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India | Equity Research | Q1FY25 results review

RailTel Corporation of India

Telecom

Eyeing big order flow from Indian Railway

Railtel Corporation of India's (Railtel) Q1FY25 net profit grew 27% YoY to INR 487mn which is within the company's guidance of growth of 25–30%. Railtel expects telecom revenue to grow 9–10% while projects' revenue is anticipated at INR 20bn driving total revenue growth of 25–30% in FY25E. Considering the project business' EBIT margins are only 5–6%, achieving guided stable margin for FY25 can be challenging arithmetically. Railtel hopes for an acceleration in its order book driven by the large capex planned by Indian Railway; it plans to bid for Kavach implementation immediately. We raise our EPS estimates by ~3% for FY25–26E on lower depreciation cost. Our target price is revised higher to INR 315 (from INR 240), valuing the stock at a FY26E P/E multiple of 25x (earlier 20x). This implies EV/EBITDA multiple of 14x for FY26E. Maintain **SELL**. Aggressive bidding in railway projects could be a potential downside risk.

EBITDA grew 39.4% YoY (down 11.3% QoQ)

RailTel's revenue rose 19.4% YoY (down 33% QoQ) to INR 5.6bn. Telecom services' revenue grew 12.4% YoY to INR 3.3bn. Project revenue rose 31% YoY to INR 2.3bn, but was down 54% QoQ due to execution seasonality which is high in the fourth quarter. Employee cost rose 7.2% YoY/23.2% QoQ to INR 561mn. Other expenses were down 62.7% YoY/29.6% QoQ to INR 96mn, as the company reclassified its ECL provisioning as an exceptional item. Access charges have grown 11% YoY. Other income was up 28.6% YoY to INR 195mn. ECL provisioning as an exceptional item was INR 175mn. Net profit grew 27% YoY to INR 487mn.

Telecom revenue rose 12.4% YoY to INR 3.3bn

(Note: Volatility in unallocated expenses caused volatility in telecom segment's EBIT performance vs. consolidated EBIT). Railtel has guides for telecom's revenue growing 9–10% in FY25. RailWire had stable subscribers QoQ; however, the company now plans for aggressive measures to drive growth in the segment. Data centre's revenue increased from INR 100mn in Q1FY24 to INR 230mn in Q1FY25, probably aided by commissioning of the third data centre. Within telecom, NLD revenue stood at INR 1.5bn, up 2.7% YoY; ISP stood at INR 1.1bn, up 12.5% and IP-1 stood at INR 690mn, up 41%. IP-1 revenue growth was driven by data centre.

Telecom segment EBIT rose 29.3% YoY to INR 658mn, and EBIT margin stood at 20.1% (up 260bp). Adjusted for reclassified ECL provisioning of INR 175mn, the margin stood at 14.7%, down 270bp.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	19,635	25,678	32,069	35,830
EBITDA	3,764	4,372	5,617	6,389
EBITDA Margin (%)	19.2	17.0	17.5	17.8
Net Profit	1,891	2,462	3,444	4,010
EPS (INR)	5.9	7.7	10.7	12.5
EPS % Chg YoY	(9.5)	30.2	39.9	16.4
P/E (x)	85.1	65.4	46.7	40.1
EV/EBITDA (x)	40.9	34.5	26.7	23.3
RoCE (%)	10.4	12.1	15.7	16.5
RoE (%)	11.9	14.2	17.8	18.5

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Market Data

Market Cap (INR)	161bn
Market Cap (USD)	1,922mn
Bloomberg Code	RAITEL IN
Reuters Code	RAIT BO
52-week Range (INR)	618 / 163
Free Float (%)	27.0
ADTV-3M (mn) (USD)	57.6

Price Performance (%)	3m	6m	12m
Absolute	23.5	19.7	195.8
Relative to Sensex	13.9	6.8	172.6

Earnings Revisions (%)	FY25E	FY26E
Revenue	(0.0)	(0.0)
EBITDA	0.3	0.3
EPS	2.8	3.0

Previous Reports

04-05-2024: [Q4FY24 results review](#)

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

Projects orderbook at INR 48bn

Projects revenue rose 31% YoY to INR 2.3bn in Q1FY25. Railtel has an orderbook worth INR 48bn, of which railway-related projects are 22%, and the remaining 78% are non-railway projects. The company anticipates INR 20bn of project execution/revenue recognition in FY25. Railtel expects 5–6% EBIT margin for FY25; notwithstanding a slow start. Railtel said Q1FY25 projects executed largely had low margins.

The VSS project, which has slowed due to lack of clarity on camera, has been crystalised. Railtel has partly-executed projects at 300 stations; execution should pick up.

Projects' EBIT dipped 22% YoY to INR 96mn; and EBIT margin was subdued at 4.2% (5.4% in FY24), impacted by aggressive bidding in some projects where the company is now executing orders.

Railtel has signed a MoU with Quadrant Future Tek Ltd for the Implementation of technology on Kavach (anti-collision avoidance system), which is developed by the Quadrant. Quadrant's Kavach technology is undergoing Proof of Concept (PoC) with Indian Railways. In the meantime, Railtel has decided to proceed with bidding for projects that have been called for tender, in collaboration with alternate OEMs who have the product approved by Indian Railway. The Kavach installation will be without LTE; the company is developing another version with LTE, which will be rolled out later. It expects Kavach to add INR 40–50bn to its orderbook, and is hopeful of EBIT margin at 8–10%.

Railtel has completed tendering for the first phase of an edge data centre where the company plans to rollout 102 edge data centres. The tender is won by Techno Electric & Engineering Company; and Techno will incur entire capex. Railtel will receive commission of 12–13% of revenue; and it would act as a marketing partner, and also provide technical support. Railtel is also eyeing an opportunity to cross-sell connectivity services. Railtel envisages executing 5–10 data centres in FY25; based on the performance, remaining edge data centres will be rolled-out. These are small data centres, and require only a 10x10 feet room, which will be leased by Indian Railway. Indian Railway will not receive any revenue sharing, but only lease payments.

Other highlights

1) Capex likely at INR 2.5bn in FY25. **2)** Company guidance for FY25: Revenue to grow 25–30%; and PAT margin to be stable at 9–10%.

Risks

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

Exhibit 1: Railtel (consolidated) financials

INR mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	QoQ (%)	YoY (%)
Revenue	4,676	5,992	6,684	8,327	5,581	(33.0)	19.4
Expenses on projects	1,635	2,673	3,174	4,843	2,208	(54.4)	35.1
Access charges	1,326	1,237	1,365	1,514	1,470	(2.9)	10.9
Licence fees	194	207	208	213	212	(0.4)	9.6
Admin & other exp	257	207	199	136	96	(29.6)	(62.7)
Employee costs	524	516	550	456	561	23.2	7.2
Total expenses	3,935	4,839	5,496	7,162	4,547	(36.5)	15.6
EBITDA	742	1,153	1,188	1,166	1,034	(11.3)	39.4
EBITDA (%)	15.9	19.2	17.8	14.0	18.5		
Depreciation	367	379	405	426	376	(11.9)	2.3
EBIT	375	774	783	739	658	(11.0)	75.7
Finance cost	11	6	5	35	10	(72.4)	(13.4)
Other income	151	137	65	191	195	1.8	28.6
PBT	515	905	842	895	843	(5.9)	63.8
Exceptional items	-	-	-	124	(175)		
Tax expenses	131	223	221	244	181	(25.8)	38.6
ETR (%)	25.4	24.7	26.2	27.3	21.5		
PAT	384	682	621	775	487	(37.2)	26.8
Adj PAT	384	682	621	682	618	(9.4)	61.0
EPS (INR)	1.2	2.1	1.9	2.8	2.1	(26.4)	72.4

Source: I-Sec research, Company data

Exhibit 2: Railtel segmental performance

INR mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	QoQ (%)	YoY (%)
Telecom services							
Revenue	2,917	3,085	3,288	3,365	3,278	(2.6)	12.4
EBIT	509	744	760	756	658	(12.9)	29.3
EBIT (%)	17.5	24.1	23.1	22.5	20.1		
Projects							
Revenue	1,759	2,907	3,395	4,963	2,303	(53.6)	30.9
EBIT	123	237	222	120	96	(19.9)	(21.8)
EBIT (%)	7.0	8.1	6.5	2.4	4.2		

Source: I-Sec research, Company data

Exhibit 3: Earnings revision

INR mn	Revised		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	32,069	35,830	32,081	35,846	(0.0)	(0.0)
EBITDA	5,617	6,389	5,598	6,368	0.3	0.3
EBITDA (%)	17.5	17.8	17.5	17.8		
PAT	3,444	4,010	3,350	3,894	2.8	3.0
EPS (INR)	10.7	12.5	10.4	12.1	2.8	3.0

Source: I-Sec research, Company data

Exhibit 4: Shareholding pattern

%	Dec '23	Mar '24	Jun '24
Promoters	72.8	72.8	72.8
Institutional investors	4.9	4.9	5.1
MFs and other	3.0	2.6	2.6
Banks/ FIs	0.0	0.0	0.2
Insurance Cos.	0.4	0.1	0.1
FIs	1.5	2.2	2.2
Others	22.3	22.3	22.1

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	FY24A	FY25E	FY26E
Net Sales	19,635	25,678	32,069	35,830
Operating Expenses	15,871	21,307	26,451	29,441
EBITDA	3,764	4,372	5,617	6,389
EBITDA Margin (%)	1,917.1	1,702.4	1,751.6	1,783.2
Depreciation & Amortization	1,543	1,577	1,563	1,628
EBIT	2,221	2,795	4,054	4,761
Interest expenditure	60	57	57	57
Other Non-operating Income	370	563	608	657
Recurring PBT	2,548	3,281	4,605	5,360
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	657	819	1,160	1,351
PAT	1,891	2,462	3,444	4,010
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	1,891	2,462	3,444	4,010
Net Income (Adjusted)	1,891	2,462	3,444	4,010

Source Company data, I-Sec research

Exhibit 7: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	18,792	23,632	29,919	34,162
of which cash & cash eqv.	2,727	4,852	5,591	6,887
Total Current Liabilities & Provisions	11,060	15,476	19,302	21,554
Net Current Assets	7,732	8,156	10,617	12,608
Investments	4,329	5,229	5,229	5,229
Net Fixed Assets	8,093	8,759	9,502	10,411
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	753	940	1,050
Deferred Tax Assets	311	453	453	453
Total Assets	33,391	40,496	47,713	52,975
Liabilities				
Borrowings	4,064	5,463	6,501	6,906
Deferred Tax Liability	-	-	-	-
Provisions	87	-	-	-
Other Liabilities	1,329	931	1,163	1,299
Equity Share Capital	3,209	3,209	3,209	3,209
Reserves & Surplus	13,279	15,063	17,184	19,653
Total Net Worth	16,489	18,272	20,393	22,862
Minority Interest	-	-	-	-
Total Liabilities	33,391	40,496	47,713	52,975

Source Company data, I-Sec research

Exhibit 8: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	5,992	6,684	8,327	5,581
% growth (YOY)	24.1	39.8	18.3	18.3
EBITDA	1,153	1,188	1,166	1,034
Margin %	19.2	17.8	14.0	18.5
Other Income	137	65	191	195
Extraordinaries	-	-	124	(175)
Adjusted Net Profit	682	621	682	618

Source Company data, I-Sec research

Exhibit 9: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	2,863	3,645	4,457	5,038
Working Capital Changes	(567)	1,919	(639)	(263)
Capital Commitments	(1,771)	(2,097)	(2,306)	(2,537)
Free Cashflow	525	3,467	1,512	2,238
Other investing cashflow	210	333	608	657
Cashflow from Investing Activities	269	(2,094)	608	657
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	(57)	(57)
Inc (Dec) in Borrowings	(95)	(116)	-	-
Dividend paid	(690)	(658)	(1,324)	(1,541)
Others	-	-	-	-
Cash flow from Financing Activities	(785)	(774)	(1,381)	(1,598)
Chg. in Cash & Bank balance	9	599	739	1,297
Closing cash & balance	1,880	2,477	5,591	6,887

Source Company data, I-Sec research

Exhibit 10: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	5.9	7.7	10.7	12.5
Adjusted EPS (Diluted)	5.9	7.7	10.7	12.5
Cash EPS	10.7	12.6	15.6	17.6
Dividend per share (DPS)	1.5	2.8	4.1	4.8
Book Value per share (BV)	51.4	56.9	63.5	71.2
Dividend Payout (%)	25.5	37.2	38.4	38.4
Growth (%)				
Net Sales	26.8	30.8	24.9	11.7
EBITDA	2.6	16.1	28.5	13.7
EPS (INR)	(9.5)	30.2	39.9	16.4
Valuation Ratios (x)				
P/E	85.1	65.4	46.7	40.1
P/CEPS	46.9	39.9	32.1	28.6
P/BV	9.8	8.8	7.9	7.0
EV / EBITDA	40.9	34.5	26.7	23.3
EV / Sales	783.9	587.7	468.3	415.5
Dividend Yield (%)	0.3	0.6	0.8	1.0
Operating Ratios				
Gross Profit Margins (%)	-	-	-	-
EBITDA Margins (%)	19.2	17.0	17.5	17.8
Effective Tax Rate (%)	25.8	25.0	25.2	25.2
Net Profit Margins (%)	9.6	9.6	10.7	11.2
NWC / Total Assets (%)	23.2	20.1	22.3	23.8
Net Debt / Equity (x)	(0.4)	(0.6)	(0.5)	(0.5)
Net Debt / EBITDA (x)	(1.9)	(2.3)	(1.9)	(1.9)
Profitability Ratios				
RoCE (%)	10.4	12.1	15.7	16.5
RoE (%)	11.9	14.2	17.8	18.5
RoIC (%)	20.7	25.9	45.6	46.9
Fixed Asset Turnover (x)	0.9	1.1	1.2	1.3
Inventory Turnover Days	-	-	-	-
Receivables Days	194.9	180.2	190.2	191.2
Payables Days	105.7	109.5	109.5	109.5

Source Company data, I-Sec research

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