

**Recommendation**
**SUBSCRIBE**
**Issue Details**

Face Value	₹10
Public Issue	2.0cr
Price Band	₹315-320
Issue Size#	₹638cr
Bid lot	40 Equity shares
Issue Type	OFS
Employee Reservation	1,60,000 Equity Shares
Emp. & Retail Discount	₹10 per share

Post Issue Market Cap#: ~₹5,120cr; # - at upper price band

% Shareholding	Pre IPO	Post IPO
Promoter & Promoter group	100	87
Public	-	13

Share Reservation	% of Net Issue
QIB	50
NII	15
Retail	35

**Company Management**

Mahendra Pratap Mall	Chairman and Non-Executive Non-Independent Director
Rajni Hasija	Whole-time Director (Tourism & Marketing)

**Issue Managers**

BRLMs	IDBI Capital Markets & Securities Limited, SBI Capital Markets Limited, YES Securities (India) Ltd
Registrar	Alankit Assignments Limited

Source: RHP

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**September 27, 2019**
**Company Overview**

Indian Railway Catering and Tourism Corporation Limited (IRCTC) is a Central Public Sector Enterprise wholly owned by the Government of India (GoI) under the administrative control of the Ministry of Railways. IRCTC is the only authorized entity by Indian Railways to provide online railway tickets, catering services to railways, and packaged drinking water at railway stations and trains in India. Company currently operates in four business segments viz. internet ticketing (12% of revenue in FY19), catering (55%), packaged drinking water under *Rail Neer* brand (9%), and travel & tourism (24%). IRCTC operates one of the most transacted websites i.e. [www.irctc.co.in](http://www.irctc.co.in), with transaction volume averaging 2.5cr-2.8cr transactions per month during the five months ended August 30, 2019.

**Offer Details**

The offer comprises of the Offer for Sale (OFS) of 2.0cr shares by the promoters to carry out the disinvestment. Company will not directly receive any proceeds from the offer.

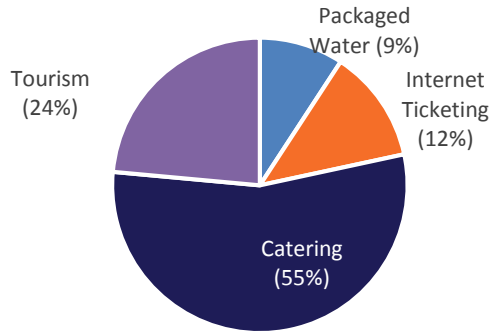
**Our view**

Levy of convenience fee on ticket bookings and commissioning of six new *Rail Neer* plants is expected to aid IRCTC's revenue CAGR at 16% over FY19-21E. Moreover, these segments enjoy high operating margins, and will thus, aid healthy EBITDA margin expansion of ~600bps and PAT CAGR of 40% over the same period. IRCTC is seeking 18.8x/13.6x/9.7x its FY19/FY20E/FY21E EPS. Given the near term growth potential, we value the company at 13x FY21E EPS translating in a potential target price of ₹431/share, and thus, expect it to witness a healthy listing gain. We recommend SUBSCRIBE to the issue. However, the company remains exposed to potential risk of any change in policies or allowing of open competition by government.

**Financial Summary**

(₹ Cr)	FY17	FY18	FY19	FY20E	FY21E
Revenue	1,520	1,466	1,868	2,183	2,529
EBITDA Margin (%)	20.6	18.6	19.9	23.1	25.7
PAT	229	221	273	377	531
Change (%)		(3.7)	23.6	38.5	40.5
P/E (x)	22.4	23.2	18.8	13.6	9.7
RONW (%)	29.1	23.1	26.1	29.9	33.8
ROCE (%)	23.6	18.0	21.4	26.8	31.6

Source: RHP; IIFL Research

**Exhibit 1: Segmental revenue contribution (FY19)**

**Exhibit 2: Segmental margin profile**

Segment	Margin Range (%)
<i>Rail Neer</i>	15-16
Internet Ticketing	60
Catering	11-12
Tourism	10-12

Source: RHP, Company, IIFL Research

## Key Points

### Introduction of convenience fee in Internet Ticketing

IRCTC is the only authorized entity by Indian Railways to offer railway tickets online through the IRCTC website and its mobile application (*Rail Connect*). The growth in number of online rail bookings slowed down between FY14-17 due to moderation in online bookings as well as levying of service charge of ₹ 20/ticket and ₹ 40/ticket for Non- AC and AC classes respectively. It was later withdrawn w.e.f. November 23, 2016, providing a boost to rail e-booking with e-booking penetration rising to 68-70% in FY19 (from 51% in FY14). However, the withdrawal of service charges led to sharp decline in IRCTC's internet ticketing revenue in FY18 and FY19; it was partly compensated by the government till July FY20 (₹80cr in FY18, ₹88cr in FY19 and ₹32cr for four months in FY20).

From September 01, 2019, IRCTC has levied a convenience fee of ₹15/ticket for Non-AC and ₹20/ticket for AC classes. Further, aided by the rise in domestic tourism, widening of rail network, increase in number of young travelers, growing awareness about domestic tourist destinations and potential of increasing penetration of e-booking in the smaller cities/towns, the online rail bookings are expected to grow at 8-9% CAGR to reach 42.5-43.5cr in FY24E. Thus, the introduction of convenience fee, coupled with increase in penetration of internet ticketing (81-83% by FY24E) is expected to boost the revenue from internet ticketing; estimated CAGR of 72% over FY19-21E.

**Commissioning of new *Rail Neer* plants to boost segment's revenue**

Currently, company operates ten *Rail Neer* plants with an installed capacity of ~1.09 million litres per day (MLPD), catering to ~45% of the current demand of packaged drinking (1.8 MLPD) water at railway premises and in trains. To increase the presence and meet the remaining and future requirements of the packaged drinking water at station premises and trains, IRCTC is setting up six new *Rail Neer* plants at Nagpur, Bhusawal, Jabalpur, and Una. Once these plants are completed, company expects to deliver up to ~80% of the total market demand of packaged drinking water at railway premises and trains. With the completion of these plants, we estimate the revenue from *Rail Neer* to report CAGR of 26% over FY19-21E.

Four additional plants, at Vijaywada, Ranchi, Vishakhapatnam and Bhubneshwar, have been approved by the Board of Directors of the company and will be set up by year 2021. Cost of putting up of one water plant is ₹10-12cr.

**Authorized catering service provider to Indian Railways**

Under the Ministry of Railways, IRCTC is the only authorized entity to manage the catering services on board trains and major static units at railway stations under the Catering Policy 2017. In FY03, catering service of Indian Railways was handed over to IRCTC on "as is where is" basis along with its staff until 2010, where the Ministry of Railways mandated majority of these catering services to be handed back to Indian Railways. With the Catering Policy 2017, the responsibility for the entire catering services on all mobile units having pantry car service from Indian Railways, as well as part of static catering services of Indian Railways have been handed over to IRCTC as on FY19. The company is planning to roll out at least 10 new pantry cars in FY20E once the design is approved by Indian Railways. Catering services are divided in two focus areas viz., (a) Mobile Catering - catering services on trains, (b) Static Catering – off-board catering services at stations and (c) e-catering (online ordering). Revenue from catering is estimated to remain broadly flat due to the high penetration level.

**Tourism revenue to benefit from premium railway routes**

IRCTC has been mandated by the Indian Railways to provide tourism and travel related services. The various tourism services offered by the company 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.

Under the MoU with IRCTC pertaining to Tourism related projects, Indian Railways will act as a carrier only and all arrangements including boarding, lodging, sightseeing, transfer facility and marketing expenses will be borne by IRCTC. Moreover, IRCTC is free to market the product and retain the margin after guaranteed payment to Indian Railways (case to case basis).

Additionally, as a part of privatization plan of passenger train operations by the Ministry of Railways, IRCTC has received mandate to operate two routes with full autonomy i.e. Lucknow-Delhi and Mumbai-Ahmedabad. Lucknow-Delhi trains will start from October 04, 2019. Management highlighted that the revenue from these two routes will fetch the company ₹50cr/year (driven by fares, catering and advertisement) and will likely breakeven in two years with 72% occupancy.

Revenue from Tourism segment is expected to report CAGR of 7% over FY19-21E.

**Key Risks**

- ✧ IRCTC's business and revenues are substantially dependent on Indian Railways. Any adverse change in policy of the Ministry of Railways may adversely affect the business and financials.
- ✧ Currently, IRCTC is the sole provider of online railway ticketing, catering services, and packaged drinking water for trains and stations, etc.; if the Government allows open competition in all or any of these areas, it may adversely impact the company's performance.

**Recommendation Parameters for Fundamental/Technical Reports:**

Buy – Absolute return of over +10%

Accumulate – Absolute return between 0% to +10%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

Please refer to <http://www.indiainfoline.com/research/disclaimer> for recommendation parameter, analyst disclaimer and other disclosures.

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