



About Company



Indian Railway Catering and Tourism Corporation Limited (“IRCTC”), a government Mini Ratna-1 company incorporated under the Companies Act, 1956 on 27th September 1999. The company operates in 4 business segments namely, Internet Ticketing, Catering, Packaged Drinking Water under the “Rail Neer” brand, and Travel and Tourism. IRCTC is the only entity authorized by Indian Railways to provide catering services to railways, online railway tickets and packaged drinking water at railway stations and trains in India. The company website (www.irctc.co.in) is one of the most transacted websites in the Asia-Pacific region. As on 31st Aug 2019, around 1.40 million travelled on Indian Railways and in the last five months ended on 30th Aug, nearly 15 to 18 million transactions were placed per month through the website. The average transaction volume was around 28 million.

With a specific objective to build a “one stop solution” for customers, the company has also diversified into other businesses segments, including non-railway catering and services such as e-catering, executive lounges and budget hotels. IRCTC launched i-Pay payment gateway to manage domestic debit/credit transactions in October 2018. The company is working on technical capabilities and operational utility of the gateway to use it in additional market segments. IRCTC is also venturing as Private train operator with 2 pilot projects scheduled in 1st week of October. The company has given full freedom to determine the trains’ fares and facilities based on the demand. IRCTC has decided to restore service charges on online train ticket booking from September 2019, which was suspended as per the Government directives after demonetisation.

Issue details

Price Band (in ₹per share)	315-320
Issue size (in ₹ Crore)	627.88-637.96
Total number of shares (lakhs)	201.60
Issue open date	30/09/2019
Issue close date	03/10/2019
Tentative date of Allotment	09/10/2019
Tentative date of Listing	14/10/2019
Offer Allocation	QIB-50 %, Retail—35%, NII-15%
No. of shares for retail investors (10%) (lakhs)	70.00
No. of shares for Eligible Employees (lakhs)	1.60
Minimum order quantity	40
Face value (in ₹)	10
Retail and Eligible Employees Discount (in ₹)	10
Effective Price Band for Retail & Employee (in ₹per share)	305-310
Amount for retail investors (1 lot)	12200-12400
Maximum number of shares for Retail investors at lower Band	640(16 Lots)
Maximum number of shares for Retail investors at upper band	640(16 Lots)
Maximum amount for retail investors at lower Band- upper band (in ₹)	195200-198400
Exchanges to be listed on	BSE, NSE

Promoters

- President of India acting through the Ministry of Railways.

Objective of the Offer

The objects of the Issue are:

1. To carry out the disinvestment of up to 20,160,000 Equity Shares, including Employee Reservation Portion, by the Selling Shareholder constituting 12.60% of Company’s Pre-Offer paid up Equity Share capital
2. To achieve the benefits of listing the Equity Shares on the Stock Exchanges.



Brief Financials (Restated Financial Statement)			
Particulars (Rs. Cr)	FY19	FY18	FY17
Share Capital ^	160.00	40.00	40.00
Revenue from Operation	1867.88	1470.46	1535.39
EBIDTA	398.98	319.07	330.12
EBIDTA (%)	21.36	21.70	21.50
PBT	429.96	345.63	355.07
PAT	272.60	220.62	229.08
PAT as % to revenue	14.59	15.00	14.92
Basic EPS(Rs.)	17.04	13.79	14.32
Net Asset Value	65.18	59.66	49.16
P/E*	18.78	23.21	22.35
P/B*	4.91	5.36	6.51
* Calculated at the upper band			
^ Increase in equity share capital due to the Bonus issue			

Industry Review

Huge Investments in Railways sector over the next three years (FY19-FY21): The Government has 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.

Key government initiatives for tourism industry: World Travel & Tourism Council (WTTC) expects the direct contribution of India's travel and tourism industry to GDP to grow by 12% and reach Rs 11.7 trillion in fiscal 2024, driven by factors such as improved connectivity and affordability of air and rail travel, government policy initiatives for promoting domestic tourism, growing convenience of online travel bookings, and higher exposure to unexplored domestic and foreign tourist destinations due to social media.

According to the United Nations World Tourism Organization UNWTO tourism highlights 2018, South Asia recorded about 6% increase in international tourist arrivals in 2017. India drove the regions' performance by about 7% growth in international tourists making India the top destination in South Asia. The MoT has undertaken several key initiatives to promote tourism in the country, at a national as well as global level. Augmenting tourism infrastructure, easing of visa regime, assurance of quality standards in services of tourism service providers, projecting the country as a 365 days' tourist destination, promoting tourism in a sustainable manner, etc. are some of the areas which MoT is working upon to increase and facilitate tourism in India.

India's rising internet penetration: India has witnessed a drastic surge in internet users over the past few years with internet penetration as a percentage of total population crossing 49.9% as of fiscal 2019. CRISIL Research expects the total number of internet subscribers in the country to reach more than 1000 million by fiscal 2024 resulting in 62% internet penetration, out of which more than 96% will be wireless broadband users.



Company Review & Competitive Strengths

Robust growth in E-booking industry: E-booking refers to online bookings, which are typically done over the internet by using laptops, desktops, tablets and mobiles. Offline bookings include bookings made through phone calls, and walk-ins. Indian Railway Catering and Tourism Corporation (IRCTC) launched its rail e-booking services in 2002, which helped the rail booking segment gain significant ground in e-booking penetration. IRCTC is the only entity authorized to provide rail e-booking facility, with other OTAs routing their rail e-booking transactions through IRCTC's booking engine. Between fiscals 2014 and 2019, online rail bookings have registered a ~12.5% CAGR to reach ~284 million, with e-booking penetration rising to 68-70% in fiscal 2019. Indian booking industry currently estimated at ₹ 2,335-2,355 bn Indian e-booking industry to grow at 16-18% CAGR from fiscals 2019 to 2024.

IRCTC has resumed conveyance charges from September 2019. The charges are Rs 15 per ticket for non-AC and Rs 30 for AC classes. This is going to fetch good revenues to the company going forward.

Catering Services- Substantial and growing business: Catering is the main business vertical of the company and contributes around 55% of the total revenue. IRCTC has started catering business since 2003 after taking partial charge from Indian Railways. Subsequently Catering Policy 2017 has given entire catering services on mobile units having pantry car services from Indian Railways and also part of static catering services.

IRCTC catering services are classified into 3 categories namely:

- **Mobile Catering:** Mobile catering refers to catering services provided to rail travellers aboard a train, through a pantry car. The company extends its services in ~350 trains like Rajdhani, Shatabadi, Duronto, Gatiman, Tejas, Vande Bharat trains. As per Catering Policy 2017, all pantry car services were reassigned to IRCTC with the license fee sharing ratio at 40:60 and the majority of food production and services were unbundled. IRCTC is planning to roll out at least 10 new pantry cars in Fiscal 2020 once the design is approved by Indian Railways.
- **Static Catering:** Static catering refers to catering services offered to patrons at static units at railway establishments located at railway stations across the country which includes Jan Ahars, Cell Kitchens, Refreshment Rooms, Food Plazas, Fast Food Units, and Food Courts. There are 530 static units operated by IRCTC as of August 31 2019.
- **E-Catering:** E-catering is an online food ordering service, launched by IRCTC in September 2014, that allows rail travelers, who are willing to pay higher prices for variety in food options, to order food items from partner restaurants approved by IRCTC. The partner restaurants are selected through a tendering process and pay IRCTC 12% flat commission of the order value for every order received. E-Catering services are showing good traction and likely to grow at 13-14% due to addition of new partner restaurants, ease of on-seat food delivery and growing preference of travelers. Average meals booked per day was around 1 in October 2014, steadily growing to ~8,500 in July 2018, and further up to 19,847 meals in July 2019. As of July 2019, e-catering services had ~700 partner restaurants listed on its portal. During 2015-19, revenue from e-catering services grew at a ~609% CAGR, reaching Rs ~402 million in fiscal 2019 from Rs ~0.2 million in fiscal 2015

IRCTC's catering revenues is expected to grow at 7.5-8.5% CAGR between fiscals 2019 and 2024 to reach Rs 14.5-15.5 billion in fiscal 2024. The following are the key drivers:

- ◆ Likely increase in passenger traffic due to addition of new non-suburban trains i.e. long-distance trains
- ◆ Rising affordability and variety of food items available in catering services
- ◆ Increasing coverage of catering services through addition of base kitchens and static catering units

Emerging Train Travel Business: IRCTC has been mandated by the Indian Railways to provide tourism and travel related services. The various tourism services offered by them include Luxury Train Tours Maharajas' Express, Buddhist Circuit Special Train, Bharat Darshan Special Tourist Trains, Theme based tourist trains, Rail Tour Packages, international and domestic air packages, land tour packages, hotel booking, car rental, LTC tours and event management. Presently State Special Trains contribute 67.50 % of total train travel business of Rs 299.4 crores as of FY19.

Foreign tourist arrivals (FTAs) registered on-year growth of 5% to reach 10.5 million in 2018, with FTAs on e-visa continuing its strong growth at 39% on-year, reaching 2.37 million in 2018 from 1.7 million in 2017. As per the CRISIL research the FTAs are going to rise to 17.1 million by FY23. At a global level, India has been consolidating its position as a tourism destination. As per the Travel & Tourism Competitiveness Index 2017 of the World Economic Forum, India figured in the list of 'Most improved countries in the travel and tourism competitiveness Index 2017 gaining 12 places to reach the 40th position globally in 2017 from 52nd in 2015.



Packaged Drinking Water (PDW): Packaged Drinking Water (PDW), also called bottled water operates in 3 models namely Standalone manufacturing, Contract manufacturing, Franchisee operations. As of fiscal 2019, the share of organised segment in the PDW market is 60-65%. Strong growth in organised players for the past five years due to growing health awareness and improved availability of packaged drinking water. Organised packaged drinking water market likely to reach 185 billions by FY24 from 85 billion as of FY19E. With IRCTC (Rail Neer) being provided a monopoly to market bottled water at all Railway establishments; it has been fast expanding its presence across Pan-India to supply at all Railway stations. With a significant step up in investments by IRCTC through PPP model and Semi-PPP model, Rail Neer is expected to increase the production even to cover the non-railway market. The Railway establishment market size is expected to grow to Rs 10 Billion from Rs 8.5 Billion as of FY19E as per CRISIL research.

Risk Factors

Dependency on Ministry of Railways: The company entire business model and revenue streams are depending on the Ministry of Railways and Operations of Railways. Charges, facilities on various services and products may undergo review by the Ministry of Railways at any point of time. For example, the Ministry of Railways in 2016 removed the charges levied on passengers booking railway tickets online as service charge at rates of ₹20 per ticket for non-AC classes and ₹40 per ticket for AC classes. Presently IRCTC is the sole provider of online railway ticketing, catering services, and packaged drinking water for trains and stations. However, Ministry of Railways may permit more competition in mobile or static catering, packaged drinking water or another area in which IRCTC currently have a monopoly position.

Failure in Technology upgradation or operations: IRCTC runs one of the biggest online ticket servicing portals. Thus, continuous upgradation of technology to improve interface is essential to provide customers enhanced services, features and functionality, while maintaining the reliability and integrity of systems and infrastructure in a cost-effective manner. Any failure in doing so may result in reputation loss. Moreover, the company handles huge database of Customers personal information and secure financial transactions. Any deviation or leakage of information may lead to litigation, liability and reputational loss.

Regulatory risk: The principal packaging materials used by the company for packaged drinking water include preforms for PET bottles, shrinkwrap films, plastic closures and labels. Environmentalists have long discouraged the use of plastic products as plastic is not biodegradable and is considered environmentally unfriendly. Change in the Government stand on PET bottles may adversely affect the business. Moreover, Water vending Machines are getting traction these days. Any other alternative modes of drinking water may affect the business dynamics of the company.



Peer Comparison

There are no listed companies in India which are engaged in the same line of business and comparable to IRCTC's scale of operations, hence comparison with industry peers are not applicable.

Credit Rating

IRCTC is totally debt free & cash rich company. Thus, there is no rating available for this company.

Our Views

IRCTC Ltd has been showing stable performance with huge untapped potential. Recently, Finance Ministry has reduced corporate tax which would likely to improve NET Profit margin from present 13.93% to ~16.4 % resulting around 18% increase in EPS. In addition, restored conveyance fees w.e.f September 2019 is going to reflect from FY20 financials. Apart from that, the company has taken many profitable initiatives (first private train starting from October-2019, advertising bids, proposed 10 Rail Neer plants, re-designing Panty CAR, etc.) may generate positive cash flows.

For the last three fiscals the company has posted an average EPS of ₹15.50 and an average RoNW of 25.63%. It followed liberal dividend policy, for last three-year average dividend pay-outs is around 40%. Issue is priced at P/E of 18.33 and P/BV of 4.91 (on upper price band) on the basis of its EPS of ₹17.04 and NAV of ₹65.18 as of FY19 respectively. Thus offer price appears to be attractive, considering its Exclusive rights over business model. We believe a good upside potential in the long term. One may subscribe to the IPO for listing as well as long term gains.

Sources: Company Website and red herring prospectus



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