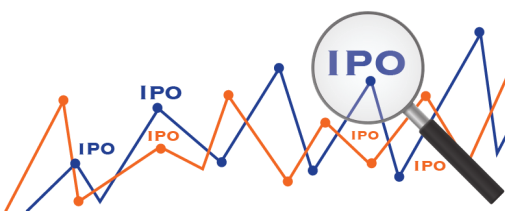




Railtel Corporation of India Limited

Issue Opens	Tuesday, February 16, 2021
Issue Closes	Thursday, February 18, 2021
Price Band (in Rs)	93/94
Bid Lot	155 shares and multiples thereafter



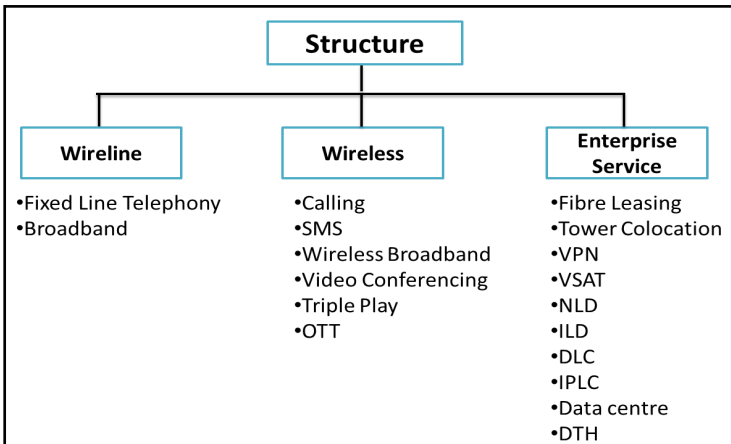
IPO UPDATE

Railtel Corporation of India Limited

Telecom services industry in India:

The Indian telecom services industry can be broadly segregated into wireless, wireline and enterprise services. Wireline services are traditional landline calling services and wired broadband service. Wireless service includes mobile calling, short messaging service, wireless broadband, video conferencing service, triple play service, and over-the-top platforms. Enterprise services provide network connectivity across locations and users in an organization.

Exhibit 01: Structure of Telecom and Telecom Data Services Industry in India



Source: Company RHP, Progressive Research

Recent trends in telecom and telecom data services industry in India

- The impact of Covid-19 pandemic is likely to be minimal on telecom companies. A large part of the impact on subscriber additions will be on account of short-term supply chain disruption in smartphone availability. However, with increasing number of people working from home, data volume is likely to jump in the short term, leading to subscribers recharging with higher data tariff packs. This will likely offset any loss resulting from slow subscriber additions.
- AGR dues - A huge roadblock for telecom companies: Supreme Court on September 1, 2020, allowed telecom companies 10 years' time to pay their AGR dues to the Government stating that the period of 20 years fixed for payment was excessive. In a series of directions to the telecom companies, the Supreme Court stated that they shall raise no dispute nor will there be any reassessment of the AGR dues. The telecom operators would make the payment of 10% of the total dues as demanded by DoT by March 31, 2021.
- In June 2020, DoT informed the Supreme Court that it had withdrawn 96% of its Rs4,000bn demand in AGR from non-UASL(Unified access services/ cellular mobile services license) license holder PSUs as their core operation was not to provide basic telephony services including cellular mobile covered under the UASL.

Market sizing of telecom services in India

- According to Crisil Research, the industry's gross revenue is expected to have recovered 9-10% y-o-y in FY20, to approximately Rs1,670bn, led by growth in ARPU, owing to price hikes in the last quarter of the FY20. As the full impact of the rise in ARPU will be seen in FY21, it is expected that gross revenue will rise 14-16% y-o-y in FY21.

SNAPSHOT		
Issue Opens	Tuesday, February 16, 2021	
Issue Closes	Thursday, February 18, 2021	
Price Band (Rs)	93/94	
Bid Lot	155 shares and multiples thereafter	
Face Value	Rs10	
Listing	BSE & NSE	
Type of Issue	Offer for Sale	
Offer Size (Rs Mn)	Fresh Issue	-
	OFS	8,192
	Total	8,192
*Implied Market Cap (Rs Mn)	30,168	
P/E (based on FY20 Earnings)*	21.4	

*Note: Implied Market Cap & P/E are calculated at upper price band of Rs94

Issue Allocation	
Reservations	% of Net Issue
QIB	50
NIB	15
Retail	35
Total	100
Employee Reservation: Upto 500,000 Equity Shares	

Object of the Offer
<ul style="list-style-type: none"> • To carry out the disinvestment of 87,153,369 equity shares • To achieve the benefits of listing the equity shares



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Railtel Corporation of India Limited

Industry: (contd.)

In FY21, Crisil Research expects a further jump in data usage to 15GB per month as persistent lockdowns will result in people staying at home, and, thereby, increasing their data usage. However, over FY20-24, it is expected that growth in average data usage would moderate over a high base. Crisil expects average monthly data usage per subscriber per month to register a CAGR of approximate 20% between FY19-24, to reach approximately 21GB.

Key opportunities in the telecom services industry

- Low rural tele-density to drive wireless subscriber base going ahead
- Pre-requisite for launch of 5G services to boost fiber and satellite infrastructure
- Leasing of fiber can make India 5G-ready earlier
- Internet of Things to disclose newer revenue streams for telecom companies going ahead
- Right of way to rationalise administrative expenses: The rules aim at rationalizing administrative expenses across India to a maximum of Rs1,000 per kilometer for fiber, and a maximum of Rs10,000 per application for overhead towers
- Proliferation of low-cost mobile handsets
- Reduction in international termination charges (ITC) is expected to benefit national players
- FDI cap relaxation to drive investments in the sector

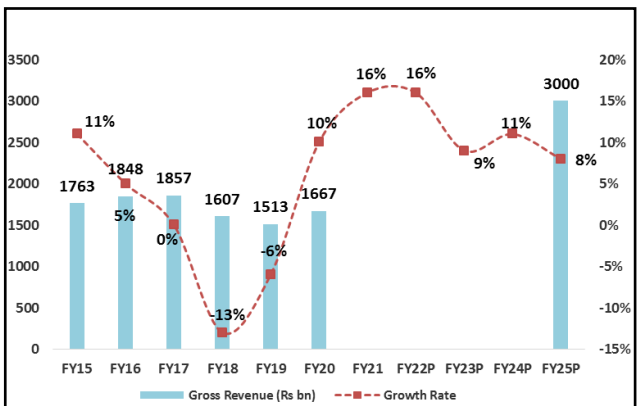
Key challenges in the telecom services industry

- Several levies on the sector
- Deteriorating financial position of telecom operators
- The Covid-19 pandemic may delay 5G auctions beyond FY21
- Making use of newer communication technologies like IP-based networks, Wi-Fi and carrier aggregation
- Declining trend of SMS service owing to OTT players

Telecom data services industry in India

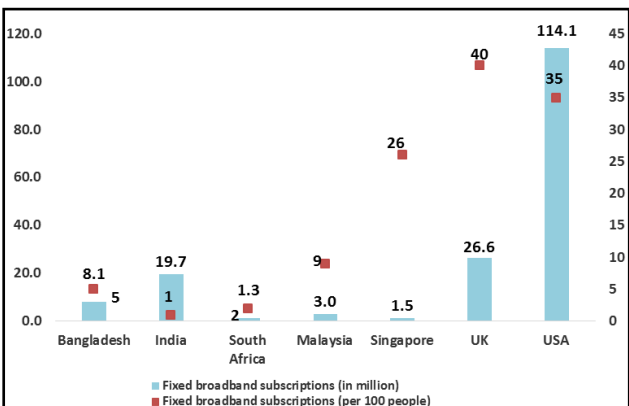
India has the lowest fixed broadband subscriptions per 100 people

Exhibit 02: Recovery in ARPU Owing to tariff Hikes to Revive Industry Revenues in Current and Subsequent Fiscals



Source: Company RHP, Progressive Research

Exhibit 03: Comparison of Fixed Broadband Subscribers With Developed and Developing Economies



Source: Company RHP, Progressive Research

Overview of the total internet subscriber base of wireless and wireline services in India

- **Wireline broadband market to gain pace owing to the Covid-19 pandemic:** Owing to Covid-19 pandemic, it is expected that more urban subscribers will sign up for wired broadband subscriptions with the likelihood of prolonged work from home requirements. Crisil Research expects the wired internet subscriber base (narrowband and broadband) to increase to approximately 33million by FY25 from approximately 22million in FY20. Within the segment, it is expected that broadband internet will be the growth driver, with its share expanding to over 98% of the overall wired internet subscriber base in FY25, from approximately 85% in FY20. Wired broadband will comprise the bulk of the wired internet subscriber base because of the continued shift of retail subscribers to higher bandwidths, among the growing popularity of social networking and availability of video content. Also, the price difference between broadband and narrowband has reduced over the past few years. Renewed competition in the wired broadband segment with the entry of Reliance Jio is expected to spur growth over the next few years.



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Industry: (contd.)

- It is anticipated that tariff hikes in wireless space may result in subscribers preferring wired broadband services. December 2019 tariff hikes marked the end of price wars in wireless space that led to significant consolidation in the telecom market. The price wars resulted drop in wireless services and significantly improved the wireless internet penetration in India
- Wireless internet demand is expected to grow at a CAGR of 7% to 10% between FY19-24 to reach approximately 850 million, driven by a growth in the number of 4G subscribers, better speeds, cheaper 4G handsets, and low penetration of wireline infrastructure in rural areas. However, the growth rate will be offset by further tariff hikes by wireless players over the next two fiscals
- Crisil projects revenue of the EDS industry to register a CAGR of 4% to 5% over the next five years, to reach approximately Rs175bn in FY25. Among the segments, VPN is likely to grow faster especially after the pandemic as VPN forms a very critical element of corporates business continuity plans
- Clients switching to higher bandwidth, new SME accounts to drive sectoral growth
- Indian Railway officials are now enabled to work on digital platform of NIC e-office, replacing manual files. The use of e-office has also doubled with the number of e-files increasing from 1.30-2.70lakh and e-receipts, from 4.5-7lakh, before and after the lockdown, respectively
- The DLC (Domestic leased circuits)segment, which is estimated to have recorded a CAGR of 5% in value terms between FY15-20, is expected to record a CAGR of 4-5% up to FY25 to Rs105-106bn

BFSI, manufacturing, IT sectors among largest EDS (Enterprise Data Service) end-users while other potential industry segments include data center services, optic fiber network: Bharat Net project to increase optic fibre network demand, video conferencing triple play services etc.

Key opportunities and challenges in the telecom data services industry

- Increase in out-of-office communication requirement is increasing demand for EDS. With technology being used to connect extended enterprise segments such as vendors, clients, and clearing and forwarding agents, bandwidth requirements will keep rising. The need for data on-the-go is emerging as a key requirement for companies. Additionally E-commerce and OTT sectors to drive data traffic growth
- Wireline broadband to provide better data service by offloading congestion in wireless
- Indian Railways is focusing enhancing passenger experience by enabling suitable technology to introduce SMART coaches on its network. The high speed mobile communications network is aiming to include modern features like CCTVs with facial recognition, emergency talk-back system, Wi-Fi infotainment system, automatic plug-door and step control. Key Indian Railway projects include
 - Content on demand
 - Railway display network (RDN) project
 - Internet Protocol (IP)-based video surveillance system (VSS)
 - E-office (phase-II)
 - Allotment of spectrum to Indian Railways for public safety and security services
- Government emerging as an important end user and most government projects are expected to be executed using VPN
- Bharat Net is a Government initiative to provide broadband services to rural areas. As part of BharatNet project, lastmile connectivity through Wi-Fi or any other suitable broadband technology to access broadband /internet services, is to be provided at all 2.5 lakh gram panchayats
- Retail, healthcare also seeing adoption of VPNs; SMEs to provide opportunities in low bandwidth space
- VPN is also required by the manufacturing segment, particularly consumer durables, heavy engineering and fastmoving consumer goods. Technology facilitates collaboration between the factory floor and enterprise supply chain, comprising work sites, warehouses and regional sales offices as well as dealers and clearing and forwarding agents.
- Television bundling with broadband can result in significant uptake in wired broadband subscribers
- Youth in India to drive demand for on-the-move internet access
- Personal data is any information relating to a customer, whether it relates to their private, professional, or public life. In the online environment, where vast amounts of personal data are shared and transferred globally and instantaneously, it is increasingly difficult for people to retain control of their personal information. Telecom operators have a huge responsibility to protect data by ensuring the confidentiality of the customers in the future.

Key government initiatives driving the telecom data services industry

- The Ministry of Electronics and Information Technology (MeitY), Government of India initiated the 'Digital India' program to transform India into a digitally empowered society and knowledge-based economy by ensuring digital access, inclusion, empowerment, and bridging the digital divide. The program is centered on three key vision areas namely digital infrastructure as a core utility to every citizen, governance and services on demand and digital empowerment of citizens.



IPO UPDATE

Railtel Corporation of India Limited

Industry: (contd.)

- Bharat Net is a government initiative to provide broadband services to rural areas. It aims to connect 2,50,000 gram panchayats (GPs) in India and provide high-speed broadband connectivity to all GPs. To achieve this, existing fibers of PSUs (BSNL, RailTel and Power Grid) are utilized in phase I and incremental fiber is to be laid to connect GPs as required
- On April 30, 2016, the Telecom Commission approved implementation of the project in three phases as below:
 - Phase-I - 100,000 GPs under implementation. Being executed by BSNL, RailTel and PGCIL.
 - Phase-II – Implementation in remaining GPs using optical mix of underground/ aerial optical fiber cable (OFC), radio and satellite. To be executed by three central public sector units and state governments through their distribution companies or any other agency.
 - Phase-III - Futuristic network with ring topology to be used between districts and blocks and blocks and GPs. Targeted to be completed by 2023.
- The DoT released the draft National Telecom Policy, renamed the NDCP 2018, for consultation on May 1, 2018. It had requested the public and stakeholders for their comments to make the document robust and its goals realizable. The NDCP 2018 aims to accomplish the following strategic objectives by 2022:
 - Providing 'Broadband for All'
 - Creating four million additional jobs in the digital communications sector
 - Enhancing the sector's contribution to India's GDP
 - Propelling India to the list of top 50 nations in the ICT Development Index of the International Telecommunications Union from a rank of 134 in 2017
 - Enhancing India's contribution to global value chains
 - Ensuring digital sovereignty
- DLC and IPLC Policy: EDS form the basis of connectivity for various business and ensure the smooth functioning of the communication and networking infrastructure. To this end, the government introduced two policies for leased line technologies - DLCs and IPLCs.

About the Company:

Railtel Corporation of India Limited (RCIL) is an information and communications technology infrastructure (ICT) provider and is one of the largest neutral telecom infrastructure providers in India. It is a Mini Ratna (Category-I) Central Public Sector Enterprise, wholly-owned by the Government of India and under the administrative control of the Ministry of Railways. The company was incorporated on September 26, 2000 with the aim of modernizing the existing telecom system for train control, operation and safety and to generate additional revenues by creating nationwide broadband and multimedia network by laying optical fiber cable by using the right of way along railway tracks.

As of January 31, 2021, RCIL's optical fiber network covers 59,098 route kilometers and covers 5,929 railway stations across towns and cities in India. Furthermore it operates data centers in Gurugram, Haryana and Secunderabad, Telangana to host and collocate critical applications for customers including the Indian Railways. In addition to strategic and critical network infrastructure services, RCIL undertakes various ICT projects for the Indian Railways, central government and state governments, including various train control system projects for Indian Railways. Its service offering across industries includes:

- Telecom Network Services
- Telecom Infrastructure Services
- Managed Data Center and Hosting Services
- Projects (System Integration Services)

Competitive Strengths:

- Among the largest neutral telecom infrastructure providers in India with pan-India optic fiber network
- Diversified portfolio of services and solutions
- Key partner to the Indian Railways in digital transformation
- Experience in executing projects of national importance with a robust pipeline of projects
- Strong track record of financial performance
- Professionally managed with strong corporate governance and senior management team with significant industry experience

Strategies:

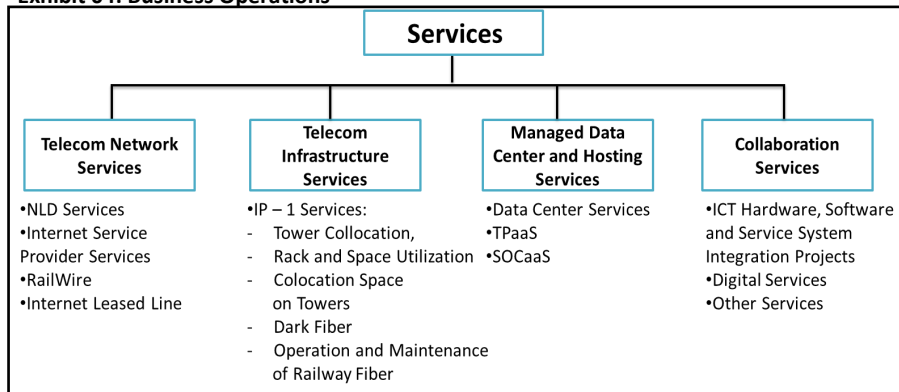
- Continue to expand its telecom services and deploy latest technologies
- Further diversify services and solutions with a focus on Indian Railways
- Expand its services outside India

IPO UPDATE
Railtel Corporation of India Limited

About the Company (contd.):

Business Operations:

Exhibit 04: Business Operations



Source: Company RHP, Progressive Research

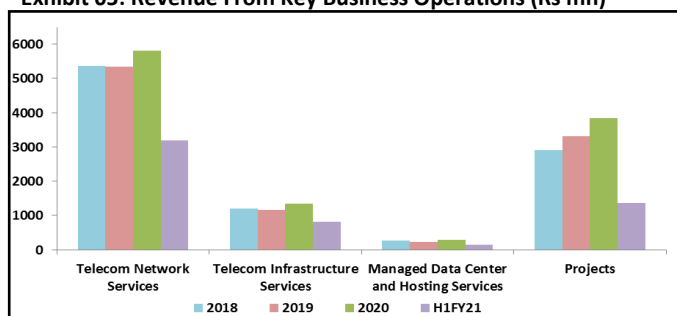
Services to Indian Railways:

RCIL implemented various telecom and IT infrastructure projects as well as various value-added services for the Indian Railways. It has created synchronous transport module-4/ synchronous transport module-1 based network at every station. It also provides MPLS based wide area network to support administrative data communication needs of various field organizations of the Indian Railways. Key Projects undertaken for Indian railway include E-Office, video surveillance system to A1, A, B, C, D and E category stations, 14387 coaches of premium trains and suburban EMU coaches, to provide content on demand services to passengers in trains by preloading multilingual content on media servers installed in trains, and optical fibre network wherein its current optical fiber network is present pan-India and RCIL has exclusive right of way for optical fiber cable network along 67,415 route kilometers and have optical fiber cable network along over 59,098 route kilometers connecting 5,929 railway stations as of January 31, 2021.

Key Projects	Proposed Projects and Services
Managed Services for State Government Entities	Modern Train Control System
National Knowledge Network	E-education/ Digitalisation of Schools and Higher Education
Campus Wi-Fi in Central Universities	Healthcare and Tele-Medicine
Network Integrator for Public Sector Bank in India	Village Connectivity under USOF
HMIS	Kenya Opportunity for Digital Literacy Programme
Data Center Project for an Indian Railways Entity	Defense Segment
Project for Steel Sector Public Sector Undertaking	High Speed Mobile
MPLS VPN Network for Coal Sector Public Sector Undertakings	Communications Corridor
Network and System Integration Projects in Defense Segment	Signaling and Telecommunication Projects
National Optical Fiber Network	Tunnel Communication Project

Financials: The company reported revenues at Rs11,281mn in FY20 as against Rs10,033mn in FY19; growth of 12.4%. The profits came in at Rs1,411mn in FY20 as compared to Rs1,354mn in FY19. Margins were impacted in FY20 due to certain impairments of asset and expected credit loss was accounted in FY20. EBITDA margins for FY20 were 29.6% as compared to 30.1% in FY19. For H1FY21, the revenues came in at Rs5,374mn with a PAT of Rs465mn. The company has been a regular dividend payer since 2008. It has a healthy balance sheet and is virtually debt free with strong cash balances of Rs2684.3mn as on 31st March 2020 which has improved to Rs3019.4mn as on 30th September 2020.

Exhibit 05: Revenue From Key Business Operations (Rs mn)



Source: Company RHP, Progressive Research



IPO UPDATE

Railtel Corporation of India Limited

Financials: (contd.)

Exhibit 6: Financials Snapshot

Revenues (Rs mn)	FY18	FY19	FY20	6M ending Sept,2020
Sales	9,768	10,033	11,281	5,374
EBITDA	2,641	3,022	3,338	1,301
EBITDA Margin	27.0%	30.1%	29.6%	24.2%
Net Profit After Tax	1,340	1,354	1,411	456
Net Profit Margin	13.7%	13.5%	12.5%	8.5%
Earning Per Share	4.2	4.2	4.4	1.4
RoNW	10.9%	10.5%	10.3%	3.3%

Source: Company RHP, Progressive Research

Risks & Concerns:

- Any change in the telecommunications industry in India is highly regulated and changes in laws, regulations or governmental policy could potentially adversely affect RCIL business.
- RCIL is dependent on and derive a substantial portion of its revenue from PSU customers, which exposes them to risks inherent in doing business with PSUs
- Constant requirement of upgrading telecommunications or related services to remain competitive
- RCIL is involved in certain legal proceedings, any adverse developments related to which could affect the company
- If the company fails to scale its business or manage its businesses effectively or are unable to successfully implement its strategies, the quality of its services and results of operations could be adversely affected
- Internet security concerns and illegal distribution by third-parties could adversely affect broadband internet access services
- Owing to capital extensive business profile, RCIL requires significant amounts of capital to finance its business expansion, which may require significant capital expenditure, and operating and financing costs.
- Loss of key suppliers
- Data Privacy

Outlook and Recommendations:

RCIL is one of the largest neutral telecom infrastructure providers in India and is uniquely placed due to its exclusive right of way along railway track. The company has a pan India optic fiber network and has a reputed clientele which include Indian Railways, SBI and various state governments. The company would play a key role in digital transformation of the Indian Railways. RCIL has undertaken significant projects which include video surveillance across stations, train collision avoidance system, project to build and maintain network for a coal sector participant. The company offers broadband services to retail clients under the 'RailWire' wherein it has witnessed traction in terms of growth in subscribers as well as revenues. The company endeavours to expand its services outside of India and has been exploring opportunities in Kenya, Bangladesh and Mauritius among others. It has a strong financial position (debt free) and has been consistently paying dividends since 2008. The margins & return ratios are better compared to other telecom players in India. As per the RHP, there are no listed peers for the company. The IPO is at 21.4x PE on a FY20 trailing basis, which is fairly priced according to the strong future growth rates of the company. **We are positive on the long term prospects of the industry as well the company, and thereby recommend SUBSCRIBE to IPO for long term as well as for listing gains.**



IPO UPDATE

Raitel Corporation of India Limited

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Registered Office Address:
Progressive Share Brokers Pvt. Ltd,
122-124, Laxmi Plaza, Laxmi Indl Estate,
New Link Rd, Andheri West,
Mumbai-400053;
www.progressiveshares.com | research@progressiveshares.com

Compliance Officer:
Mr. Shyam Agrawal,
Email Id: compliance@progressiveshares.com,
Contact No.:022-4077500.

