February 21, 2023

Railtel Corporation of India Ltd.: Ratings reaffirmed; outlook revised to Positive from Stable; 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	475.0	630.0	[ICRA]AA- (Positive)/A1+; reaffirmed/assigned; outlook revised to Positive from Stable
Long-term – Fund-based limits – Cash credit	17.0	20.0	[ICRA]AA- (Positive); reaffirmed/assigned; outlook revised to Positive from Stable
Long-term – Interchangeable#	-	(25.0)	[ICRA]AA- (Positive); assigned
Long-term/Short –term – Unallocated limits	8.0	150.0	[ICRA]AA- (Positive)/A1+; reaffirmed/assigned; outlook revised to Positive from Stable
Total	**500.00**	**800.00**	

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

Rationale

The revision in the outlook to Positive factors in ICRA's expectation that Railtel Corporation of India Ltd. (Railtel) will demonstrate healthy revenue growth on the back of a strong order book position and sustenance of a healthy financial risk profile demonstrated by zero debt and a strong liquidity position. Railtel's operating income (OI) witnessed healthy growth in FY2022 and 9M FY2023 and the growth momentum is likely to continue, supported by a robust order book position of Rs. 4,985 crore as on December 31, 2022. ICRA continues to factor in Railtel's strong liquidity position, evident from the sizeable cash and liquid investments (including fixed deposits) of around Rs. 660 crore as on December 31, 2022 and healthy financial flexibility with a conservative capital structure.

The ratings continue to reflect Railtel's strong parentage with majority ownership by the Government of India (GoI) under the Ministry of Railways (MoR), its healthy credit profile and a strong liquidity position. The parentage of the Ministry of Railways ensures that Railtel is able to execute all connectivity-related projects of the Railways and secure business from other public-sector undertakings (PSUs). Despite the change in the policy of the Indian Railways regarding open tenders with private parties, the order procurement remains healthy as the company enjoys a favourable position in the market with a well-established network infrastructure and strong presence in the railway business.

The ratings consider Railtel's long track record (over 20 years) of operations in the telecom infrastructure space. The company owns ~62,000 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 executed 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, Indian Air force, State Bank of India, etc which provides revenue diversification.

The ratings, however, are constrained by the expected moderation in Railtel's operating profit margins due to an increase in the proportion of the relatively less profitable project segment. Its operations in the telecom segment remain 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 liquidity position. Its cash flow from operations are also impacted by the high receivable levels, although the counterparties are GoI-held entities, a sizeable proportion of the same has back-to-back arrangements with sub-contractors and a large part of the same has favourable ageing profile. Further, Railtel has executed a sizeable portion of the project in the Northeast using its own funds and the subsidy against this project is unlikely to be recovered.

Key rating drivers and their description

Credit strengths

Strong parentage; majority ownership by the GoI – Railtel is a Miniratna (Category-I) PSU, primarily held by the GoI through the MoR. By virtue of its ownership and 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 which it has executed.

Established track record in telecom infrastructure space with extensive network of optic fibre cable (OFC) across India – Railtel was incorporated in 2000 for providing telecom-related services to the Indian Railways. It has expanded its footprint and now provides 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 Indian Railways' tracks. This apart, Railtel has expanded its network throughout the country and now owns a fibre network of ~ 62,000 km.

Diversified revenue streams and strong order book position – The company operates across two major segments – telecom and projects. Under telecom, the revenue streams are diversified to national long distance (NLD; 46% of operating income (OI) in FY2022), internet service provider (ISP; 34%) and infrastructure provider category-1 (IP-1) services (20%). The project segment contributed 33% to the total revenue from operations in FY2022 and its contribution is expected to increase, going forward. The company has received large orders from the Indian Railways for services such as 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. 4,900 crore as of December 2022, 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 around Rs. 660 crore as on December 31, 2022, 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

Operating margins to moderate with increasing proportion of project business – 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 the increasing proportion of orders from the relatively less profitable project segment, has resulted in a steady reduction in profitability. The OPM improved in FY2022 to 26.1% from 23.7% in FY2021 primarily on account of provisions written back. However, as the proportion of the 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 order inflow and its network along the railway tracks, it faces significant competition from 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.

Lumpiness in revenues from project business – The company has been generating healthy revenues from the project work services segment (33% of revenue from operations in FY2022) and the same is likely to increase going forward, which is also indicated by a healthy order book position. However, the receipt of contracts/orders in this division remains volatile, resulting in lumpiness in revenues.

Environment and Social Risks

Railtel has a service-oriented business and hence its direct exposure to environmental risks as well as those emanating from regulations or policy changes is not material. However, it remains exposed to the impact on the environment owing to electricity requirements at network infrastructure as well as radiation-related risks from tower sites. The disclosures made by Railtel indicate its efforts towards reducing paper consumption and promoting video conferencing to reduce travel. Moreover, given the importance of telecom services to the society and the economy, its social responsibilities remain high.

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 around Rs. 660 crore as on December 31, 2022 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 along with sizeable order inflow, coupled with the sustenance of adequate profitability and material improvement in the receivable position.

Negative factors – The outlook can be revised to Stable if there is a considerable decline in revenue generation or reduction in profit margins. Railtel's ratings maybe downgraded in case of a material stretching of receivables, leading to a deterioration in the liquidity position. Further, weakening of linkages with the MoR (GoI) can 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 the railways
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Railtel Corporation of India Limited; as on March 31, 2022, the company had one subsidiary, as listed in Annexure-2

About the company

Railtel Corporation of India Limited (Railtel) is a Miniratna (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 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 projects, the company gains from its expertise to lay and maintain OFC network for other entities.

Key financial indicators (audited)

RCIL Consolidated	FY2021	FY2022
Operating income	1378	1599
PAT	142	209
OPBDIT/OI	23.7%	26.1%
PAT/OI	10.3%	13.1%
Total outside liabilities/Tangible net worth (times)	0.9	0.9
Total debt/OPBDIT (times)	0.1	0.1
Interest coverage (times)	80.6	76.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation and includes provision written back; Amount in Rs crore
#Railtel's total debt has only lease liability ~OPBDITA for FY2022 amounts to Rs. 417 crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Feb 21, 2023 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Feb 21, 2023	Dec 09, 2021	Dec 18, 2020	Sept 26, 2019
1	Non-fund based limits	Long/ Short- term	630.0	-	[ICRA]AA-(Positive)/[ICRA]A1+	[ICRA]AA-(Stable)/A1+	[ICRA]AA-(Stable)/A1+	[ICRA]AA-(Stable)/A1+
2	Fund-based limits – Cash credit	Long term	20.0	-	[ICRA]AA-(Positive)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	-
3	Fund-based limits-Interchangeable*	Long term	(25.0)	-	[ICRA]AA-(Positive)	-	-	-
4	Unallocated limits	Long/Short term	150.0	-	[ICRA]AA-(Positive)/[ICRA]A1+	[ICRA]AA-(Stable)/A1+	[ICRA]AA-(Stable)/A1+	[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 Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long-term/Short –term – Non-fund based limits**	-	-	-	630.0	[ICRA]AA- (Positive)/[ICRA]A1+
NA	**Long-term – Fund-based limits – Cash credit**	-	-	-	20.0	[ICRA]AA- (Positive)
NA	**Long-term – Interchangeable***				(25.0)	[ICRA]AA- (Positive)
NA	**Long-term/Short-term – Unallocated limits**	-	-	-	150.0	[ICRA]AA- (Positive)/[ICRA]A1+

*Source: Company * Fund based limits is a sublimit of Non-fund based limits.*

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 FY2022

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