

February 15, 2021

RailTel, incorporated on September 26, 2000, is a Mini Ratna (Category-I) central public sector enterprise (CPSE), wholly-owned by the Government of India and under the administrative control of the Ministry of Railways. 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, its optical fibre network covers 59,098 route kilometre and covers 5,929 railway stations across towns and cities in India. The company operates data centres in Gurugram, Haryana and Secunderabad, Telangana to host and collocate critical applications for its customers including the Indian Railways. In addition to strategic and critical network infrastructure services, it also undertakes various ICT projects for the Indian Railways, central government and state governments, including various train control system projects for Indian Railways

Among largest neutral telecom infrastructure providers in India

RailTel is one of the largest neutral telecom infrastructure providers in India. As of January 31, 2021, the company had exclusive right of way along 67,415 route kilometre connecting 7,321 railway stations for laying optical fibre cable. RailTel offers leased line and VPN facilities and also provide IP-1 services. It provides strategic and critical network infrastructure to the Govt and certain state governments. The company is also an implementing partner for the Bharat Net project to create optical fibre cable based broadband infrastructure. RailTel has experience in providing managed ICT services to central and state government agencies. Additionally, RailTel has developed a retail broadband network and applications to retail customers across India through 'RailWire' platform.

Diversified portfolio of services, solutions

RailTel offers a diversified portfolio of ICT services and solutions including MPLS-VPN, leased lines services, TPaaS, eOffice services and data centre services, large network hardware system integration, software and digital services. RailTel has entered into agreements with telecom companies and MSOs to lease bandwidth and offer last mile optical fibre cable network connectivity across cities and towns in India. In addition, the company provides NLD connectivity for Indian Railways exchanges on NGN technology handling over 0.89 million minutes per month. It also offers digital subscriber line access multiplexer for broadband at railway colonies and provide Wi-Fi in various offices of the Indian Railways.

Key risk & concerns

- RailTel's operations are subject to governmental regulation regarding licensing, competition, and costs and arrangements pertaining to interconnection and leased lines
- RailTel's business is substantially dependent on projects awarded by government establishments, including central, state and local authorities and agencies and public sector undertakings

Priced at FY20 P/E of 21.4x on upper band

At ₹ 94 (upper end of the price band), the stock is available at 21.4x FY20 price/EPS.



Particulars

Issue Opens	February 16, 2021
Issue Closes	February 18, 2021
Issue Size (₹ Crore)	811-819
Fresh Issue (₹ crore)	0.0
Price Band (₹)	93-94
No. of shares on offer (crore)*	8.7
Minimum lot size	155

Shareholding

	Pre-Issue	Post-Issue
Promoter & promoter group	100.0%	72.8%
Public	0.0%	27.2%

Objects of issue

Objects of the Issue

- To carry out the disinvestment
- To achieve the benefits of listing the Equity Shares on the Stock Exchanges.

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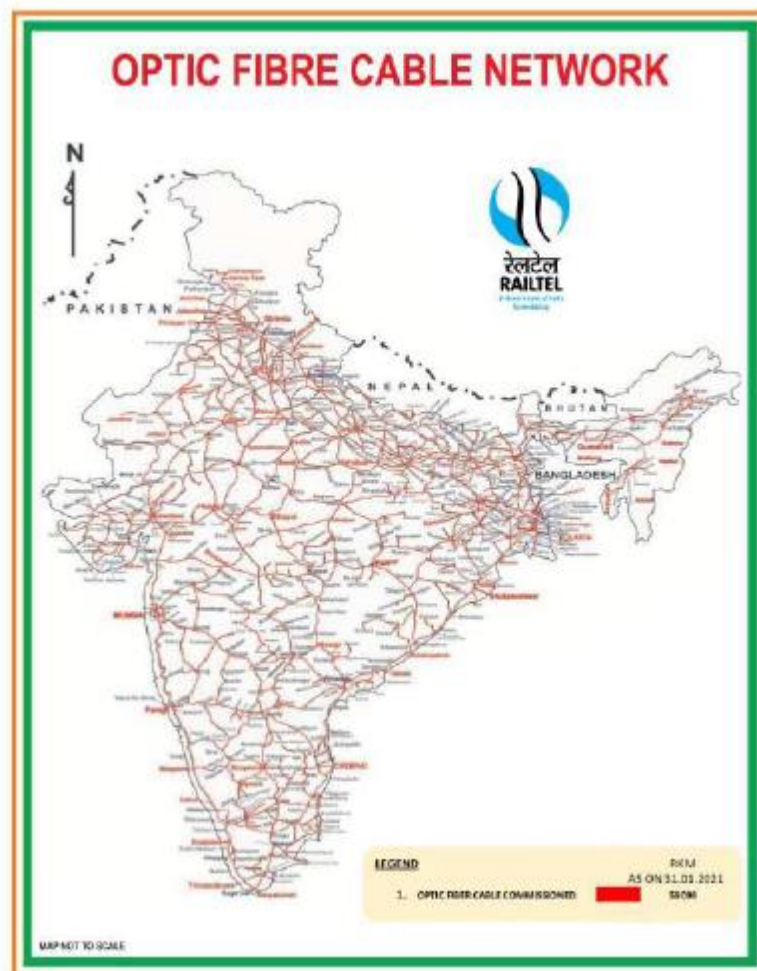
Company background

RailTel is an information and communications technology (ICT) infrastructure provider and is one of the largest neutral telecom infrastructure providers in India. The company is a Mini Ratna (Category-I) central public sector enterprise (CPSE), wholly-owned by the Government of India and under the administrative control of the Ministry of Railways. It was incorporated on September 26, 2000 with the aim of modernising 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 fibre cable by using the right of way along railway tracks.

As of January 31, 2021, its optical fibre network covers 59,098 route kilometre 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.

The company operates data centres in Gurugram, Haryana and Secunderabad, Telangana to host and collocate critical applications for its customers including the Indian Railways. In addition to strategic and critical network infrastructure services, it also undertakes various ICT projects for the Indian Railways, central government and state governments, including various train control system projects for Indian Railways.

Exhibit 1: Optic fibre cable network



Source: RHP, ICICI Direct Research

The company's portfolio of services can be broadly classified into a) telecom network services, b) telecom infrastructure services, c) managed data centre and hosting services, and d) projects (system integration services).

Telecom Network Services

- **National Long Distance (NLD) Services:** The company provides digital capacity to carry long distance telecommunication services including various tele-services such as voice, data, fax, text, video and multimedia. As part of its NLD services, it offers the enterprise customers with: (i) leased line services; and (ii) MPLS based virtual private network (VPN) facilities
- **Internet service provider (ISP) services:** As part of ISP services, it offers enterprise customers internet leased line services with multiple bandwidth options ranging from 2 MBPS and above across India. The company also offers retail broadband services through its 'RailWire' platform.

Telecom Infrastructure Services

- **Passive infrastructure (IP-1) services:** The company provides storage, power, cooling and physical security for servers and networking equipment of the customers and connect them with a variety of telecommunications and network service providers. In addition, it provides 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 centres. The company also provides single core dark fibre for transmission of digital video signals to multiple system operators (MSOs) for cable distribution.

Managed Data Centre and Hosting Services

- **Data centre and managed hosting services:** It offers a variety of data centre services including Infrastructure as a Service or IaaS, dedicated hosting, managed services, cloud computing, managed e-Office services, disaster recovery services, Aadhaar authentication services and other IT related services such as load balancing services, application hosting, bandwidth services and advanced firewall services.
- **Telepresence Services (TPaaS):** It offers end-to-end, high-definition, secure, hosted multitenant video conferencing facility bundled with required bandwidth as a service
- **Security operations centre as a Services (SOCaaS):** The security operations centre ("SOC") provides centralised and consolidated cyber security incident prevention and security event monitoring services. It has detection response capabilities and supports requirements of other business units. It is able to provide both offsite and onsite security solutions

Projects (system integration services)

- **ICT hardware, software and service system integration projects:** The company collaborates with partners and OEMs to undertake ICT hardware implementation, software delivery and digital transformation projects including creation of state wide area network (WAN) and its maintenance, data centre and facility management services, Wi-Fi projects, city surveillance projects, laying of statewide fibre optic network and its maintenance, implementation and maintenance of end-to-end IT applications of enterprises
- **Digital services:** The company also collaborates with partners who offer solutions/ applications that are hosted on its data centres. It offers digital services including unified communications, Wi-Fi as a

service, e-tendering/e-auction/smart payments and disaster management services

- Other services: Other services offered include consultancy services for ICT services and solutions and signalling services including signal design and design automation software tools for the Indian Railways

Exhibit 2: Revenues from operations - Segments

Revenues from Operation (₹ crore)	FY18	FY19	FY20	H1FY21
Telecom Network Services				
NLD Services	389.7	372.0	415.1	212.7
ISP Services	147.8	162.3	166.2	107.0
Telecom Infrastructure Services				
IP – 1 Services	120.6	115.3	135.2	81.9
Managed Data Center and Hosting Services				
Data Centre and Managed Hosting Services	7.2	7.7	13.2	9.3
TPaaS	19.7	14.2	15.1	4.4
Projects (System Integration Services) (including other operating revenues)	291.8	331.8	383.3	135.8
Total	976.8	1003.3	1128.1	537.4

Source: RHP, ICICI Direct Research

Competitive Strengths

Among largest neutral telecom infrastructure providers in India with pan-India optic fibre network

RailTel is one of the largest neutral telecom infrastructure providers in India. As of January 31, 2021, the company had exclusive right of way along 67,415 route kilometre connecting 7,321 railway stations for laying optical fibre cable. It has 59,098 route kilometre of optical fibre cable network and have connected 5,929 railway stations across towns and cities in India. Additionally, it has city wide access network that stands at over 18,000 kilometre and offers high capacity bandwidth of up to 800G at 87 locations in India.

RailTel offers leased line and VPN facilities and also provide IP-1 services. The company believes this allows it to offer a unique proposition to telecom service providers in India. Also, it provides strategic and critical network infrastructure to the Govt and certain state governments. The company is also an implementing partner for the Bharat Net project to create optical fibre cable based broadband infrastructure in laying optical fibre cable across 36,000 gram panchayats in India. As of January 31, 2021, the company had completed laying over 25,000 kilometre of optical fibre cables for 9,473 gram panchayats and 7,764 gram panchayats were service ready.

RailTel has experience in providing managed ICT services to central and state government agencies. Additionally, the company has developed a retail broadband network and applications to retail customers across India through 'RailWire' platform. As of January 31, 2021, the company had 305,746 users of 'RailWire' service. Also, as part of operations, it has entered into arrangements with access network providers to deliver the last mile connectivity services to customers. The company believes this model enables them to better manage cash flows and helps increase profitability

Diversified portfolio of services and solutions

RailTel offers a diversified portfolio of ICT services and solutions including MPLS-VPN, leased lines services, TPaaS, eOffice services and data centre services, large network hardware system integration, software and digital services. In addition to laying optical fibre cable network, the transport network is built on high capacity DWDM and an IP/ MPLS network over it to support communication requirements of the Indian Railways and other key customers. Also, the company has built optical fibre cable network across cities and towns in India to provide end-to-end bandwidth services through leased circuits, MPLS-VPN ports or Internet bandwidth ports. As of December 31, 2020, it had connected 5,034 MPLS-VPN ports and 895 Internet bandwidth ports for the customers.

RailTel has entered into agreements with telecom companies and MSOs to lease bandwidth and offer last mile optical fibre cable network connectivity across cities and towns in India. In addition, the company provides NLD connectivity for Indian Railways exchanges on NGN technology handling over 0.89 million minutes per month. It also offers digital subscriber line access multiplexer for broadband at railway colonies and provide Wi-Fi in various offices of the Indian Railways. The provisioned bandwidth for railway applications grew from 38.12 Gbps as of March 31, 2020 to 54.82 Gbps as of December 31, 2020 reflecting a growth 1.4 times.

Key partner to Indian Railways in digital transformation

RailTel serves as a key network for Indian Railways. It provides a variety of services to the Indian Railways and has implemented MPLS data network for integrated payroll and accounting system, unreserved ticketing system, freight operations information system and coaching operations information systems. As of December 31, 2020, its MPLS-VPN for railways intranet aggregated to over 74.7 Gbps capacity and Internet to over 25.06 Gbps

capacity. The company is also working with the Indian Railways to transform railway stations into digital hubs by providing public Wi-Fi at railway stations across India. As of January 31, 2021, 5,929 railway stations were live with 'RailWire' Wi-Fi and recorded 16.04 million unique users in FY20.

RailTel has implemented the 'e-Office' project for the Indian Railways. Other projects with Indian Railways include implementing CoD services to passengers and the railway display network to provide contextual railway related information, public awareness messages and entertainment content to rail users using digital technologies. These projects are expected to have a fixed minimum guarantee and will work on a recurring revenue share model for providing these services over a 10-year period. VSS is another project being implemented for the Indian Railways. In October 2020, the MoR has assigned the task of implementation of hospital management information system for over 125 health establishments and 650 polyclinics of the Indian Railways. RailTel believes the technical capabilities it has developed over the years and the relationship with the Indian Railways serve as entry barriers for other entities that seek to provide similar services to the Indian Railways and its associate enterprises. Additionally, it believes strategic relationship with the Indian Railways and capability to provide a diverse range of ICT services and solutions has enabled them to grow the business.

Experience in executing projects of national importance with robust pipeline of projects

RailTel has successfully completed a number of long-term projects for provision of ICT services across India. These include the NKN and Bharat Net projects for providing high capacity bandwidth pipes for educational institutions and laying optical fibre cable for connectivity of gram panchayats in India. It is also executing projects for public sector enterprises. For ESIC, it has undertaken operations and maintenance of the network and infrastructure operations in connection with implementation of social security programme. As part of work for the MHRD, its role involves commissioning and maintaining secured campus Wi-Fi infrastructure in central universities in India.

RailTel undertakes, supply, installation and maintenance of RF Links and outdoor Wi-Fi access points across Rajasthan on a rate contract basis for a Government of Rajasthan undertaking involved in IT consultancy, e-governance project conceptualisation and implementation and provision of customised IT solutions. In addition, the company is in the process of carrying out a project in Haryana for a state agency, where it is required to supply, install and commission IP-MPLS and MPLS routers at various sites under the state WAN and also supply, install and commission switches, servers and firewalls and undertake facility management services for management of the common IT infrastructure.

Strong track record of financial performance

RailTel has established a consistent track record of financial performance and growth. It has been profitable since FY07 and has consistently declared and paid dividends since FY08. In FY18, FY19 and FY20 and H1FY21, the company has paid dividend of ₹ 51.53 crore, ₹ 62.47 crore, ₹ 46.2 crore and ₹ 20.0 crore, respectively. Its net worth has been positive since incorporation and has been consistently growing and was ₹ 1,229.17 crore, ₹ 1,289.08 crore, ₹ 1,369.35 crore and ₹ 1,394.63 crore in FY18, FY19 and FY20 and H1FY21, respectively. The operations have been funded entirely by internal accruals since FY13 and are a debt-free company. In FY20, its gearing ratio was the lowest among key telecom companies and key IT/ICT companies in India.

Revenue from operations have grown at a CAGR of 7.47% from ₹ 976.77 crore in FY18 to ₹ 1,128.05 crore in FY20 and were ₹ 537.4 crore in H1FY21. EBITDA for FY18, FY19 and FY20 and H1FY21 was ₹ 282.05 crore, ₹ 337.15 crore, ₹ 322.46 crore and ₹ 146.44 crore, respectively. In FY20, the company had the highest RoCE among key telecom companies and key IT/ICT companies in India, with a RoCE of 14.00% and was 4.64% in H1FY21. In FY20, the company reported the highest net profit margin among key telecom companies and key IT/ICT companies in India, with a net profit margin of 12.50% while net profit margin was 8.48% in H1FY21. It is ranked first in terms of operating profit margin among the key IT/ICT Companies in India in FY21. Profit before tax was ₹ 159.61 crore, ₹ 217.69 crore, ₹ 184.76 crore and ₹ 62.18 crore in FY18, FY19 and FY20 and H1FY21, respectively.

Strategies

Continues to expand telecom services, deploy latest technologies

RailTel believe that its extensive network is a key differentiator in the market and a key value proposition in delivering services to the customers. To build 5G infrastructure in India, fibreisation of telecom towers is a prerequisite. Therefore, the company intends to create open radio access networks, small cell and tower infrastructure at railways stations for hosting telecom players to assist with their preparation for the 5G network, plan to continue to invest in expanding network and deploying latest technologies to enable a high capacity next generation network in order to deliver sustained value to customers. The company intends to create neutral telecom infrastructure to allow them to host telecom players at railway stations in India. It also intends to work with banks and financial institutions to create an integrated network and build capabilities of managing NOC operations of such institutions. RailTel has submitted a proposal and detailed project report for a sustainable services led model to provide connectivity in villages using its network in rural areas as well as leveraging network of certain partners to access the gram panchayat network. The detailed project report for Jharkhand and Maharashtra has been submitted, which are under consideration by the Department of Telecom.

While RailTel utilises a number of advanced technologies, it intends to continue to invest in network and technology infrastructure, to improve existing technology systems or implement new, more advanced technology systems that may be developed. Its endeavour is to focus on MPLS and software defined WAN by evaluating and empanelling multiple OEMs to create a collaborative service delivery model. It believes that this will enable them to continue to deliver high quality, market leading and competitive service offerings, which will drive growth.

Further diversify services and solutions with a focus on Indian Railways

RailTel plans to enhance its focus on provision of services that have high market attractiveness and in particular work with the Indian Railways. The Indian Railways currently uses GSM-R based network and intends to migrate to the LTE network. The company intends to work with the Indian Railways to develop and manage their proposed LTE network that will create a private network along a railway tracks. The company also intends to work with the Indian Railways to meet their current and emerging communication infrastructure requirements by implementing the High Speed Mobile Communications Corridor. The proposed HSMCC will cater to current and future voice and data needs of train-ground and train-train communication of rail assets, automatic train operations and on-board passenger services. Additionally, the company have been managing IP-MPLS infrastructure for several years and it believes that they are well positioned to execute this project.

The TRAI has finalised its recommendations on the allotment of spectrum that out of 35 MHz (paired) spectrum available in the 700 MHz band, 5 MHz (paired) spectrum should be allocated to the Indian Railways for implementing ETCS level-2, MC PTT + Voice, IoT-based asset monitoring services, passenger information display system, and live feed of video surveillance of a few coaches at a time. Trai has further recommended that the MoR explore other communications for uploading the video feed. For VSS, Indian Railways can either use a high capacity Wi-Fi or public telecommunications network telecom service provider's network for sending continuous video surveillance data streams to its control centre. In addition, LTE based mobile train radio communication system is the foundation for Indian Railway's modern train control systems including the

ETCS level-2 and the train collision avoidance system. Train collision avoidance system is an indigenously developed automatic train protection system for high density network and highly utilised network routes of the Indian Railways. This would open up opportunities for telecom service providers. The company believe that given its network capability and experience of working with the Indian Railways, it is well placed to execute this project.

Expand services outside India

Given RailTel's expertise in handling a range of ICT infrastructure projects and ability to provide diversified service and solutions, it intends to offer its services selectively in jurisdictions outside India. It is currently in the process of bidding for project in Africa that include supply, delivery, installation, testing and commissioning of goods and service for digital literacy in public primary schools in Kenya. RailTel will look to leverage its expertise of working and developing projects for the Indian Railways, particularly modernising and digitising the existing networks, to other projects in Bangladesh. In addition, it is exploring business opportunities in Mauritius and in particular in the healthcare segment. It intends to become a platform for regulators and fintech 131 providers and implement these applications in other developing countries. The company also intend to leverage its existing technology and work with the Gol to implement the capabilities in other countries.

Key Risks & Concerns

- RailTel's operations are subject to governmental regulation regarding licensing, competition, and costs and arrangements pertaining to interconnection and leased lines. Licenses are heavily administered and interpreted by regulators and decisions by regulators, including the fees payable, amendment or revocation of any existing licenses. Changes in laws, regulations or governmental policy affecting company's business activities could adversely affect business, prospects, financial condition, cash flows and results of operations
- RailTel's business is substantially dependent on projects awarded by government establishments, including central, state and local authorities and agencies and public sector undertakings. Any adverse changes in government policies and budgetary allocation resulting from a change in government policies or priorities, could materially and adversely affect company's financing, capital expenditure, revenues, or operations relating to its existing and proposed projects as well as its ability to participate in competitive bidding or negotiations for the future projects
- RailTel relies on third parties for certain services, including empanelled partners and OEMS for ICT hardware implementation, software delivery and digital transformation. The company also enter into arrangements with access network providers to deliver last mile connectivity services to customers. Additionally, it engages with third-parties for the supply of network equipment, including fibre optic cables, IT software and other products, and for the supply of services to operate and maintain network and to deliver services to customers. The loss of key suppliers or their failure to deliver equipment or perform services in a timely or satisfactory manner could adversely affect company
- As of January 31, 2021, RailTel have access to right of way for optical fibre cable network along 67,415 route kilometre over railway tracks and have high capacity optical fibre cable network along 59,098 route kilometre. In addition, the company has optical fibre cable network along 8,852 route kilometre over land and building owned by third-parties. The company intends to continue to expand network, which may involve building new network infrastructure over new land or connecting its network to or installing its network devices in new locations and buildings. However, its ability to further expand the coverage of network or to maintain the coverage of existing network may be limited by the ability to obtain or renew access rights on land or buildings owned by third-parties

Financial summary

Exhibit 9: Income Statement				
₹ crore	FY18	FY19	FY20	H1FY21
Total operating Income	976.8	1,003.3	1,128.1	537.4
Access and other Charges	250.1	263.5	249.0	149.1
Other expenses	43.2	27.1	31.5	50.4
Employee benefits expense	118.0	112.0	120.5	66.9
License fee and spectrum charges	47.3	46.0	47.9	26.4
Expenses on Project	253.3	249.4	340.1	110.8
CSR expenses	0.8	3.0	5.2	3.9
Total Operating Expenditure	712.7	701.1	794.2	407.3
EBITDA	264.1	302.2	333.8	130.1
<i>EBITDA Margins (%)</i>	<i>27.0</i>	<i>30.1</i>	<i>29.6</i>	<i>24.2</i>
Depreciation	118.6	111.6	130.9	81.7
Other Income	42.9	35.2	38.0	15.6
Net Finance cost	2.3	8.1	6.8	1.8
Exceptional Items	(27)	-	(49)	-
PBT	159.6	217.7	184.8	62.2
Total Tax	25.6	82.3	43.7	16.6
PAT	134.0	135.4	141.1	45.6

Source: RHP, ICICI Direct Research

Exhibit 10: Cash Flow Statement excerpt				
₹ crore	FY18	FY19	FY20	H1FY21
Net cash generated from Operating Activities	40.9	35.4	173.3	20.8
Net cash used in Investing Activities	1.5	40.6	(48.0)	(55.7)
Net cash generated from / (used in) financing activities	(62.0)	(77.2)	(62.5)	(25.1)
Net increase/ (decrease) in cash and cash equivalents during the Year	(19.6)	(1.2)	62.9	(60.1)
Opening Cash And Cash Equivalents	92.4	72.8	71.6	134.5
Closing Cash & Cash Equivalents	72.8	71.6	134.5	74.5

Source: RHP, ICICI Direct Research

Financial summary

Exhibit 11: Balance Sheet

₹ crore	FY18	FY19	FY20	H1FY21
Equity Capital	320.9	320.9	320.9	320.9
Reserve and Surplus	908.2	968.1	1,048.4	1,073.7
Total Equity	1,229.2	1,289.1	1,369.4	1,394.6
Total Debt	-	-	-	-
Lease liabilities	-	4.1	34.8	18.0
Other Non Current Financial Liabilities	90.5	9.2	7.4	11.5
Provisions	1.9	4.7	9.9	10.4
Deferred tax liabilities (net)	-	16.9	3.5	-
Other non current Liabilities	260.2	112.1	107.8	140.0
Total Liabilities	1,581.8	1,436.1	1,532.8	1,574.4
Assets				
Property, plant and equipment	684.3	786.0	608.5	581.7
Capital Work in Progress	364.2	299.9	252.5	231.5
Intangibles	3.6	4.0	7.8	14.7
Right-of-use assets	-	-	173.0	167.5
Investment	-	-	-	-
Loans and Security Deposits	3.8	3.5	3.3	4.1
Other Non Current Financial Assets	-	0.7	219.3	82.7
Deferred tax assets (net)	4.0	-	-	8.3
Other non-current assets	98.9	31.0	18.1	2.9
Inventories		0.9	0.5	0.2
Investments		7.0		
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
Loans and Security Deposits	2.5	4.3	4.9	5.4
Other current Financial assets	112.2	117.9	213.5	216.9
Current Tax Assets (Net)	22.1	32.7	27.5	36.6
Other Current Assets	51	73	94	104
Total Current Assets	1,164	1,103	1,116	1,389
Current Liabilities				
Lease liabilities	-	1	8	6
Trade payables	271	267	379	408
Other financial liabilities	73	153	183	168
Provisions	38	37	20	14
Other current liabilities	358	333	276	312
Total Current liabilities	741	792	865	908
Application of Funds	1,581.8	1,436.1	1,532.8	1,574.4

Source: RHP, ICICI Direct Research

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Avoid: Do not apply for the IPO

Subscribe only for long term: Apply for the IPO only from a long term investment perspective (>two years)



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