

Indian Railway Catering & Tourism Corporation

Rating: Subscribe | Price Band: Rs315-320

September 30, 2019

IPO Note

IPO Fact Sheet

Opening Date	September 30, 2019
Closing Date	October 03, 2019
BRLMs	IDBI Capital, SBI Capital, Yes Securities, Alankit
Issue Size	Rs6,300mn (lower band) / Rs6,400mn (upper band)
Numbers of shares offered (Net)	20mn
Post issue number of shares	160mn
Face value	Rs10
Bid lot	40 shares

Issue Structure

QIB	Not more than 50% of the net offer
NIB	Not less than 15% of the Offer
Retail	Not less than 35% of the Offer

Issue Details

Pre-issue equity (m shares)	160
Post-issue equity (m shares)	160
Post-issue Market Cap (Rs bn)	Rs50.4/Rs51.2

Object of the Issue

As this is an OFS, the company will not receive any proceeds from the offer

Shareholding Pattern

(%)	Pre-Issue	Post-Issue
Promoters	100.00%	87.4%
Public & Others	-	12.6%

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A cash rich & debt free monopoly

*We recommend a **SUBSCRIBE** on Indian Railway Catering & Tourism Corporation Ltd (IRCTC) given 1) monopoly position in providing packaged drinking water, catering, online ticket booking services to passengers travelling by Indian Railways (IRs) 2) strong business visibility amid re-introduction of service charge (Rs15 per ticket for non-AC and Rs30 per ticket for AC from 01 Sep 2019) for online ticket booking and plans to double the number of Rail Neer plants to 20 by FY21E 3) debt free & cash rich BS (Rs11.4bn of cash as of FY19; ~23% of post money market cap) with healthy return ratios (RoE/RoCE of 26%/33% respectively as of FY19) and 4) healthy dividend pay-outs (~41% over the last 3 years). Over FY17-19, IRCTC's sales/EBITDA/PAT have grown at a CAGR of 10.3%/9.1%/9.1% respectively. At the upper end of the price band, the issue is priced at 19x FY19 EPS of Rs17 (no listed peer available to facilitate comparison), and looks attractive due to limited competitive risks, and expected margin swing from revenue windfall with re-introduction of service charge.*

A monopolistic business: IRCTC is the only entity authorized to provide packaged drinking water, catering, and online ticket booking services to passengers travelling by IRs. It has a dominant position in online rail bookings/packaged drinking water with ~73%/~45% market share respectively.

Re-introduction of service charge to drive ticketing revenue: IRCTC has decided to levy a service charge of Rs15 per ticket for non-AC and Rs30 per ticket for AC from 01 Sep 2019, for every ticket that is booked online. As per our internal calculations, this can provide additional revenue kicker of Rs3bn in FY20E and Rs4.5bn in FY21E. Since ticketing is a high margin business (~67% margin in FY19) we believe this will be a major profit lever.

Doubling the plants to drive packaged drinking water sales: IRCTC has ten "Rail Neer" plants with an installed production capacity of ~215mn bottles with utilization of 83% as of FY19. Six new plants will be commissioned in FY20E while four are lined up for commissioning in FY21E. Doubling the number of plants is expected to increase IRCTC's market share from 45% to 80%.

Catering to grow at a CAGR of 7.5-8.5% in the next 5 years: IRCTC's catering revenue is expected to grow at a CAGR of 7.5-8.5% over FY19-24E driven by 1) increasing passenger traffic & variety of food items and 2) increase in number of base kitchens & static catering units.

Comprehensive tourism & hospitality service provider: IRCTC has been mandated by IRs to provide tourism and travel related services. It is a one stop shop for all travel and tourism related services, and operates its own tourism portal, www.irctctourism.com through which it offers these products and services.

Company Overview

As a Central Public Sector Enterprise (CPSE) wholly owned by the Government of India (GoI), Indian Railway Catering & Tourism Corporation Ltd (IRCTC) is the only entity authorized by Indian Railways (IR) to provide catering services to railways, online railway tickets and packaged drinking water at railway stations and trains in India. Incorporated in 1999, IRCTC is conferred the status of Mini Ratna (Category-I Public Sector Enterprise) by GoI.

IRCTC operates one of the most transacted websites, www.irctc.co.in, in the Asia-Pacific region with transaction volume averaging 25 to 28 mn transactions per month during the five months ended August 31st, 2019.

The business is divided into four segments namely internet ticketing, catering, packaged drinking water (Rail Neer brand), and travel and tourism. IRCTC has also diversified into other businesses, including non-railway catering and services such as e-catering, executive lounges and budget hotels.

Internet ticketing: IRCTC is the only entity authorized by IRs to offer railway tickets online through its website and mobile application. As of Aug 31, 2019, more than 1.4mn passengers travelled on IR on a daily basis, consisting ~72.6% of the tickets booked online. IRCTC operates one of the most transacted websites in the Asia-Pacific region with a transaction volume of more than 25 million per month and 7.2 million logins per day.

Catering: IRCTC provides food catering services to passengers on trains and at stations. Pursuant to the catering policy issued by Ministry of Railways (transfer of catering services in entirety to IRCTC), the company provides catering services to ~350 pre-paid and post-paid trains and 530 static units. IRCTC provides catering services through mobile catering units, base kitchens, cell kitchens, refreshment rooms, food plazas, food courts, train side vending, and Jan Ahaars over the IR network.

Packaged drinking water: IRCTC is the only entity authorized by IR's to manufacture and distribute packaged drinking water at all railway stations and on trains. The company manufactures and distributes packaged drinking water under "Rail Neer" brand. It has ten plants located at Nangloi, Danapur, Palur, Ambernath, Amethi, Parassala, Bilaspur, Hapur, Ahmedabad and Bhopal, with an installed production capacity of approximately 1.09 million litres per day.

Travel & tourism: IRCTC has been mandated by IRs to provide tourism and travel related services. It has footprints across all major tourism segments such as hotel bookings, rail, land, cruise and air tour packages and air ticket bookings. With the strength of being a CPSE under the administrative control of the Ministry of Railways, IRCTC specializes in rail tourism.

Exhibit 1: Revenue breakdown (Rs mn)

Y/e March	FY17	FY18	FY19
Catering	3,986	7,403	10,445
As a % of sales	25.6%	48.7%	55.0%
YoY growth		85.7%	41.1%
Internet Ticketing	4,693	2,071	2,346
As a % of sales	30.2%	13.6%	12.4%
YoY growth		-55.9%	13.3%
Tourism	2,640	1,899	2,531
As a % of sales	17.0%	12.5%	13.3%
YoY growth		-28.1%	33.3%
State Teertha	2,648	2,135	1,909
As a % of sales	17.0%	14.0%	10.0%
YoY growth		-19.4%	-10.6%
Rail Neer (Packaged Drinking Water)	1,591	1,692	1,763
As a % of sales	10.2%	11.1%	9.3%
YoY growth		6.4%	4.2%
Total	15,558	15,200	18,994

Source: Company, PL

Exhibit 2: Segmental margin profile (Rs mn)

Y/e March	FY17	FY18	FY19
Catering	262.4	1,230.0	1,190.4
Margin	6.6%	16.6%	11.4%
Internet Ticketing	1,922.6	1,035.1	1,566.8
Margin	41.0%	50.0%	66.8%
Tourism	-42.0	-117.7	227.4
Margin	NM	NM	9.0%
State Teertha	643.8	504.2	453.6
Margin	24.3%	23.6%	23.8%
Rail Neer (Packaged Drinking Water)	308.8	372.2	293.1
Margin	19.4%	22.0%	16.6%

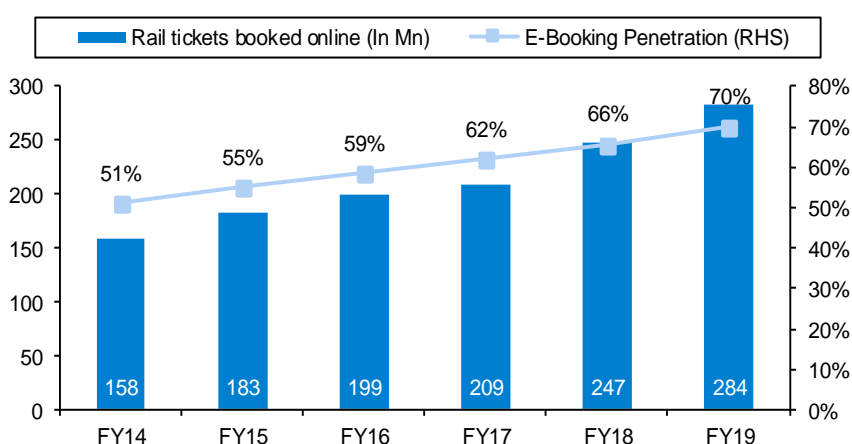
Source: Company, PL

Investment thesis

Rising e-booking penetration & levy of service charge to drive ticketing revenue

Over FY14-19, online rail bookings have registered a 12.5% CAGR to reach ~284mn, with e-booking penetration rising to ~70% in FY19. Going ahead, online rail bookings are expected to grow at a CAGR of 8% to reach ~425-435mn in FY24E, with e-booking penetration expected to rise to ~81-83% during the same period. Since IRCTC is the only entity authorized by IRs to book tickets online and has a dominant position in online rail bookings with ~73% market share, we believe it will be the biggest beneficiary of rising e-booking penetration.

Exhibit 3: E-booking penetration in railways is on a rise



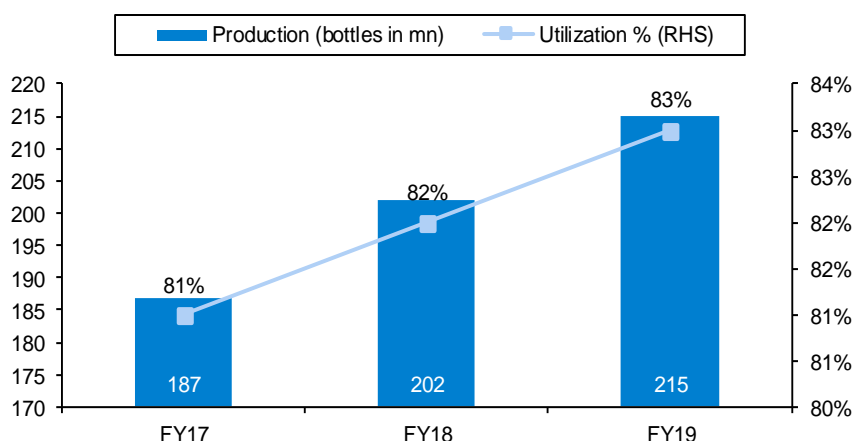
Source: Company, PL

In November 2016, GoI had removed the service charges levied by IRCTC at the rate of Rs20 per ticket for non-AC and Rs40 per ticket for AC. As a part of this mandate, IRCTC was compensated by GoI to the tune of Rs800mn in FY18 and Rs880mn in FY19. However, in July 2019, GoI decided to withdraw the compensation benefits thereby giving freedom to IRCTC to decide on the service charges to be levied on tickets booked online.

Accordingly, IRCTC has decided to levy a service charge of Rs15 per ticket for non-AC and Rs30 per ticket for AC from 01 Sep 2019. As per our internal calculations, this can provide additional revenue kicker of Rs3bn in FY20E and Rs4.5bn in FY21E. Since ticketing is a high margin business we believe this will be a major profit lever for the company.

Expansion of packaged drinking water capacity to augment sales: IRCTC has ten "Rail Neer" plants with an installed production capacity of ~215mn bottles with utilization of 83% as of FY19. To increase presence in the packaged drinking water market at railway stations, and to meet the growing demand, IRCTC is commissioning six new plants at Sankrail, Jagi Road, Nagpur, Bhusawal, Jabalpur, and Una. Further, four new plants have been approved by the board which will be commissioned in FY21. Doubling the number of plants is expected to increase IRCTC's market share in packaged drinking water at railways premises & trains from 45% to 80%.

Exhibit 4: Performance of Rail Neer plants



Source: Company, PL

Catering to grow at a CAGR of 7.5-8.5% in the next 5 years

IRCTC is the only entity authorized to manage the catering services on board trains and major static units at railway stations under the Catering Policy 2017. Broad categorization of catering based on point of sale is as follows:

Mobile catering: Catering services provided to rail travellers aboard a train, through a pantry car attached to the train or base kitchens located at major locations.

Static catering: Catering services offered to patrons at static units at railway establishments located at railway stations across the country: Jan Ahars, Cell Kitchens, etc.

E-catering: Online food ordering service, allowing rail travellers to order food items from partner restaurants listed on IRCTC's food on track app. IRCTC's catering revenue is expected to grow at a CAGR of 7.5-8.5% over FY19-24. The growth in IRCTC's catering revenues is expected to be driven by:

- Likely increase in passenger traffic due to addition of new non-suburban trains i.e. long distance trains.
- Rising affordability and variety of food items available in catering services.
- Increasing coverage of catering services through addition of base kitchens and static catering units.

Exhibit 5: IRCTC's catering revenue to reach Rs14.5-15.5 bn in FY24

Particulars	FY19	FY20P	FY24P
Estimated growth in IRCTC's catering revenues (Rs billion)	10.2	11.0-12.0	14.5-15.5

Source: Company, PL

Comprehensive tourism & hospitality service provider

IRCTC has been mandated by IRs to provide tourism and travel related services. The various tourism services offered by the company include luxury train tours Maharajas' Express, Buddhist Circuit Special Train, Bharat Darshan Special Tourist Trains, theme based tourist trains, Rail Tour Packages, international and domestic air packages, land tour packages, hotel booking, car rental, and event management.

IRCTC is a one stop shop for all travel and tourism related services, and operates its own tourism portal, www.irctctourism.com through which it offers these products and services.

Exhibit 6: IRCTC's revenue from major tourist trains (Rs mn)

	FY15	FY16	FY17	FY18	FY19
Maharajas' Express	399	409	361	381	440
Buddhist Circuit	35	20	27	16	24
State Special Trains	1255	1993	2735	2088	2022
Bharat Darshan	202	318	400	417	508
Others	123	93	7	48	0
Total	2014	2833	3530	2950	2994

Source: Company, PL

Exhibit 7: IRCTC's revenue from tour packages (Rs mn)

Particulars	FY15	FY16	FY17	FY18	FY19
Rail tour packages	139.5	142.9	102.5	56	48.1
Land tour packages	20.6	30.7	49.3	51.9	47.1
Customized	16.3	16.9	24.3	21.7	30.2
Leave travel concession	1.00	0.6	0.4	0.3	0.5
Total	177.4	191.1	176.5	129.9	125.9

Source: Company, PL

Apart from this, the Railway Board has mandated IRCTC to run two trains under the haulage concept, with ticketing and on board services. The company will have full freedom to determine the trains' fares. IRCTC is currently in process of finalizing the modalities of this concept.

Key risks

Any change in policy by Ministry of Railways can adversely impact business

IRCTC's business is dependent upon policies of Ministry of Railways. At times certain decisions have been taken by the ministry that have adversely affected the business. For instance, decision to withdraw the service charge at rates of Rs20 per ticket for non AC and Rs40 per ticket for AC in Nov 2016 adversely impacted the revenues. While service charges have been re-instated at Rs15 per ticket for non-AC and Rs30 per ticket for AC from 01 Sep 2019, abolishment or reduction in the same can hurt the ticketing revenue.

Monopoly to dissolve if GoI opens competition for other players

IRCTC is the exclusive provider of online railway ticketing, catering services and packaged drinking water for trains and stations. As a result, it does not face pressures experienced by businesses that operate in competitive industries. If GoI were to permit competition by allowing other players it can have adverse impact on business & cash flows.

Key management personnel

Exhibit 8: Key management personnel

Mahendra Pratap Mall	Chairman & Managing Director	He is the chairman and MD of IRCTC since Sept,2017. He has done his bachelor's degree in science and master's degree in political science from University of Allahabad.
Rajni Hasija	Whole-time Director (Tourism & Marketing)	She holds a bachelor's and master's degree in science from University of Delhi. She served as an officer in Indian Railway Traffic Service and has 30 years of experience in commercial and operation of railways.
Narendra	Director (Finance)	He holds a bachelor's degree in Arts and a master's degree in History from University of Delhi. He has done his PGD from IIM-B. He is also an officer of Indian Railway Accounts Service.
Ajai Srivastava	Group General Manager (Finance) and Chief Financial Officer	He holds a bachelor's degree in science from University of Gorakhpur and is an officer of Indian Railway Accounts Service. He has also worked with North Eastern Railways prior to IRCTC.

Source: Company, PL

Key charts & tables

Exhibit 9: Growth in domestic travellers to see uptick in next 5 years

Particulars	CY12	CY13	CY14	CY15	CY16	CY17	CY18E	CY23P
Domestic tourist visits (million)	1,045	1,143	1,283	1,432	1,615	1,652	1,765-1,815	2,760-2,810
YoY %		9.4%	12.2%	11.6%	12.8%	2.3%	8.3%	

Source: Company, PL

Exhibit 10: Organised packaged drinking water market (at retail price) (Rs bn)

FY14	FY19E	FY24P
30-35	80-85	180-185

Source: Company, PL

Exhibit 11: Packaged drinking water (PDW) market (Rs bn) for railways

FY14	FY19E	FY24P
6.5-7.5	7.5-8.5	9.0-10.0

Source: Company, PL

Exhibit 12: Current market size for Indian booking industry (Rs billion)

FY14	FY19E
1,370-1,390	2,335-2,355

Source: Company, PL

Exhibit 13: Market size of e-booking industry in India (Rs billion)

FY14	FY19E	FY24P
505-525	1,300-1,320	2,830-2,850

Source: Company, PL



Financials

Exhibit 14: Income Statement (Rs mn)

Y/e March	FY17	FY18	FY19
Revenue From Operation	15,354	14,705	18,679
<i>YoY growth</i>		<i>-4.2%</i>	<i>27.0%</i>
Expenses			
Cost of Materials Consumed	959	948	933
Excise Duty	157	44	-
Purchase of Stock in Trade	1,149	1,580	310
Changes in Inventories of finished goods, work in progress and stock in trade	6	-4	-1
Expenses of Catering Services	781	2,463	6,391
Expenses of Tourism	4,156	3,052	3,090
Manufacturing & direct Expenses	2,378	671	613
Employee benefit expense	1,638	1,922	1,951
Other Expenses	1,003	1,298	1,672
Total	12,228	11,974	14,957
EBITDA	3,126	2,731	3,722
<i>YoY growth</i>		<i>-12.6%</i>	<i>36.3%</i>
<i>EBITDA margin</i>	<i>20.4%</i>	<i>18.6%</i>	<i>19.9%</i>
Depreciation and amortization expense	224	237	286
EBIT	2,901	2,494	3,435
<i>YoY growth</i>		<i>-14.0%</i>	<i>37.7%</i>
<i>EBIT margin</i>	<i>18.9%</i>	<i>17.0%</i>	<i>18.4%</i>
Other Income	675	991	888
Finance costs	25	29	23
Profit before tax	3,551	3,456	4,300
Tax expense			
1. Current Tax	1,179	1,160	1,882
2. Deferred tax	81	90	-309
Profit/(Loss) for the period	2,291	2,206	2,726
<i>YoY growth</i>		<i>-3.7%</i>	<i>23.6%</i>
<i>PAT margin</i>	<i>14.9%</i>	<i>15.0%</i>	<i>14.6%</i>
Other Comprehensive Income			
Re- measurement of post-employment benefit obligation	15	63	4
ii) Income tax relating to Items that will not be reclassified to Profit or Loss	5	-22	-1
Total Comprehensive Income for the period	2,311	2,248	2,729
Earnings per equity Share:			
(For Continuing Operation)			
Basic	14.3	13.8	17.0
Diluted	14.3	13.8	17.0

Source: Company, PL

Exhibit 15: Balance sheet (Rs mn)

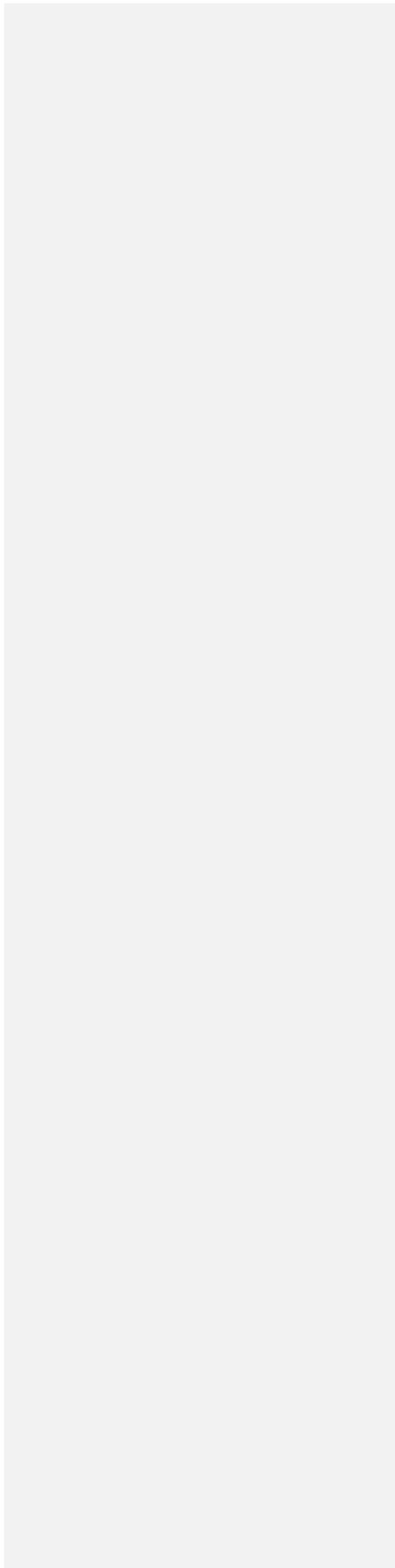
Balance Sheet (In Rs. Mn)	FY17	FY18	FY19
ASSETS			
Non-current assets			
Property, Plant and Equipment	1,578	1,556	1,471
Capital work in progress	168	77	404
Investment Property		276	277
Other Intangible Assets	126	66	75
Financial Assets			
i. Investments	0	0	0
ii. Loans	22	21	24
iii. Other Financial assets	4	10	1
iv. Deferred Tax Assets (Net)	575	464	771
v. Other Non-Current Assets	124	120	229
Total Non-Current assets	2,598	2,589	3,251
Current assets			
Inventories	66	74	79
Financial Assets			
i. Trade Receivables	2,894	5,509	5,817
ii. Cash and Cash Equivalents	4,861	4,932	4,601
iii. Bank Balance other than (ii) above	3,668	3,407	6,800
iv. Loans	96	90	84
v. Others	159	171	347
Current Tax Assets (Net)	68	83	101
Other Current Assets	3,854	6,337	4,759
Total Current Assets	15,667	20,602	22,587
Total Assets	18,265	23,191	25,838
EQUITY AND LIABILITIES			
Equity			
Equity Share Capital	400	400	1,600
Other Equity	7,466	9,145	8,828
Total Equity	7,866	9,545	10,428
Liabilities			
Non-current Liabilities			
Financial Liabilities			
Other Financial Liabilities	59	242	147
Provisions	780	585	462
Other Non-current Liabilities	83	69	58
Total Non-Current Liabilities	922	896	667
Current Liabilities			
Financial Liabilities			
Trade payables			
Total outstanding dues of MSMEs	4	9	20
Total outstanding dues of creditors other than MSMEs	1,372	1,500	1,900
Others	4,232	5,209	6,259
Other Current Liabilities	3,802	5,999	6,172
Provisions	12	33	138
Current tax liabilities	55		254
Total Current Liabilities	9,477	12,749	14,742
Total Equity and Liabilities	18,265	23,191	25,838

Source: Company, PL

Exhibit 16: Cash Flow (Rs mn)

Y/e March	FY17	FY18	FY19
Cash Flow from Operating Activities			
Profit before tax	3,551	3,456	4,300
Adjustments for:-			
Depreciation	224	237	286
Loss on sale of Fixed Assets		4	1
Profit on sale of Fixed Assets	9		
Interest Income	-444	-457	-573
Dividend Received		-39	-64
Other Comprehensive Income		63	4
Operating Profit before operating capital changes	3,340	3,265	3,955
Adjustments for:-			
Decrease/(Increase) in Inventories	17	-8	-5
Decrease/(Increase) in Trade & Other Receivables	-372	-2,615	-308
Decrease/(Increase) in Other Non- Current Financial assets		-6	9
Decrease/(Increase) in Current financial Assets	9	0	-9
Decrease/(Increase)current tax Assets	13		-18
Decrease/(Increase) in Other Current Assets	-729	-2,483	1,578
Decrease/(Increase) in Other Non- current assets	58	33	-108
Decrease/(Increase) in Financial Assets Loans	-11	7	3
(Decrease)/Increase in other Non-Current financial liability	43	183	-95
(Decrease)/Increase in Non-current Provisions	-56	-195	-123
(Decrease)/Increase in other Non- current liabilities	3	-14	-11
(Decrease)/Increase in trade payables	859	133	411
(Decrease)/Increase in other financial liability	634	978	1,050
(Decrease)/Increase in other current liability	969	2,197	121
(Decrease)/Increase in current provisions	-14	21	105
Total	1,423	-1,769	2,599
Cash generated from operation	4,763	1,495	6,554
Income tax paid	-1,381	-1,259	-1,628
Total Cash generated from Operating Activities	3,382	236	4,927
Cash flow from Investing Activities			
Sale/Disposal of PPE & Other intangible assets	1	2	3
Purchase of PPE & Other intangible assets	-321	-345	-543
Interest Receivable	648	445	405
Dividend Received	608	39	64
Changes in Other Bank Balances		261	-3,393
Net Cash used in Investing Activities	936	402	-3,464
Cash Flow from financing Activities			
Dividend paid (including Tax on Dividend)	-1,359	-568	-1,794
Net Cash generated from financing activities	-1,359	-568	-1,794
Net Increase/(decrease in cash and cash equivalents	2,959	70	-331
Opening Cash & cash equivalents	1,903	4,861	4,932
Closing cash & cash equivalents	4,861	4,932	4,601
Reconciliation of Cash & cash equivalents			
Cash and cash equivalent comprises of			
Cash on hand	6	6	3
Cheques/drafts on hand	5	809	4
Balances with banks:			
In current Account	2,724	3,098	4,377
In Flexi Account	2,125	1,019	216
Cash and Cash Equivalents as per Balance Sheet	4,861	4,932	4,601

Source: Company, PL





Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Dish TV India	NR	-	74
2	Entertainment Network (India)	Hold	483	384
3	Inox Leisure	BUY	394	338
4	Music Broadcast	Hold	58	46
5	Navneet Education	BUY	134	103
6	PVR	Accumulate	2,099	1,810
7	S Chand and Company	Hold	62	57
8	V.I.P. Industries	BUY	488	386
9	Zee Media Corporation	Under Review	-	14

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: >15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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