

RailTel Corporation

Telecom | India

IPO | 13 February 2021

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About the Company

RailTel Corporation of India Ltd (RAILTEL), incorporated in Sept'20, is a Miniratna (Category-I) Central Public Sector Enterprise (CPSE). It is wholly-owned by the Government of India and functions under the administrative control of the Ministry of Railways. RAILTEL was formed with the objective 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 alongside of railway tracks. 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 5,929 railway stations across towns and cities in India. RAILTEL has a strategic relationship with the Indian Railways and undertakes a wide variety of projects including the provision of mission-critical connectivity services such as Video Surveillance System (VSS) at stations and within trains, 'e-Office' services and implementing short-haul connectivity between stations and long-haul connectivity to support various organizations within the Indian Railways.

Financials in Brief

RAILTEL's financials are not that encouraging. While its revenue recorded 7% CAGR over FY18-FY20, its net profit clocked by mere 3% CAGR during the same period. It has been maintaining strong margins profile with EBITDA margins remaining in the range of 28-30% and net margin at 12-14%. RAILTEL is a debt-free company despite being into capital intensive business, which offers an edge. Further, RoE at 10% in FY20 does not look to be impressive despite strong margins.

Our View: SUBSCRIBE

The IPO is valued at 21.4x EPS and 8.9x EBITDA for FY20, which looks to be reasonable. However, given huge opportunity emanating from government's railway transformation agenda and programme to connect 6 lakh villages in 1,000 days in the vicinity of railway stations, RAILTEL is expected to sustain its growth trajectory. Further, there is no listed peer of the company. However, it enjoys better return profile and balance sheet compared to other listed telecom players. The company has been paying consistent dividend over the years and continues to remain profitable since FY07, which offers comfort. **Hence, we recommend SUBSCRIBE to this issue.**

IPO Details

Face Value (Rs)	10
Issue Open/Closing Date	16th / 18th Feb'21
Fresh Issues (mn)	0.0
OFS (mn)	87.2
Total Issue (mn)	87.2
Minimum Bid Qty. (Nos)	155
Issue Size (Rs bn)	8.2
QIB / HNI / Retail	50% / 15% / 35%
Implied Market Cap (Rs bn)	30.2

Object of the Issue

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

Key Risks

- ▶ Any adverse regulatory changes
- ▶ Over dependence on governments' agencies

Shareholding (%)	Pre-issue	Post-Issue
Promoters	100.0	72.8
Public	0.0	27.2

Key Financials

Rs bn	FY18	FY19	FY20	1HFY21
Revenue	9.77	10.03	11.28	5.37
EBITDA	2.82	3.37	3.23	1.46
EBITDA Margin (%)	28.9	33.6	28.6	27.2
PAT	1.34	1.35	1.41	0.45
PAT Margin (%)	13.7	13.5	12.5	8.4
EPS (Rs)	4.18	4.21	4.39	1.40
P/E (x)	22.5	22.3	21.4	67.0
EV/EBITDA (x)	10.4	8.7	8.9	20.2
Net Worth	12.29	12.89	13.69	13.95
RoE (%)	10.9	10.5	10.3	3.2
OCF	0.41	0.35	1.73	0.21
OCF Yield (%)	1.36	1.16	5.73	0.70
FCF	-1.31	-0.49	1.11	-0.14
Gross Block	16.43	18.56	17.51	
Asset Turnover (x)	0.59	0.54	0.64	

Source: RHP

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