



IRCTC IPO Note



About the Company

Incorporated in 1999, state-owned Indian Railway Catering and Tourism Corporation Limited (IRCTC) is a wholly-owned subsidiary of Indian Railways. IRCTC handles tourism, catering, online ticket booking services and provides packaged drinking water in trains and at railway stations in the country.

The company was conferred as a Mini-Ratna or Category-I Public Sector Enterprise by the Indian Government in 2008. In the last three months ended on 30th June, nearly 15 to 18 million transactions were placed per month through the IRCTC website.

IRCTC also provides non-railway services including budget hotels, e-catering and executive lounges to create a one-stop solution for customers. Currently, the company operates majorly in four segments which are:

1. Travel and Tourism

IRCTC is specialized in rail tourism. It offers travel and tourism services across diversified segments such as air, land, rail, & cruise tour packages, hotel bookings and air ticket bookings.

2. Packaged Drinking Water

It is an authorized manufacturer and distributor of packaged drinking water on trains and at railway stations. The company manufactures packaged drinking water under brand name Rail Neer.

3. Catering Services

The company provides food catering services including on-board catering (through mobile) on trains and static catering services at stations.

4. Internet Ticketing

IRCTC has a mobile app and a dedicated website to offer online railway ticket booking facility.

Competitive Strengths

An authorized service provider by Indian Railways, Railway and non-railway tourism and hospitality services, Exclusively authorized by Indian Railways to provide packaged drinking water and A strong operating system across different segments.

Issue Details

Dates - Sep 30, 2019 - Oct 3, 2019

Price – Rs 315 - Rs 320 Per Equity Share

Minimum Lot – 40 Shares

Minimum Application Amount – Rs 12800

Total Issue Size – Rs 645 Cr (Pure OFS)

Promoters of the Company

The President of India acting through the Ministry of Railways is the promoter of the company.

Objects of Offer

To carry out the disinvestment of Equity Shares by the Selling Shareholder and to achieve the benefits of listing the Equity Shares on the Stock Exchanges.

Risks

The business and revenues are substantially dependent on the policies of the Ministry of Railways and operations of Indian Railways. As a CPSE wholly owned by the Government of India and under the administrative control of the Ministry of Railways, the scope of services, and the fees they charge, are primarily determined by the Ministry of Railways.

Margins have been flat for the past 3 years (OPM and NPM)

License Fees on an uptrend with huge spikes in the cost.

Note :- 27			
Expenses of Catering Services			
Particulars	Amount (₹ in Millions)		
	For the year ended 31st March 2019	For the year ended 31st March 2018	For the year ended 31st March 2017
Expense of Catering Services Provided			
On Board Catering & Other Charges - Rajdhani & Shatabdi/Premium Trains	4,482.22	1,515.80	361.26
	<u>4,482.22</u>	<u>1,515.80</u>	<u>361.26</u>
Expense of Concession Fee, License Fee etc. (Share of Railways)			
Concession Fee	104.18	15.09	1.03
License Fee	1,544.74	718.42	267.81
User Charges - Food Plaza	2.06	3.56	7.91
License Fee - Food Plaza	255.58	209.78	142.81
License Fee Railway Land - Food Plaza	2.24	0.09	0.09
	<u>1,908.80</u>	<u>946.93</u>	<u>419.65</u>
	<u>6,391.02</u>	<u>2,462.72</u>	<u>780.91</u>

As a CPSE, they are often authorized by the Government to offer various products and services to the public on behalf of Indian Railways, as well as receiving operative support from the Ministry of Railways from time to time.

IT is the sole provider of online railway ticketing, catering services, and packaged drinking water for trains and stations, and certain other services we provide; if the Government were to allow open competition in all or any of these areas, it may impact its financial results. (For instance private train operators plans going on currently for the Tejas Trains)

Business can be negatively affected if they are unable to maintain quality standards.

They have no ability to pass on any increase in raw ingredient costs due to price regulation by Indian Railways; also they do not hedge risk against market fluctuations in commodities market.

Strikes, work stoppages or increased benefit or wage demands by our employees or employees of our contractors could adversely affect our business and results of operations.

As of March 31, 2019, they had contingent liabilities of ₹1,667.92 million, which primarily relate to service tax, VAT and other taxes.

Big 3 Financial Statements Analysis –

Balance Sheet

Balance Sheet Analysis				
Year	2019	2018	2017	
Balance Sheet Size	2583.78	2319.1	1826.45	
Total Current Liabilities	1474.24	1274.94	947.7	
Current liabilities as % of total BS Size	57%	55%	52%	Current liabilities forms big portion of liabilities, as it is working capital intensive business
Equity	1042.84	954.45	786.55	
Debt	1540.94	1364.65	1039.9	debt has increased
Debt to Equity	1.48	1.43	1.32	ratio not so good
Gearing Ratio	38%	56%	23%	gearing ratio good, it did spike in between
Trade Receivables	581.73	550.94	289.4	trade receivables high as it is dependent on govt for its revenues
Receivables as % of total assets	23%	24%	16%	high ratio
CL	1474.24	1274.94	947.7	
NCL	66.69	89.63	92.18	
Total debt	1540.93	1364.57	1039.88	debt has spiked up as well but
Cash	1140	830	860	cash is increasing, good
Equity	1042.84	954.45	786.55	
Gearing Ratio	38%	56%	23%	gearing ratio is good, with a spike in between

Income Statement Analysis			
Year	2019	2018	2017
Income	1867.88	1470.46	1535.38
Other Income	88.77	99.09	67.46
Cost of materials consumed	93.31	94.81	95.93
Employee Benefit Expenses	195.06	192.18	163.84
Finance Costs	2.35	2.91	2.53
EPS	17.04	13.79	4.32
Cost of materials as % of Income	5%	6%	6%
Cost of catering	639.1	246.27	78.09
Cost of Tourism	309.01	305.2	415.57
Catering cost as % of income	34%	17%	5%
Torism cost as % of income	17%	21%	27%
total associated costs as % of income	56%	44%	38%
Year	2019	2018	2017
Income	1867.88	1470.46	1535.38
EBITDA	460.95	372.21	380
D&A	28.64	23.66	22.41
Finance	2.35	2.91	2.53
PBT	429.96	345.64	355.06
Net Profit	272.59	220.62	229.08
OPM	24.68%	25.31%	24.75%
NPM	14.59%	15.00%	14.92%

Notes - Income on upward trend

Other income is good as well

Cost of materials consumed on a downward trend, good for the company but that's not the true measure as their main costs are catering and tourism expenses

Employee benefit expenses rising - No surprises here as IRCTC is at the mercy of its employees so expenses will rise YoY

comfortable level

upward trend of EPS

ob board catering and license fees have spiked

OPM and NPM same for last 3 years – big de-motivator to invest in this company!

Cash Flow

Cash Flow Analysis			
Year	2019	2018	2017
Net Cash Flow from/(used in) Operating Activities: (A)	429.66	23.62	338.23
Net Cash Flow from/(used in) Investing Activities: (B)	-346.35	40.2	93.56
Net Cash Flow from/(used in) Financing Activities (C)	-179.39	-56.79	-139.59
Cash & Cash Equivalents As At end of the Year	460	493	486.00
free cash flow (CFO - CF)	83.31	-16.58	431.79
FCF generation has been good, year 2018 has been an outlier in CFO due to increase in trade receivables			

Valuations –

Name	EPS	P/E	P/BV	P/S	D/E	RoA	RoE	RoCE	Mcap	PEG Ratio
IRCTC	17.04	18.78x	4.91x	2.74x	1.48x	10.55%	26.14%	55.13%	5120 Cr	0.852

At upper price band it wants a PE of 18.78 PE and 4.91 P/BV. Its Debt to equity is high at 1.48x.

(Rs cr)	IRCTC
Net profit	272.59
total assets	2583.78
total equity	1042.84
capital employed	784.48
EBIT	432.48
RoA	10.55%
ROE	26.14%
ROCE	55.13%
EPS	17.04
Book value	65.18
CMP	320
P/E	18.77934272
Sales	1868
Price to sales	2.74x
OPM	23.15%
NPM	14.59%
Price to book value	4.909481436
Debt to Equity	1.48
sales	1868
issued , paid up capital shares	160,000,000
in value	51,200,000,000
Mcap @ upper band	5120 cr

Conclusion –

IRCTC through their multiple segments cater to the various demands of a Rail Traveler.

On valuation front, at the upper end of the price band, IRCTC is valued at a 4.91x P/BV and 18.78x P/E. At the given valuations, its return ratios i.e. it's RoE of 26.14% and RoCE of 55.13% look attractive. But its debt to equity ratio is also high at 1.48x.

Owing to its niche sector, it may garner a good subscription. If on day 2 a good demand comes a person may apply for minimum lot for some listing gains.

For the long term do not subscribe or buy.