Travel & Tourism

Manthan

Dissecting the valuation journey of IRCTC IN

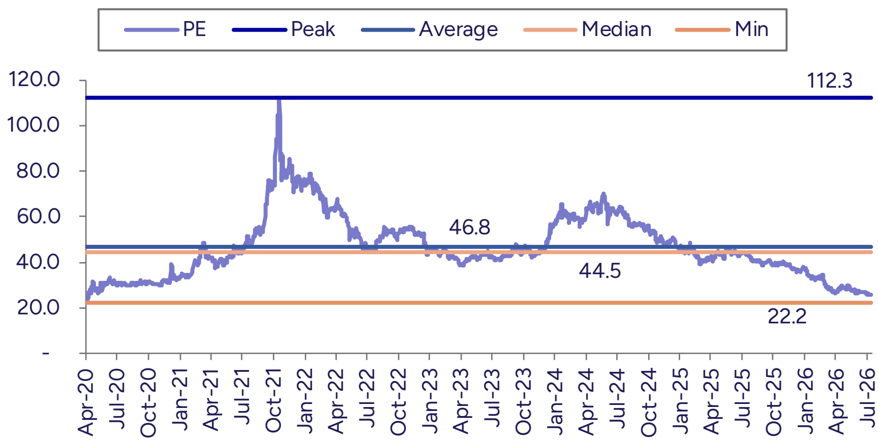
Manthan series allows us to speak our mind, unhindered. Sometimes we may choose to write on certain topics that may not have any conclusive outcome but could possibly activate the thinking cap of our readers. Today's edition is somewhat along similar lines wherein we have tried to dissect the valuation journey of IRCTC IN.

The note covers reasons for valuation peaks and troughs made by the stock in past. As the business has now evolved with predictable growth characteristics like consumption, we have also benchmarked the financials & valuation profile of IRCTC IN with certain staple stocks. Read on to know why we have chosen staples as our benchmark universe and what is the conclusion of this exercise.

How to interpret the historical band chart of IRCTC IN?

The historical P/E valuation band chart of IRCTC IN is provided below. As can be seen the stock has de-rated materially since April-24. Before we get into the reasons for de-rating, let us first understand why the stock traded at a high valuation multiple in the past.

Exhibit 1: Historical P/E valuation band chart of IRCTC IN



Source: Company, PL

Have a look at the headline financials of the last 10 years in the table below. In order to understand the evolving valuation trajectory better, we have broken down the financial reporting timeline in 3 sections: -

- **Pre-IPO period:** FY16 to FY19
- **High growth period, post-IPO:** FY20 to FY24. (The stock got listed in Oct-19)
- **Modest growth period:** FY25 to FY26

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Exhibit 2: Headline financials of IRCTC IN over the last few years

Particulars (Rs mn)	Pre-IPO period				High growth period - post IPO					Modest growth period	
	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
Revenue	14,472	15,196	14,661	18,700	22,643	7,767	18,786	35,415	42,602	46,748	52,149
YoY growth	*30.2%*	*5.0%*	*-3.5%*	*27.5%*	*21.1%*	*-65.7%*	*141.9%*	*88.5%*	*20.3%*	*9.7%*	*11.6%*
EBITDA	2,708	3,126	2,731	3,832	7,003	1,890	8,735	12,762	14,660	15,498	16,660
EBITDA margin	*18.7%*	*20.6%*	*18.6%*	*20.5%*	*30.9%*	*24.3%*	*46.5%*	*36.0%*	*34.4%*	*33.2%*	*31.9%*
Adjusted PAT	1,886	2,291	2,206	2,712	5,120	1,489	6,636	9,787	11,696	12,670	13,767
Adjusted PAT Margin	*13.0%*	*15.1%*	*15.0%*	*14.5%*	*22.6%*	*19.2%*	*35.3%*	*27.6%*	*27.5%*	*27.1%*	*26.4%*

Source: Company, PL

Decoding the valuation multiple trajectory of high growth period (FY20-FY24)

As can be seen, during the high growth period from FY20-FY24, EBITDA & PAT almost doubled. IRCTC IN operates across 4 business segments viz; internet ticketing, catering, rail neer and tourism. In the ensuing exhibits number 3,4 and 5 we have highlighted critical growth levers of key segments during the high growth period. We have excluded tourism segment for the purpose of our analysis as barring addition of Tejas express trains, the business has been largely in a steady growth phase.

Exhibit 3: Performance of catering division during high growth period (FY20-FY24) (INR mn)

Catering	Revenue	YoY growth	EBIT	EBIT margin	Comments
FY20	10,332	0.9%	1,073	10.4%	Base effect as phased impact of taking over the catering responsibility from IR played out in FY19
FY21	2,231	-78.4%	(835)	-37.4%	COVID impact
FY22	4,984	123.4%	239	4.8%	Growth on low base but COVID impact continues
FY23	14,765	196.3%	1,680	11.4%	Catering price hike impact and increase in the number of trains serviced
FY24	19,472	31.9%	2,544	13.1%	Catering price hike impact and increase in the number of trains serviced

Source: Company, PL

Exhibit 4: Performance of ticketing division during high growth period (FY20-FY24) (INR mn)

Internet ticketing	Revenue	YoY growth	EBIT	EBIT margin	Comments
FY20	6,198	168.0%	4,927	79.5%	Re-instatement of service charge from 01st Sep 2019
FY21	4,425	-28.6%	3,493	78.9%	COVID year
FY22	10,200	130.5%	8,647	84.8%	Full year impact of service charge levy & 2S conversion delta
FY23	11,980	17.5%	10,209	85.2%	Growth stabilizing post COVID
FY24	12,953	8.1%	10,675	82.4%	In a steady state growth zone

Source: Company, PL

Exhibit 5: Performance of rail neer division during high growth period (FY20-FY24) (INR mn)

Rail Neer	Revenue	YoY growth	EBIT	EBIT margin	Comments
FY20	2,220	27.9%	514	23.2%	Capacity increased to 348mn bottles per annum
FY21	572	-74.2%	(45)	-7.8%	COVID year
FY22	1,763	208.0%	(153)	-8.7%	Growth on low base but COVID impact continues
FY23	3,146	78.4%	364	11.6%	Capacity increased to 488mn bottles per annum
FY24	3,407	8.3%	292	8.6%	NM

Source: Company, PL

In nutshell, the high growth period of FY20-FY24 witnessed multiple benefits arising from 1) catering price hike, 2) levy of convenience fee, 3) temporary 2S volume delta, and 4) capacity expansion in rail neer resulting in P/E multiple expansion.

Decoding the valuation multiple trajectory of modest growth period (FY25-FY26)

As can be seen in exhibit 1, the de-rating journey of IRCTC IN started from FY25 as growth trajectory across key segments started softening. Have a look at the performance of key segments during the modest growth period (FY25-FY26).

Exhibit 6: Performance of catering division during modest growth period (FY25-FY26) (INR mn)

Catering	Revenue	YoY growth	EBIT	EBIT margin	Comments
FY25	21,251	9.1%	2,715	12.8%	Stabilization of growth post price hike
FY26	23,988	12.9%	2,491	10.4%	Stabilization of growth post price hike

Source: Company, PL

Exhibit 7: Performance of ticketing division during modest growth period (FY25-FY26) (INR mn)

Internet ticketing	Revenue	YoY growth	EBIT	EBIT margin	Comments
FY25	14,262	10.1%	11,793	82.7%	Entered the steady state growth zone as e-ticketing penetration increased to 87% in FY25
FY26	15,355	7.7%	12,674	82.5%	Entered the steady state growth zone as e-ticketing penetration increased to 89% in FY26

Source: Company, PL

Exhibit 8: Performance of rail neer division during modest growth period (FY25-FY26) (INR mn)

Internet ticketing	Revenue	YoY growth	EBIT	EBIT margin	Comments
FY25	3,940	15.7%	461	11.7%	All 20 plants operational
FY26	4,075	3.4%	555	13.6%	Growth stabilization post capacity expansion

Source: Company, PL

As benefits of rising e-ticket penetration, price hike in catering, and capacity expansion in rail neer played out, the growth trajectory softened over the last 2 years resulting in P/E multiple compression.

Decoding the fair multiple trajectory of IRCTC IN

While multiple compression is justified in FY25 as it was the onset of modest growth period, further compression in FY26 (check exhibit 1) is a matter of debate. It is not as if the growth trajectory deteriorated materially in FY26 (check exhibits 6,7 and 8) for the multiple to compress further. Also, it is not as if Mr Market re-discovered the growth orbit of IRCTC IN in FY26. Rebasing of growth expectations had happened in FY25 itself.

However, what if the FY26 valuation trajectory reflects the true fair value zone and Mr Market was inefficient a year ago!

To answer this question, we have benchmarked IRCTC IN's growth, RoE/RoCE and valuation profile with select consumer staple stocks. While both business models are completely different: -

- IRCTC IN's business model has **"high predictability quotient"** like staples. With e-ticketing penetration at 89%, growth in the high margin ticketing division is likely to mimic pax traffic growth.
- Brand & distribution reach is the key moat of consumption business. Monopoly status is the key moat of IRCTC IN. Both these factors lend stability to the business model and lend **"predictive power"**.
- Business growth characteristics of IRCTC IN resemble staples (check exhibit 9)
- The business model is capital light akin to FMCG companies

- The business commands high RoE/RoCE (check exhibit 10)
- BS is debt free

Exhibit 9: Growth & valuation comparison of IRCTC IN with select staple stocks

Particulars (INR mn)	Revenue			EBITDA			Adj. PAT			P/E		
	FY26	FY28E	*CAGR*	FY26	FY28E	*CAGR*	FY26	FY28E	*CAGR*	FY26	FY27E	FY28E
Britannia Industries	1,91,516	2,34,105	*11%*	35,476	43,245	*10%*	25,402	31,031	*11%*	51.3	47.4	42.0
Colgate Palmolive	60,350	71,102	*9%*	18,860	22,256	*9%*	13,708	15,903	*8%*	40.5	38.1	35.1
Dabur India	1,31,925	1,59,543	*10%*	24,518	30,056	*11%*	19,081	23,558	*11%*	39.7	35.9	32.2
Emami	37,795	46,365	*11%*	9,324	11,654	*12%*	7,196	8,720	*10%*	24.9	22.7	20.5
Hindustan Unilever	6,19,750	7,29,707	*9%*	1,44,640	1,72,437	*9%*	1,01,670	1,21,608	*9%*	49.6	45.7	41.4
ITC	7,19,838	8,18,599	*7%*	2,52,082	2,72,222	*4%*	2,04,703	2,19,843	*4%*	17.2	17.5	16.0
Marico	1,36,111	1,62,277	*9%*	23,281	33,280	*20%*	17,621	24,535	*18%*	62.3	51.3	44.4
Nestle India	2,31,546	2,91,601	*12%*	53,061	70,620	*15%*	34,239	44,717	*14%*	80.4	69.2	61.5
Pidilite Industries	1,46,008	1,84,362	*12%*	35,190	43,015	*11%*	24,844	31,126	*12%*	64.1	56.9	51.2
IRCTC	**52,149**	**61,236**	***8%***	**16,660**	**19,696**	***9%***	**13,767**	**16,276**	***9%***	**29.5**	**26.8**	**24.9**

Source: Company, PL

Exhibit 10: RoE/RoCE comparison of IRCTC IN with select staple stocks

Particulars	RoE (%)			RoCE		
	FY26	FY27E	FY28E	FY26	FY27E	FY28E
Britannia Industries	53.7	52.9	55.1	53.3	53.9	59.0
Colgate Palmolive	84.4	88.3	87.7	107.1	113.8	113.4
Dabur India	17.2	17.8	18.2	16.3	17.3	17.8
Emami	25.6	25.3	25.0	26.0	27.8	27.9
Hindustan Unilever	20.7	21.1	21.7	27.0	27.5	28.1
ITC	29.7	28.4	30.0	33.9	32.4	34.9
Marico	43.1	45.2	44.0	47.7	53.0	52.4
Nestle India	72.6	68.3	66.6	90.3	92.8	89.4
Pidilite Industries	24.1	23.5	22.4	30.0	29.1	27.4
IRCTC	**34.5**	**32.3**	**29.7**	**39.7**	**37.1**	**34.4**

Source: Company, PL

As can be seen, while IRCTC IN's financial profile and growth characteristics resemble consumer staples, there is a stark valuation gap with our programmed peers. We fully understand this is not an apple-to-apple comparison, and we are not even presenting a case for valuation bridge to narrow. Nonetheless, we are not even fully convinced by the valuation gap either, given overlapping business characteristics.

We believe the current growth-valuation matrix of IRCTC IN in under-appreciated by the market. We expect sales/PAT CAGR of 8%/9% over the next 2 years, and the stock is trading at 27x/25x our FY27E/FY28E EPS. We maintain BUY on IRCTC IN with a TP of INR712 (35x FY28E EPS; no change in target multiple.

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (INR)	Share Price (INR)
1	Apeejay Surrendra Park Hotels	BUY	165	124
2	Chalet Hotels	BUY	994	800
3	Delhivery	Hold	534	518
4	DOMS Industries	BUY	2850	2307
5	Flair Writing Industries	BUY	406	261
6	Imagicaaworld Entertainment	BUY	64	48
7	Indian Railway Catering and Tourism Corporation	BUY	712	499
8	InterGlobe Aviation	HOLD	4724	5124
9	Lemon Tree Hotels	BUY	138	117
10	Mahindra Logistics	BUY	504	392
11	Nazara Technologies	BUY	343	299
12	PVR Inox	BUY	1309	1014
13	Safari Industries (India)	BUY	1953	1601
14	Samhi Hotels	BUY	220	168
15	TCI Express	BUY	575	503
16	V.I.P. Industries	SELL	245	300
17	Zee Entertainment Enterprises	Accumulate	117	102

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

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