

INDIAN RAILWAY CATERING AND TOURISM CORPORATION LIMITED
(IRCTC)
IPO Note
([SUBSCRIBE](#))

Analyst:

Brijesh Bhatia

Rohit Rai

Menil Savla

27 September 2019

IPO details

| Key Data | |
|--------------------------------|-------------------------|
| Issue Opens | 30-Sep-19 |
| Issue Closes | 3-Oct-19 |
| Equity Shares Offered (in mn.) | 20.16 |
| QIB | Up to 50% |
| NIB | Min 15% |
| Retail | Min 35% |
| Face Value (₹) | 10 |
| Price Band (₹) | 315-320 |
| Max. Issue Size (₹ mn) | 6,451 |
| Lot Size (Eq. Shares) | 40 and multiple thereof |

| Valuation | @315 per share | @320 per share |
|-------------------------|----------------|----------------|
| Market Cap (₹ mn) | 50,400 | 51,200 |
| Net Debt (₹ mn) | 0 | 0 |
| Enterprise Value (₹ mn) | 50,400 | 51,200 |
| EV/ Sales | 2.7 | 2.7 |
| EV/ EBITDA | 13.5 | 13.8 |
| P/E | 18.5 | 18.8 |

Source: Red Herring Prospectus, Dealmoney Research

| | Pre Issue | | Post Issue [^] | |
|----------------|-------------|-----------|-------------------------|-----------|
| | # mn Shares | % Holding | # mn Shares | % Holding |
| Promoters | 160.0 | 100.0% | 139.8 | 87.4% |
| Public | 0.0 | 0.0% | 0.0 | 0.0% |
| Offer for sale | 0.0 | | 20.16 | 12.6% |
| Fresh Issue | | | 0.0 | 0.0% |
| Total | 160.0 | 100.0% | 160.0 | 100.0% |

Object of the issue

- To carry out the disinvestment of Equity Shares by the Selling Shareholder constituting Company's paid up Equity Share capital
- General corporate purposes.

Recommendation

At upper priced band the issue is valuing company at P/E of 18.8x on FY19 financials, which seems that it is fairly valued, especially at 9 per cent annual growth rate in profit after tax in last three years. The company enjoys virtual monopolistic business that is poised for bright prospects going forward. And being the first mover in the sector there will be buying interest post listing too. Therefore we recommend SUBSCRIBE over the issue for a medium to long term perspective.

Mini – ratna (Category-I Public Sector Enterprise) by the Government of India

- ❑ As a Central Public Sector Enterprise wholly owned by the Government of India and under the administrative control of the Ministry of Railways, It 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. It was incorporated with the objective to upgrade, modernize and professionalize catering and hospitality services, managing hospitality services at railway stations, on trains and other locations and to promote international and domestic tourism in India through public-private participation.
- ❑ IRCTC operates one of the most transacted websites, www.irctc.co.in, in the Asia-Pacific region with transaction volume averaging 25 to 28 million transactions per month during the five months ended August 31, 2019. It has also diversified into other businesses, including non-railway catering and services such as e-catering, executive lounges and budget hotels, which are in line with the objective to build a “one stop solution” for its customers.
- ❑ Currently, we operate in four business segments, namely, internet ticketing, catering, packaged drinking water under the “Rail Neer” brand, and travel and tourism:
 - Internet Ticketing: It is only entity authorized by Indian Railways to offer railway tickets online through its website and mobile application. As of August 31, 2019, more than 1.40 million passengers travelled on Indian Railways on a daily basis, which consisted of approximately 72.60% of Indian Railways' tickets booked online.
 - Catering: It provides food catering services to Indian Railway passengers on trains and at stations. On-board catering services are referred to as mobile catering and catering services at stations are referred to as static catering. It provides catering services for approximately 350 pre-paid and post-paid trains and 530 static units. It provides catering services through mobile catering units, base kitchens, cell kitchens, refreshment rooms, food plazas, food courts, train side vending, and Jan Ahaars over the Indian Railways network.
 - Packaged Drinking Water (Rail Neer): It is the only entity authorized by the Ministry of Railways to manufacture and distribute packaged drinking water at all railway stations and on trains, according to CRISIL. It manufactures and distribute packaged drinking water under brand “Rail Neer”. Currently, it operates ten Rail Neer plants located at Nangloi, Danapur, Palur, Ambernath, Amethi, Parassala, Bilaspur, Hapur, Ahmedabad and Bhopal, with an installed production 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.
 - Travel and Tourism: It has been mandated by Indian Railways to provide tourism and travel related services. As of the date of this Red Herring Prospectus, It has footprints in across all major tourism segments such as hotel bookings, rail, land, cruise and air tour packages and air ticket bookings, and are known as one of India's leading travel and tourism companies catering to the needs of diverse tourist segments. With the strength of being a CPSE under the administrative control of the Ministry of Railways, it specializes in rail tourism.

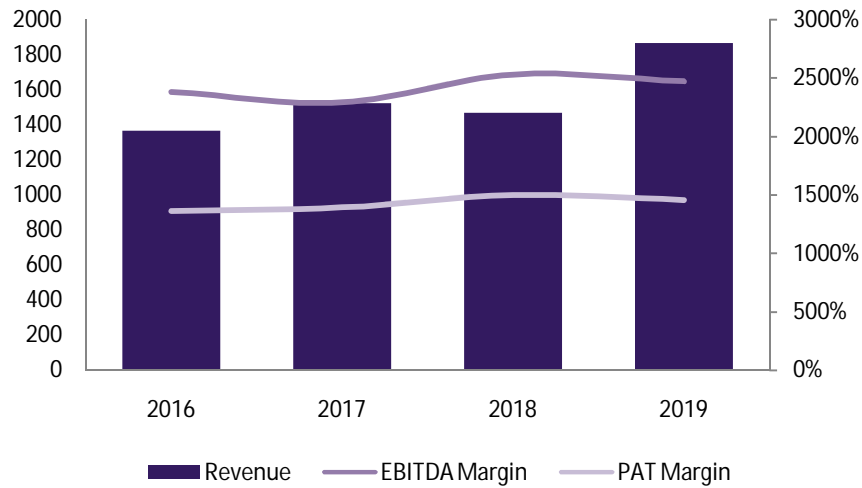
Source: Red Herring Prospectus, Dealmoney research

Strengths

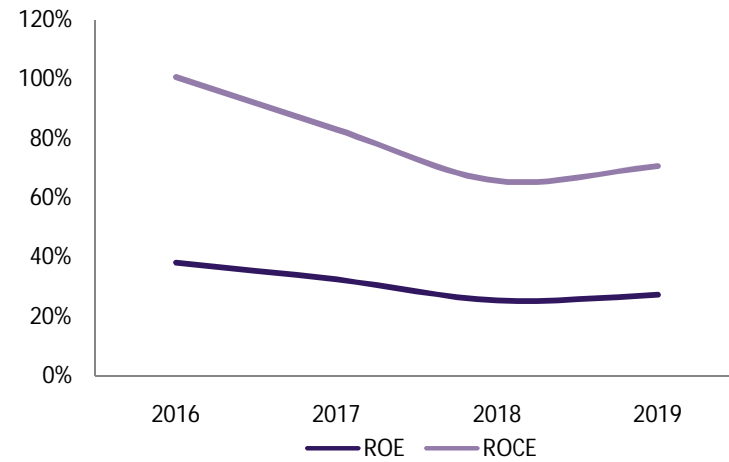
- ❑ Authorised catering service provider to passengers traveling by Indian Railways: In the past, due to changes in catering policies by the Ministry of Railways, we have witnessed some uncertainties in products and services that we are allowed to offer on board trains and at stations. However, with the mandate from the Ministry of Railways to transfer catering services in their entirety to then company under the Catering Policy 2017, it is now responsible for catering services in all mobile catering units (trains) and static units, except refreshment rooms at stations which are of Category B or below and other minor units operated by Indian Railways.
- ❑ Authorised by the Ministry of Railways to offer Indian Railway tickets online: It currently operates one of the most transacted websites in the Asia-Pacific region with a transaction volume of more than 25 million per month, and with 7.2 million logins per day. The website and database are extremely valuable assets and offer numerous ways for the company to optimize growth opportunities. With a surge in e-commerce driven by increasing internet penetration in India, it believes the variety and volume of the user data available online will continue to expand. Significant web traffic volume creates leads for online businesses such as air tickets, hotels and tour package bookings, and opportunities to generate revenue by cross-selling services and products
- ❑ Comprehensive tourism and hospitality service provider in India : According to the World Travel and Tourism Council (“WTTC”), direct contribution of India’s travel and tourism industry to GDP will grow by approximately 12%, and is expecting to reach approximately ₹11.7 trillion in 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. At present, it 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, election special trains, land tour packages, charter trains and coaches, hill charters, educational tours, online air ticketing, corporate travel services (including corporate air ticketing and visa services), outbound air packages, domestic air packages, online and offline hotel booking services, cab rental services, customised packages and LTC packages.
- ❑ Exclusively authorized for manufacturing and supplying packaged drinking water at railway station and trains : 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. 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 we are able to cater to approximately 45% of the total demand based on the existing production capacities of ten Rail Neer plants located at Nangloi, Danapur, Palur, Ambernath, Amethi, Parassala, Bilaspur, Hapur, Ahmedabad and Bhopal. 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.

Financial Performance

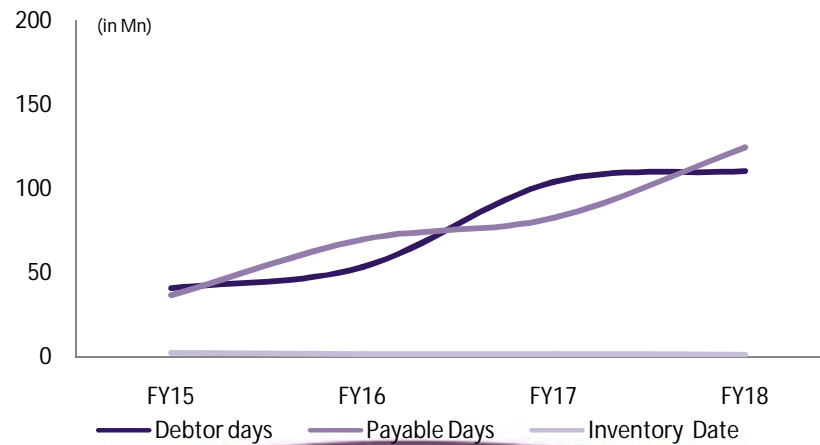
Financial Metrics



Return Ratios

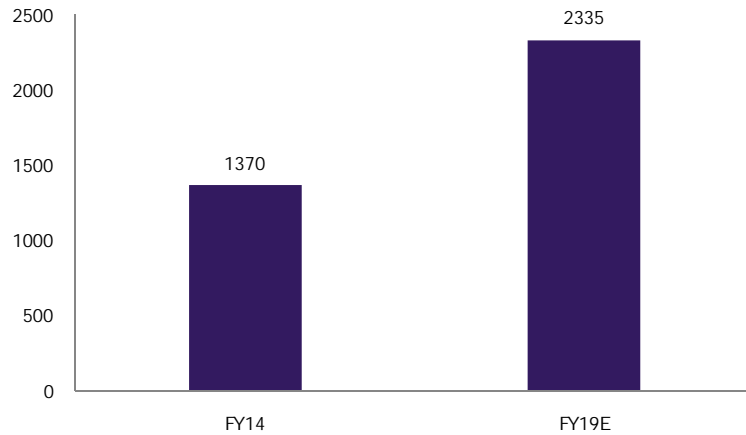


Working capital Days

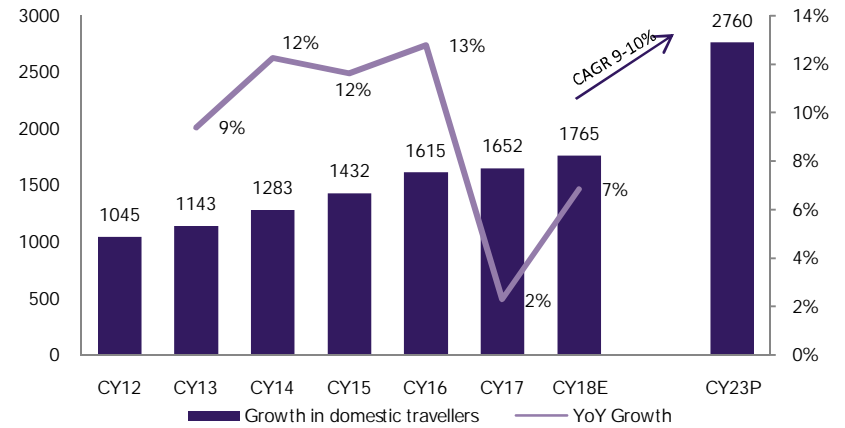


Industry Stats

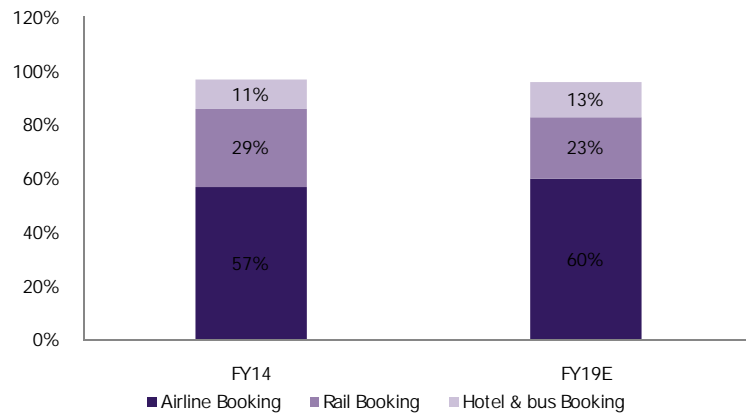
Overall Indian booking Industry



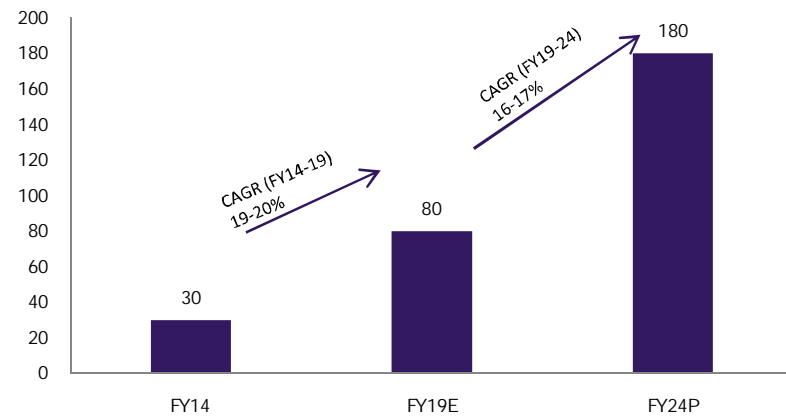
Growth in domestic travelers



Airline booking currently accounts for a dominant share



Packaged drinking water market



Strengths

- Robust operating system and internal controls: it has a robust operating system and internal controls that have enabled to deliver quality products and services to customers across different segments of operation. For example, it has routinely send supervisors to trains operated by the company to closely monitor catering services, and with the online monitoring website launched by the Ministry of Railways in 2019, passengers can now access live feed online to watch how their meals are being cooked and packed at their kitchens. Over the years, we have implemented several well-tested systems and internal controls procedures:
 - *Customer Satisfaction Survey*
 - *Complaint Monitoring*
 - *24 hour, 365 day monitoring through control offices*
 - *Comprehensive Selection of Service and Product offerings*
 - *Robust Contract Management*
 - *Ability to provide quality services*

Future road ahead

- ❑ Diversifying and offering new services to the passengers of Indian Railways and others: IRCTC is one of key strategic partners of Indian Railways in various value chains and strategies. It strive 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. It transact payments of more than ₹360 billion annually through banks and payment aggregators. In order to capitalize on this opportunity both in house and beyond, it has implemented our own payment gateway platform named IRCTC e-Wallet, and are also developing additional payment tools to facilitate easy and efficient payment by the customers.
- ❑ IRCTC iMudra wallet and i-Pay: IRCTC is developing IRCTC iMudra wallet to promote digital payment options to customers/users. This is a prepaid card which allows users to book train tickets, shop online and transfer money to friends and families. The IRCTC iMudra Wallet offers the convenience of accessing the user's wallet across mobile applications, tablets, laptop and desktop computers. IRCTC iMudra wallet comes with both virtual and physical cards to enable users to purchase goods online as well as offline. iMudra wallet is designed to provide our customers with the option of going cashless on every transaction, whether a transaction through POS machines, peer to peer money transfer, withdrawing cash at ATMs or buying goods and services online.
- ❑ IRCTC as Private train operator: In July 2019, the Ministry of Railways, Government of India, Railway Board mandated us two trains under the haulage concept, with ticketing and on board services. It will have full freedom to determine the trains' fares. It is currently in process of finalizing the modalities of this concept, following which the company will implement them initially on a pilot project basis. Subsequently the Ministry of Railways, Government of India, Railway Board has mandated our Company to operate two Tejas rakes on a pilot project basis
- ❑ Continue to leverage the Government's policy relating to the business: Since the implementation of Catering Policy 2017, we have worked as per the mandate given by the Ministry of Railways to address operational, quality and logistics issues in order to improve the catering service offered on trains and in stations, including upgrading of base kitchens. It will continue to capture new opportunities arising from the Catering Policy 2017, such as the providing catering services on trains having pantry car service. In connection with this effort, it plans to strategically withdraw from certain loss making services such as event catering and refocus corporate resources on its core competence areas.
- ❑ Strengthen products and services offering online: It offers products and services on various online platforms, including www.irctc.co.in. To leverage the significant number of visitors on the 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 of the date of this Red Herring Prospectus, visitors on the websites, while looking for Indian Railways' tickets, catering services and tour packages, have the opportunity to purchase a variety of other products and/or services from third parties who advertise on our website. In addition, to further expand the customer base, the company are in the process of incorporating mobile e-wallets services to payment options.

Source: Red Herring Prospectus, Dealmoney research

Summary Financials

Income Statement

| ` mn | FY19 | FY18 | FY17 |
|---------------------|--------|--------|--------|
| Total Income | 18,679 | 14,705 | 15,354 |
| Operating Expense | 14,957 | 11,974 | 12,228 |
| EBIDTA | 3,722 | 2,731 | 3,126 |
| Depreciation | 286 | 237 | 224 |
| Other Income | 888 | 991 | 675 |
| Finance Costs | 23 | 29 | 25 |
| PBT | 4,300 | 3,456 | 3,551 |
| Exceptional items | - | - | - |
| Profit before tax | 4,300 | 3,456 | 3,551 |
| Provision for Tax | 1,574 | 1,250 | 1,260 |
| Profit for the year | 2,726 | 2,206 | 2,291 |

| ` mn | FY19 | FY18 | FY17 |
|---------------|-------|--------|--------|
| EBIDTA Margin | 24.7% | 25.3% | 24.8% |
| Net Margin | 13.9% | 14.1% | 14.3% |
| RONW | 26.1% | 23.1% | 29.1% |
| Dividend (%) | 76.0% | 222.0% | 212.0% |

Balance Sheet

| ` mn | FY19 | FY18 | FY17 |
|-------------------------------------|---------------|---------------|---------------|
| Liabilities | | | |
| Share capital | 1,600 | 400 | 400 |
| Share Warrants & Outstandings | - | - | - |
| Reserves and surplus | 8,828 | 9,145 | 7,466 |
| Minority Interest | - | - | - |
| Long-Term Borrowings | 147 | 242 | 59 |
| Long term provisions | 462 | 585 | 780 |
| Other Non-Current Liabilities | 58 | 69 | 83 |
| Trade payables | 1,920 | 1,508 | 1,376 |
| Others | 6,259 | 5,209 | 4,232 |
| Other current liabilities | 6,172 | 5,999 | 3,802 |
| Short term borrowings | 254 | - | 55 |
| Short Term Provisions | 138 | 33 | 12 |
| Total Liabilities | 25,838 | 23,191 | 18,265 |
| Assets | | | |
| Net Block | 1,471 | 1,556 | 1,578 |
| Capital work-in-progress | 404 | 77 | 168 |
| Other intangible assets | 75 | 66 | 126 |
| Investment Property | 277 | 276 | - |
| Investments | 25 | 30 | 26 |
| Deferred tax asset (net) | 771 | 464 | 575 |
| Other non-current assets | 229 | 120 | 124 |
| Inventories | 79 | 74 | 66 |
| Trade receivables | 5,817 | 5,509 | 2,894 |
| Cash and cash equivalents | 4,601 | 4,932 | 4,861 |
| Other bank balance other than above | 6,800 | 3,407 | 3,668 |
| Loans | 84 | 90 | 96 |
| Other financial assets | 347 | 171 | 159 |
| Current tax asset (net) | 101 | 83 | 68 |
| Other current assets | 4,759 | 6,337 | 3,854 |
| Total Assets | 25,838 | 23,191 | 18,265 |

Source: Red Herring Prospectus, Dealmoney research

Key Risks

- ❑ The company and Directors are involved in certain legal and other proceedings
- ❑ The business and revenues are substantially dependent on the policies of the Ministry of Railways and operations of Indian Railways
- ❑ Under the Catering Policy 2017, the company benefit from a monopoly position in many of the services it provide to the customers. In particular, IRCTC the exclusive provider of online railway ticketing, catering services and packaged drinking water for trains and stations. As a result, it does not face some of the pressures experienced by businesses that operate in more openly competitive industries.
- ❑ It has one joint venture, RIRTL with Cox & Kings Limited. However, It has not consolidated the financial statements of RIRTL in the financial statements since the Fiscal Year 2010 –11 on account of ongoing litigation with Cox & Kings Limited and unavailability of financial statements of RIRTL
- ❑ In air tour packages, it competes with Makemytrip, Cox & Kings (India) Limited, Thomas Cook (India) Limited etc.

Source: Red Herring Prospectus, Dealmoney research

Dealmoney Securities Private Limited

Plot No. A356/357, Road No.26,Wagle Industrial Estate, Thane (West), Maharashtra - 400 604.

For private circulation only

SEBI RESEARCH ANALYST REGISTRATION NO: INH000002319

Dealmoney Securities Private Limited (hereinafter referred to as "Dealmoney") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited and MCX Stock Exchange Limited. Dealmoney is also registered as a Depository Participant with CDSL. Dealmoney is in the process of making an application with SEBI for registering it as a Research Entity in terms of SEBI (Research Analyst) Regulations, 2014. Dealmoney or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market and no material disciplinary action has been taken by SEBI/other regulatory authorities impacting Dealmoney's Equity Research Analysis. Dealmoney or its associates /analyst including its relatives do not hold any actual/beneficial ownership of more than 1% in the company/ies covered by Analyst (hereinafter referred to as "Subject Company/ies"). Dealmoney or its associates/analyst including its relatives may hold financial interest in the company/ies covered by Analyst (hereinafter referred to as "Subject Company/ies"). Dealmoney or its associates/analysts or his/her relative does not receive any compensation or other benefits from the subject company/ies mentioned in this research report (hereinafter referred to as "Report") or from a third party in connection with preparation of the report. Accordingly, Dealmoney or its associates/analyst or his/her relative does not have any other material conflict of interest at the time of publication of the Report.

Research analyst/s engaged in preparation of the Report, has not received any compensation / managed or co-managed public offering of securities of the subject company/ies / has not received compensation for investment banking or merchant banking or brokerage services from the subject company/ies / has not received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company/ies / has not received compensation or other benefits from the subject company/ies or third party in connection with the Report of the subject company/ies during the past twelve months / has not served as an officer, director or employee of subject Company/ies and is not engaged in market making activity of the subject Company/ies.

Dealmoney group companies provides finance related product services like distribution of financial products and as such is a provider of many services like loans, mutual funds, tax & trust planning etc. mentioned in this brochure. And hence, Dealmoney do not warranty / guarantee about performance of any products and customer servicing w.r.t third party products per se.

Third party products are subject to code of conduct to be adhered to by the representatives of Dealmoney and Dealmoney is not responsible for the losses, whether actual or notional incurred by any investor. Services assured and expected may vary from actual service and Dealmoney does not guarantee about the quality of services. Investments in securities and commodities are subject to market and other risks and there is no assurance or guarantee that the objectives of any of the Investments/Schemes/product would be achieved. Past performances are only indicative and returns are not assured and guaranteed by Dealmoney group companies. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments.

The opinions expressed in the Report are our current opinions as of the date of this report and may be subject to change from time to time without notice. Dealmoney or any persons connected with it do not accept any liability arising from use of this material/document/Report.

Information/ opinion conveyed through this material/document/Report are strictly meant for the registered Clients of Dealmoney group of Companies of the respective segments. This information is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Dealmoney or its affiliates to any registration requirement within such jurisdiction or country. This information does not constitute an offer to sell or a solicitation of an offer to buy any financial products to any person in any jurisdiction where it is unlawful to make such an offer or solicitation. No part of this material may be duplicated in whole or in part in any form and / or redistributed without the prior written consent of Dealmoney. This material/document/Report is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on directly or indirectly.

Recipients of the Report shall always independently verify reliability and suitability of the Report and opinions before investing.

For Company details, please visit our website www.dealmoneyonline.com

For research related query, write to us at research@dealmoney.in