February 18, 2025

Railtel Corporation of India Ltd.: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term/Short –term – Non-fund based limits	926.0	926.0	[ICRA]AA (Stable)/ [ICRA]A1+; reaffirmed
Long-term – Fund-based limits – Cash credit	21.0	21.0	[ICRA]AA (Stable); reaffirmed
Long-term – Interchangeable#	(28.0)	(28.0)	[ICRA]AA (Stable); reaffirmed
Long-term/Short –term – Unallocated limits	53.0	1,053.0	[ICRA]AA (Stable)/ [ICRA]A1+; reaffirmed and assigned for enhanced amount
Total	**1,000.0**	**2,000.0**	

**Instrument details are provided in Annexure I #Fund based limits is a sublimit of Non-fund based limits*

Rationale

The reaffirmed ratings consider Railtel's long track record (over 20 years) of operations in the telecom infrastructure space. The company owns more than 61,000 km of optical fibre network to provide long-distance services, including internet and passive infrastructure services, across the country. In addition, it executed critical projects of national importance such as BharatNet, National Knowledge Network (NKN) and railway signalling, among others.

The ratings continue to factor in Railtel's strong parentage, with the majority ownership by the Government of India (GoI) under the Ministry of Railways (MoR). This strong parentage enables Railtel to execute all connectivity-related projects of the Indian Railways and secure business from other public-sector undertakings (PSUs). Despite the Indian Railways' policy shift towards open tenders involving private parties, the company's order procurement remains healthy. It enjoys a favourable position in the market, with a well-established network infrastructure and a strong presence in the railway business.

The ratings factor in the healthy growth in the operating income and the sustenance of its strong financial risk profile, supported by zero debt and a healthy liquidity position. ICRA expects the company to continue demonstrating significant growth in operating income, aided by its robust order book position of ~Rs. 5,280 crore as of January 2025.

ICRA continues to consider Railtel's strong liquidity position, bolstered by its sizeable cash and liquid investments (including fixed deposits) of ~Rs. 1,006 crore, as on March 31, 2024. Additionally, Railtel maintains healthy financial flexibility with a conservative capital structure. The company's operating margins are likely to witness some moderation due to a growing proportion of relatively less profitable projects. However, its cash flow generation is expected to remain healthy, translating into a comfortable credit profile.

The ratings, however, are constrained by the expected moderation in Railtel's operating profit margins due to a growing proportion of less profitable projects segment. Its operations in the telecom segment remain exposed to intense competition and network expansion by other telecom operators, where growth prospects are moderate. Similarly, revenue generation from the project business is exposed to lumpiness as well as intense competition. The order book is healthy in the project segment, which is likely to demonstrate significant growth. However, the segment's margins are lower, which is expected to pull down the company's margin profile. The ratings also factor in the company's obligations to pay dividends to the GoI, which might impact its liquidity position. Its cash flow from operations is also impacted by the consistently elevated receivable levels.

Although a majority of the counterparties are the GoI-held entities, a sizeable proportion of the same has back-to-back arrangements with subcontractors, and a significant proportion has a favourable ageing profile.

The Stable outlook on the rating reflects ICRA's expectation that Railtel will likely sustain its operating income growth, supported by a strong order book position, even as margins are likely to witness a decline, keeping overall credit profile comfortable.

Key rating drivers and their description

Credit strengths

Strong parentage; majority ownership by the GoI – Railtel is a Navratna PSU, primarily held by the GoI through the MoR. By virtue of its ownership and strategic importance to the GoI, the company benefits by becoming eligible for certain contracts with other public sector entities.

Established track record in telecom infrastructure space with extensive network of optic fibre cable (OFC) across India – Railtel was incorporated in 2,000 to provide telecom-related services to the Indian Railways. It has since expanded its footprint and is now offering telecom infrastructure and other related services to a large number of public sector enterprises, along with private players. The company has an exclusive RoW to lay fibre to provide telecom services along the railway tracks. Additionally, Railtel has expanded its nationwide network and owns a fibre network of over 61,000 km.

Diversified revenue streams and strong order book position – The company operates across two major segments – telecom and projects. Within the telecom segment, the revenue streams are diversified to national long distance [NLD; 23% of operating income (OI) in FY2024], internet service provider (ISP; 17%) and infrastructure provider category-1 (IP-1) services (9%). The project segment contributed 50% to the total revenue from operations in FY2024, which is expected to increase going forward. Railtel's order book position as of January 2025 stood at ~Rs. 5,280 crore, indicating healthy revenue visibility going forward.

Strong financial flexibility with no debt and healthy cash levels – In the absence of external debt and availability of healthy free cash balances of ~Rs. 1,006 crore as on March 31, 2024, Railtel enjoys strong financial flexibility, translating into a robust liquidity position. Moreover, the company benefits from low working capital requirements, as the projects are supported by sizeable advances and back-to-back arrangements with subcontractors.

Credit challenges

Operating margins to moderate with increasing proportion of project business – The company's operating profitability has been consistently declining due to the increasing proportion of less profitable projects. The OPM dropped to 16.3% in 9M FY2025 from 18.1% in FY2024 and 19.3% in FY2023. This decline is further attributed to the increased proportion of project revenues and competitive pressures in various segments. The declining trend in margins is expected to continue, as the proportion of the project business in the operating income is likely to increase further.

Intense competition from established players – The company encounters significant competition from established players in the telecom business. However, it benefits from its strong parentage, in terms of order inflow and network along the railway tracks. The telcos have a deeply penetrated network, resulting in Railtel's telecom segment witnessing strong competition.

Elevated receivables – The receivable cycle remains elevated due to the nature of projects and some payment delays from customers. Although the company's receivable is elevated, its working capital intensity remains negative/very low, as a majority of such receivables are backed with subcontractors' liability, along with the receipt of customer advances.

Liquidity position: Strong

The liquidity remains strong, supported by healthy cash accruals, zero debt position and sizeable cash and cash equivalents (including fixed deposits) of ~Rs. 1,006 crore as on March 31, 2024 and low working capital requirements. This is further supported by unutilised fund-based limits.

Rating sensitivities

Positive factors – The ratings can be upgraded if Railtel continues to demonstrate strong revenue growth with healthy profitability, coupled with the sustenance of a comfortable liquidity profile and material improvement in the receivable position.

Negative factors – The ratings can be revised downwards if there is a considerable revenue generation decline, a material reduction in profit margins, or significant stretching of receivables, leading to a deterioration in the liquidity position. Further, weakening of linkages with the MoR (GoI) can lead to a ratings downgrade.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	The ratings derived significant strength from Railtel's strong parentage with ownership from the GoI through the MoR. The entity's strategic importance to the GoI by virtue of its role as a communication services provider for the railways also provides comfort.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Railtel Corporation of India Limited; as on March 31, 2024, the company had one subsidiary, as listed in Annexure-II

About the company

Railtel Corporation of India Limited (Railtel) is a Navratna (Category-I) PSU, which owns a pan-India fibre optic network, providing broadband and multimedia services, along with modernisation and maintenance of the communications network of the Indian Railways. Railtel was incorporated in 2000, as a schedule-A PSU under the MoR, to modernise the railways' communication network and contribute to the goals of the National Telecom Policy 1999. At the time of its inception, the existing railway OFC assets (primarily adjoining the railway tracks) were transferred to Railtel for commercial operations. Subsequently, Railtel expanded its network throughout the country, providing bandwidth, IP and ISP services. The company now offers services to other private and Government clients as well. It has two main lines of business—telecom and projects. Under telecom services, it provides lease line services NLD, internet services (ISP) and passive infrastructure services (IP-1). Under the project segment, the company gains from its expertise to lay and maintain OFC networks for other entities.

Key financial indicators (audited)

	FY2023	FY2024	6M FY2025*
Operating income	1,957	2,568	1,402
PAT	188	246	121
OPBDIT/OI	19.3%	18.1%	16.6%
PAT/OI	9.6%	9.6%	8.7%
Total outside liabilities/Tangible net worth (times)	1.0	1.2	1.1
Total debt/OPBDIT (times)	0.1	0.1	0.1
Interest coverage (times)	75.6	60.6	153.1

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Total debt includes lease liabilities*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years							
				FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Feb 18, 2025	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Non-fund based limits	Long/ Short-term	926.0	[ICRA]AA (Stable)/ [ICRA]A1+	-	-	Mar-05-24	[ICRA]AA (Stable)/ [ICRA]A1+	Feb-21-23	[ICRA]AA (Stable)/ [ICRA]A1+	Dec-09-21	[ICRA]AA- (Stable)/A1+
Fund-based limits – Cash credit	Long term	21.0	[ICRA]AA (Stable)	-	-	Mar-05-24	[ICRA]AA (Stable)	Feb-21-23	[ICRA]AA (Stable)	Dec-09-21	[ICRA]AA- (Stable)
Fund-based limits-Interchangeable*	Long term	(28.0)	[ICRA]AA (Stable)	-	-	Mar-05-24	[ICRA]AA (Stable)	Feb-21-23	[ICRA]AA (Stable)	Dec-09-21	-
Unallocated limits	Long/Short term	1053.0	[ICRA]AA (Stable)/ [ICRA]A1+	-	-	Mar-05-24	[ICRA]AA (Stable)/ [ICRA]A1+	Feb-21-23	[ICRA]AA (Stable)/ [ICRA]A1+	Dec-09-21	[ICRA]AA- (Stable)/A1+

**-Fund based limits interchangeable to non-fund based limits*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-fund based limits	Very simple
Fund-based limits	Simple
Unallocated limits	Not applicable
Interchangeable	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon R	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long-term/Short –term - Non-fund based limits**	-	-	-	926.0	[ICRA]AA(Stable)/ [ICRA]A1+
NA	**Long-term – Fund-based – Cash credit**	-	-	-	21.0	[ICRA]AA(Stable)
NA	**Long-term – Interchange**	-	-	-	(28.0)	[ICRA]AA(Stable)
NA	**Long-term/Short-term – Unallocated limits**	-	-	-	1053.0	[ICRA]AA(Stable)/ [ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Railtel Enterprises Limited	**100.00% (rated entity)**	**Full Consolidation**

Source: Railtel annual report FY2024

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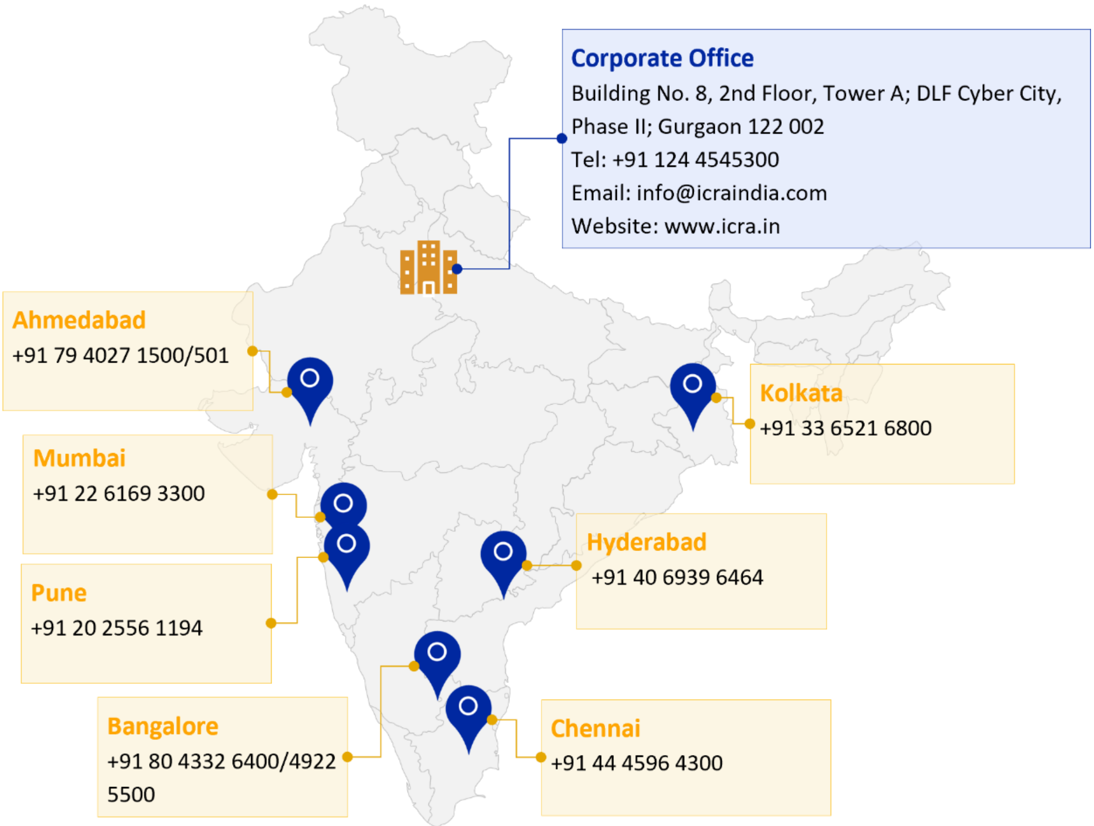

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