

04 May 2024

India | Equity Research | Q4FY24 results review

RailTel Corporation of India

Telecom

MoU with Quadrant likely to open door for 'Kavach' project

Railtel Corporation of India (Railtel) has reported mixed Q4FY24 print with Projects revenue growing strong. Telecom EBIT margin was healthy but telecom revenue growth was muted with depressed Projects EBIT margin of 2.4%. The company remains hopeful of growing revenue and profit by 30% in FY25. This will likely be driven by double-digit telecom revenue growth and execution of projects worth INR 20bn. It has signed an MoU for Kavach technology with Quadrant Future Tek; and along with LTE Railtel anticipates projects orderbook to surge by INR 50-70bn, providing strong visibility for revenue growth. However, in tendering, margin remains uncertain. We have cut our EPS estimates by 3-4% for FY25-26E. We have reduced our target price to INR 240 (from INR 250), valuing the stock at FY26E P/E multiple to 20x. This implies EV/EBITDA multiple of 10x for FY26E. Maintain **SELL**.

EBITDA grew 18.7% YoY (down 1.9% QoQ)

Railtel's revenue rose 18.3% YoY (24.6% QoQ) to INR 8.3bn. Telecom services revenue grew 7.1% YoY to INR 3.4bn. Project revenue rose 27.4% YoY to INR 5bn. Employee cost was down 11% YoY / 17.2% QoQ to INR 456mn. Other expenses were up 31.9% YoY (down 31.6% QoQ) to INR 136mn. Access charges have grown 1.2% YoY. Other income was up 70.4% YoY to INR 191mn. Adj. net profit improved 40.3% YoY to INR 682mn, entirely aided by higher EBITDA.

Telecom revenue rose 8.8% YoY to INR 12.7bn in FY24

(Note: Volatility in unallocated expenses caused volatility in telecom segment EBIT performance vs consolidated EBIT) Telecom revenue grew slower than company's guidance of double digit growth due to rising competition from private telcos, and lower demand for fibre. Railwire also saw increased competitive intensity driving down ARPU. Within telecom, NLD revenue stood at INR 5.9bn, up 4.4%; ISP stood at INR 4.3bn (+14.1%) and IP-1 stood at INR 2.4bn (up 10.8%). Railwire subscriber stood at 575k in FY24 (net add: 59k) while ARPU dipped 5.8% to INR 510. Railtel also plans to expand its business in data centres. Telecom business EBIT rose 20.9% YoY to INR 2.8bn as company benefited from the reversal of expected credit loss provisioning and EBIT margin stood at 21.9% (up 220bp). It has guided for double digit growth in FY25, notwithstanding competition; however, the company has not shared any specifics on growth drivers for telecom.

Financial Summary

Y/E March (INR mn)	FY23A	FY24P	FY25E	FY26E
Net Revenue	19,635	25,678	32,081	35,846
EBITDA	3,764	4,248	5,598	6,368
EBITDA Margin (%)	19.2	16.5	17.5	17.8
Net Profit	1,891	2,586	3,350	3,894
EPS (INR)	5.9	7.7	10.4	12.1
EPS % Chg YoY	(9.5)	30.2	36.0	16.3
P/E (x)	67.0	51.4	37.8	32.5
EV/EBITDA (x)	31.8	27.5	20.9	18.2
RoCE (%)	10.4	11.5	15.5	16.6
RoE (%)	11.9	14.2	17.5	18.6

Sanjesh Jain

sanjesh.jain@icicisecurities.com
+91 22 6807 7153

Ashvik Jain

ashvik.jain@icicisecurities.com

Market Data

Market Cap (INR)	127bn
Market Cap (USD)	1,517mn
Bloomberg Code	RAILTEL IN
Reuters Code	RAIT BO
52-week Range (INR)	491 /115
Free Float (%)	27.0
ADTV-3M (mn) (USD)	31.6

Price Performance (%)	3m	6m	12m
Absolute	(5.9)	70.1	223.7
Relative to Sensex	(8.3)	55.3	203.0

Earnings Revisions (%)	FY25E	FY26E
Revenue	10.3	7.5
EBITDA	(4.5)	(3.6)
EPS	(4.1)	(3.3)

Previous Reports

26-01-2024: [Q3FY24 results review](#)

21-05-2023: [Q4FY23 results review](#)

Projects orderbook at INR 47bn

Projects revenue rose 64% YoY to INR 13bn in FY24 with the execution of outstanding orderbook. Railway projects have been lower at INR 2.7bn due to delay in execution of VSS project. VSS project was pushed due to finalisation of change in camera specification. Railtel expects VSS projects to pick-up in FY25 as specifications have now been finalised, and FY25 should have revenue booking of INR 6bn. Non-Railway projects revenue stood strong at INR 10.4bn. Projects business orderbook was INR 47bn. The company has guided for revenue of INR 20bn in FY25, and incremental orderbook addition of INR 40bn, including some projects for Kavach.

Projects' EBIT margin was subdued at 5.4% in FY24 (4.8% in FY23), impacted by aggressive bidding in some projects where the company is building capabilities.

Railtel has signed MoU with Quadrant Future Tek Ltd for technology on Kavach (anti-collision avoidance system) which is developed by former. Quadrant's Kavach technology is undergoing Proof of Concept (POC) with Railways. The company is confident of technology to be accepted, and is anticipating to win some tenders for Kavach implementation in FY25. It expects Kavach to add INR 40-50bn to orderbook, and is hopeful of good EBIT margin going ahead. It is also eyeing participation in deployment of LTE network for Railways which could further boost orderbook by INR 10-20bn.

The company has completed tendering of first phase of edge data centre where it plans to expand presence to 20MWh capacity with revenue potential of INR 1bn. It expects commissioning of two edge data centres in FY25. The capex will be incurred by partner, and the company will help in selling and marketing. It will also provide connectivity to data centres.

Other highlights

1) Capex likely at INR 2.5bn in FY25. **2)** Company has won tender to connect 100k households with fiber under Gujarat government's subsidiary scheme. The subsidiary is likely to be fixed, and the company is looking at ARPU of INR 200 from these connections. It expects to take this model across various states, and the projects also help in monetising BharatNet fibr. **3)** Railtel has guided to grow revenue and profitability by 30% in future as well. **4)** Three companies have already received the right to deploy Kavach project – Medha Servo, HBL Power System and Kernex Microsystem. Quadrant is doing trials for Railways, and the company is hopeful to receive its right to deploy.

Risks

1) Higher-than-expected revenue and margin from Railways' LTE and Kavach projects; and 2) consistently higher growth in telecom revenue.

Exhibit 1: Railtel (consolidated) financials

INR mn	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	QoQ (%)	YoY (%)
Revenue	7,036	4,676	5,992	6,684	8,327	24.6	18.3
Expenses on projects	3,725	1,635	2,673	3,174	4,843	52.6	30.0
Access charges	1,495	1,326	1,237	1,365	1,514	10.9	1.2
Licence fees	219	194	207	208	213	2.6	(2.6)
Admin & other exp	103	257	207	199	136	(31.6)	31.9
Employee costs	512	524	516	550	456	(17.2)	(11.0)
Total expenses	6,054	3,935	4,839	5,496	7,162	30.3	18.3
EBITDA	982	742	1,153	1,188	1,166	(1.9)	18.7
EBITDA (%)	14.0	15.9	19.2	17.8	14.0		
Depreciation	412	367	379	405	426	5.1	3.4
EBIT	570	375	774	783	739	(5.5)	29.8
Finance cost	17	11	6	5	35	646.8	112.7
Other income	112	151	137	65	191	196.1	70.4
PBT	666	515	905	842	895	6.3	34.5
Exceptional items	365	-	-	-	124		
Tax expenses	271	131	223	221	244	10.4	(9.8)
ETR (%)	40.6	25.4	24.7	26.2	27.3		
PAT	760	384	682	621	775	24.8	2.0
Adj PAT	486	384	682	621	682	9.8	40.3
EPS (INR)	1.2	1.2	2.1	1.9	2.8	44.7	127.6

Source: I-Sec research, Company data

Exhibit 2: Railtel segmental performance

INR mn	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	QoQ (%)	YoY (%)
Telecom services							
Revenue	3,141	2,917	3,085	3,288	3,365	2.3	7.1
EBIT	505	509	744	760	756	(0.5)	49.6
EBIT (%)	16.1	17.5	24.1	23.1	22.5		
Projects							
Revenue	3,895	1,759	2,907	3,395	4,963	46.2	27.4
EBIT	168	123	237	222	120	(46.1)	(28.8)
EBIT (%)	4.3	7.0	8.1	6.5	2.4		

Source: I-Sec research, Company data

Exhibit 3: Earnings revision

INR mn	Revised		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	32,081	35,846	29,096	33,351	10.3	7.5
EBITDA	5,598	6,368	5,859	6,608	(4.5)	(3.6)
EBITDA (%)	17.5	17.8	20.1	19.8		
PAT	3,350	3,894	3,491	4,028	(4.1)	(3.3)
EPS (INR)	10.4	12.1	10.9	12.6	(4.1)	(3.3)

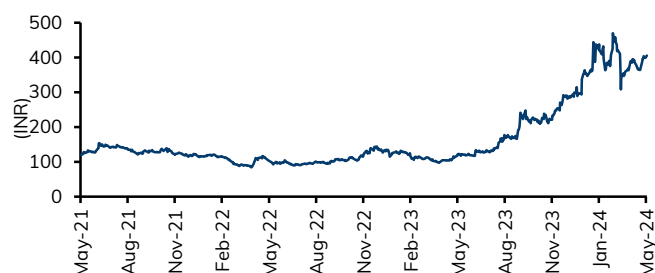
Source: I-Sec research, Company data

Exhibit 4: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	72.8	72.8	72.8
Institutional investors	5.0	4.9	4.9
MFs and other	2.7	3.0	2.6
Banks/ FIs	0.0	0.0	0.0
Insurance Cos.	0.9	0.4	0.1
FIs	1.4	1.5	2.2
Others	22.2	22.3	22.3

Source: Bloomberg, I-Sec research

Exhibit 5: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 6: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24P	FY25E	FY26E
Net Sales	19,635	25,678	32,081	35,846
Operating Expenses	15,871	21,431	26,482	29,478
EBITDA	3,764	4,248	5,598	6,368
EBITDA Margin (%)	1,917.1	1,654.2	1,745.1	1,776.5
Depreciation & Amortization	1,543	1,577	1,650	1,739
EBIT	2,221	2,671	3,948	4,629
Interest expenditure	60	57	57	57
Other Non-operating Income	370	543	587	634
Recurring PBT	2,548	3,157	4,478	5,206
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	657	819	1,128	1,312
PAT	1,891	2,462	3,350	3,894
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	1,891	2,462	3,350	3,894
Net Income (Adjusted)	1,891	2,586	3,350	3,894

Source Company data, I-Sec research

Exhibit 7: Balance sheet

(INR mn, year ending March)

	FY23A	FY24P	FY25E	FY26E
Total Current Assets	18,792	24,339	30,399	34,307
of which cash & cash eqv.	2,727	4,852	4,825	5,738
Total Current Liabilities & Provisions	11,060	15,476	19,309	21,563
Net Current Assets	7,732	8,863	11,091	12,743
Investments	4,329	5,018	5,018	5,018
Net Fixed Assets	8,093	8,759	9,415	10,214
ROU Assets	1,690	1,670	1,670	1,670
Capital Work-in-Progress	1,569	1,296	1,296	1,296
Total Intangible Assets	55	60	-	-
Other assets	176	257	320	358
Deferred Tax Assets	311	453	453	453
Total Assets	33,391	40,496	47,277	52,020
Liabilities				
Borrowings	4,064	5,463	6,504	6,909
Deferred Tax Liability	-	-	-	-
Provisions	87	-	-	-
Other Liabilities	1,329	931	1,164	1,300
Equity Share Capital	3,209	3,209	3,209	3,209
Reserves & Surplus	13,279	15,063	16,738	18,685
Total Net Worth	16,489	18,272	19,947	21,894
Minority Interest	-	-	-	-
Total Liabilities	33,391	40,496	47,277	52,020

Source Company data, I-Sec research

Exhibit 8: Quarterly trend

(INR mn, year ending March)

	Jun-23	Sep-23	Dec-23	Mar-24
Net Sales	4,676	5,992	6,684	8,327
% growth (YOY)	51.1	24.1	39.8	18.3
EBITDA	742	1,153	1,188	1,166
Margin %	15.9	19.2	17.8	14.0
Other Income	151	137	65	191
Extraordinaries	-	-	-	124
Adjusted Net Profit	384	682	621	682

Source Company data, I-Sec research

Exhibit 9: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24P	FY25E	FY26E
Operating Cashflow	2,863	3,645	4,470	5,056
Working Capital Changes	(567)	1,919	(1,045)	(236)
Capital Commitments	(1,771)	(2,097)	(2,306)	(2,537)
Free Cashflow	525	3,467	1,118	2,283
Other investing cashflow	210	(1,126)	587	634
Cashflow from Investing Activities	269	(2,094)	587	634
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	(57)	(57)
Inc (Dec) in Borrowings	(95)	(116)	-	-
Dividend paid	(690)	(658)	(1,675)	(1,947)
Others	-	-	-	-
Cash flow from Financing Activities	(785)	(774)	(1,732)	(2,004)
Chg. in Cash & Bank balance	9	599	(27)	913
Closing cash & balance	1,880	2,477	4,825	5,738

Source Company data, I-Sec research

Exhibit 10: Key ratios

(Year ending March)

	FY23A	FY24P	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	5.9	7.7	10.4	12.1
Adjusted EPS (Diluted)	5.9	7.7	10.4	12.1
Cash EPS	10.7	12.6	15.6	17.6
Dividend per share (DPS)	1.5	3.7	5.2	6.1
Book Value per share (BV)	51.4	56.9	62.2	68.2
Dividend Payout (%)	25.5	48.3	50.0	50.0
Growth (%)				
Net Sales	26.8	30.8	24.9	11.7
EBITDA	2.6	12.8	31.8	13.8
EPS (INR)	(9.5)	30.2	36.0	16.3
Valuation Ratios (x)				
P/E	67.0	51.4	37.8	32.5
P/CEPS	36.9	31.3	25.3	22.5
P/BV	7.7	6.9	6.3	5.8
EV / EBITDA	31.8	27.5	20.9	18.2
EV / Sales	608.8	454.6	363.9	323.2
Dividend Yield (%)	0.4	0.9	1.3	1.5
Operating Ratios				
Gross Profit Margins (%)	-	-	-	-
EBITDA Margins (%)	19.2	16.5	17.5	17.8
Effective Tax Rate (%)	25.8	25.0	25.2	25.2
Net Profit Margins (%)	9.6	10.1	10.4	10.9
NWC / Total Assets (%)	23.2	21.9	23.5	24.5
Net Debt / Equity (x)	(0.4)	(0.5)	(0.5)	(0.5)
Net Debt / EBITDA (x)	(1.9)	(2.3)	(1.8)	(1.7)
Profitability Ratios				
RoCE (%)	10.4	11.5	15.5	16.6
RoE (%)	11.9	14.2	17.5	18.6
RoIC (%)	20.7	24.5	42.7	43.6
Fixed Asset Turnover (x)	0.9	1.1	1.2	1.3
Inventory Turnover Days	-	-	-	-
Receivables Days	194.9	180.2	194.3	194.2
Payables Days	105.7	109.5	109.5	109.5

Source Company data, I-Sec research

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For any queries or grievances: [Mr. Prabodh Avadhoot](mailto:Mr.Prabodh.Avadhoot) Email address: headservicequality@icicidirect.com Contact Number: 18601231122
