

Indian Railway Catering & Tourism Corp.

SSIS IPO GRADE 5/5 (Subscribe)
29th September, 2019

Rating Overview

Indian Railway Catering and Tourism Corporation Limited (“IRCTC”), a Central Public Sector Enterprise, 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.

As the sole entity authorized by Indian Railways to provide its services, the company enjoys significant barriers to entry for each business segment. The company is likely to reap future benefits of favourable regulations as it scales other products like e-wallets, train operations, and hotels.

IRCTC operates one of the most transacted websites, www.irctc.co.in, in the Asia-Pacific region with transaction volume averaging 2.5 to 2.8 crore transactions per month during the 5 months ended August 31, 2019. They have 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 their objective to build a “one stop solution” for their customers.

The result of an asset-light business model, the company has high return ratios with RoCE and RoE of ~25% with dividend payouts of more than 40% of net profits, over the past two years, higher than the regulatory norm of 30%. Moreover, a healthy cash balance provides comfort against business uncertainties.

Based on FY19 consolidated numbers, the issue is priced at a P/E of 19x. The company is likely to benefit from the monopolistic nature of business, an asset-light business model with healthy dividend payouts, and a strong parentage.

Our overall fundamental rating of IRCTC is exceptional and it holds a fair valuation post issue. Investors pay a fair price and they can purchase it for medium to long term share appreciation or for listing gains.

Note: The analyst plans on subscribing to the offer, but does not hold any shares in the company prior to, or at the time of writing this review.

Business Overview

Indian Railway Catering & Tourism Corporation Ltd. (IRCTC) is an only Public Sector Undertaking authorized to by Indian Railways to provide catering services, online railway tickets and packaged drinking water at railway stations and trains in India. It has been conferred upon Mini-Ratna status as well. IRCTC is wholly owned by Government of India (GoI) and has administrative control of the Ministry of Railways. It is also promoting international and domestic tourism through public-private partnership

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 its objective to build a 'one stop solution' for its customers. Currently, it operates in four business segments, namely, internet ticketing, catering, packaged drinking water under the 'Rail Neer' brand, and travel and tourism. Currently IRCTC has nearly 72.60% online railway ticket booking business volume with login of over 25 million per month and 7.2 million per day. The company expects average 8% growth in catering segment for the coming five years. New catering policy of 2017 augurs well for the future prospects of IRCTC. It currently has 10 manufacturing facilities and six are under commissioning for Rail Neer.

The company has implemented its own payment gateway platform named IRCTC e-Wallet and is also developing additional payment tools such as IRCTC iMudra and i-Pay. IRCTC mandated with two trains under the haulage concept, with ticketing and on board services. It enjoys full freedom to determine the trains' fares. Currently it is in process of finalizing the modalities of this concept.

The company is enjoying virtual monopoly with its business model offering major tourism related services on all aspects under one roof.

Fundamental Summary

On financial performance front for the last three fiscals, IRCTC has posted total revenue/net profits of Rs 1602.85 cr. / Rs 229.08 cr. (FY17), Rs 1569.56 cr. / Rs 220.62 cr. (FY18) and Rs 1956.66 cr. / Rs 272.60 cr. (FY19). The company has posted CAGR of 10.49% in revenue and 14% in net profits.

It follows liberal dividend policy with last three year's average dividend payouts of 40%. As on 31.03.19, it's paid up equity capital of Rs 160 cr. is supported by free reserves of Rs 882 cr. plus. For the last three fiscals it has posted an average EPS of Rs 15.50 and an average RoNW of 25.63%. Issue is priced at a P/BV of 4.91 (on upper price band) on the basis of its NAV of Rs 65.18 as on 31.03.19. If we consider FY19 earnings and attribute it on its current paid up equity, then asking price is at a P/E of 18.8. Thus issue appears fully priced, but considering its virtual monopolistic business model, it is sure to generate fancy post listing.

Summary of financial Information			
Particulars	For the year/period ended (in Rs. 10 Lakhs)		
	31-Mar-19	31-Mar-18	31-Mar-17
Total Assets	25,837.80	23,191.06	18,264.54
Total Revenue	19,566.60	15,695.60	16,028.50
Profit After Tax	2,725.95	2,206.19	2,290.81

Issue Details

For listing gains through dis-investment, IRCTC is coming out with its maiden IPO with an offer for sale of 20160000 equity shares of Rs. 10 each with a price band of Rs 315 - Rs 320 to mobilize Rs 635.04 cr to Rs 645.12 cr. on the basis of lower and upper price bands. The company is diluting 12.6% of GoI holding with this issue. Issue opens for subscription on 30.09.19 and will close on 03.10.19. Minimum application is to be made for 40 shares and in multiples thereon, thereafter. It has reserved 160000 shares for eligible employees. From the balance shares on offer, it has allocated 50% for QIB, 15% for HNIs 15% and 35% for the retail investors. As the issue is purely an offer for sale, its post issue paid up equity will remain at Rs 160 cr. Post allotment shares will be listed on BSE and NSE.

It has issued entire equity at par so far and has also given bonus shares in the ratio of 1 for 1 in March 2017 and 3 for 1 in March 2019. The average cost of acquisition of shares by the selling shareholders is Rs 1.25 per share. Issue is jointly lead managed by IDBI Capital Markets & Securities Ltd., SBI Capital Markets Ltd. and Yes Securities (India) Ltd. Alankit Assignments Ltd. is the registrar to the issue.

Application Dates	Sep 30, 2019 – Oct 3, 2019
Issue Type	Book Built Issue FPO
Face Value	₹10 per equity share
IPO Price	₹315 to ₹320 per equity share
Market Lot	40 Shares
Listing At	BSE, NSE
Issue Size	[.] Eq Shares of ₹10 (Up to ₹645.12 Cr)

Issue Timeline

Basis of Allotment Date	Oct 9, 2019
Initiation of Refunds	Oct 10, 2019
Credit of Shares to Demat Account	Oct 11, 2019
IPO Listing Date	Oct 14, 2019

Investment Strategy

The company enjoys virtual monopolistic business that is poised for bright prospects going forward. Although issue appears fully priced on the basis of financial parameters, investors may consider investment for medium to long term as the company is poised to create fancy being the first mover in the segment.