

TIA 20-20 IDEAS SUMMIT

INDIAN RAILWAYS CATERING & TOURISM CORPORATION (IRCTC)

6th March 2021

Tushar Bohra, Co-founder & Fund Manager, MK Ventures
tushar@mk-ventures.com

<https://thestormcatcher.com/2019/10/14/irctc-tatkal-booking-advised/>

DISCLAIMER

The views expressed herein are personal. They constitute only the opinions and do not constitute any guidelines or recommendation on any course of action to be followed by the reader.

This information is meant for general reading purposes only and is not meant to serve as a professional guide for the readers. Certain factual and statistical (both historical and projected) industry and market data and other information was obtained from independent, third-party sources that it deems to be reliable, some of which have been cited above. However, we have not independently verified any of such data or other information, or the reasonableness of the assumptions upon which such data and other information was based, and there can be no assurance as to the accuracy of such data and other information. Further, many of the statements and assertions contained in these materials reflect our belief, which belief may be based in whole or in part on such data and other information.

We do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information. Whilst no action has been solicited based upon the information provided herein, due care has been taken to ensure that the facts are accurate, and opinions given are fair and reasonable. This information is not intended to be an offer or solicitation for the purchase or sale of any financial product or instrument. Recipients of this information should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice, verify the contents and arrive at an informed investment decision before making any investments.

The document is meant for our internal use and may not be otherwise circulated / distributed without prior permission

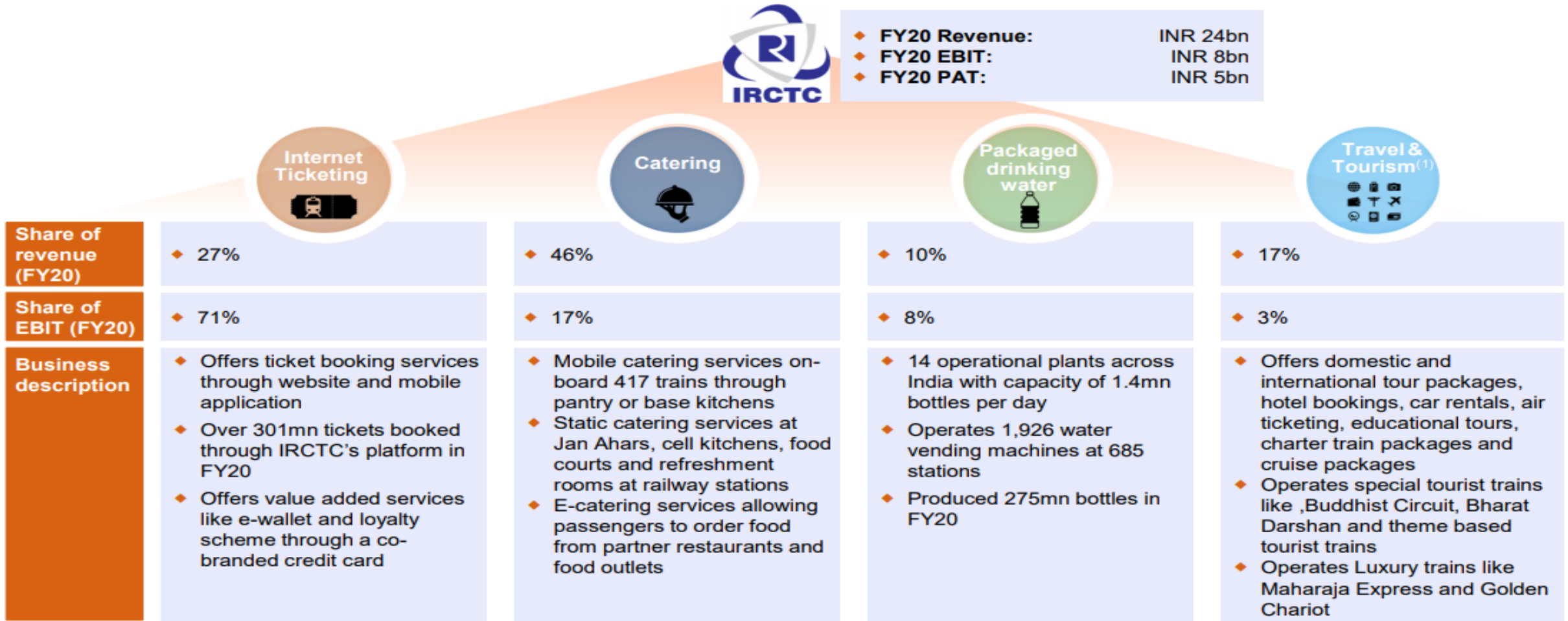
- **Co-founder & Fund Manager, MK Ventures**, a proprietary investment firm. We are also setting up an institutional presence, more updates on the same very soon.
- Over 15 years of cross-functional, cross-industry experience including **7 years in consulting and 8+ years in investing**.
- Before starting MK Ventures, I was Assistant Vice President – Investments at Reliance Capital Ltd., and part of the investment team at **Nippon India Asset Management**. Previously, I have also worked at Accenture Management Consulting and Tata Consultancy Services Ltd.
- I lead the team's investment initiatives in **Pharma / Healthcare and Telecom** and have also extensively worked in other sectors including **Consumer, IT, Automotive, Chemicals, and Real Estate**, amongst others. Have also conducted extensive research in emerging technologies in the automotive sector (connected, autonomous, shared and electric), energy (renewables), pharma (gene therapy, biotechnology), which has contributed to a few of our differentiated investments in these sectors
- Bachelor of Engineering degree (Electronics & Telecommunications) from Mumbai University and an **MBA (PGDM) from the Indian Institute of Management Calcutta**, ranked amongst the top 3 business schools in India
- Besides investing, I am also very passionate about writing, and maintain **my own blog (<https://thestormcatcher.com>)**. I have also authored a **book titled "Ouch! Middle Age!"**, available on Amazon Kindle. I am active with the alumni associations at my school (honorary committee member) and college

- **Strong business models with reasonable but certain growth characteristics**
- **Passionate promoter with a clear and well articulated vision for the company**
- **Significant upside optionality**
- **Superior balance sheet / return ratios / cashflows**
- **Valuations that I can relate to**

IRCTC - Overview

Brief Overview

- ◆ A Central Public Sector Enterprise having 87.4% stake by the Government of India and under the administrative control of the Ministry of Railways
- ◆ Conferred the status of Mini – ratna (Category-I Public Sector Enterprise) by the Government of India, on May 1, 2008.
- ◆ IRCTC is the only entity authorized by Indian Railways to provide online railway tickets, catering services to railways and packaged drinking water at railway stations and trains in India



Note:
1. Includee Travel and Tourism and State Teertha eagments

Source: IRCTC Corporate Presentation – Nov 2020

IRCTC Operating Revenue Breakup

Operating revenue (INR mn)	FY18	FY19	FY20	H1FY20	H1FY21	CAGR (FY18-20)
Internet Ticketing	2,043	2,313	6,198	1,993	935	74%
Catering	7,292	10,244	10,441	5,387	1,071	20%
Packaged Drinking Water	1,669	1,735	2,221	1,124	125	15%
Travel and Tourism	1,894	2,463	2,949	984	68	25%
State Teertha	2,106	1,946	946	239	-	(33%)
Total	15,004	18,701	22,755	9,727	2,199	23%

As % of overall revenue	FY18	FY19	FY20	H1FY20	H1FY21
Internet Ticketing	14%	12%	27%	20%	43%
Catering	49%	55%	46%	55%	49%
Packaged Drinking Water	11%	9%	10%	12%	6%
Travel and Tourism	13%	13%	13%	10%	3%
State Teertha	14%	10%	4%	2%	-
Total	100%	100%	100%	100%	100%

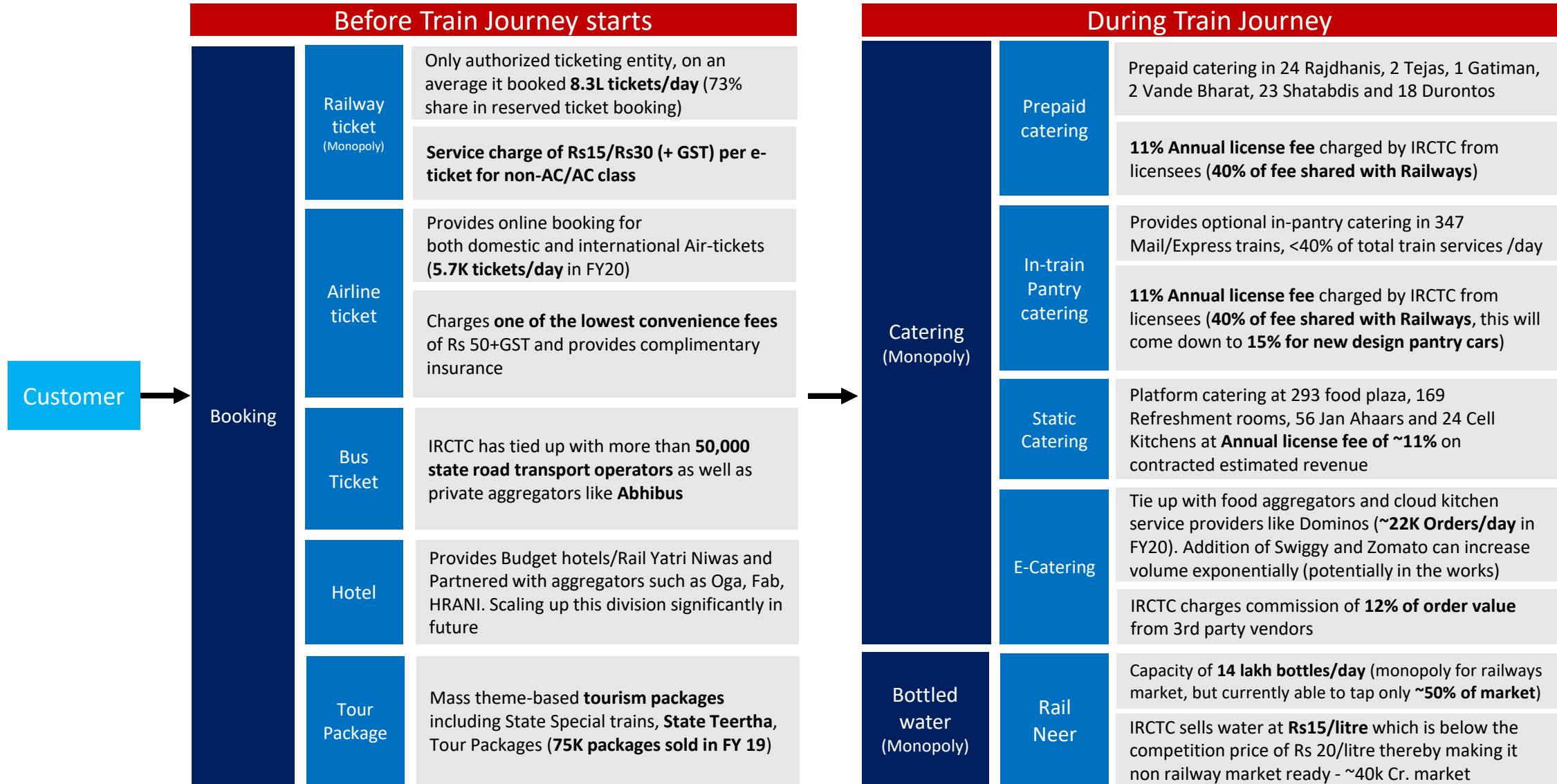
IRCTC EBIT Breakup

EBIT (INR mn)	FY18	FY19	FY20	H1FY20	H1FY21	CAGR (FY18-20)
Internet Ticketing	1,006	1,607	4,947	1,468	705	122%
Catering	1,255	1,470	1,198	608	(691)	(2%)
Packaged Drinking Water	334	333	521	220	(27)	25%
Travel and Tourism	(123)	311	103	23	(167)	n.m.
State Teertha	475	491	152	52	-	(43%)
Total	2,947	4,212	6,921	2,371	(181)	53%

EBIT margin	FY18	FY19	FY20	H1FY20	H1FY21
Internet Ticketing	49%	69%	80%	74%	75%
Catering	17%	14%	11%	11%	(65%)
Packaged Drinking Water	20%	19%	23%	20%	(22%)
Travel and Tourism	(6%)	13%	3%	2%	(246%)
State Teertha	23%	25%	16%	22%	-
Total	20%	23%	30%	24%	(8%)

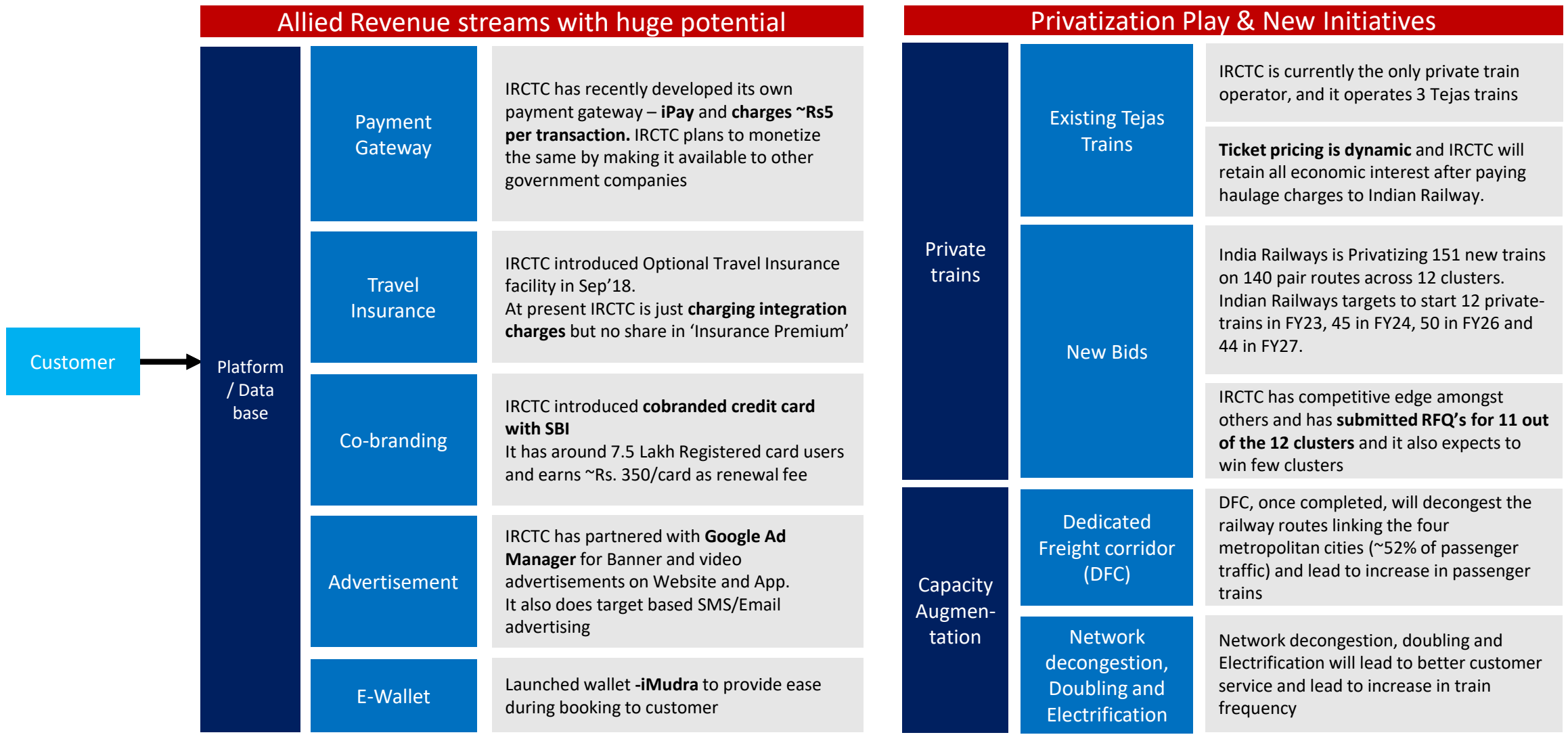
- Primarily a ticketing company**
- Limited growth visibility**
- Possibility of convenience charge being revoked**
- Business can be disrupted due to privatization**
- Valuations**

Even though train tickets is the most obvious revenue stream, IRCTC actually monetizes its customer base in multiple ways



IRCTC mainly provides services based on license fee, commissions or fixed revenue share, or per transaction based which are scalable and reflect annuity / recurring nature of revenue with high operating leverage and low capex intensity

Multiple levers for revenue / profits optionality coupled with structural tailwinds provide certainty of significant expansion of customer lifecycle value and overall profitability and scale



Multiple non-obvious revenue streams and capacity augmentation triggers

Can you see growth...? Several structural and other levers for growth in the business, across segments

STRUCTURAL DRIVERS

Privatization; Tejas Trains; Higher % of e-ticketing; DFC; Railways Infra Push; Higher Reserved Pool; More Pantry cars; More bottled water

PRICING LEVERS

Convenience Fee; Catering Prices; Water Prices; Higher license fee

COLLABORATION EFFORTS

e-catering Aggregators; Aggregation / Tie-ups for Tourism; Co-branded Cards; Reselling of Financial Products; Media & Entertainment partnerships

COST OPTIMIZATION

Lower revenue sharing with Railways; Payment Gateways;

OTHER INITIATIVES

Budget Hotels / Pods; Cab Bookings; Payment Gateways (beyond Railways); Wallets; Rail Neer moving beyond Railways

FURTHER OPTIONALITY

Analytics & Data Mining; Targeted Promotions; Scale-up in Advertising Revenue

Please refer to the next 3 appendix slides for more details. Source: company presentations and analyst notes, railways related information, insights gleaned from management conversations and media interactions of relevant authorities

Proprietary Material: MK VENTURES

Appendix for Slide 12 (1/3)

Structural Drivers	Privatization & Tejas Trains	Indian Railways has initiated the process to get participation of private players in operations of 151 passenger trains across 12 clusters. IRCTC has participated in 11 of these 12 clusters in the RFQ invited by Indian Railways IRCTC already has experience of running 3 Tejas trains (New Delhi-Lucknow, Mumbai-Ahmedabad and Varanasi- Indore) which provides it a competitive edge amongst other bidders
	Higher % of e-ticketing	73% tickets of reserved tickets in FY 20 were booked by IRCTC, during covid-19, this percentage has increase to >90%, however post covid-19, the number is expected to stabilize at ~83-85% post covid-19, before moving up further
	Dedicated freight corridor (DFC)	Dedicated Freight Corridor (DFC) project is Indian Railways' quadrilateral linking the four metropolitan cities of Delhi, Mumbai, Chennai and Howrah, commonly known as the Golden Quadrilateral; and its two diagonals (Delhi- Chennai and Mumbai-Howrah). This route's total length is 10,122 km and comprising of 16% of Indian Railway's total route and carried more than 52% of the passenger traffic and 58% of revenue earning freight traffic of Indian railways. DFC will decongest the route and lead to increase in trains and trains runs. We est. 50% services capacity addition possible.
	Railway Infra push	Government maintains focus on network decongestion, particularly on doubling of lines, enhancing signaling infrastructure, adoption of train collision avoidance systems, and electrification works which will all lead to better service and faster runs of trains, more train runs
	Higher reserved pool	Conversion of several coaches on Mail/Express train from unreserved to reserved (2S) category thus bringing these tickets into ambit of IRCTC. Currently, reserved tickets are only ~17% of total issuances (and within this AC tickets at ~2%); huge scope for this no. to move up
	More Pantry cars	Currently only 417 trains have pantry cars, this number translates to <40% of trains having pantry cars. Addition of pantry cars in existing trains and introduction of new trains with pantry car will also add up to catering potential
	More bottled water	Railneer currently meets only ~50-60% of total demand of bottled water for Indian railways. Cumulative production capacity of the 14 Rail Neer Plants is ~1.4mn bottles per day which is being increased to 1.86mn bottles per day by FY22E by setting up 7 more new plants
Pricing levers	Convenience fee	IRCTC levies a convenience fee at the rate of Rs.15/Rs.30 per ticket for non-a/c and a/c class. Maximum of 6 passenger seats can be booked in 1 ticket which translates to much lower fee per passenger. Significant scope for increasing the convenience fee in future.
	Catering prices	Ministry of Railways has approved increase in food prices (+33 to +50% across trains) served onboard in trains and at platforms, which will lead to sharp increase in catering revenue once the same is phase wise implemented in FY22

Proprietary Material: MK VENTURES

Appendix for Slide 12 (2/3)

Pricing levers	Bottled Water prices	IRCTC has a monopoly to sell drinking water at railway stations, it currently charges Rs 15/litre i.e. at a discount of Rs.5 from available options in market. It can easily increase its selling price by Rs 5 to be at par with other bottled water players. At ~27 Cr. bottles current sales, that adds significantly to the EBIT, whenever the change gets affected.
	Higher license fee	IRCTC and MoR share the license fees in a 60:40 ratio. Indian railways has asked IRCTC to upgrade / modernize pantries on all trains, incentivizing the same by reducing its (Railways') share in license fee from new pantries to 15% for a period of 5 years from implementation
Collaboration efforts	E-catering aggregators	IRCTC introduced E-catering services to provide many more options to passengers for ordering food of their choice. IRCTC charges 12% of order value as commission from restaurants. IRCTC has already on-boarded 500+ options - number of brands like Dominos, Subway, Haldirams, Faasos, Biryani Blues, A2B, Sravana Bhawan, Nirulas etc. in addition to local/regional restaurants. It is also in talks with bringing aggregators like Swiggy and Zomato on board, which could significantly increase the penetration of this service and the revenues / profits for IRCTC.
	Aggregation/tie-ups for tourism	Bus ticketing: Has tied up with more than 50,000 state road transport operators as well as private aggregators like Abhibus
	Co-branded cards	Offers co-branded cards of SBI. 7.5 Lakh credit cards are outstanding as of March 2020 which translate into ~1.3% of total credit cards outstanding in the country. Huge growth possible by partnering with multiple banks.
	Reselling of financial products	IRCTC only sells optional travel insurance and charges integration charges for the same. Additional financial products can easily be added.
	Media & Entertainment partnership	IRCTC has partnered with Zee5 to provide premium subscription of Zee5 at discounted rates for IRCTC customers. Multiple such tie-ups possible which can boost revenue.
Cost Optimization	Payment Gateway	Recently launched its Payment gateway – iPay and will charge a small share for allowing other public sector companies to use its Payment Gateway thereby converting a cost item into revenue item. Currently, payment gateway is a substantial cost for them (est. ~Rs. 5/txn) which will get converted into a revenue line item.

Proprietary Material: MK VENTURES

Appendix for Slide 12 (3/3)

Other Initiatives	Budget Hotels/ Pods	Started providing Budget hotels/Rail Yatri Niwas and Partnered with aggregators such as Oga, Fab, HRANI. IRCTC is building budget hotels in Khajuraho, Lucknow, near Statue of Unity in an asset light partnership model, which will be EPS accretive.
	Wallets	Recently started marketing i-Mudra wallet in association with IndusInd bank. Potentially a significant revenue generator, 5 lakh+ downloads already of IRCTC wallets.
	Rail neer outside railways	As per CRI Report, bottled water in India is expected to ~40,000 Crores by 2023. This provides untapped opportunity for IRCTC in years to come. Revenues from bottled water segment can be increased by ~1,000 Cr by just capturing 2.5% of market. IRCTC being a top 10 brand in the country and large salience among customers, the company is looking to tap markets beyond railways in future
Future optionality	Analytics & Data Mining	IRCTC has a huge database which can be significantly monetized once the same is sensitized for critical passenger data. Converting database into useful information base will allow IRCTC to understand the user behaviour and cross sell its products better
	Targeted promotions	IRCTC can utilize its data base by filtering it into different user categories which will enable the company to do targeted promotions. Already doing a few initiatives in this direction
	Scale up in advertising revenue	IRCTC's website is ranked 459 in world in "Global Internet Engagement" by Alexa. Such high level of engagement provides ample advertising opportunities on website and app going forward, which the company is actively working on

Growth Potential - quantified

In FY 2020

Over the next 5-7 years

Rail tickets/day

8.3L tickets/day (Revenue INR ~625 Cr – Annualized)

It can scale up to 25L rail tickets/day (Revenue INR ~2,000 Cr), ~85-90% EBIT margins

Air tickets/day

Average of 5.7k air tickets/day

It can reach an average of ~50k air tickets/day

Catering revenue

Catering (except e-catering) generated INR ~1,000Cr of Revenue

Catering (except e-catering) can generate revenue worth INR~3,000 Crores

E-Catering orders/day

22,000 orders/day were delivered

It can scale up to 2,00,000 orders/day

No. of cobranded credit cards

SBI had issued 7.5 Lakh IRCTC cobranded credit cards (1.3% of total credit cards outstanding)

Number of cobranded credit cards can increase to 20 Lakh (~3% of total credit cards outstanding)

Private trains

Has License to run 3 tejas trains; contributed INR ~39 Crores of revenue

Revenue can increase to INR ~500-1000 Crores

Rail Neer

Produced 27.5 Crore bottles contributing to INR ~220 Crores of revenue in FY20

Revenue can increase to more than INR 1,000 Crores

Proprietary Material: MK VENTURES

E-Catering



Entertainment



Co-branding & wallet



Ticketing & tourism



Contrary to popular perception, Government is now clearly focused on PSU wealth creation – should help in increasing PE multiples for all PSUs

Why Ticketing charges cannot be removed?

- Helps in payment of consistent dividend to government of India
- Increases Equity value of IRCTC – disproportionate benefit to Govt.

Why there is no need for multiple players?

- Single player helps in easy and centralized management
- Credible player is required to handle cash as Gross transaction value of tickets booked is more than INR 340 Billion in FY20
- Govt. will not allow access to confidential travel and related details of politicians, bureaucrats and para military forces etc.

Privatization

Many companies like BPCL, Shipping Corporation of India and Concor are at advanced stages of Privatization. Successful completion of even one of this would set a positive tone towards valuation multiples for PSU going forward

Stable Regulation

Despite sharp spikes in Crude prices, Govt has allowed the free pricing of Petrol and Diesel. They haven't passed on any burden towards OMCs

Buybacks

After many years, HPCL is the 1st Govt Co to undertake Buyback, where Govt is not participating in the buyback. There is clear focus on value creation for Minority shareholders

CPSE staff's pay to depend on M-cap

Staff of central public sector enterprises (CPSEs) – which are around 250 in number now – may lose on their performance-related pay (PRP), if the firms fail to meet the market capitalization goals. M-cap performance will be added to the set of parameters governing PRP.

Intent of Government

Prime minister Narendra Modi when he spoke about various reforms undertaken in the Recent Union Budget said that the Government has an ambitious plan to monetize around 100 government-owned assets as part of the monetization plan

IRCTC vs Comparable Peers on select Operational Metrics

Bookmyshow sold ~5.4 lakh tickets/day in FY2020. It posted loss of ~211Cr in FY20. It was recently valued at ~8,250 Crores.

Makemytrip sold 1.15Lakh air tickets/day in FY2020 and is loss making

Swiggy and **Zomato** each delivered ~54 Crore orders in FY20.

Bisleri approximately produced ~180 Crore bottles in 2018

In 2020, Total Credit cards outstanding in India were 5.7 Crores

IRCTC sold ~8.3 Lakh rail tickets/day and 5.7k air tickets/day in FY2020 and is profitable at PAT level.

IRCTC's E-catering delivered ~79 lakh orders in FY20; <5% contribution to total catering services provided by co.

Railneer approximately produced ~27.5 Crore bottles in 2020

In 2020, Total IRCTC Cobranded Credit issued were 7.5 Lakhs (1.3% of total credit cards outstanding)

- Make my trip has a market cap of USD3.4 Billion but is loss making at EBITDA level
- Swiggy is valued at ~USD 3.7 Billion and it has reported a loss of ~USD 0.5 Billion in FY20
- Zomato is valued at ~USD 3.9 Billion and it has reported a loss of USD ~0.3 Billion in FY20
- Bookmyshow is valued at USD~1.1 Billion and it has reported a loss of ~0.03 Billion in FY20

Source: Secondary research, VCCedge.com

Peer comparison based on FY23E financial parameters

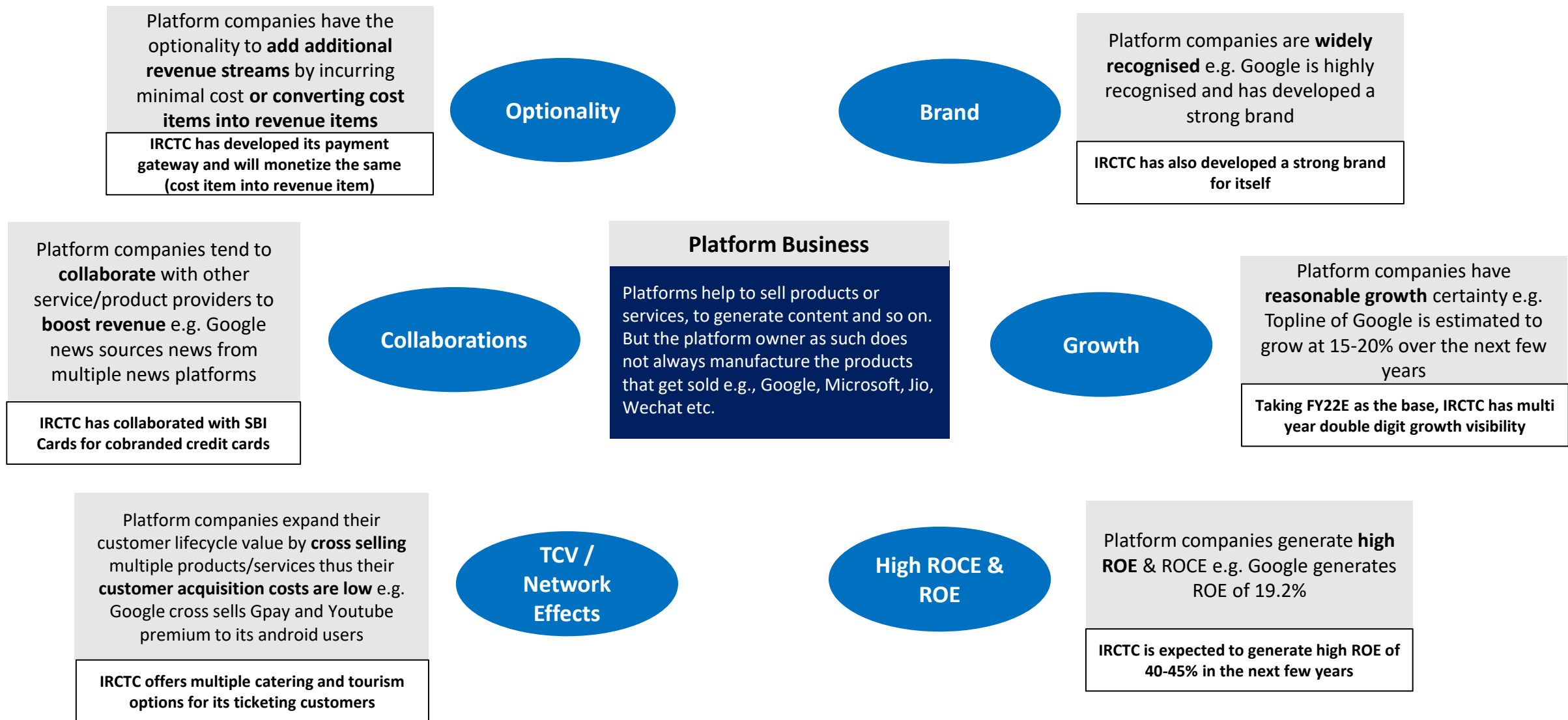
Type	Digital Platforms & Advertising				Ticketing	Catering / QSR		Beverages	
INR Crores	InfoEdge (Naukri)	Indiamart	Affle	Route	Makemytrip	Jubilant Food	Westlife (McD)	Varun beverages	IRCTC*
Current Market Cap	62,950	26,080	13,610	9,780	25,980	39,850	8,090	30,170	30,800
Enterprise Value	61,210	25,126	13,666	9,743	NA	40,958	8,628	32,448	28,272
FY 23E Revenue	1,649	985	839	2,100	6,443	5,355	1,930	10,643	3,209
FY 23E EBIT	551	361	185	240	-329	987	167	1,732	1,271
FY23 EV/Sales	37	26	16	5	4	8	5	3	9
FY23 EV/EBIT	111	70	74	41	NA	42	52	19	22
FY23 P/E	114	65	82	47	NA	63	84	26	30
ROE	11.6%	40.5%	29.2%	24.8%	-4.7%	34.9%	16.1%	21.9%	48.7%

- There is no direct peer to IRCTC, hence listed players in different business segments have been considered for comparison.
- IRCTC has a well diversified portfolio which include business verticals like Online ticketing & tourism, Catering, Bottled water, Platform and advertising and is still available at discount when compared with combined average of peers
- Varun Beverages is not really a platform company, included here only as a comparison point for Rail Neer segment

Note: *IRCTC number are based on Internal Estimates

Source: Bloomberg consensus

Attributes of a successful platform business & why IRCTC should be perceived as a platform play



Key Financials & Projections

Income Statement						
Y/E (Rs Cr)	FY 2018	FY 2019	FY 2020	FY 2021E	FY 2022E	FY 2023E
Net sales	1,471	1,870	2,276	734	2,478	3,209
growth (%)	-4.2	27.2	21.7	-67.7	237.6	29.5
Operating expenses	-1,193	-1,487	-1,562	-580	-1,453	-1,853
EBITDA	278	383	713	154	1,025	1,356
growth (%)	-15.5	38.1	86.2	-78.5	566.8	32.3
Depreciation	-23.7	-28.6	-39.9	-45.2	-75.8	-85
EBIT	254	355	674	109	949	1,271
Pre-tax profit	350	479	745	185	1,024	1,364
Adjusted net profit	225	271	528	138	766	1,020
growth (%)	-8.1	20.5	94.5	-73.8	454.8	33.2
Shares o/s (Cr)	64	64	16	16	16	16

Cash Flow Statement						
Y/E (Rs Cr)	FY 2018	FY 2019	FY 2020	FY 2021E	FY 2022E	FY 2023E
Pre-tax profit	350	479	745	185	1,024	1,364
Depreciation	7.2	27.3	19	45.2	75.8	85
Tax paid	-121	-197	-201	-46.5	-258	-344
Chg. in working capital	68.6	57.6	122	-646	825	340
Other operating activities	-227	-	-288	619	-459	-87.9
Cash flow from operations (a)	77.6	366	398	156	1,208	1,358
Capital expenditure	10.2	-52.4	-0.4	-98.8	-322	-147
Cash flow from investing (b)	10.2	-52.4	-0.4	-98.8	-322	-147
Cash flow from financing (c)	-107	-148	-241	-160	-304	-368
Net chg in cash (a+b+c)	-19.1	167	156	-103	582	843

Note: Estimated projections have been arrived by utilizing the base numbers of sell side research reports

Proprietary Material: MK VENTURES

Key Financials & Projections

Balance Sheet						
Y/E (Rs Cr)	FY 2018	FY 2019	FY 2020	FY 2021E	FY 2022E	FY 2023E
Net fixed assets	170	195	176	230	476	538
Investments	0	0	0	0	0	0
Other non-curr assets	95.2	135	215	106	134	105
Current assets	2,054	2,265	2,858	1,697	3,287	4,493
Inventories	7.4	7.9	9.8	3	10.2	13.2
Sundry Debtors	551	588	789	255	815	1,055
Cash and Bank	834	1,140	1,296	1,193	1,701	2,528
Loans and advances	11	8.4	11.9	4	13.6	17.6
Total assets	2,319	2,594	3,250	2,033	3,896	5,136
Shareholders' funds	955	1,071	1,328	1,306	1,768	2,420
Share capital	160	160	160	160	160	160
Reserves & surplus	795	911	1,168	1,146	1,608	2,260
Total Debt	0	0	0	0	0	0
Other liabilities	-	66.7	136	136	136	136
Current Liab & provision	1,365	1,457	1,786	591	1,993	2,581
Current liabilities	1,303	1,417	1,755	567	1,915	2,479
Provisions	61.7	39.2	31.1	24.1	78.1	101
Total liabilities	1,365	1,523	1,922	727	2,129	2,716
Total equity & liabilities	2,319	2,594	3,250	2,033	3,896	5,136

Note: Estimated projections have been arrived by utilizing the base numbers of sell side research reports

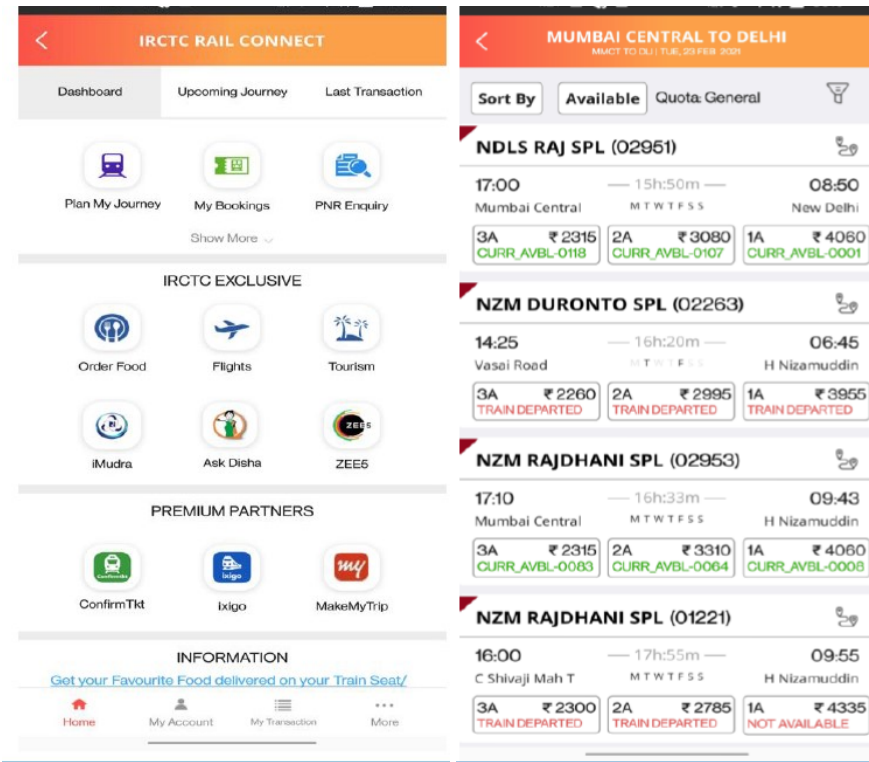
Proprietary Material: MK VENTURES

Key Ratios

Y/E	FY 2018	FY 2019	FY 2020	FY 2021E	FY 2022E	FY 2023E
Adj EPS (Rs)	3.5	4.2	33.0	8.6	47.9	63.8
Adj EPS growth (%)	-97.1	20.5	678.1	-73.8	454.8	33.2
EBITDA margin (%)	18.9	20.5	31.4	20.9	41.4	42.2
Pre-tax margin (%)	23.8	25.6	32.8	25.1	41.3	42.5
ROE (%)	25.8	26.8	44.0	10.5	49.8	48.7
ROCE (%)	29.2	33.9	51.8	7.5	56.7	57.0

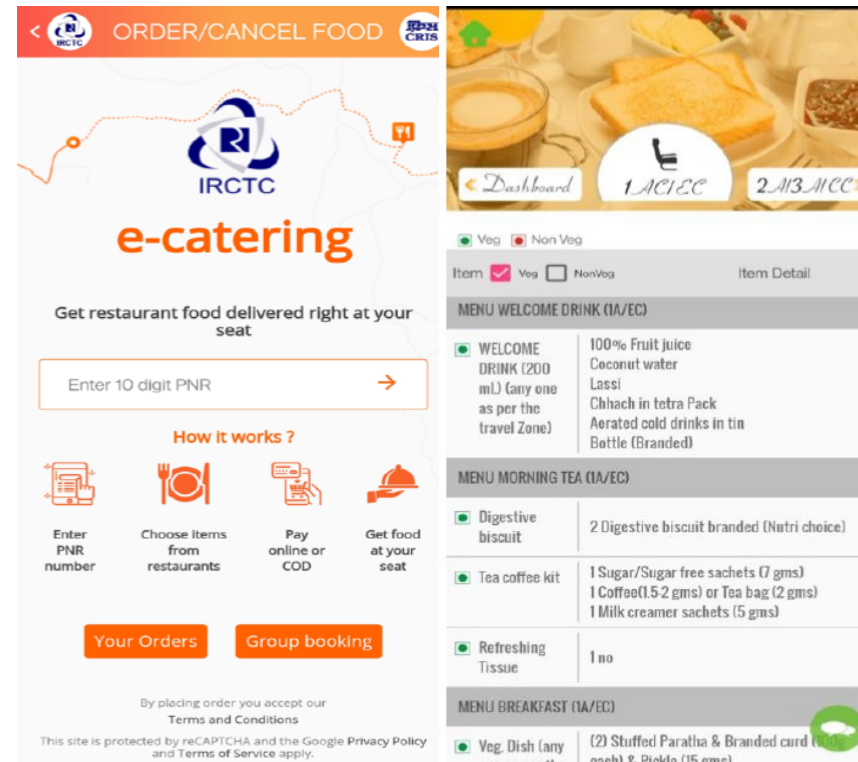
Various IRCTC Application screenshots

IRCTC Rail Connect App



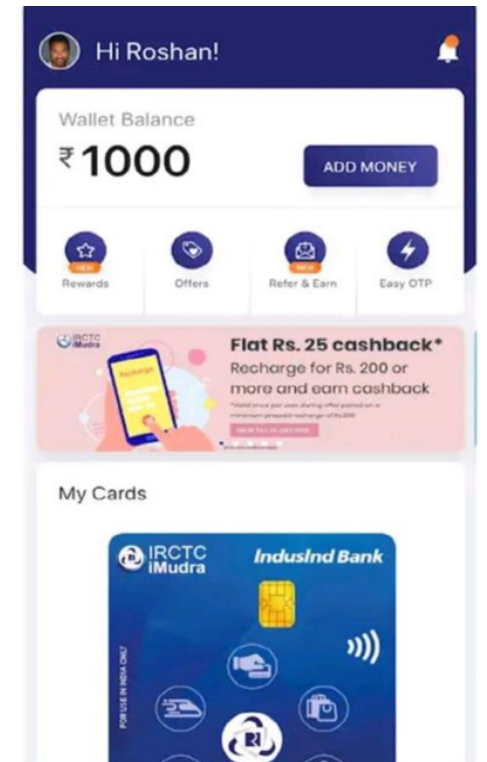
App downloads: 50mn +

IRCTC E-Catering App – Food on Track



App downloads: 1mn +

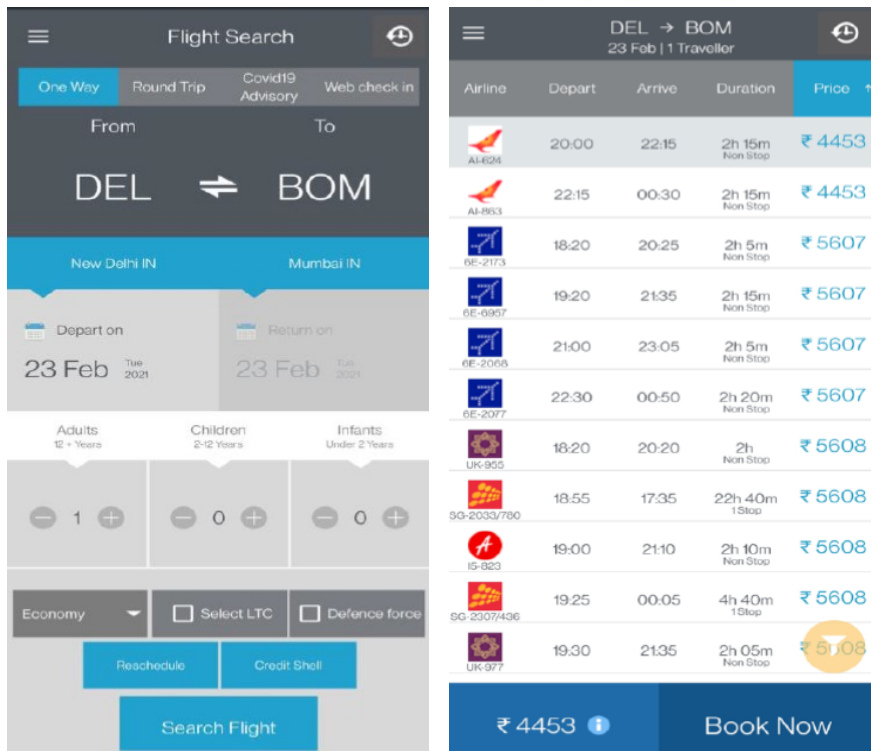
IRCTC i-Mudra Wallet



App downloads: 500k +

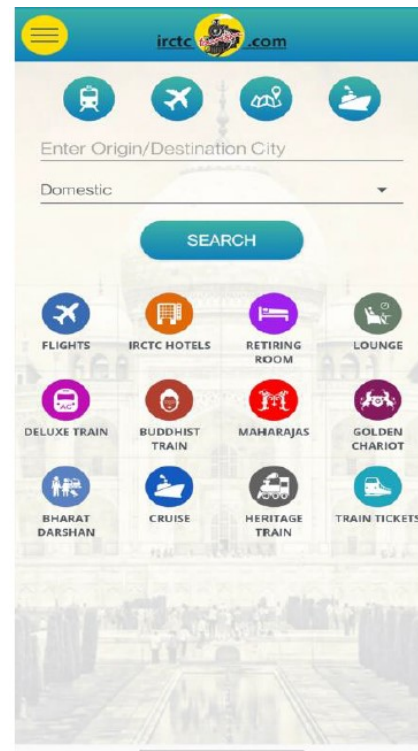
Various IRCTC Application screenshots

IRCTC Air App



App downloads: 5mn +

IRCTC Tourism App



App downloads: 1mn +

IRCTC Maharaja Express App



App downloads: 5k +

Thank You

You can reach me at:

tushar@mk-ventures.com

@tusharbohra on Twitter

<https://www.linkedin.com/in/tusharbohra-0904/>

My blog link: <https://thestormcatcher.com>

Link to my book: <https://www.amazon.in/dp/B07MBQR8FL>