

## Institutional Equity Research

## IRCTC

Capital Goods | India

IPO Note | September 30, 2019

Issue Size (mn shares)	20.1
Issue Open/Close	30-Sep/03-Oct 19
Face Value (Rs)	10
Price Band (Rs)	315-320
Lot Size (shares)	40



## Sole Authorised Entity by Indian Railways

Indian Railway Catering and Tourism Corporation (IRCTC) – the online ticketing, tourism and catering arm of the Indian Railways (IR) – operates one of the most transacted websites in the APAC region with an average monthly transaction volume of 25-28mn. The IR has restored convenience for e-ticket from Sept'19, which was discontinued for some time. With an average monthly 25mn ticket booking, this is likely to generate additional annual revenue of Rs4.5bn. It has also diversified into other businesses, including services such as e-catering, executive lounges, budget hotels and travel & tourism. During FY17-19, IRCTC's revenue and PAT clocked 10% and 9% CAGR, respectively while the average EBITDA and net margin stood at ~20% and ~15%, respectively during FY17-19. It has healthy balance sheet with >Rs11bn cash to support capex. IRCTC has good dividend pay-out track record, as it made ~50% average payout in the last 3 years.

IRCTC is coming out with an Initial Public Offering (IPO) of 20.1mn (12.5%) equity shares to raise Rs6.43bn, the Price Band of which has been fixed at Rs315-320/equity share. The market cap is pegged at Rs51.2bn (at higher band). The objective of the issue is to carry out the disinvestment by the government and to achieve listing benefits.

## Key Strengths

- ▶ Sole license holder for catering and online ticketing for the Indian Railways.
- ▶ Exclusively authorised to manufacture and supply packaged drinking water at stations/ trains.
- ▶ Wide range of services for tourism and hospitality service in India.
- ▶ Robust operating system and internal controls.

## Key Risks

- ▶ As its operation is substantially dependent on the Indian Railways, any adverse change in policy by the Ministry of Railways may adversely affect the business and profitability.
- ▶ Travellers shifting to flight due to low fare and shorter travelling time.
- ▶ Failure to manage cyber security.

## Outlook &amp; Valuation

The Government of India is offloading 12.6% stake through OFS, which will reduce its stake to 87.5%. IRCTC is in steady business model, which is likely to grow at 12-15% in the next few years. The restoration of convenience charges for e-ticket from Sept'2019 is likely to generate additional annual revenue of Rs4.5bn. In FY19, its PAT grew by 24% YoY to Rs2.7bn led by 27% growth in revenue to Rs18.7bn. Average EBITDA and net margin stood at ~20% and ~15%, respectively during FY17-19. The Company has healthy balance sheet with over Rs11bn cash to support capex. IRCTC has good dividend pay-out track record, as it paid ~50% average pay-out in the last 3 years. Assuming moderate revenue growth of 10% CAGR through FY19-21E, the Company is valued at 13x FY21E earnings, which appears to be justified considering its business model, steady growth and healthy return ratios. **Hence, we recommend SUBSCRIBE to the Issue.**

Key Financials (Rs mn)	FY17	FY18	FY19
Net Sales	15,354	14,705	18,679
EBITDA	3,126	2,731	3,722
EBITDA Margin (%)	20.4	18.6	19.9
PBT	3,551	3,456	4,300
EPS	14.3	13.8	17.0
RoCE	33.5	24.2	31.6
RoE	29.1	23.1	26.1
P/E	22.4	23.2	18.8
P/BV	6.5	5.4	4.9

Source: RHP

Issue Details	(Rs mn)
Pre issue Paid up Capital (Rs mn)	1,600
Post Issue Mkt Cap at Upper band (Rs mn)	51,200
BRLMs - IDBI Capital, SBI Capital, Yes Securities	
Registrar - Alankit	
Offer for Different Categories	(%)
QIB	50
HNI	15
Retail	35

	Pre Issue	Post Issue
Promoter	100.0	87.4
Public	-	12.6

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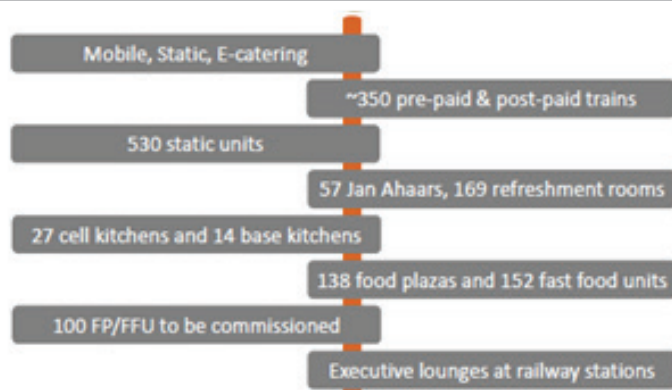
IRCTC is the only entity authorised by the Indian Railways to provide catering services to railways, online tickets booking and selling packaged drinking water at stations/trains. IRCTC continues to upgrade, modernise and professionalise catering and hospitality services at stations/trains and other locations and to promote international and domestic tourism in India under PPP model. IRCTC conferred the Mini Ratna status (Category-I PSE) by the Government of India on May 1, 2008. It operates one of the most transacted websites, [www.irctc.co.in](http://www.irctc.co.in), in the APAC region with an average monthly transaction volume of 25-28mn during the five months ended August 31, 2019.

IRCTC's revenue grew at a CAGR of 10% during FY17-19 led by strong 62% growth in catering business (55% of revenue) and 5% CAGR in packaged drinking water (9% of revenue). Internet ticketing (12% of revenue) and tourism (23% of revenue) has decline by 29% and 8% respectively during the same period. Packaged drinking water (9% of revenue) reported 5% CAGR in past FY17-19. Internet ticketing is the highest margin business contributing 42% of total EBIT with a margin of ~67% in FY19. Margin in catering business is at ~11%, while packaged drinking water at ~17%. In line with plans to provide a "one stop solution" to customers, has diversified into other businesses, including services such as e-catering, executive lounges, budget hotels and travel & tourism.

## Catering Services

Catering is the largest segment of IRCTC, which contributes 55% to its revenue. It provides catering services to Indian Railway passengers on trains and at stations. It provides catering services for ~350 pre-paid and post-paid trains and 530 static units. IRCTC caters through mobile units, base kitchens, cell kitchens, refreshment rooms, food plazas, food courts, side vending, and Jan Ahaars over the Railways network. All other catering units i.e. refreshments rooms at stations categorised at AVMs, milk stalls, and trolleys are managed by zonal railways. It also operates executive lounges, budget hotels and retiring rooms for the convenience of the passengers.

## Exhibit 1: Catering Business



Source: RHP

**E-catering gaining traction among rail travellers:** IRCTC launched station-based e-catering services in Sep'14 as a pilot project covering 14 trains, which was expanded to 201 trains as of March 2015. As per the Rail Budget FY17, the services were extended to all 409 A and A-1 class stations, as against the 45 stations covered in the pilot phase. E-catering services offered through IRCTC's e-catering website, the Food on Track app, online platforms of approved aggregator partners. As of Jul'19, e-catering services had ~700 partner restaurants listed on its portal.

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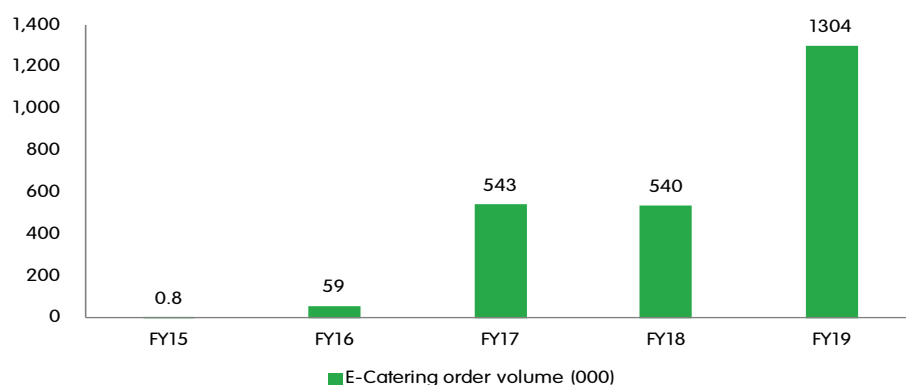
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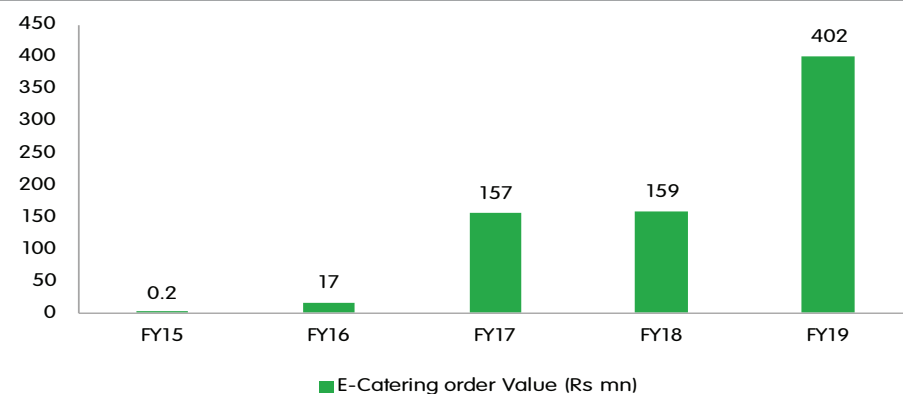
Average meals booked per day steadily grew to 19,847 meals in Jul'19 from ~8,500 in Jul'18 driven by increasing access to internet-enabled devices, growing online penetration in rail bookings, and expanding list of popular restaurants and QSR chains on the e-catering platforms. Growing number of young travellers having awareness about food brands has also boosted growth in e-catering orders.

**Exhibit 2: E-Catering Volume over FY15-19**



Source: RHP

**Exhibit 3: E-Catering Value over FY15-19**



Source: RHP

Since its introduction in FY15, annual order volume of e-catering services clocked ~541% CAGR to ~1.3mn in FY19 from ~800 in FY15, while revenue grew to ~Rs402mn in FY19 from Rs~0.2mn in FY15. Order volume and revenue from e-catering services more than doubled in FY19 due to strong growth in orders from the mobile app along with strong performance of mobile website introduced during the year.

### Internet Ticketing

IRCTC is the only entity authorised by Indian Railways to offer railway tickets online through its website and mobile application. As of Aug'19, >1.4mn passengers travelled on Railways on daily basis, which consisted of ~73% of tickets booked online. More than 0.84mn tickets booked through [www.irctc.co.in](http://www.irctc.co.in) and "Rail Connect daily. It currently operates one of the most transacted websites in the APAC with a transaction volume of >25mn/month and 7.2mn logins/day.

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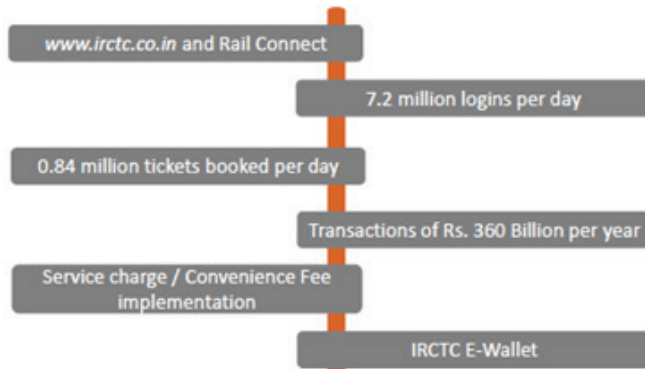
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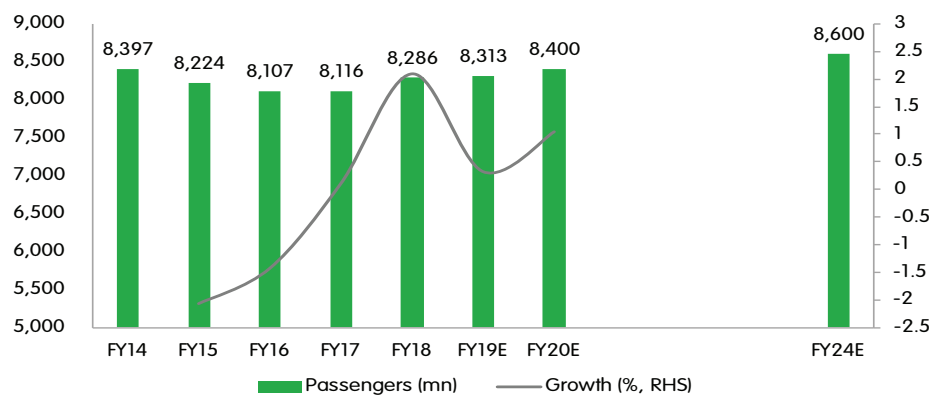
**SUBSCRIBE**

**Exhibit 4: Internet Ticketing**


Source: RHP

The restoration of convenience charges for E-ticket from Sept'19 is likely to generate additional revenue of Rs4.5bn/year. The Government has removed convenience charges of Rs20/ticket for E-ticket from Nov'16 for non-AC classes and Rs40/ticket for AC tickets. The Ministry of Railways reimbursed IRCTC with Rs800mn and Rs880mn for FY18 and FY19, respectively for its operations cost.

Passenger traffic saw revival in FY18 largely driven by a turnaround in non-suburban traffic after dip by 1-2% over FY14-16. Passenger traffic growth has remained flat from 8,397mn in FY14 to 8,286mn in FY18.

**Exhibit 5: Railway Passenger Traffic**


Source: RHP

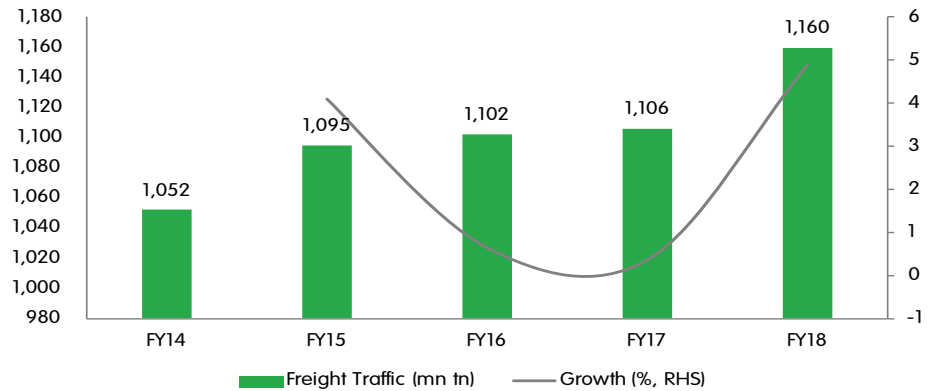
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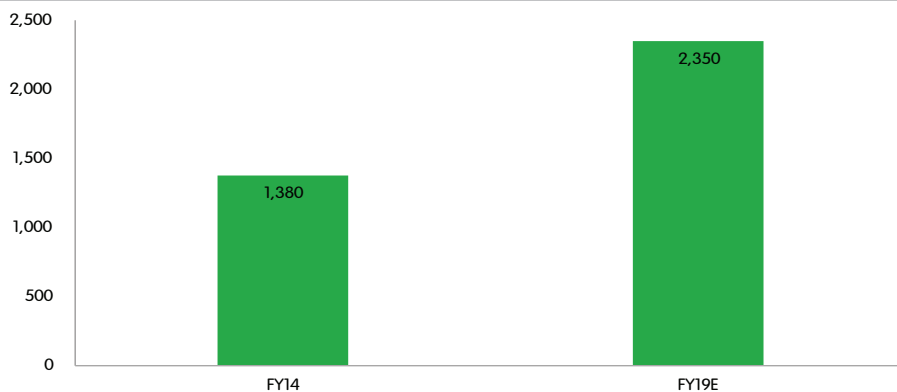
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**Exhibit 6: Freight Traffic**


Source: RHP

The share of suburban passenger traffic in total railway passenger traffic is likely to increase from ~57% in FY19 to ~58% in FY24, as passenger traffic on the suburban network is likely to clock ~1% CAGR, while non-suburban passenger traffic remain flat during FY19-24. Within non-suburban passenger traffic, share of upper class reserved ticket bookings in total railway passenger traffic is expected to grow slightly from ~2% in FY19 to ~3% in FY24, with the segment witnessing ~6% CAGR led by growing preference for convenient travel. The share of second-class mail/express ticket bookings (reserved) is expected to inch up from ~17% in FY19 to ~18% in FY24 with the segment clocking ~2% CAGR.

**Exhibit 7: Market size for Indian booking industry (Rs bn)**


Source: RHP

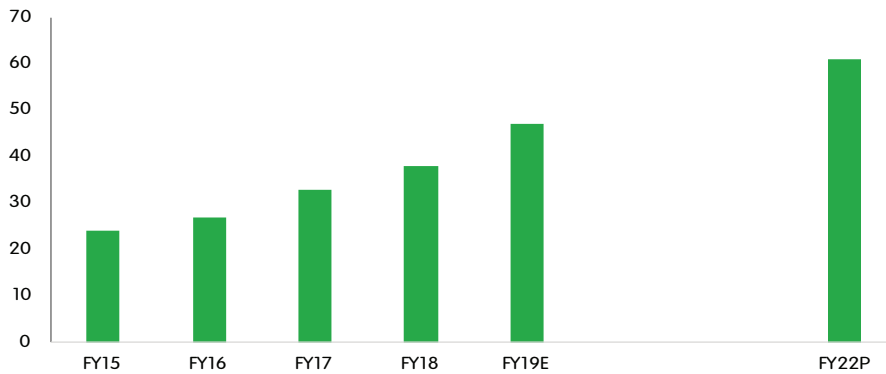
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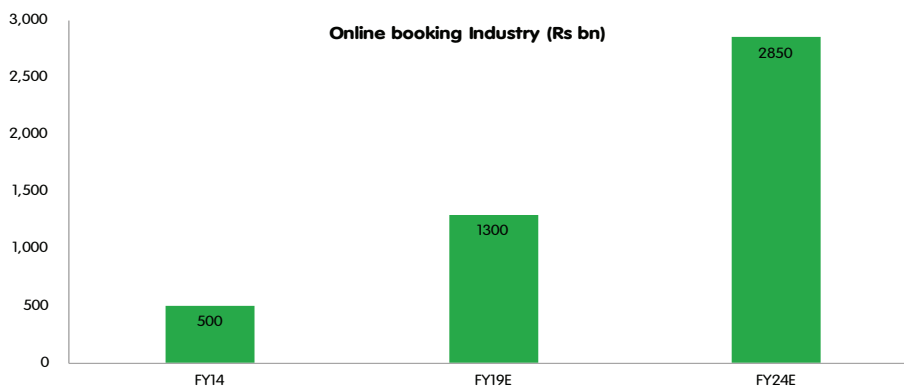
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**Exhibit 8: Internet penetration of India**


Source: RHP

The e-booking industry in India is witnessed ~20% CAGR to reach ~Rs1,300bn in FY19 from ~Rs525bn in FY14. Online travel bookings largely prevalent in major cities due to limited internet penetration and unavailability of affordable internet enabled devices. However, with the emergence of low-cost mobile internet and improving affordability of smartphones due to intense competition in the market, access to online travel bookings has improved substantially over the past five years. Growing traction for online travel agencies (OTAs) and aggregators, easier access to information about tourist destinations due to internet blogs and influencers, and rising tendency among young travellers for frequent travel has further fuelled online travel bookings.

**Exhibit 9: Online booking Industry (Rs bn)**


Source: RHP

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**Exhibit 10: Trend and outlook in rail e-booking (mn tickets)**


Source: RHP

Freight traffic growth revived in FY18 after remaining flat for 2 years. Total railway freight traffic grew from 1,052mnT in FY14 to 1,160mnT in FY18, registered 2.5% CAGR during the period. Growth in freight traffic was majorly driven by strong freight demand from coal, pig iron and finished steel, iron ore, and container service during the 4 years. In FY18, freight traffic rebounded to a 4.8% YoY growth on the back of strong freight demand from coal, cement, container service and other goods.

**Packaged Drinking Water (Rail Neer)**

IRCTC is the only entity authorised by the Ministry of Railways to manufacture and distribute packaged drinking water at all railway stations and trains. It manufactures and distributes packaged drinking water under brand Rail Neer with 10 plants. It has installed production capacity of ~1.09mn litres/day, contributing ~45% to total demand. In order to increase the presence to meet the growing demand, IRCTC is commissioning new Rail Neer plants. Four new Rail Neer plants is likely to be commissioned by 2021. It also installed drinking water vending machines (WVMs) at railway stations.

**Exhibit 11: Packaged Drinking water**


Source: RHP

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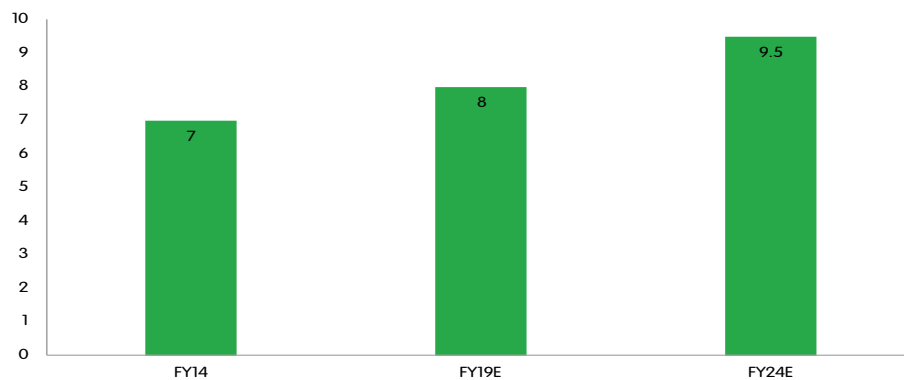
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**SUBSCRIBE** 

IRCTC has 10 operational Rail Neer plants located at Delhi, Patna, Palur, Ambernath, Amethi, Parassala Bilaspur, Hapur, Ahmedabad and Bhopal. With improving awareness on health and hygiene, increased tourism, and the easy availability of packaged drinking water, per capita consumption of packaged drinking water in India is on the rise. Post implementation of new plant the market share is likely to increase to 80% from 45% currently.

**Exhibit 12: Packaged Drinking Water market for railways (Rs bn)**



Source: RHP



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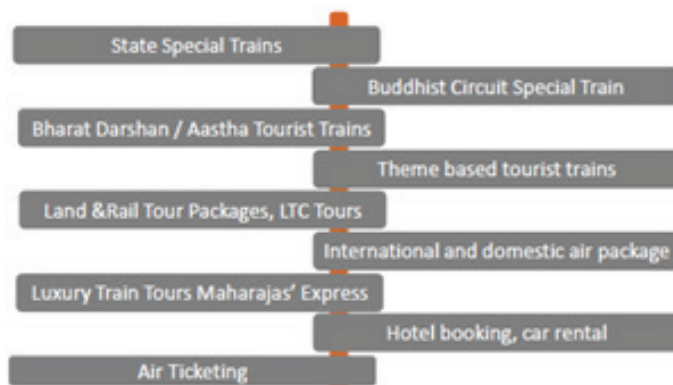
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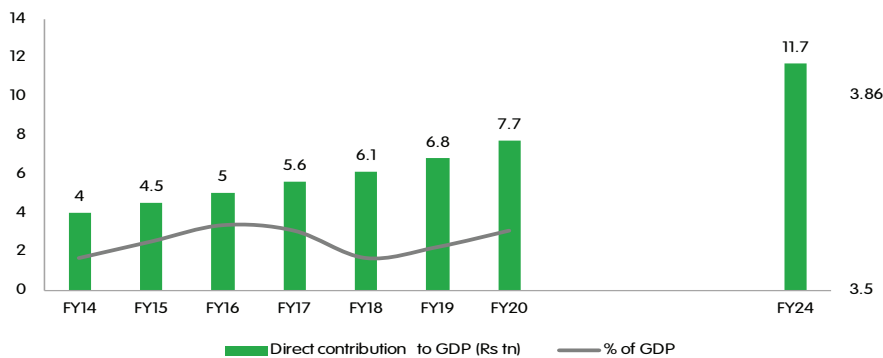
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**SUBSCRIBE** 
**Travel & Tourism**

IRCTC is mandated by the Indian Railways to provide tourism and travel-related services. Currently, it has footprints in across all major tourism segments i.e. hotel bookings, rail, land, cruise and air tour packages and air ticket bookings. IRCTC is one of India's leading travel and tourism companies catering to the needs of diverse tourist segments.

**Exhibit 13: Travel & Tourism**


Source: RHP

**Exhibit 14: Travel & tourism and GDP**


Source: RHP

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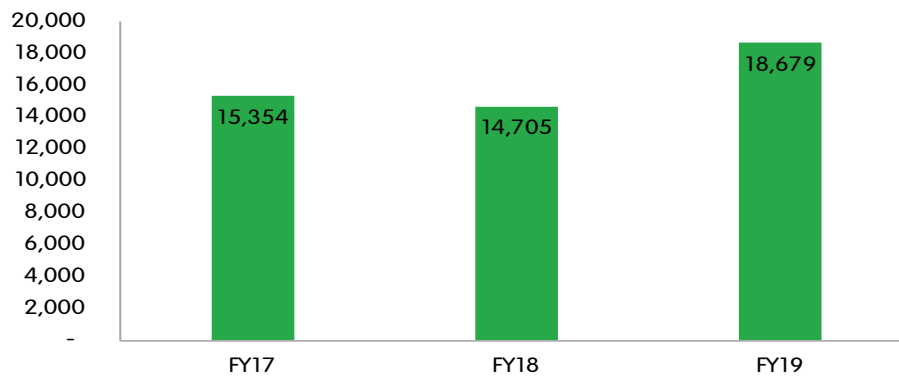
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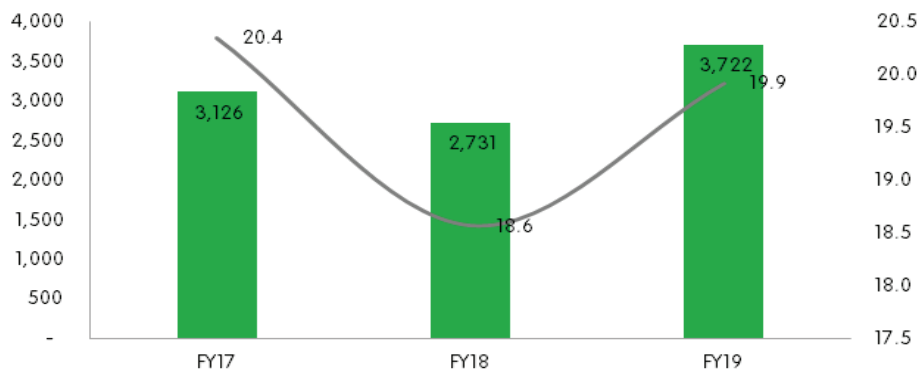
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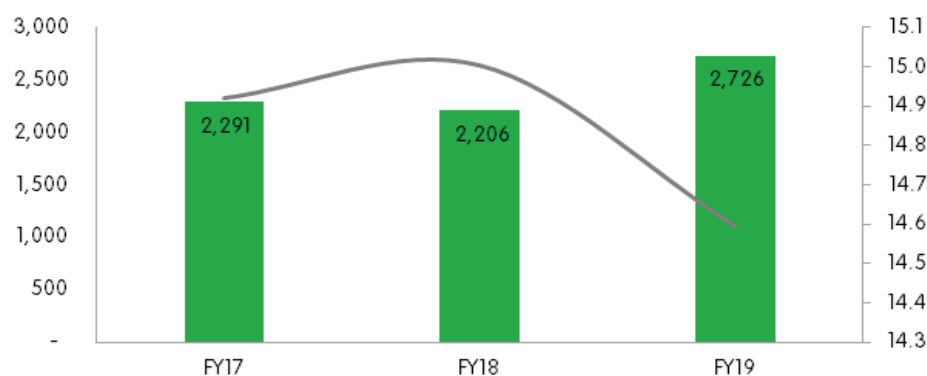

The Government of India has introduced measures to increase freight traffic to increase the share of Indian Railways in freight transport across India. It announced Eastern and Western Dedicated Freight Corridors (DFCs) to cut down the turnaround time between importing and consuming destinations through construction of a railway network specialised for freight traffic.

**Exhibit 15: Net Revenues (Rs bn)**


Source: RHP

**Exhibit 16: Average EBITDA margin at 19.6% over FY17-19**


Source: RHP

**Exhibit 17: Average PAT margin at 14.8% over FY17-19**


Source: RHP

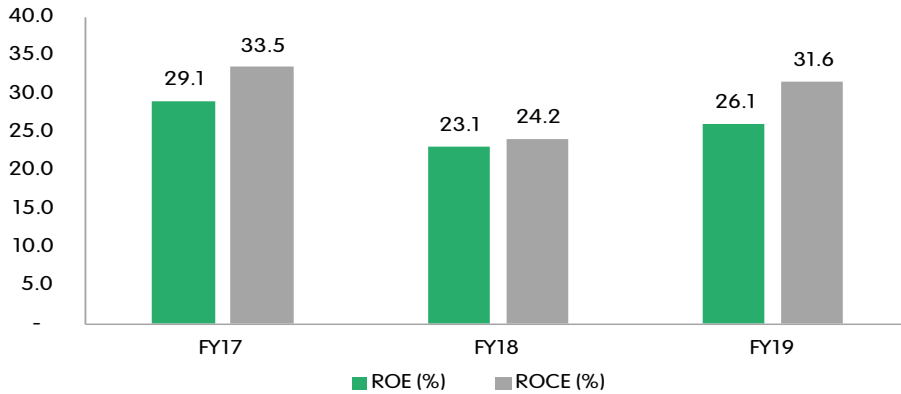
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**Exhibit 18: Return ratios over FY17-19**


Source: RHP

**Outlook & Valuation**

The government is offloading 12.5% stake through OFS, which will reduce its stake to 87.5%. IRCTC is in steady business model which is likely to grow at 12-15% for next few years. The restoration of convenience charges for E-ticket from September 2019, is likely to generate additional revenue of Rs4.5bn per year. For FY19, its PAT grew by 24% YoY to Rs2.7bn led by 27% growth in revenue at Rs Rs18.7bn. Average EBITDA and net margin stood at ~20% and ~15% respectively during FY17-19. It has healthy balance sheet with Rs11bn+ cash to support capex. IRCTC has good dividend policy and paid ~50% average pay-out in last 3 years. Assuming moderate revenue growth of 10% CAGR through FY19-21E, the Company is valued at 13x FY21E earnings, which appears to be justified considering its business model, steady growth and healthy return ratios. **Hence, we recommend SUBSCRIBE to the Issue.**

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**SUBSCRIBE** 
**Income Statement**

Y/E Mar (Rs mn)	FY17	FY18	FY19
Net Sales	15,354	14,705	18,679
Growth (%)		(4.2)	27.0
Total Expenditure	12,228	11,974	14,957
Cost of Materials	9,587	8,753	11,335
Employee costs	1,638	1,922	1,951
Others	1,003	1,298	1,672
<b>EBITDA</b>	<b>3,126</b>	<b>2,731</b>	<b>3,722</b>
Growth (%)		(12.6)	36.3
EBITDA Margin (%)	20.4	18.6	19.9
Depreciation	224	237	286
<b>EBIT</b>	<b>2,901</b>	<b>2,494</b>	<b>3,435</b>
Growth (%)		(14.0)	37.7
EBIT Margin (%)	18.9	17.0	18.4
Interest	25	29	23
Other Income	675	991	888
PBT	3,551	3,456	4,300
Growth (%)		(2.7)	24.4
Tax	1,260	1,250	1,574
Tax rate (%)	35.5	36.2	36.6
<b>Reported PAT</b>	<b>2,291</b>	<b>2,206</b>	<b>2,726</b>
<b>Adjusted PAT</b>	<b>2,291</b>	<b>2,206</b>	<b>2,726</b>
Growth (%)		(3.7)	23.6
Net Margin (%)	14.9	15.0	14.6
<b>Fully Diluted EPS (Rs)</b>	<b>14.3</b>	<b>13.8</b>	<b>17.0</b>

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**Balance Sheet**

Y/E Mar (Rs mn)	FY17	FY18	FY19
Share Capital	400	400	1,600
Reserves and Surplus	7,466	9,145	8,828
<b>Shareholder's Funds</b>	<b>7,866</b>	<b>9,545</b>	<b>10,428</b>
Other Liabilities & Provisions	922	896	667
Total Non-Current Liabilities	922	896	667
Current Liabilities			
Financial Liabilities			
Trade payables	9,410	12,717	14,350
Provisions	12	33	138
Current tax liabilities	55	-	254
<b>Total Current Liabilities</b>	<b>9,477</b>	<b>12,749</b>	<b>14,742</b>
<b>Total Equity and Liabilities</b>	<b>18,265</b>	<b>23,191</b>	<b>25,838</b>

**ASSETS**

Property, Plant and Equipment	1,578	1,556	1,471
CWIP	168	77	404
Other Intangible Assets	126	66	75
Investments	0	276	277
Deferred Tax Assets (Net)	575	464	771
Other Non-Current Assets	150	151	253
<b>Total Non-Current assets</b>	<b>2,598</b>	<b>2,589</b>	<b>3,251</b>
Current assets			
Inventories	66	74	79
Trade Receivables	2,894	5,509	5,817
Cash & Bank	4,861	4,932	4,601
Other Bank bal	3,668	3,407	6,800
Loans	96	90	84
Others	159	171	347
Current Tax Assets (Net)	68	83	101
Other Current Assets	3,854	6,337	4,759
<b>Total Current Assets</b>	<b>15,667</b>	<b>20,602</b>	<b>22,587</b>
<b>Total Assets</b>	<b>18,265</b>	<b>23,191</b>	<b>25,838</b>

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## Cash Flow Statement

Y/E Mar (Rs mn)	FY17	FY18	FY19
Profit before tax	3,551	3,456	4,300
Depreciation	224	237	286
Interest Income	(444)	(457)	(573)
Dividend Received		(39)	(64)
Others	9	67	5
Operating Profit	3,340	3,265	3,955
Working Capital Changes	1,423	(1,769)	2,599
Cash from operation	4,763	1,496	6,554
Income tax paid	(1,381)	1,259	(1,628)
<b>Total Cash from Operating Activities</b>	<b>3,382</b>	<b>236</b>	<b>4,927</b>
<b>Cash flow from Investing Activities</b>			
Capex	(320)	(343)	(539)
Interest Receivable	648	445	405
Dividend Received	-	39	64
Changes in Other Bank Balances	608	261	(3,393)
<b>Net Cash used in Investing Activities</b>	<b>936</b>	<b>402</b>	<b>(3,464)</b>
<b>Cash Flow from financing Activities</b>			
Dividend paid	(1,359)	(568)	(1,794)
<b>Net Cash generated from financing activities</b>	<b>(1,359)</b>	<b>(568)</b>	<b>(1,794)</b>
Net Increase/(decrease) in cash	2,959	70	(331)
Opening Cash & cash equivalents	1,903	4,861	4,932
<b>Closing cash &amp; cash equivalents</b>	<b>4,861</b>	<b>4,932</b>	<b>4,601</b>

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## Key Ratio

Y/E Mar	FY17	FY18	FY19
<b>Valuation Ratio (x)</b>			
P/E	22.4	23.2	18.8
P/CEPS	20.4	21.0	17.0
P/BV	6.5	5.4	4.9
Dividend yield (%)	2.7	1.1	3.5
EV/Sales	2.8	2.9	2.1
EV/EBITDA	13.7	15.7	10.7
<b>Per Share Data (Rs)</b>			
EPS	14.3	13.8	17.0
Cash EPS	15.7	15.3	18.8
DPS	8.5	3.4	11.2
Book Value	49.2	59.7	65.2
<b>Returns (%)</b>			
RoCE	33.5	24.2	31.6
RoE	29.1	23.1	26.1

## Institutional Equity Research

## IRCTC

Capital Goods | India

IPO Note | September 30, 2019

Issue Size (mn shares)	20.1
Issue Open/Close	30-Sep/03-Oct 19
Face Value (Rs)	10
Price Band (Rs)	315-320
Lot Size (shares)	40

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