



February 15, 2021

RailTel Corporation of India Limited **IPO**

Information and Communication Technology (ICT) infrastructure provider public sector business unit wholly owned by the Government of India (GOI) and administrated by the Ministry of Railways company named RailTel Corporation said it will launch its initial public offer (IPO) on February 16, 2021. The offer will close on February 18, 2021 and the company has fixed the price band at ₹93-94 per equity share.

Rating: Subscribe

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Company's Details

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

Valuations

- One of the largest neutral telecom infrastructure providers in India with PAN India optic fiber network with sustainable revenue, and profit growth. Considering all these aspects we see good future prospects in this company.
- Considering FY 20 adjusted EPS of 4.4, the upper price band implies a P/E ratio of 21.36X. However, seeing the future prospects of ICT and sustainable financial numbers of the company we give subscribe rating to this IPO.

Financials

Particulars (Cr.)	(In	FY18	FY19	FY20	September 30, 2020
Revenue		977	1,003	1,128	537
Other Income		43	35	38	16
Total Income		1,021	1,038	1,166	554
Access and other Charges		250	264	249	149
License fee and spectrum charges		47	46	48	26
Expenses on Project		253	249	340	111
Depreciation		119	112	131	82
Total Expenses		835	821	932	492
PBT		160	218	185	62
PAT		134	135	141	46
PATM		13.7%	13.5%	12.5%	8.5%
EPS (In Rs.)		4.18	4.22	4.4	1.42

Issue Details

Issue opens on	February 16, 2021
Issues Closes on	February 18, 2021
Issue Type	Book Built IPO issue
Issue Size(In Cr, Upper Band)	Fresh Issue: 0.00
	Offer For Sale: 819.24
Face Value	Rs. 10
Issue Price Band	Rs. 93-94
Listing at	NSE, BSE
Minimum Lot Size	155 Shares

Object of the Issue

- To carry out the disinvestment plan announced by government to meet the future expenditure.
- To achieve the benefits of equity share listing on the stock exchanges.

Shareholding Pattern (%)

Particulars	Pre-Issue	Post-Issue
Promoters and Promoters Group	100.00%	72.84%
Public	0.00%	27.16%
Total	100.00%	100.00%

Issue Break-Up (%)

Category	No of shares	In cr(Upper Band)	% of issue
QIB	4,33,26,684	407.3	50%
NIB	1,29,98,005	122.2	15%
Retail	3,03,28,679	285.1	35%
Total	8,66,53,369	814.5	100%

In calculation we have excluded Reserved Shares for Eligible Employee

Capital Structure

Particulars	Aggregate Value (In Cr.)
Authorised Share Capital	1,000.0
Paid-Up Capital (Pre-Offer)	320.9
Paid-Up Capital (Post-Offer)	320.9

Source: RHP, MSFL Research



Business Snapshot

RailTel Corporation of India Limited is an Information and Communications Technology (ICT) infrastructure provider with the largest neutral telecom infrastructure in India. It is a Mini Ratna (Category I) Central Public Sector Enterprise that is wholly owned by the Government of India and run by the Ministry of Railways.

The company was established with the objective of modernizing the existing 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 the railway tracks.

Business Division

RailTel Corporation offers a wide range of services across various industries including:

Telecom Network Services

National Long Distance (NLD) services. The company offers leased line services and MPLS-based virtual private network (VPN) facilities.

ISP services. The company offers internet-based line services with varying bandwidth options. It also offers broadband services to retail customers via its RailWire platform.

Telecom Infrastructure Services

This includes power, storage, cooling, and physical security for networking equipment and servers of the company's customers. It also connects them with various telecom network service providers.

RailTel also offers space on microwave towers for collocating base transceiver stations (BTS) for telecom operators, small cell sites for extending their mobile coverage, and space for collocating mobile switching centers. Lastly, it provides single-core dark fiber for transmission of digital video signals to multiple system operators for distributing cable.

Data Center and Managed Hosting Services

Data Center services like Infrastructure as a Service (IaaS), dedicated hosting, cloud computing, disaster recovery services, managed e-office service, Aadhaar authentication service, and other IT-related services like load balancing, application hosting, and advanced firewall service, etc.

Telepresence as a Service (TPaaS) where it offers a high-definition, end-to-end, secure, hosted multi tenant video conferencing facility bundled with required bandwidth as a service.

Security Operations Center as a Service (SOCaaS) where its centralized security operations center offers consolidated cybersecurity incident prevention and security event monitoring services. It offers both onsite and offsite security services.

System Integration Services

ICT Hardware, Software, and Service System Integration and Consultancy for ICT services

Digital services like unified communications, Wi-Fi as a service, e-tendering/ e-auction/ smart payments, and disaster management services.





Key Projects

Managed Services for State Government Entities Company has been creating and providing managed services for two state government entities in relation to their state wide area network and state data centres. The approximate aggregate value of the orders is ₹ 2,916.70 million.

National Knowledge Network (“NKN”): The NKN envisages connecting all higher education and research institutes across a common platform. Company has been selected as one of the implementing partner of the network by providing high capacity bandwidth pipes. As of December 31, 2020, company has commissioned 723 links of various bandwidths (i.e., 10G, 1G, 100 Mbps and 50 Mbps) under the NKN project for National Informatics Centre Services Inc.

Campus Wi-Fi in Central Universities: Company has been appointed by Ministry of Education to facilitate the implementation of Wi-Fi facility in Central Universities. Company has commissioned and maintaining campus Wi-Fi in 26 central universities in India. The project involves site survey, design, installation and maintenance of state-of-the-art carrier grade Wi-Fi network across campuses.

Network Integrator for Public Sector Bank in India: Company has received an order for supply, installation and integration of network, IT service management, asset and patch management solutions including maintenance for an Indian public sector bank for five years.

HMIS: HMIS is an integrated computerized clinical information system for improved hospital administration and patient health care. It will also provide an accurate, electronically stored medical record of the patient. Real time HMIS will streamline the treatment flow of patients and simultaneously empower workforce to perform in an optimized and efficient manner.

Data Center Project for an Indian Railways Entity: Company is managing the entire data center hosting requirements including ICT infrastructure, database services for network operation center, security operation center and associated applications for an Indian Railways entities data center colocation project which also includes providing leased internet bandwidth and operations and maintenance for five years.

Project for Steel Sector Public Sector Undertaking: A steel sector public sector undertaking has awarded Company the work of creation of in-premise SD WAN primarily through MPLS, Internet leased line and lease line, connecting their network of branch sales offices, warehouses and consignment agents offices with its head office and connecting its steel plants and corporate office.

MPLS VPN Network for Coal Sector Public Sector Undertakings: Company has been awarded the work of managed MPLS VPN across various locations of multiple coal sector public sector undertakings. The total value of the various orders is ₹ 3,516.94 million.

Network and System Integration Projects in Defense Segment: Company has currently executing various projects in the defense segment. The scope of these projects includes creating dedicated secured network, connecting critical sites and their maintenance, providing dedicated secured point-to-point bandwidth and/or secured MPLS VPN of varied capacities, connecting critical locations of these organization and commissioning ICT infrastructure, maintaining web portals and applications. The approximate aggregate value of these orders is ₹ 2,649.90 million.

Key Strengths

- ✓ Among the largest neutral telecom infrastructure providers in India with pan-India optic fiber network
- ✓ Diversified portfolio of services and solutions
- ✓ Key partner to the Indian Railways in digital transformation
- ✓ Experience in executing projects of national importance with a robust pipeline of projects
- ✓ Strong track record of financial performance
- ✓ Professionally managed with strong corporate governance and senior management team with significant industry Experience

Key Strategies

- ✓ Continue to expand our telecom services and deploy latest technologies
- ✓ Further diversify services and solutions with a focus on Indian Railways
- ✓ Expand our services outside India

Source: RHP, MSFL Research



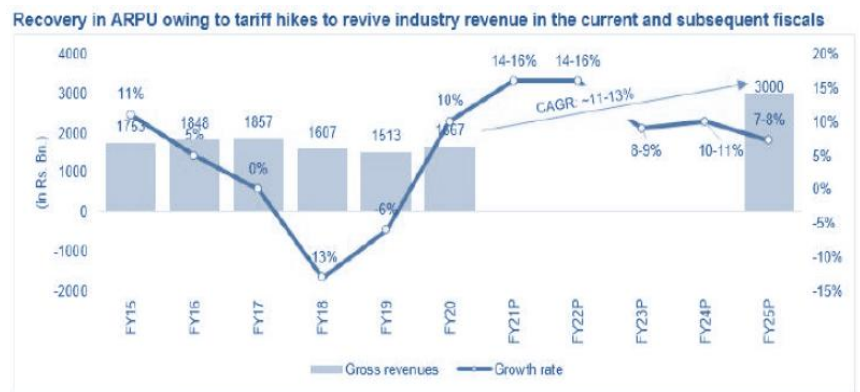


Risk factors

- ✓ Certain of its infrastructure projects are eligible for certain subsidies and any change or withdrawal of these subsidies by the relevant government entity may affect our results of operations.
- ✓ Company's business may not be compatible with delivery methods of bandwidth / connectivity developed in the future.
- ✓ Company may be unable to replace lost revenue due to customer cancellations, renewals at lower rates or other less favorable terms.
- ✓ Company's insurance policies do not cover all losses or risks and our insurance coverage may not adequately protect us against possible risk of loss.

Industry Snapshot

The Indian telecom industry has undergone significant disruption over the past two years, owing to aggressive pricing strategies of new entrants. Hence, post a 6% on-year decline in gross revenue in Fiscal 2019, CRISIL Research estimates the industry's gross revenue to have recovered 9% to 10% on-year in Fiscal 2020, to approximately ₹ 1,670 billion. As the full impact of the rise in ARPU will be seen this fiscal, it is expected that gross revenue will rise 14% to 16% on-year in Fiscal 2021. This will make Fiscal 2022 another year of strong revenue growth.



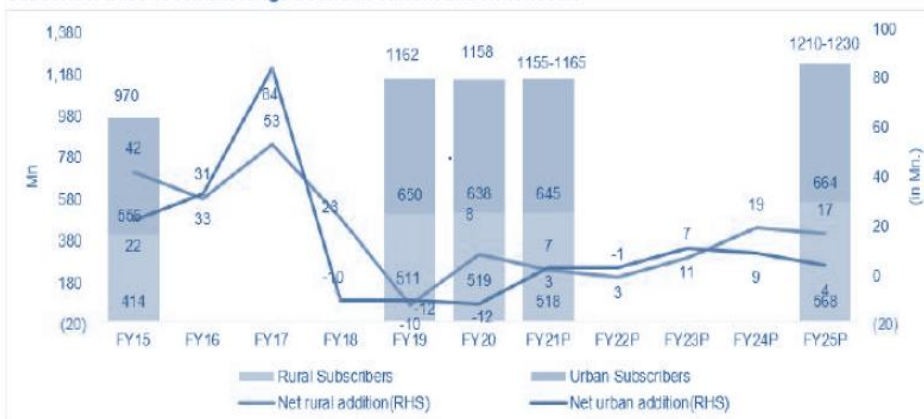
E: Estimated; P: Projected

Note: The bars represent gross revenue as reported by the Telecom Regulatory Authority of India (TRAI)

Source: TRAI, CRISIL Research

India's internet subscriber base (wireless and wired) is estimated to have reached approximately 690 million at the end of Fiscal 2020, according to the Telecom Regulatory Authority of India ("TRAI"). It is further expected the base will expand at a CAGR of approximately 5% to 7% between Fiscal 2020 and Fiscal 2025. This will result into approximately 909 million Indian subscribers online by Fiscal 2025.

Subscriber base to remain range bound in current and next fiscals



P: Projected

Notes: Numbers at the top of the bars represent total number of wireless subscribers (in million)

Source: TRAI, CRISIL Research

The wireless subscriber base in India was approximately 1,158 million as of March 31, 2020. Analysis of monthly churn rate in different circles indicates that while Bharti Airtel has largely managed to stabilise its subscriber churn, Vodafone Idea continued to lose subscribers in all circles, and Reliance Jio added subscribers, although at a reduced rate.

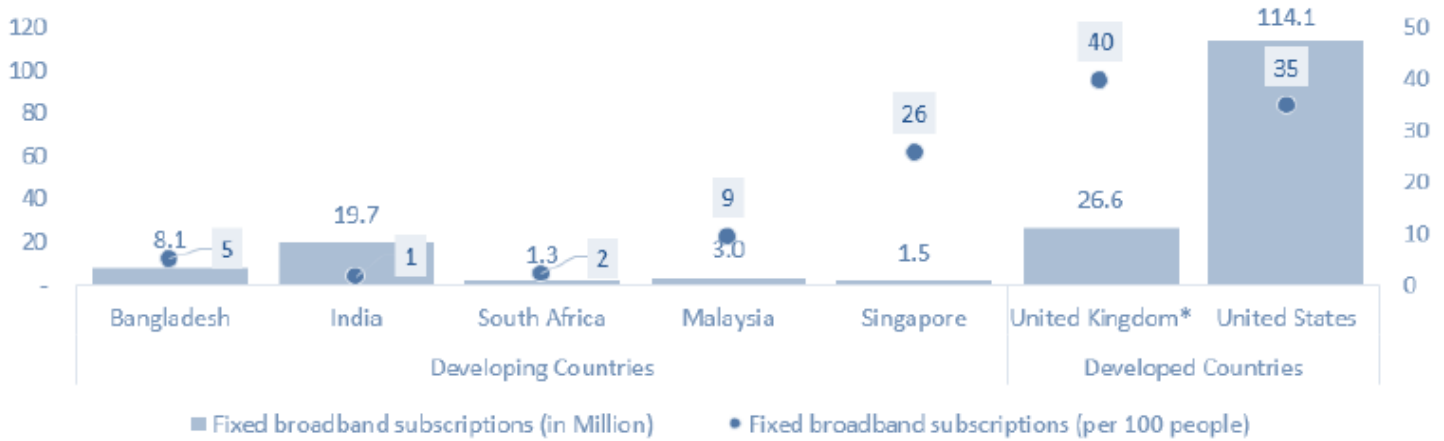
In Fiscal 2021, it is expected that the subscriber base will be around 1,155 million to 1,165 million. It is expected that further additions will be limited owing to tariff hikes and lower access to retail outlets amid the lockdowns.

Source: RHP, MSFL Research





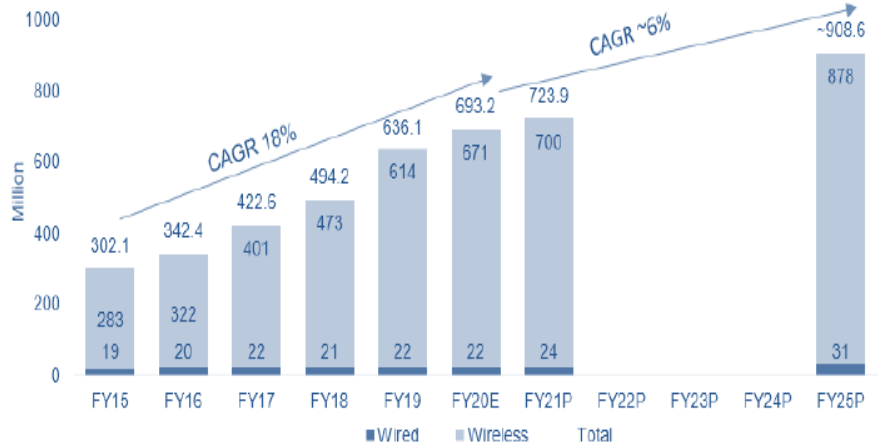
OVERVIEW OF TELECOM DATA SERVICES INDUSTRY IN INDIA



*As of December 2018

Out of the countries compared above, India has the lowest fixed broadband subscriptions (per 100 people) as of December 2019, with 19.7 million fixed broadband subscribers even within developing countries. However, this provides for a significant opportunity for telecom players in India. In the medium term, majority of the subscriber additions are expected to be from the under-penetrated rural areas in India, supported by the Government’s plans, such as, ‘Digital India’ and ‘BharatNet’.

The wired broadband market has remained stagnant for last three fiscals. The entry of Reliance Jio with the launch of JioFiber was expected to intensify competition in the space. However, the response was tepid, resulting in no improvement in broadband penetration. Owing to the COVID-19 pandemic, it is expected that more urban subscribers will sign up for wired broadband subscriptions with the likelihood of prolonged work from home requirements.



Promoters and Management Details

The President of India, acting through the Ministry of Railways is the promoter of the company.

Research Disclaimer <https://bit.ly/2RK2tzc>

Source: RHP, MSFL Research

