

Subscribe for Long Term

Issue Details	
Price Band (Rs)	315 -320
Face Value(Rs)	10
Issue Size(Rs)	645.12 Cr
Issue Type	Book Building
Minimum lot	40 Shares
Issue Opens	September 30, 2019
Issue Closes	October 3, 2019
Listing on	BSE, NSE

Indicative Timeline	On or before
Finalization of Basis of Allotment	October 9, 2019
Unblocking of Funds	October 10, 2019
Credit of shares to Demat Account	October 11, 2019
Listing on exchange	October 14, 2019

Other Detail	
Book Running Lead Managers	IDBI Capital Markets & Securities Limited, SBI Capital Markets Limited, YES Securities (India) Limited
Registrar	Alankit Assignments Limited

“Employees and Retail Investors would be eligible for a discount of Rs.10 per share.”

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Indian Railway Catering And Tourism Corporation Limited

Company Background

Incorporate in 1999, Indian Railway Catering And Tourism Corporation Limited (IRCTC) is a Central Public Sector Enterprise, wholly owned by the Government of India and under the administrative control of the Ministry of Railways. The company was incorporated with the objective to upgrade, modernize, and professionalize hospitality services on trains, railway stations, and tourism locations. IRCTC is expected to promote international and domestic tourism in India through public-private participation. The company handles services such as online ticket booking services, catering, and tourism. It also manufactures and distributes packaged drinking water in trains and at all railway stations.

In 2008, IRCTC was awarded Mini Ratna status (Category-I Public Sector Enterprise) by the Government of India. They carry out ticket booking business through the website www.irctc.co.in, which is one of the most transacted websites in the Asia-Pacific region with a volume averaging 25mn-28mn transactions per month as per the data of last five months ended August 31, 2019.

Issue Details

IPO offers 2.01Cr shares of face value Rs.10 each amounting to Rs.645.12Cr on the upper price band of Rs.320. It is an offer for sale by President of India, promoter of company and issue will dilute 12.6% of post issue paid up capital. Out of the total shares offered, 1.6lac shares are allotted for employees. **Employees and Retail Investors would be eligible for a discount of Rs.10 per share.** There will be no anchor investment.

Objectives Of the Issue are:

- To carry out the disinvestment of Equity Shares by the promoter.
- To achieve the benefits of listing the Equity Shares on the Stock Exchanges.

IPO share allotment pattern

Category	Allocation	Number of Shares	Issue Size (Rs.Cr) at	
			Lower Band (Rs. 315)	Upper Band (Rs.320)
QIB	50%	1,00,00,000	315	320
Non Institutional	15%	30,00,000	94.5	96
Retail	35%	70,00,000	220.5	224
Net Issue	100%	2,00,00,000	630	640
Employees		1,60,000	5.04	5.12
Total		2,01,60,000	635.04	645.12

Source: Company RHP, ACMIIL Research

Outlook and Valuations

IRCTC is the only authorized entity by Indian Railways to provide hospitality services such as catering and packed water supply to railways. They enjoy a monopoly status in railway ticketing and catering business segments. Recently, they took up a new challenge of operating Tejas train on two routes, which would boost the revenue and expand IRCTC brand across Indian Railways. At the upper price band, asking price is at a P/E of 18.8X at FY19 EPS of Rs.17. **We recommend to subscribe the issue for listing gains and also from a long-term prospective.**

Business Overview

IRCTC is a one stop solution provider for Indian Railways. They are the only entity authorized by Indian Railways stations to provide various hospitality services on the trains and on all railway stations. IRCTC's business cover different segments such as catering services to railways, online ticket booking, travel & tourism, and packaged drinking water at railway stations and trains in India.

Business Segments are:

- **Catering:** As of FY19, this business segment contributes 55% of total revenue. IRCTC provides mobile catering on 350 trains of which 69 are pre paid trains like "Rajdhani" and "Shatabadi". The company operates 530 static catering units at railway stations, 57 Jan Ahaars, 169 refreshment rooms, 138 food plazas, and 152 fast food units. For providing catering on board, they have 27 cell kitchens and 14 base kitchens across country. They also provide e catering in collaboration with various local restaurants.
- **Internet Ticket Booking:** IRCTC's website is widely used for train booking and has a penetration of 60%. Tickets of all kind of trains can be booked and even tours can be planned on it. Daily there are 7.2mn logins and ~0.84mn tickets are booked per day. Their portal is the most transacted website in Asia Pacific region as every year transactions of Rs.360bn are carried out on an average.
- **Travel and Tourism:** It is 23% of total revenues. IRCTC provides various tourism packages based on themes like pilgrimage, Bharat Darshan, etc. They have State Special Trains, Buddhist Circuit Special Train, Aastha Tourist Trains, Heritage Train and Luxury train tours "Maharajas' Express". IRCTC also provides flight ticket booking, Cruise ticket booking, hotel booking, and car rental services.
- **Packed Drinking Water:** IRCTC provides drinking water bottles under the brand 'Rail Neer' which is ~9% of total revenue. They have 10 plants based at Nangloi, Danapur, Palur, Ambarnath, Amethi, Parassala, Bilaspur, Hapur, Ahmadabad and Bhopal with an installed capacity of ~1.09mn litres per day. IRCTC have a strong distribution channel which caters to 45% of railways demand. They have installed 1950 water vending machines across the railway stations.
- **Other Ancillary Services:** IRCTC has also commenced diversified business such as non-railway catering and services such as e-catering, executive lounges and budget hotels. These services are independent of railways hence are beneficial for company' revenue growth.

Websites and Applications

Name of the website	Application Name	Uniform resource locator
Next Generation E Ticketing	IRCTC Rail Connect	www.irctc.co.in
E-catering	IRCTC eCatering - Food on Track	https://www.ecatering.irctc.co.in/
Air Ticketing	IRCTC AIR	https://www.air.irctc.co.in/
Tourism	IRCTC Tourism	https://www.irctctourism.com/
Maharajas' Express	IRCTC Maharajas	https://www.the-maharajas.com/
Buddhist train	-	https://www.irctcbuddhisttrain.com , https://www.majestictouristtrains.com
IRCTC I Mudra	IRCTC iMudra	https://www.irctcimudra.com/home

Investment Rationale

IRCTC enjoys monopoly in Railways services

IRCTC is a government owned company and the sole railway authorized entity for catering and ticketing services to railways. With a wide spread presence they have 83% market share in online ticket booking enjoying monopoly. During FY14-19, online ticket booking grew by a CAGR of 12.5% to 284mn annually with e-booking penetration of 70%. Online ticket booking is expected to grow by a CAGR of 8% to 435mn by FY24 with a penetration of 83%. IRCTC's website gets 7.2mn logins per day and ~25mn transactions per month. They are setting up a new data center to maintain a backup of volume inflow. It is believed with the expansion of Indian railway network IRCTC would maintain their monopoly.

Increasing Tourism to boost revenues of IRCTC

Travel and Tourism industry contributes ~3.6% in India's GDP. Indian railways have seen a growth of 0.1% last year after a sluggish degrowth of CAGR 0.2% in previous four years. Domestic tourism is also expected to grow by a CAGR of 10% in next few years where as foreign tourism is estimated to grow by a CAGR of 9%. Indian railways are expanding connectivity to reach the interiors of the country which would also increase the number of trains operational. Apart from this, IRCTC is planning to expand its luxury tourism segment and add more train package for tourism. Government is trying to increase PPP model in railways and has bided for the Tejas trains. IRCTC received the operational responsibility of two Tejas trains under the haulage concept. They will run on routes Delhi- Lucknow and Mumbai- Ahmedabad. From deciding the fare to manage the services, IRCTC will be the decision makers for operating these trains. This will boost the top line of company. Delhi-Lucknow Tejas Express will be operational from October 5, 2019.

Expanding Packed Water Capacity

Average daily demand for packaged drinking water at all railway stations and in trains is approximately 1.8mn litres and IRCTC fulfils ~ 45% of the total demand with its ten plants. Company is expanding its capacity by setting up ten new plants across the country. Few plants would be based at Sankrail, Jagi Road, Nagpur, Bhusawal, Jabalpur, and Una. Of the total six plants will be operational by end of FY20 and remaining four plants will be operational during FY21. They have set CAPEX of Rs.170Cr for FY20 and are expected to spend another Rs.50Cr for manufacturing plants. Once all plants are operational, IRCTC would be able to fulfil ~84% of railways demand. This will also improve margins for the company.

Modernization of Payment System and its Updation Would Smoothen The Operations

IRCTC has recently introduced its own payment gateway called e-wallet payment system which helps in faster ticket booking. They are working on getting more payment methods such as IRCTC iMudra and i-Pay to ease the ticket booking experience. Their major part of business is based on Information Technology and they are setting up a back up data center to ensure safe and smooth functioning. For FY21, they have set a CAPEX of Rs.170 Cr for IT strengthening.

Revamping Catering Business

Catering is the major contributor in IRCTC's revenues and the segment is expected to grow by a CAGR of 8.5% by FY24. E-catering has gained a tremendous response with a volume growth of CAGR 541% and revenue growth of CAGR 609% during FY15-19. Company is adding more local restaurants every year to improve the services. They are also into non railway catering services which give them revenue diversification. IRCTC is re designing pantry cars which will be equipped with modern amenities to serve better.

Non Railway Services

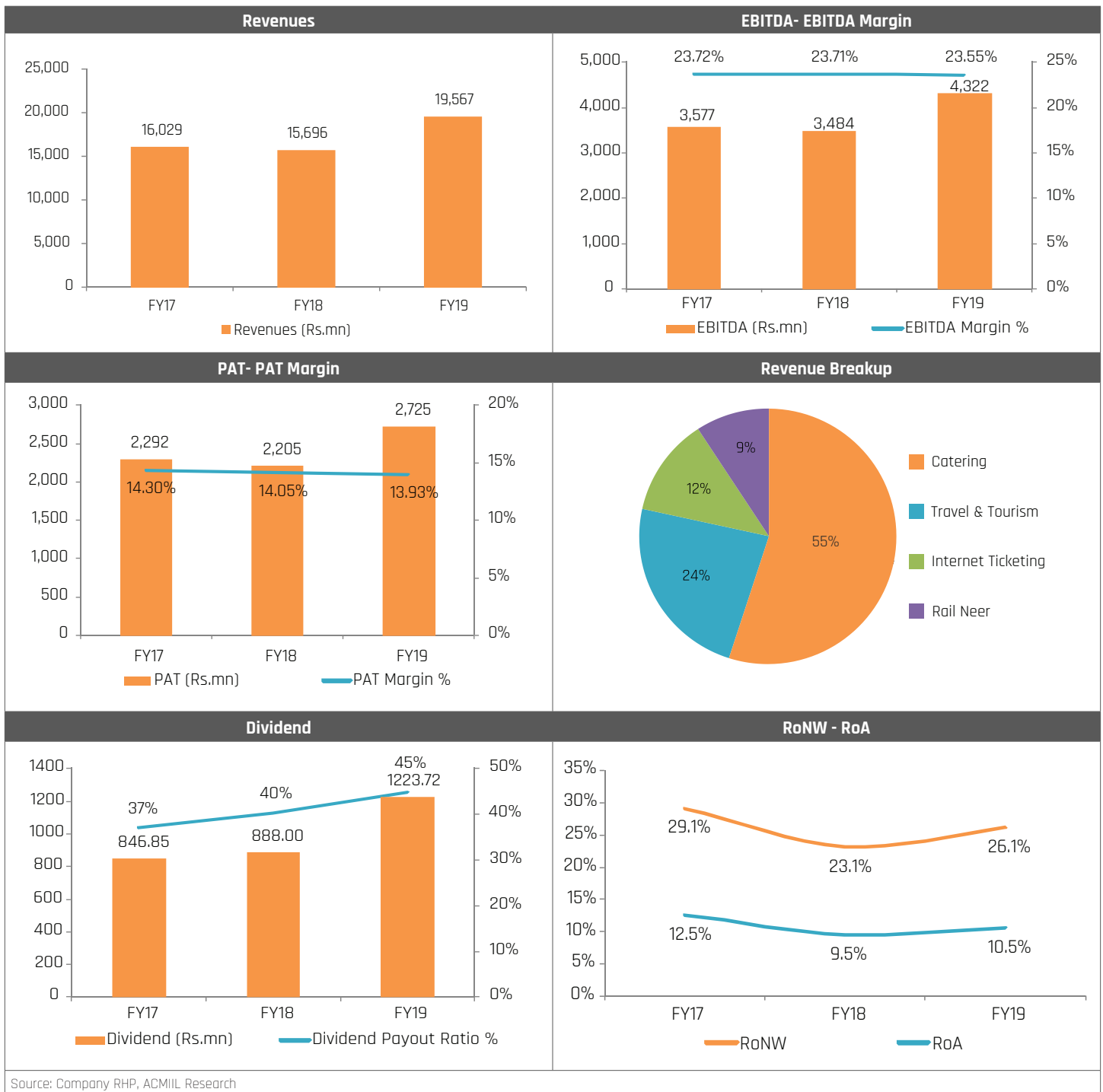
Advertising on website and on trains also generates revenues for IRCTC. IRCTC will be building budget hotels across country to provide economic options for the travelers. A budget hotel is under construction in Lucknow and will be operational in FY21. This new addition will boost the top line growth.

Strong Financials

IRCTC' Revenue /EBITDA/ PAT grew by a CAGR of 10.5% /6% /6% respectively during FY17-19. For FY19, Revenue/ EBITDA/ PAT were Rs.19567mn/ Rs.4608/ Rs.2725 maintaining operating margin and profit margins at 23.55% and 13.93% respectively. Since incorporation, company has maintained earning profits and has been a regular dividend payer with an average payout of 40%. Post listing, management expects to maintain annual dividend payout of at least 30% of its profits which is minimum mandatory for central public sector enterprises. IRCTC is debt free and moving ahead also they will expand business with retained earnings. Average RoE is at 23%.

Risk and Concern

- **Government Regulations and Policies:** IRCTC is a government owned company and enjoys monopoly in its all business segments. Any changes in government regulations or policies like opening up railway sector for private players, might impact the scale of business adversely.
- **Dependence on Information Technology:** Company's business segments especially internet ticketing and tourism are based on IT. If IRCTC laggard in technology or does not maintain hi-tech IT infrastructure it might impact business adversely. Cyber risk is also a concern.



Financials

Income statement

Particulars (Rs.mn)	FY17	FY18	FY19
Revenue From Operation	15,354	14,705	18,679
Other Income	675	991	888
Total Revenue	16,029	15,696	19,567
Gross Expenses			
Cost of Materials Consumed	959	948	933
Excise Duty	157	44	0
Purchase of Stock in Trade	1,149	1,580	310
Changes in Inventories	6	-4	-1
Expenses of Catering Services	781	2,463	6,391
Expenses of Tourism	4,156	3,052	3,090
Manufacturing & direct Expenses	2,378	671	613
Total Gross Expenses	9,585	8,754	11,336
Gross Profit	6,443	6,942	8,231
S&GA Expenses			
Employee benefit expense	1,638	1,922	1,951
Other Expenses	1,003	1,298	1,672
Total S&GA Expenses	2,642	3,220	3,622
EBITDA	3,801	3,721	4,608
EBITDA Margin %	23.72%	23.71%	23.55%
Depreciation and amortization expense	224	237	286
EBIT	3,577	3,484	4,322
EBIT Margin %	22.32%	22.20%	22.09%
Finance costs	25	29	23
Profit before tax	3,552	3,455	4,299
Tax expense			
Current Tax	1,179	1,160	1,882
Deferred tax	81	90	-309
Net Profit	2,292	2,205	2,725
Net Profit Margin %	14.30%	14.05%	13.93%
EPS	14.32	13.79	17.04

Source: Company RHP, ADMIIIL Research

Balance sheet

Particulars (Rs.mn)	FY17	FY18	FY19
ASSETS			
Non-current assets			
Property, Plant and Equipment	1,578	1,556	1,471
Capital work in progress	168	77	404
Investment Property	0	276	277
Other Intangible Assets	126	66	75
Investments	0.03	0.03	0.03
Loans	22	21	24
Other Financial assets	4	10	1
Deferred Tax Assets (Net)	575	464	771
Other Non-Current Assets	124	120	229
Total Non-Current assets	2,598	2,589	3,251
Current assets			
Inventories	66	74	79
Trade Receivables	2,894	5,509	5,817
Cash and Cash Equivalents	4,861	4,932	4,601
Bank Balance	3,668	3,407	6,800
Loans	96	90	84
Others	159	171	347
Current Tax Assets (Net)	68	83	101
Other Current Assets	3,854	6,337	4,759
Total Current Assets	15,667	20,602	22,587
Total Assets	18,265	23,191	25,838
Equity And Liabilities			
Equity			
Equity Share Capital	400	400	1,600
Other Equity	7,466	9,145	8,828
Total Equity	7,866	9,545	10,428
Liabilities			
Non-current Liabilities			
Other Financial Liabilities	59	242	147
Provisions	780	585	462
Other Non-current Liabilities	83	69	58
Total Non-Current Liabilities	922	896	667
Current Liabilities			
Trade payables			
Total outstanding dues of micro enterprises and small enterprises	4	9	20
Other creditors	1,372	1,500	1,900
Others	4,232	5,209	6,259
Other Current Liabilities	3,802	5,999	6,172
Provisions	12	33	138
Current tax liabilities	55	0	254
Total Current Liabilities	9,477	12,749	14,742
Total Equity and Liabilities	18,265	23,191	25,838

Source: Company RHP, ACMIL Research

ACMIIL Retail Research Products

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Equi-Tea	Positional Calls
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