

Recommendation SUBSCRIBE

Issue Details

| | |
|--------------|-------------------|
| Face Value | ₹10 |
| Public Issue | ~8.72 Cr shares |
| Price Band | ₹93-94 |
| Issue Size# | ₹819 Cr |
| Bid lot | 155 Equity shares |
| Issue Type | OFS |

Post Issue M. Cap: ~₹3,017cr; # - at upper band

% Shareholding Pre IPO Post IPO

| | | |
|----------------|-----|----|
| Promoter group | 100 | 73 |
| Public | -- | 27 |

Post Issue percentage is at upper price band

Share Reservation % of Net Issue

| | |
|--------|----|
| QIB | 50 |
| NII | 15 |
| Retail | 35 |

Company Management

| | |
|-----------------------|------------------------------|
| Mr. Puneet Chawla | Chairman & Managing Director |
| Mr. Anand Kumar Singh | Director (Finance) & CFO |

Issue Managers

| | |
|-----------|--|
| BRLMs | ICICI Securities Ltd, IDBI Capital Markets & Securities Ltd and SBI Capital Markets Ltd. |
| Registrar | KFin Technologies Pvt. Ltd. |

Source: RHP

IIFL Securities Research

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Railtel Corporation of India (RailTel), a Mini Ratna (Category-I) Central Public Sector Enterprise, having pan India optical fiber network of 59,098 route KM (18,000 KM in cities), offers Telecom services and also undertakes Projects (System Integration Services).

Strong standing places well for future growth: Railtel having strong backing from Government of India (GoI) stands to gain from securing projects from GoI and PSUs on nomination basis. It has right of way for laying optical fiber cable along railway tracks which will expand its network in tandem with new rail line constructions. Apart from bandwidth and ISP related services, the company also provides Telecom Infrastructure Services, Managed Data Center & Hosting Services and undertakes various consultancy and system integration related projects which diversifies revenue streams. We believe that GoI programmes to increase rural broadband connectivity can aid Railtel in maintaining revenue growth momentum.

Strong order book position & balance sheet: As per the management, the value of orders that it is currently working on is ~₹4,000 cr which provides good growth visibility. Railtel is debt free, benefits from viability gap funding, has favorable working capital requirements and generates good cash flows which augur well for future investments.

Outlook & Valuation: Railtel's revenues have grown at 7.5% CAGR over FY18-20 and has healthy EBITDA margins. The margins have declined in H1FY21 owing to non-recurring (provision for expected credit loss & PM Cares donation) items but are at normal levels after adjustments. At ₹94 per share, the valuation on H1FY21 annualized EPS (w/o adjusting for impairment & non-recurring items) is optically high at 33x but the same post adjustment is 20x. Our modest 6% revenue CAGR over FY20-23E and steady state margin assumption results in FY23E P/E of 17x, which is fair considering additional growth drivers from Indian Railways initiatives. Hence, we recommend SUBSCRIBE from long term perspective.

Financial Summary

| Consolidated | FY18 | FY19 | FY20 | H1FY21* |
|------------------|------|-------|-------|---------|
| Revenue (₹Cr) | 977 | 1,003 | 1,128 | 537 |
| YoY % | 14.8 | 2.7 | 12.4 | 24.2 |
| EBITDA % | 27.0 | 30.1 | 29.6 | 24.2 |
| Reported EPS (₹) | 4.2 | 4.2 | 4.4 | 1.4 |
| P/E (x) | 22.5 | 22.3 | 21.4 | -- |
| P/BV (x) | 2.5 | 2.3 | 2.2 | -- |
| EV/EBITDA (x) | 9.5 | 8.7 | 8.3 | -- |
| ROE (%) | 24.0 | 10.7 | 13.2 | -- |

Source: RHP; IIFL Research; *Non Annualized.

Offer Details

The total issue size is ₹819cr entirely made up of an Offer for sale of ~8.72cr shares. The company will not receive any proceeds from the Offer.

Business Description

Railtel Corporation of India is an information and communications technology (ICT) infrastructure provider and one of the largest neutral telecom infrastructure providers in India (Source: CRISIL Report). The company is Mini Ratna (Category-I) Central Public Sector Enterprise, wholly-owned by the GoI and under the administrative control of the Ministry of Railways. It was 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, it had exclusive right of way along 67,415 route kilometers connecting 7,321 railway stations for laying optical fiber cable. Its optical fiber network covers 59,098 route kilometers and also covers 5,929 railway stations across towns and cities in India. It also operates data center in Gurugram, Haryana and Secunderabad, Telangana to host and collocate critical applications for customers including the Indian Railways. Railtel also undertakes various ICT projects for the Indian Railways, central government and state governments, including various train control system projects for Indian Railways.

It provides a diverse range of services across industries and its portfolio of services can be broadly classified as:

Telecom

- ❖ National Long Distance (NLD) services which is mainly bandwidth leasing & VPN services to its enterprise customers like Government departments and customers, MNCs, Telecom operators and MSOs.
- ❖ Internet Service Provider (ISP) Services where it provides nationwide internet & broadband services to ISPs, Educational Institutions and various Government departments. It also offers retail broadband services through the RailWire platform.
- ❖ Passive Infrastructure (IP-1) Services which can be classified as leasing of tower (to wireless communication providers) and dark fiber.

- ❖ Managed Data Center and Hosting Services which covers IaaS, Colocation Services, Managed services, Cloud Computing, Managed e-Office, videoconferencing service (TPaaS) and Security Operations Centre as a Services.

Projects (System Integration Services)

- ❖ ICT Hardware, Software and Service System Integration Projects which covers ICT hardware implementation, software delivery and digital transformation projects including creation of state wide area network and its maintenance, data center and facility management services, Wi-Fi projects, city surveillance projects, laying of state wide fiber optic network and its maintenance, implementation and maintenance of end-to-end IT applications of enterprises.
- ❖ Digital Services where it collaborates with partners who offer solutions/ applications that are hosted on its data centers
- ❖ Other Services include consultancy services for ICT services and solutions and signaling services including signal design and design automation software tools for the Indian Railways.

Exhibit 1: Segmental revenue break-up

| Particulars (₹ Cr) | FY18 | FY19 | FY20 | H1FY21 |
|--------------------------------|------------|--------------|--------------|------------|
| Revenue | | | | |
| NLD Services | 390 | 372 | 415 | 213 |
| ISP Services | 148 | 162 | 166 | 107 |
| IP-1 Services | 147 | 137 | 163 | 82 |
| Total Telecom | 685 | 671 | 745 | 402 |
| Railways Project Works | 35 | 32 | 189 | 58 |
| Other Projects | 256 | 265 | 188 | 75 |
| Total Project | 291 | 297 | 377 | 134 |
| Other Operating Revenue | 1 | 35 | 6 | 2 |
| Revenue from operations | 977 | 1,003 | 1,128 | 537 |

Source: RHP, IIFL Research

As per the management, the Government client account for 60-65% of the revenue and the private sector, which also includes fortune 500 companies account for 35-40% of the revenues.

Exhibit 2: Quantified key projects and proposed projects & services

| Description | Value (₹ Cr) |
|---|--------------|
| Key Projects | |
| Managed Services for State Government Entities | 292 |
| MPLS VPN Network for Coal Sector Public Sector Undertakings | 352 |
| Network and System Integration Projects in Defense Segment | 265 |
| Proposed Projects and Services | |
| Modern Train Control System | 181 |
| Signaling and Telecommunication Projects | 86 |
| Tunnel Communication Project | 12 |

Source: RHP, IIFL Research

Exhibit 3: Top clients mix

| Description | Contribution |
|-------------------------------|--------------|
| Indian Railways | 25-30% |
| Kerala State Government (OFN) | 8-10% |
| NKN Project | 8-10% |
| Coal Sector | 5% |
| SBIN/Banking | 5% |

Source: Company, IIFL Research

Key Risks

- ❖ The telecommunications industry in India is highly regulated and changes in laws, regulations or governmental policy could potentially adversely affect its business, prospects, financial condition, cash flows and results of operations.
- ❖ Railtel is dependent on and derives a substantial portion of its revenue from PSU customers, the Indian Railways and other GoI entities as well as State Governments and Railtel's relationship with GoI entities and State Governments exposes it to risks inherent in doing business with them, which may adversely affect Railtel's business, results of operations and financial condition.

* For complete list of risk factors kindly refer to the RHP.

Recommendation Parameters for Fundamental/Technical Reports:

Buy – Absolute return of over +10%

Accumulate – Absolute return between 0% to +10%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

IIFL Group | IIFL Securities Ltd (CIN No.: L99999MH1996PLC132983) Office No 1, Gr Floor, Hubtown Solaris, NS Phadke Marg, Andheri, Vijay Nagar, Mumbai - 400069. Tel.: (91-22) 2580 6650 *Customer Service: 40071000 *Stock Broker SEBI Regn: INZ000164132 *NSE: 10975 *BSE: 0179 *MCX:55995 *NCDEX:378 *Depository: INDP185 2016 *MF Distributor ARN: 47791, *PMS SEBI Regn.: INP000002213, *Investment Adviser SEBI Regn. : INA000000623, *Research Analyst SEBI Regn:- INH000000248 | Kindly refer to www.indiainfoline.com for detailed disclaimer and risk factors.

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