



Indian Railway Catering and Tourism Corporation



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Buy

Moat of 'Exclusivity'

IRCTC offers highly scalable and unmatched opportunity to exclusively participate in the growth story of Indian Railway (IR) traffic growth, Train tourism and Hospitality (Catering+Packaged Drinking Water, Accommodation). Robust adoption of online ticketing during pandemic, conversion of unreserved coaches into 2S category boosting TAM for Ticketing, multi-fold scale-up in PDW capacity, entry into passenger rail-operations (3 trains, more to follow) and ~60% jump in catering pricing are likely to act as a 'profit windfall' in coming quarters and should boost the financial growth, return ratios, and operating metrics for IRCTC. The multiple levers for growth specifically conversion of unreserved coaches into 2S would be more than suffice to cover up for growth lost due to COVID pandemic. Factoring in the opportunities across business segments and the huge scale/multitude opportunities that IR offers along-with gradual expansion in non-IR revenue stream (E-catering, air/bus ticketing, hotel booking); we expect a revenue/earnings CAGR of 16%/23% over FY20-25E, and initiate coverage with a TP of Rs2,650 valued at 40x PER on FY23E of Rs. 66).

Monopoly that should last

IRCTC is offered a monopolistic opportunity in online rail ticketing, sale of Packaged Drinking Water (PDW) and catering services (in Train as well as ~600 stations) for Indian Railways. Contrary to most other monopolistic plays, IRCTC assures low pricing and high quality experience for its customer base. The ticketing business operational prowess has been proven as it has achieved massive 73% penetration in FY20 on internet booking (during Pandemic 90%+). Its PDW brand (Rail-Neer) sells water cheaper by 33% compared to other branded alternatives. Catering business exclusivity ensures quality, pricing and availability to travelers.

Low risk business model

As an administrative agency, IRCTC charges fixed mark-up or license fee to its third-party vendors in catering, PDW, hospitality segment and pass on IR their due share, based on pre-determined ratio. In Catering business, it clocked Revenue of about Rs. 10.4Bn in FY20 with near zero-risk on demand or food inflation as it outsources it to contractors. Rail-Neer profitability is healthy at 19% as the company has confirmed demand, no marketing spends and scale advantage (lead distance on distribution to reduce). Tourism biz has a fixed mark-up on aggregation and leverage its IRCTC brand and portal for leads, saving on marketing spends. In ticketing business there is complete exclusivity. The only risky business is that of being a Train Operator (13% of rev) that functions on occupancy risk.

FINANCIALS (Rs Mn)

Particulars	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	18,680	22,755	7,502	20,952	34,512
Growth(%)	27.0	21.8	(67.0)	179.3	64.7
EBITDA	3,805	7,134	1,784	8,419	13,812
OPM(%)	20.4	31.4	23.8	40.2	40.0
PAT	2,683	5,274	1,509	6,572	10,580
Growth(%)	25.2	96.6	(71.4)	335.7	61.0
EPS(Rs.)	16.8	33.0	9.4	41.1	66.1
Growth(%)	(68.7)	96.6	(71.4)	335.7	61.0
PER(x)	99.9	50.8	177.7	40.8	25.3
ROANW(%)	30.3	44.1	13.8	38.5	46.7
ROACE(%)	28.2	45.3	11.0	38.5	46.7

CMP	Rs 1,675
Target / Upside	Rs 2,650 / 58%
NIFTY	14,982

Scrip Details

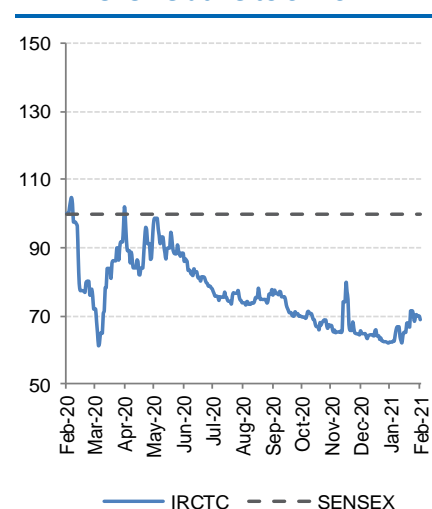
Equity / FV	Rs 1,600mn / Rs
Market Cap	Rs 268bn
	USD 4bn
52-week High/Low	Rs 1,994/ 775
Avg. Volume (no)	2,630,400
Bloom Code	IRCTC IN

Price Performance	1M	3M	12M
Absolute (%)	17	24	(14)
Rel to NIFTY (%)	17	24	(10)

Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	87.4	87.4	67.4
MF/Banks/FIs	1.4	1.7	7.7
FIIIs	0.8	0.9	8.4
Public /	10.5	10.1	16.5

IRCTC Relative to SENSEX



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New avenues to drive momentum

IRCTC is taking over several non-core activities from IR. New Avenues that has started opening up for IRCTC are Refreshment rooms (40 stations under tender process), Train-side-vending (earlier planned to issue in 300 sections, however company is right now issuing basis on trains end-to-end rather than section basis) and running trains on select route (150 trains routes to be privatized – IRCTC may bid for few routes); that would potentially add new revenue run-rate of about Rs2-5bn over FY22-FY25E.

Untapped pricing power comforts continuity

Similar to long unchanged prices in catering, the company has potential to tap into pricing power in other business segments to boost its growth/profitability. For instance, Prices for PDW has not been revised since 2012. Even service charge of Rs15/Rs30 for Ticketing is lower than what it used to charge till Nov'16; and thus both factors are potential trigger in future.

IRCTC to gain immensely from 'Revenge Travel'

As COVID cases have been coming off in India, there is a huge pent up demand that is going to drive up the tourism volume across segments. The early signs are visible as IRCTC has witnessed quick sold-out status on 15 odd train-based-tours it has launched starting Dec'20. We believe IRCTC would benefit immensely given its wide reach and offering within India as huge volume from domestic travellers (Annual Domestic Tourist Visits is pegged at ~2bn) would flow in over next few quarters.

Investment Thesis

- Monopolistic opportunity in online rail ticketing, sale of packaged drinking water and catering services (in Train as well as stations) for IR.
- Catering to see significant jump in rev as all vendors would bid for revised prices (up ~60%).
- Holds significant untapped potential in form of data/rail-tourism and pricing power (can gain materially both in PDW & Ticketing).

Catalyst

- Digital acceleration in the Online Ticketing behavior during Pandemic has led to much faster penetration (73% in FY20 to 90%+ in FY21).
- Conversion of several coaches of unreserved categories in long-distance train into 2S class has increased the revenue potential materially for the Online Ticketing segment.
- Significant expansion of capacity in PDW would lead to multi-fold jump in Rail Neer revenue.

Company Background

IRCTC was incorporated on 27th Sept 1999 and is a CPSE which is majority (67.4%) owned by the Government of India and is under the administrative control of the Ministry of Railways.

IRCTC is the only authorized entity in India which provides catering services to railways, online railway tickets and PDW at stations and trains.

Risk

- High dependency on Railways for their business.
- Profitability quite skewed to Ticketing business segment (accounts for ~70%+ to its profitability).
- **Social mindset:** Any adverse change in government policy to have negative impact on revenue of IRCTC.
- **COVID impact:** Any fresh wave of COVID cases could materially delay the revival in financials.

Event

- Privatization of rail-operations (150 routes to get auctioned in CY21) has opened up a large potential for private players – IRCTC is the only operator that is running trains (3 trains in FY20).
- Revision of Prices for Catering in both Onboarding/Static segment in H2FY20 would boost revenue/OPM of segment substantially.
- Restoration of Service Charges on Ticketing in Sep'19 have opened huge revenue stream.

Assumptions

- Gradual resumption of train operations to Pre-Pandemic level over next four-five quarters – current frequency is ~40% of peak levels.
- We expect sustenance of ticketing traffic on online mode to 87% + going forward.
- Gradual shift by IR towards resumption of cooked food as against Ready-to-eat that has been recommended and implemented in FY22.

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Company Background

Indian Railway Catering and Tourism Corporation Limited (IRCTC) was incorporated on 27th Sept 1999 and is a CPSE which is majority (67.4%) owned by the Government of India and is under the administrative control of the Ministry of Railways. IRCTC is the only authorized entity in India which provides catering services to railways, online railway tickets and packaged drinking water at stations and trains. Indian Railway is the world's second largest in passenger kilometers and clocks over 1.1tn passenger kilometers every year. Given its exclusivity moat, all other companies in the ecosystem need to act as IRCTC's agent and thus becomes channel partner and in turn drive up its revenue potential furthermore.

[IRCTC Digital Assets](#)

[irctc.co.in](#)

[The-Maharajas.com](#)

[Goldenchariot.org](#)

[irctcbuddhisttrain.com](#)

[irctctourism.com](#)

[hotel.irctctourism.com](#)

[air.irctc.co.in](#)

[bus.irctc.co.in](#)

The company operates in four business segment viz., Catering (46% of the revenue), Travel & Tourism (17%), Internet Ticketing (27%) and Packaged Drinking water – Rail Neer (10% of revenue) as of FY20 (these contributions are likely to evolve significantly over coming years).

Over the years, company has diversified into other businesses within Indian Railways like train operations (3 trains), executive lounges and budget hotels as well as outside ambit of Indian Railways such as E-Catering, Air-Ticketing, Bus-ticketing and Tourism (Hotel Booking, Overseas tour packages, Visa Services etc.)

Company possess many portals and apps for its varied businesses. With its anchor App/Portal being one of the most accessed/transacted app in the country. It also owns many other digital assets (flagship web-portal and several apps for Air-ticketing, E-Catering, Rail booking, Tourism) that collectively accounts for nearly Half of its revenues and about three-fourth of its profits. are Internet driven).

As part of the divestment plans of the GOI, IRCTC went public with dilution of 12.5% to raise Rs. 6bn for the Government at issue price of Rs. 320 per share. The company did not receive any funds from the issue proceeds. Subsequently in Nov'20 GOI further divested its stake through OFS route by another 20% at Rs1377 per share.

Exhibit 1: Chronology of Events

Year	Event
2002	Commenced internet ticketing services
2007	Launch of Buddhist Circuit Tourist Train
2010	IRCTC becomes an IATA qualified agency and gets into air ticketing business
2010	Mobile catering services including base kitchens were taken away from IRCTC
2015	Awarded with the approval for conformity with the quality management system with respect to the rail tour package for Mata Vaishno Devi Darshan
2016	Discontinued service charge for internet ticketing service on 23 rd November
2017	New Catering Policy 2017 the MoR reassigned responsibility for the entire catering services across Indian Railways to IRCTC
2018	Optional Travel Insurance facility on Payment of premium started (1 st Sep)
2018	Launched the online booking of trains, coaches and saloons on Charter Basis
2019	Operated 99 trips of Bharat Darshan/Aastha Circuit Trains carrying 50k tourists
2019	Reintroduced Service fee at Rs 15/Rs30 for Non-AC/ AC ticket booked online
2019	Took over independent train-operations with introduction of 2 Tejas trains
2019	Prices for both 'Onboard catering' and 'Static catering' revised up by ~50-60%
2020	Launched first Overnight train in Mar'20 – pilgrim themed (Mahakal Express)
2020	Train operations were stopped on 22 nd March and is resuming in phase manner starting May'20 (15 trains), other than Shramik trains to facilitate travel for migrant laborers
2021	About 230 trains are operational, Tejas operations resumed effective Mid-Feb, Select Rail-based tours have started in Dec

Source: DART, Company

Exhibit 2: Board Composition and Key Management Personnel

Board of Directors*	Designation
Rajni Hasija	Chairman & MD, Director (Tourism & Marketing)
Ajit Kumar	Director (Finance)
Neeraj Sharma	Government Director
Vinay Srivastava	Government Director
Sarita Deshpande	Independent Director
Key Management Personnel	
Dr. Parag Agrawal	Chief Vigilance Officer
Ajai Srivastava	GGM Finance
Suman Kalra	Company Secretary

Source: DART, Company, AR, *Director of Catering Services Position is Currently Vacant

COVID: Emerging from Trough

Given the fact that IRCTC is a clear victim of COVID led restrictions during FY21, which we are sure would see sharp recovery as fear/restrictions eases off. There is clearly no dearth of demand for its business segment, given its monopolistic situation and very sticky demand. Thus, in the segment we are covering status of various business segment during Pandemic, which we believe normalize hereon over next 4-5 quarters, with FY23E being the first full year with no pandemic impact.

Catering Segment - COVID impact: Currently IR has mandated to serve Ready-to-cook food in the train instead of Prepared food to ensure better hygiene and safety. As a result, the company has issued fresh tenders to procure these food items wherein the like-for-like basis the Licence fees are about ~33% of original run rate given lower volumes and also due to lower margins in RTC products. Also, IRCTC has given complete exemptions towards Licence Fees to all its vendors for the period of non-operations which is termed as Zero period as Force Majeure got invoked. As a result, company's operation continues to run into losses although good part is that loses are coming down sustainably. As of now it is operating about ~35% of all Catering units but are charged lower fees to compensate for lower footfalls on stations (only passengers are allowed on stations) and lower train frequency/occupancy.

Ticketing Segment - COVID impact: Segment got initially impacted adversely due to complete halt of train-operations in March'20, which has scaled gradually to ~460 trains now (just about 35% of the capacity). However, Pandemic came as blessing in disguise for this segment due to 1) accelerated adoption to online ticketing from 73% to 90%+ during Pandemic, which is expected to sustain and 2) Conversion of several coaches on Mail/Express train from unreserved to reserved (2S) category thus bringing these tickets into ambit of IRCTC.

Rail Neer Segment – COVID impact: RailNeer segment was deeply impacted due to significant delay in new plant roll-outs and also from significant drop in demand as much lesser trains are operating at the moment (20% utilization). However, we are hopeful of significant recovery in this segment starting FY22E.

Tourism Segment – COVID Impact: This was impacted the most as many train-tourism schedules were cancelled and completely refunded back in Q4FY20/Q1FY21. The segment has seen impact in volumes across train-tourism segment and also in Train operation segment (Tejas train were started in Oct'20 but were cancelled due to weaker demand). In Q4FY21 – company has witnessed sharp recovery in demand for both Tourism-train (Packages on 10 odd tours got sold out immediately) and Tejas restarted operations in Feb'21 and initial response suggest it will achieve breakeven. Company also plan to start its maiden trip for Golden Chariot in March'21.

Story Across Business Segments

Catering Service (46% of the revenue and 17% of EBIT as of FY20)

The objectives behind setting up of IRCTC was to commercialize and corporatize Railways' Catering and Tourism related activities in 2002-03. But this exclusive activity was taken away in 2010 and was restored with the issuance of Catering Policy 2017. Under this policy, IRCTC has exclusive rights to offer pantry services in all Indian Rails (about 460 trains) and also static catering (major units on all A and A1 stations). It currently operates over 550 centers across various formats, such as, Jan Ahaars (56), refreshment rooms (169), cell kitchens (24), base kitchens (17), food plazas (138), and fast food units (155). IRCTC has also initiated the eCatering business, wherein it allows passengers to book meals on its Food-on-track app on the listed restaurants and get the food delivered on his seat (IRCTC charges 12% of the bill amount as its fees for this service to the listed restaurants).

Game changer - Catering Policy 2017: The company reported super-normal growth of about 29% over FY15-19 in this segment, as it benefited from the Catering Policy 2017, which directed that all pantry service contracts by the Zonal Railways be exclusively awarded to IRCTC. As part of this agreement, IRCTC and MoR share the license fees in a 60:40 ratios. In this segment it does engage itself with only select few kitchens such as Delhi/Howrah that are managed (Departmentally) as a back-up mechanism but administrate all the contracts with third-party vendors. The primary job for IRCTC is to ensure that the affordable pricing and high-quality is adhered by third-party players. It allows its passengers to view live operations ([click here](#)) in all its kitchens as an effort to bring transparency and boost customer confidence.

Exhibit 3: Catering Policy 2017 - Key changes and authorization

Particulars	IRCTC authorized to operate	Earlier
Mobile units #	All 360 trains - serviced through kitchens owned, operated and managed by IRCTC. To be supervised by company-employed executive on all mobile unit.	Managed by Zonal Railways (ZR)
Stations covered	A and A1 (total ~600 stations – T/O above Rs8cr)	None
Base kitchens	16 existing kitchens in Railway premises. Land leased from IR for 10+5 years on token License fee. Refurbishment of existing base kitchens and Development of 10 new mechanized & sophisticated kitchens to be done by IRCTC.	Earlier 115 base kitchens were located outside the railway premises and was servicing about 128 trains on 7 Zonal railways
Unbundling of Catering	Catering and Distribution responsibility separated to ensure quality control.	Non-existent and thus quality was compromised
Third-party units	Status Quo – still remains with IRCTC	Responsible for management of Food Plazas/Court, Fast Food units.
Renewal period	Static units – 5 years; Food plaza – 9 years	Perpetual contracts were allowed
Train side vending	232 mail/express trains had sectional TSV.	
More units (A and A1 stations)	Refreshment rooms and Jan Ahaars mandated	Zonal
Exclusions - Stations	Status Quo – still out of ambit of IRCTC	Units in B & below category. Automatic vending machines, milk stalls and trolleys to remain with ZR
Tariffs of Static Catering units	Fixed by IRCTC in consultation with Zonal Railways	
Tariffs of Mobile units	Status Quo	To be fixed by IR
License fees	Status Quo	12% of Turnover fixed plus additional fees – as devised by each ZR
Fee sharing – IRCTC:IR	60:40 in case outsourced and 85:15 in case departmentally managed.	All with ZR

Source: DART, Catering Policy 2017, Company, # Mobile unit takeover completed on 30.11.2017

Business Model

The business has mainly two revenue model: **1) Revenue from onboarding** in Prepaid trains such as Rajdhani/Shatabadi/Duronto (also election special trains – did Rs300mn in FY19) wherein the charges are collected for food with fare and wherein company charges 12% fix fee on turnover as demand is certain (in this model – entire revenues are booked by IRCTC in P&L statement) and **2) Revenue from License fees** – IRCTC collects License fees from contractors that operate pantry in mobile units (sold on-demand basis in train), static units on stations and also from Food plaza, wherein its primary cost in is administrative cost and share of IR to the tune of 40% (Exhibit 4). Typically, Minimum License fees (MLF) is pegged at 12% of estimated annual sales - based on the factors like (i) category of stations, (ii) type of license, (iii) number of originating passengers, (iv) number of trains stopping (day and night), (v) duration of stoppages and (vi) location of the unit at the station etc. (in this model – only license fees are booked as revenues and share of IR is booked as cost and thus is highly profitable segment).

Exhibit 4: Revenue model in various catering sub-segments

Catering business	Segments	Units	Pricing model
Onboard catering on train			
Prepaid Trains	Rajdhani, Shatabdi, Duronto express	70	12% of rev + Lic fees
Postpaid Trains	Mail express with Pantry car	347	License fees
Static Catering			
Jan Ahaar, Refreshment, Kitchens	Menu/Pricing is governed by IRCTC	249	License fees
Food Plaza/Fast food units	Pricing/Menu is flexible; Capex incurred by Licensee	293	License fees
E-Catering (stations)	Online delivery of food from listed Restaurants	358	12% of order value
Train Side vending*	License to sell food on trains without pantry between fix stations/or on fix routes	205*	License fees

Source: DART, Company, Catering Policy 2017, * TSV tenders currently sanctioned on per-train basis as only RTE food getting served

Plans and growth triggers: The company is adding about 100 more food plazas and FFUs (Fast Food Unit), and thus should be able to sustain strong growth in the segment. During Q3FY20, the prices were increased for both Static and onboard catering segment by about 60% both in the onboard (announced on 14th Nov 2019, to be implemented from 15th April 2020 {earlier date was 29th March 2020} as initial gap of 4 months for advanced booked and later 3-week impact due to lockdown – Exhibit 5, 6) as well as static catering segment (effective date 12th Dec 2019) during FY20, which in turn would boost pricing for the License fees on contracts with vendors over the next few quarters as the assessment for the new revenue potential will be evaluated.

Also, MoR has mandated IRCTC to redesign existing pantry cars with modern equipment for ease of cooking and improvement in the standard of hygiene. In lieu of this investment, post modernization exercise, the license sharing will shift in favor of IRCTC in the ratio of 85:15 (currently at 60:40). IRCTC plans to expand its kitchen base with 15-20 greenfield base kitchens to be set up along with conversion of some Jan Ahaar outlets on stations into base kitchens.

Exhibit 5: Pricing revision for onboard catering (Initial planned Effective date 29th March 20)

Catering charges w/o service tax	Earlier (Rs)	Revised Charges (Rs)	Increase (%)
1A/EC - Rajdhani/ Shatabdi/Duronto			
Morning Tea	12.5	29.96	139.7
Breakfast	81.5	133.14	63.4
Lunch/Dinner	129.5	230.78	78.2
Evening Tea	66.5	133.14	100.2
2AC/3AC/CC Rajdhani/ Duronto/ Shatabdi			
Morning Tea	8.0	15.53	94.1
Breakfast	66.5	97.64	46.8
Lunch/Dinner	112.0	175.30	56.5
Evening Tea	40.0	85.43	113.6
SL (Duronto Trains)			
Morning Tea	6.5	12.2	87.7
Breakfast	34.0	57.69	69.7
Lunch/Dinner	71.0	113.17	59.4
Evening Tea	18.0	45.49	152.7

Source: DART, Company; Note: Details of menu available on this link: <http://menurates.irctc.co.in/>

Exhibit 6: Static Catering - price change (%) – (actual effective date Dec19)

Particulars	Revised Tariff	Increase (%)
Breakfast (Veg)	Rs 35	40%
Breakfast (Non Veg)	Rs 45	50%
Standard Meal (Veg)	Rs 70	75%
Standard Meal (Non Veg)	Rs 80	78%

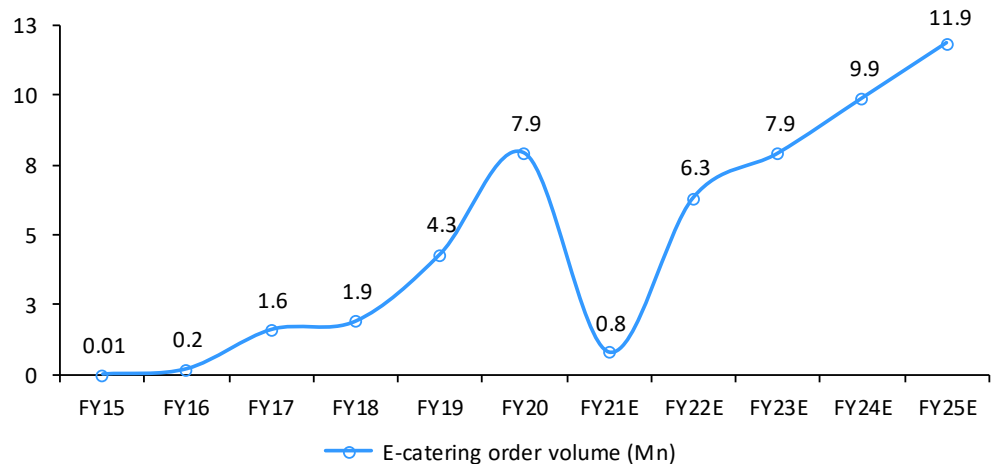
Source: DART, Company

Catering Segment to return to normalized growth (11%+ over FY20-25E) as it would benefit from these structural factors:

- 1) **Increase in pricing:** Impact of change in pricing will result in increase in License Fees as a function of consequent increase in Turnover for the vendor, because higher prices may also impact the volumes downwards. In case of Static units, the pricing revision may have approximate increase of about 30-40% on its annual sales that is coming from food (as about 40% sales are from other items such as packaged items and water). Cost increases would be towards increased quality/gram-age also. Although the revision may happen as contracts come for renewal within 12 months, the price changes would benefit IRCTC on retrospectively. (Note: Prices for onboarding was last revised on 06/08/2014 for RSD trains, and for Mail/express 21/12/2012).
- 2) **Increase in Units:** Food units or Food Plazas - undergoing addition of about 50 units over FY21-22E (announced). Also introduction of new trains with pantry car will also add up to catering potential (Exhibit 8).
- 3) **Increase in demand** by passenger for food served in trains as the quality improves, given the improved price-points, commensurately. As per the estimates, about 20% of the passengers typically buy food in train and on an average spends about Rs100 per person.
- 4) **E-Catering business can go real big** as the passenger base is on Indian railways is huge (Exhibit 7). Volumes would increase as more restaurant chains enroll on the portal/app and the facility is extended to more and more stations (Overall IR serves to 2.2mn passengers daily over its 8500 stations).

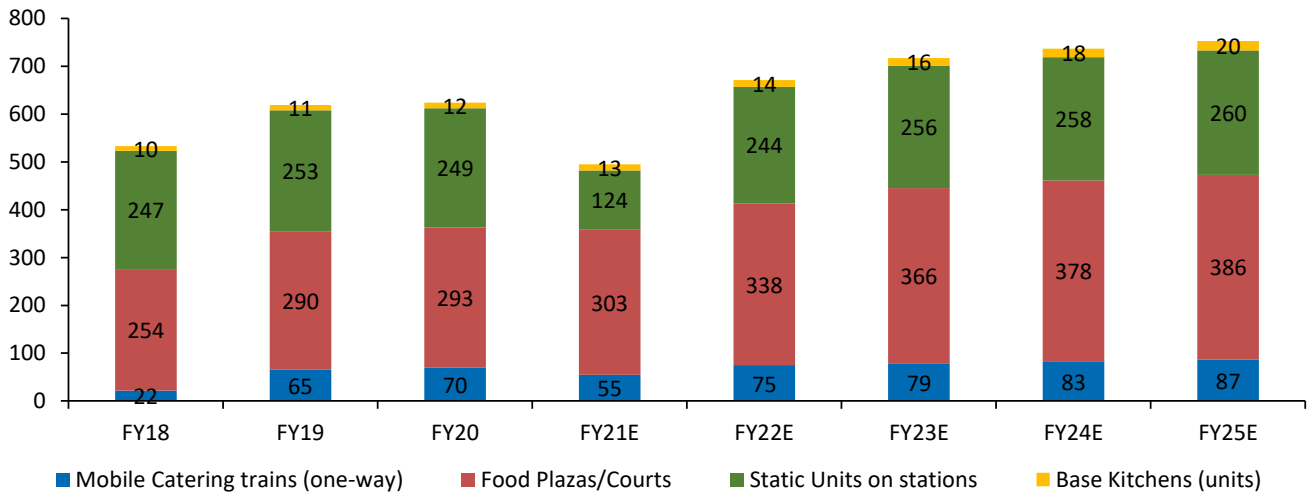
- 5) **Executive Lounges and Retiring Rooms:** IRCTC operates executive lounges (total count to increase by 3 units from 8 in FY19) as well as retiring rooms (does online booking across 537 stations) on railway stations to provide usage/hour basis services for the passenger.
- 6) **Pantry modernization:** IRCTC is also working on creating new design for pantry car for onboard catering. It also would equip these new pantries with modern kitchen equipment namely, tilting boiling kettle, tilting braising pan, vegetable processor & chapatti making machine. Post modernisation the revenue share will move from 60:40 to 85:15 in favour in IRCTC. The capex to be incurred on this modernisation will get normalised by higher revenue share. The first design is expected to get approved by Q4FY20.
- 7) **Train-side-vending:** This is the latest avenues that is untapped and can add significant License revenues for IRCTC as it plans to initiate over ~300 such Licenses across several sections to cover 1400 odd trains without pantry. 40 odd contracts were awarded in Q4FY20 and was expected to reach count of 100 by FY21. However, during the COVID period this is now being allocated on per-train basis to 205 train routes on end-to-end services basis. This model can prevail post-pandemic as well as collections are better in this format. At present only Ready-To-Eat food is allowed to serve on train that are stocked at station of origin and served throughout the journey. Once things normalize IRCTC may go back to 'section-based' Train Side Vending contracting.
- 8) **Penetration into new station categories (Potential opportunity):** Currently looking at only large units and is present mostly on Grade A/A1 stations, which can be extended to more stations as well. Static units' increase will be limited as it is focusing only on stations that have potential revenues have at least fees of Rs0.5mn per annum.

Exhibit 7: Ordering Volume to increase gradually in e-catering segment



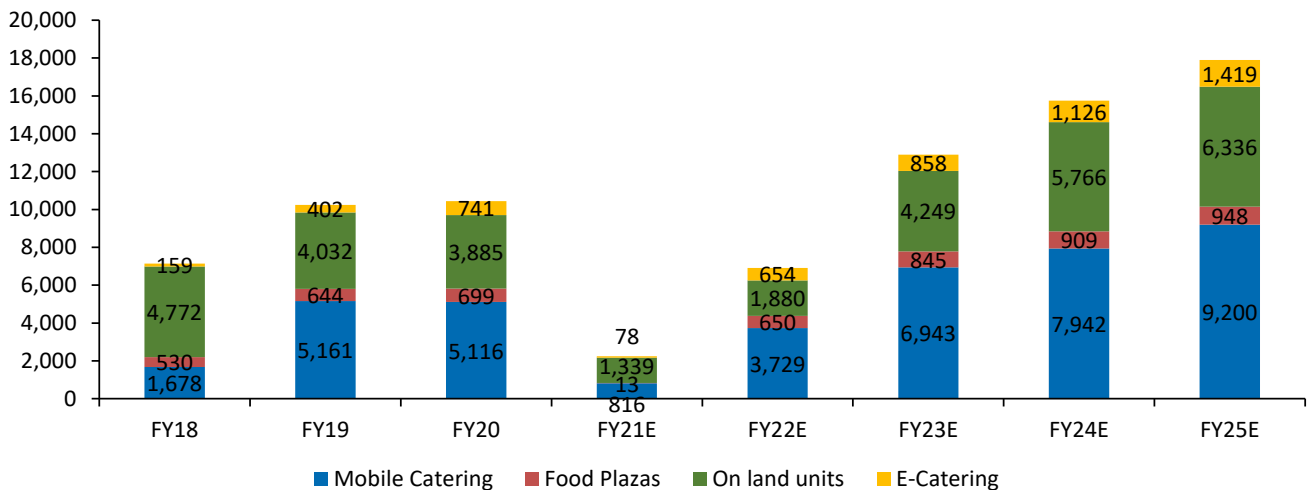
Source: DART, Company

Exhibit 8: Catering Unit count across Sub-Segments (number of units)



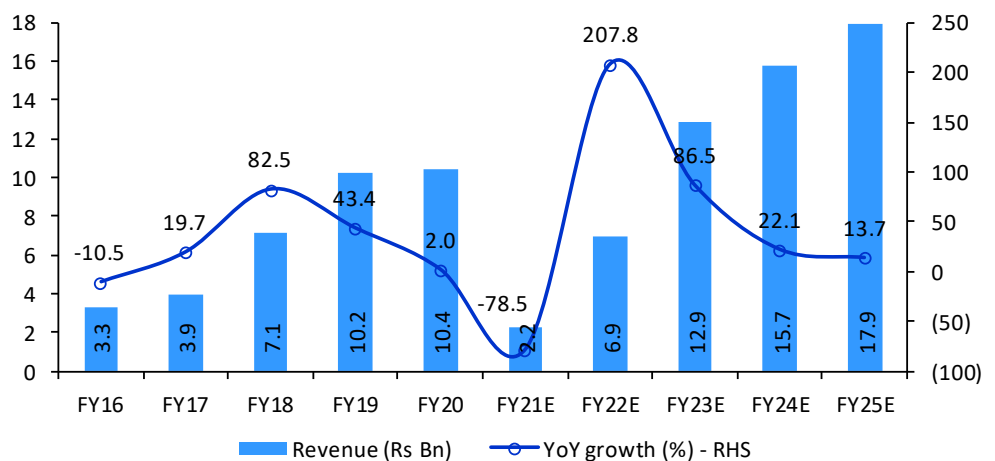
Source: DART, Company

Exhibit 9: Catering Revenue (Rs. mn) by sub-segments



Source: DART, Company

Exhibit 10: Catering Revenue (Rs. bn) continue to grow strong

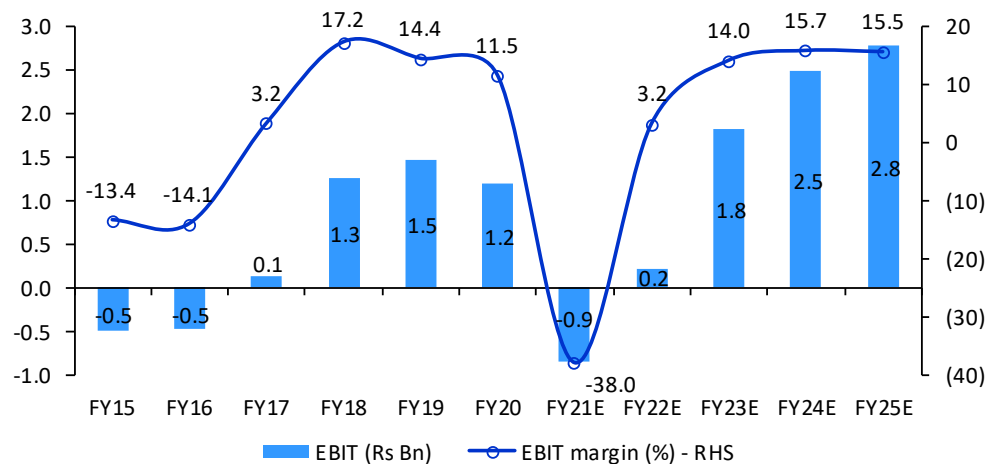


Source: DART, Company

Profitability to improve

We expect IRCTC's Catering business profitability to improve hereon because of increased mix in favor of static units compared to pre-paid on-boarding units. In case of on-boarding for pre-paid trains such as Rajdhani/Shatabdi/Duronto, reported profitability is less as the price of food in prepaid trains are booked in revenues of IRCTC but in case of Static units, the company only books the license revenues and just its fee-sharing with Railways (40% of revenues) is the only major cost for them. We expect the profitability to improve to 15% of revenues as component of license fees will increase, benefits of new pricing are availed and post modernization of pantry, which once adopted would imply higher revenue share for IRCTC (85% versus 60%).

Exhibit 11: E-Catering EBIT to improve



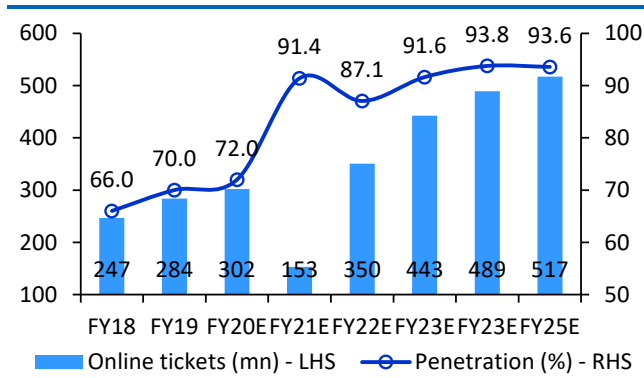
Source: DART, Company

Internet ticketing – The Cash Cow (27% of revenue and 71% of EBIT as of FY20)

Rail ticketing: IRCTC operates the busiest web-portal in Asia, www.irctc.co.in, with an average daily logins of 7.2mn per day. The portal issued about 73% in FY20 (currently over 90%) of all rail tickets booked in India, with a peak transaction of 24,000 tickets per minute achieved in June 2019. (nearly 20% of the total e-ticketing booked are through Agents, rest by individuals – which is highest penetration across any other categories on digital payment). On an average it books about 830k tickets per day, with a transactional value of about Rs.1bn (e-ticketing transactions have grown at 11.6% CAGR over FY15-19). The company in this segment charges a flat rate convenience fee as Service Charge (SC) to the customer per ticket (not per passenger – max 6 travelers on one ticket). However, this segment saw a decline in revenues in the past two years, as the Government temporarily removed the Service Charges to passengers in November 2016 to boost digital initiatives post demonetisation and in-lieu paid a fixed amount of Rs 800mn/Rs 880mn in FY18/19, respectively, to cover-up for the cost incurred (Note - In FY17, the revenue from convenience fee earned on tickets was Rs 3.6bn). However, now the convenience fee has been restored, effective from Sep 1st, 2019, and will be levied at the rate of Rs.15/Rs.30 for non-a/c and a/c class, respectively, (Rs.10/Rs.20 if payment is made through UPI/BHIM – this mode accounts nearly 23% of all transactions). Also, now there will be no sharing of fees with the Indian Railways (earlier it was 50%).

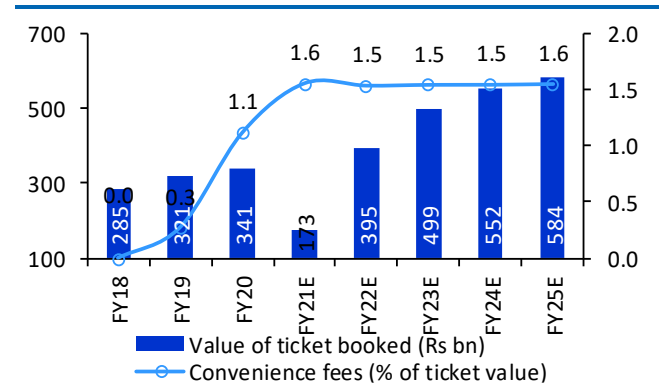
Portal revenues: Apart from the convenience fees the company also earns another Rs2bn+ from Rail Travel Service Agents (RTSA) & IATA fees, advertisements and license fees from other partners that source ticket sales from their website/App (Authorized agent accounted for 20% of all tickets booked online). The company has other promising opportunity to monetize large consumer traffic on its portal through Advertisement (on portal, on emails, SMS based target marketing – per impression IRCTC charges Rs0.1 and Rs0.5 per captcha login – refer exhibit 14), Payment Gateway Charges (launched its Payment gateway – iPay; also will charge a small share in the PG charges by other banks on its portal – collectively earned ~Rs 220mn in FY20 as against Rs25mn in FY19; Rs5 per transactions) and Financial Charges (iMudra – cobranded credit card with SBI and Federal Bank). Based on its large customer base of ~66mn registered users, that do transactions of about Rs350bn (total ticket value transacted in IRCTC) on its platform, we believe that the company has a very large potential to earn revenues from Advertisement and other allied portal revenues.

Exhibit 12: E-Ticket Booking and Penetration



Source: DART, Company

Exhibit 13: Ticket Value Collected & Convenience Fee as a % of Transaction Value



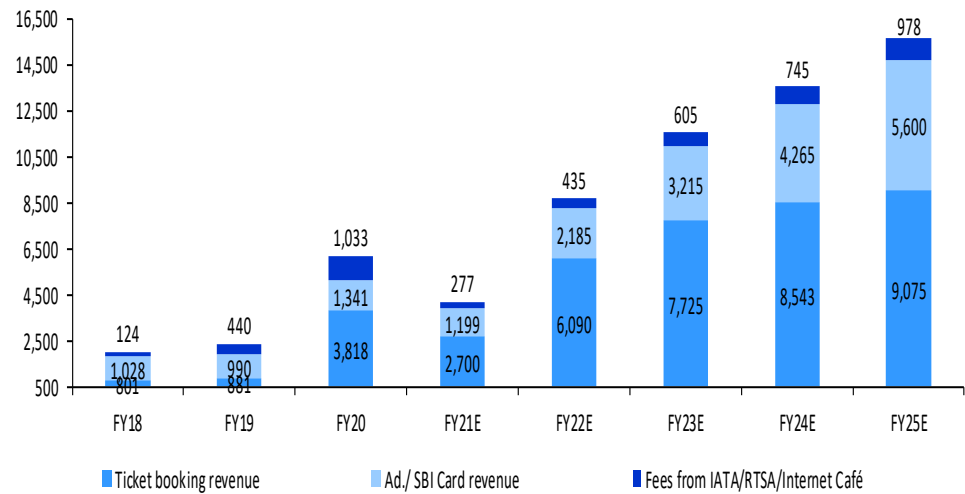
Source: DART, Company

Exhibit 14: Advertising opportunities with IRCTC

Advertising Medium	Target medium and Audience
Banner/Video	Using Google Ad Manager for Banner and video advertisement on various ad slots available on IRCTC website & Mobile app.
Promotional Mailers	Can advertise products by sending the promotional mailers through IRCTC domain to its registered, transacting and non-transacting users.
Promotional SMS	IRCTC can connect its larger audience to various companies by sending promotional SMS on their phones (maximum of 160 characters per SMS).
Ticket booking and cancellation mailers	Displaying Advertisement Text Links to about 0.8mn daily Ticket Confirmation/Cancellation emails sent through ticketadmin@irctc.co.in
ERS issued to customer	The banner space of size 970x90 are available on ticket confirmation ERS (Electronic Reservation Slip) to target very exclusive set of IRCTC customers.
Push Notifications on Mobile App & Website	The ad can be given in image file of 360x240 & an icon file of 100x100 along with landing a page URL.
IRCTC 139 Jingles platform	Can book half hour slots on daily, weekly or monthly basis.

Source: DART, Company

Exhibit 15: Sub Segments of Ticketing Revenue (Rs. mn)



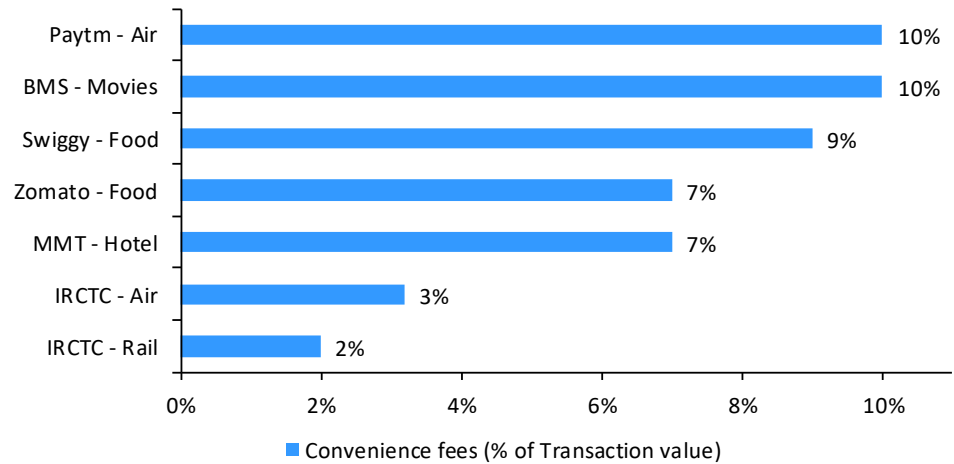
Source: DART, Company

Prospects are promising: The Pandemic has acted as boon for this segment (ofcourse not counting impact for FY21) as adoption of online ticketing accelerated during COVID period as Government stopped ticket-sale from station-window during lockdown. As a result, online ticketing share went to 100% in May-Sep period and then gradually came down to ~90% odd. This adoption itself would drive the revenue growth of about 25% to ticketing revenue from its peak revenue run rate in Q3FY20 (Rs2.2bn). In another event, Govt initiated process of converting several unreserved coaches into reserved class (2S – seating) across trains and as a result has increased the potential ticketing market by up to 30-40% based on current capacity base.

The segment, even on normalized basis is likely to grow by 4-5% per annum led by new train additions (150 new routes proposed for private operators), passenger growth (Post completion of DFC many more trains will be launched) and shift towards online booking over counter based booking. Online shift is further accentuated by Apps such as Paytm, MMT that adds up additional revenues for IRCTC as they charge convenience fees plus additional revenue share on fees charged by these OTT apps (IRCTC gets its fix convenience fee + on top of it charges about Rs12 per ticket to OTT partner). **More importantly most of this revenue growth will translate into profits as there is very little marginal cost in this business.**

Next trigger here could come from the increase in convenience fees sometime in future (at least per passenger instead of per ticket (PNR) today – can increase the collection by 1.7x) as current fees is under 2% of the transaction value as compared for about ~7%-10% on rival segments on e-ticketing for Air / Accommodation / Movies / Food delivery (Exhibit 16). The potential on advertising/payment gateways is also largely untapped and can be scaled up meaningfully, given its 31mn subscriber on its Mobile App (about 0.28mn tickets are booked per day on its Mobile App as of FY19; FY18 was 0.13mn) and IRCTC portal traffic of about 7.2mn logins per day (about 0.54mn tickets are booked on the irctc.com daily). Optional Travel Insurance facility on Payment of premium has started in Sep'18. Prior to this insurance was free to Rail Passengers. During FY19, about 350mn passengers availed travel insurance facility. At present IRCTC is just charging integration charges but no share in 'Insurance Premium'. The segment thus should see significant revival in revenue over FY20-25E – we expect revenue CAGR of about 20% to reach Rs15.6bn in FY25E.

Exhibit 16: Convenience Fees rate is cheaper compared to other categories

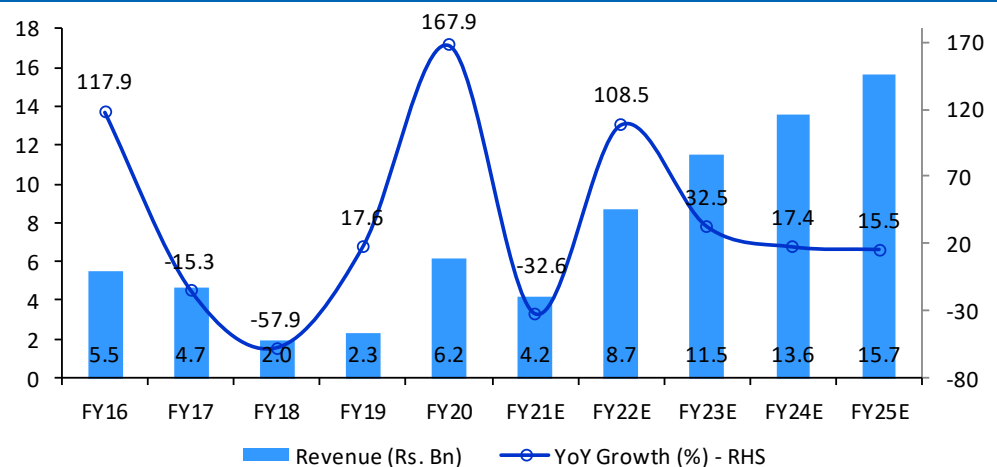


Source: Company, DART. Note: Convenience Rate are approx. as in many cases they are dynamic

Profitability: The business operates at over ~80% segmental margins with just small staff cost involved in this segment. This business has very low operating cost (about Rs1bn to Rs1.2bn annually) and just need regular investments on infrastructure maintenance and upgrade. Thus, the increased revenue share of this business with very high profitability would lift up overall profitability and return ratios for IRCTC.

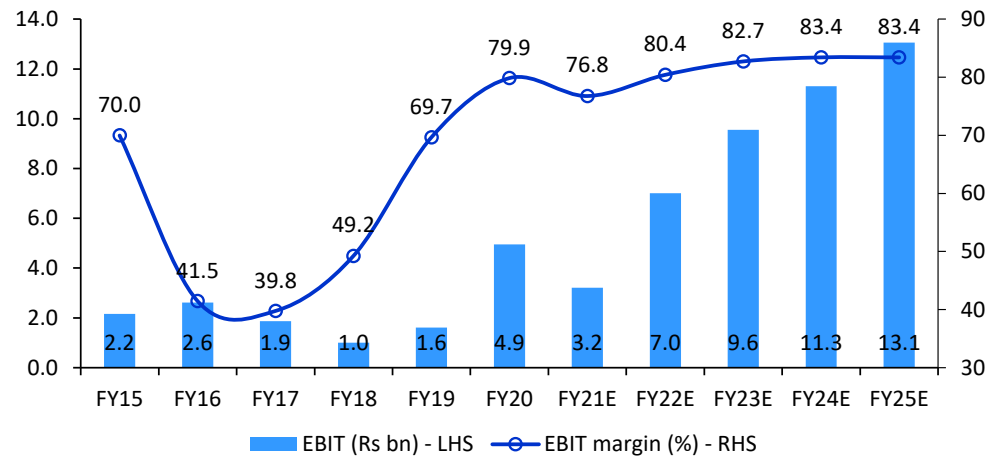
Capital investments: Given the huge transactional volume the company needs consistent investments in IT hardware, server space and so on. The total requirement is about Rs2.5-3bn of Capital Expenditure every 5 years – the next overhaul to start in FY22E and the spends may spread out over next two years. Apart from this investment it is also involves Working Capital requirement of about Rs 5bn as it buy tickets in advance for Indian Railways and sell the same to travelers. Thus, the company needs to fund the transaction for 2-5 days depending upon the duration for which the money is moving through the banking channel (typically 2 days but on account of holidays can go up to 5 days at max). The working capital cycle is very small in terms of days but the investment happens on the entire transaction value although what it books as revenues are just about ~1.5% charge as convenience fees.

Exhibit 17: Ticketing Revenue to grow consistently over next couple of years



Source: DART, Company

Exhibit 18: Ticketing EBIT Margin has potential to expand as scale improves



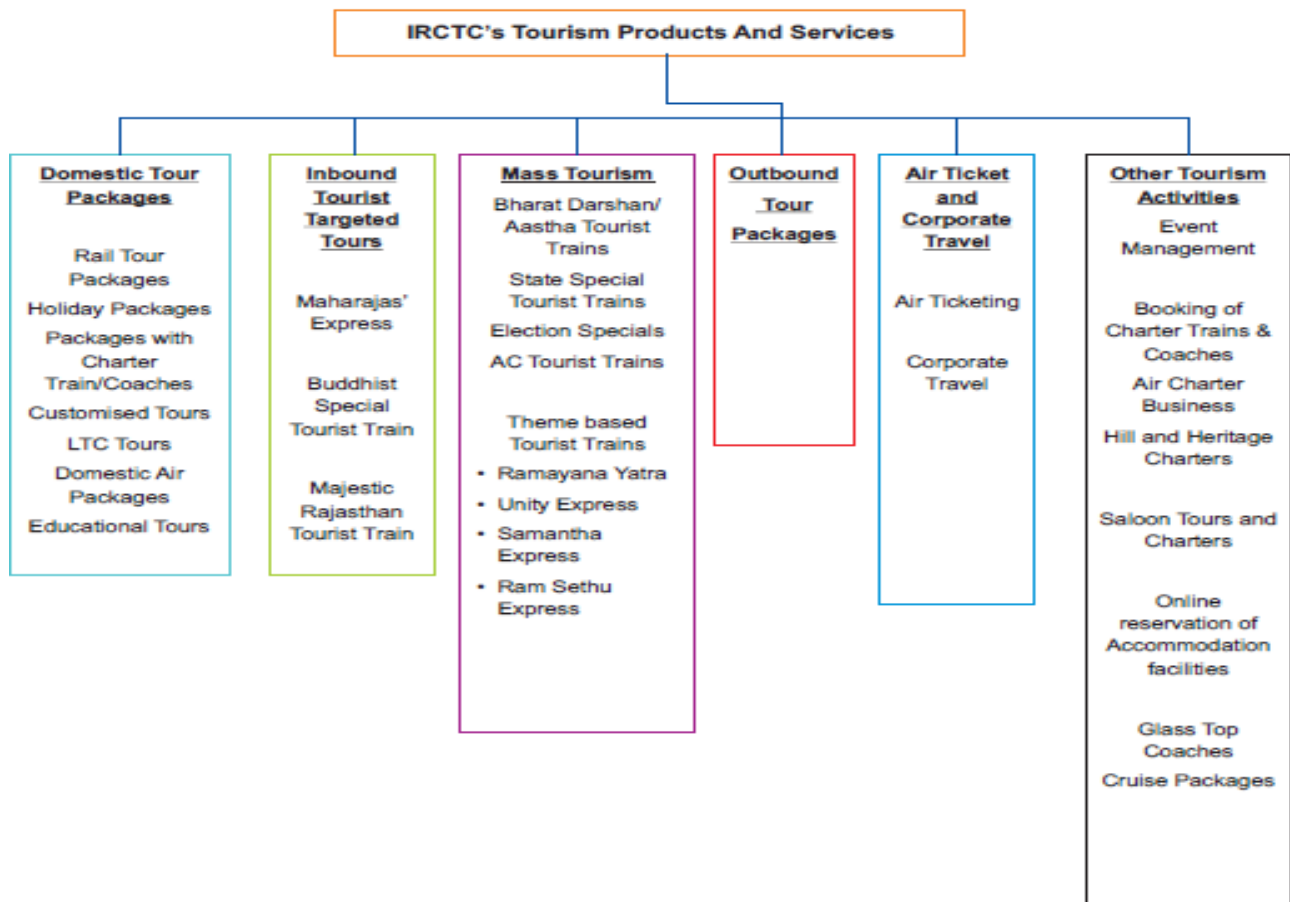
Source: DART, Company

Travel and Tourism service (17% of the revenue and 3% of EBIT as of FY20)

With its online portal www.irctctourism.com, company provides online travel solutions to its customers. Given that IRCTC is the most transacted portal in Asia (monthly transactions average is about 25mn), it is leveraging its large registered active user base of 53mn to cross-sell various travel-related activities, such as hotels/air travel/tour packages/executive lounges/railway retiring rooms, on its website (Exhibit 19). IRCTC offers packages ranging from Rs 900 per day to USD 900 per day. The Travel and Tourism revenue have grown at modest rate of 1.5% CAGR over FY15-20 at Rs3.9bn. The revenue growth has been modest as some of the segment such as revenues from State Special Trains are volatile by nature. However, it is pertinent to highlight that these trips are completely funded by State Government and is highly discretionary – revenues in State Teertha was down 51% in FY20 at Rs0.9bn – 24% of Tourism revenues.

The profitability in this business is difficult to generalize as the mix of revenues are pretty diverse but in general is dependent on traction in the State-Teertha business which is on improving curve after MP and Delhi State Government many more States are planning to spend on tourist train to boost domestic tourism – pilgrim and LTA based tours. Going forward – train operations of Tejas and other private trains (launched 3rd train that ply between three destinations with pilgrim importance) will be key factor that would be determinant in this.

Exhibit 19: Different type of tourism products and services



Source: Company, DART

Categories of operations: The Tourism segments for IRCTC can be broadly classified into six key segments (refer Exhibit 20):

- 1) Luxury Trains (Maharaja/Buddhist Circuit/Majestic/Golden Chariot);
- 2) Private Passenger Express Trains Operations (3 routes);
- 3) Mass theme based tourism includes State Special trains (Theme trains - Ramayana Express, Statue of Unity, Bharat Darshan, Samanta Express, Pilgrimage Special Trains, Election Trains);
- 4) Air ticketing;
- 5) Tour Packages (Air – starts from 15 destinations, Rail – starts from 42 destinations, Inbound as well as Outbound);
- 6) Accommodation (Hotels - 600 odd– partnered aggregators such as Oga, Fab, HRANI; Operate 4 Budget Hotels).

Exhibit 20: Wide Tourism Portfolio of IRCTC

Tourism Business Segments	Brands/Categories	Units	Growth Factors
Luxury Trains	Maharaja, Majestic, Golden Chariot, Buddhist Circuit	4	Majestic Started in Sep'19, Golden Chariot was to start in Mar'20.
Private Trains	Tejas Express; Mahakal Express	3	Mumbai-Ahmedabad started in Jan'20; Indore-Varanasi to start in Feb'20
Mass Tourism	State Special Trains, Pilgrim Trains, Theme trains, Bharat Darshan, Samanta Express	Several	State Government allocating more on such projects
Tour Packages	Air/Rail/Cruise, Inbound/Outbound	Destinations: Air - 15; Rail - 42	Tourism growth in country, increased awareness of IRCTC brand
Accommodation	Budget Hotels/ Rail Yatri Niwas (owned), Hotels aggregators - Fab, Oga, HRANI	Budget Hotels - 4; Hotels - 600+	Expansion in listed units in Hotels - added HRANI members

Source: DART, Company

Luxury/General Train Tours: One of the biggest sub-segment is the special tourist train tours (all inclusive) that it operates under various programs, such as Maharaja Express (1149 tourist and revenues of about Rs538mn in FY20 with Rs80mn profits, break even at 55% utilization – operates during Oct-Apr season – 28 or 32 odd trips in four different packages). Other premium train-tour includes Buddhist Train (408 tourist), and during FY20, added new trains in this segment - Majestic launched in Sep'19 and Golden Chariot- took over loss making operations from KSTDC – initial plan was to operate starting March'20 but now is on hold due to lockdown. Itineraries and departure dates for the season FY2020-21 and FY2021-22 have already been announced and published on the official websites.

[IRCTC Tourist Portals](#)

[The-Maharajas.com](#)
[Goldenchariot.org](#)

[irctcbuddhisttrain.com](#)
[irctctourism.com](#)

[hotel.irctctourism.com](#)

[air.irctc.co.in](#)

[bus.irctc.co.in](#)

Private Trains operations: In a move of privatization of Train operations, Indian Railways allowed IRCTC to start operations of Time-table based trains on three different routes: 1) Tejas express in Delhi-Lucknow Route (AC Chair Car), 2) Tejas Express on Mumbai-Ahmedabad route (AC Chair Car) and 3) Kashi Mahakal Express (covering pilgrim belt between Varanasi- Indore).

As per initial run, the company expect the train operations to turn break-even on 70%+ utilization based on base fare (about Rs50mn/month of revenues per train) as it is expected to cover lease charges, haulage charges (operations, engine, driver, guard, track, signaling, fuel), 5 staff overall. IRCTC managed to achieve strong capacity utilization as well as premium pricing for both its route, in fact its operations for Mumbai-Ahmedabad turned profitable from first month of operations. The company follows four price slabs model as part of dynamic pricing (starts from 40% utilization onwards) and thus higher utilization drives profitability disproportionately.

Salient features include: 1) Of the ticket cost about 17% is catering cost – wherein IRCTC earns about 10% margins from the Licenced partner, 2) Haulage charges – fixed fee Rs15k/day and some variable component on per day per km basis, 3) Lease annual – ~Rs75mn (3 year done), 4) Full freedom on fixing fare pricing in the train using dynamic pricing like airlines, 5) Lucknow Delhi train achieved Revenues of Rs15cr in Q3FY20 at 65% occupancy and 6) Mumbai – Ahmedabad: did even better with 80%+ occupancy.

Exhibit 21: Private Train operations features

Particulars	Features
Fare	Dynamic
Food	Included in fare (about 17% of base fare)
Catering margins	~10% of food cost as licence fees
Lease charges	Rs75mn per annum
Haulage Charges	Fixed charge of Rs15k/day + variable charge on KM basis
Break-even utilisation	70%+ on base fare basis

Source: DART, Company

Mass tourism on Rail: IRCTC operates rail-based tours under Bharat Darshan brand wherein it offers reasonable price trip to its customers. In this segment it also operates special theme based trips (mostly pilgrim) and also routes as defined by State Government that sponsors such trips. MP State Govt has been promoting its tourism (did over Rs5-6bn worth of business with IRCTC) and has operated several state tours covering key destinations within state for tourists. Recently, Delhi Govt has been utilizing this facility by sponsoring 1000 tourist per constituency as part of its welfare program (charges about Rs10,000 per person). State Teerta is significant revenue contributor but has seen erratic pattern as this is completely discretionary and in trains used in this segment are not owned by IRCTC and thus are only leased based on demand. The cost here is the haulage charges based on utilization while maintenance is looked by Indian Railways.

Air-ticketing: Air-Ticketing is gaining traction (booking about ~5700 tickets per day in FY20, run rate at 5000 odd now in Q3) as it has the lowest convenience fees of flat ~Rs 50 + GST per passenger compared to ~Rs240 + GST. IRCTC is not only the most economical and lowest in the industry but also, only portal that offers travel insurance worth upto Rs 5mn at zero cost on flight tickets booked through its website. Although, the revenue base is insignificant currently, given the opportunity size, and user base, little increased awareness about this offering can increase the business potential meaningfully, and, thus, the segment is likely to experience an uptick in business momentum. Despite IRCTC offering the lowest convenience fee on air-ticket bookings, its market share is under 2% in this business. IRCTC provides complete travel solutions for various Ministries/ Government institutions/ PSUs/ Corporates, providing services ranging from air ticketing and hotel bookings to fulfilling Visa requirements for international travel and delivering FOREX services.

Tour packages: IRCTC operates various tour packages within India and abroad from 42 different cities in India. The unique packages are that are offered on Rails as this is generally less offered by third-party vendors as blocking tickets is not that convenient on Railways. The company typically charges about 10% fix mark-up margins on cost and sometimes even better if the bookings are direct and not through agents. The USP here is the LTA approved Rail Tour Packages that it operates with large variety on number of days, destinations and budget. In FY19 it has sold about ~75000 tour packages.

Accommodation: IRCTC has four properties (Budget Hotels and Yatri Niwas) that are leased out to private operators on revenue share model. In this segment the revenue model is based on fix return of 10% on capital employed and over that a % of revenue share. The company has in all four properties as of now – Delhi, Howrah, Puri and Ranchi. It is also planning up another property in Lucknow wherein CAPEX is about Rs280mn (Land Rs80mn and Building Rs200mn) on which it would earn fix 10% return and further share on turnover. Other than this ongoing project it also has shortlisted Kevadia (Statue of Unity) and Khajuraho as the next destinations for Budget hotel. The company also offer accommodations through hotel bookings on its portal wherein it charges fix 10% commission on transaction value per booking from its aggregator partners such as Oga, Fab, HRANI.

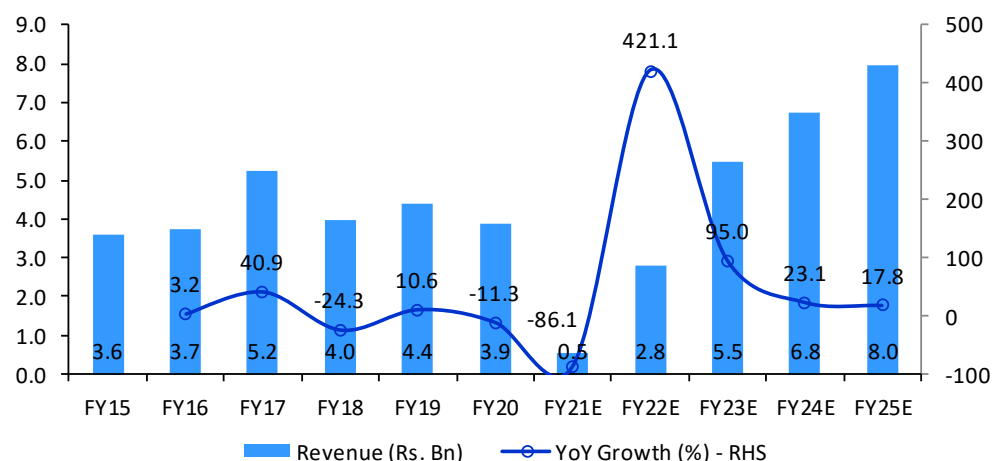
The key differentiation by IRCTC is that it would pay its hotel partner as soon as the consumer completes his stay as against typical 40-45 days' debtor cycles followed by other aggregators such as MMT, Yatra etc.

Bus Booking: In its bid to achieve status of 'One Stop Shop Travel Portal', IRCTC has recently announced the bus booking option (www.bus.irctc.co.in) on its portal which will enable it to do bus-booking for more than fleet strength of 50,000 buses under various state road transport as well as private operators. As per the company the online Bus booking penetration is just 5% and thus offer tremendous potential to scale up in coming years.

Tremendous scope to grow: We expect the revenues can go up multi-fold in this segment given the large opportunity in domestic tourism in India (multi bn\$ opportunity) and well-entrenched diverse offerings IRCTC has ventured into. We believe key triggers for growth here are 1) Launch of more private train operations; 2) huge cross-leverage of its Ticketing base customer for tour packages; 3) Increased demand for its unique Train-tour packages; 4) increased focus of State Govt toward tourism and 5) Increased foreign tourist arrivals that can boost demand in its Luxury Train Tour operations. We expect Tourism Segment Revenues to grow at CAGR of 15% over FY20-25E led by sustained traction in Tour packages, boost up in the Hotel catalogues and introduction of new luxury trains (starting maiden trip for Golden Chariot train in March'21).

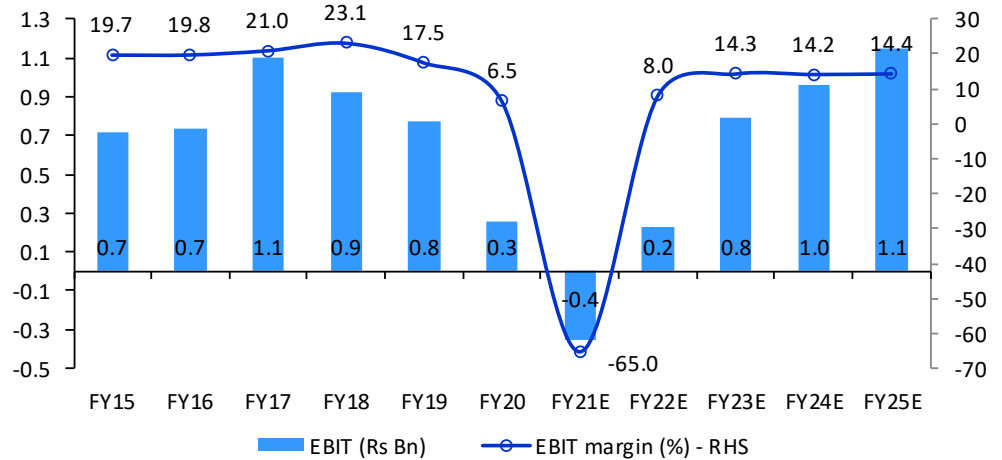
Profitability is likely to improve hereon: Growth in volumes of tour packages business along-with increased traction in the State Teertha sub-segment can cover up for some incremental cost pressure on new Luxury trains induction (Majestic – Sep'19, Golden Chariot – Mar'20) till they pick-up the desired utilization (Note: Maharaja Express turned breakeven in FY18 after 8 years of operations and is highly profitable business now – GM at 31%). We expect Segment profitability to average about 13-14% (incurring losses in current fiscal) over FY23-25E although can reach the run rate of 15% that it achieved in FY19 in case State Teertha revenues grows even faster.

Exhibit 22: Tourism Revenue have displayed strong signs of revival in Q3FY21



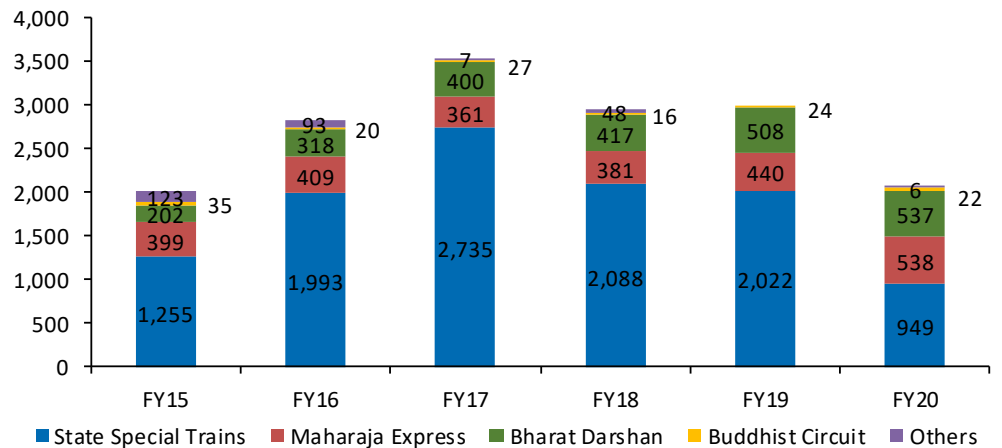
Source: DART, Company

Exhibit 23: Tourism profitability would normalize by FY23 as volumes scales up



Source: DART, Company

Exhibit 24: Total revenue from special trains (Rs mn)



Source: DRHP, Company, DART, Data Label on the right of the bar is of Buddhist Circuit

Packaged Drinking-Water (10% of revenue and 8% of operating profits):

Business: IRCTC has exclusive rights to sell packaged drinking water (PDW) in all Indian trains and railway stations. The company--under its brand 'Rail Neer'—has 14 operational plants across India and currently meets about ~60% of the total demand of bottled-water for Indian Railways, rest being serviced by other branded players as well as unorganized PDW players. Other players offer higher per bottle margins of about Rs7-8 to dealers compared for Rs 4.5 - Rs 5 in case of IRCTC because of higher price points charged by branded peers (Rs 20 per bottle, currently serves two-third of demand that is not met by Rail Neer, balance by unorganised) and lower quality process followed by unbranded players. Cumulative production capacity of the fourteen Rail Neer Plants is ~1.4mn bottles per day which is likely to be increased to 1.86mn bottles per day by FY22E by setting up seven more new plants (Refer exhibit 25,26,27). On completion of these plants the total capacity then would be equivalent to service approximately 85%+ of total requirements for Indian Railways.

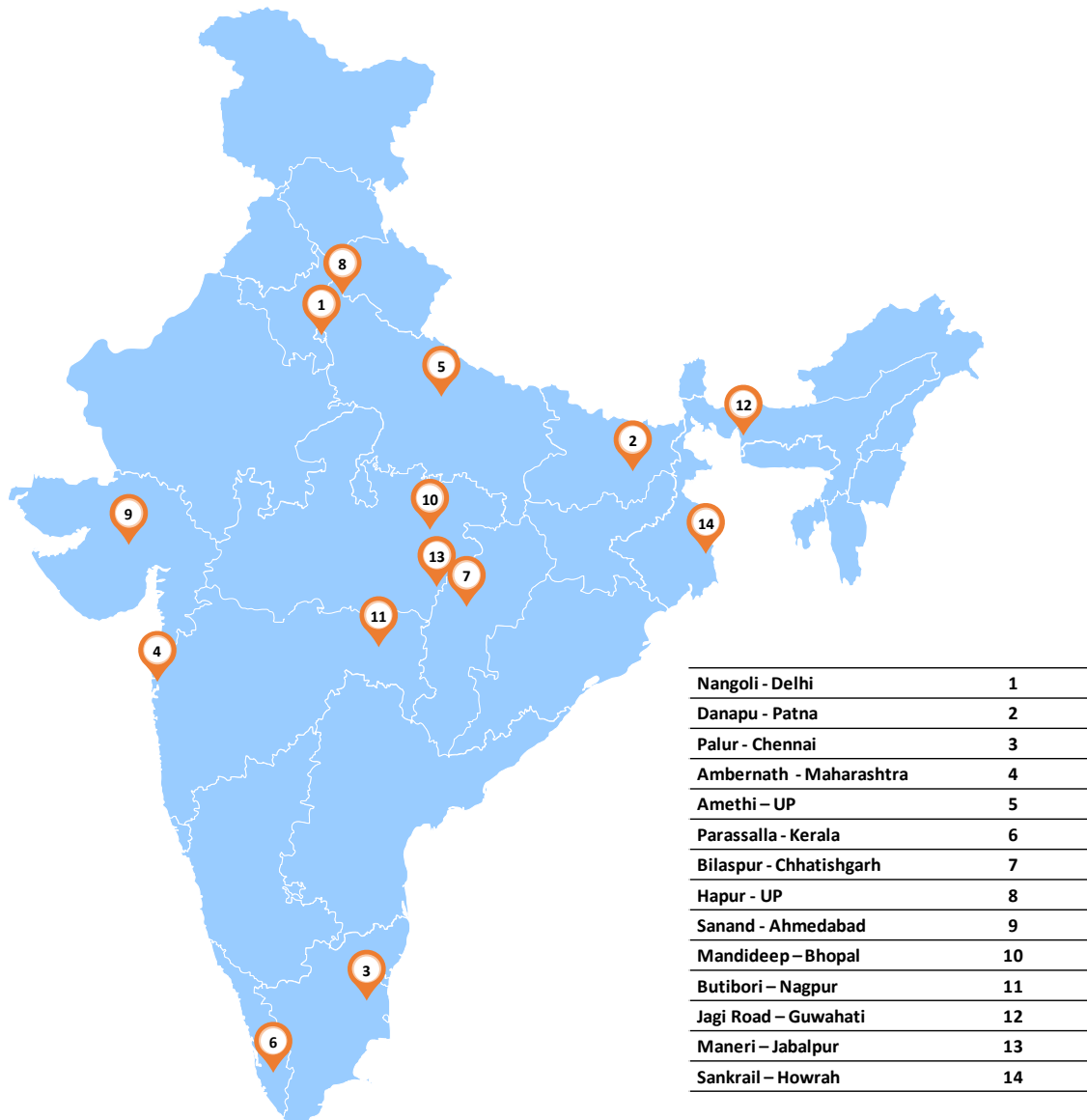
Operational model: Except for five initial plants that were developed by IRCTC, the company has incrementally adopted the PPP model wherein it ropes in a partner with expertise in PDW business who has to put in 20% of the Capex (CAPEX per plant is approx. Rs120mn excluding land cost towards Construction Rs30mn and Plant & machinery Rs90mn – standard plant capacity is 72000 bottles per day). IRCTC will bear 80% of the Capex approx. Rs 100mn-Rs130mn and typically earns about ~8% as fix returns on investment. On an average it earns about Rs400k per annum per plant as return on its investment in the Land of the plant from the operator. Apart from this, it actually reverse-tenders to identify partner that can supply finished product (PDW) at lowest price. Broadly, the company gets bottle produced at ~Rs6 (but accommodates the requests in case there is cost escalations) and sell it to its dealers for Rs 10/Rs 10.5 including GST and on an average earns about Rs1.3 margin per bottle for itself. IRCTC realized about Rs8 per bottle as revenues and incurs logistic cost from plant till stations/trains (standard lead distance in 250Km). The typical payback period for IRCTC is less than 4 years as new capacities get operated at 50-60% in Year 1, achieves 70-80% utilization in Year 2 and Full potential by Year 3.

Exhibit 25: Rail Neer - Location and Capacity

Sr. No	Region	City/State	Establishment	Production capacity (bottles/day)	Cumulative capacity (bottles/day)
1	Nangoli	Delhi	May-03	1,02,000	1,02,000
2	Danapur	Patna	Mar-04	1,02,000	2,04,000
3	Palur	Chennai	Jul-10	1,80,000	3,84,000
4	Ambernath	Maharashtra	Oct-14	2,00,000	5,84,000
5	Amethi	Uttar Pradesh	Mar-15	72,000	6,56,000
6	Parassalla	Kerala	Jun-15	72,000	7,28,000
7	Bilaspur	Chhatisgarh	Jun-17	72,000	8,00,000
8	Hapur	Uttar Pradesh	Q1FY20	1,00,000	9,00,000
9	Sanand	Ahmedabad	Q1FY20	72,000	9,72,000
10	Butibori	Nagpur	Q2FY20	72,000	10,44,000
11	Mandideep	Bhopal	Q3FY20	72,000	11,16,000
12	Jagi Road	Guwahati	Q3FY20	72,000	11,88,000
13	Maneri	Jabalpur	Q4FY20	72,000	12,60,000
14	Sankrail	Howrah	Q4FY20	1,00,000	13,60,000
Upcoming Capacity					
15	Bhusawal	Maharashtra	Q3FY21	72,000	14,32,000
16	Mehatpur Una	HP	Q3FY21	72,000	15,04,000
17	Vijaywada	AP	Q4FY21	72,000	15,76,000
18	Ranchi		H1FY22	72,000	16,48,000
19	Vishakhapatnam	Simhadri	H1FY22	72,000	17,20,000
20	Bhubaneshwar	Chattabar	H1FY22	72,000	17,92,000
21	Kota	Rajasthan	H1FY22	72,000	18,64,000

Source: DART, Company

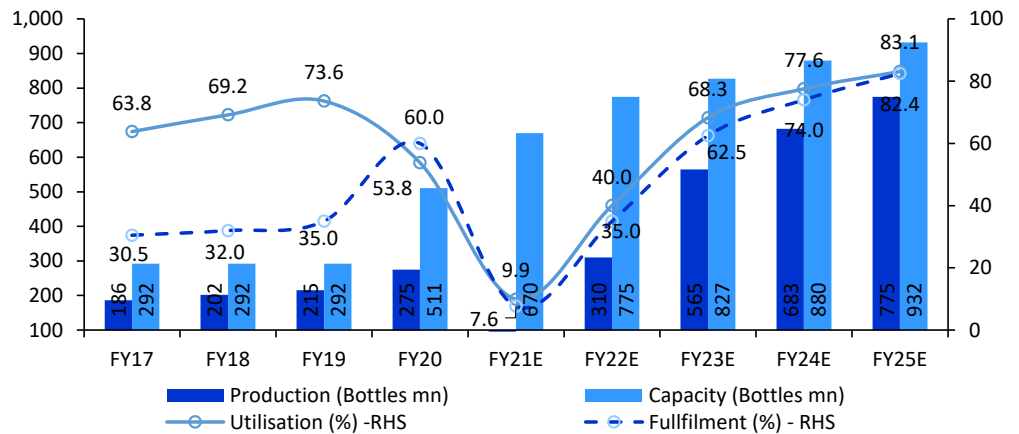
Exhibit 26: Rail Neer plants locations Pan India on Map



Source: DART, Company

Growth through capacity expansion: We expect the company would continue to add more plants till it achieves nearly 100% of the total demand as higher penetration would ensure safe and purest water quality at an attractive price point (retail price at Rs.15 per 1-litre bottle (Rs 10 for 500ml bottle) as against Rs.20+ for other companies in the market). The growth in the segment have been modest over FY15-19 at 10% CAGR as capacity additions were pretty soft. However, with addition of about 13+ plants between FY19-22E we expect revenues in the segment to accelerate with a CAGR of 20% over FY20-25E and reach scale of Rs6.2bn in FY25E. IRCTC has ongoing as well as upcoming CAPEX of about Rs500-Rs600mn (Rs100-120mn per plant) for the new capacity. Apart from the Rail Neer plants, IRCTC has also licensed about ~1926 Water vending machines (WVM) on railway stations to third-party players to offer affordable purified-water supply on over 685 stations (covers all A/A1 category and few B/C category stations as well). WVMs offer opportunity to travelers to refill their 1litre bottle for Rs 5 and thus ensures pure & affordable water.

Exhibit 27: Rail Neer: Production, Capacity, utilization and demand fulfillment

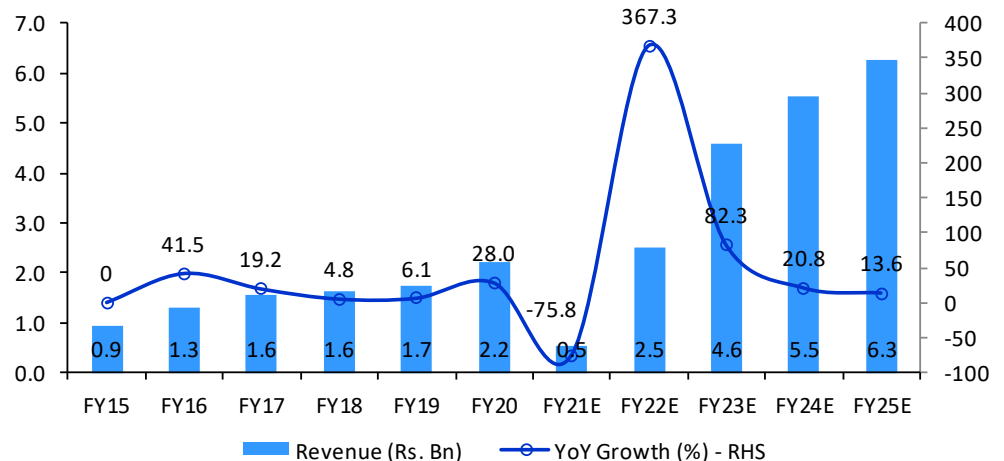


Source: DART, Company

Profitability to improve further: The company has achieved on an average operating profitability of about ~20% in this business segment over last 3 years. We expect that the profitability can increase furthermore as new plants would imply lower lead-distance for its current supplies (Exhibit: 26). Also, in general the OPM in the plants on PPP model (all new plants are on PPP model) is higher given better efficiencies and lower overheads. We expect IRCTC to achieve Segmental EBIT margins of 22% and clock CAGR of 25% over FY20-25E.

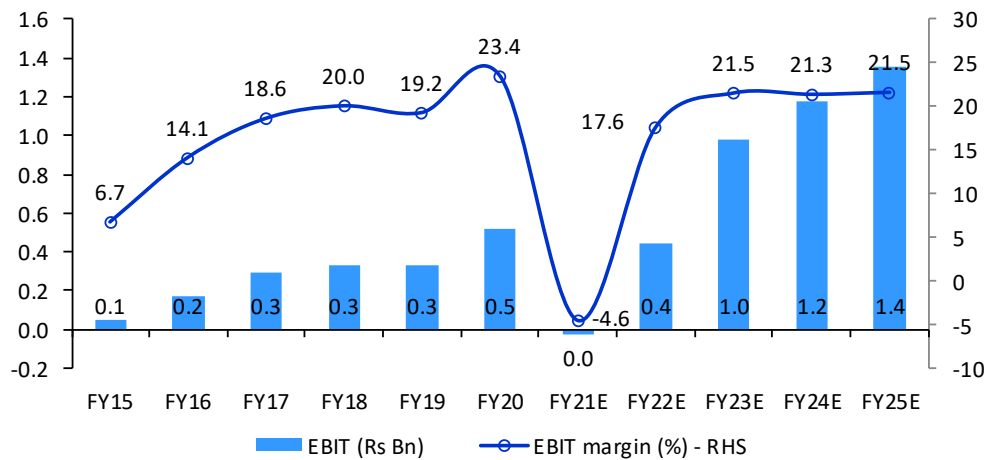
Triggers: A) Over 150% increase in capacity between 2019-22E would boost revenue in the segment significantly over next five years. B) The company has not revised up its retail prices since FY12 and thus, any further increase hereon could drive up profitability significantly. C) Segment profitability is likely to increase by ~100-150bps by FY23E as it would be saving logistics cost due to reduction in the lead distance on transportation.

Exhibit 28: RailNeer Revenue to improve as output from new capacity optimises



Source: DART, Company

Exhibit 29: OPM for PWD to improve as volume scales up, lead distance reduces



Source: DART, Company

New avenues to drive momentum: IRCTC is taking over several non-core activities from the Indian Railways as the parent company eventually aims to just be doing rolling-stock business. The potential areas that has started opening up for IRCTC is Retiring rooms (40 under tender process), Train-side-vending (to curb unorganized sales onboard in trains without pantry), Stations management and running trains on select route; that would help sustain the revenue momentum.

IRCTC has been nominated to run three train routes by MoR, as part of the ministry's plans to open the sector to independent parties wherein It will retain all economic interest after paying haulage charges to Indian Railway. According to the management, the company can achieve breakeven at 72% utilisation only on base-fare revenue, and thus, all gains from dynamic pricing, better utilisation, and non-fare revenue make a strong case for profitable operations. Now the MoR has proposal to auction 150 trains routes to private operators. IRCTC is expected to bid for these independently or with partner – although it has achieved eligibility criteria for 10 of the 11 clusters that Railways have defined for auction.

Segmental Performance and Projections

As business normalizes in FY22 onwards, the revenue contribution and EBIT contribution are expected to get aligned back to what it broadly witnessed around Pre-Pandemic quarter levels (as of Q3FY20), as growth potential are healthy across business segments in the near future. Overall profitability of the business would continue to improve as all the segments have margin-accretive drivers and thus would drive its return ratios as well.

Exhibit 30: Segmental Performance

Particulars	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY25E
Segmental Revenue											
Catering	3,652	3,269	3,912	7,139	10,239	10,441	2,245	6,912	12,895	15,743	17,902
Rail Neer	926	1,310	1,561	1,635	1,735	2,221	537	2,511	4,577	5,528	6,278
Internet Ticketing	2,530	5,515	4,669	1,966	2,313	6,195	4,179	8,713	11,548	13,555	15,656
Tourism	3607	3723	5247	3971	4393	3895	540	2816	5493	6761	7963
Total	10,715	13,817	15,389	14,712	18,680	22,752	7,502	20,952	34,512	41,587	47,799
Revenue contribution (%)											
Catering	34	24	25	49	55	46	30	33	37	38	37
Rail Neer	9	9	10	11	9	10	7	12	13	13	13
Internet Ticketing	24	40	30	13	12	27	56	42	33	33	33
Tourism	34	27	34	27	24	17	7	13	16	16	17
EBIT Margins (%)											
Catering	(13)	(14)	3	17	14	11	(38)	3	14	16	16
Rail Neer	7	14	19	20	19	23	(5)	18	21	21	22
Internet Ticketing	70	41	40	49	70	80	77	80	83	83	83
Tourism	20	20	21	23	18	7	(65)	8	14	14	14
EBIT (Rs mn)											
Catering	(490)	(459)	125	1,229	1,472	1,198	(854)	220	1,809	2,476	2,778
Rail Neer	62	185	290	327	334	521	(25)	441	983	1,178	1,353
Internet Ticketing	1,770	2,286	1,857	968	1,611	4,947	3,208	7,007	9,553	11,308	13,060
Tourism	712	736	1,101	918	769	255	(351)	226	787	960	1,144
Total	2,055	2,748	3,373	3,443	4,185	6,921	1,978	7,894	13,132	15,923	18,335
EBIT Contribution (%)											
Catering	(24)	(17)	4	36	35	17	(43)	3	14	16	15
Rail Neer	3	7	9	10	8	8	(1)	6	7	7	7
Internet Ticketing	86	83	55	28	38	71	162	89	73	71	71
Tourism	35	27	33	27	18	4	(18)	3	6	6	6

Source: DART, Company

Financial Performance

Estimating Earnings Trajectory

Although there are multiple factors that are evolving into growth drivers for the company. However, we believe the three biggest elements that would significant to earnings momentum are: 1) Conversion of unreserved category seats across long distance trains into 2S category has increased the revenue potential significantly within Ticketing segment, 2) Revised pricing in Catering segment will systemically boost the average realization per licensed unit by ~50%+ over next three years, gradually as train/passenger volume normalizes and 3) nearly trebling of production capacity in Rail-Neer would ensure sustained revenue driver as all plants achieve desired output levels.

Exhibit 31: Key assumptions in our estimates (%)

Key Assumptions	FY20	FY21E	FY22E	FY23E
Catering Growth	2.0	(78.5)	207.8	86.5
Ticketing Growth	167.9	(32.6)	108.5	32.5
Rail Neer Growth	28.0	(75.8)	367.3	82.3
Tourism Growth	(11.3)	(86.1)	421.1	95.0
Catering OPM (%)	33.4	45.0	50.0	50.0
Ticketing OPM (%)	79.9	76.8	80.4	82.7
Rail Neer OPM (%)	56.1	(104.8)	(1881.1)	122.8
Tourism OPM (%)	6.5	(65.0)	8.0	14.3
RailNeer Production (mn bottles)	275	66	310	565
Numbe of E-Ticket Booked (mn)	302	153	350	443
Revenue Per Ticket (Rs. Abs)	20.3	18.4	17.4	17.5

Source: DART, Company

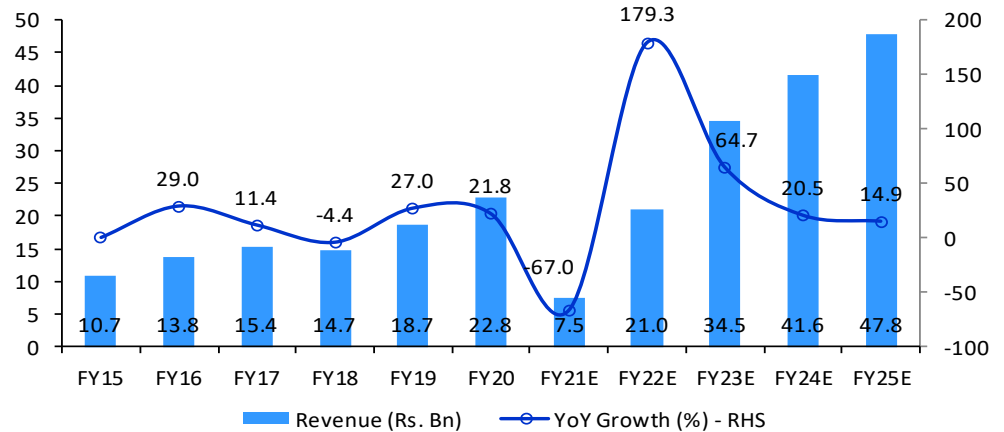
Exhibit 32: Number of quarters required to achieve Pre-Pandemic revenues

Segment	Revenues in Q3FY20	Full-recovery quarter	Number of quarter lapsed
Ticketing	2,269	Q3FY22	7
RailNeer	586	Q3FY22	7
Catering	2,692	Q1FY23	9
Tourism	1,612	Q3FY24	15

Source: Company, DART

Multiple levers to ensure sustained revenue momentum: IRCTC is poised for multi-year high double digit growth in revenues as it would gain from several favorable internal performances as well as external dynamics. The news flow has been positive for IRCTC from the ministerial front as first it got the service charge restored in Sep'19, then got upward revision in pricing in catering segment and also got opportunity to run the first three private trains. The momentum however, got derailed a bit due to Pandemic but this is more of a temporary phenomenon as structurally things have turned better for IRCTC as MoR first converted several unreserved coaches in mail/express train into reserved 2S category and secondly, Pandemic accelerated the Digital adoption among the traveler taking the online ticketing penetration from 73% to 90%+ in matter of a year. Taking these factors into account we have built-in revenue CAGR of about 15% over FY20-FY23E and 16% over FY20-F25E.

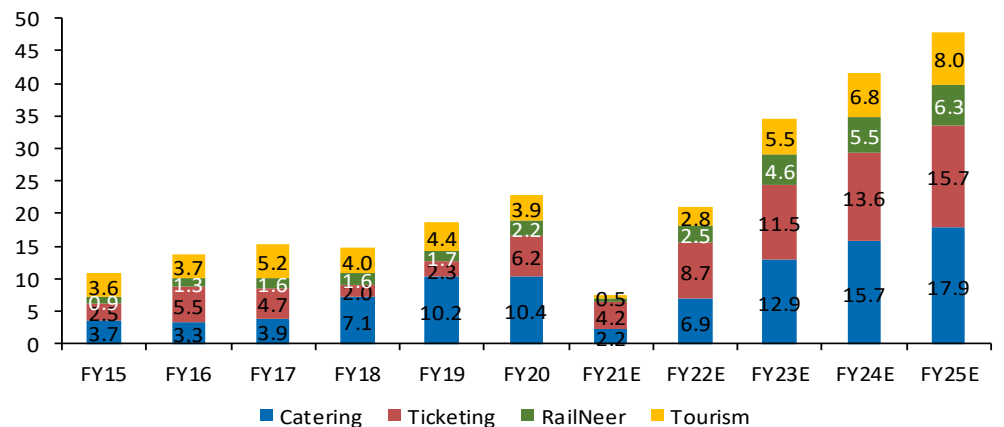
Exhibit 33: IRCTC to deliver Revenue CAGR of 16% over FY20-25E



Source: DART, Company

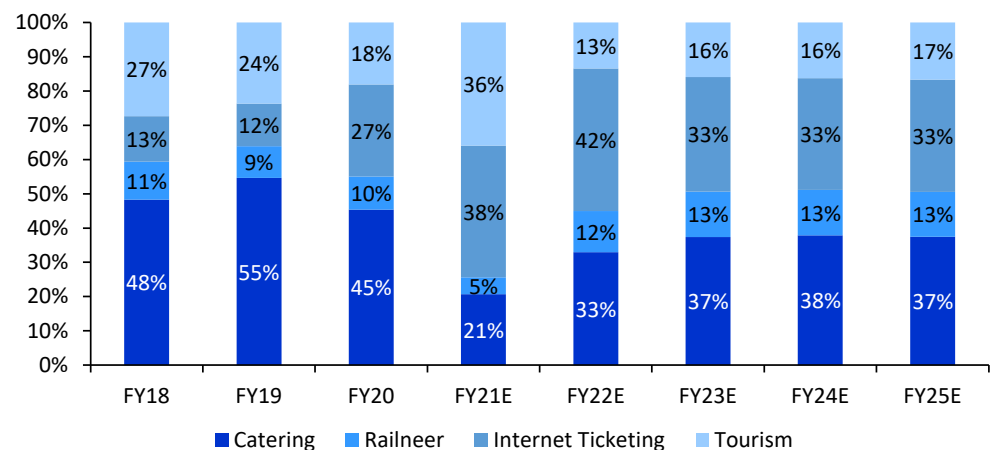
Segmental Performance: Internet Ticketing revenue and profit contribution is likely to improve in medium-to-long term basis given huge scale, complete exclusivity and favourable consumer behavior. Catering business is also expected to see its revenue share recover as the benefits from revised pricing for catering would get effective over FY22/23E.

Exhibit 34: Segment Revenue (Rs. Bn) Trend



Source: DART, Company

Exhibit 35: Segment Revenue contribution (%)



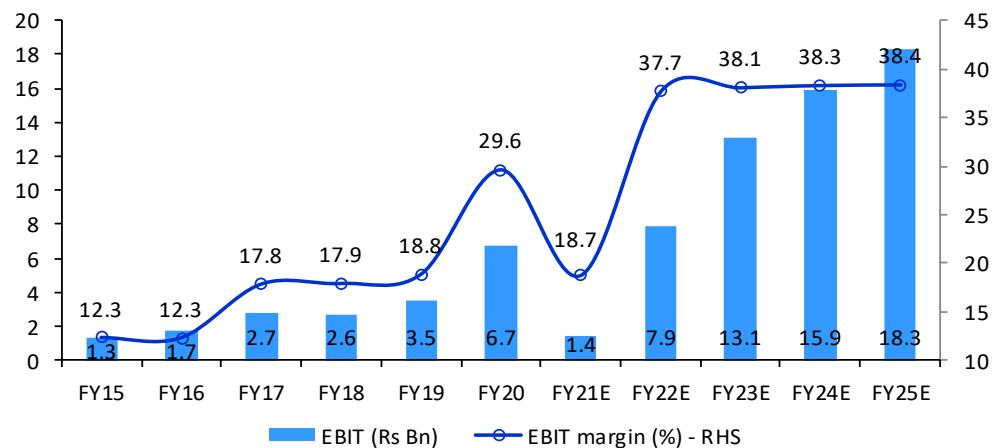
Source: DART, Company

Profitability will have an upward bias: We expect IRCTC to see gradual improvement in profitability from current levels of 39% EBIT margins it achieved in Q3FY21. The OPM gains would come from non-linear advantage in the Ticketing business, improved operating leverage in Rail-Neer business (lead-distance to reduce), revised pricing gains in the Catering business and improved revenue traction in the Tourism business.

The company has about Rs3.5bn as its non-direct costs which is largely fixed and is incurred toward employee cost (headcount 2500 odd – including regular ~1384, rest being On contract/outsourced/deputationists) and SG&A – collectively about 16% of revenues in FY20. We believe these costs are non-linear to business and thus would offer scope for OPM expansion as the scale picks up. We have factored in EBIT CAGR of about 22% over FY20-25E in our estimates which we believe are conservative on segmental profitability basis and have upward risk as it may get much better operating leverage as growth rate revives.

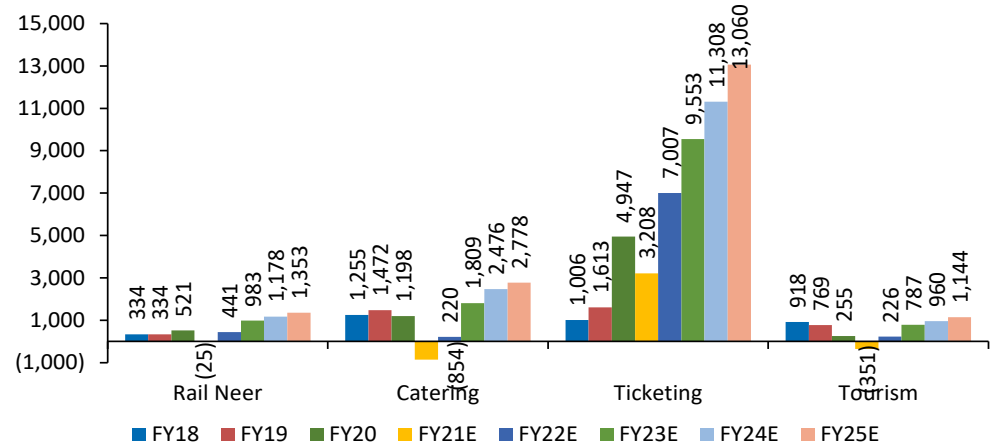
Few more factors that can at the profit windfall over coming years are 1) Revision in pricing for Rail Neer which has not changed since FY12, 2) Improved revenue mix in favor of IRCTC from 60% to 85% in catering revenues for onboarding sub-segment as it would replace pantry in all 400 odd trains with modern design, which is under process and 3) Increase in Service charge to Rs20/Rs40 for Non-AC/AC trains ticketing which it use to charge till FY17 as against current rate of Rs15/Rs30.

Exhibit 36: EBIT Margin profile to improve across business segments



Source: DART, Company

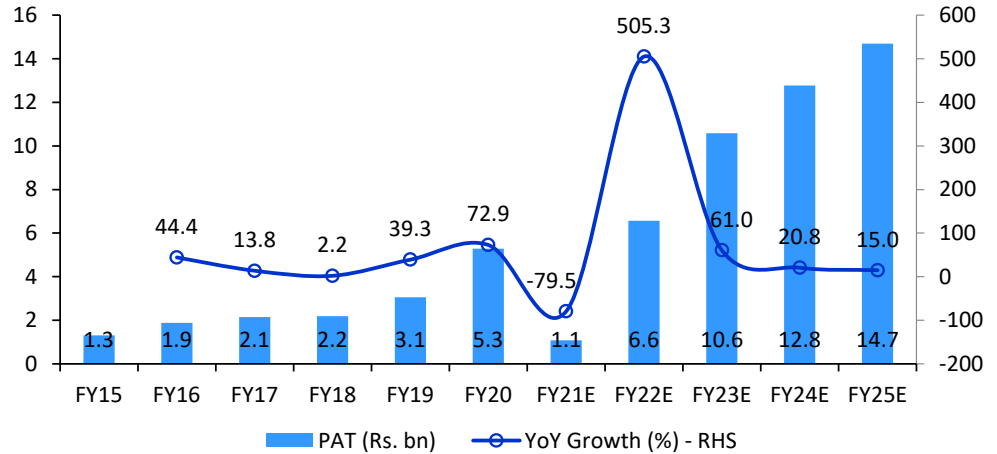
Exhibit 37: EBIT – Segment wise



Source: Company, DART

PAT: We expect PAT growth would largely mimic growth in operating profits (26% CAGR over FY20-23E and 23% CAGR over FY20-25E) as it is net cash company and earns about Rs700mn in other income on Net of any interest cost. Tax rates are at 25% and would sustain at this level. PAT margins is likely to cross 30% mark in FY22E and sustain there with upward bias.

Exhibit 38: PAT to grow consistently with improving profitability

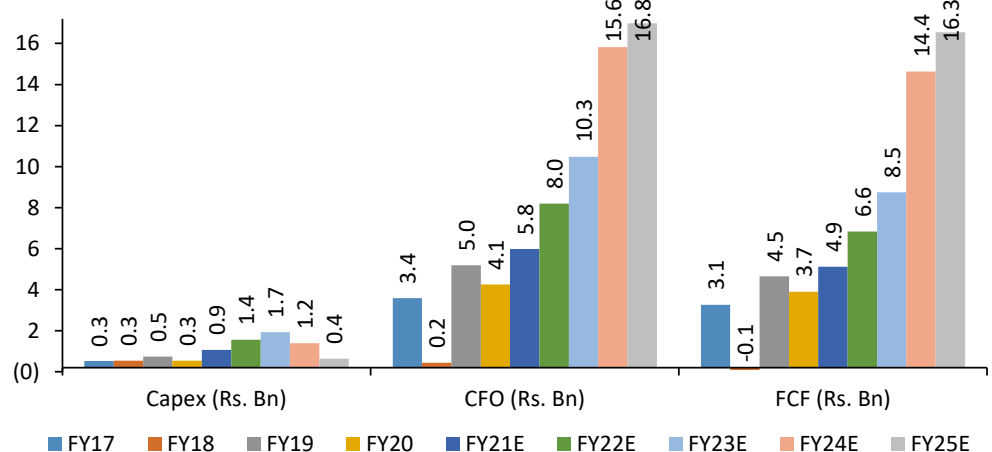


Source: DART, Company

CAPEX highlights asset light business model: IRCTC has an asset light business model and thus have very limited CAPEX requirements. In last five years' basis company has incurred an average CAPEX of Rs0.4bn which is quite insignificant compared to its OCF profile. The CAPEX includes investments towards regular modernization of its IT infrastructure for the ticketing business (Rs2.5bn every 5-6 years – cycle due now) and some bit towards PDW plant additions (Rs120-Rs150mn per plant). The company is also working on arrangements with MoR that would reduce the requirements to keep deposits with Indian Railways and thus would reduce its Working Capital requirement as well. Currently, the company's debtors are well funded by large amount of Current Liabilities it creates through receipt of advances towards concession fees, licence fees, security deposits received from various vendors.

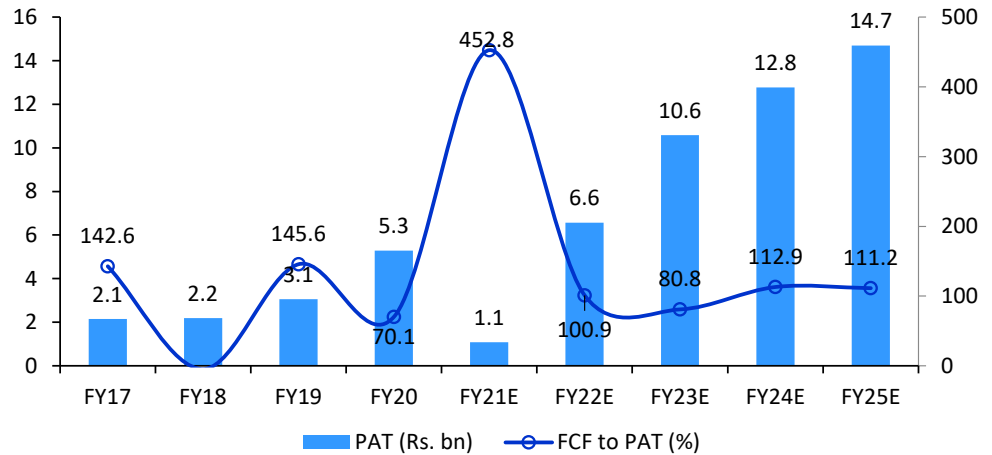
Cash position: The company is debt free and generates enough cashflow to funds its future business plans. The current Cash position is at Rs15bn and this includes an amount equivalent to Rs5bn deposited with Indian Railways.

Exhibit 39: Capex, OCF, FCF Trend (Rs in bn)



Source: DART, Company

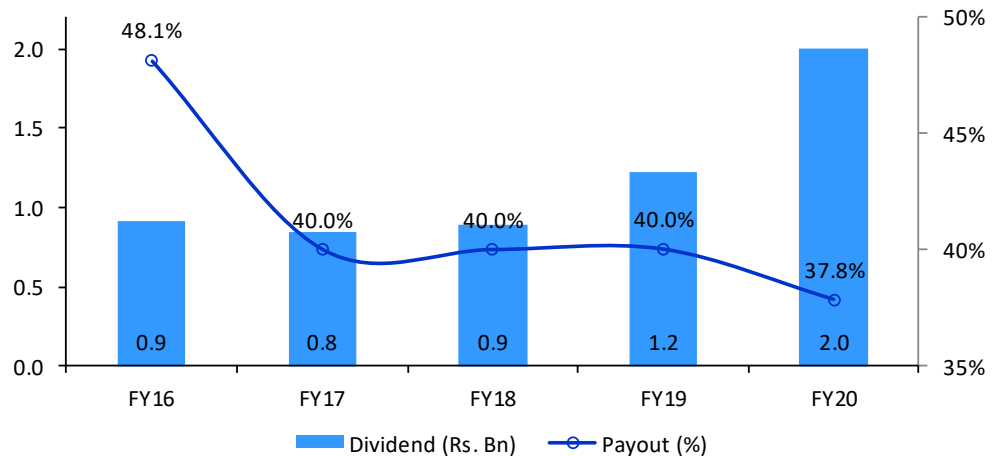
Exhibit 40: PAT to FCF Trend



Source: DART, Company

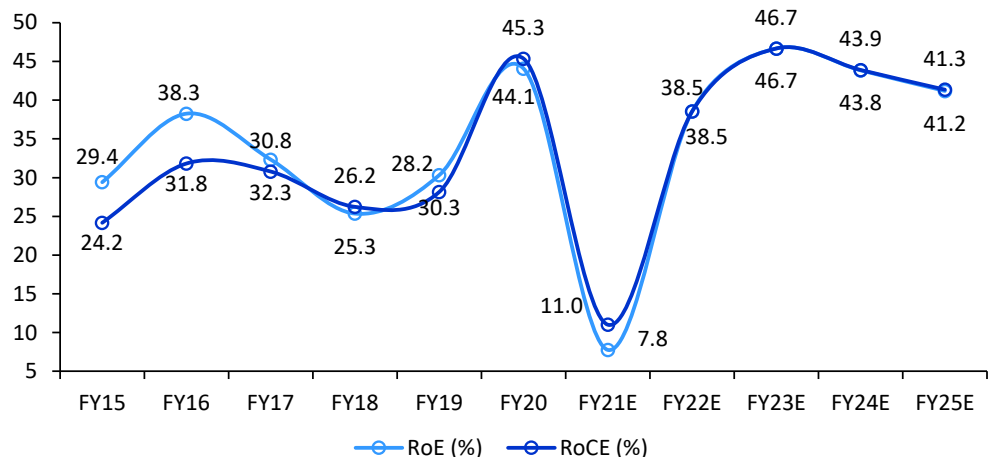
Payout: It has a policy of minimum 30% dividend payout ratio and has maintained higher than this rate in the past. In FY20, company paid about Rs12.5 per share that amounts to about 38% of its profits.

Exhibit 41: Dividend Payouts are going to stay upwards of 30%

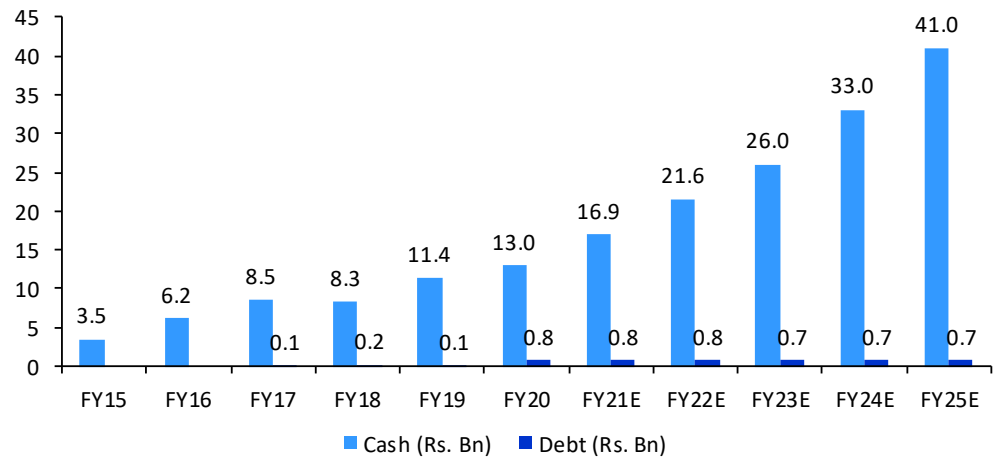


Source: DART, Company

Exhibit 42: RoE (%) & RoCE (%) – Return ratios to improve



Source: DART, Company, Debt Includes Lease Liabilities and Security Deposit

Exhibit 43: Cash and Debt Trend (Rs bn)


Source: DART, Company

Exhibit 44: Quarterly and YTD Trend

Rs mn	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	YoY (%)	QoQ (%)	YTD FY21	YTD FY20	YoY (%)
INR Revenue	7,160	5,869	1,313	886	2,244	(51.1)	153.4	4,443	16,886	(73.7)
Operating Expenditure	4,503	3,850	1,752	941	1,297	(63.5)	37.8	3,991	11,771	(66.1)
Cost of revenue	3,613	2,750	925	260	656	(76.1)	151.8	1,841	9,191	(80.0)
as % of sales	50.5	46.9	70.4	29.4	29.2	(2124)	(18)	41.4	54.4	1299
SG&A expenses	891	1,100	827	681	642	(21.7)	(5.8)	2,150	2,580	(16.7)
as % of sales	12.4	18.7	63.0	76.9	28.6	1616	(4831)	48.4	15.3	(3311)
EBITDA	2,657	2,019	(439)	(56)	946	(8.4)	(1794.5)	452	5,115	(91.2)
Depreciation	123	104	90	89	96	13.3	7.6	276	295	(6.8)
EBIT	2,534	1,915	(529)	(145)	850	(10.4)	(685.6)	177	4,819	(96.3)
Other Income	170	171	235	188	195	20.6	3.3	618	537	15.0
Exceptional Exp. /(Inc)	-	(4)	0	(424)	(1)	(85.3)	(100.2)	423	(7)	(6105.1)
PBT	2,704	2,090	(294)	467	1,046	(6.4)	(374.8)	1217	5,363	(77.2)
Total Tax	646	584	(48)	140	263	(33.3)	87.3	356	1,584	(77.5)
Reported PAT	2,058	1,506	(246)	326	783	8.3	(250.3)	861	3,779	(77.2)
Reported EPS	12.9	9.4	(1.5)	2.0	4.9	8.0	139.3	5.4	23.6	(77.2)
Margins (%)						bps	bps			bps
EBIDTA	37.1	34.4	(33.4)	(6.3)	42.2	508	4.849	10.2	30.3	-2.012
EBIT	35.4	32.6	(40.2)	(16.4)	37.9	250	5.429	4.0	28.5	-2.457
EBT	37.8	35.6	(22.4)	52.7	46.6	885	8.959	8.4	31.8	-438
PAT	28.7	25.7	(18.8)	36.9	34.9	615	9.373	0.4	22.4	-300
Effective Tax rate	23.9	27.9	16.2	30.1	25.1	125	6.205	95.8	29.5	-30

Source: DART, Company

Shareholding Pattern

Exhibit 45: Shareholding Trend (%)

Particulars	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Promoters	87.4	87.4	87.4	67.4
MF/Banks/FIs	2.3	1.4	1.7	7.7
FIIIs	1.7	0.8	0.9	8.4
Public / Others	8.7	10.5	10.1	16.5

Source: DART, Company

Exhibit 46: Top Holders

Name	Holding (%)
Govt of India	67.40
Singapore Govt	1.81
Nippon Life AMC	1.40
Aditya Birla AMC	1.22
Vanguard	0.78
HDFC AMC	0.41
ICICI Pru AMC	0.33
Canara Robeco AMC	0.33
Kotak AMC	0.32
Tata AMC	0.31
Sundaram AMC	0.27

Source: DART, Company

Valuation

IRCTC offers an exclusivity play across wide variety of activities (Ticketing, Catering, Tourism) in the Indian Railway ecosystem. We believe the unique strength is that this monopoly is going to last as this would ensure better quality at reasonable prices to the consumers. Flawless execution and opening up of opportunities from MoR would ensure that IRCTC would find continuous drivers in the existing business and continues addition in new revenue stream within the Railways ecosystem. Nevertheless, IRCTC is equally focusing on adding more and more revenue potential outside of Indian Railways (ecatering, air ticketing, bus booking, hotel booking and non-rail tourism) in its effort of diversification and improving the addressable opportunity.

Robust scale-up on online booking during pandemic (inclusion of booking General tickets on IRCTC has increased addressable market by ~25%), multi-fold scale-up in PDW capacity, entry into passenger rail-operations and ~60% jump in catering pricing is likely to act as a 'profit windfall' and should boost the financial growth, return ratios, and operating metrics for IRCTC. Factoring in the opportunities across business segments and the huge scale/multitude opportunities that IR offers; we expect revenue/EPS CAGR of 16%/23% over FY20-25E with a Buy rating and TP of Rs. 2,650, valued at ~40x PER on FY23E earnings – implies ~2x on PEG basis).

Key assumptions and Estimates

Exhibit 47: Introducing Our Estimates

Particulars	FY20	FY21E	FY22E	FY23E
INR Revenue	22,755	7,502	20,952	34,512
YoY growth (%)	21.8	(67.0)	179.3	64.7
EBIT	6,734	1,404	7,894	13,132
EBIT Margin (%)	29.6	18.7	37.7	38.1
PAT	5,285	1,509	6,572	10,580
EPS (Rs. Abs)	33.0	9.4	41.1	66.1

Source: DART, Company

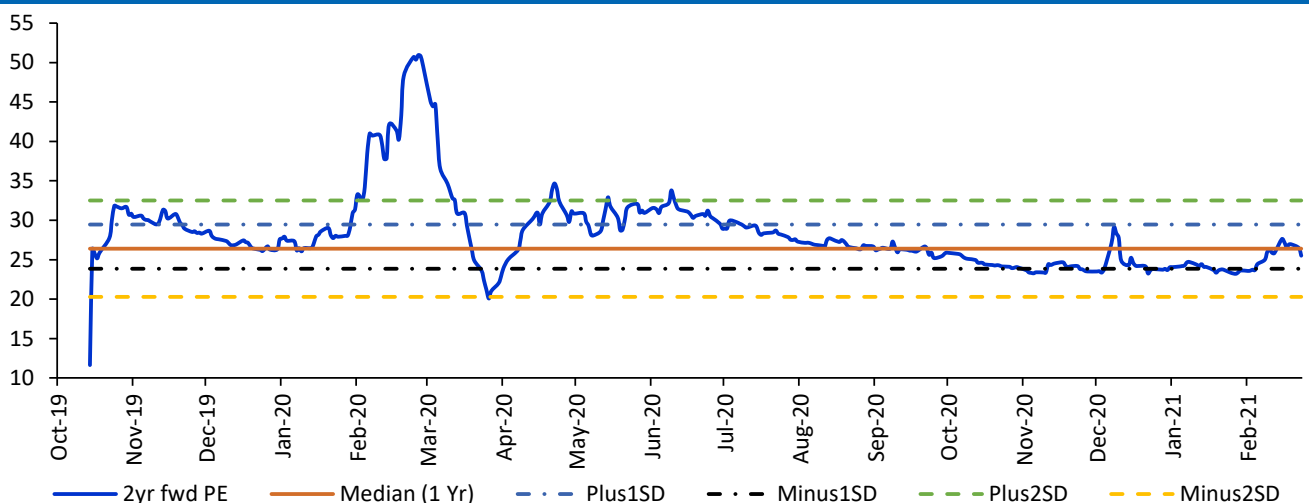
Exhibit 48: Key Assumptions in Our Estimates (%)

Key Assumptions	FY20	FY21E	FY22E	FY23E
Catering Growth	2.0	(78.5)	207.8	86.5
Ticketing Growth	167.9	(32.6)	108.5	32.5
Rail Neer Growth	28.0	(75.8)	367.3	82.3
Tourism Growth	(11.3)	(86.1)	421.1	95.0
Catering OPM (%)	33.4	45.0	50.0	50.0
Ticketing OPM (%)	79.9	76.8	80.4	82.7
Rail Neer OPM (%)	56.1	(104.8)	(1881.1)	122.8
Tourism OPM (%)	6.5	(65.0)	8.0	14.3
RailNeer Production (mn bottles)	275	66	310	565
Number of E-Ticket Booked (mn)	302	153	350	443
Revenue Per Ticket (Rs. Abs)	20.3	18.4	17.4	17.5

Source: DART, Company

Band Chart

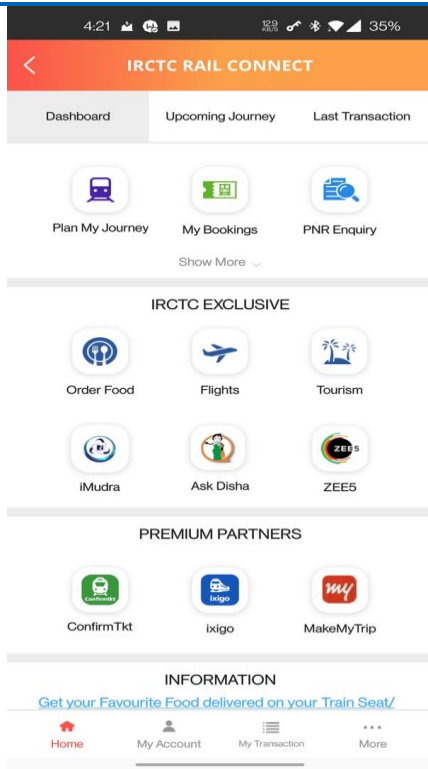
Exhibit 49: IRCTC PER Chart: Valuations are very compelling given strong revenue growth potential (20%+ CAGR) and high profitability (OPM 40%+), trading at ~1.2x PEG basis



Source: DART, Company

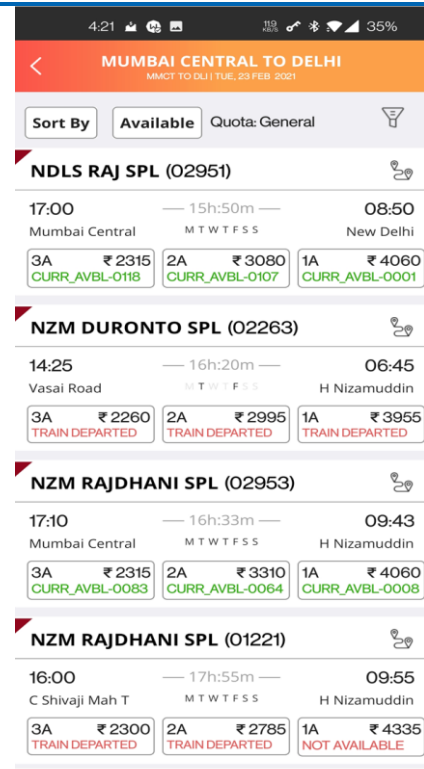
Annexure – IRCTC Digital Assets (Apps) - Screenshots

Exhibit 50: IRCTC Rail Connect App



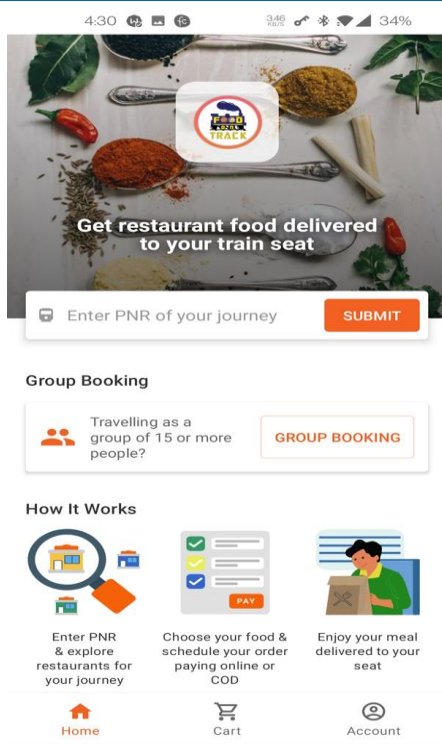
Source: DART, Company

Exhibit 51: IRCTC Rail Connect App –Train Booking Option



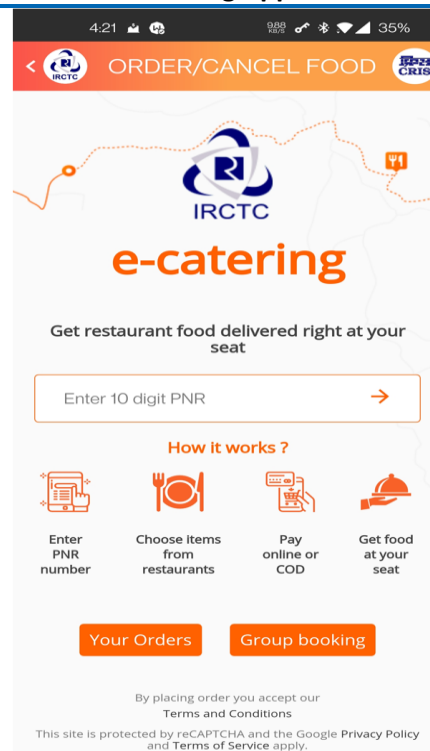
Source: DART, Company

Exhibit 52: IRCTC eCatering App – ‘Food on Track’



Source: DART, Company

Exhibit 53: IRCTC eCatering App



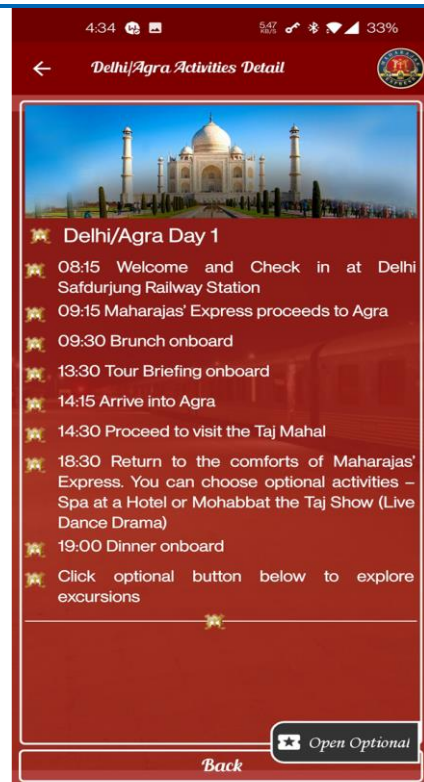
Source: DART, Company

Exhibit 54: IRCTC Menu App



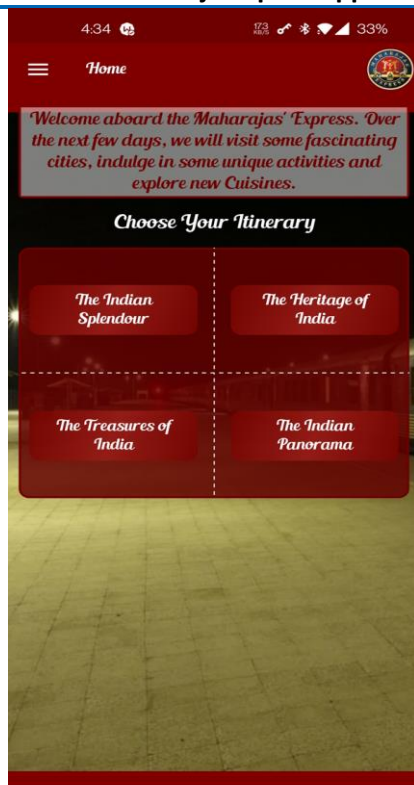
Source: DART, Company

Exhibit 55: IRCTC Maharaja Express App showing Itinerary



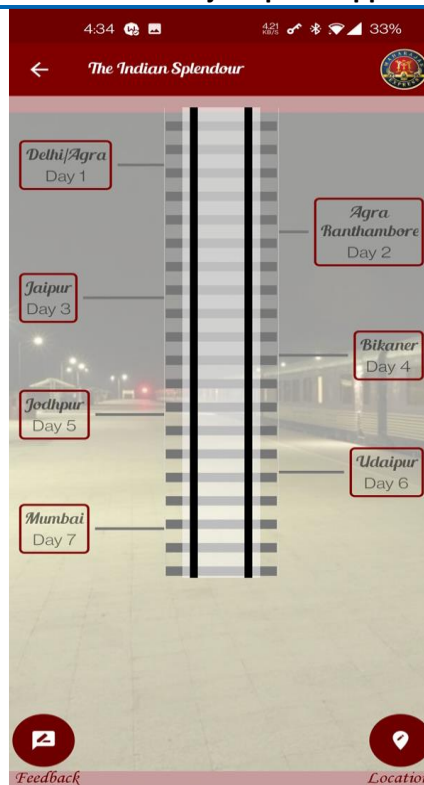
Source: DART, Company

Exhibit 56: IRCTC Maharaja Express App



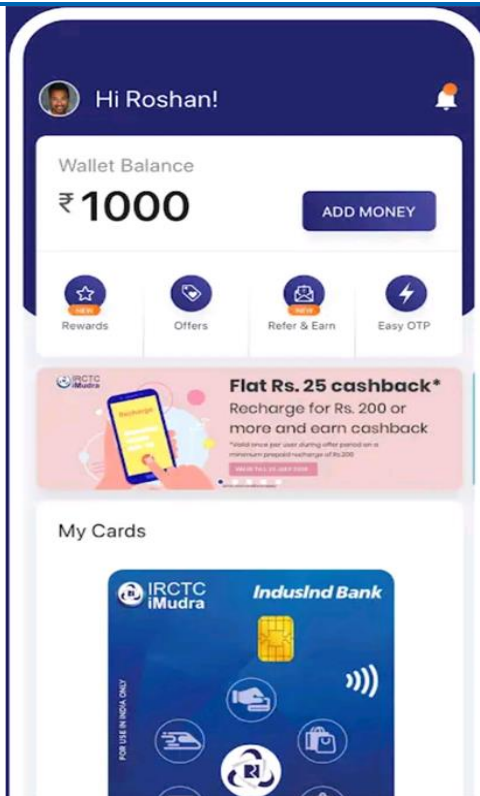
Source: DART, Company

Exhibit 57: IRCTC Maharaja Express App



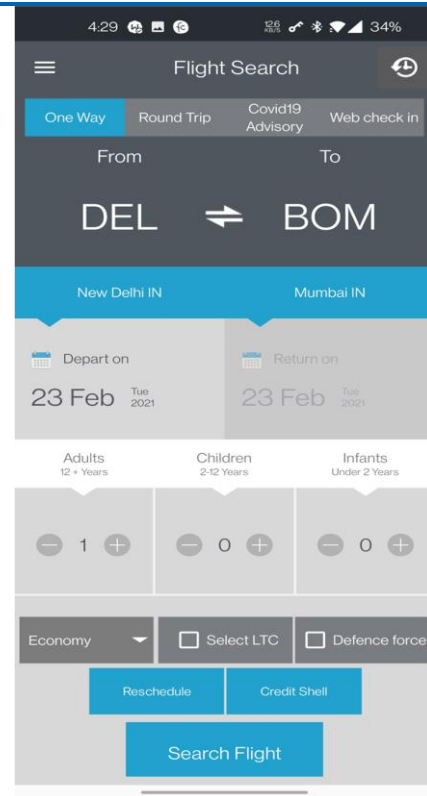
Source: DART, Company

Exhibit 58: IRCTC Digital Wallet App



Source: DART, Company

Exhibit 59: IRCTC Air App



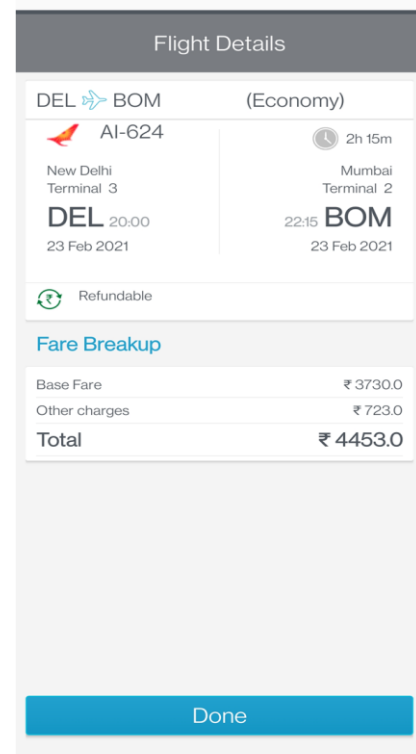
Source: DART, Company

Exhibit 60: IRCTC Air App for flight booking



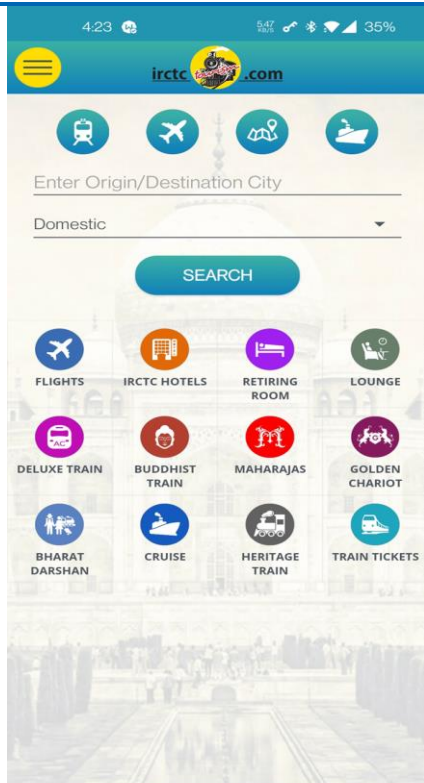
Source: DART, Company

Exhibit 61: IRCTC Air App for flight booking



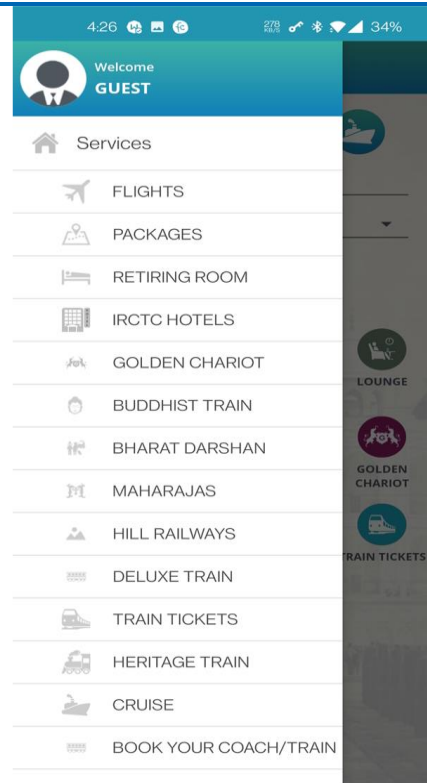
Source: DART, Company

Exhibit 62: IRCTC Tourism App



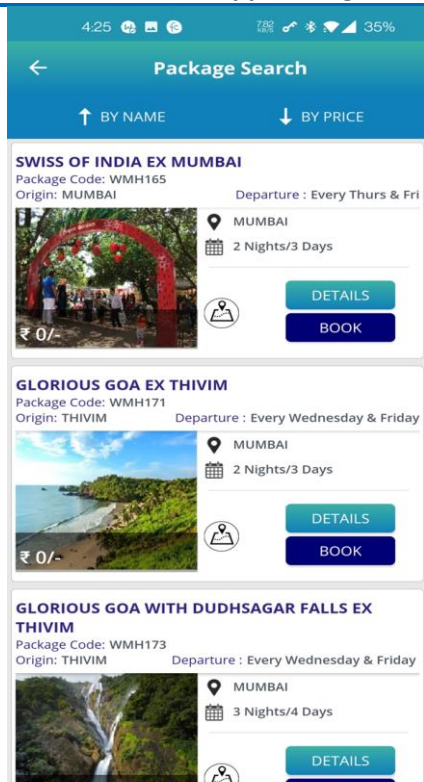
Source: DART, Company

Exhibit 63: IRCTC Tourism App catalogue



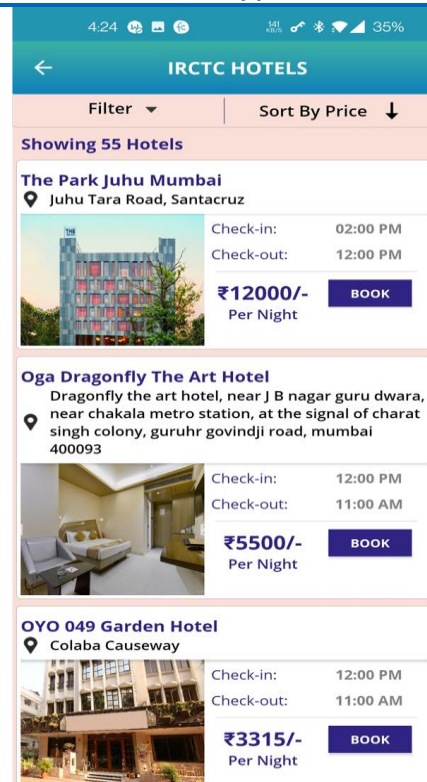
Source: DART, Company

Exhibit 64: IRCTC Tourism App Package Booking



Source: DART, Company

Exhibit 65: IRCTC Tourism App Hotel Booking



Source: DART, Company

Exhibit 66: Abbreviation

Particulars	Full Form
IRCTC	Indian Railway Catering and Tourism Corporation
IR	Indian Railways
TAM	Total Addressable Market
PDW	Packaged Drinking Water
CPSE	Central Public Sector Enterprises
MoR	Ministry of Railways
ZR	Zonal Railways
TSV	Train Side Vending
MLF	Minimum License Fees
FFU	Fast Food Unit

Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	22,755	7,502	20,952	34,512
Total Expense	15,621	5,717	12,533	20,700
COGS	11,941	2,912	8,682	15,033
Employees Cost	0	0	0	0
Other expenses	3,680	2,806	3,851	5,667
EBIDTA	7,134	1,784	8,419	13,812
Depreciation	399	381	525	680
EBIT	6,734	1,404	7,894	13,132
Interest	73	58	76	92
Other Income	781	879	968	1,104
Exc. / E.O. items	11	423	0	0
EBT	7,453	2,648	8,786	14,144
Tax	2,168	716	2,214	3,564
RPAT	5,285	1,931	6,572	10,580
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	5,274	1,509	6,572	10,580

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	1,600	1,600	1,600	1,600
Minority Interest	0	0	0	0
Reserves & Surplus	11,678	13,129	17,781	24,362
Net Worth	13,278	14,729	19,381	25,962
Total Debt	868	856	859	864
Net Deferred Tax Liability	(657)	(657)	(657)	(657)
Total Capital Employed	13,489	14,928	19,583	26,169

Applications of Funds

Net Block	2,834	3,303	4,153	5,223
CWIP	162	177	162	142
Investments	0	0	0	0
Current Assets, Loans & Advances	28,845	28,808	35,079	43,367
Inventories	98	21	57	95
Receivables	7,894	5,138	6,601	9,928
Cash and Bank Balances	12,964	17,342	21,976	26,433
Loans and Advances	121	121	121	122
Other Current Assets	7,768	6,186	6,322	6,789
Less: Current Liabilities & Provisions	18,352	17,360	19,811	22,564
Payables	1,695	627	1,545	2,268
Other Current Liabilities	16,656	16,733	18,266	20,295
<i>sub total</i>				
Net Current Assets	10,493	11,448	15,268	20,803
Total Assets	13,489	14,928	19,583	26,169

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	47.5	61.2	58.6	56.4
EBIDTA Margin	31.4	23.8	40.2	40.0
EBIT Margin	29.6	18.7	37.7	38.1
Tax rate	29.1	27.1	25.2	25.2
Net Profit Margin	23.2	25.7	31.4	30.7
(B) As Percentage of Net Sales (%)				
COGS	52.5	38.8	41.4	43.6
Employee	0.0	0.0	0.0	0.0
Other	16.2	37.4	18.4	16.4
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.1	0.0	0.0
Interest Coverage	92.6	24.2	103.9	142.7
Inventory days	2	1	1	1
Debtors days	127	250	115	105
Average Cost of Debt	13.5	6.7	8.9	10.7
Payable days	27	30	27	24
Working Capital days	168	557	266	220
FA T/O	8.0	2.3	5.0	6.6
(D) Measures of Investment				
AEPS (Rs)	33.0	9.4	41.1	66.1
CEPS (Rs)	35.5	11.8	44.4	70.4
DPS (Rs)	12.5	3.0	12.0	25.0
Dividend Payout (%)	37.9	31.8	29.2	37.8
BVPS (Rs)	83.0	92.1	121.1	162.3
RoANW (%)	44.1	13.8	38.5	46.7
RoACE (%)	45.3	11.0	38.5	46.7
RoAIC (%)	(1733.6)	(148.7)	(328.4)	(988.2)
(E) Valuation Ratios				
CMP (Rs)	1675	1675	1675	1675
P/E	50.8	177.7	40.8	25.3
Mcap (Rs Mn)	268,072	268,072	268,072	268,072
MCap/ Sales	11.8	35.7	12.8	7.8
EV	255,976	251,586	246,955	242,503
EV/Sales	11.2	33.5	11.8	7.0
EV/EBITDA	35.9	141.0	29.3	17.6
P/BV	20.2	18.2	13.8	10.3
Dividend Yield (%)	0.7	0.2	0.7	1.5
(F) Growth Rate (%)				
Revenue	21.8	(67.0)	179.3	64.7
EBITDA	87.5	(75.0)	371.8	64.1
EBIT	91.4	(79.2)	462.3	66.4
PBT	56.7	(64.5)	231.9	61.0
APAT	96.6	(71.4)	335.7	61.0
EPS	96.6	(71.4)	335.7	61.0
Cash Flow				
(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	4,053	5,781	7,990	10,279
CFI	122	(865)	(1,360)	(1,730)
CFF	(2,802)	(538)	(1,996)	(4,092)
FCFF	3,705	4,916	6,630	8,549
Opening Cash	4,601	5,974	10,352	14,986
Closing Cash	5,974	10,352	14,986	19,443

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

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