December 09, 2021

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	380.0	475.0	[ICRA]AA- (Stable)/A1+; reaffirmed
Fund -based Limits	7.0	17.0	[ICRA]AA- (Stable) reaffirmed
Unallocated Limits	113.0	8.0	[ICRA]AA- (Stable)/A1+; reaffirmed
Total	**500.0**	**500.0**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation factors in Railtel Corporation of India Ltd.'s (Railtel) strong parentage with majority ownership by the Government of India (GoI) under the Ministry of Railways (MoR). The strong backing ensures that Railtel is able to execute all connectivity-related projects of the Railways and secure business from other public sector undertakings (PSUs). However, a change in policy of the Indian Railways regarding open tenders with private parties is likely to impact the order procurement going forward. Being held by the MoR, Railtel benefits from the exclusive right of way (RoW) to lay fibre and provide telecom-related services along the Indian Railways' 60,000-km network, which provides a competitive edge.

The ratings consider 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 and passive infrastructure services. In addition, it has undertaken critical projects of national importance such as BharatNet, National Knowledge Network (NKN), railway signalling, etc. It is currently implementing projects for the Ordnance Factory Board, Ministry of Defence, Coal India Limited, which provides revenue diversification.

The company's order book stood at ~Rs. 5,600 crore as of September 2021, which translates 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. 300 crore as on September 30, 2021 and healthy financial flexibility with a conservative capital structure as reflected in its zero debt position. The company's funding position is further supported by advances from its customers.

The ratings, however, are constrained by the expected moderation in Railtel's operating profit margin due to an increase proportion of the relatively lesser profitable projects segment. Its operations in the telecom segment remains exposed to intense competition and network expansion by other telecom operators. The revenue generation from the project business, on the other hand, is exposed to lumpiness in revenues. The ratings note that the company is obligated to pay dividends to the GoI, which might impact its cash position. Its cash flow from operations are also impacted by high receivable levels, although the counterparties are GoI-held entities and some portion of the total receivables are not due as per the milestone of the end-customer. 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 unlikely to be recovered.

The Stable outlook on the [ICRA]AA- rating reflects ICRA's opinion that Railtel will continue to benefit from its strong order book position, which will translate into healthy revenue generation and its overall financial profile would remain strong, notwithstanding the deterioration in operating profitability and elongated receivable position.

Key rating drivers and their description

Credit strengths

Strong parentage; majority ownership by the GoI – Railtel is a Mini-Ratna (Category-I) PSU, primarily held by the GoI through 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.

Established track record in telecom infrastructure space – Incorporated in 2000 for providing telecom-related services to the Indian Railways, Railtel has expanded its footprint and now provides telecom infrastructure and other related services to a large number of public sector enterprises, along with the private players.

Extensive network of optic fibre cable (OFC) 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 km.

Diversified revenue streams – The company operates across two major segments – telecom and projects. Under telecom, the revenue streams are diversified to National Long Distance (NLD; 32% of operating income (OI) in FY2021), Internet Service Provider (ISP; 19%) and Infrastructure Provider Category 1 (IP-1) services (14%). The project segment contributed 36% to the OI in FY2021 and its contribution is expected to increase going forward.

Strong order book position – The company has received large orders from the Indian Railways for services like content on demand, video surveillance system and e-office. It also has orders from Coal India Limited, Ordnance Factory Board, Indian Air Force, etc, for system integration and bandwidth requirements. Railtel's order book position has expanded to more than Rs. 5,600 crore as on September 2021, indicating healthy revenue visibility going forward.

Strong financial flexibility with no debt and healthy cash levels – In absence of external debt and availability of healthy free cash balances of around Rs. 300 crore as on September 30, 2021, Railtel enjoys strong financial flexibility, which translates 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 arrangement with the sub-contractors.

Credit challenges

Consistent decline in operating profitability – The company's operating profitability has been consistently declining and the trend is likely to continue. Of the two segments, telecom and projects, the former is inherently more profitable. Intense competition in the telecom segment, coupled with increasing proportion of orders from the relatively less profitable project segment resulted in a steady reduction in profitability. The same contracted to 23.7% in FY2021 from 29.6% in FY2020, although FY2021 decline was primarily due to provisioning towards expected credit loss of receivables. However, as the proportion of project 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, Railtel's telecom segment faces strong competition, resulting in lower profitability.

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

Liquidity position: Strong

Railtel's liquidity is strong with free cash and cash equivalents of around Rs. 300 crore as on September 30, 2021, zero debt position and low working capital requirements. Its liquidity is supported by buffer in the fund-based facility, which remains unutilised. The company receives advances for its projects and has back-to-back arrangements with its sub-contractors, which results in low working capital requirements, thereby supporting the liquidity.

Rating sensitivities

Positive triggers – Strong revenue growth on the back of healthy execution of the unexecuted order book along with sizeable order inflow, along with sustenance of healthy profitability on a sustained basis, coupled with material improvement in the receivables position could lead to a ratings upgrade.

Negative triggers – Railtel's ratings maybe downgraded if there is a considerable decline in revenue generation or reduction in profit margins, which along with material stretching of receivables leads to deterioration in liquidity position. Further, weakening of linkages with the MoR (GoI) can also lead to a rating revision.

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, 2021, the company had one subsidiary, as listed in Annexure-2

About the company

Railtel Corporation of India Limited (Railtel) is a Mini Ratna (Category-I) PSU, which owns a pan-India optic fibre 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's 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. 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.

Key financial indicators (audited)

Rs. crore	FY2020	FY2021
Operating Income (Rs. crore)	1128	1378
PAT (Rs. crore)	141	142
OPBDIT/OI (%)	29.6%	23.7%
PAT/OI (%)	12.5%	10.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.75	0.90
Total Debt/OPBDIT (times)	0.13	0.09
Interest Coverage (times)	49.1	80.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of November 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					December 09, 2021	December 18, 2020	September 26, 2019	July 19, 2018
1	Non- fund based limits	Long/ Short-term	475.0	-	[ICRA]AA-(Stable)/A1+	[ICRA]AA-(Stable)/A1+	[ICRA]AA-(Stable)/A1+	[ICRA]AA-(Stable)/A1+
2	Fund -based limits	Long -term	17.0	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	-	-
3	Unallocated limits	Long/ Short -term	8.0	-	[ICRA]AA-(Stable)/A1+	[ICRA]AA-(Stable)/A1+	[ICRA]AA-(Stable)/A1+	[ICRA]AA-(Stable)/A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non fund Based Limits	Very Simple
Fund -based limits	Simple
Unallocated limits	NA

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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Non -fund Based Limits	-	-	-	475.0	[ICRA]AA-(Stable)/A1+
NA	Fund -based Limits	-	-	-	17.0	[ICRA]AA- (Stable)
NA	Unallocated Limits	-	-	-	8.0	[ICRA]AA-(Stable)/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:

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