

Indian Railways Catering & Tourism Corp. (IRCTC)

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September 26, 2019

Sector: Transportation (Railways) & Hospitality | IPO Note

Background: Indian Railway Catering & Tourism Corporation Ltd. (IRCTC) is the only government undertaking authorized to by Indian Railways to provide catering services, online railway tickets and packaged drinking water at railway stations and trains in India. The company enjoys Mini-Ratna status as well. The company is fully owned by Government of India (GoI) and is managed by Ministry of Railways. IRCTC's business is broadly divided in 4 segments; Internet Ticketing, Catering, Packaged Drinking Water, and Travel & Tourism. IRCTC operates one of the most transacted websites in the Asia-Pacific region with a transaction volume exceeding 25 million per month and 7.2 million logins per day. To augment the services portfolio IRCTC has diversified into other businesses, including non-railway catering and services such as e-catering, executive lounges and budget hotels

Issue Opening Date	30 th Sept 2019
Issue Closing Date	3 rd Oct 2019
Face Value (INR)	10
Price Band (INR)	315-320*
Bid Lot	40 shares
Offer for Sale (mn. shares)	20.16
Issue Size (INR bn)	6.28-6.38

*Retail & Employee discount INR 10/ share

Objects of the Offer

- Divestment of 20.1 million equity shares by selling shareholder (GOI) forming 12.6% of the company's existing paid up capital.
- To achieve the benefits of listing the equity shares on the stock exchange. The company will not receive any proceeds from the proposed share sale and the entire amount will go to selling shareholders.

Chola Securities recommendation: Subscribe

- The company enjoys virtually monopolistic business which has huge potential to grow further. At upper priced band the issue is valuing company at P/E of 18.8x and P/B of 4.9x based on FY19 financials. The issue appears fully priced in considering historical financials & multiples. There are no direct comparable companies available for relative analysis.
- The unique business model with no direct competitors is likely to attract investor's attention and keep shares in demand.
- Investors can consider investment for short to medium term, being the first mover in the sector there will be buying interest post listing too.

IRCTC financial performance

- The company's revenue & net profits increased at a CAGR of 10.5% and 14% respectively between FY17-FY19
- In last three fiscals, FY17-FY19, the company has posted an average EPS of 15.5 rupees and an average return on net worth (RONW) of 25.6%
- Average dividend payout ratio in last 3 years was 40%, indicating liberal dividend policy

Key Positives

- Only entity authorized by GOI to offer rail tickets, manage catering services onboard trains and supply drinking water at railway stations and in trains
- With transaction volumes reaching 25mn a month and logins touching 7.2mn a day, IRCTC operates one of the largest transacting website in Asia-Pacific
- As of June 30, 2019, more than 1.40 million passengers travelled on Indian Railways on a daily basis, which consisted of ~ 71.4% of Indian Railways' tickets booked online, implying ~ 0.8mn tickets booked online on a daily basis
- The present 10 Rail Neer plants supply 1.8mn liters of packaged drinking water a day, thereby catering to 45% of the demand
- IRCTC is one of the three companies permitted by GoI to offer air tickets to both Central and State Government ministries

Risks

- The business and revenues of the company are largely dependent on operations of Indian Railways which are directly controlled by Ministry of railways. Any adverse change in the Ministry's policy may adversely impact results of operations
- If the Government were to permit open competition in any of the business segments, it may impact the financial results adversely for IRCTC

Shareholding Pattern	As a % of total shares
Pre-Issue	
Promoters (Central Govt.)	100.00
Public	0.00
Others	0.00
Post-Issue	
Promoters (Central Govt.)	87.40
Public	12.60
Others	0.00

Offer break-up	No. Of Shares	INR in Bn	% of issue
QIB	1,00,00,000	3.15-3.2	50%
NIB	30,00,000	0.95-0.96	15%
Retail	70,00,000	2.13-2.17	35%
Emp.	1,60,000	0.048-0.049	
Total	2,01,60,000	6.28-6.38	100%

Probable listing schedule	Tentative dates
Activity	
Finalization of allotment basis	09/10/2019
Unblocking/refund of ASBA Funds	10/10/2019
Credit of equity shares to demat	11/10/2019
Listing day	14/10/2019

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Served as an officer, director or employee	No

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