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## Company Initiation

### Key Financials - Standalone

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. m)	18,679	22,967	31,160	34,336
EBITDA (Rs. m)	3,722	6,596	10,162	11,218
Margin (%)	19.9	28.7	32.6	32.7
PAT (Rs. m)	2,726	5,273	8,060	8,966
EPS (Rs.)	17.0	33.0	50.4	56.0
Gr. (%)	(69.1)	93.4	52.9	11.2
DPS (Rs.)	7.6	14.8	22.7	25.2
Yield (%)	0.8	1.5	2.3	2.5
RoE (%)	27.3	44.4	51.9	44.4
RoCE (%)	34.4	51.8	61.6	52.3
EV/Sales (x)	8.0	6.4	4.6	4.0
EV/EBITDA (x)	40.1	22.4	14.1	12.3
PE (x)	58.9	30.5	19.9	17.9
P/BV (x)	15.4	12.1	9.1	7.1

### Key Data

### INIR.BO | IRCTC IN

52-W High / Low	Rs. 1,029 / Rs. 625
Sensex / Nifty	41,155 / 12,119
Market Cap	Rs. 161 bn/ \$ 2,247 m
Shares Outstanding	160m
3M Avg. Daily Value	Rs. 2787.63m

### Shareholding Pattern (%)

Promoter's	87.40
Foreign	1.99
Domestic Institution	5.11
Public & Others	5.50
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	14.0	-	-
Relative	15.2	-	-

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# Indian Railway Catering and Tourism Corporation (IRCTC IN)

Rating: BUY | CMP: Rs1,004 | TP: Rs1,339

## Monopoly play on rail travel & tourism

We initiate coverage on IRCTC (Indian Railway Catering & Tourism Corporation Ltd) with a BUY rating given 1) monopoly position in providing online ticket booking and catering services for passengers travelling by Indian Railways (IRs) 2) high revenue visibility from packaged drinking water segment (Rail Neer brand) aided by 35% higher capacity 3) revenue kicker of Rs6.7bn/7bn in FY21E/FY22E from e-ticketing business post re-introduction of service charge (Rs15/ticket for non-AC and Rs30/ticket for AC from 01Sep 2019) and 4) catering revenue CAGR of 14.5% over FY19-22E led by an average increase in mobile/static catering tariff's by ~70%/~61% respectively. Strong balance sheet (net cash of Rs11.5bn as on Sept 2019), healthy return ratios (RoE/RoCE to expand from 27%/34% in FY19 to 44%/52% in FY22E) and 45% dividend pay-out gives us additional comfort. Valuations at 20x/18x FY21E/FY22E look compelling given sales/PAT CAGR of 22.5%/48.7% over FY19-22E and monopolistic position in ticket booking and catering. Initiate with a BUY and TP of Rs1,339 (24x FY22E EPS of Rs56). Policy uncertainty in catering and reduction/abolishment of service charge are key risks to our call.

**A monopolistic business:** IRCTC is a monopolistic entity authorized to provide packaged drinking water, catering, and online ticket booking services to passengers travelling by IRs. It has a dominant position in online rail bookings/packaged drinking water with ~73%/~45% market share respectively. Being a regulated monopoly acts a strong moat and limits competitive risks.

**Levy of service charge to provide revenue kicker:** With effect from 01 Sep 2019, IRCTC has re-instated service charge for online bookings at the rate of Rs15/Rs30 for non-AC/AC respectively. We expect revenue kicker of Rs3.6bn/Rs6.7bn in FY20E/FY21E post levy of service charge resulting in a 57.3%/68.7% CAGR in internet ticketing revenue/EBIT respectively over FY19-22E.

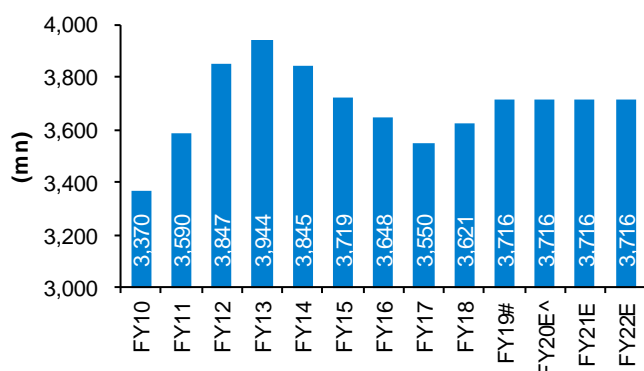
**Rail Neer's market share to rise to ~80% post capacity expansion:** Post increasing the number of plants to 20 in a phased manner by FY21E, IRCTC's market share is expected to rise from ~45% to ~80% resulting in a 34.8%/41.4% CAGR in revenue/EBIT respectively over FY19-22E (being a monopoly IRCTC will have first right to cater to the unmet demand which is currently captured by players like Bisleri, Kinley & Aquafina.)

**Catering revenues to grow at a CAGR of 14.5% over FY19-22E post price hike:** Average hike in mobile/static catering prices by ~70%/~61%, strong traction from e-catering business amid expanding list of partner restaurants and unveiling of the new catering policy 2017 (catering responsibility re-assigned to IRCTC which provides long term revenue visibility) is likely to drive catering revenue/EBIT at a CAGR of 14.5%/28.2% over FY19-22E.

**Comprehensive travel & tourism service provider:** We expect tourism revenue/EBIT to grow at a CAGR of 9.1%/2.9% over FY19-22E as IRCTC has footprints across all major tourism segments such as hotel bookings, rail, land, cruise & air tour packages and air ticket bookings. It has monopoly in rail tourism and operates various theme based trains.

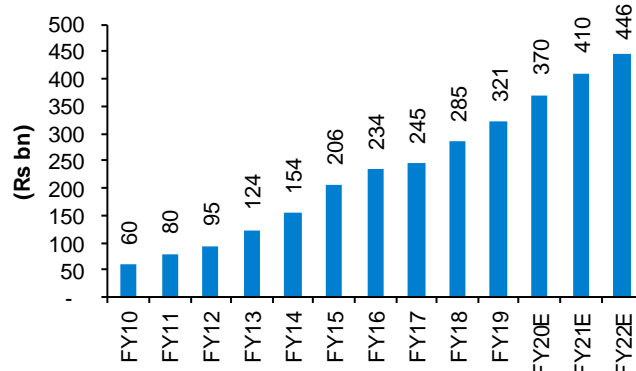
## Story in charts

**Exhibit 1: Non-suburban passenger traffic to remain flat**



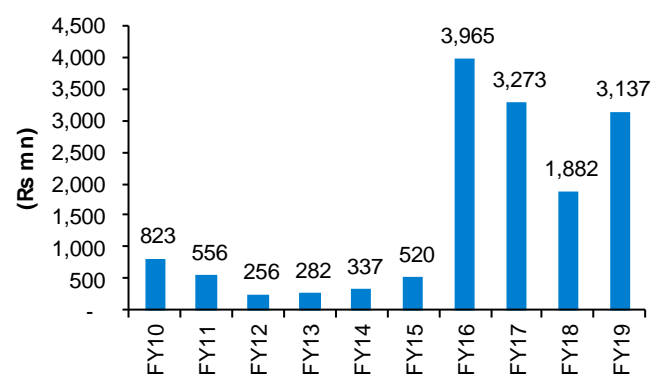
Source: MoR, PL #FY19 figures are NA & annualized based on 1QFY20 figures.

**Exhibit 2: E-ticketing collection to be at Rs446bn in FY22**



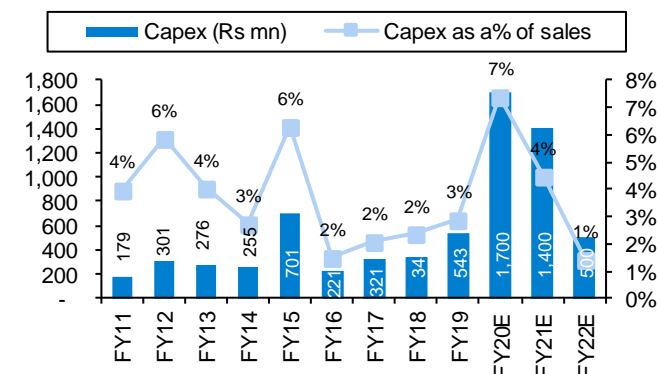
Source: Company, PL

**Exhibit 3: IRCTC contributed Rs3.1bn to MoR's kitty in FY19**



Source: Company, PL Note: Contribution to MoR comprises of haulage charges, concession/license fee, dividends.

**Exhibit 4: Rail Neer & technology spends to drive capex**



Source: Company, PL

**Exhibit 5: Cash conversion cycle to remain ~76 days over FY20-22E**

Particulars	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Debtor days	49	41	70	137	114	115	116	117
Inventory days	3	2	2	2	2	2	2	2
Payable days	13	13	33	38	38	40	42	43
<b>Cash conversion cycle</b>	<b>39</b>	<b>30</b>	<b>38</b>	<b>101</b>	<b>78</b>	<b>77</b>	<b>76</b>	<b>76</b>

Source: Company, PL

**Exhibit 6: Revenue share breakdown with IR's on various products/services provided by IRCTC**

Category of product/service	IRCTC's revenue share	IR's revenue share
Passenger Amenities (Management of stalls, refreshment rooms, pantry car services etc.)	85%	15%
Passenger amenities (Retiring rooms, Yatri Niwas etc.)	75%	25%
Commercial projects (Food plaza's & open air restaurants)	60%	40%
Tourism (package tours, special trains etc.)	No fee restrictions on IRCTC, minimum guarantee payment to Indian Railways	

Source: Company, PL

Note: For budget hotels & food plaza's IRCTC has to pay a license fee of Rs5per sq mtr subject to a minimum fee of 2.5% of land value in addition to the revenue share

## Company Overview

### Monopoly in online train ticket bookings is biggest moat

Incorporated in 1999, as a Central Public Sector Enterprise (CPSE) wholly owned by the Government of India (GoI), Indian Railway Catering & Tourism Corporation Ltd (IRCTC) has a monopoly in providing online ticket booking, packaged drinking water, and catering services to passengers travelling by Indian Railways (IR's). It has a market share of ~73% and ~45% in online rail bookings and packaged drinking water. IRCTC also offers hospitality services on trains & other locations and promotes tourism in India through PPP and has been conferred the status of Mini Ratna (Category- I Public Sector Enterprise) by GoI. Being a regulated monopoly acts a strong moat and provides a huge sustainable competitive advantage over competition.

#### Exhibit 7: Ticketing business has high margins, remains a cash cow

Segment	Market share	Key Competitors	Revenue contribution (FY19)	EBIT margin (FY19)	Is it a monopoly?	Comments
Ticketing	~73%	ClearTrip, MakeMyTrip, Yatra, PayTM	12%	67%	Yes	Monopoly in online train ticket bookings and even the transactions from other travel portals get routed through IRCTC.
Packaged drinking water (Rail Neer)	~45%	Bisleri, Kinley and Aquafina	9%	17%	Virtual monopoly	Production capacity of 259mn bottles in FY19 can cater only to ~45% of the demand.
Catering	~100%	None	55%	11%	Yes	Outsourced caterers and food plaza's operating on stations have to pay a license fee to IRCTC. Even e-catering partner restaurants pay a 12% commission of order value. Thus, competition is policy driven aimed at providing more F&B options to passengers.
Travel & tourism	NA	Thomas Cook, Cox & Kings	23%	15%	No	IRCTC has monopoly in rail tourism projects.

Source: Company, PL

#### Exhibit 8: Key timeline of events

Year	Event
1999	Year of incorporation
2002	Commenced internet ticketing services
2003	Catering services of IR's were handed over to IRCTC
2007	Launched tourism portal
2008	Conferred with the status of Mini-Ratna
	Launched air ticketing business
2010	Catering services were taken over by IR's
	Launched Maharaja Express, a luxury tourist train
2014	Started e-catering service enabling patrons to order food items from partner restaurants
2016	Abolishment of service charge @Rs20/Rs40 for non-AC/AC respectively on booking railway tickets online
2017	Pursuant to the announcement of new policy, catering services moved back to IRCTC
	Started operations as private train operator on two routes viz; Mumbai to Ahmedabad and Delhi to Lucknow
2019	Re-instatement of service charge @Rs15/Rs30 for non-AC/AC respectively on booking railway tickets online
	Revision in menu & tariff of catering services on Rajdhani/Shatabdi/Duronto and standard meals on IR's
	Revision in tariff of standard meals for static units on IR's

Source: Company, PL

## Investment Argument

### E-ticketing to benefit from digitization and & levy of service charge

IRCTC is the only entity authorized by IR's to offer tickets online through its website and mobile application with a dominant market share of ~73% in railway bookings. It operates one of the most transacted websites in the Asia- Pacific region with volumes ranging from 25-28mn per month.

As of 31<sup>st</sup> Aug 2019, IRCTC had 53.7mn registered active users. During FY20 (upto August), new user registrations have averaged at 40,000 per day. After upgrading the IT infrastructure, IRCTC's capacity to issue e-tickets has increased from 7,200 tickets per minute in 2014 to 24,000 tickets per minute as of 31<sup>st</sup> August 2019. IRCTC will continue to benefit from rising focus on digital and cashless transactions in the economy.

### E-booking industry to grow at CAGR of 16-18%

The market size of Indian booking industry (both offline & online) consisting of airline booking (domestic & international), domestic hotels (room revenues) and railway booking (long distance trains) is pegged at Rs2,335-2,355bn (total amount paid by the customers including taxes & fees but net of cancellations) as of FY19. Over the last 5 years, the Indian booking industry has grown at a CAGR of 11-12% backed by rising domestic & inbound tourism. Airline bookings has the highest share of ~48-50%, followed by hotel and rail bookings with a share of 30-32% and 19-21% respectively as of FY19. Over the last 5 years, the share of airline bookings and hotel bookings has increased on account of increasing affordability in air travel and healthy growth in domestic tourism.

#### Exhibit 9: Airlines has highest share of ~48-50% in booking industry

Particulars	FY14	FY19
Airline Booking	47-49%	48-50%
Hotel Booking	29-31%	30-32%
Rail Booking	21-23%	19-21%
<b>Total size of booking industry</b>	<b>Rs1,370-1,390bn</b>	<b>Rs2,335-2,355bn</b>

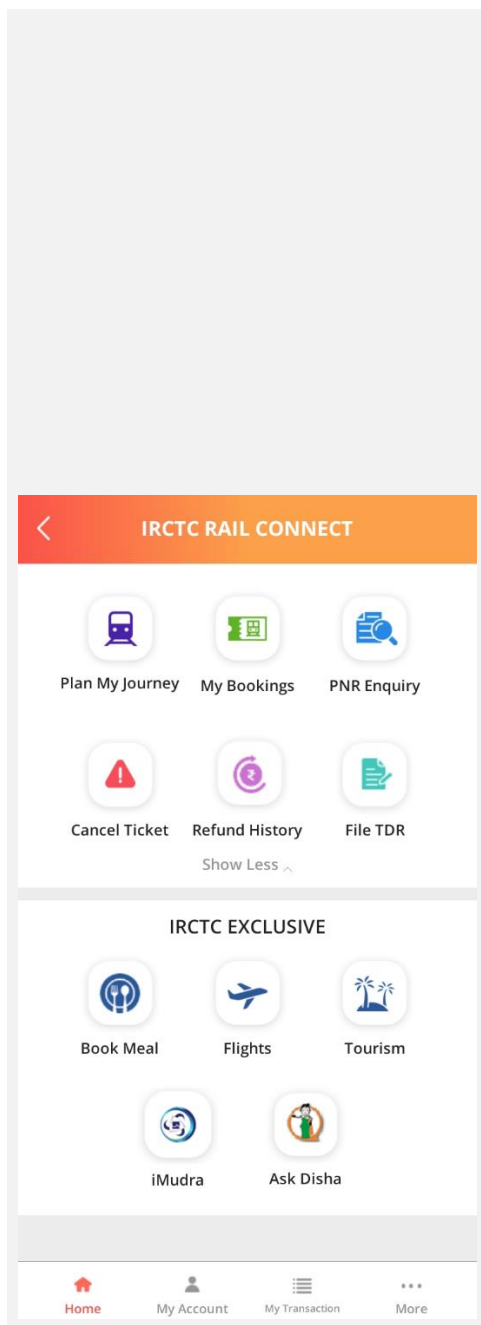
Source: Company, PL

The share of e-bookings (online bookings done via internet) have increased from ~35-40% in FY14 to ~53-58% as of FY19 with the market registering a CAGR of ~20% over the same period. Over the next 5 years, the e-booking market is expected to grow at a CAGR of 16-18% to reach ~Rs2,854bn by FY24E driven by:

- Rising internet penetration
- Availability of low cost data
- Affordable smart phones
- Increasing number/traction of online travel agencies & aggregators
- Convenience of online bookings

*Rising internet penetration & convenience to drive e-bookings*





The e-booking market is dominated by airlines which accounts for ~60-62% of the overall online bookings followed by railways (~23-25%) and hotels & bus bookings (~13-15%). While the share of e-bookings in railways has declined from ~29-31% in FY14 to ~23-25% in FY19, the e-booking penetration in railways has witnessed a steady rise over the same period (increased from 51% in FY14 to 70% in FY19).

**Exhibit 10: Share of e-bookings has increased to ~53-58% in FY19**

Particulars	FY14	FY19
Online bookings (Rs bn)	480-556	1,238-1,366
As a % of booking industry	35-40%	53-58%
Offline bookings (Rs bn)	822-904	981-1,107
As a % of booking industry	60-65%	42-47%
<b>Total size of booking industry (Rs bn)</b>	<b>1,370-1,390</b>	<b>2,335-2,355</b>

Source: Company, PL

## IRCTC to gain from rising e-booking penetration

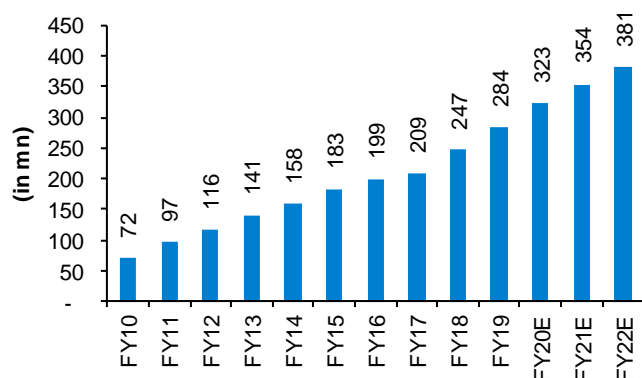
Rail e-booking services of IRCTC were launched in 2002. It is the only entity authorized by IR's to offer tickets online with a dominant market share of ~73%. The other online travel agents (OTAs) that offer e-ticketing services have to route their transactions through the booking engine of IRCTC.

Online bookings for long distance trains (non-suburban) have grown at a CAGR of 16.5% over FY10-19. As of FY19, 284mn tickets were booked online resulting in e-booking penetration of 70%. The non-suburban passenger traffic on tickets booked online has grown at a CAGR of 16.1% over FY10-19. On an average of ~1.7x-1.8x passengers have travelled per e-ticket booked over FY10-19.

We expect online rail bookings to grow at a CAGR of 10.3% over FY19-22E resulting in an increase of e-booking penetration from 70% in FY19 to 80% in FY22E. Gol's intent to promote cashless and digital transactions will be a key driver of online ticket bookings. It will be further supported by growing traction and reward based push from of OTAs like Yatra, MakeMyTrip, PayTM etc.

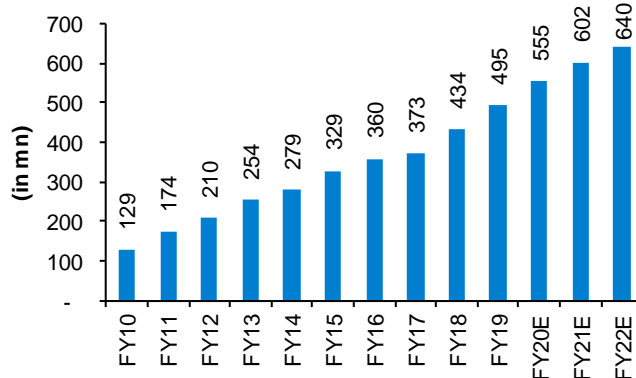
Consequently, we expect e-booking passenger traffic to grow at a CAGR of 9% over FY19-22E. Being a monopoly we believe IRCTC will be the biggest beneficiary of rising e-booking penetration and consequent increase in online ticket volumes.

**Exhibit 11: Rail e-bookings CAGR at 10% over FY19-22E**



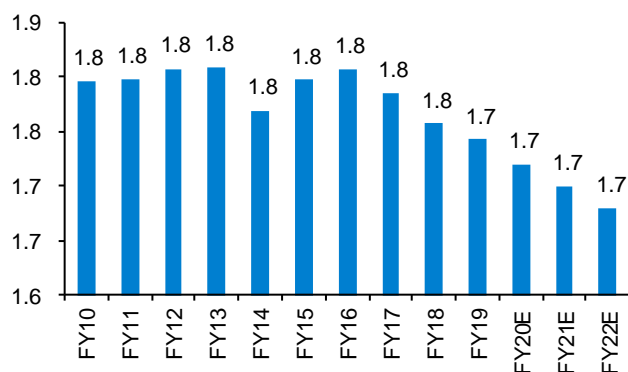
Source: Company, PL

**Exhibit 12: E-booking passenger traffic has risen steadily**



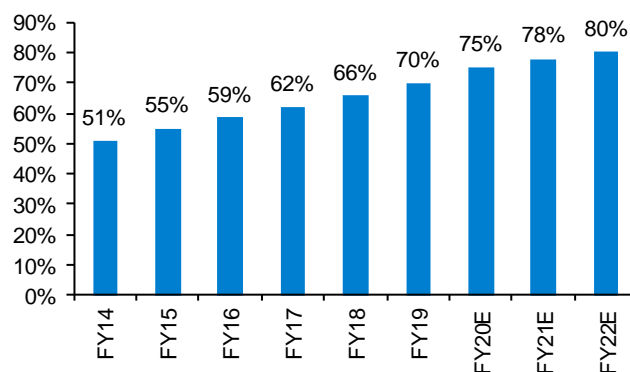
Source: Company, PL

**Exhibit 13: ~1.7-1.8x passengers travel per e-ticket**



Source: Company, PL

**Exhibit 14: E-booking penetration est at ~80% by FY22E**



Source: Company, PL

## Service fee re-instatement; Rs6.7bn revenue opportunity in FY21E

**Convenience fee emerging as a new way of life:** Over the years, Indian consumer (highly price conscious) has increasingly shown willingness to pay a small service charge/fee for improved convenience. Hassle free buying experience has taken precedence over the long imbibed frugal approach. In fact, convenience fee has become a way of life and the consumer is already paying it while utilizing various services be it movie tickets, shopping of groceries/accessories/clothing or food delivery. We believe that this change in consumer attitude towards online buying by paying a convenience fee is a long term positive for IRCTC.

**Exhibit 15: Consumer willingness to pay convenience fee is a long term trend**

Name of the Company	Area of business	Service Charge
BookMyShow	Movie ticketing	Typically 10% of ticket price
DMart	Departmental stores	Rs49 or 3% of order value whichever is higher
Amazon	E-com	If order value is less than Rs499 then delivery charges are Rs49 per order. In addition, there charges for express delivery.
Swiggy & Zomato	Food Delivery	Ranges from Rs25-Rs35 depending upon order value

Source: Company, PL

*IRCTC levies service charge of Rs15/Rs30 for every non-AC/AC ticket booked online*

In case of railway e-ticketing, IRCTC has a monopoly with a dominant market share of ~73%. The other online travel agents (OTAs) that offer e-ticketing services route their transactions through the booking engine of IRCTC.

IRCTC levies a service charge of Rs15/Rs30 for every non-AC/AC ticket that is booked online respectively. Given there is an aggregator service charge and payment gateway charge that a consumer has to pay while booking tickets from other OTAs, IRCTC is the most cost effective option. We expect the fee based model to sustain over the long term amid 1) convenience that online bookings offer 2) miniscule service charge that they attract and 3) the saving of time that results from online bookings.



## Exhibit 16: IRCTC/ OTA's - Service charges on Mumbai-Ahmedabad route

Ticket aggregators	IRCTC's service charge (Non-AC)	Aggregator's service charge	Payment gateway charge	Cost to the passenger per ticket
IRCTC	Rs17.7*	NA	NA	Rs17.7
MakeMyTrip	Rs17.7	Rs19	NA	Rs36.7
Yatra	Rs17.7	Rs20	Rs6	Rs37.7
Clear Trip	Rs17.7	Rs20	Rs6	Rs43.7
PayTM	Rs17.7	Rs9	Rs7	Rs33.7#

Source: Portal websites of ticket aggregators, PL \*There is an 18% GST on service charge of Rs15 #Aggregator service charge & payment gateway charge can be waived off for this route, if the user opts for it. Nonetheless, our check reveals, charges cannot be waived off for all routes.

**Ticketing service charge reinstated from Sep 2019:** IRCTC's service charges for online ticket booking have seen a flip-flop in policy in recent past. FY10, IRCTC levied a service charge of Rs15/Rs40 for every non-AC/AC ticket that was booked online. The charge was reduced to Rs10/Rs20 for non-AC/AC respectively in FY11 and the same rate prevailed until FY15. In FY16, the rate was revised upwards to Rs20/Rs40 for non-AC/AC respectively.

However, in Nov 2016 (post demonetization), the service charge was completely abolished to promote digital and cashless transactions which resulted in loss of ticketing revenue. In order to compensate for this loss of revenue and recover the O&M cost incurred in managing the online portal, the GoI provided a reimbursement to IRCTC (see exhibit 17 below for details on reimbursement).

Nonetheless, with effect from 01 Sep 2019, service charge has been re-instated for online bookings at the rate of Rs15/Rs30 for non-AC/AC respectively. In case the payment is made via BHIM/UPI the charge is Rs10/Rs20 for non-AC/AC respectively. Having reinstated the service charge, there will be no reimbursement provided in future.

IRCTC was provided reimbursement fee of Rs800mn/Rs880mn in FY18/FY19 when there was no service charge

## Exhibit 17: Trend in e-ticket service charges levied by IRCTC

Particulars	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Services charges earned on tickets (Rs mn)	1,112	1,237	1,473	1,743	2,153	2,530	5,515	3,623	1	1	3,628	6,707	7,096
YoY growth		11.2%	19.1%	18.3%	23.6%	17.5%	117.9%	-34.3%	NM	NM	NM	84.8%	5.8%
No of tickets booked online (In mn)	72	97	116	141	158	183	199	209	247	284	323	354	381
YoY growth		34.7%	19.9%	21.1%	12.3%	15.8%	8.7%	5.0%	18.2%	15.0%	13.6%	9.7%	7.7%
<b>Service charge per ticket</b>													
Non- AC (Rs)	15	10	10	10	10	10	20	20*	NA	NA	15#	15	15
AC (Rs)	40	20	20	20	20	20	40	40*	NA	NA	30#	30	30
Blended charge (AC + non-AC)(Rs)	15	13	13	12	14	14	28	17	NA	NA	11	19	19
YoY growth		-17.4%	-0.7%	-2.3%	10.0%	1.4%	100.5%	-37.5%	NM	NM	NM	68.5%	-1.8%
Service Charge Reimbursement (Rs mn)	NA	NA	NA	NA	NA	NA	NA	NA	800	880	320\$	NA	NA

Source: Company, PL \* Post Nov 2016, service charge was abolished # Service charge was reinstated from 01 Sep 2019 \$ For the first 5 months of FY20

**Service charge to provide revenue kicker of Rs7bn in FY22E:** Over the last 5 years, total train tickets booked (online + offline) for long distance trains have grown at a CAGR of 5.5% to reach 406mn in FY19. We expect a similar CAGR over the next 3-year period with ticketing volumes of 476mn in FY22E. The e-booking penetration has increased from 51% in FY14 to 70% in FY19 and is expected to reach to 80% in FY22E. As a result, the volumes of e-tickets is expected to rise from 284mn in FY19 to 381mn in FY22E (CAGR of 10.3% over a 3-year period).

Ticketing volumes for payment made through BHIM/UPI application is expected to rise from 10% in FY20E to 20% in FY22E as it has a lower service charge of Rs10/Rs20 for non-AC/AC respectively. Consequently, share of e-ticketing volumes for payment made via non-BHIM/UPI application is expected to fall from 90% in FY20E to 80% in FY22E.

Typically, the breakdown of volumes between non-AC/AC tickets is 67%/33% respectively which is expected to remain the same. Taking this into consideration we expect service charge income of Rs3.6bn (impact of 7 months as service charge was levied from 01<sup>st</sup> Sep 2019)/Rs6.7bn/7.0bn in FY20E/FY21E/FY22E respectively. We estimate that the service charge revenue in FY21 and FY22 will cross earlier peak of Rs5.5bn registered in FY17 by 21% in FY21 and 29% in FY22.

## Exhibit 18: Levy of service charge to provide a huge revenue kicker in the next 3 years

Particulars	FY14	FY15	FY16	FY17	FY18	FY19	FY20E*	FY21E	FY22E
<b>Total train tickets booked (Online + Offline) (In mn)</b>	<b>310</b>	<b>333</b>	<b>340</b>	<b>337</b>	<b>375</b>	<b>406</b>	<b>430</b>	<b>454</b>	<b>476</b>
<i>YoY growth</i>		7.4%	2.2%	-0.9%	11.4%	8.1%	6.0%	5.5%	5.0%
<i>E-booking penetration</i>	51%	55%	59%	62%	66%	70%	75%	78%	80%
E-tickets booked (In mn)	158	183	199	209	247	284	323	354	381
<b>BHIM/UPI tickets (In mn) &amp;</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>32</b>	<b>53</b>	<b>76</b>
<i>As a % of total tickets booked online</i>	NA	NA	NA	NA	NA	NA	10%	15%	20%
Average service charge on BHIM/UPI tickets (Rs)	NA	NA	NA	NA	NA	NA	13	13	13
<b>Service charges earned for BHIM/UPI tickets (Rs mn)</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>250</b>	<b>706</b>	<b>1,014</b>
<b>Non-BHIM/UPI tickets (In mn)</b>	<b>158</b>	<b>183</b>	<b>199</b>	<b>209</b>	<b>247</b>	<b>284</b>	<b>290</b>	<b>301</b>	<b>305</b>
<i>As a % of total tickets booked online</i>	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	90.0%	85.0%	80.0%
Average service charge on non-BHIM/UPI tickets (Rs)	14	14	28	17	NA	NA	20	20	20
<b>Service charges earned for non-BHIM/UPI tickets (Rs mn)</b>	<b>2,153</b>	<b>2,530</b>	<b>5,515</b>	<b>3,623</b>	<b>NA</b>	<b>NA</b>	<b>3,378</b>	<b>6,001</b>	<b>6,083</b>
<b>Total service charges earned (Rs mn)</b>	<b>2,153</b>	<b>2,530</b>	<b>5,515</b>	<b>3,623</b>	<b>NA</b>	<b>NA</b>	<b>3,628</b>	<b>6,707</b>	<b>7,096</b>

Source: Company, PL  
Dec 2016

Note: 1) \*Service charge calculation for FY20E is for a period of 7 months 2) &BHIM was launched in



## “Rail Neer” to strengthen leadership

IRCTC is the only entity authorized by Indian Railways to manufacture and distribute packaged drinking water (PDW) at all railway stations and on trains. The company manufactures and distributes packaged drinking water under “Rail Neer” brand. It has eleven operational plants with an installed production capacity of 1,11,6000 bottles per day and 1,950 water vending machines (WVM) at 700 railway stations to provide potable drinking water at an affordable price.

Despite ready market and 11 Rail Neer plants with a capacity of 1.1mn bottles per day, IRCTC has just ~45% volume market share of the packaged water demand emanating at railway premises & in the trains.

### Exhibit 19: Rail Neer plants have capacity of 1.1mn bottles/day

Region	Year of establishment	capacity (bottles/ day)	Model
Nangloi (Delhi)	May-03	1,02,000	Owned
Danapur (Patna)	Mar-04	1,02,000	Owned
Palur (Chennai)	Jul-10	1,80,000	Owned
Ambernath (Maharashtra)	Oct-14	2,00,000	Owned
Amethi (UP)	Mar-15	72,000	PPP
Parasalla (Kerala)	Jun-15	72,000	PPP
Bilaspur (Chattisgarh)	Jun-17	72,000	Owned
Hapur (UP)	Apr-19	1,00,000	PPP
Sanand (Ahmedabad)	Apr-19	72,000	PPP
Mandideep (Bhopal)	Jul-19	72,000	PPP
Nagpur (Maharashtra)	Aug-19	72,000	Details not available
<b>Total capacity of 11 operational plants</b>		<b>11,16,000</b>	

Source: Company, PL

### Exhibit 20: 5 new Rail Neer plants to increase capacity by 35%

Region	Production capacity (bottles per day)	Expected date of commissioning#
Jagi Road (Guwahati)	72,000	Oct-19
Maneri (Jabalpur)	72,000	Oct-19
Sankrail (Howrah)	1,00,000	Oct-19
Bhusawal (Maharashtra)	72,000	Nov-19
Mehatpur, Una (HP)	72,000	Dec-19
<b>Total capacity of 5 plants</b>	<b>3,88,000</b>	

Source: Company, PL # The plants have surpassed the commissioning date & are expected to begin operations soon

In order to cater to the growing demand, IRCTC is planning to commission five new plants at Sankrail, Jagi Road, Bhusawal, Jabalpur, and Una in FY20E. Further, four new plants have been approved by the board which will be commissioned in FY21E. Once the number of plants increase from 11 to 20 over the next 2 years, IRCTC's volume market share is expected to rise from ~45% to ~80% as 1) being a monopoly it will have first right to cater to the unmet demand which is currently captured by players like Bisleri, Kinley & Aquafina 2) Rail Neer is priced at a discount of 25% than competing brands (most selling 1L SKU is cheaper than competition).

**Exhibit 21: SKU wise price comparison of major players in packaged drinking water industry**

Name of the Company	Brand	250ML	300ML	500ML	1L	2L	5L	20L	25L
Bisleri International Pvt Ltd	Bisleri	Rs6	Rs10	Rs10	Rs20	Rs30	Rs65-70	Rs80	NA
Hindustan Coca-Cola Beverages Pvt Ltd	Kinley	NA	NA	Rs10	Rs20	Rs25-32	NA	Rs90	Rs110
Varun Beverages	Aquafina	NA	NA	Rs10	Rs20	Rs30	NA	NA	NA
IRCTC	Railneer	NA	NA	Rs10	Rs15	NA	NA	NA	NA

Source: Company, PL

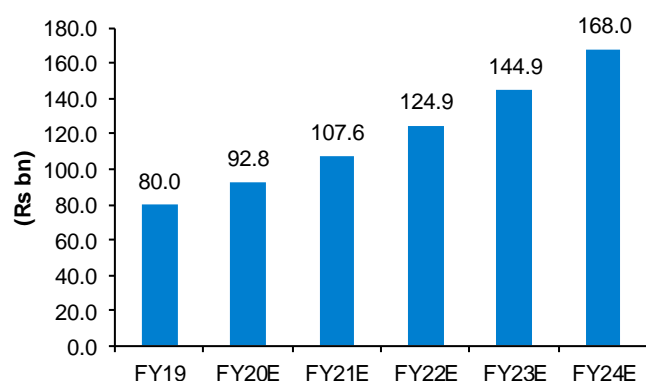
## Best placed to capture untapped potential in the PDW market

The market size of organized (60-65% share) packaged drinking water (PDW) is pegged at Rs80-85bn (retail price) as of FY19 having registered a CAGR of 19-20% over the last 5 years. Over FY19-24E, the PDW market is expected to grow at a CAGR of ~16-17% and reach a size of ~Rs168bn due to:

- Ability & willingness to pay for clean drinking water amid rising health awareness
- Rising affordability & focus on hygiene & cleanliness
- Growth in tourism with preference for PDW over tap water.

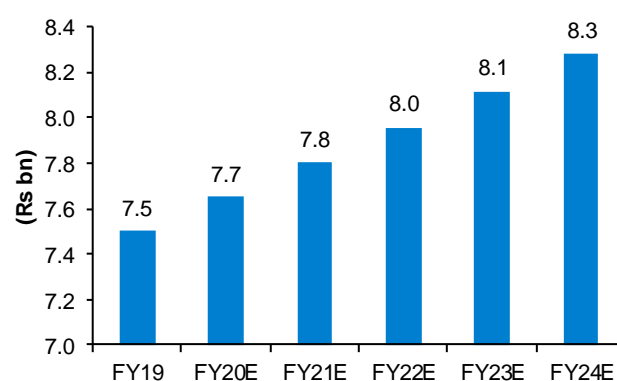
The market size of PDW sold at railways stood at Rs7.5-8.5bn as of FY19 and is expected to grow at a CAGR of 2% over FY19-24E backed by increase in upper class reserved ticket bookings (~2% of the overall passenger traffic). This segment represents the population that is likely to purchase PDW during rail travel & has grown at a CAGR of 5.5-5.6% over FY14-19.

**Exhibit 22: Organized PDW market to grow steadily**



Source: Company, PL

**Exhibit 23: PDW of railways to reach Rs8.3bn in FY24E**



Source: Company, PL

As of FY19, Rail Neer's revenue was Rs1.7bn having a share of ~23% of railway's PDW market. Given the monopoly position in providing PDW to railways, IRCTC is best placed to capture the huge untapped potential (~77% share is met by other players like Aquafina, Bisleri, Kinley due to Rail Neer's capacity constraints).

## New plants to increase volume share to ~80%

IRCTC has a monopoly position in providing PDW to passengers on railway stations and in trains. The 11 operational Rail Neer plants have production capacity of ~1.1mn bottles per day which caters to ~45% of the PDW demand. In order to cater to the existing demand of 1.8mn litres per day, IRCTC is planning to commission five new plants at Sankrail, Jagi Road, Bhusawal, Jabalpur, and Una in FY20E which will have production capacity of 388,000 bottles per day. Further, four new plants have been approved by the board which will be commissioned in FY21E.

### Exhibit 24: Expansion drive to increase capacity/sales by 2.3x/2.4x over FY19-FY22E

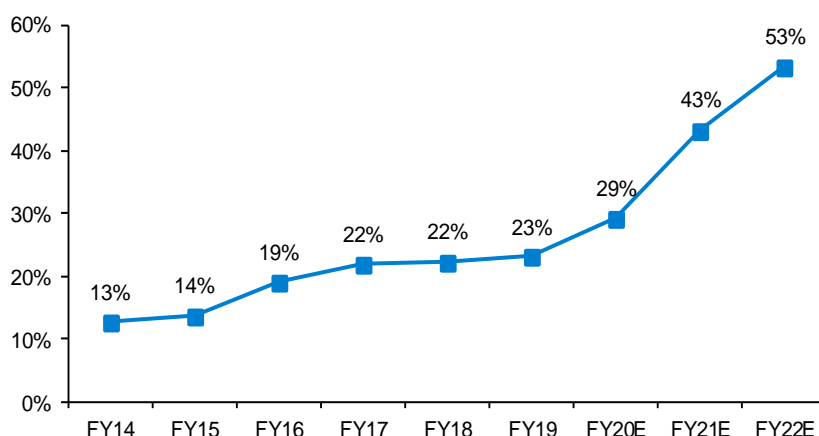
	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>Bottling Capacity (In mn)</b>						
Capacity of existing 7 plants (Old plants)	231	246	259	259	259	259
Capacity of 4 new plants that have begun operations in FY20E (Phase 1)				104	104	104
Capacity of 5 new plants expected to begin operations in FY21E (Phase 2)					128	128
Capacity of 4 new plants (board approval taken) expected to begin operations in FY21E (Phase 3)					95	95
<b>Total bottling capacity (In mn)</b>	<b>231</b>	<b>246</b>	<b>259</b>	<b>363</b>	<b>586</b>	<b>586</b>
<i>YoY growth</i>		6.7%	5.2%	40.3%	61.4%	0.0%
<b>Utilization</b>						
Old plants	81%	82%	83%	85%	86%	87%
Phase 1 expansion				50%	82%	83%
Phase 2 expansion					55%	83%
Phase 3 expansion					50%	82%
<b>Number of bottles sold (In mn)</b>						
Old plants	187	202	215	220	223	225
Phase 1 expansion				52	86	87
Phase 2 expansion					70	106
Phase 3 expansion					24\$	78
<b>Total bottles sold (In mn)</b>	<b>187</b>	<b>202</b>	<b>215</b>	<b>272</b>	<b>402</b>	<b>496</b>
<i>YoY growth</i>		8.0%	6.4%	26.7%	47.8%	23.3%
<b>Realization per bottle (Rs)</b>						
	8.3	8.1	8.1	8.2	8.4	8.6
<i>YoY growth</i>		-2.8%	-0.3%	2.0%	2.0%	2.0%
<b>Rail Neer revenues (Rs mn)</b>						
	1,558	1,635	1,735	2,241	3,379	4,248
<i>YoY growth</i>		5.0%	6.1%	29.2%	50.7%	25.7%

Source: Company, PL Note: \$Volumes for Phase 3 expansion for FY21E is for 6 months as we expect gradual scale up

- In phase 1, 4 plants with capacity of 316,000 bottles per day have already begun operations in FY20E translating into annual capacity of 104mn bottles (operations at 330 days a year).
- In phase 2, 5 more plants with capacity of 388,000 bottles per day (annual capacity of 128mn bottles) are expected to begin operations in FY20E. However, until December, none of these plants have begun operations and hence we expect the entire capacity to come on stream in FY21E.
- In phase 3, 4 plants with capacity of 72,000 bottles per day (our assumption) with annual capacity of 95mn bottles will come on stream in FY21E. Backed by a phased expansion drive, the total capacity/sales of Rail Neer is expected to increase by 2.3x/2.4x over FY19-22E.

Post expansion, Rail Neer's volume market share is expected to rise from ~45% to ~80% as it will be able to cater to the untapped demand which is currently met by other players due to logistical & capacity constraints. Consequently, Rail Neer's value share in Railways' PDW market is expected to rise from 23% in FY19 to 53% in FY22E (value market share is lower as Rail Neer sells cheaper than other brands).

## Exhibit 25: Rail Neer's value share in IRs' PDW market to be at 53% by FY22E



Source: Company, PL

## New catering policy & tariff revision provides revenue visibility

IRCTC provides food catering services to passengers on trains (mobile catering) and at stations (static catering). The catering services are provided 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. However, refreshment rooms at stations categorized at B or below, milk stalls and trolleys are managed by the zonal railways. It also offers e-catering services (online food ordering) to passengers by collaborating with partner restaurants.

### New catering policy (2017) provides a shot in arm

IRCTC has faced significant flip flop in catering policy from Indian railways in the past 2 decades, which had constrained its growth in a high potential segment.

- In 2002, catering services of IR's were transferred to IRCTC with the objective of reducing losses in departmental catering and improving the quality of food.
- However, in 2010, the catering responsibility was taken over by IR's as IRCTC was unable to meet the outlined objective. Nonetheless, responsibility for food plaza's, food courts, and fast food units continued to remain with IRCTC within the ambit of this policy.
- However, even IR's was unable to improve the quality of services and subsequently a new catering policy was announced in 2017, where in the catering responsibility has been reassigned to IRCTC.



## Exhibit 26: Railway catering – 2 decades of policy flip-flops

Period	Catering responsibility was managed by
Prior to 2002	IR's
2002-2010	IRCTC
2010-2017	IR's
2017-?	IRCTC

Source: Company, PL

The new catering policy of 2017 was an improvement over earlier policies announced in 2005 & 2010 and addressed issues like: -

- Unbundling of services within food preparation & distribution
- Setting up of new kitchens & upgrading the existing ones to improve the quality of food and
- Full accountability for all issues pertaining to operation of base kitchens & quality of food and thus outsourcing to private licensees doesn't absolve the service provider of hygiene/quality issues.

The new policy of 2017 is geared towards improving hygiene & quality issues which have been one of the biggest concerns in the past. While IRCTC was not able to address these issues, when it managed the catering responsibility from 2002-2010, it remains to be seen how it tackles this problem in the current tenure.

Nonetheless, considering that catering responsibility was handed over to IRCTC just 2 years back (and is in transition mode) we do not expect a policy shift back to IR's at-least in the near term. This provides clear revenue visibility into the near/immediate future.

## Exhibit 27: Key highlights of catering policies

Particulars	2005 Catering Policy	2010 Catering Policy	2017 Catering Policy
<b>Who handled the catering responsibility?</b>	IRCTC	IR to manage catering, including base kitchens & mobile catering	Catering reassigned to IRCTC
<b>Brief highlights</b>	No units to be taken up for departmental catering  No fresh recruitments by Railway's in catering department Reduction/relocation of existing stalls to ease congestion on platforms	Menu & tariff to be decided by the Railway board  Zonal railways to determine menu & tariff for ala-carte & Jan Ahar outlets IRCTC to just manage fast food plaza's and food courts	Unbundling of catering services by creating a distinction between food preparation & distribution Full ownership & accountability in operating base kitchens & food quality Ala-carte and ready to eat (RTE) meals permitted through e-catering
<b>Our View</b>	The Railway Ministry to direct menu, prices, hiring contractors etc, restricting IRCTC's flexibility. Catering treated as independent profit centre.	Emphasis on the non-affluent class as catering was treated as a passenger service with a socialist approach.	Unbundling is expected to result in operational efficiency & improve quality of service. Sale of ala-carte & RTE meals to increase variety of food.

Source: Company, PL

## Revision in catering tariff to drive catering/licensing fee revenues

**Vast mobile/static catering network:** IRCTC provides food catering services to passengers on trains (mobile catering) and at stations (static catering).

- The mobile catering services are provided on pre-paid trains like Rajdhani, Shatabdi, Duronto, Gatiman, Tejas, and Vande Bharat and post-paid trains like mail express trains. For trains without pantry cars, the catering requirement is met by train-side vending services.

- Static catering refers to off-board catering services at stations comprising fast food units, food plazas, Jan Ahaars, refreshment rooms, base kitchens, and at executive lounges and other facilities at station premises such as budget hotels and Rail Yatri Niwas.

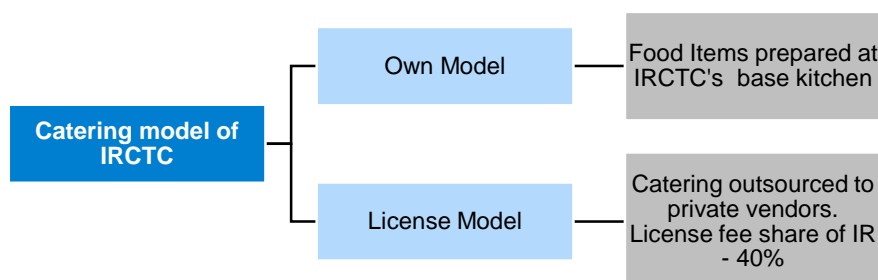
**Exhibit 28: Branch network of catering services (FY19)**

Particulars	Count
Pre-paid & Post-paid trains	350
Static units	530
Jan Ahaars	57
Refreshments rooms	169
Cell & base kitchens	27 & 14
Food Plaza's & Fast Food Units	138 & 152

Source: Company, PL

The catering business is carried out via two models: 1) Own model 2) License model. In own model, the food items/consumables are prepared at IRCTC's base kitchen. In license model, the catering services are outsourced to a private vendor (shortlisted via bidding) who pays a fee to IRCTC for getting the licensee right. Also in this model, 40% of license fee paid by the vendor has to be shared with IR's.

**Exhibit 29: Flowchart of the catering model of IRCTC**



Source: Company, PL

**Mobile/static catering prices revised by ~70%/~61%:** In November 2019, the MoR revised the menu & tariff of catering services on Rajdhani/Shatabdi/Duronto and standard meals on mail/express trains. The price hike has come after a gap of 6-7 years and is to the extent of ~70% (average). For mail/express trains the revised tariff is applicable from November 2019 while in case of Rajdhani/Shatabdi/Duronto trains the revised tariff will be applicable from March 2020.

**Exhibit 30: Price hike trend for meals on various classes in Rajdhani/Shatabdi/Duronto**

Particulars	Average price hike for meals on Rajdhani/Shatabdi/Duronto trains in 1AC/EC is ~88%			Average price hike for meals on Rajdhani/Shatabdi/Duronto trains in 2AC/3AC/CC is ~76%			Average price hike for meals on Duronto in SL is ~81%		
	Revised tariff (Rs)	Old tariff (Rs)	% increase	Revised tariff (Rs)	Old tariff (Rs)	% increase	Revised tariff (Rs)	Old tariff (Rs)	% increase
Morning Tea/Coffee	35	15	133%	20	10	100%	15	10	50%
Breakfast	140	90	56%	105	70	50%	65	40	63%
Lunch/Dinner	245	140	75%	185	120	54%	120	75	60%
Evening Tea/Coffee	NA	NA	NA	90	45	100%	50	20	150%
<b>Average price hike</b>			<b>88%</b>			<b>76%</b>			<b>81%</b>

Source: Company, PL, The Week

## Exhibit 31: Price of standard meals on mail/express trains have risen by ~37%

Particulars	Revised tariff (Rs)	Old tariff (Rs)	% increase
Breakfast (Veg)	40	30	33%
Breakfast (Non-Veg)	50	35	43%
Standard meal (Veg)	80	50	60%
Standard meal (Non-Veg) (With Egg Curry)	90	80	13%
Standard meal (Non-Veg) (With Chicken Curry)	130	NA*	NA
<b>Average price hike</b>			<b>37%</b>

Source: Company, PL, The Week      \*Standard non-veg meal with chicken curry has been newly introduced into the menu

In December 2019, the menu & tariff of standard meals on static units in IR's also underwent a change to the extent of ~61% (average).

## Exhibit 32: Price of standard meals for static units on IR's have risen by ~61%

Particulars	Revised tariff (Rs)	Old tariff (Rs)	% increase
Breakfast (Veg)	35	25	40%
Breakfast (Non-Veg)	45	30	50%
Standard meal (Veg)#	70	40	75%
Standard meal (Non-Veg) (With Egg Curry)#	80	45	78%
Standard meal (Non-Veg) (With Chicken Curry)	120	NA*	NA
<b>Average price hike</b>			<b>61%</b>

Source: Company, PL #Old tariff is average of casserole & thali meals \*Standard non-veg meal with chicken curry has been newly introduced into the menu

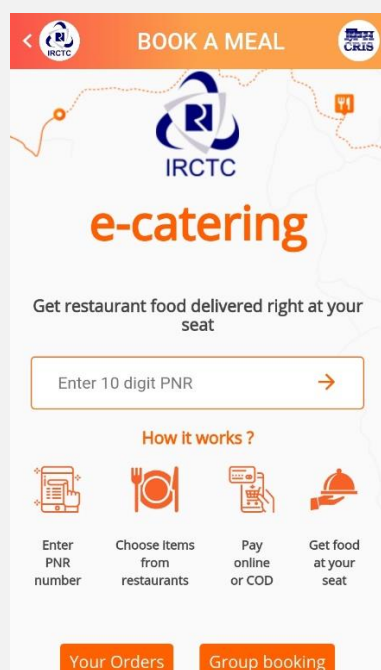
We expect catering/license fee income to increase at a CAGR of 16.9%/15.2% over FY19-22E as apart from the price hike taken in mobile & static catering, IRCTC has

- Plans to roll out ten new pantry cars in FY20E after the design is approved by IR's and add more in the future
- 100 Fast Food units/Food Plaza's are under commissioning
- Plans to expand the base kitchen network (15-20 new base kitchens)

## Rising traction of E-catering provides huge growth opportunity

IRCTC launched e-catering services in Sep 2014 as a pilot project covering 14 trains which was expanded to 201 trains in FY15. E-catering services are offered through IRCTC's e-catering website, the food on track app, online platforms of approved aggregator partners, or by calling on 1323. As of July 2019, e-catering services had ~700 partner restaurants listed on its portal. The partner restaurants are selected through a tendering process and pay IRCTC, at a 12% flat commission of the order value.

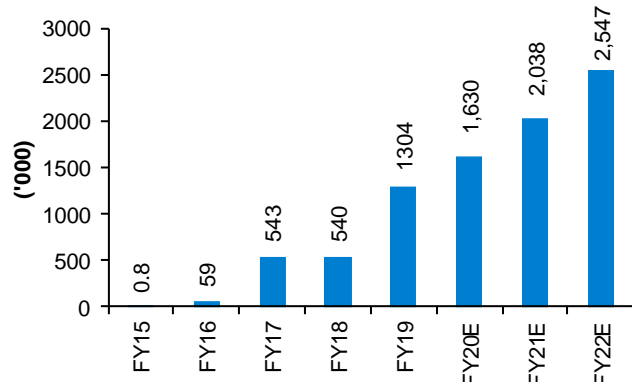
Since introduction in FY15, annual order volumes for e-catering services have registered a CAGR of ~541% and have increased from ~800 in FY15 to ~1.3mn FY19. We expect order volumes to increase at a CAGR of 25% over FY19-22E backed by



- Increasing access to internet
- Expanding list of popular restaurants & QSR chains on e-catering platform
- Increasing awareness about food brands and focus on quality & hygiene

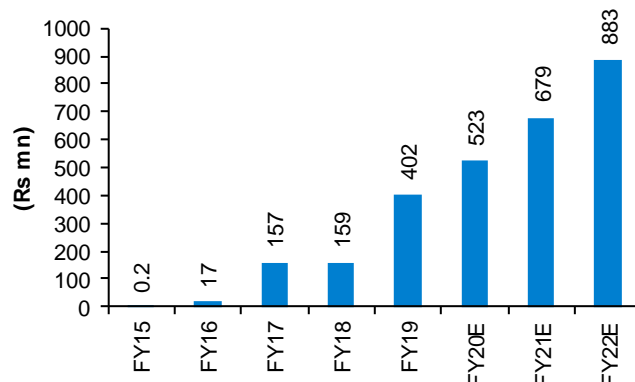
Consequently, we expect the e-catering revenue to increase at a CAGR of 30% over FY19-22E.

**Exhibit 33: E-catering services' order volume to rise**



Source: Company, PL

**Exhibit 34: E-catering sales to rise at 30% CAGR in 3 years**



Source: Company, PL

## One stop solution of all travel & tourism related services

IRCTC has footprints across all major tourism segments such as hotel bookings, rail, land, cruise & air tour packages and air ticket bookings. Being under the administrative control of the Ministry of Railways, it specializes in rail tourism. It operates various theme based tourist trains, luxury trains, and state special trains.

**Exhibit 35: Key segment of operations for different travel & tour operators**

Name of the company	International Tours & Travel (Leisure)	Domestic Tours & Travel	Independent Travel options for leisure travelers	Business Travel Solutions	Online Air ticketing	Hotels bookings	Visa/Passport facilitation	Online Foreign Exchange	Car Rental	MICE*
Thomas Cook Limited	✓	✓	✓	✓	✓	✓	✓	✓	✗	✓
Cox & Kings Limited	✓	✓	✗	✓	✓	✗	✓	✓	✓	✓
IRCTC	✓	✓	✓	✗	✓	✓	✗	✗	✗	✗
International Travel House Limited (ITH)	✓	✓	✓	✓	✗	✗	✗	✓	✓	✓

Source: Company, PL

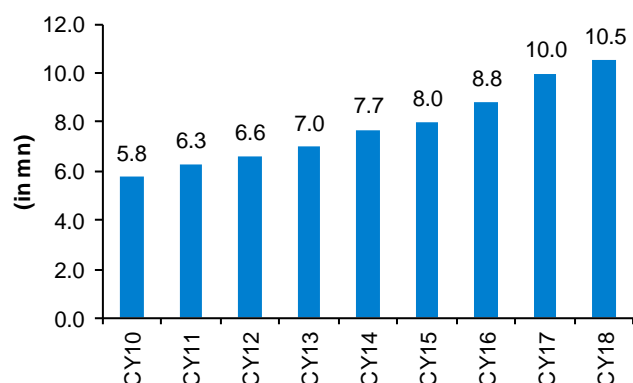
\*MICE = Meetings, Incentives, Conference & Exhibitions

## Domestic/ Foreign travelers to grow at 9-10% CAGR in next 5 years

Domestic tourist visits (DTV) in India have grown at a CAGR of 12% over CY12-CY18. Over the next 5 years, DTVs are expected to grow at a CAGR of 9-10% driven by 1) rising disposable incomes 2) increase in connectivity via rail/air travel 3) improving connectivity by emergence of low cost carriers and 4) rising room inventory across budget/mid-segment/premium hotels in the country. Other ancillary factors like increase business travel, concept of weekend getaways and rising inclination of younger generation to explore untapped tourist destinations is also expected to increase domestic tourist visits within India.

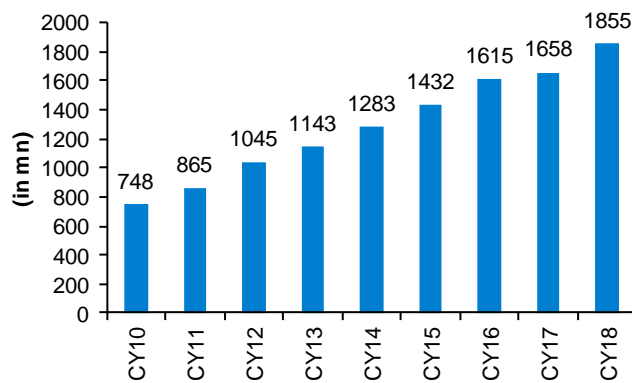
Foreign tourist arrivals (FTAs) have registered a CAGR of 7.7% over CY10-CY18. Over the next 5 years, FTAs are expected to grow at a CAGR of 9-10% due to 1) India's rich natural/cultural heritage which attracts foreign tourists and 2) favourable government policies (GoI announced the new visa policy in November 2014 as a measure to boost tourism) and 3) improving infrastructure and connectivity in the country

**Exhibit 36: Foreign tourist arrivals reached 10.5mn in CY18**

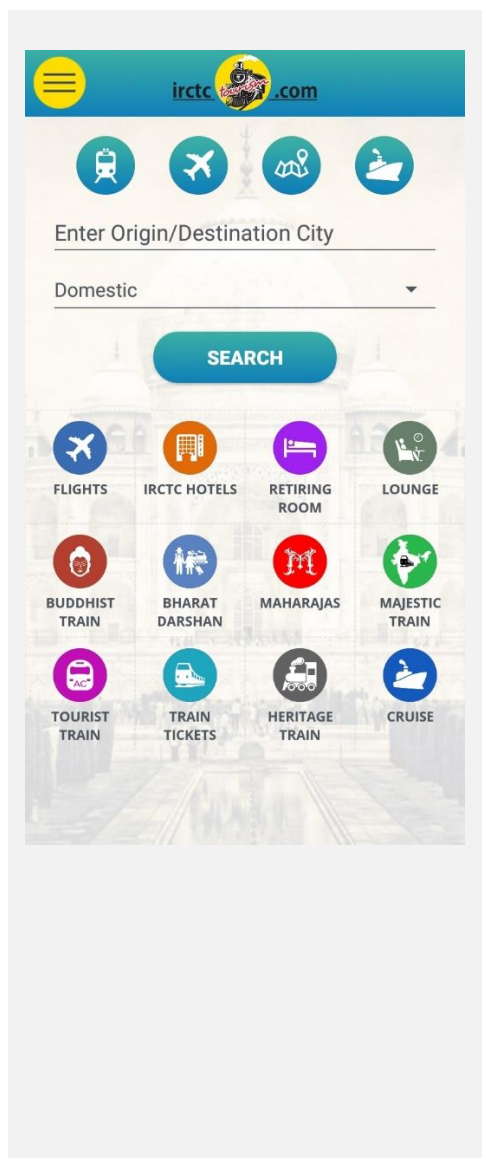


Source: Company, Ministry of Tourism, PL

**Exhibit 37: Domestic tourist visits were 1.8bn in CY18**



Source: Company, Ministry of Tourism, PL



Rising DTVs/FTAs is likely to boost rail tourism revenue of IRCTC as it operates a number of tourist trains like:

- **Maharaja Express:** Maharaja express is a luxury tourist train operated by IRCTC.
- **Buddhist circuit special train:** This train is operated by IRCTC since the last 12 years. It covers all Buddhist pilgrim locations in India and Lumbini in Nepal.
- **State special trains:** These trains are run in collaboration with various state governments. The government selects beneficiaries which are mostly senior citizens.
- **Bharat darshan trains:** It is the most popular tourism product of IRCTC targeting tourists that seek affordable travel & holidays.

Apart from this, strong growth in DTVs & FTAs bodes well for IRCTC as it is a one stop shop solution of all travel & tourism related services. IRCTC provides rail tour packages, land tour packages, charter trains and coach services, hill charters, educational tours, online air ticketing, corporate travel services (including corporate air ticketing and visa services), outbound air packages, domestic air packages, online and offline hotel booking services, cab rental services, customised packages and LTC packages. While complete travel solutions (tour packages) forms ~3% of tourism sales and offers huge unexplored opportunity, competition in the space is also intense with a number of small/regional tour operators (large unorganized market).

## Financial Projections

### Revenues to increase at a CAGR of 22.5% over FY19-22E

We expect revenues to increase at a CAGR of 22.5% over FY19-22E amid 1) ticketing revenue kicker of Rs3.6bn/Rs6.7bn/Rs7bn in FY20E/FY21E/FY22E respectively post implementation of service charge 2) 2.4x increase in Rail Neer sales (doubling the number of plants to 20) 3) 14.5% CAGR in catering sales after revision in prices of mobile/static catering by ~70%/ ~61% respectively and 4) 9.1% CAGR in travel & tourism revenue.

### Revenues from internet ticketing to grow at a CAGR of 57.3% over FY19-22E:

Revenues from internet ticketing comprises of 1) License fee call centre income 2) Advertisement/SBI co-branded cards income 3) Fees from RTSA/Internet café 4) Service charges on e-tickets and 5) Reimbursement income (applicable only post withdrawal of service charges).

- **License fee call center income:** It relates to the passenger enquiry services relating to PNR status, accommodation availability, cancellation, etc. We expect the license fee call center income to be flat over the next 3 years.
- **Advertisement/SBI-cobranded cards income to increase at a CAGR of 10.6% over FY19-22E:** Advertisement income accrues from displaying ads on IRCTC web portal, Rail Neer bottles and on trains. Recently, IRCTC has launched a new scheme called “Promotion on Wheels” under which special trains are available for promotional activities.

IRCTC and SBI have launched a co-branded credit card that offers a host of benefits to frequent rail travellers like cashback on tickets, transaction charge waiver, free accidental insurance protection etc. There is a one-time joining fee of Rs500 and yearly renewal fee of Rs300. IRCTC gets a fee on new card issuances as well as renewals.

Given the newly launched promotional campaign & host of benefits offered for subscribing to IRCTC-SBI co-branded cards (induces customer to subscribe to the card) we expect advertisement/SBI co-branded card income (43% of internet ticketing sales in FY19) to increase from Rs992mn in FY19 to Rs1,344mn in FY22E (CAGR of 10.6% over FY19-22E).

- **Fees from RTSA/Internet café to increase at a CAGR of 9% over FY19-22E:** Rail Ticket Service Agents (RTSA's) are authorized by IRCTC to book e-tickets for passengers. RTSA agents have to pay one-time integration charges of Rs10,000 and a security deposit of Rs10,000 (refundable if agent withdraws from the agreement) to IRCTC. In addition, every year they have to pay a renewal fee of Rs5,000. We expect fees from RTSA (19% of internet ticketing sales in FY19) to increase from Rs439mn in FY19 to Rs569mn in FY22E; implying a CAGR of 9% over the same period.
- **Service charges on e-tickets to rise exponentially:** Post re-instatement of convenience fee from 01 Sep 2019, we expect service charge revenue from e-tickets to be at Rs Rs3.6bn/Rs6.7bn/Rs7bn in FY20E/FY21E/FY22E respectively.



- **Reimbursement income will cease to exist:** Post abolishment of service charges in Nov 2016, IRCTC was reimbursed a sum of Rs800mn/880mn/320mn in FY18/FY19/first 5 months of FY20E. With reinstatement of service charge, reimbursement income will cease to exist.

## Exhibit 38: Revenues from internet ticketing to grow at a CAGR of 57.3% over FY19-22E

Particulars (Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
License fee call centre income	20	23	25	14	2	2	2	2
YoY growth	14.3%	12.5%	11.1%	-45.9%	-84.3%	0.0%	0.0%	0.0%
As a % of sales	0.7%	0.4%	0.5%	0.7%	0.1%	0.0%	0.0%	0.0%
Advertisement/SBI Co-branded Cards & Others	287	594	809	1,028	992	1,121	1,240	1,344
YoY growth	466.6%	106.7%	36.2%	27.1%	-3.5%	13.0%	10.6%	8.4%
As a % of sales	9.4%	9.4%	17.3%	52.3%	42.9%	20.2%	14.6%	14.9%
Fees from IATA/RTSA/Internet Cafe etc	220	189	208	124	440	484	527	570
YoY growth	298.3%	-14.4%	10.3%	-40.3%	254.7%	10.0%	9.0%	8.0%
As a % of sales	7.2%	3.0%	4.5%	6.3%	19.0%	8.7%	6.2%	6.3%
Service charges earned on e-tickets	2,530	5,515	3,623	1	1	3,628	6,707	7,096
YoY growth	17.5%	117.9%	-34.3%	NM	NM	NM	84.8%	5.8%
As a % of sales	82.8%	87.3%	77.7%	NM	NM	65.3%	79.1%	78.7%
Reimbursement income	-	-	-	800	880	320	-	-
YoY growth	NM	NM	NM	NM	NM	-63.6%	-100.0%	NM
As a % of sales	NM	NM	NM	40.7%	38.0%	5.8%	NM	NM
<b>Revenues from Internet Ticketing</b>	<b>3,058</b>	<b>6,320</b>	<b>4,664</b>	<b>1,966</b>	<b>2,315</b>	<b>5,556</b>	<b>8,477</b>	<b>9,012</b>
YoY growth		106.7%	-26.2%	-57.8%	17.7%	140.0%	52.6%	6.3%

Source: Company, PL

## Rail Neer's capacity expansion to drive 34.8% CAGR in sales over FY19-22E:

We expect revenues from Rail Neer to increase at a CAGR 34.8% over FY19-22E amid increase in production capacity from 259mn bottles in FY19 to 586mn bottles in FY22E post doubling the number of plants to 20 over the next two years.

## Exhibit 39: Revenues from Rail Neer to grow at a CAGR of 34.8% over FY19-22E

Particulars	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Bottling capacity (In mn)	202	249	231	246	259	363	586	586
YoY growth	48.1%	23.0%	-7.2%	6.7%	5.2%	40.3%	61.4%	0.0%
Utilization	58%	65%	81%	82%	83%	68%	68%	84%
No of bottles produced/sold (In mn)	118	162	187	202	215	272	402	496
YoY growth	9.0%	37.2%	15.8%	8.0%	6.4%	26.7%	47.8%	23.3%
Realization per bottle (Rs )	7.9	8.1	8.3	8.1	8.1	8.2	8.4	8.6
YoY growth	2.8%	3.1%	2.7%	-2.8%	-0.3%	2.0%	2.0%	2.0%
<b>Rail Neer Sales (Rs mn)</b>	<b>926</b>	<b>1,310</b>	<b>1,558</b>	<b>1,635</b>	<b>1,735</b>	<b>2,241</b>	<b>3,379</b>	<b>4,248</b>
YoY growth		41.5%	18.9%	5.0%	6.1%	29.2%	50.7%	25.7%

Source: Company, PL

Note: Utilization figures for FY20/FY21/FY22 is average across plants

## Revenues from catering to increase at a CAGR of 14.5% over FY19-22E:

Revenues from catering comprises of 1) Income from catering services (own catering) 2) Income from concession/license fee (outsourced catering whereby IRCTC gets a fee from private licensees) 3) Income from user charges/license fee of food plaza's 4) Sale of F&B and 5) Others (consists of non-railway catering & scrap sale)

- **Income from catering services to rise post revision in tariff's:** Subsequent to the announcement of New Catering Policy in 2017, whereby catering responsibility was handed over to IRCTC, income from catering services increased from Rs360mn in FY17 to Rs5161mn in FY19. We expect catering revenue to grow at a CAGR of 16.9% over FY19-22E backed by ~70% increase in mobile catering tariff and ~61% increase in static catering tariff's.

### Exhibit 40: Revenues from catering to grow at a CAGR of 14.5% over FY19-22E

Revenues (Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Catering services	279	221	360	1,678	5,161	6,018	7,619	8,240
YoY growth	NA	-20.9%	63.2%	365.6%	207.5%	16.6%	26.6%	8.1%
As a % of sales	7.6%	6.8%	9.2%	23.5%	50.4%	52.4%	53.1%	53.6%
Concession Fee	6	15	7	38	260	268	276	285
YoY growth	NA	136.6%	-52.9%	449.2%	590.3%	3.0%	3.0%	3.0%
As a % of sales	0.2%	0.4%	0.2%	0.5%	2.5%	2.3%	1.9%	1.9%
License Fee	98	171	820	2,173	3,817	4,198	5,458	5,840
YoY growth	NA	74.7%	378.2%	164.9%	75.7%	10.0%	30.0%	7.0%
As a % of sales	2.7%	5.2%	21.0%	30.4%	37.3%	36.6%	38.0%	38.0%
User charges - Food Plaza	33	29	20	9	5	5	5	5
YoY growth	-21.8%	-14.4%	-30.7%	-55.1%	-42.1%	2.0%	2.0%	2.0%
As a % of sales	0.9%	0.9%	0.5%	0.1%	0.1%	0.0%	0.0%	0.0%
License fee - Food Plaza	279	295	361	521	639	677	718	761
YoY growth	34.5%	5.7%	22.4%	44.2%	22.7%	6.0%	6.0%	6.0%
As a % of sales	7.6%	9.0%	9.3%	7.3%	6.2%	5.9%	5.0%	5.0%
Sale of F&B	2,604	2,266	2,171	2,644	295	251	213	181
YoY growth	7.2%	-13.0%	-4.2%	21.8%	-88.8%	-15.0%	-15.0%	-15.0%
As a % of sales	71.3%	69.3%	55.7%	37.0%	2.9%	2.2%	1.5%	1.2%
Others	352	273	159	87	58	58	58	58
YoY growth	-6.0%	-22.4%	-41.8%	-45.1%	-33.5%	0.0%	0.0%	0.0%
As a % of sales	9.6%	8.3%	4.1%	1.2%	0.6%	0.5%	0.4%	0.4%
<b>Catering services revenue</b>	<b>3,652</b>	<b>3,269</b>	<b>3,898</b>	<b>7,150</b>	<b>10,236</b>	<b>11,476</b>	<b>14,348</b>	<b>15,370</b>
YoY growth	11.7%	-10.5%	19.3%	83.4%	43.2%	12.1%	25.0%	7.1%

Source: Company, PL

- **Income from license/concession fee to get a fillip post tariff hikes:** Income from license fee/concession fee is expected to grow at a CAGR of 15.2%/3% over FY19-22E due to increase in mobile and static catering tariff's. Revenue of private licensees will rise post hike in tariff's, resulting in an increase in license fee income for IRCTC (share will not change but absolute amount will increase).

- **Income from user charges/license fee food plazas to rise at CAGR of 2%/6% over FY19-22E:** Licensees operating FPs/FFUs pay a user charge as well as license fee to IRCTC for getting the right to operate these units. Income from user charges/license fee income for food plaza's is expected to grow at a CAGR of 2%/6% respectively over FY19-22E as ~100 FFU/FP are under commissioning.
- **F&B revenues to decline:** F&B revenues relates to departmental catering and have declined by 88.8% YoY to Rs295mn in FY19 amid plans to move out of this loss making business. We expect F&B revenues to decline to Rs181mn in FY22E amid plans to gradually move out of departmental catering.

**Travel & tourism revenue CAGR at 9.1% over FY19-22E:** Revenues from travel & tourism comprises of 1) revenues from tourist trains 2) user charges/license fee for Rail Yatri Niwas 3) revenues from rail & land tour packages and 4) private train operations

- **Tourist train revenues to increase at 7.1% CAGR over FY19-22E:** We expect revenues from tourist trains to increase at a CAGR of 7.1% over FY19-22E backed by strong growth across all trains.
  - **Maharaja Express:** Maharaja express is a luxury tourist train operated by IRCTC. It has been awarded the as world's most luxurious tourist train from 2012-2018 at world travel awards and runs four itineraries. We expect revenues from Maharaja Express to grow at a CAGR of 10% over FY19-22E.
  - **Buddhist circuit special train:** This train is operated by IRCTC since the last 12 years. It covers all Buddhist pilgrim locations in India and Lumbini in Nepal. We expect revenues from Buddhist circuit special train to increase at a CAGR of 10% over FY19-22E as a new tourist friendly lake has been introduced in Dec 2018 which should attract more tourists.
  - **State special trains:** IRCTC runs state special trains in collaboration with various state governments. The government selects beneficiaries which are mostly senior citizens. We expect revenues from state special trains to increase at a CAGR of 6% over FY19-22E as IRCTC has tied up with the state governments of Madhya Pradesh, Chhattisgarh, Rajasthan and Punjab in FY19.
  - **Bharat darshan trains:** It is the most popular tourism product of IRCTC targeting tourists that seek affordable travel & holidays. We expect revenues from bharat darshan to grow at a CAGR of 7.6% over FY19-22E.

## Exhibit 41: Revenues from tourist trains to grow at a CAGR of 7.1% over FY19-22E

Revenues (Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Maharaja Express	399	409	361	381	440	475	523	585
YoY growth		2.5%	-11.7%	5.5%	15.5%	8.0%	10.0%	12.0%
As a % of sales	19.8%	14.4%	10.2%	12.9%	14.7%	16.1%	15.9%	15.9%
Buddhist Circuit	35	20	27	16	24	26	29	32
YoY growth		-42.9%	35.0%	-40.7%	50.0%	10.0%	10.0%	10.0%
As a % of sales	1.7%	0.7%	0.8%	0.5%	0.8%	0.9%	0.9%	0.9%
State Special Trains	1,255	1,993	2,735	2,088	2,022	1,921	2,151	2,431
YoY growth		58.8%	37.2%	-23.7%	-3.2%	-5.0%	12.0%	13.0%
As a % of sales	62.3%	70.3%	77.5%	70.8%	67.5%	65.2%	65.6%	66.0%
Bharat Darshan	202	318	400	417	508	523	576	633
YoY growth		57.4%	25.8%	4.3%	21.8%	3.0%	10.0%	10.0%
As a % of sales	10.0%	11.2%	11.3%	14.1%	17.0%	17.8%	17.6%	17.2%
Others	123	93	7	48	-	-	-	-
YoY growth		-24.4%	-92.5%	585.7%	NA	NA	NA	NA
As a % of sales	6.1%	3.3%	0.2%	1.6%	NM	NM	NM	NM
<b>Revenues from tourist trains</b>	<b>2,014</b>	<b>2,833</b>	<b>3,530</b>	<b>2,950</b>	<b>2,994</b>	<b>2,946</b>	<b>3,279</b>	<b>3,682</b>
YoY growth		40.7%	24.6%	-16.4%	1.5%	-1.6%	11.3%	12.3%

Source: Company, PL

- Revenues from user charges/license fee of Rail Yatri Niwas to increase at CAGR of 5.0% over FY19-22E: IRCTC operates Rail Yatri Niwas and railway hotels by awarding licenses to the interested parties. The licensee holder in turn pays user charges & license fee to IRCTC. We expect revenues from Rail Yatri Niwas to increase at a CAGR of 5.0% over FY19-22E as IRCTC already operates 4 hotels (2 Rail Yatri Niwas and 2 BNR Hotels) and has started construction for a budget hotel in Lucknow.

## Exhibit 42: User charges & license fee of Rail Yatri Niwas to grow at a CAGR of 5.0% over FY19-22E

Particulars (Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
User charges - Rail Yatri Niwas	11	12	12	13	14	15	16	16
YoY growth		7.0%	7.0%	7.0%	7.0%	5.0%	5.0%	5.0%
As a % of sales	36.5%	37.0%	38.8%	43.7%	26.6%	26.6%	26.6%	26.6%
License fee - Rail Yatri Niwas	19	20	19	17	39	41	43	45
YoY growth		80.6%	-1.1%	-12.7%	129.8%	5.0%	5.0%	5.0%
As a % of sales	63.5%	63.0%	61.2%	56.3%	73.4%	73.4%	73.4%	73.4%
<b>Total revenues</b>	<b>29</b>	<b>31</b>	<b>32</b>	<b>30</b>	<b>53</b>	<b>56</b>	<b>59</b>	<b>61</b>
YoY growth		44.3%	5.8%	-1.9%	76.1%	5.0%	5.0%	5.0%

Source: Company, PL

**Revenues from rail & land tour packages expected to remain flat over FY19-22E:** Revenues from tour packages is expected to remain flat over the next 3 years as revenues from rail tour packages is expected to decline partially offset rising revenues from land tour packages.

## Exhibit 43: Revenues from tour packages to remain flat over the next 3 years

Particulars (Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Rail tour packages	140	143	103	56	48	44	41	39
YoY growth		2.2%	-28.1%	-45.4%	-14.1%	-8.0%	-6.5%	-5.0%
As a % of sales	78.6%	74.7%	58.0%	43.1%	38.2%	35.2%	33.0%	31.5%
Land tour packages	21	31	49	52	47	50	52	52
YoY growth		49.0%	60.6%	5.3%	-9.2%	6.3%	3.2%	1.2%
As a % of sales	11.6%	16.1%	27.9%	40.0%	37.4%	39.8%	41.2%	41.9%
Miscellaneous tours	17	18	25	22	31	31	32	33
YoY growth		1.2%	41.7%	-11.3%	39.5%	2.5%	2.5%	2.5%
As a % of sales	9.8%	9.2%	14.0%	16.9%	24.4%	25.0%	25.7%	26.5%
<b>Revenues from tour packages</b>	<b>177</b>	<b>191</b>	<b>177</b>	<b>130</b>	<b>126</b>	<b>126</b>	<b>125</b>	<b>125</b>
YoY growth		7.5%	-7.4%	-26.4%	-3.1%	-0.1%	-0.4%	-0.5%

Source: Company, PL

- **Rising occupancy to boost revenues from private train operations:** In July 2019, MoR mandated IRCTC to run two private trains under the haulage concept (pay IR's a fixed charge for utilizing the rail infrastructure) with complete freedom over ticketing & on-board services.

IRCTC launched its inaugural Tejas Express in October 2019 between Lucknow - Delhi. Another Tejas express got launched between Mumbai-Ahmedabad in Jan 2020. Revenues from private train operations is expected to be Rs200mn in FY20E (partial impact from the inaugural launch) and Rs1,000mn/1,170 in FY21E/FY22E (rising occupancy and revenue impact for full year).

## EBITDA/PAT CAGR of 45%/49% over FY19-22E

We expect EBITDA to grow at a CAGR of 45% over FY19-22E driven by 1) increase in revenue contribution (12% in FY19 to 26% in FY22E) from high margin internet ticketing business 2) price revision in mobile & static catering by ~70% and ~61% respectively and 3) increase in Rail Neer margins as operating leverage benefit, once the capacity utilization of newly commissioned plants increases.

**EBIT margin of internet ticketing to rise to 83.5% in FY22E:** Internet ticketing is a high gross margin business as apart from maintenance & other charges and messaging expenses there are no other meaningful direct costs. The other fixed/variable costs are also low considering the nature of the business (non-manpower intensive). We expect the EBIT margin to increase from 67.7% in FY19 to 83.5% in FY22E as:-

- Post levy of service charge, O&M and other fixed/variable costs are not expected to rise in sync/disproportionately with sales presenting huge operating leverage benefit
- There will be no sharing of service charge with Indian Railway's as was the case earlier.

## Exhibit 44: Internet ticketing offers huge operating leverage post levy of service charge

Particulars (Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Income from internet ticketing	3,058	6,320	4,664	1,966	2,315	5,556	8,477	9,012
<i>YoY growth</i>	<i>34.3%</i>	<i>106.7%</i>	<i>-26.2%</i>	<i>-57.8%</i>	<i>17.7%</i>	<i>140.0%</i>	<i>52.6%</i>	<i>6.3%</i>
<b>Gross profit</b>	<b>2,608</b>	<b>3,186</b>	<b>2,548</b>	<b>1,650</b>	<b>2,026</b>	<b>5,195</b>	<b>8,011</b>	<b>8,517</b>
<i>Gross margin</i>	<i>85.3%</i>	<i>50.4%</i>	<i>54.6%</i>	<i>83.9%</i>	<i>87.5%</i>	<i>93.5%</i>	<i>94.5%</i>	<i>94.5%</i>
<b>EBIT</b>	<b>2,157</b>	<b>2,624</b>	<b>1,923</b>	<b>1,035</b>	<b>1,567</b>	<b>4,584</b>	<b>7,078</b>	<b>7,525</b>
<i>YoY growth</i>	<i>25.8%</i>	<i>21.7%</i>	<i>-26.7%</i>	<i>-46.2%</i>	<i>51.4%</i>	<i>192.6%</i>	<i>54.4%</i>	<i>6.3%</i>
<i>EBIT margin</i>	<i>70.5%</i>	<i>41.5%</i>	<i>41.2%</i>	<i>52.6%</i>	<i>67.7%</i>	<i>82.5%</i>	<i>83.5%</i>	<i>83.5%</i>
Share of IR's in services charged earned by IRCTC	199	2,914	1,811	0	0	NA	NA	NA
Service charges earned by IRCTC	2,530	5,515	3,623	1	1	3,628	6,707	7,096
<b>Share of Railway as a % of service charge earned by IRCTC</b>	<b>7.9%</b>	<b>52.8%</b>	<b>50.0%</b>	<b>50.9%</b>	<b>49.2%</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>

Source: Company, PL

**Price hike in mobile/static catering by ~70%/~61% to boost catering EBIT margins:** IRCTC reported EBIT loss of Rs375mn/Rs455mn in FY15/FY16 predominantly due to losses from departmental catering amid high manpower cost and inability to raise prices in line with inflation. We expect catering EBIT margin to increase from 11.6% in FY19 to 16.3% in FY22E due to: -

- Price hike of ~70%/~61% taken in mobile/static catering
- Decision to move out of departmental catering which was a loss making proposition.

## Exhibit 45: Catering EBIT margin to rise to 16.3% in FY22E after price hikes

Particulars (Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Income from catering	3,652	3,269	3,898	7,150	10,236	11,476	14,348	15,370
<i>YoY growth</i>	<i>19.6%</i>	<i>-10.5%</i>	<i>19.3%</i>	<i>83.4%</i>	<i>43.2%</i>	<i>12.1%</i>	<i>25.0%</i>	<i>7.1%</i>
<b>Gross profit</b>	<b>1,122</b>	<b>949</b>	<b>1,610</b>	<b>2,773</b>	<b>3,330</b>	<b>3,856</b>	<b>5,022</b>	<b>5,426</b>
<i>Gross margin</i>	<i>30.7%</i>	<i>29.0%</i>	<i>41.3%</i>	<i>38.8%</i>	<i>32.5%</i>	<i>33.6%</i>	<i>35.0%</i>	<i>35.3%</i>
<b>EBIT</b>	<b>(375)</b>	<b>(455)</b>	<b>262</b>	<b>1,230</b>	<b>1,190</b>	<b>1,561</b>	<b>2,224</b>	<b>2,505</b>
<i>YoY growth</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>368.7%</i>	<i>-3.2%</i>	<i>31.1%</i>	<i>42.5%</i>	<i>12.7%</i>
<i>EBIT margin</i>	<i>NM</i>	<i>NM</i>	<i>6.7%</i>	<i>17.2%</i>	<i>11.6%</i>	<i>13.6%</i>	<i>15.5%</i>	<i>16.3%</i>

Source: Company, PL

**Rail Neer's EBIT margin to expand 260bps after new plants reach optimal utilization:** Rail Neer's EBIT margin is expected to rise 260bps over FY19-22E as:-

- Operating leverage benefit is expected to play out once the new plants reach optimal capacity utilization by FY22E
- 2% CAGR in realization per bottle over a 3-year period.



## Exhibit 46: Rail Neer EBIT margin to rise to 19.5% in FY22E

Particulars (Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Rail Neer sales	926	1,310	1,558	1,635	1,735	2,241	3,379	4,248
YoY growth	12.0%	41.5%	18.9%	5.0%	6.1%	29.2%	50.7%	25.7%
Gross profit	335	561	694	667	684	852	1,301	1,636
Gross margin	36.2%	42.9%	44.6%	40.8%	39.4%	38.0%	38.5%	38.5%
EBIT	63	210	309	372	293	403	642	828
YoY growth	17.9%	232.6%	47.2%	20.5%	-21.3%	37.7%	59.1%	29.0%
EBIT margin	6.8%	16.0%	19.8%	22.8%	16.9%	18.0%	19.0%	19.5%
Realization per bottle (Rs)	7.9	8.1	8.3	8.1	8.1	8.2	8.4	8.6
Production cost per bottle (Rs)	5.0	4.6	4.6	4.8	4.9	5.1	5.2	5.3
Gross profit per bottle (Rs)	2.9	3.5	3.7	3.3	3.2	3.1	3.2	3.3

Source: Company, PL

**Travel & tourism EBIT margins to settle down at 13.0% in FY22E:** We expect tourism EBIT margins to stabilize at 13.0% in FY22E as-

- Tourism which was loss making in FY17 and FY18 has turned around in FY19 and
- Occupancy of the newly launched Tejas Express (runs on two routes currently) should stabilize and the breakeven benchmark of 67-68% should be achieved by then. In fact, the first Tejas express (Lucknow-Delhi route) has posted a profit of Rs7mn in the inaugural month itself.

## Exhibit 47: EBIT margin of travel & tourism to stabilize at 13.0% in FY22E

Particulars (Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Tourism sales	3,607	3,723	5,234	3,953	4,393	3,693	4,957	5,705
YoY growth	11.7%	3.2%	40.6%	-24.5%	11.1%	-15.9%	34.2%	15.1%
Gross profit	712	736	1,078	901	1,303	1,034	1,437	1,683
Gross margin	19.7%	19.8%	20.6%	22.8%	29.7%	28.0%	29.0%	29.5%
EBIT	190	280	602	387	681	369	620	742
YoY growth	NM	47.9%	114.6%	-35.8%	76.1%	-45.8%	67.8%	19.7%
EBIT margin	5.3%	7.5%	11.5%	9.8%	15.5%	10.0%	12.5%	13.0%

Source: Company, PL

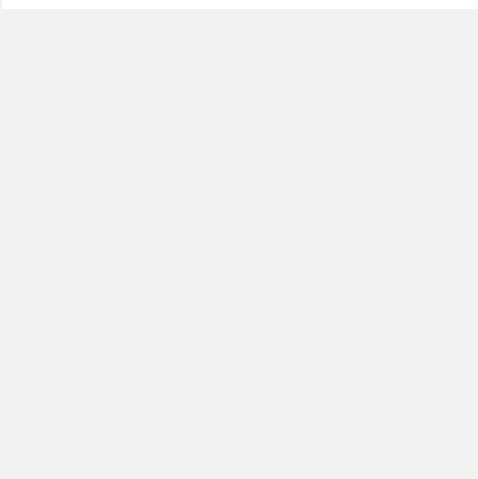
Consequent to the 45% CAGR in EBITDA, we expect PAT to grow at a CAGR of 49% over FY19-22E as IRCTC is a 1) debt free with minimal finance charge outgo and 2) cash rich (Rs11.5bn as of 1HFY20) resulting in a 5-6% investment yield.



## Exhibit 48: Internet Ticketing and catering to drive sales and EBIT

Particulars (Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>Internet ticketing</b>								
Revenues	3,058	6,320	4,664	1,966	2,315	5,556	8,477	9,012
YoY growth	34.3%	106.7%	-26.2%	-57.8%	17.7%	140.0%	52.6%	6.3%
As a % of sales	27.2%	43.2%	30.4%	13.4%	12.4%	24.2%	27.2%	26.2%
EBIT	2,157	2,624	1,923	1,035	1,567	4,584	7,078	7,525
YoY growth	25.8%	21.7%	-26.7%	-46.2%	51.4%	192.6%	54.4%	6.3%
EBIT margin	70.5%	41.5%	41.2%	52.6%	67.7%	82.5%	83.5%	83.5%
<b>Catering</b>								
Revenue	3,652	3,269	3,898	7,150	10,236	11,476	14,348	15,370
YoY growth	19.6%	-10.5%	19.3%	83.4%	43.2%	12.1%	25.0%	7.1%
As a % of sales	32.5%	22.4%	25.4%	48.6%	54.8%	50.0%	46.0%	44.8%
EBIT	(375)	(455)	262	1,230	1,190	1,561	2,224	2,505
YoY growth	NA	NA	NA	368.7%	-3.2%	31.1%	42.5%	12.7%
EBIT margin	NM	NM	6.7%	17.2%	11.6%	13.6%	15.5%	16.3%
<b>Tourism</b>								
Revenue	3,607	3,723	5,234	3,953	4,393	3,693	4,957	5,705
YoY growth	11.7%	3.2%	40.6%	-24.5%	11.1%	-15.9%	34.2%	15.1%
As a % of sales	32.1%	25.5%	34.1%	26.9%	23.5%	16.1%	15.9%	16.6%
EBIT	190	280	602	387	681	369	620	742
YoY growth	NM	47.9%	114.6%	-35.8%	76.1%	-45.8%	67.8%	19.7%
EBIT margin	5.3%	7.5%	11.5%	9.8%	15.5%	10.0%	12.5%	13.0%
<b>Rail Neer</b>								
Revenue	926	1,310	1,558	1,635	1,735	2,241	3,379	4,248
YoY growth	12.0%	41.5%	18.9%	5.0%	6.1%	29.2%	50.7%	25.7%
As a % of sales	8.2%	9.0%	10.1%	11.1%	9.3%	9.8%	10.8%	12.4%
EBIT	63	210	309	372	293	403	642	828
YoY growth	17.9%	232.6%	47.2%	20.5%	-21.3%	37.7%	59.1%	29.0%
EBIT margin	6.8%	16.0%	19.8%	22.8%	16.9%	18.0%	19.0%	19.5%
<b>Total Revenues</b>								
	11,242	14,622	15,354	14,705	18,679	22,967	31,160	34,336
YoY growth	19.8%	30.1%	5.0%	-4.2%	27.0%	23.0%	35.7%	10.2%

Source: Company, PL



## Valuations

### Monopolistic entity deserves premium valuations

IRCTC is a monopolistic conglomerate with no comparable listed peer set & limited valuation history (listed recently). Hence, we attempt to provide a segment wise peer comparison to arrive at fair value multiple for the stock.

**Internet ticketing:** - MakeMyTrip, Yatra and ClearTrip are other online travel agents (OTAs) which offer options to book rail tickets online. They may not directly classify as peers since the customer gets routed to the booking engine of IRCTC even if he chooses to book rail e-ticket via other options. For flights, hotels (domestic only) IRCTC competes with these OTA's. Given the hyper-competitive nature of the market none of these players have reported profit over the last 3 years. However, given the monopolistic nature of ticketing business, IRCTC has reported average PAT of Rs965mn over the last 3 years.

As peers are into losses at EBITDA/PAT level, earnings based multiple loses relevance. Thus, we have provided a snapshot of market/sales multiple for peers. Also, Yatra's consensus forward estimates are not available while Clear Trip is a private company. Hence, with insufficient data, providing a comparison on valuation multiples difficult.

#### Exhibit 49: OTAs are into losses due to stiff competition

Particulars (Rs mn)	Average (FY17-19) Sales	Average (FY17-19) EBITDA	Average (FY17-19) PAT	Average BB consensus (FY20-22) Sales	Average BB consensus (FY20-22) EBITDA	Average BB consensus (FY20-22) PAT	Market Cap/FY22 sales multiple (x)
MakeMyTrip (US listed)	35,850	(9,128)	(11,436)	70,207	(1,637)	(1,981)	2.0
Yatra* (US listed)	10,317	(1,831)	(2,559)	NA	NA	NA	NA
Clear Trip# (Unlisted)	2,784	(262)	(634)	NA	NA	NA	NA
IRCTC's ticketing sales^	2,982	1,643	965	7,682	6,707	4,797	?

Source: Company, PL      \*EBITDA for Yatra for FY19 is NA, hence it's FY16-18 average      # For clear trip FY19 financials are NA. Hence the average is of FY16-18      ^ PL estimates

**Catering:** IRCTC has catering monopoly on IR's and hence Jubilant Foodworks, and Westlife Development may not classify as direct peers. In fact, some of these peers are listed as partner restaurants with IRCTC and provide e-catering services to passengers travelling on IR's. Given strong growth prospects both Jubilant Foodworks & Westlife Development are trading at 37.2x/59.5x FY22E BB consensus forward earnings.

#### Exhibit 50: Listed catering peers are trading at premium valuations due to strong growth prospects

Particulars (Rs mn)	Average (FY17-19) Sales	Average (FY17-19) EBITDA	Average (FY17-19) PAT	Average BB consensus (FY20-22) Sales	Average BB consensus (FY20-22) EBITDA	Average BB consensus (FY20-22) PAT	FY22 P/E multiple (x)
Jubilant Foodworks	30,525	4,297	1,928	46,459	10,735	4,894	37.2
Westlife Development	11,557	835	138	18,444	2,120	702	59.5
IRCTC's catering sales^	7,095	917	572	13,731	2,148	1,573	?

Source: Company, PL      ^ PL estimates

**Travel & tourism:** In travel & tourism segment, IRCTC competes with Thomas Cook, Cox & Kings and International Travel House Ltd. Travel is a fragmented market with lot of local/regional travel & tour operators and this is one segment where IRCTC does not have a monopolistic advantage.

## Exhibit 51: Competitive & fragmented nature of the market gets reflected in valuations

Particulars (Rs mn)	Average (FY17-19) Sales	Average (FY17-19) EBITDA	Average (FY17-19) PAT	Average BB consensus (FY20-22) Sales	Average BB consensus (FY20-22) EBITDA	Average BB consensus (FY20-22) PAT	FY22 P/E multiple (x)
Thomas Cook	87,274	2,683	6,503	84,913	2,866	555	26.0
Cox & Kings	64,184	7,781	6,766	NA	NA	NA	NA
International Travel House Ltd	2,014	193	55	NA	NA	NA	NA
IRCTC's travel & tourism sales^	4,527	595	356	4,785	665	433	?

Source: Company, PL ^ PL estimates

**Rail Neer:** Due to capacity constraints at Rail Neer plants the balance demand is met by brands like Bisleri, Kinley, and Aquafina. Once new capacity comes on stream, Rail Neer will capture the untapped potential further strengthening its monopoly position. Bisleri brand is owned by Bisleri International Pvt Ltd and Kinley is owned by Hindustan Coca-Cola Beverages Ltd (HCCB). Both are unlisted entities. Aquafina is owned by Varun Beverages.

## Exhibit 52: Valuation table of PDW peers for Rail Neer

Particulars (Rs mn)	Average (FY17-19) Sales	Average (FY17-19) EBITDA	Average (FY17-19) PAT	Average BB consensus (FY20-22) Sales	Average BB consensus (FY20-22) EBITDA	Average BB consensus (FY20-22) PAT	FY22 P/E multiple (x)
Bisleri International Pvt Ltd \$ (Unlisted)	8,839	1,271	449	NA	NA	NA	NA
HCCB (Unlisted)	86,668	5,353	(97)	NA	NA	NA	NA
Varun Beverages Ltd	52,939	10,829	3,251	90,462	18,511	7,367	23.9
IRCTC's Rail Neer sales^	1,643	378	208	3,289	738	468	?

Source: Company, PL \$ FY16-18 average as FY19 data is not available ^ PL estimates

We assign a blended P/E multiple of 24x on our EPS of Rs56 for FY22E arriving at a TP of Rs1,339. Initiate with a BUY.

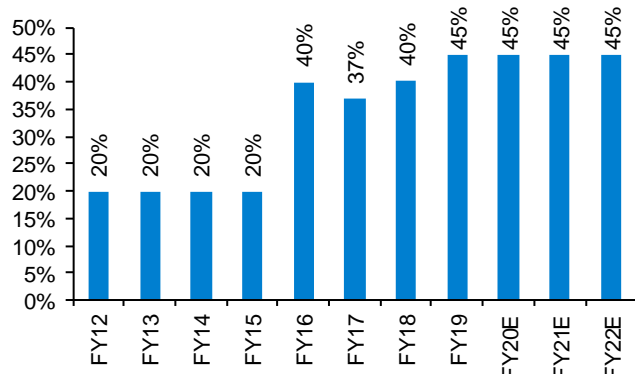
## Exhibit 53: Valuation matrix for IRCTC

Segments	Peer average P/E multiple (FY22)	P/E multiple assigned	FY22 EBIT (Rs mn)	FY22 EBIT Mix	Weighted Average Multiple	Rationale
Ticketing	NA	27	7,525	64.9%	17.5	Re-instatement of service charge makes it a high margin business. In addition, it's an absolute monopoly. However, given low passenger traffic growth & policy risk (service charge was lowered in FY11 & abolished in FY16) we assign a multiple of 27x.
Catering	48	18	2,505	21.6%	3.9	Peers are trading at higher valuations as they are strong brands with wide distribution network. IRCTC's catering business is subject to policy risk and hygiene challenges. Further, growth is expected to taper down after the impact of price hike subsidies. We thus assign a multiple of 18x
Rail Neer	24	17	828	7.1%	1.2	Peer average is misleading as two competitors are private while Varun Beverages is into carbonated as well non-carbonated soft drinks. While Rail Neer is a monopoly the pricing is regulated and it is not a brand outside of IR's. We thus assign a multiple of 17x.
Travel & Tourism	26	20	742	6.4%	1.3	Except for rail tourism, where IRCTC has monopoly, all other segments are highly competitive & the market is fragmented in nature. Thus, we assign a multiple of 20x.
<b>Weighted average P/E (EBIT basis)</b>					<b>23.9</b>	

Source: PL

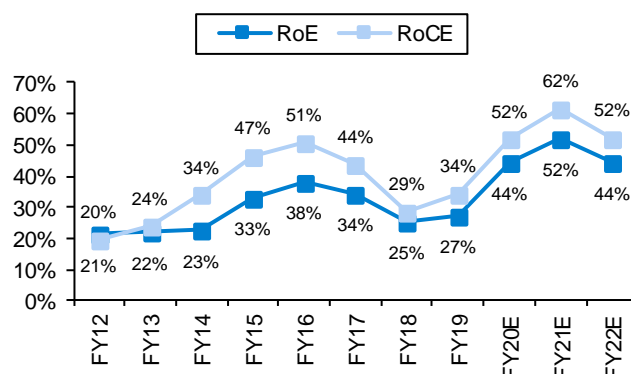
## Story in Charts

**Exhibit 54: Dividend pay-out has risen post CPSE guidelines**



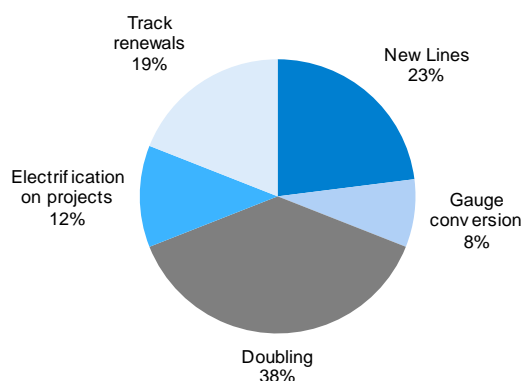
Source: Company, PL

**Exhibit 55: RoE/RoCE to expand to 44%/52% in FY22E**



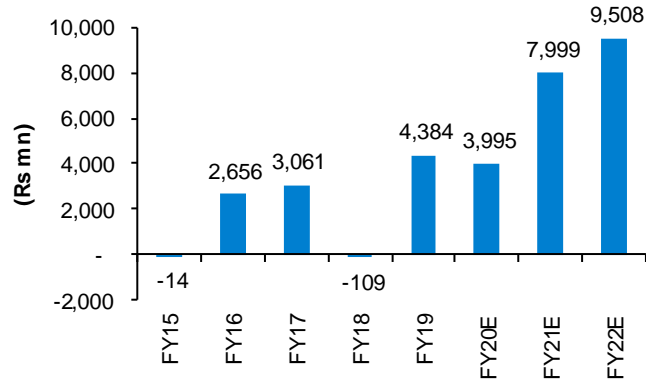
Source: Company, PL

**Exhibit 56: Capex on new lines (FY19-23E) to increase trains**



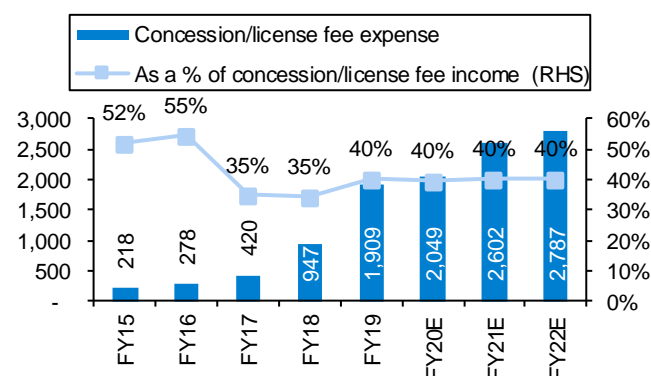
Source: Company, PL

**Exhibit 57: FCFF to increase to Rs9.5bn in FY22E**



Source: Company, PL

**Exhibit 58: Concession fee cost at ~40% in FY22E**



Source: Company, PL

**Exhibit 59: List of licensee caterers of IRCTC**

Name of the Party	Category
Food World	A
Roop Caterers	A
Deepak & Co	A
Express Food Services	A
Sunil Catering Services	B
Vasantham Caterers	B
Alok Kumar Ghosh Catering Pvt Ltd	B
Otik Hotels & Resorts	C
Sai Balaji Food Corporation	C
Doon Caterers	C

Source: MoR, PL

Note: The list is not exhaustive



## Financials

## Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Net Revenues</b>	<b>18,679</b>	<b>22,967</b>	<b>31,160</b>	<b>34,336</b>
YoY gr. (%)	27.4	23.0	35.7	10.2
Cost of Goods Sold	1,241	1,651	2,283	2,699
Gross Profit	17,438	21,315	28,877	31,636
Margin (%)	93.4	92.8	92.7	92.1
Employee Cost	1,951	2,366	2,991	3,159
Other Expenses	1,672	1,952	2,586	2,850
<b>EBITDA</b>	<b>3,722</b>	<b>6,596</b>	<b>10,162</b>	<b>11,218</b>
YoY gr. (%)	36.3	77.2	54.1	10.4
Margin (%)	19.9	28.7	32.6	32.7
Depreciation and Amortization	286	447	600	645
<b>EBIT</b>	<b>3,435</b>	<b>6,148</b>	<b>9,562</b>	<b>10,573</b>
Margin (%)	18.4	26.8	30.7	30.8
Net Interest	23	46	47	52
Other Income	888	937	1,231	1,433
<b>Profit Before Tax</b>	<b>4,300</b>	<b>7,040</b>	<b>10,747</b>	<b>11,954</b>
Margin (%)	23.0	30.7	34.5	34.8
Total Tax	1,574	1,760	2,687	2,989
Effective tax rate (%)	36.6	25.0	25.0	25.0
<b>Profit after tax</b>	<b>2,726</b>	<b>5,280</b>	<b>8,060</b>	<b>8,966</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>2,726</b>	<b>5,273</b>	<b>8,060</b>	<b>8,966</b>
YoY gr. (%)	23.6	93.4	52.9	11.2
Margin (%)	14.6	23.0	25.9	26.1
Extra Ord. Income / (Exp)	-	7	-	-
<b>Reported PAT</b>	<b>2,726</b>	<b>5,280</b>	<b>8,060</b>	<b>8,966</b>
YoY gr. (%)	23.6	93.7	52.7	11.2
Margin (%)	14.6	23.0	25.9	26.1
Other Comprehensive Income	3	(27)	-	-
Total Comprehensive Income	2,729	5,252	8,060	8,966
<b>Equity Shares O/s (m)</b>	<b>160</b>	<b>160</b>	<b>160</b>	<b>160</b>
<b>EPS (Rs)</b>	<b>17.0</b>	<b>33.0</b>	<b>50.4</b>	<b>56.0</b>

Source: Company Data, PL Research

## Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>3,564</b>	<b>5,264</b>	<b>6,664</b>	<b>7,164</b>
Tangibles	3,092	4,792	6,192	6,692
Intangibles	472	472	472	472
<b>Acc: Dep / Amortization</b>	<b>2,018</b>	<b>2,465</b>	<b>3,065</b>	<b>3,709</b>
Tangibles	1,621	2,068	2,668	3,313
Intangibles	396	396	396	396
<b>Net fixed assets</b>	<b>1,546</b>	<b>2,799</b>	<b>3,599</b>	<b>3,454</b>
Tangibles	1,471	2,723	3,523	3,379
Intangibles	75	75	75	75
Capital Work In Progress	404	404	404	404
Goodwill	-	-	-	-
Non-Current Investments	301	301	301	301
Net Deferred tax assets	771	1,126	1,719	1,913
Other Non-Current Assets	229	276	374	412
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	79	126	171	188
Trade receivables	5,817	7,236	9,903	11,006
Cash & Bank Balance	11,400	13,020	17,392	22,866
Other Current Assets	4,860	5,904	8,037	8,504
<b>Total Assets</b>	<b>25,838</b>	<b>31,719</b>	<b>42,617</b>	<b>49,837</b>
<b>Equity</b>				
Equity Share Capital	1,600	1,600	1,600	1,600
Other Equity	8,828	11,705	16,138	21,069
<b>Total Networth</b>	<b>10,428</b>	<b>13,305</b>	<b>17,738</b>	<b>22,669</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	462	574	779	858
Other non current liabilities	58	69	93	103
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,920	2,517	3,586	4,045
Other current liabilities	12,823	15,071	20,171	21,887
<b>Total Equity &amp; Liabilities</b>	<b>25,838</b>	<b>31,719</b>	<b>42,617</b>	<b>49,837</b>

Source: Company Data, PL Research





## Indian Railway Catering and Tourism Corporation

### Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	4,300	7,040	10,747	11,954
Add. Depreciation	286	447	600	645
Add. Interest	-	-	-	-
Less Financial Other Income	888	937	1,231	1,433
Add. Other	(631)	(27)	-	-
Op. profit before WC changes	3,955	7,460	11,346	12,599
Net Changes-WC	2,599	(4)	739	398
Direct tax	(1,628)	(1,760)	(2,687)	(2,989)
<b>Net cash from Op. activities</b>	<b>4,927</b>	<b>5,695</b>	<b>9,399</b>	<b>10,008</b>
Capital expenditures	(539)	(1,700)	(1,400)	(500)
Interest / Dividend Income	468	-	-	-
Others	(3,393)	-	-	-
<b>Net Cash from Invt. activities</b>	<b>(3,464)</b>	<b>(1,700)</b>	<b>(1,400)</b>	<b>(500)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(1,794)	(2,376)	(3,627)	(4,034)
Interest paid	-	-	-	-
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(1,794)</b>	<b>(2,376)</b>	<b>(3,627)</b>	<b>(4,034)</b>
<b>Net change in cash</b>	<b>(331)</b>	<b>1,620</b>	<b>4,372</b>	<b>5,474</b>
Free Cash Flow	4,384	3,995	7,999	9,508

Source: Company Data, PL Research

### Key Financial Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Per Share(Rs)</b>				
EPS	17.0	33.0	50.4	56.0
CEPS	18.8	35.8	54.1	60.1
BVPS	65.2	83.2	110.9	141.7
FCF	27.4	25.0	50.0	59.4
DPS	7.6	14.8	22.7	25.2
<b>Return Ratio(%)</b>				
RoCE	34.4	51.8	61.6	52.3
ROIC	(154.1)	(399.9)	(383.5)	(297.9)
RoE	27.3	44.4	51.9	44.4
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(1.1)	(1.0)	(1.0)	(1.0)
Net Working Capital (Days)	78	77	76	76
<b>Valuation(x)</b>				
PER	58.9	30.5	19.9	17.9
P/B	15.4	12.1	9.1	7.1
P/CEPS	53.3	28.1	18.6	16.7
EV/EBITDA	40.1	22.4	14.1	12.3
EV/Sales	8.0	6.4	4.6	4.0
Dividend Yield (%)	0.8	1.5	2.3	2.5

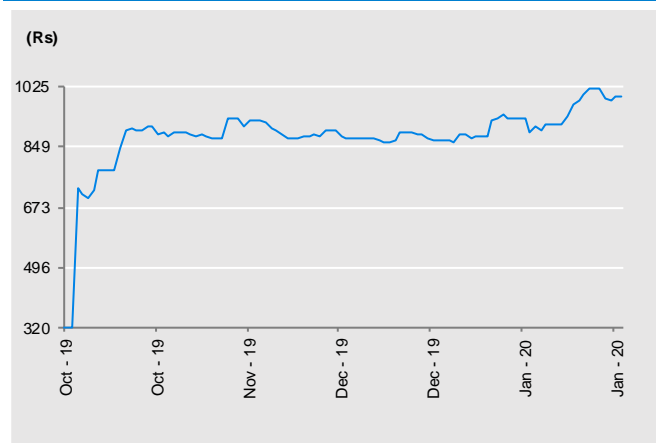
Source: Company Data, PL Research



## Notes



## Price Chart



## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Dish TV India	NR	-	74
2	Entertainment Network (India)	Hold	287	260
3	Inox Leisure	BUY	437	376
4	Music Broadcast	Hold	39	28
5	Navneet Education	BUY	142	92
6	PVR	Accumulate	2,053	1,900
7	S Chand and Company	Accumulate	92	75
8	V.I.P. Industries	BUY	501	440
9	Zee Media Corporation	Under Review	-	14

## PL's Recommendation Nomenclature

<b>Buy</b>	: >15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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