December 18, 2020

Railtel Corporation of India Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-fund based limits	370.0	380.0	[ICRA]AA- (Stable)/[ICRA]A1+; reaffirmed
Fund based limits	0.0	7.0	[ICRA]AA- (Stable); reaffirmed
Unallocated limits	130.0	113.0	[ICRA]AA- (Stable)/[ICRA]A1+; reaffirmed
Total	**500.0**	**500.0**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation factors in Railtel Corporation of India Ltd.'s (Railtel) strong parentage in terms of its ownership by the Government of India (GoI) under the Ministry of Railways (MoR). The strong parentage ensures that the company is able to execute all connectivity-related projects of the Railways as well as secure business from other public-sector undertakings. Being held by the MoR, Railtel benefits from the exclusive right of way (RoW) to lay fibre and provide telecom-related services along the 60,000 km of Indian Railways' network. The ratings continue to take into account Railtel's long track record (over 20 years) of operations in the telecom infrastructure space. The company owns ~60,000 km of optical fibre network across the country through which it provides national long-distance services, internet services, and passive infrastructure services. In addition, the company undertakes critical projects of national importance such as BharatNet, National Knowledge Network (NKN), railway signalling, etc., which help diversify the revenue streams.

The ratings are also supported by strong order book position of more than Rs. 3,500 crore as on date, which translate into a healthy revenue visibility going forward. ICRA continues to factor in Railtel's strong liquidity position as evidenced by sizeable free cash balances of around Rs. 470 crore as on September 30, 2020 (as per estimates), its healthy financial flexibility and conservative capital structure as reflected in its zero-debt position. The funding position of the company is further supported by advances from its customers. ICRA also notes that the company is planning an initial public offer (IPO), which would be an offer for sale wherein the GoI would divest some of its stake.

In addition, ICRA notes that the company received demand from Department of Telecommunications (DoT) of around Rs. 300 crore pursuant to the Supreme Court (SC) ruling that mandated telecom operators to pay additional dues pertaining to inclusion of non-core revenues in adjusted gross revenues (AGR). However, in June 2020, the SC mentioned that the AGR ruling is not applicable to the PSUs. The company has made its representation to DoT in this respect; however, a reply is awaited and basis the SC ruling, Railtel has withdrawn the same from the contingent liabilities as on March 31, 2020. While the ratings do not factor in any payout against this, the crystallisation of this liability would remain an event risk and the impact of any payout on this front would be evaluated upon receiving clarity regarding the outcome of the representation made to the DoT.

The ratings, however, are constrained by the trend of decline in Railtel's operating profit margin due to increasing proportion of the relatively lesser profitable projects segment. The operations of the company, especially in the telecom segment, remains exposed to intense competition and network expansion by other telecom operators. The revenue generation from the projects business, on the other hand, is exposed to lumpiness in revenues. The ratings also factor in that the company is obligated to pay dividends to the GoI, which might impact its cash position. The cash flow from the company's operations are also impacted by high receivable levels, although the counterparties are GoI-held entities.

Further, Railtel has executed a sizeable portion of the project in the North East using its own funds and the subsidy against this project is still recoverable.

The Stable outlook on the [ICRA]AA- rating reflects ICRA's opinion that Railtel will continue to benefit from its parentage in securing steady business and the overall financial profile of the company would remain strong, notwithstanding the deterioration in operating profitability.

Key rating drivers and their description

Credit strengths

Strong parentage; full ownership of GoI – Railtel is a Mini-Ratna Category-I Public Sector Undertaking, which is wholly owned by the GoI under the MoR. By virtue of its ownership and some strategic importance to the GoI, the company becomes eligible for some contracts for other public-sector entities on a nomination basis like National Optic Fibre Network (NOFN), National Knowledge Network (NKN), etc.

Track record of over 20 years in telecom infrastructure space – Incorporated in 2000 for providing telecom-related services to the Indian Railways, the company has expanded its footprint and now provides telecom infrastructure and other related services to a large number of public-sector enterprises as well as private players.

Extensive network of optic fibre cable across India – The company has an exclusive RoW to lay fibre to provide telecom services along the Indian Railways tracks. This apart, Railtel has expanded its network throughout the country and now owns a fibre network of ~ 60,000 RKms.

Diversified revenue streams – The company operates across two major segments – Telecom and Projects. Under Telecom, the revenues streams are diversified to National Long Distance (NLD; 37% of OI in FY2020), Internet Service Provider (ISP; 15%) and Infrastructure Provider Category 1 (IP-1) services (14%). The Projects segment contributed 34% to the OI in FY2020 and its contribution is expected to increase going forward.

Strong order book position – The company has bagged new projects from Indian Railways which include two large projects, among others—Content on Demand and Video Surveillance System. This apart, the company has received orders from Mahanadi Coalfields Limited and Ordnance Factory Board for system integration and bandwidth requirements. With these sizeable orders, the order book position has expanded to more than Rs. 3,500 crore, indicating healthy revenue visibility going forward.

Strong financial flexibility with no debt and healthy cash levels – With low working capital requirements as the projects are supported by sizeable advances, healthy accretion to reserves and absence of external debt, Railtel enjoys strong financial flexibility. These factors coupled with healthy free cash levels of around Rs. 470 crore as on September 30, 2020 (as per estimates) have translated into robust liquidity position for the company.

Credit challenges

Consistent decline in operating profitability – The company's operating profitability has been consistently declining over the years. It operates across two segments—Telecom and Projects. Of these, the Telecom segment is inherently more profitable. Increase in competition in the Telecom segment coupled with increasing proportion of relatively less profitable projects segment have resulted in steady decline in profitability over the years. The operating margins declined marginally to 29.6% in FY2020 and 30.1% in FY2019 from 35.7% in FY2016. Moreover, as the proportion of projects business in the OI is likely to remain high, the declining trend in margins is expected to continue going forward.

Intense competition from established players – Although the company benefits from its strong parentage in terms of inflow of orders and its exclusive RoW along the Railway track, it faces significant competition from the established telecom players in the regular business. The telcos have a deeply penetrated network and thus, the telecom segment of the company faces strong competition, resulting in lower profitability in this segment.

Inherent volatility in revenues from projects business – The company has been generating healthy revenues from the project's division. However, there remains a volatility on the receipt of contracts/projects in this division, resulting in lumpiness in revenues.

Liquidity position: Strong

Railtel's liquidity is **strong** with free cash and cash equivalents of Rs. 472 crore as on September 30, 2020 (estimated) and zero debt position and low working capital requirements. The liquidity is also supported by buffer in the fund-based facility which remains unutilised. Further, the company receives advances for its projects and also has back-to-back arrangements with its sub-contractors, which enables low working capital requirements, thereby supporting the liquidity.

Rating sensitivities

Positive triggers – Strong revenue growth and improvement in profit margins on the back of healthy execution of the unexecuted order book along with sizeable order inflow, on a sustained basis, could lead to a ratings upgrade.

Negative triggers – Railtel's ratings could be downgraded if there is a considerable decline in revenue generation or reduction in profit margins, which along with stretching of the working capital cycle leads to deterioration in liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	The ratings derived significant strength from Railtel's strong parentage with ownership from the GoI through the MoR, with some strategic importance to the GoI by virtue of its role as a communication services provider for Railways
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Railtel Corporation of India Limited; as on March 31, 2020, the company had one subsidiary, as listed in Annexure-2

About the company

Railtel Corporation of India (Railtel) is a Mini Ratna (Category-I) public sector undertaking, which owns a pan-India optic fibre network to provide broadband and multimedia network across the country, 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 with the purpose to modernising Railways communication network and to contribute to the goals of National Telecom Policy 1999. At the time of inception, the existing Railway's OFC assets (primarily adjoining the railway tracks) were transferred to Railtel for commercial operations. Subsequently, Railtel expanded its network throughout the country to provide bandwidth, IP and ISP services. Starting with catering to the networking needs of MoR, the company now offers services to other private and Government clients as well. The company has two main lines of business—Telecom and Projects. Within the Telecom services, it provides lease line services (NLD), internet services (ISP) and passive infrastructure services (IP-1). Under Projects, the company gains from its expertise to lay and maintain OFC network for other entities.

In FY2020, the company reported a net profit of Rs. 141 crore on an OI of Rs. 1128 crore compared with a net profit of Rs. 112 crore on an OI of Rs. 1003 crore in the previous year.

Key financial indicators

	FY2019 Audited	FY2020 Audited
Operating Income (Rs. crore)	1003.3	1128.1
PAT (Rs. crore)	111.6	141.1
OPBDIT/OI (%)	30.1%	29.6%
PAT/OI (%)	11.1%	12.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.73	0.75
Total Debt/OPBDIT (times)	0.00	0.00
Interest Coverage (times)	38.3	49.1

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					18-Dec-2020	26-Sep-2019	19-Jul-2018	-
1	Letter of Credit & Bank Guarantee	Long /Short Term	380.0	-	[ICRA]AA-(stable)/ [ICRA]A1+	[ICRA]AA-(stable)/ [ICRA]A1+	[ICRA]AA-(stable)/ [ICRA]A1+	-
2	Fund based limits	Long /Short Term	7.0	-	[ICRA]AA-(stable)	-	-	-
3	Unallocated limits	Long /Short Term	113.0	-	[ICRA]AA-(stable)/ [ICRA]A1+	[ICRA]AA-(stable)/ [ICRA]A1+	[ICRA]AA-(stable)/ [ICRA]A1+	-

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Letter of Credit & Bank Guarantee	-	-	-	380.0	[ICRA]AA- (stable)/ [ICRA]A1+
NA	Fund based limits	-	-	-	7.0	[ICRA]AA- (stable)
NA	Unallocated limits	-	-	-	113.0	[ICRA]AA- (stable)/ [ICRA]A1+

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Railtel Enterprises Limited	100%	Full consolidation

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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