

## RailTel Corporation of India Ltd.

SSIS IPO GRADE 4/5 (Sound Fundamentals)

14<sup>th</sup> February, 2021

### Rating Overview

Incorporated on September 26, 2000, "RailTel Corporation of India Limited" 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. Railtel is an information and communications technology ("ICT") infrastructure provider and is one of the largest neutral telecom infrastructure providers in India.

Railtel is amongst the largest neutral telecom infrastructure providers in India with pan-India optic fiber network. Along with that, they have a diversified portfolio of services and solutions. Their sole client is the Indian railways and they are a key partner to their digital transformation. Railtel has extensive experience in executing projects of national importance with a robust pipeline of projects. The company commands an exceptionally professional management with strong corporate governance and a senior management team with significant industry experience.

There are some noteworthy concerns to this investment as well. 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. Another factor that affects the desirability of the company as an investment is that they are dependent on and derive a substantial portion of their revenue from PSU customers, the Indian Railways and other Gol entities as well as State Governments.

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.

Our overall rating of Railtel is fundamentally strong and it holds a fair valuation post issue. Investors pay a fair price and they can purchase it for listing gains. Risk savvy investors may subscribe and hold for medium to long term share appreciation.

Note: The analyst has no plans of subscribing to the offer and does not hold any shares in the company prior to, or at the time of writing this review.

## Business Overview

RailTel Corporation of India Ltd. (RailTel) is an information and communications technology ('ICT') infrastructure provider and one of the largest neutral telecom infrastructure providers in India (Source: CRISIL Report). It 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. The company 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, RailTel's optical fiber network covers 59,098 route kilometers and covers 5,929 railway stations across towns and cities in India. It operates data centers in Gurugram, Haryana and Secunderabad, Telangana to host and collocate critical applications for customers including the Indian Railways. In addition to strategic and critical network infrastructure services, the company also undertakes various ICT projects for the Indian Railways, central government and state governments, including various train control system projects for Indian Railways. Telecom sector is expected to post CAGR of 11% to 13% till 2025 with rising ARPU.

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. It also undertakes various passenger services including Content on Demand ('CoD') services and Wi-Fi across major railway stations in India.

## Financial Performance

On the financial performance front, for the last three fiscals, RailTel has posted total income/net profits of Rs. 1021.22 cr. / Rs. 134.01 cr. (FY18), Rs. 1038.27 cr. / Rs. 135.36 cr. (FY19) and Rs. 1166.01 cr. / Rs. 141.07 cr. (FY20). For the first half ended on September 30, 2020, it has earned a net profit of Rs. 45.58 cr. on a turnover of Rs. 553.78 cr. With profit margins of 13% and ROCE of 14%, the company leads the pack of telecom companies.

For the last three fiscals, the company has reported an average EPS of Rs. 4.30 and an average RoNW of 10.47%. The issue is priced at a P/BV of 2.16 (at the upper price band) based on its NAV of Rs. 43.45 as on September 30, 2020, as well as its post-IPO NAV. (at the upper price band).

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If we attribute annualize latest earnings on fully diluted post issue equity, then asking price is at a P/E of around 33.10. However, on the basis of FY20 earnings, the P/E stands at 21.36. Thus issue appears fully priced. As on September 30, 2020, its current paid-up equity capital of Rs. 320.94 cr. is supported by Rs. 1073.69 cr. of

free reserves.

Summary of financial Information (Restated Consolidated)				
Particulars	For the year/period ended (₹ in millions)			
	30-Dec-20	31-Mar-20	31-Mar-19	31-Mar-18
<b>Total Assets</b>	24,821.50	23,981	22,276.75	23,228.79
<b>Total Revenue</b>	5,537.84	11,660.05	10,382.66	10,212.18
<b>Profit After Tax</b>	455.84	1,410.66	1,353.56	1,340.06

## Issue Details

To meet the disinvestment targets and listing benefits, RailTel is coming out with its maiden offer for sale of 87153369 equity shares of Rs. 10 each and has fixed a price band of Rs. 93 - Rs. 94 per share. The company mulls mobilizing Rs. 810.53 cr. - Rs. 819.24 cr. based on lower and upper price bands. The issue opens for subscription on February 16, 2021, and will close on February 18, 2021. Minimum application is to be made for 155 shares and in multiples thereon, thereafter. RailTel has reserved 500000 shares for allotment to eligible employees. It has allocated 50% for QIBs, 15% for HNIs and 35% for Retail investors from the residual portion. The issue constitutes 27.97% of the post issue paid-up capital of the company.

Book Running Lead Managers (BRLMs) to this issue are ICICI Securities Ltd., IDBI Capital Markets & Securities Ltd., SBI Capital Markets Ltd. and KFin Technologies Pvt. Ltd. is the registrar to the issue. Post allotment, shares will be listed on BSE and NSE.

The company has issued entire equity so far at par value. The average cost of acquisition of shares by the promoters is Rs. 10 per share.

This being offer for sale, RailTel's paid-up equity capital remains the same at Rs. 320.94 cr. Based on the upper band price of the IPO, it is looking for a market cap of Rs. 30168.21 cr.

**Book Running Lead Managers for this issue are ICICI Securities Ltd., IIFL Securities Ltd., Jefferies India Pvt. Ltd., and Nomura Financial Advisory and Securities India Pvt. Ltd., while Link Intime India Pvt. Ltd. is the registrar to the issue. Post allotment, shares will be listed on BSE and NSE.**

Application Dates	Feb 16, 2021 – Feb 18, 2021
<b>Issue Type</b>	Book Built Issue FPO
<b>Face Value</b>	₹10 per equity share
<b>IPO Price</b>	₹93 to ₹94 per equity share
<b>Market Lot</b>	155 Shares
<b>Listing At</b>	BSE, NSE
<b>Issue Size</b>	[.] Eq Shares of ₹10 (Up to ₹ 819.24Cr)

### Issue Timeline

<b>Basis of Allotment Date</b>	Feb 23, 2021
<b>Initiation of Refunds</b>	Feb 24, 2021
<b>Credit of Shares to Demat Account</b>	Feb 24, 2021
<b>IPO Listing Date</b>	Feb 26, 2021

### Investment Strategy

On P/E and P/BV parameters, the issue appears fully priced. Currently, the company leads the pack of the telecom industry with 13% profit margins and 14% ROCE. Management is confident for slow and steady growth. Considering all these aspects, investors may consider investing in this issue with a long term perspective.