

## Bid for Long Term

Key Data	
Floor Price (Rs)	1367
Face Value (Rs)	10/-
Issue Size (Rs)	4374.4Cr
Total offered	3.20Cr. shares
Retail	
Issue Opens	December 10, 2020
Issue Closes	December 11, 2020
Offered shares	32 Lakh Shares
NSE Code	IRCTC
BSE Code	542830
52 Week High	1,995
52 Week Low	775
Source:BSE	

## Indian Railway Catering and Tourism Corporation Ltd.

### 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 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.

### Issue Details:

The promoter of the company - The President of India, acting through and represented by the Ministry of Railways, Government of India, proposes to sell up to 2,40,00,000 equity shares representing 15% of the total paid-up equity share capital of the company and face value of Rs.10/- each, with an option to additionally sell up to 80,00,000 equity shares representing 5% of the total paid-up equity share capital of the company. The floor price has been set at Rs. 1,367/- per share.

### Allocation Methodology:

The allocation would be made on price priority method at multiple clearing prices in accordance with the SEBI OFS circular. The issue opens for subscription on December 10, 2020 for institutional bidders. Retail investors for whom 10% shares have been reserved will get to bid on December 11, 2020.

### Rationales:

#### **Only entity authorized by Ministry of Railways to offer Indian Railways tickets online(27.24% of Total Revenue):**

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%. The increasing adoption of internet/smart phones has augured well for on-line booking of railway tickets.

#### **Authorized catering service provider to passengers travelling by Indian Railway (45.89% of Total Revenue):**

IRCTC is the only entity authorised to manage the catering services on board trains and major static units at railway stations under the Catering Policy 2017. 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 growth in IRCTC's catering revenues is expected to be driven by a) Likely increase in passenger traffic due to addition of new non-suburban trains i.e. long distance trains b) Rising affordability and variety of food items available in catering services c) Increasing coverage of catering services through addition of base kitchens and static catering units.

#### **Comprehensive tourism and hospitality service provider in India (17.11% of Total Revenue):**

IRCTC is one among the 3 entities permitted by the Government of India to offer air ticketing service to different ministries at both the Central and State Government level. Moreover, IRCTC works closely with the Central Government, as an authorized entity to operate special election trains for movement of paramilitary forces across India for general and assembly elections. The company also operate state-special trains, and "pilgrim trains" for various state governments where the beneficiaries are selected by the respective state primarily senior citizens. This collaborative partnership with the Central and State Government is expected to provide additional revenues.

### Associate

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### Expanding Packed Water Capacity (9.76% of Total Revenue):

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. To increase presence and meet the remaining and future requirements of the packaged drinking water at station premises and trains, IRCTC plans to extend its Rail Neer segment further with the commissioning of 5 more plants, expected to be operational by 2020-21. The Company is also contemplating 4 new Rail Neer plants, anticipated to be set up in the near future.

### Significant long-term opportunity from private trains operations and benefits from Dedicated Freight Corridor:

Indian Railways has initiated the process to get participation of private players in operations of 151 passenger trains across 12 clusters. IRCTC has participated in 11 of these 12 clusters in the RFQ invited by Indian Railways. Further, the Dedicated Freight Corridor project, once completed, is expected to significantly decongest the railway routes linking the four metropolitan cities of Delhi, Mumbai, Chennai and Howrah (~52% of passenger traffic). This would provide strong opportunity for increase in capacity of passenger trains which in-turn would benefit IRCTC across its business segments.

### Recommendation:

At the floor price of Rs.1,367/-, the stock trades at 41.37x its FY20 EPS of Rs.33.04. 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. Though the current pandemic situation would have an adverse impact on IRCTC's earnings for a quarter or two, we believe the company would be able to sustain the earnings growth in the long run backed by improvement across the segments. **Hence, we recommend to BID for the OFS on a long-term basis.**

## Asit C. Mehta

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