



**SMC Ranking**

★ ★ ★ ☆ ☆ (3/5)

### Issue Highlights

Industry	Railway
Offer for sale (Shares)	20,160,000
Employee reservation	160,000
<b>Net Offer to the Public</b>	<b>20,000,000</b>
Issue Size (Rs. Cr.)	635-645
Price Band (Rs.)	315-320
Discount offered to Retail & Employee investors	Rs. 10
Offer Date	30-Sep-19
Close Date	3-Oct-19
Face Value	10
Lot Size	40

### Issue Composition

	In shares
Total Issue for Sale	20,000,000
QIB	10,000,000
NIB	3,000,000
Retail	7,000,000

### Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	100.00%	87.40%
QIB	0.00%	6.25%
NIB	0.00%	1.88%
Employee reservation	0.00%	0.10%
Retail	0.00%	4.38%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

\*calculated on the upper price band

### Objects of the Issue

#### The objects of the Offer are-

- "To carry out the disinvestment of Equity Shares by the Selling Shareholder constituting Company's paid up Equity Share capital; and "
- To achieve the benefits of listing the Equity Shares on the Stock Exchanges.

#### Book Running Lead Manager

- Yes Securities (India) Limited
- SBI Capital Markets Limited
- IDBI Capital Markets & Securities Limited

#### Name of the registrar

- Alankit Assignments Limited

### About the Company

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, IRCTC operates in four business segments, namely, internet ticketing, catering, packaged drinking water under the "Rail Neer" brand, and travel and tourism.

### Revenue from Business Segments (Rs. Crore)

Particulars	Fiscal 2017	Fiscal 2018	Fiscal 2019
<b>Catering</b>	398.63	740.27	1044.50
<b>Internet Ticketing</b>	469.31	207.12	234.59
<b>Tourism</b>	264.00	189.90	253.14
<b>State Teertha</b>	264.82	213.48	190.87
<b>Rail Neer</b>	159.05	169.20	176.29

### Strength

**Authorised by the Ministry of Railways to offer Indian Railway tickets online:** The company is the only entity authorized by Indian Railways to offer railway tickets online through its website [www.irctc.co.in](http://www.irctc.co.in) and mobile application, "Rail Connect". Approximately 72.60% of Indian Railways' tickets are booked online with an average of more than 0.84 million tickets booked through [www.irctc.co.in](http://www.irctc.co.in) and "Rail Connect" on a daily basis. Between Fiscal 2014 and Fiscal 2019, online rail bookings have registered an approximately 12.5% CAGR to reach approximately 28.4 crore annually, with e-booking penetration rising to approximately 70% in Fiscal 2019. Online rail bookings are expected to grow at approximately 8% CAGR to reach approximately 42-43 Crore in fiscal 2024, with e-booking penetration rising approximately 81 – 83% during the same period.

**Authorised catering service provider to passengers traveling by Indian Railways:** As a CPSE under the Ministry of Railways, it is the only entity authorized to manage the catering services on board trains and major static units at railway stations under the Catering Policy 2017. The Catering Policy 2017, together with the existing range of products and services it offers, and exclusivity in railway catering has further expanded the scale of its operations.

**Comprehensive tourism and hospitality service provider in India:** The company provides railway and non-railway packages such as rail tour packages, Bharat Darshan and Aastha tourist trains (budget trains), Maharajas' Express (luxury trains), Majestic tourist trains, AC tourist trains, theme based tourist trains, state special tourist trains to name a few. To capture the market growth, it works closely under the Ministry of Railways' directive. Working closely with the Central Government, it is an authorized entity to operate special election trains for movement of paramilitary forces across India for general and assembly elections. It believes that this collaborative partnership with the Central and State Government provides it with additional revenues.

**Exclusively authorized for manufacturing and supplying packaged drinking water at railway station and trains:** The company is the only entity authorized by the MoR to manufacture and distribute packaged drinking water at all railway stations and trains, subject to availability of Rail Neer. The total average daily demand for packaged drinking water in India at all railway stations and in trains is approximately 1.8 million liters per day, and the company is able to cater to approximately 45% of the total demand based on the existing production capacities of its ten Rail Neer plants. Its overall production capacity at the ten operational plants of Rail Neer is approximately 0.83 million liters per day. It has also installed 1,950 WVMs at 700 railway stations as of August 31, 2019 to provide purified, chilled and potable drinking water to railway passengers at an affordable rate. The packaged drinking water market is expected to further grow by 16-17% CAGR and reach ₹ 180-185 billion in fiscal 2024. With the current mismatch in supply and demand, it has a significant opportunity to grow its business operation by making Rail Neer more accessible to general public at railway stations and on trains.

**Robust operating system and internal controls:** The company has a robust operating system and internal controls that enabled it to deliver quality products and services to its customers across different segments of its operation. Over the years, it has implemented several well-tested systems and internal controls procedures such as Customer Satisfaction Survey, Complaint Monitoring, 24 hour, 365 day monitoring through control offices, Comprehensive Selection of Service and Product offerings, Robust Contract Management and Ability to provide quality services.

### Strategies

**Diversifying and offering new services to the passengers of Indian Railways and others:** The company is the one of key strategic partners of Indian Railways in various value chains and strategies. It strives to strengthen and enhance the services provided by Indian Railways, and tap opportunity presented by digital payments in the Indian economy which are growing at significant pace.

**Continue to leverage the Government's policy relating to its business:** The company will continue to capture new opportunities arising from the Catering Policy 2017, such as the providing catering services on trains having pantry car service. It is the only entity authorized by the Ministry of Railways to manufacture and distribute packaged drinking water at all railway stations and trains, subject to availability of Rail Neer. Currently, it operates ten Rail Neer plants with an installed capacity of approximately 1.09 million litres per day, which caters to approximately 45% of the current demand of packaged drinking water at railway premises and in trains. To increase its presence and meet the remaining and future requirements of the packaged drinking water at station premises and trains, the company is commissioning six new Rail Neer plants at Sankrail, Jagi Road, Nagpur, Bhusawal, Jabalpur, and Una.

**Strengthen products and services offering online:** The company offers products and services on various online platforms, including [www.irctc.co.in](http://www.irctc.co.in). To leverage the significant number of visitors on its website, it intends to continuously develop its online offerings with enhanced product design capabilities and other value added services in order to offer its customers a personalised experience. As part of its new product offering and cross-selling effort, the company is offering optional travel insurance for rail passengers. As of August 31, 2019, more than 1,000million passengers of Indian Railways have opted for this travel insurance.

**Strengthen operational efficiencies:** In order to strengthen operational efficiencies, the company will continue to outsource non-core activities, such as installing WVMs at railway stations, and unbundling preparation, distribution, cleaning and maintenance in relation to catering services in order to achieve greater control and better efficiency. At present, the company has also adopted initiatives such as Attracting and retaining talented employees, Enhancing quality monitoring mechanism and Exploring new opportunities by leveraging the strengths of its existing resources to improve operational efficiencies

## Risk Factors

**Business and revenues are substantially dependent on Indian Railways:** The business and revenues are substantially dependent on Indian Railways. Any adverse change in policy of the Ministry of Railways may adversely affect its business and results of operations.

**Rely on information technology:** The company relies on information technology to operate its internet ticketing and tourism business and maintain its competitiveness. Any failure to adapt to technological developments or industry trends could harm its business.

**Exposed to risks associated with online security:** The company is exposed to risks associated with online security, security of its customers' personal information and credit card fraud. Any failure to manage these risks may expose the company to litigation, liability and damage to its reputation and brand image.

**Rely on awareness of its brand:** The company relies on awareness of its brand to build its customer base and grow its revenues. Any failure to maintain or enhance consumer awareness of its brand could have a material adverse effect on its business, financial condition and operation.

**Operate in highly competitive business sectors:** The company operates in highly competitive business sectors in the Indian market, and in case the company fails to compete effectively, there may be material adverse effect on its financial condition, results of operations and its business.

## Peer comparison

As per the RHP, there are no listed companies in India which are engaged in the same line of business as the company and comparable to its scale of operations, hence comparison with industry peers are not applicable.

## Valuation

Considering the P/E valuation on the upper price band of Rs.320, EPS and P/E of FY2019 are Rs. 17.04 and 18.78 multiple respectively and at a lower price band of Rs. 315, P/E multiple is 18.49. Looking at the P/B ratio on the upper price band of Rs.320, book value and P/B of FY19 are Rs. 65.18 and 4.91 multiple respectively and at a lower price band of Rs. 315 P/B multiple is 4.83. No change in pre and post issue EPS and Book Value as the company is not making fresh issue of capital

## Industry overview

As per the RBI estimates released on August 7, 2019, GDP growth for fiscal 2020 is expected to be 6.9%, attributed to a weakening of private consumption and falling domestic investment activity, along with slowing exports on account of weak global demand due to escalation in trade wars. The Monetary Policy Committee expects growth in the range of 5.8-6.6% in the first half of 2019-20 and 7.3-7.5% in the second half. However, political stability, high capacity utilisation, buoyant stock market conditions, and higher financial flows to the commercial sector are likely to support investment activity during the period. Total railway passenger traffic has remained nearly flat over the past four years, going from 8,397 million passengers in fiscal 2014 to 8,286 million passengers in fiscal 2018. Passenger traffic, after falling by 1-2% between fiscals 2014 and 2016, witnessed a revival in fiscal 2018, largely driven by a turnaround in non-suburban traffic. Total railway freight traffic grew from 1,052 million tonnes in fiscal 2014 to 1,160 million tonnes in fiscal 2018, registered a 2.5% CAGR during the period. The government announced a planned outlay of Rs 1.59 trillion for the railways in the Interim Union Budget 2020, 14% higher than the preceding year's revised estimate of Rs 1.39 trillion, thus driving investment in the sector. About 41% of the planned outlay is expected to be financed through budgetary support, and the remaining through internal sources and market borrowings/institutional finance. In the short term, investments in railways are expected to continue the strong momentum as government maintains focus on network decongestion, particularly doubling and electrification works. Allocation to decongestion projects is estimated to be way above

that made towards expansion projects, as the former is bankable/amenable to external financing (provide a rate of return greater than 12% based on detailed project reports prepared by the railway zones), cheaper, and likely to be completed and monetized quickly.

### Outlook

IRCTC has an established track record of delivering strong annual returns to shareholders. The company has been a profitable and debt free company since incorporation. Revenue of the company was impacted in FY17 due to removal of service charge (between Rs. 20 – 40) on each AC ticket booked online. However, from September 1, 2019, the company has proposed to implement service charge at the rates of Rs. 15 for Non-AC and Rs. 30 for AC ticket booked online and it is expected that it would give boost to the company's revenue.

### An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	September 30, 2019
Bid/Offer Closing Date	October 03, 2019
Finalisation of Basis of Allotment with the Designated Stock Exchange	October 09, 2019
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	October 10, 2019
Credit of Equity Shares to depository accounts of Allottees	October 11, 2019
Commencement of trading of the Equity Shares on the Stock Exchanges	October 14, 2019

## Annexure

### Consolidated Financials

#### Profit & Loss

Rs. in Cr.

Particulars	Period ended 31-Mar-19 (12 Months)	Period ended 31-Mar-18 (12 Months)	Period ended 31-Mar-17 (12 Months)
Revenue from operations	1,867.88	1,470.46	1,535.39
Total expenditure	1,495.71	1,197.36	1,222.83
<b>Operating Profit</b>	<b>372.17</b>	<b>273.10</b>	<b>312.55</b>
OPM%	19.92	18.57	20.36
Other Income	88.78	99.10	67.47
<b>PBDIT</b>	<b>460.95</b>	<b>372.20</b>	<b>380.02</b>
Depreciation	28.64	23.66	22.41
<b>PBIT</b>	<b>432.31</b>	<b>348.54</b>	<b>357.60</b>
Interest	2.35	2.91	2.54
<b>PBT</b>	<b>429.96</b>	<b>345.63</b>	<b>355.07</b>
Tax	157.37	125.01	125.99
<b>Profit After Tax</b>	<b>272.59</b>	<b>220.62</b>	<b>229.08</b>

**Balance sheet is on next page**

## Balance Sheet

Rs. in Cr.

Particulars	As on 31-Mar-19	As on 31-Mar-18	As on 31-Mar-17
<b>Assets</b>			
<b>Non-current</b>	<b>408.30</b>	<b>426.16</b>	<b>458.97</b>
Property, plant and equipment	147.05	155.65	157.78
Capital work-in-progres	40.38	7.65	16.83
Investment Property	27.66	27.62	0.00
Other Intangible Assets	7.55	6.56	12.62
Financial Assets			
Investments	0.00	0.00	0.00
Loan	2.39	2.06	2.20
Other Financial assets	0.08	0.97	0.41
Deferred Tax Assets (Net)	77.08	46.35	57.52
Other Non-Current Assets	22.87	12.03	12.41
<b>Total non-current assets</b>	<b>325.05</b>	<b>258.88</b>	<b>259.76</b>
<b>Current assets</b>			
Inventories	7.89	7.41	6.58
Financial Assets			
i. Trade Receivables	581.73	550.92	289.40
ii. Cash and Cash Equivalents	460.07	493.16	486.12
iii. Bank Balance other than (ii) above	679.97	340.71	366.85
iv. Loans	8.35	8.99	9.58
v. Others	34.73	17.07	15.92
Current Tax Assets (Net)	10.09	8.28	6.84
Other current assets	475.90	633.69	385.41
<b>Total current assets</b>	<b>2258.73</b>	<b>2060.23</b>	<b>1566.69</b>
<b>Total Assets</b>	<b>2583.78</b>	<b>2319.10</b>	<b>1826.45</b>
<b>Non-current liabilities</b>			
Liabilities			
Non-current Liabilities			
Financial Liabilities			
Other Financial Liabilities	14.72	24.23	5.88
Provisions	46.16	58.47	77.97
Other Non-current Liabilities	5.81	6.94	8.33
<b>Total non-current liabilities</b>	<b>66.69</b>	<b>89.64</b>	<b>92.19</b>
<b>Current liabilities</b>			
Financial Liabilities			
Trade payables			
Total outstanding dues of micro enterprises and small enterprises	1.98	0.86	0.36
Total outstanding dues of creditors other than micro enterprises and small enterprises	189.98	149.97	137.21
Others	625.93	520.95	423.19
Other Current Liabilities	617.16	599.90	380.21
Provisions	13.75	3.28	1.21
Current tax liabilities	25.45	0.00	5.51
<b>Total Current Liabilities</b>	<b>1474.25</b>	<b>1274.95</b>	<b>947.71</b>
<b>Total Liabilities</b>	<b>1540.94</b>	<b>1364.58</b>	<b>1039.90</b>
<b>NET Worth</b>	<b>1042.84</b>	<b>954.52</b>	<b>786.55</b>
Net worth represented by:			
Share capital	160.00	40.00	40.00
Other Equity	882.84	914.53	746.56
<b>Total Networth</b>	<b>1042.84</b>	<b>954.53</b>	<b>786.56</b>

## RANKING METHODOLOGY

<b>WEAK</b>	★
<b>NEUTRAL</b>	★★
<b>FAIR</b>	★★★
<b>GOOD</b>	★★★★
<b>EXCELLENT</b>	★★★★★

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