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Q4FY23 result review;
target price and earnings
revision

Telecom

Target price: Rs140

Earnings revision

(%)	FY24E	FY25E
Sales	↑ 12.1	↑ 16.9
EBITDA	↓ 1.2	↓ 0.9
PAT	↓ 4.7	↓ 3.1

Target price revision

Rs140 from Rs145

Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	72.8	72.8	72.8
Institutional investors	5.2	5.2	5.2
MF and others	2.9	2.6	2.6
Fls / Banks	0.0	0.0	0.0
Insurance Cos.	0.0	1.6	1.6
FIs	2.3	1.0	1.0
Others	22.0	22.0	22.0

Source: www.nseindia.com

ESG disclosure score

Year	2020	2021	Chg
ESG score	NA	NA	NA
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

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INDIA



Railtel Corporation of India

BUY

Maintained

Rs118

Thrust on growth driven by volume

Railtel Corporation of India's (Railtel) Q4FY23 EBITDA grew 2.0% YoY to Rs1bn; it was impacted by lower margins across businesses. However, easing supply chain has helped the company grow project revenue by 2.3x to Rs3.9 (up 57% in FY23). Telecom revenue has grown at 5.3% (+13% in FY23) to Rs3.1bn. Telecom margins have been hurt from higher O&M due to aging fibre which requires replacement and lower margin project execution. The company has guided for 1) telecom services revenue of Rs13-14bn for FY24 (Rs11.7bn in FY23); 2) projects revenue of Rs15bn for FY24 (vs Rs8bn in FY23) with EBIT margin of 6-7%; and 3) capex of Rs2bn to augment data centre capacity where it expects revenue to be 2x in FY24 to Rs1bn, and for other infrastructure expansion. Projects orderbook remains healthy at Rs45bn, and it has removed certain high-value projects such as RDN, COD and VSS in coaches. We cut our EPS estimates by 3-5% over FY24E-FY25E and target price to Rs140 (earlier: Rs145) with an unchanged FY25E PE multiple of 15x. Maintain BUY.

- **EBITDA grew 2% YoY (+32% QoQ).** Railtel's revenue rose 51.1% YoY (54.9% QoQ) to Rs7bn. Telecom services revenue grew 5.3% YoY to Rs3.1bn. Project revenue rose 2.3x YoY to Rs3.9bn. Employee costs dipped 17.9% YoY (+5.7% QoQ) to Rs512mn. Other expenses were down 15% YoY (67.4% QoQ) to Rs103mn due to lower ECL. Access charges have grown 29.5% YoY due to rise in churn in *RailWire* and higher fibre repair cost for routes that are old and the company has not yet replaced them. Other income was lower by 49.3% YoY to Rs112mn as base had one-off gains. Net profit improved 40% YoY to Rs760mn helped by exceptional gains from the reversal of earlier created ECLs.
- **Telecom revenue rose 5.3% YoY to Rs3.1bn.** *Note: Volatility in unallocated expenses caused volatility in telecom segment EBIT performance vs consolidated EBIT.* Within telecom services, *RailWire* has seen certain headwinds from rise in churn rate which has kept subs base under pressure. Telecom EBIT dipped 15% YoY to Rs505mn on higher O&M cost; EBIT margin QoQ dipped 365bps.
- **Project orderbook at Rs45bn.** Project revenue rose 2.3x YoY to Rs3.9bn, and has largely come from non-railway orders and VSS implementation for Railway. Railtel has achieved project revenue of Rs7.9bn for FY23 of which railway was Rs1.55bn (VSS-Rs850mn), and Rs6.4bn was from non-railway orders. Railtel expects to execute projects worth Rs15bn in FY24, which may improve to Rs20-25bn. The company had an aggressive bid for a large project in FY23 with very low margin. Railtel is now adding all contracts through auction process and expects EBIT margin of 6-7%. VSS' project scope is Rs4bn and it has completed work for Rs1.5bn. This is a high-margin project due to nomination process. VSS for coaches has been held by railway. The company will chase volumes with reasonable margins henceforth.
- **Company plans for capex of Rs2bn.** Railtel has upgraded network capacity from 10G to 100G which has added 10x data carrying capacity on its fibre. It has guided for Rs2bn capex of which a major portion will be spent on the fast growing data centre, network upgrade, bid data and others. Data centre revenue has scaled to Rs520mn in FY23, and is expected to grow fast. Railtel is targeting projects only with telecom + IT components.

Market Cap	Rs38bn/US\$459mn
Reuters/Bloomberg	RAITEL IN
Shares Outstanding (mn)	320.9
52-week Range (Rs)	144/90
Free Float (%)	27.2
FII (%)	1.0
Daily Volume (US\$'000)	3,530
Absolute Return 3m (%)	2.6
Absolute Return 12m (%)	26.2
Sensex Return 3m (%)	1.5
Sensex Return 12m (%)	18.5

Year to March	FY22	FY23	FY24E	FY25E
Revenue (Rs bn)	15.5	19.6	24.1	27.5
Rec. Net Income (Rs bn)	2.1	1.6	2.5	3.0
EPS (Rs)	6.5	5.1	7.9	9.4
% Chg YoY	46.7	(9.5)	34.2	18.9
P/E (x)	18.1	20.0	14.9	12.6
CEPS (Rs)	11.5	10.7	12.9	14.5
EV/E (x)	8.4	9.1	6.4	5.4
Dividend Yield (%)	2.0	1.3	1.3	1.5
RoCE (%)	14.1	11.6	17.1	18.3
RoE (%)	14.2	11.8	14.3	15.1

Please refer to important disclosures at the end of this report

- **Other highlights. 1) RailWire's** subscriber base was 0.52mn in FY23 with ARPU of Rs550. It is increasing FTTH proposition with inclusion of OTT contents and other offerings to match peers. In FY23, *RailWire's* revenue was Rs3.2bn; **2) revenue break up** for FY23 – a) NLD was Rs5.7bn; b) ISP was Rs3.8bn of which *RailWire* was Rs3.2bn; c) IP-1 was Rs2.2bn with data centre revenue of Rs520mn. Projects revenue from railway was Rs1.55bn and non-railway was Rs6.2bn; **3)** company has signed a contract to monetise its Wi-Fi project with 3i Infotech through advertisement. Commercial - payment of Rs140mn (minimum guarantee) or 40% of share of advertisement revenue whichever is higher. Minimum guarantee period has commenced; **4)** RDN and COD projects have been put on hold by railway; **5)** revenue from data centre is expected to jump to Rs1bn in FY24 from Rs0.5bn in FY23; **6)** revenue from telecom services is seen at Rs13-14bn in FY24; and **7)** Railtel has reversed certain unrequired ECL created earlier worth Rs365mn.
- **Risks:** 1) Lower than expected revenue growth in telecom business and 2) higher-than-expected erosion in margins across business segments with increased competitive intensity.

Table 1: Railtel (consolidated) financials

Rs mn	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	QoQ (%)	YoY (%)
Revenue	4,655	3,769	4,287	4,543	7,036	54.9	51.1
Expenses on projects	1,609	984	1,291	1,548	3,725	140.7	131.6
Access charges	1,154	1,248	1,145	1,262	1,495	18.5	29.5
Licence fees	184	176	189	189	219	15.8	18.9
Admin & other exp	122	175	218	317	103	(67.4)	(15.0)
Employee costs	624	516	440	484	512	5.7	(17.9)
Total expenses	3,692	3,099	3,283	3,800	6,054	59.3	64.0
EBITDA	963	670	1,004	744	982	32.0	2.0
<i>EBITDA (%)</i>	<i>20.7</i>	<i>17.8</i>	<i>23.4</i>	<i>16.4</i>	<i>14.0</i>		
Depreciation	431	396	366	370	412	11.5	(4.3)
EBIT	533	274	638	374	570	52.3	7.0
Finance cost	17	11	12	21	17	(22.2)	(4.1)
Other income	221	82	114	79	112	42.8	(49.3)
PBT	737	345	740	431	666	54.3	(9.6)
Exceptional items	-	-	-	-	365		
Tax expenses	194	87	188	112	271	141.7	39.8
<i>ETR (%)</i>	<i>26.3</i>	<i>25.1</i>	<i>25.4</i>	<i>25.9</i>	<i>40.6</i>		
PAT	543	259	552	319	760	138.0	40.0
Adj PAT	543	259	552	319	486	52.2	(10.4)

Source: Company data, I-Sec research

Table 2: Railtel segmental performance

(Rs mn)

	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	QoQ (%)	YoY (%)
Telecom services							
Revenue	2,982	2,738	2,947	2,869	3,141	9.5	5.3
EBIT	595	408	811	566	505	(10.7)	(15.0)
<i>EBIT (%)</i>	<i>19.9</i>	<i>14.9</i>	<i>27.5</i>	<i>19.7</i>	<i>16.1</i>		
Projects							
Revenue	1,673	1,031	1,340	1,675	3,895	132.6	132.8
EBIT	56	41	46	125	168	34.6	202.7
<i>EBIT (%)</i>	<i>3.3</i>	<i>3.9</i>	<i>3.4</i>	<i>7.5</i>	<i>4.3</i>		

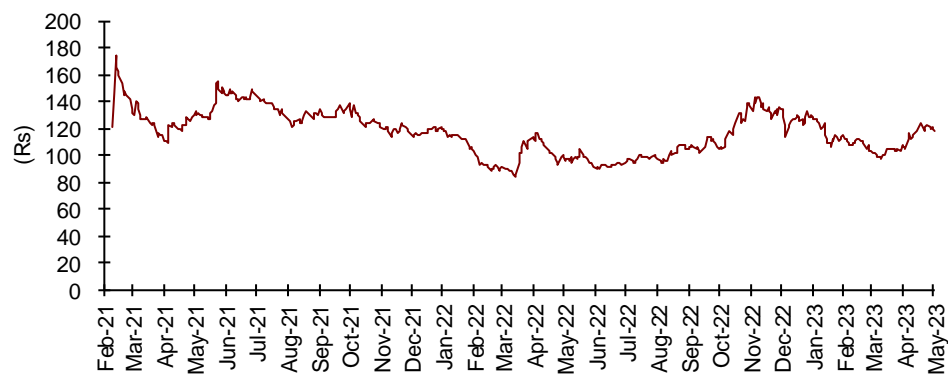
Source: Company data, I-Sec research

Table 3: Earnings revision

(Rs mn)

	Revised		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	24,128	27,495	21,521	23,521	12.1	16.9
EBITDA	4,622	5,288	4,678	5,240	(1.2)	0.9
EBITDA (%)	19.2	19.2	21.7	22.3		
PAT	2,538	3,017	2,662	3,112	(4.7)	(3.1)
EPS (Rs)	7.9	9.4	8.3	9.7	(4.7)	(3.1)

Source: Company data, I-Sec research

Price chart

Source: Bloomberg

Financial summary

Table 4: Profit and loss statement
(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Operating Income (Sales)	15,485	19,635	24,128	27,495
Operating Expenses	11,816	16,236	19,506	22,207
EBITDA	3,668	3,399	4,622	5,288
% margins	23.7	17.3	19.2	19.2
Depreciation & Amortisation	1,602	1,543	1,587	1,646
Net Interest	55	60	60	60
Other Income	795	387	418	451
Recurring PBT	2,806	2,183	3,393	4,034
Add: Extraordinaries	-	365	-	-
Less: Taxes	717	657	855	1,016
- Current tax				
- Deferred tax				
Less: Minority Interest	-	-	-	-
Net Income (Reported)	2,089	1,650	2,538	3,017
Recurring Net Income	2,089	1,650	2,538	3,017

Source: Company data, I-Sec research

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

	FY22	FY23	FY24E	FY25E
Assets				
Total Current Assets	15,229	19,066	24,072	28,359
of which cash & cash eqv.	3,399	3,265	4,555	5,786
Total Current Liabilities & Provisions	13,315	15,999	19,347	21,728
Net Current Assets	1,915	3,067	4,725	6,631
Investments	3,721	3,721	3,721	3,721
of which				
Strategic/Group	-	-	-	-
Other Marketable	3,721	3,721	3,721	3,721
Net Fixed Assets	9,382	9,639	10,032	10,564
Goodwill				
Deferred Tax Assets	249	249	249	249
Total Assets	15,267	16,676	18,728	21,166
Liabilities				
Borrowings	-	-	-	-
Deferred tax liability	-	-	-	-
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	12,058	13,467	15,518	17,957
Net Worth	15,267	16,676	18,728	21,166
Total Liabilities	15,267	16,676	18,728	21,166

Source: Company data, I-Sec research

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

	Jun-22	Sep-22	Dec-22	Mar-23
Net sales	3,769	4,287	4,543	7,036
% growth (YoY)	22.9	19.6	8.8	51.1
EBITDA	670	1,004	744	982
Margin (%)	17.8	23.4	16.4	14.0
Other income	82	114	79	112
Add: Extra ordinaries	-	-	-	365
Net profit	259	552	319	760

Source: Company data

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

	FY22	FY23	FY24E	FY25E
Operating Cash flow	2,474	3,107	3,767	4,272
Working Capital Changes	165	(1,286)	(368)	(676)
Capital Commitments	(1,158)	(1,800)	(1,980)	(2,178)
Free Cash Flow	1,481	21	1,420	1,418
Cash flow from Investing Activities	(1,070)	387	418	451
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	(91)	-	-	-
Dividend paid & Others	(947)	(542)	(547)	(639)
Chg. in Cash & Bank balance	(626)	(134)	1,290	1,231

Source: Company data, I-Sec research

Table 8: Key ratios
(Year ending March 31)

	FY22	FY23	FY24E	FY25E
Per Share Data (in Rs.)				
Recurring EPS	6.5	5.1	7.9	9.4
Reported EPS	6.5	5.9	7.9	9.4
Recurring Cash EPS	11.5	10.7	12.9	14.5
Dividend per share (DPS)	2.4	1.5	1.5	1.8
Book Value per share (BV)	47.6	52.0	58.4	66.0
Growth Ratios (%)				
Operating Income	12.4	26.8	22.9	14.0
EBITDA	12.1	(7.3)	36.0	14.4
Recurring Net Income	46.7	(21.0)	53.9	18.9
Diluted Recurring EPS	46.7	(9.5)	34.2	18.9
Diluted Recurring CEPS	46.7	(21.0)	53.9	18.9
Valuation Ratios (% YoY)				
P/E	18.1	20.0	14.9	12.6
P/CEPS	10.3	11.0	9.2	8.1
P/BV	2.5	2.3	2.0	1.8
EV / EBITDA	8.4	9.1	6.4	5.4
EV / Operating Income	2.0	1.6	1.2	1.0
EV / Operating FCF	11.7	17.0	8.7	7.9
Operating Ratio				
Other Income / PBT (%)	28.3	17.7	12.3	11.2
Effective Tax Rate (%)	25.5	30.1	25.2	25.2
NWC / Total Assets (%)	12.5	18.4	25.2	31.3
Inventory Turnover (days)				
Receivables (days)	161.4	194.6	203.4	207.9
Payables (days)	116.2	105.0	105.0	105.0
Net Debt/EBITDA Ratio (x)	(1.9)	(2.1)	(1.8)	(1.8)
Capex % of sales	7.5	9.2	8.2	7.9
Return/Profitability Ratio (%)				
Recurring Net Income Margins	13.5	8.4	10.5	11.0
RoCE (pre-tax)	14.1	11.6	17.1	18.3
RoIC (pre-tax)	26.1	20.8	30.1	32.9
RoNW	14.2	11.8	14.3	15.1
Dividend Yield	2.0	1.3	1.3	1.5
EBITDA Margins	23.7	17.3	19.2	19.2

Source: Company data, I-Sec research

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