

REAL RETURNS

Key lessons from IRCTC saga

The recent episode shows why even seasoned investors are very choosy about fancied PSU stocks

AARATI KRISHNAN

Stocks of Public Sector Undertakings (PSUs) in India are generally held to be boring bets for investors, given that they operate in old economy businesses, rarely go in for exciting corporate moves such as new business forays, buyouts or mergers, and faithfully maintain a high dividend yield by coughing up payouts at their promoters' behest.

But Indian Railway Catering and Tourism Corporation (IRCTC), the monopoly ticketing arm of Indian Railways, has behaved in a very non-PSU like fashion right from its IPO in October 2019. With the offer made at a throwaway price of ₹320, the share more than doubled on listing and was up fourfold within fifteen months, scaling ₹1400 by January 2021.

A dizzying rise....

It had good reason to do so. Though two waves of Covid had battered IRCTC's revenues and profits in FY21 to a third of FY20 levels, IRCTC continued to seed new revenue streams during the pandemic.

It flagged off hotel, bus and airline ticketing services, launched domestic and international tour packages, debited its own payment gateway and scaled up its insurance and co-branded credit card business, while bidding for private train routes put on block by the Railways. It also took the first steps towards monetising its mammoth 6 crore user base with cross-selling and advertising.

This helped the investor community forget its pathological aversion to PSUs, to imagine a rosy future for IRCTC. The stock's PE scaled three digits as analysts modelled a fivefold bounce in its earnings by FY23. This was based on the Railways getting back to business-as-usual (which would restore IRCTC's internet ticketing, catering and bottled water revenues) and adding to its bottomline from its nascent new businesses. Talk of new ticketing opportunities from AC 3 coaches and the pricing power enjoyed by IRCTC on convenience fees added to its bull case, helping the stock's pricey PE of 150-200 times in mid-2021, scale dizzying heights of over 320 times by October 2021, prompting entertaining Twitter face-offs between IRCTC fans and haters.



And a sharp setback

But if private promoters in this situation would have done everything to keep the rosy narrative going, PSUs' promoter - the Indian government - works in mysterious ways. A stock exchange intimation by IRCTC post-market hours on October 28 blandly intimating that the Ministry of Railways had 'decided' to 'share' 50 per cent of IRCTC's convenience fees from November, dealt a nasty surprise to its fans.

Though internet ticketing brought in just 27 per cent of its revenues in FY20 and sharing it would deprive it of just ₹150-300 crore a year in convenience fees (depending on one's forecast for FY23/24), ticketing is IRCTC's key margin-generator accounting for over three-fourths of its earnings. A lot of the bullish narrative around an expanding profit pool for the company was also built around its ticketing business.

The filing therefore prompted sell-side analysts to burn the midnight oil to revise their excel models. Overnight IRCTC found its FY23/24 earnings projections lowered by 25-30 per cent, with a sharp PE de-rating predicted.

Stock price action on Friday did not disappoint the bears, with the stock losing 25 per cent shortly after opening to a post-split price of ₹639, erasing nearly ₹20,000 crore in market cap. Even as this prompted some teeth-gnashing about the Government's folly in giving up ₹13,000 crore of market wealth (it owns 67 per cent) to gain ₹150-300

crore in revenue, pre-noon parleys between the company and the Railway Board seemed to yield results. By 11 am, business channels were beaming 'breaking news' on the Railway Ministry changing its mind, with the Secretary of DIPAM (earlier the disinvestment ministry) confirming that the Railways Ministry had rethought its decision. This caused the stock to forge an equally steep climb.

Lessons

The IRCTC saga reiterates some age-old learnings about PSU stocks that makes seasoned investors very choosy about them.

One, the left hand of the government may not know what the right hand is doing. Even if the Centre is a majority stakeholder in a listed PSU, the Ministry controlling it may make shareholder-unfriendly moves that prioritise its own interests over that of the shareholders.

Two, Government monopolies, unlike private monopolies, often do not have pricing power. They operate at the mercy of their respective ministries, which may prioritise social good or political popularity over shoring up the profits of the PSU. The losing battle that activist UK fund The Children's Investment Fund fought with Coal India, about government interference in its pricing decisions and NMDC's inability to fully cash in on global iron ore rallies, are evidence of this. IRCTC's own con-

venience fees and the Railways' share in it have been altered quite often in the past. Pre-listing, the Ministry of Railways used to share IRCTC's convenience fees 50:50. Just before its IPO, the Centre took a decision to 'waive' IRCTC's fee completely, decimating a key revenue and profit source. The fee was later partly restored post listing. Even last year, the Railways' changing policies on catering contracts have raised doubts on the sustainability of IRCTC's catering profits. The latest fee-sharing saga should therefore prompt IRCTC fans to keep the promoter risk in mind, while modelling earnings and acceding eye-watering valuations to the stock.

Three, despite the Centre's keenness to divest, Ministries in it often prove clueless about the concept of corporate governance that requires giving minority shareholders a fair deal post-listing. Ministry bosses often continue to look upon listed PSUs as their fiefdom. The IRCTC saga has at least shown that DIPAM, under this government, is not asleep at the wheel and can act swiftly to reverse market-alienating decisions of babus.

All this apart, the IRCTC roller-coaster also underlines the importance of investors in good companies, not giving in to hair-trigger reactions, when responding to market events. Investors who sold their IRCTC shares in panic at lows would be ruining their decision to jump off a still-racing train.

That the stock showed a build-up in buying volumes ahead of the official announcement to withdraw the sharing arrangement, also shows that the market (or insiders in it) often know far more about a company's actions than you would imagine. If you find a stock behaving in a fashion that you think to be completely irrational after a news event, take time to digest it and gather all the information, without acting impulsively. Budget for the possibility that the market may be right and you may be wrong.

The IRCTC saga also demonstrates the brutality and quickness with which the market can punish a highly fancied (and expensively priced) 'quality' stock, when there's an alteration to the bull case it has imagined. Taking the right decisions (to hold, sell or buy) through such periods of pain is an essential part of a multi-bagger journey, which is why equity returns are never easily made.



RISK & REWARD
Taking right decisions through periods of pain is an essential part of multi-bagger journeys, which is why equity returns are not easily made



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TAX QUERY

SUDHAKAR SETHURAMAN

I took a single premium insurance policy, paying a premium of one lakh rupees on April 4, 2012. The policy, which matures next year in April 2022, gives an insurance coverage (sum assured) of ₹109,450. Due to medical exigencies, I intend to surrender this policy prematurely, and I will get an amount of around ₹235,000. Am I required to pay tax on the excess amount of ₹135,000? The rule regarding insurance coverage being at least 10 times the premium paid, came into vogue only in September 2012, and hence in my view, is not applicable to this policy. What's your view on this? The insurance company is likely to deduct 5 per cent as TDS. Will the situation regarding tax, change if I allow the policy to run its course till next year?

A.R. RAMANARAYAN

Maturity proceeds arising from insurance policies that are issued on or after April 1, 2012 are exempt from taxation provided premium paid does not exceed 10 per cent of the sum assured. In your case considering the fact that premium paid is more than 10 per cent of the sum assured, the maturity amount received shall be taxable in your hands. The insurance company would deduct 5 per cent taxes on the net proceeds i.e. ₹135,000 as per section 194DA of the Act. Even if you allow the policy to run till next year, the maturity proceeds would be taxable in your hands as the same do not satisfy the conditions laid out under section 10(10D) of the Act as clarified above.

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ALERTS



e-ATMs for MF

ICICIdirect, an online platform for investments, protection and loan products, has launched e-ATM for mutual funds.

With this, customers will get instant payout on their MF redemption orders, compared to 2-4 working days in the normal cycle.

With e-ATM for MFs, ICICIdirect customers would get 50-70 per cent of their MF

redemption value within 30 minutes, and balance amount as per the payout cycle of the fund, which can be 2-4 working days.

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e-ATM for MFs can be availed by resident individuals holding their equity, debt, and

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Extract of consolidated and standalone unaudited financial results for the quarter and half year ended September 30, 2021

CHEMPLAST SANMAR LIMITED

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Website: www.chemplastsanmar.com E-mail id: grd@sanmargroup.com

CIN: U24230TN1985PLC011637

(Rs. in Crores except for EPS data)

Sl. No.	Particulars	Consolidated				Standalone			
		Quarter ended		Half Year ended		Quarter ended		Half Year ended	
		30-09-2021 (Unaudited)	30-09-2020 (Refer Note c)						
1	Total Income from Operations	1672.99	926.33	2633.36	1368.40	534.48	355.17	846.37	468.32
2	Net Profit / (Loss) for the period (before Tax, Exceptional and/or Extraordinary items) (Refer note b below)	186.21	(18.35)	220.04	(170.89)	73.83	12.12	97.43	(55.40)
3	Net Profit / (Loss) for the period before tax (after Exceptional and/or Extraordinary items) (Refer note b below)	186.21	(18.35)	220.04	(170.89)	73.83	12.12	97.43	(55.40)
4	Net Profit / (Loss) for the period after tax (after Exceptional and/or Extraordinary items) (Refer note b below)	151.34	(11.98)	180.16	(113.93)	67.15	7.48	88.54	(36.49)
5	Total Comprehensive Income for the period	151.62	(24.14)	180.54	(128.92)	67.32	7.59	88.81	(36.49)
6	Equity Share Capital	79.06	67.04	79.06	67.04	79.06	67.04	79.06	67.04
7	Earnings Per Share (of Rs. 5/- each) (Not Annualised) (for continuing and discontinued operations)-								
8	1. Basic:	10.51	(0.89)	12.95	(8.50)	4.66	0.56	6.37	(2.72)
9	2. Diluted:	10.51	(0.89)	12.95	(8.50)	4.66	0.56	6.37	(2.72)

Notes:

- The above is an extract of the detailed format of unaudited financial results filed with stock exchanges under Regulation 33 & 52 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. The full format of the quarterly and half yearly unaudited financial results are available on the stock exchange websites www.bseindia.com and www.nseindia.com and on our website www.chemplastsanmar.com.
- Exceptional and/or Extraordinary items are adjusted in the Statement of Profit and Loss in accordance with the Companies (Indian Accounting Standards) Rules, 2015 prescribed under Section 133 of the Companies Act, 2013.
- The standalone and consolidated financial result for the quarter and half year ended September 30, 2020 have not been reviewed by the Statutory auditor of the Company. However, the management has taken necessary care and diligence to ensure that the financial results are fairly stated.
- Other Equity as per consolidated and standalone financials (excluding revaluation reserve) as at March 31, 2021 was Rs (1932.44) Crores and Rs 909.19 Crores respectively.

For and on behalf of the Board
Chemplast Sanmar Limited

Ramkumar Shankar
Managing Director

Place : Chennai
Date : October 29, 2021

On behalf of the Board of Directors	
Sd/-	Thomas G. Muthoot Managing Director DIN: 00011552
Sd/-	Thomas G. Muthoot Director DIN: 00082099
Kochi October 30, 2021	

