March 05, 2024

Railtel Corporation of India Ltd.: Long-term rating upgraded to [ICRA]AA and short-term rating reaffirmed at [ICRA]A1+; Outlook revised to Stable from Positive; 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	630.0	926.0	[ICRA]AA(Stable); Rating upgraded from [ICRA]AA- (Positive) and assigned for enhanced amount; Outlook revised to Stable from Positive; [ICRA]A1+ reaffirmed and assigned for enhanced amount
Long-term – Fund-based limits – Cash credit	20.0	21.0	[ICRA]AA(Stable); Rating upgraded from [ICRA]AA- (Positive) and assigned for enhanced amount; Outlook revised to Stable from Positive
Long-term – Interchangeable#	(25.0)	(28.0)	[ICRA]AA(Stable); Rating upgraded from [ICRA]AA- (Positive) and assigned for enhanced amount; Outlook revised to Stable from Positive
Long-term/Short –term – Unallocated limits	150.0	53.0	[ICRA]AA(Stable); Rating upgraded from [ICRA]AA- (Positive); Outlook revised to Stable from Positive; [ICRA]A1+ reaffirmed
Total	**800.0**	**1,000.0**	

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

Rationale

The upgrade in the long-term rating of Railtel Corporation of India Limited (Railtel) factors the healthy growth in the operating income and sustenance of its strong financial risk profile, supported by zero debt and a healthy liquidity position. ICRA expects the company to continue demonstrating healthy growth in operating income, aided by its robust order book position of around Rs. 4,900 crore as of January 2024.

ICRA continues to consider Railtel's strong liquidity position, bolstered by its sizeable cash and liquid investments (including fixed deposits) of ~Rs. 600 crore, as on September 30, 2023. Additionally, Railtel maintains a healthy financial flexibility with a conservative capital structure. While operating margins are likely to witness some moderation due to a growing proportion of less profitable projects, the company's cash flow generation is expected to remain healthy, translating into a comfortable credit profile.

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 as the company enjoys a favourable position in the market, with a well-established network infrastructure and a 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 ~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), railway signalling, among others.

The ratings, however, are constrained by the expected moderation in Railtel's operating profit margins due to a growing proportion of less profitable projects. Its operations in the telecom segment remain exposed to intense competition and network expansion by other telecom operators. Similarly, revenue generation from the project business 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 is also impacted by the consistently elevated receivable levels. Although a majority of 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 a favourable ageing profile. Further, Railtel has executed a sizeable portion of the project in the Northeast region with its own funds, and the corresponding subsidy is unlikely to be recovered.

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 the margins are likely to witness a decline.

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 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 2000 to provide telecom-related services to the Indian Railways. It has since expanded its footprint and now offers 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 for providing telecom services along the railway tracks. Additionally, Railtel has expanded its network nationwide and now owns a fibre network of ~ 61,000 km.

Diversified revenue streams and strong order book position – The company operates across two major segments – telecom and projects. Within telecom, the revenue streams are diversified to national long distance [NLD; 29% of operating income (OI) in FY2023], internet service provider (ISP; 19%) and infrastructure provider category-1 (IP-1) services (11%). The project segment contributed 41% to the total revenue from operations in FY2023, and it is expected to increase going forward. Railtel's order book position as of January 2024 stood at ~Rs. 4,900 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 around Rs. 658 crore as on September 30, 2023, 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 due to a growing proportion of less profitable projects. The OPM dropped to 19.3% in the previous fiscal from 23.7% in FY2022, owing to increased project cost and competitive pressures in various segments. The declining trend in margins is expected to continue, as the proportion of the project business in the OI is likely to remain high.

Intense competition from established players – Although the company benefits from its strong parentage in terms of order inflow and network along the railway tracks, it encounters significant competition from established players in the telecom business. 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 the projects and some delays in payments from the customers. Despite the elevated receivable cycle, the working capital intensity remains negative/very low for the company as a majority of these receivables are backed with the liability of subcontractors, along with receipt of advances from customers.

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. 600 crore as on September 30, 2023 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 and improvement in profitability, coupled with the sustenance of an adequate liquidity profile and material enhancement in the receivable position.

Negative factors – The outlook can be revised to Stable if there is a considerable decline in revenue generation or a reduction in profit margins. Railtel's ratings may be 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 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, 2023, 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 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)

	FY2022	FY2023	6M FY2024
Operating income	1,548.0	1,964.0	1,096.0
PAT	209.0	189.0	107.0
OPBDIT/OI **	23.7%	19.3%	19.9%
PAT/OI	13.5%	9.6%	9.7%
Total outside liabilities/Tangible net worth (times)	0.9	1.0	1.0
Total debt/OPBDIT (times)*	0.1	0.1	0.1
Interest coverage (times)	66.8	62.9	126.1

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore *- Total debt includes lease liabilities*

***- OPBDIT doesn't include other non-operating income*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31,2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 05, 2024	Feb 21, 2023	Dec 09, 2021	Dec 18, 2020
1	Non-fund based limits	Long/ Short-term	926.0	-	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA- (Positive)/ [ICRA]A1+	[ICRA]AA- (Stable)/A1+	[ICRA]AA- (Stable)/A1+
2	Fund-based limits – Cash credit	Long term	21.0	-	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
3	Fund-based limits- Interchangeable*	Long term	(28.0)	-	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	-	-
4	Unallocated limits	Long/Short term	53.0	-	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA- (Positive)/ [ICRA]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**	-	-	-	926.0	[ICRA]AA(Stable)/ [ICRA]A1+
NA	**Long-term – Fund-based limits – Cash credit**	-	-	-	21.0	[ICRA]AA(Stable)
NA	**Long-term – Interchangeable***	-	-	-	(28.0)	[ICRA]AA(Stable)
NA	**Long-term/Short-term – Unallocated limits**	-	-	-	53.0	[ICRA]AA(Stable)/ [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 FY2023

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About ICRA Limited:

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