

Equity Research Desk



ALPHA

03 JAN 2023

IRCTC Ltd. – A Regulated Monopoly

Market Data	
CMP	Rs. 646
Date	03-Jan-23
New Target Price	Rs. 800
Old Target Price	Rs. 943
Upside Potential	24.00%
52 Week High/Low	919/557
NSE Code	IRCTC
Market Cap	Large Cap
Sector	Online Ticketing & Catering Services
Rating	ACCUMULATE

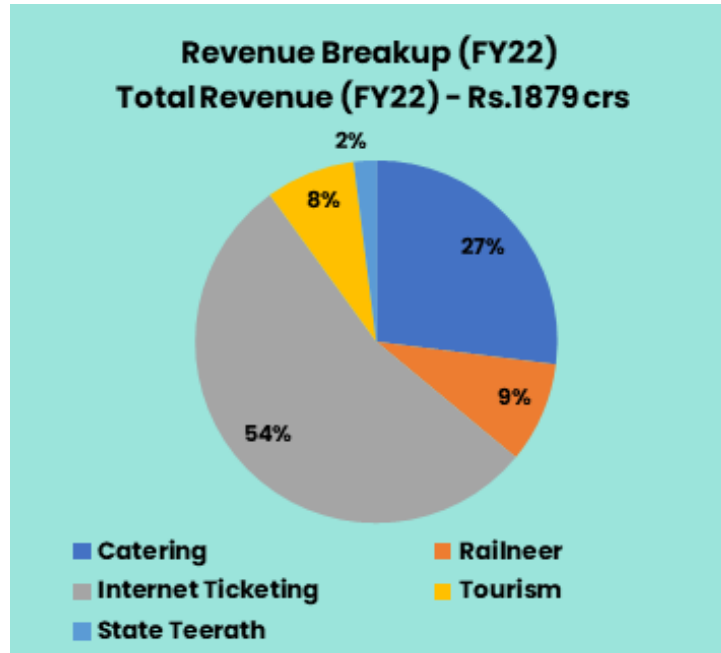
Indian Railway Catering and Tourism Corporation Ltd. (IRCTC) is a “Mini Ratna (Category-I)” Central Public Sector Enterprise under Ministry of Railways, Government of India. IRCTC was incorporated on 27th September, 1999 as an extended arm of the Indian Railways to upgrade, professionalize and manage the catering and hospitality services at stations, on trains and other locations and to promote domestic and international tourism through development of budget hotels, special tour packages, information & commercial publicity and global reservation systems. At present, the Company operates through Fifteen Rail Neer Plants for packaged drinking water segment and 11 Base Kitchens for catering services. The company has Five Zonal Offices, Ten Regional Offices, One Internet Ticketing office and Tourism office.



Products & Services: IRCTC is the only entity authorized by Indian Railways to provide online railway tickets, catering services to railways and packaged drinking water at railway stations and trains in India. The company operates in four business segments, namely internet ticketing, catering, packaged drinking water under the "Rail Neer" brand and travel & tourism.

SHP	Sep - 22 (%)	Jun - 22 (%)	Change
Promoters	67.40	67.40	0.00
FPI	5.81	5.87	-0.06
DII	5.57	5.32	0.25
Public & Others	21.23	21.42	-0.19
Pledged	0.00	0.00	0.00

Subsidiaries: The Company has no active joint ventures, associates and subsidiary companies.





Key Rationale

- **Strong entry barriers in its top-2 business segment** – Internet ticketing and Catering are IRCTC's top-2 business segments with 54% and 27% respectively of FY22 revenue. IRCTC is the only entity authorized by Indian Railways to provide online booking of railway tickets and has ~73% market share. Further, IRCTC is the only entity authorized to manage the catering services on board trains and major static units at railway stations under the Catering Policy 2017. IRCTC has also set-up/developed Food Plaza, Fast food unit, Refreshment Rooms, Jan Ahaars and Cell Kitchen on Railway stations to serve safe and hygienic food at affordable prices to Railway passengers.
- **Robust performance** – Revenues increased 99% YoY to Rs.806 crs in Q2FY23 due to base effect but declined 5.5% on QoQ basis. Revenues from Internet Ticketing, Catering, Rail Neer, Tourism increased 13.2% YoY, 368.4% YoY, 75% YoY, 156.7% YoY to Rs.300 crs, Rs.334 crs, Rs.72 crs and Rs.70 crs respectively. EBITDA increased 44.1% YoY to Rs.305 crs in Q2FY23 (Q1FY23 – Rs.321 crs) with a margin of 37.8% (Q1FY23 – 37.5%) as against 52.2% in Q2FY22. Tourism segment reported loss while Internet ticketing/Catering/Rail Neer reported EBIT margin of 84.2%/10.6%/7.5% respectively. Capex outlay is expected to be Rs.250 crs for new office and Rs.100 crs for IT upgradation. Capacity utilization of rail neer was ~75% in Q2FY23.
- **Ticketing Segment** – A total of 41.7 crore tickets booked through IRCTC in which 22.5 crore tickets booked through IRCTC website and 19.2 crore tickets booked through IRCTC Connect mobile app. The tickets booked through website consist of Normal users (7.4 crore tickets) and Agents (15.1 crore tickets). The Company touched another milestone of achieving a record booking of 15.88 lakh tickets on 21st March, 2022. Average ticket booking was 11.44 lakh tickets per day during FY 2021-22 as against 4.80 Lakhs per day booked during FY 2020-21. The company also launched full fledged E-ticket booking through AskDisha Chatbot and IRCTC BOB Loyalty Cobranded Credit Card on RuPay platform in collaboration with Bank of Baroda.
- **Financial Performance** – The company has a strong balance sheet with almost zero debt and a huge cash and cash equivalents of Rs.1900 crs as on Sep'22. The company generated an overall free cash flow of ~Rs.1047 crs for the period of 3 years from FY20-FY22. EBITDA Margin for the Trailing Twelve months (TTM) is around 42% and the margin is expected to maintain above 40% in the coming quarters.

Margins - FY22

EBITDA	47%
EBIT	44%
PAT	35%



Ratios – FY22

ROE	35%
ROCE	45%
Div. Yield	0.55%
PE Ratio	77.00
Face Value	2.00
EPS	Rs. 8.30

Industry Analysis

The Indian railway system is regarded as the foundation and lifeblood of the economy. Indian railways span over thousands of kilometres practically covering the entire nation, making it the fourth largest in the world after the US, China and Russia. India has the fourth largest railway network with over 22,593 operating trains (9141 freight and 13,452 passengers) with a daily passenger count of 24 million passengers and 203.88 million tonnes of freight. In FY22 passenger traffic stood at 3.54 billion as compared to 1.28 billion in FY21. In FY 2021-22, railway freight traffic stood at 1,400 MT. Revenue growth has been strong over the years. Indian Railways' revenue reached US\$ 16.56 billion in FY 2023 (until October 2022). The total passenger revenue stood at US\$ 4.39 billion in FY 2023 (until October 2022). Freight remains the key revenue earning segment for the Indian Railways, accounting for 75.2% of the total revenue in FY22, followed by the passenger segment. Indian Railways aims to achieve 100% electrification of all broad-gauge routes by December 2023.

Growth Drivers

In the Union Budget 2022-23, the Government allocated Rs.140,367.13 crore (US \$ 18.40 billion) to the Ministry of Railways. 100 PM-GatiShakti Cargo Terminals for multimodal logistics facilities will be developed over next three years.

Rail infrastructure will see an investment of Rs.50 lakh crore (US\$ 715.41 billion) by 2030. FDI inflows in railway-related components stood at US\$ 1.23 billion from April 2000-June 2022.

To realise the vision of Atmanirbhar Bharat, 2000 km of railway network will be brought under KAVACH for safety and capacity augmentation in 2022-23.



Peer Analysis

Competitors: Varun Beverages, Indiamart Intermesh Ltd, etc.

There are no direct peers, as IRCTC operates in a regulated monopoly in the internet train ticketing and railway catering services. In the Packaged drinking water segment, we can take Varun beverages as a peer which is into packaged drinking water and carbonated soft drinks under PepsiCo. In terms of online services (Ticketing), we can compare it with Indiamart Intermesh Ltd.

Company	CMP	Mcap.	RoE	RoCE	P/E*	EPS*
IRCTC	646	51672	35.00%	45.00%	58	11.18
Varun Beverages	1326	86134	18.00%	17.00%	60	22.15
Indiamart Intermesh	4350	13316	17.00%	22.00%	52	84.05

* we took TTM EPS and P/E for comparison

Outlook

The FY22 has been a year of recovery and transition for Indian economy. Being the worst sufferers of the pandemic, the travel and tourism industry has finally shown recovery, with a promising surge in travel in the second half of fiscal 2021-22. An increase in vaccine rollout and the relaxation on inbound and outbound travel led the Indian travel and tourism industry to finally be able to overcome the pandemic induced shock to the industry. Average daily requirement of Packaged Drinking Water on Indian Railways is approx. 18-20 lakh litres/day. IRCTC's production capacity is around 14.80 lakh litres/day, spread over fifteen working plants. With the commissioning of five more plants, capacity will be enhanced to approx. 18.40 lakh litres/day, and it will be operational by 2022-23. The MOAT (Competitive advantage) that IRCTC possesses is the monopolistic authority granted by the Indian Railways to the company. It has become a 'One Stop Solution' in the travel industry, offering a range of services, including online ticketing, tour packages, packaged drinking water, and catering. The Monopolistic status, capacity expansion, entry into new services and the strong leadership are the key drivers of the strong financials so far and will be the same going forward.



Valuation

Going by the business model and financials of IRCTC, it seems like there is no looking back for the Mini-Ratna company. Moreover, the monopoly granted to it by the Ministry of Railways further boosts its growth. IRCTC is also constantly diversifying its business and using technological advancements to strengthen itself further. Hence, we recommend an ACCUMULATE rating in the stock with the target price (TP) of Rs.800, 45x FY24E EPS.

Risks

- **Revenue Dependency Risk** – Delay on receipt of payments from clients (mostly governmental agencies – India/Abroad) to impact Return ratios and cash flows.
- **Cyber-Security Risk** – Security breaches, whether instigated internally or externally, could materially and adversely harm the business. Secured transactions over the internet are essential for the Company's business operations.
- **Technological Risk** – IRCTC's future success also depends on its ability to upgrade its services and infrastructure ahead of rapidly evolving consumer demands. It may not be able to use new technologies effectively, or it may fail to adapt its websites, transaction processing systems and network infrastructure to consumer requirements or emerging industry standards.

Source – Tickertape, Company's Website, BSE Website.

Thanks & Regards

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