

INDIAN RAILWAY CATERING AND TOURISM CORPORATION LIMITED (IRCTC)

IPO Note

28th September 2019

Company Description

Indian Railway Catering and Tourism Corporation Limited (IRCTC) was incorporated on September 27, 1999, 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. As a Central Public Sector Enterprise wholly owned by the Government of India and under the administrative control of the Ministry of Railways, 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. IRCTC were conferred as the status of Mini – ratna (Category-I Public Sector Enterprise) by the Government of India, on May 1, 2008. IRCTC is 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. IRCTC 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 our objective to build a “one stop solution” for our customers. Currently, IRCTC operate in four business segments, namely, internet ticketing, catering, packaged drinking water under the “Rail Neer” brand, and travel and tourism.

Business Profile

Internet Ticketing:

IRCTC are the only entity authorized by Indian Railways to offer railway tickets online through our website and our 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. As a result, there are more than 0.84 million tickets booked through www.irctc.co.in and “Rail Connect” on a daily basis. Currently it operate as one of the most transacted websites in the Asia-Pacific region with a transaction volume of more than 25 million per month and 7.2 million logins per day. The booking of railway tickets through the internet is now available 24 hours per day, 365 day per year, with the only exception being daily maintenance closure from 23:45 hours to 00:20 hours. The main objective behind the introduction of the internet ticketing was that instead of requiring passengers to be physically present at the Passenger Reservation System (“PRS”), the PRS should be brought to the door steps of passengers.

Catering:

IRCTC provide 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. Pursuant to the catering policy issued by Ministry of Railways dated February 27, 2017, (“Catering Policy 2017”), provide catering services for approximately 350 pre-paid and post-paid trains and 530 static units. Company provide 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 other catering units, such as refreshments rooms at stations categorized at B or below, AVMs, milk stalls, and trolleys are managed by zonal railways. Company also offer e-catering services to passengers through our mobile application “Food on Track” and our e catering website, www.ecatering.irctc.co.in. Company also operate executive lounges, budget hotels, and retiring rooms for the convenience of the travelling passengers on Indian Railways.

Packaged Drinking Water (Rail Neer):

IRCTC is the only entity authorized by the Ministry of Railways to manufacture

Issue Details

Offer for sale up to 20,160,000 Equity shares.

Issue Summary

Net Issue size: Rs. 628 Cr – 638Cr

No. of share: 20,160,000 Equity share

Face value: Rs. 10

Employee Reservation: 160,000 Equity share

Issue Summary

Price band: Rs. 315 – 320

Bid Lot: 40 Share and in multiple thereof

Retail & Employee Discount: Rs. 10/- per share

Post Issue Implied Market Cap

Rs. 5,040 – 5,120 Cr

BRLM: IDBI Capital, SBI Capital Market, Yes Securities

Registrar: Alankit Assignments Ltd.

Issue Open on: Monday, 30th Sep 2019

Issue Closes on: Thursday, 3rd Oct 2019

Shareholding (No. of share)

Pre-offer and post-offer Equity Share

No. of share 160,000,000

Promoters & pro. Group: Pre- Issue 100% and Post-Issue 87.40%

Public: Pre-issue 100% and Post-Issue 12.60%

and distribute packaged drinking water at all railway stations and on trains, according to CRISIL. Company manufacture and distribute packaged drinking water under brand "Rail Neer". Currently, company operate 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. To increase company presence in the packaged drinking water market at railway stations, and to meet the growing demand, company are commissioning new Rail Neer plants at Sankrail, Jagi Road, Nagpur, Bhusawal, Jabalpur, and Una. Further four new Rail Neer plants have been approved by the Company's Board of Directors and will be commissioned by 2021. Company have also installed water vending machines ("WVMs") at railway stations to provide purified, chilled and portable drinking water to railway passengers at an affordable price.

Travel and Tourism:

IRCTC have been mandated by Indian Railways to provide tourism and travel related services. As of the date of this Red Herring Prospectus, Company have 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, company is specialize in rail tourism. Company have an established track record of delivering strong annual returns to shareholders and our return on equity has exceeded 23% for each fiscal year since Fiscal 2017. Company have been a profitable and debt free company since incorporation.

Company Strength

Competitive Strengths:

Authorised by the Ministry of Railways to offer Indian Railway tickets online:

IRCTC are the only entity authorized by Indian Railways to offer railway tickets online through our website www.irctc.co.in and mobile application, "Rail Connect". During June 2019, an average of more than 1.40 million passengers reserved online tickets and travelled on Indian Railways every day. Approximately 72.60% of Indian Railways' tickets are booked online with an average of more than 0.84 million tickets booked through www.irctc.co.in and "Rail Connect" on a daily basis. Between Fiscal 2014 and Fiscal 2019, online rail bookings have registered an approximately 12.5% CAGR to reach approximately 284 million annually, with e-booking penetration rising to approximately 70% in Fiscal 2019. Online rail bookings are expected to grow at approximately 8% CAGR to reach approximately 425-435 million in fiscal 2024, with e-booking penetration rising approximately 81 - 83% during the same period, according to CRISIL. Its website and database are extremely valuable assets and offer numerous ways for us to optimize growth opportunities. With a surge in e-commerce driven by increasing internet penetration in India, Its website and database are extremely valuable assets and offer numerous ways for us to optimize growth opportunities. With a surge in e-commerce driven by increasing internet penetration in India.

Authorised catering service provider to passengers traveling by Indian Rail ways:

As a CPSE under the Ministry of Railways, 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. Since it begins its business operation in 1999, it have continuously focused on improving the standard of catering services by setting up fully equipped base kitchens, appointing professionally trained staff and maintaining stringent quality control systems. This includes deployment of food safety supervisors at base kitchens, use of quality ingredients for cooking, as well as improved means of packaging in order to ensure hygiene in the catering services and provide to Indian Railways. It also conduct third party audits to assess the quality of service rendered to the travelling passengers. In the past, due to changes in catering policies by the Ministry of Railways, company have witnessed some uncertainties in products and services that 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 us under the Catering Policy 2017, Company are 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. Its years of experience in catering to passengers on board the trains and at stations have provided company with deep knowledge of customers' expectations. Based on its experience and customer feedback, IRCTC carefully design and adjust catering products and services offering to suit customers' changing demands.

Comprehensive tourism and hospitality service provider in India:

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Exclusively authorized for manufacturing and supplying packaged drinking water at railway station and trains:

IRCTC are 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 are able to cater to approximately 45% of the total demand based on the existing production capacities of our ten Rail Neer plants located at Nangloi, Danapur, Palur, Ambernath, Amethi, Parassala, Bilaspur, Hapur, Ahmedabad and Bhopal. The 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. It has entered into an agreement with NTPC Limited ("NTPC") to develop a Rail Neer plant at Simhadri (Vishakhapatnam). Under this agreement, NTPC will supply raw water which will be converted from waste sea water through a multi-effect desalination system utilising wasteful hot flue gases. As of fiscal 2019, the share of organised segment in the PDW market is 60-65% whereas the share of unorganised segment in the market is 35-40%. Sustained growth in domestic and inbound tourism coupled with preference for packaged drinking water over tap water is expected to be a major driver for bottled water demand in India. The packaged drinking water market is expected to further grow by

16-17% CAGR and reach 180-185 billion in fiscal 2024. With the current mismatch in supply and demand, it has a significant opportunity to grow our business operation by making Rail Neer more accessible to general public at railway stations and on trains.

Robust operating system and internal controls:

IRCTC has a robust operating system and internal controls that have enabled the company to deliver quality products and services to our customers across different segments of our operation. The company has empanelled professional agencies to conduct customer satisfaction surveys in order to attain better customer satisfaction, and we have taken steps to improve the quality of catering services, including attaining ISO certification. Over the years, it has 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.

Company Description

Diversifying and offering new services to the passengers of Indian Railways and others:

IRCTC is one of the key strategic partners of Indian Railways in various value chains and strategies. It strives to strengthen and enhance the services provided by Indian Railways, and tap the opportunity presented by digital payments in the Indian economy which are growing at a significant pace. It transacts 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 its own payment gateway platform named IRCTC e-Wallet, and is also developing additional payment tools to facilitate easy and efficient payment by our customers.

Continue to leverage the Government's policy relating to our business:

Since the implementation of Catering Policy 2017, it has 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 continues to capture new opportunities arising from the Catering Policy 2017, such as the providing of catering services on trains having pantry car service. In connection with this effort, we plan to strategically withdraw from certain loss-making services such as event catering and refocus our corporate resources on our core competence areas.

IRCTC believes the Government policy to unbundle the production and distribution of catering service provides a good opportunity to further grow our business, with an opportunity to offer more services ourselves or through our licensees. Under the Catering Policy 2017, food preparation will be operated by us, or alternatively it has tendered food preparation separately to caterers that may set up or refurbish base kitchens meeting the conditions and requirements. It has established including proper certification and compliance with applicable guidelines and food safety norms. In addition, it has also planned to serve more than 1,500 non-pantry car trains through train side vending ("TSV").

Strengthen products and services offering online:

IRCTC offers products and services on various online platforms, including www.irctc.co.in. To leverage the significant number of visitors on our website, it intends to continuously develop our online offerings with enhanced product design capabilities and other value-added services in order to offer our customers a personalised experience. As of the date of this Red Herring Prospectus, visitors on our websites, while looking for Indian Railways' tickets, e-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 our customer base, IRCTC is in the process of incorporating mobile e-wallets services to our payment options. Lastly, as part of our new product offering and cross-selling effort, it is offering optional travel insurance for rail passengers. This scheme offers coverage of up to 1 million for death and permanent and total disability and ₹ 0.75 million for permanent partial disability for a premium payment of only 49 paise. As of August 31, 2019, more than 1,000 million passengers of Indian Railways have opted for this travel insurance. IRCTC believes the rise in number of internet users in India and related changes in their shopping habits, and better acceptance of internet as a convenient medium for making purchases, will allow us to leverage our single platform strategy, and, at the same time, capture the needs of customers.

Strengthen operational efficiencies:

In order for our management to focus on development and expansion of our core activities, IRCTC will continue to outsource non-core activities, such as installing WVMs at railway stations, and unbundling preparation, distribution, cleaning and maintenance in relation to catering services in order to achieve greater control and better efficiency. At present, we have also adopted the following initiatives to improve operational efficiencies.

Attracting and retaining talented employees:

Talented employees are essential to our success. It relies on its employees to provide services, complete various tasks on its projects and deliver quality performance to our customers. With its human resource system and process, it has focus on improving health, safety and environment for our employees. It intends to further strengthen our work force through continued on-job skill development and training.

Enhancing quality monitoring mechanism:

IRCTC maintains a strong system of internal controls in the key functional and operational areas, including various policies and procedures which ensure the orderly and efficient conduct of our business, including adherence to management's policies, safeguarding of assets, prevention and detection of fraud and error, accuracy and completeness of the accounting records, and the timely preparation of reliable financial information. It will continue to strengthen the quality control processes for services and products which offer, including quality tests on water brands and distribute at stations where Rail Neer is not available, and vigorous hygiene monitoring at base kitchens where foods are processed and packaged.

Exploring new opportunities by leveraging the strengths of our existing resources:

IRCTC will continue to evaluate new business opportunities that are suitable and strategically compatible with our existing operations so as to achieve higher utilization rates on our existing operational resources. It expects to expand the products and services offer to customers while limiting additional expenses by leveraging and expanding on the existing business platforms. For example, cross-selling efforts that use our developed web portal have allowed us to offer products and services that are designed to suit a variety of travel budgets, as well as specific requests. Given the nature of businesses, it is critical to expand continuously in order to

Industry

Overview of Railways Sector in India

Passenger traffic growth has remained flat over the past four years:

Total railway passenger traffic has remained nearly flat over the past four years, going from 8,397 million passengers in fiscal 2014 to 8,286 million passengers in fiscal 2018. Passenger traffic, after falling by 1-2% between fiscals 2014 and 2016, witnessed a revival in fiscal 2018, largely driven by a turnaround in non-suburban traffic.

Going forward, the share of suburban passenger traffic in total railway passenger traffic is expected to slightly increase from ~57% in fiscal 2019 to ~58% in fiscal 2024, as passenger traffic on the suburban network is likely to grow at a 0.5-1.5% CAGR during the period, while non-suburban passenger traffic remain flat. Within non-suburban passenger traffic, share of upper class reserved ticket bookings in total railway passenger traffic is expected to grow slightly from ~2% in fiscal 2019 to ~3% in fiscal 2024, with the segment growing at a 5.5-6.5% CAGR during the period on account of growing preference for convenient travel. The share of second class mail/express ticket bookings (reserved) is expected to inch up from ~17% in fiscal 2019 to ~18% in fiscal 2024, with the segment growing at a 1.5-2.5% CAGR.

Freight traffic growth revives in fiscal 2018 after remaining flat for two years:

Total railway freight traffic grew from 1,052 million tonnes in fiscal 2014 to 1,160 million tonnes in fiscal 2018, registered a 2.5% CAGR during the period. Growth in freight traffic was majorly driven by strong freight demand from coal, pig iron and finished steel, iron ore, and container service during the four years. In fiscal 2018, freight traffic rebounded to a 4.8% on-year growth on the back of strong freight demand from coal, cement, container service, and other goods. Government introduced measures to increase freight traffic, with an objective of increasing the share of Indian Railways (IR) in freight transport across India. Government announced the Eastern and Western Dedicated Freight Corridors (DFC), which aims to cut down on the turnaround time between importing and consuming destinations through construction of a railway network specialised for freight traffic.

Investments in Railways sector over the next three years (FY19-FY21)

Robust investments over the next three years to be driven by dedicated freight corridors:

The government announced a planned outlay of Rs 1.59 trillion for the railways in the Interim Union Budget 2020, 14% higher than the preceding year's revised estimate of Rs 1.39 trillion, thus driving investment in the sector. About 41% of the planned outlay is expected to be financed through budgetary support, and the remaining through internal sources and market borrowings/institutional finance.

The growth in investments is driven by:

- Availability of funding from Life Insurance Corporation (LIC) and Multilateral agencies
- Improvement in the pace of approvals 95
- Provision of additional resources such as Rashtriya Rail Sanraksha Kosh (RRSK).
- Increase in private sector participation (especially in rolling stock, station redevelopment, connectivity projects, etc.)

OVERVIEW OF FOOD SERVICES/CATERING INDUSTRY

Structure of Railway catering and e-catering industries

Railway catering refers to the catering services provided to railway travelers aboard trains as well as on stations and other railway establishments operated by Indian Railways. The Indian Railway Catering and Tourism Corporation Ltd. (IRCTC) is primarily responsible for providing catering services to patrons of Indian Railways through onboard catering services and its outlets/stalls operated on stations. Railway catering can be categorized on the basis of point of consumption or sale as follows:

Mobile catering:

Mobile catering refers to catering services provided to rail travellers aboard a train, through a pantry car (onboard cooking facility) attached to the train or base kitchens (large cooking and packing facility within/near Railway premises for food preparation and distribution to trains or static units) located at major stations in the country.

Static catering:

Static catering refers to catering services offered to patrons at static units at railway establishments located at railway stations across the country. These static units include Jan Ahars (unit serving economy combo meals comprising of regional and local items), Cell Kitchens (mini base kitchens supplying food to trains or static units), Refreshment Rooms (unit where a-la-carte items, ready-to-eat meals, and thali meals are served), Food Plazas (multi-cuisine plaza serving food items at market-driven rates), Fast Food Units (major units selling fast food items through self-service counters), and Food Courts (cluster of stalls selling food items such as branded products/eatables).

E-catering:

E-catering is an online food ordering service, launched by IRCTC in September 2014, that allows rail travellers, who are willing to pay higher prices for variety in food options, to order food items from partner restaurants listed on IRCTC's Food on Track app, IRCTC's e-catering website, and online platforms of other partner aggregators approved by IRCTC. Rail travellers can use their Passenger Name Reservation (PNR) number to order food items available with listed restaurants in the vicinity of approaching railway stations, any time after booking of ticket and up to two hours of scheduled arrival of the train, and have it delivered to the seat/berth allotted on their PNR number. The partner restaurants are selected through a tendering process and pay IRCTC 12% flat commission of the order value for every order received through the Food on Track platform or a partner aggregator platform.

Financial Highlight

Description(Rs. Mn)	FY19	FY18	FY17	FY16
Operating Income (Net)	18,679.0	14,705.0	15,232.0	13,668.0
Total Expenditure	14,947.0	11,973.0	12,265.0	11,764.0
Operating Profit (Excl OI)	3,732.0	2,732.0	2,967.0	1,904.0
Other Income	888.0	991.0	564.0	1,390.0
EBITDA	4,620.0	3,723.0	3,531.0	3,293.0
Depreciation	286.0	237.0	224.0	205.0
EBITDA	4,333.0	3,486.0	3,307.0	3,088.0
Interest	34.0	30.0	26.0	1.0
PBT	4,300.0	3,456.0	3,280.0	3,087.0
Provision for Tax	1,574.0	1,250.0	1,168.0	1,200.0
Profit After Tax	2,726.0	2,206.0	2,113.0	1,886.0
Earnings Per Share	17.04	55.15	53.67	94.32

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