

## Telecom

Target price Rs156

## Earnings revision

	FY22E	FY23E
Revenue	↓ 2.1	↓ 2.0
EBITDA	↓ 5.8	↓ 5.3
PAT	↓ 8.1	↓ 6.9

## Target price revision

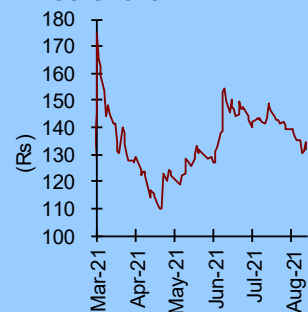
Rs156 from Rs167

## Shareholding pattern

	Dec' 20	Mar '21	Jun '21
Promoters	72.8	72.9	72.8
Institutional investors	9.5	8.2	7.2
MF and others	4.6	5.2	4.2
FIs / Banks	1.5	0.0	0.0
Insurance Cos.	0.0	0.0	0.0
FII	3.4	3.0	3.0
Others	17.7	18.9	20.0

Source: www.nseindia.com

## Price chart



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## Railtel Corporation of India

BUY  
Maintain  
Rs132

## ECL provisioning hurt EBITDA

Railtel's Q1FY22 EBITDA was hit due to: 1) covid-led lockdown, which reduced revenue execution by Rs500mn in telecom services and projects; and 2) ECL provisioning of Rs302mn. Company remains confident of acceleration in revenue growth in the coming quarters as enquires have started increasing, and incremental ECL provisioning for full-year FY22 is expected to be only Rs100mn. Projects orderbook has grown by Rs3.41bn and the total orderbook now stands at Rs40bn, which provides visibility on future revenue growth. The biggest trigger for Railtel is Indian Railways' deployment of LTE network and consequent large orders. This will also help build a good tower business for Railtel with annuity revenues. We cut our EPS estimates by 8% / 7% for FY22E / FY23E and consequently reduce our target price to Rs156 (from Rs167). Maintain BUY.

- ▶ **EBITDA growth restricted to 3.9% YoY on ECL provisioning.** Railtel revenues rose 20.6% YoY to Rs3.1bn driven by 17% growth in telecom services to Rs2.3bn. Project revenues dipped 2.3% YoY to Rs760mn, due to weak execution amid covid-related lockdown. However, EBITDA grew only 3.9% YoY to Rs596mn due to additional ECL provisioning of Rs302mn (vs Rs159mn in Q1FY21), and was mostly related to government dues (which should be realised in future). Access charges grew by a hefty 38% YoY to Rs996mn. Net profit was 29.5% YoY higher at Rs211mn and gained from dip in depreciation (down 4.4% YoY), higher other income, and lower ETR of 24% (vs 26.8% in Q1FY21). Company incurred capex of Rs180mn during the quarter.
- ▶ **Telecom revenues were hurt from lower NLD revenues.** Telecom revenues were up 16.5% YoY at Rs2.3bn, depressed due to lower NLD revenues of Rs200mn. This was on account of delay in MPLS project delivery to a coal company (it was expected in Jun'21, but got pushed to Aug'21); lockdown and lower government office usage of connectivity services also impacted NLD revenues in Q1FY22. However, the ISP segment grew 77% YoY on likely traction in *RailWire*. Telecom services EBIT declined 2.3% YoY on higher fixed costs and ECL provisioning.
- ▶ **Project segment EBIT margins were high at 22.5%.** Projects revenues grew 35% YoY to Rs760mn, but fell 56% QoQ as execution on projects was lower due to lockdown. Railtel estimates at least 25% of revenue recognition has been pushed to future quarters. It remains confident of strong project execution given robust orderbook amid improvement in enquiries. Projects EBIT grew 83% YoY to Rs171mn and EBIT margin was strong at 22.5%. The margin bump-up may have been due to higher revenues recognised in COD / RDN, which have no cost but bring royalty payments.
- ▶ **Orderbook strong at Rs40bn.** Railtel's orderbook stands at Rs40bn; fresh inflow of orders in Q1FY22 stood at Rs3.41bn. Company has started receiving fresh enquires, which increases visibility on sales funnel. It remains hopeful of new large orders from: 1) execution of *BharatNet* for two states; and 2) Indian Railways' deployment of LTE network.

Market Cap	Rs42.2bn/US\$568mn
Bloomberg	RAILTEL IN
Shares Outstanding (mn)	320.9
52-week Range (Rs)	189/105
Free Float (%)	27.2
FII (%)	3.0
Daily Volume (US\$'000)	NA
Absolute Return 3m (%)	3.0
Absolute Return 12m (%)	NA
Sensex Return 3m (%)	14.6
Sensex Return 12m (%)	46.2

Year to March	FY20	FY21	FY22E	FY23E
Revenue (Rs bn)	11.3	13.8	15.5	17.3
Rec. Net Income (Rs bn)	1.7	1.4	2.0	2.5
EPS (Rs)	5.4	4.4	6.3	7.8
% Chg YoY	4.2	1.0	42.6	22.9
P/E (x)	30.0	29.7	20.9	17.0
CEPS (Rs)	8.5	9.4	11.0	12.3
EV/E (x)	11.3	11.0	8.9	7.5
Dividend Yield (%)	1.1	1.7	2.6	3.5
RoCE (%)	15.3	11.9	15.9	18.7
RoE (%)	10.6	10.1	13.7	15.8

**Table 1: Railtel (consolidated) financials***(Rs mn)*

	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY (%)	QoQ (%)
Revenue	2,544	2,830	4,106	4,298	3,067	20.6	(28.6)
Expenses on projects	470	638	1,361	1,677	589	25.3	(64.9)
Access charges	719	771	894	997	996	38.4	(0.1)
Licence fees	127	136	140	162	149	17.2	(8.1)
Admin & other exp	322	224	182	420	350	8.7	(16.6)
Employee costs	332	337	281	317	387	16.7	22.2
<b>Total expenses</b>	<b>1,971</b>	<b>2,106</b>	<b>2,858</b>	<b>3,573</b>	<b>2,472</b>	<b>25.4</b>	<b>(30.8)</b>
<b>EBITDA</b>	<b>573</b>	<b>724</b>	<b>1,249</b>	<b>725</b>	<b>596</b>	<b>3.9</b>	<b>(17.9)</b>
<i>EBITDA (%)</i>	22.5	25.6	30.4	16.9	19.4		
Depreciation	409	409	376	400	391	(4.4)	(2.3)
<b>EBIT</b>	<b>165</b>	<b>315</b>	<b>873</b>	<b>325</b>	<b>205</b>	<b>24.5</b>	<b>(37.0)</b>
Finance cost	11	11	3	16	12		
Other income	69	95	72	99	85	23.6	(13.8)
<b>PBT</b>	<b>223</b>	<b>399</b>	<b>941</b>	<b>409</b>	<b>278</b>	<b>24.9</b>	<b>(31.9)</b>
Exceptional items	-	-	-	-	-		
Tax expenses	60	106	245	137	67	12.2	(51.1)
<i>ETR (%)</i>	26.8	26.7	26.0	33.4	24.0		
<b>PAT</b>	<b>163</b>	<b>293</b>	<b>697</b>	<b>272</b>	<b>211</b>	<b>29.5</b>	<b>(22.3)</b>
<b>Adj PAT</b>	<b>163</b>	<b>293</b>	<b>697</b>	<b>272</b>	<b>211</b>	<b>29.5</b>	<b>(22.3)</b>
EPS (Rs)	0.5	0.9	2.2	0.8	0.7	29.5	(22.3)

Source: Company data, I-Sec research

**Table 2: Railtel segment performance***(Rs mn)*

	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY (%)	QoQ (%)
<b>Telecom services</b>							
Revenue	1,981	2,057	2,257	2,554	2,308	16.5	(9.6)
EBIT	394	404	566	678	385	(2.3)	(43.3)
<i>EBIT (%)</i>	19.9	19.6	25.1	26.6	16.7		
<b>Projects</b>							
Revenue	563	773	1,849	1,744	760	34.9	(56.4)
EBIT	93	136	488	67	171	83.0	153.9
<i>EBIT (%)</i>	16.5	17.5	26.4	3.9	22.5		

Source: Company data, I-Sec research

**Table 3: Earnings revision***(Rs mn)*

	Revised		Old		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	15,514	17,350	15,853	17,699	(2.1)	(2.0)
<b>EBITDA</b>	<b>3,885</b>	<b>4,413</b>	<b>4,123</b>	<b>4,659</b>	<b>(5.8)</b>	<b>(5.3)</b>
<i>EBITDA (%)</i>	25.0	25.4	26.0	26.3		
PAT	2,031	2,496	2,209	2,680	(8.1)	(6.9)
EPS (Rs)	6.3	7.8	6.9	8.4	(8.1)	(6.9)

Source: Company data, I-Sec research

## Financial summary

**Table 4: Profit & Loss statement**
*(Rs mn, year ending March 31)*

	FY20	FY21	FY22E	FY23E
<b>Operating Income (Sales)</b>	<b>11,281</b>	<b>13,778</b>	<b>15,514</b>	<b>17,350</b>
Operating Expenses	7,942	10,507	11,629	12,937
<b>EBITDA</b>	<b>3,338</b>	<b>3,271</b>	<b>3,885</b>	<b>4,413</b>
% margins	29.6	23.7	25.0	25.4
Depreciation & Amortisation	1,309	1,593	1,514	1,450
Net Interest	68	41	41	41
Other Income	380	335	385	416
<b>Recurring PBT</b>	<b>2,341</b>	<b>1,972</b>	<b>2,715</b>	<b>3,337</b>
Add: Extraordinaries	(493)	-	-	-
Less: Taxes	437	547	684	841
- Current tax				
- Deferred tax				
Less: Minority Interest	-	-	-	-
<b>Net Income (Reported)</b>	<b>1,736</b>	<b>1,425</b>	<b>2,031</b>	<b>2,496</b>
<b>Recurring Net Income</b>	<b>1,736</b>	<b>1,425</b>	<b>2,031</b>	<b>2,496</b>

Source: Company data, I-Sec research

**Table 5: Balance sheet**
*(Rs mn, year ending March 31)*

	FY20	FY21	FY22E	FY23E
<b>Assets</b>				
Total Current Assets	11,483	14,932	17,909	20,877
of which cash & cash eqv.	2,684	4,243	5,865	7,398
Total Current Liabilities & Provisions	10,252	12,290	13,630	15,019
<b>Net Current Assets</b>	<b>1,231</b>	<b>2,642</b>	<b>4,279</b>	<b>5,859</b>
<b>Investments</b>	<b>2,079</b>	<b>2,079</b>	<b>2,079</b>	<b>2,079</b>
<b>of which</b>				
Strategic/Group	-	-	-	-
Other Marketable	2,079	2,079	2,079	2,079
<b>Net Fixed Assets</b>	<b>10,419</b>	<b>9,726</b>	<b>9,012</b>	<b>8,441</b>
Goodwill				
Deferred Tax Assets	-	-	-	-
<b>Total Assets</b>	<b>13,729</b>	<b>14,447</b>	<b>15,370</b>	<b>16,380</b>
<b>Liabilities</b>				
Borrowings	-	-	-	-
Deferred tax liability	35	35	35	35
Minority Interest				
Equity Share Capital	3,209	3,209	3,209	3,209
Face Value per share (Rs)	10.0	10.0	10.0	10.0
Reserves & Surplus	10,484	11,203	12,125	13,135
<b>Net Worth</b>	<b>13,694</b>	<b>14,412</b>	<b>15,335</b>	<b>16,344</b>
<b>Total Liabilities</b>	<b>13,729</b>	<b>14,447</b>	<b>15,370</b>	<b>16,380</b>

Source: Company data, I-Sec research

**Table 6: Quarterly trend**
*(Rs mn, year ending March 31)*

	Sep-20	Dec-20	Mar-21	Jun-21
Net sales	2,830	4,106	4,298	3,067
% growth (YoY)		52.0	9.5	20.6
EBITDA	724	1,249	725	596
Margin (%)	25.6	30.4	16.9	19.4
Other income	95	72	99	85
Add: Extra ordinaries	-	-	-	-
Net profit	293	697	272	211

Source: Company data

**Table 7: Cashflow statement**
*(Rs mn, year ending March 31)*

	FY20	FY21	FY22E	FY23E
<b>Operating Cashflow</b>	<b>2,674</b>	<b>2,724</b>	<b>3,200</b>	<b>3,572</b>
Working Capital Changes	(941)	147	(14)	(47)
Capital Commitments	(617)	(900)	(800)	(880)
<b>Free Cashflow</b>	<b>1,116</b>	<b>1,970</b>	<b>2,386</b>	<b>2,645</b>
<b>Cashflow from Investing Activities</b>	<b>138</b>	<b>335</b>	<b>385</b>	<b>416</b>
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	(67)	-	-	-
Dividend paid & Others	(558)	(747)	(1,149)	(1,528)
<b>Chg. in Cash &amp; Bank balance</b>	<b>629</b>	<b>1,558</b>	<b>1,623</b>	<b>1,533</b>

Source: Company data, I-Sec research

**Table 8: Key ratios**
*(Year ending March 31)*

	FY20	FY21	FY22E	FY23E
<b>Per Share Data (in Rs.)</b>				
Recurring EPS	5.4	4.4	6.3	7.8
Reported EPS	4.4	4.4	6.3	7.8
Recurring Cash EPS	8.5	9.4	11.0	12.3
Dividend per share (DPS)	1.4	2.2	3.5	4.6
Book Value per share (BV)	42.7	44.9	47.8	50.9
<b>Growth Ratios (%)</b>				
Operating Income	12.4	22.1	12.6	11.8
EBITDA	10.5	(2.0)	18.8	13.6
Recurring Net Income	28.3	(17.9)	42.6	22.9
Diluted Recurring EPS	4.2	1.0	42.6	22.9
Diluted Recurring CEPS	28.3	(17.9)	42.6	22.9
<b>Valuation Ratios (x)</b>				
P/E	30.0	29.7	20.9	17.0
P/CEPS	15.6	14.0	12.0	10.7
P/BV	3.1	2.9	2.8	2.6
EV / EBITDA	11.3	11.0	8.9	7.5
EV / Operating Income	3.3	2.6	2.2	1.9
EV / Operating FCF	21.7	12.6	10.8	9.3
<b>Operating Ratios</b>				
Other Income / PBT (%)	16.2	17.0	14.2	12.5
Effective Tax Rate (%)	18.7	27.8	25.2	25.2
NWC / Total Assets (%)	9.0	18.3	27.8	35.8
Inventory Turnover (days)				
Receivables (days)	164.1	162.6	162.8	163.0
Payables (days)	122.6	122.6	122.6	122.6
Net Debt/EBITDA Ratio (x)	(1.4)	(1.9)	(2.0)	(2.1)
Capex % of sales	5.5	6.5	5.2	5.1
<b>Profitability Ratios (%)</b>				
Rec.Net Income Margins	15.4	10.3	13.1	14.4
RoCE	15.3	11.9	15.9	18.7
RoIC	23.0	19.7	30.6	41.6
RoNW	10.6	10.1	13.7	15.8
Dividend Yield	1.1	1.7	2.6	3.5
EBITDA Margins	29.6	23.7	25.0	25.4

Source: Company data, I-Sec research

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