Rs 93-94

Lot Size: 155 shares and in multiple thereafter

Post-issue implied mkt. cap: \*Rs 2,985 cr - \*\*Rs 3,017 cr

Promoters holding Pre-Issue: 100.0%

Promoters holding Post-Issue: 72.8%

\*Calculated on lower price band

\*\* Calculated on upper price band

### Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

### Post Issue Shareholding Pattern

Promoters	72.8%
Others	27.2%

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## Company background

Company were incorporated on September 26, 2000 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, the 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. Company operates data centers in Gurugram, Haryana and Secunderabad, Telangana to host and collocate critical applications for customers including the Indian Railways.

## Issue details

Company issues comprise only 87,153,369 equity shares through offer for sale in the price band of ₹93-94.

### Pre and post IPO shareholding pattern

No of shares	(Pre-issue)	%	(Post-issue)	%
Promoter	320,938,407	100.0	233,785,038	72.8
Public	0	0.0	87,153,369	27.2
Total	320,938,407	100.0	320,938,407	100.0

Source: Company, Angel Research & RHP.

Note: Calculated at upper price band.

## Objectives of the Offer

- To carry out the disinvestment of 87,153,369 Equity Shares by the Selling Shareholder.
- To achieve the benefits of listing the Equity Shares on the Stock Exchanges.

## Key Management Personnel

**Puneet Chawla**, aged 57 years, is the Chairman and Managing Director of the Company since December 14, 2018. He is an IRSSE officer (batch of 1985). Prior to joining the Company, he has held positions such as Executive Director (Safety) in the Railway Board of Ministry of Railways, Government of India, Divisional Railway Manager, Ajmer, Chief Project Manager, Indian Railway Project Management Unit, General Manager, Rail Vikas Nigam Limited. He holds a bachelor’s degree in B.E/Electronic and Electrical Communication from Punjab Engineering College, Chandigarh and a Master’s degree in Business Administration from Indira Gandhi National Open University.

**Sanjai Kumar**, aged 52 years, is the Director (Network, Planning and Marketing) / Whole time Director of the Company. He holds a bachelors degree of technology in electronic and telecommunication engineering from University of Allahabad and a post graduate diploma in management from Management Development Institute, Gurgaon.

**Consolidated Profit & Loss Statement**

Y/E March (₹ cr)	FY18	FY19	FY20	H1FY21
<b>Total operating income</b>	976.8	1,003.3	1,128.1	537.4
% chg	-	2.7	12.4	
<b>Total Expenditure</b>	712.7	701.1	794.2	407.3
Access and other Charges	250.1	263.5	249.0	149.1
License fee and spectrum charges	47.3	46.0	47.9	26.4
Expenses on Project	253.3	249.4	340.1	110.8
Employee Benefits Expenses	118.0	112.0	120.5	66.9
Administrative & Other Expenses	43.2	27.1	31.5	50.4
Corporate Social Responsibility	0.8	3.0	5.2	3.9
<b>EBITDA</b>	264.1	302.2	333.8	130.1
% chg	-	14.4	10.5	
(% of Net Sales)	27.0	30.1	29.6	24.2
Depreciation & Amortisation	118.6	111.6	130.9	81.7
<b>EBIT</b>	145.5	190.6	202.9	48.3
% chg	-	31.0	6.5	
(% of Net Sales)	14.9	19.0	18.0	9.0
Interest & other Charges	3.8	7.9	6.8	2.5
Other Income	44.4	35.0	38.0	16.4
(% of Sales)	4.5	3.5	3.4	3.0
<b>Recurring PBT</b>	186.1	217.7	234.1	62.2
% chg	-	17.0	7.5	
Exceptional item	-26.5	-	-49.3	-
Tax	25.6	82.3	43.7	16.6
<b>PAT (reported)</b>	134.0	135.4	141.1	45.6
% chg	-	1.0	4.2	
(% of Net Sales)	13.7	13.5	12.5	8.5
<b>Basic &amp; Fully Diluted EPS (Rs)</b>	4.2	4.2	4.4	1.4
% chg	-	1.0	4.2	

Source: Company, Angel Research

**Consolidated Balance Sheet**

Y/E March (₹ cr)	FY18	FY19	FY20	H1FY21
<b>SOURCES OF FUNDS</b>				
Equity Share Capital	320.9	320.9	320.9	320.9
Other equity	908.2	968.1	1,048.4	1,073.7
<b>Shareholders Funds</b>	<b>1,229.2</b>	<b>1,289.1</b>	<b>1,369.4</b>	<b>1,394.6</b>
Other liabilities	352.6	147.0	163.5	179.8
<b>Total Liabilities</b>	<b>1,581.8</b>	<b>1,436.1</b>	<b>1,532.8</b>	<b>1,574.4</b>
<b>APPLICATION OF FUNDS</b>				
Property, Plant and Equipment's	684.3	786.0	608.5	581.7
Capital Work-in-Progress	364.2	299.9	252.5	231.5
Right of Use Assets	-	-	173.0	167.5
Intangible Assets	3.6	4.0	7.8	14.7
Current Assets	1,164.1	1,102.7	1,115.5	1,388.7
Inventories	-	0.9	0.5	0.2
Trade Receivables	466.7	459.6	507.1	656.5
Cash and Cash Equivalents	72.8	71.6	134.5	74.5
Other Bank Balances	436.4	335.3	133.9	294.5
Other Assets	188.2	235.4	339.6	363.1
Current liabilities	741.1	791.5	865.3	907.7
<b>Net Current Assets</b>	<b>423.0</b>	<b>311.2</b>	<b>250.3</b>	<b>481.0</b>
Other Non Current Asset	106.6	35.1	240.7	98.0
<b>Total Assets</b>	<b>1,581.8</b>	<b>1,436.1</b>	<b>1,532.8</b>	<b>1,574.4</b>

Source: Company, Angel Research

**Consolidated Cash Flow Statement**

Y/E March (₹ cr)	FY18	FY19	FY20	H1FY21
Profit after Tax	134.0	135.4	141.1	45.6
Depreciation	118.6	111.6	180.2	81.7
Change in Working Capital	(128.7)	(126.3)	(94.1)	(89.1)
Interest Expense	-	5.3	3.4	1.4
Direct Tax Paid	(50.5)	(61.4)	(38.3)	(38.0)
Others	(32.6)	(29.1)	(19.0)	19.2
<b>Cash Flow from Operations</b>	<b>40.9</b>	<b>35.4</b>	<b>173.3</b>	<b>20.8</b>
(Inc.)/ Dec. in Fixed Assets	(117.2)	(83.8)	(61.7)	(34.5)
Interest income	40.3	27.8	27.8	9.2
Others	78.4	96.6	(14.0)	(30.4)
<b>Cash Flow from Investing</b>	<b>1.5</b>	<b>40.6</b>	<b>(48.0)</b>	<b>(55.7)</b>
Dividend paid	(62.0)	(75.3)	(55.8)	(20.0)
Payment for Lease Liability	-	(1.9)	(6.7)	(5.1)
<b>Cash Flow from Financing</b>	<b>(62.0)</b>	<b>(77.2)</b>	<b>(62.5)</b>	<b>(25.1)</b>
Inc./(Dec.) in Cash	(19.6)	(1.2)	62.9	(60.1)
<b>Opening Cash balances</b>	<b>92.4</b>	<b>72.8</b>	<b>71.6</b>	<b>134.5</b>
<b>Closing Cash balances</b>	<b>72.8</b>	<b>71.6</b>	<b>134.5</b>	<b>74.5</b>

Source: Company, Angel Research

**Key Ratios**

Y/E March	FY18	FY19	FY20
<b>Valuation Ratio (x)</b>			
P/E (on FDEPS)	22.5	22.3	21.4
P/CEPS	13.2	11.3	11.7
P/BV	2.5	2.3	2.2
EV/Sales	2.5	2.5	2.1
EV/EBITDA	9.4	8.2	7.1
<b>Per Share Data (Rs)</b>			
EPS (Basic)	4.2	4.2	4.4
EPS (fully diluted)	4.2	4.2	4.4
Cash EPS	7.1	8.3	8.1
Book Value	38.3	40.2	42.7
<b>Returns (%)</b>			
ROE	10.9	10.5	10.3
ROCE	12.1	15.4	15.3
Angel ROIC (Pre tax)	42.0	34.1	24.7
<b>Turnover ratios (x)</b>			
Receivables (days)	174.4	167.2	164.1
Payables (days)	101.3	97.1	122.6
Working capital cycle (days)	73.1	70.1	41.5

Source: Company, Angel Research (Valuation at the upper price band)

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