



Issue Details	
<b>Issue Opens</b>	30 <sup>th</sup> Sept, 2019 to 3 <sup>rd</sup> Oct, 2019
<b>Issue Type</b>	Offer for sale
<b>Offer Price</b>	312-320
<b>Pre-issue Shares outstanding (cr)</b>	16 cr
<b>Shares offered in IPO (Fresh issue) (cr)</b>	2 cr
<b>Nos. of shares post issue (cr)</b>	16 cr
<b>IPO size (Rs.cr)</b>	Rs. 640 cr
<b>Promoter Holding pre-IPO</b>	100.0%
<b>Promoter Holding post-IPO</b>	87.5%
<b>Market Cap at offer price</b>	4990-5120 cr
<b>FY19 PAT</b>	272.6 cr
<b>FY19 P/E at Upper Band</b>	18.8X

### About the Company:

Conferred as a mini-ratna, IRCTC is a Central Public Sector Enterprise wholly owned by the Government of India and under the administrative control of the Ministry of Railways. IRCTC is the only entity authorized by Indian Railways to provide online ticketing services, catering services to railways, and packaged drinking water at railway stations and trains in India.

IRCTC generates revenue through following three main avenues:

- **Internet Ticketing:** They are the only entity authorized by Indian Railways to offer railway tickets online through their website and mobile application. On a daily basis, more than 8 lakh tickets are booked through www.irctc.co.in and "Rail Connect", making it one of the most transacted websites in the Asia-Pacific region.
- **Catering:** IRCTC provides food catering services to the passengers on trains and at stations. The catering services are provided through three models:
  - **Mobile catering:** Meals provided on-board a train.
  - **Static catering:** Food provided through catering outlets and kitchens at stations.
  - **E-catering:** Ordering of food through its e-catering website, within and outside the premises of railways.

The company also provides packaged drinking water under its brand "Rail Neer". IRCTC is the only entity authorized by the Ministry of Railways to manufacture and distribute packaged drinking water at all railway stations and on trains.

- **Travel and Tourism:** IRCTC also provides tourism and travel related services through various segments like hotel bookings, rail, land, cruise and air tour packages. The various tourism services offered by IRCTC includes Luxury Train Tours Maharajas' Express, Buddhist Circuit Special Train, Bharat Darshan Special Tourist Trains, theme based tourist trains, Rail Tour Packages

### Object of the issue:

To carry out the disinvestment of Equity Shares by the Selling Shareholder i.e. the Government of India.

### Valuation & View:

At upper end of issue price of Rs. 320, the stock is priced at 18.8X FY19's EPS which according to us is a lucrative buying price. Given the below mentioned investment thesis, we are recommending investors to SUBSCRIBE the issue.

**Segment wise break-up of revenue:**

Particulars	FY17	FY18	FY19
Online Ticketing	466.4	196.6	231.5
% of Total Sales	30.4%	13.4%	12.4%
Catering Services	376.7	701.7	1008.0
% of Total Sales	24.5%	47.8%	54.0%
Packaged Water	168.3	174.9	189.0
% of Total Sales	11.0%	11.9%	10.1%
Tourism Services	523.4	395.3	439.3
% of Total Sales	34.1%	26.9%	23.5%
<b>Total Sales</b>	<b>1534.8</b>	<b>1468.5</b>	<b>1867.9</b>

**Segment wise margin profile:**

Particulars	FY17	FY18	FY19
Online Ticketing	41.0%	50.0%	66.8%
Catering Services	6.6%	16.6%	11.4%
Packaged Water	19.4%	22.0%	16.6%
Tourism Services	-ve	-ve	9.0%

**Investment Rationale/ Key Strengths:**➤ **Only player authorized to offer tickets for Railways online:**

IRCTC is the only player which is authorized by the Indian Railways to offer ticket booking services online. Presently, around 0.8 million tickets are booked on a daily basis through IRCTC's portal and this represents ~71.4% of the total daily passenger traffic. Between FY14 and Fiscal 2019, IRCTC witnesses around 12.5% CAGR in online rail bookings reaching ~284 million ticket bookings annually.

IRCTC has a strong base of 5.37 cr registered users and currently it is witnessing addition of nearly 8,000 new users on daily basis. Increase in internet penetration and availability of cheap data has increased the proportion of online ticket booking to 71.4% of the total ticket booked on Indian Railways. Going ahead, the growth will come from increase in passenger traffic and also increase in the penetration of online ticket booking which is expected to reach 81-83% by FY24. According to CRISIL, the online ticket booking will increase at 8% CAGR through FY4 to 425-435 million tickets per year.

IRCTC is also consistently upgrading its technology to handle such a huge base of users and heavy traffic on daily basis. In 2014, it upgraded to Next Generation E-Ticketing System (NGeT), which increased their ticket issuing capacity from 7,000 tickets per minute to 14,000 tickets per minute..

***Restoration of convenience fee to spurt revenue and EBITDA***

In November 2016, the Ministry of Finance (MoF) removed the convenience fees which were levied by IRCTC on passengers who booked railway tickets online. IRCTC charged Rs. 20 per ticket and Rs. 40 per ticket for non-AC and AC classes respectively. The Ministry reimbursed Rs. 80 cr in lieu of these charges to IRCTC, which brought down their e-ticketing revenue sharply.

In July 2019, the MoF removed the reimbursement and advised Ministry of railways to arrive on the new charges which IRCTC can levy. Accordingly, the IRCTC has been allowed to levy Rs. 15 and Rs. 30 for non-AC and AC classes respectively, and the notification will be applicable from 1st September, 2019. Thus for latter half of FY20, and for full year of FY20 IRCTC will see a sharp spike in its ticketing revenues which will trickle down to profitability since they enjoy an EBITDA margin of over 60% on this income.

Assuming 2.4 cr tickets booking per month for FY20 (and 4% growth for FY21) and average concession fee of Rs. 13 per ticket (accounting for cash backs on digital payments), IRCTC can earn revenue of Rs. 218 cr in FY20 and Rs. 450 cr in FY21 with even modest incremental growth.



Income from online ticketing to take off:

	FY17	FY18	FY19	FY20E	FY21E
Convenience fees (Rs. cr)	362.3	80*	88*	253.8**	454.3
Advertisement & Other revenues	104.1	116.6	143.5	157.9	173.6

\* Amount received from the MoF which is withdrawn from Sept, 2019 on restoration of convenience fees

\*\* Rs. 35 cr from MoF for 5 months and conv. fees for remaining 7 months.

### ➤ Catering business has a potential to grow manifolds

The Catering Policy, 2017 issued by the Government has handed over catering services in all the mobile catering units and static units to IRCTC, thus making it the sole entity responsible for managing the catering services inside the train and at the stations. So even if a third party (for example Dominoes, Foodpanda, etc.) wants to serve at railway premises, they can do it through IRCTC only. IRCTC provides catering services through three modes and it has different revenue sharing agreement with the railways;

- **Mobile Catering:** It involves catering services on trains and it can be further divided into:
  - Services on prepaid trains like Rajdhani, Shatabadi, and Duronto, where the meals are included in the ticket prices and IRCTC receives a re-imbursement from Indian Railways.
  - Services on trains where meals are not included in the ticket prices. Here, IRCTC charges for the food from the consumers on board a train and reimburses a part of it to the railways. The sharing of license fee between Indian Railways and IRCTC is in the ratio of 40:60
- **Static catering services:** This includes catering services at stations comprising fast food units, food plazas, Jan Ahaars, refreshment rooms, etc. and also includes other facilities at station premises such as budget hotels and Rail Yatri Niwas. IRCTC receives a license fee in exchange for services, which it needs to share with Ministry of Railways.

Between FY17 to FY19, the revenue from this segment grew from Rs. 398.6 cr to Rs. 1044.5 cr, a CAGR of whopping 62%. This sharp growth in revenue was aided by regulatory arm shot whereby it received the right to manage catering service for entire railways. Given the sheer strength of daily ridership that Indian Railways enjoys, the catering business has a potential to grow manifolds even from this level.

### *Exclusive rights to manufacture and supply packaged drinking water at railway station and trains*

IRCTC manufactures and markets packaged water under its brand name "Rail Neer", which is available on the stations and in trains. Currently, they have capacity of processing 0.83 mn litres of water every day which caters to 45% of the total demand of 1.8 mn litres. IRCTC is setting up another capacity of 1 mn litres per day for which they have tied up with NTPC. Under this arrangement, NTPC will provide raw water to IRCTC which will be converted to potable water by them through their desalination and osmosis plants. Thus in next 2-3 years, IRCTC will be able to meet 70-75% of the total demand. Revenue from packaged drinking water grew from Rs. 169 cr in FY17 to Rs. 189 cr. The slow growth in the revenue was due to capacity constraints, which will ease now as the company is expanding its capacity by nearly 80%.

### ➤ Travel & Tourism segment to capture the increasing domestic tourism market

IRCTC has been mandated by the Indian Railways to provide tourism and travel related services. It provides various kinds of tour packages which will cater to wide spectrum of travellers. Their packages range from budget/affordable tours to educational tours to luxurious tours

Domestic Tourism	IRCTC provides all-inclusive and comprehensive packages which includes: <ul style="list-style-type: none"> <li>• Onward and return journey on train.</li> <li>• Road transfers, accommodation, meals and sight-seeing</li> </ul> It also provides customization of packages in terms of budget, level of luxury, places of interest and other customer requirements.
Domestic Air packages	IRCTC provides packages to various destinations like Shirdi, Goa, Delhi, Tirupati, Gangtok, Darjeeling, Kalimpong, Andaman & Nicobar, Ladakh, Srinagar and Kashmir
Inbound Tourist Targeted Tours	To tap the rising market inbound and affluent tourists, IRCTC has launched various theme based tourist packaged which would find particular <ul style="list-style-type: none"> <li>• Maharajas' Express- It is luxury tourism to give premium and lavish experience to foreigners and affluent class.</li> <li>• Buddhist Circuit Special Train: It covers all the major Buddhist</li> </ul>



	Pilgrim locations in India and Nepal. <ul style="list-style-type: none"><li>• Majestic Rajasthan Tourist Train</li></ul>
Air Ticketing (www.air.irctc.co.in)	IRCTC provides online booking facility of domestic as well as international air-tickets at very competitive prices, with one of the lowest convenience fees. They also offer travel insurance, forex services and overseas insurance services at competitive rates. They have already gained 2% market share in this space.

➤ **Healthy financial leaves headroom for re-rating.**

IRCTC has an enviable business model and regulatory moat which reflects in its financials. Despite being a Government company with social responsibility, the company has high return ratios with RoCE and RoE of ~45% and ~25% respectively, which helps them to maintain dividend payouts of more than 40% of net profits. Company also has healthy cash balance of Rs. 1,100 cr which will help them take care of future capex and working capital requirements.

➤ **Valuation and View**

- At the upper end of issue price i.e at Rs. 320, the stock is priced at 18.8X FY19's EPS.
- We believe that the company has enough levers in its arsenal to continue to grow consistently over the next 3-4 years. Growth in the revenue will disproportionately add to its profitability due to scale benefits which will lead to improvement in its margins.
- Given the aforementioned investment thesis, we are recommending investors to SUBSCRIBE the issue.

➤ **Risks & Concerns**

- Regulatory risks: Railway being a social enterprise is always subject to populous decision from the Govenemnt. For instance, the Ministry of Finance withdrew levy of convenience fees in 2017 which however was subsequently restored.
- Risk from privatization: IRCTC has a monopoly status in all the categories of services that it provides. If the Government decides to open these for private players, then it'll have a big dent on company's growth prospects and profitability.



Financials:

IRCTC Ltd. Profit And Loss			
DESCRIPTION	FY17	FY18	FY19
Operating Income (Net)	1523.2	1470.5	1867.9
EXPENDITURE :			
Raw Material Consumed	210.2	256.8	124.1
Employee Cost	179.6	192.2	195.1
General and Administration Expenses	790.6	700.7	1070.2
Selling and Distribution Expenses	38.0	36.9	46.6
Miscellaneous Expenses	8.1	10.7	58.7
<b>Total Expenditure</b>	<b>1226.5</b>	<b>1197.3</b>	<b>1494.7</b>
<b>EBITDA (Ex OI)</b>	<b>296.7</b>	<b>273.2</b>	<b>373.2</b>
<b>EBITDA Margin</b>	<b>19.5%</b>	<b>18.6%</b>	<b>20.0%</b>
Depreciation	22.4	23.7	28.6
<b>EBIT</b>	<b>274.3</b>	<b>249.5</b>	<b>344.6</b>
Other Income	56.4	99.1	88.8
Interest	2.6	3.0	3.4
PBT	328.0	345.6	430.0
Exceptional Income / Expenses	3.4		
Profit Before Tax	331.4	345.6	430.0
Tax	116.8	125.0	157.4
Tax Rate %	35.2%	36.2%	36.6%
Profit After Tax	214.7	220.6	272.6
Adjusted EPS	13.4	13.8	17.0

IRCTC Ltd. Balance Sheet			
DESCRIPTION	FY17	FY18	FY19
Share Capital	40.0	40.0	160.0
Total Reserves	738.3	914.5	882.8
Shareholder's Funds	778.3	954.5	1042.8
Long-Term Borrowings	0.0	0.0	0.0
Deferred Tax Assets / Liabilities	-69.2	-46.4	-77.1
Other Long Term Liabilities	190.0	89.6	66.7
Total Non-Current Liabilities	120.8	43.3	-10.4
Trade Payables	137.2	150.8	192.0
Other Current Liabilities	721.1	1124.1	1282.3
Short Term Provisions	6.7	3.3	39.2
Total Current Liabilities	858.3	1274.9	1474.2
<b>Total Liabilities</b>	<b>1757.4</b>	<b>2272.8</b>	<b>2506.7</b>
Net Block	170.4	162.2	154.6
Capital Work in Progress	16.8	7.7	40.4
Non-Current Investments	0.0	27.6	27.7
Other Non Current Assets	29.1	15.1	25.3
Total Non-Current Assets	216.4	212.5	248.0
Inventories	6.6	7.4	7.9
Sundry Debtors	288.7	550.9	581.7
Cash and Bank	853.0	833.9	1140.0
Other Current Assets	392.8	668.0	529.1
Total Current Assets	1541.0	2060.2	2258.7
<b>Total Assets</b>	<b>1757.4</b>	<b>2272.8</b>	<b>2506.7</b>



<b>IRCTC Ltd. Ltd. Cash flow Statement</b>			
<b>DESCRIPTION</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>
Profit Before Tax	331.4	345.6	430.0
Adjustment	-22.5	-19.2	-34.4
Changes In working Capital	167.4	-176.9	259.9
Less: Tax Paid	-138.1	-125.9	-162.8
Cash From Operating Activities	338.2	23.6	492.7
Cash Flow from Investing Activities	93.6	40.2	-346.4
Cash from Financing Activities	-135.9	-56.8	-179.4
Net Cash Inflow / Outflow	295.9	7.0	-33.1
Opening Cash & Cash Equivalents	190.3	486.1	493.2
Closing Cash & Cash Equivalent	486.1	493.2	460.1

<b>IRCTC Ltd. Key Ratios</b>			
<b>DESCRIPTION</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>
Adjusted EPS (Rs.)	13.4	13.8	17.0
Adjusted Book Value (Rs)	48.6	59.7	65.2
ROE (%)	32.5	25.5	27.3
ROCE (%)	50.6	40.2	43.4
Fixed Asset Turnover (x)	4.8	4.4	5.4
Receivable days	53.5	104.2	110.7
Inventory Days	1.8	1.7	1.5
Payable days	70.0	82.7	124.7
Total Debt/Equity(x)	0.0	0.0	0.0
Current Ratio(x)	1.8	1.6	1.5

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