

Indian Railway Finance Corporation (IRFC)

Sensex	49035
Nifty	14434

ISSUE DETAILS

Offer Price Band	₹25– ₹26
Face Value	₹10
Initial Public Offering	Upto 178,20,69,000 Equity Shares
Fresh Issue	Up to 118,80,46,000 Equity Shares
Offer for Sale	Up to 59,40,23,000 Equity Shares
Type	Offer for Sale & Fresh Issue
Listing (Stock Exchange)	NSE, BSE
Retail Allocation	35%
QIB Allocation	50%
NIB	15%
Min Bid	575 shares
Offer Open Date	18 th Jan 2021
Offer Close Date	20 th Jan 2021
Finalization of Basis of Allotment	25 th Jan 2021
Initiation of Refund/Unblocking Funds	27 th Jan 2021
Credit of Equity Shares	28 th Jan 2021
Tentative Date of Listing	29 th Jan 2021
Website:	

Shareholding Pattern (%)	Pre-Offer	Post Offer
Promoter & Promoter Group	100%	86.36%
Public & Others	-	13.64%

Investors should read the risk factors and more detailed information in the Prospectus and the application form before investing in the issue.

Company Overview

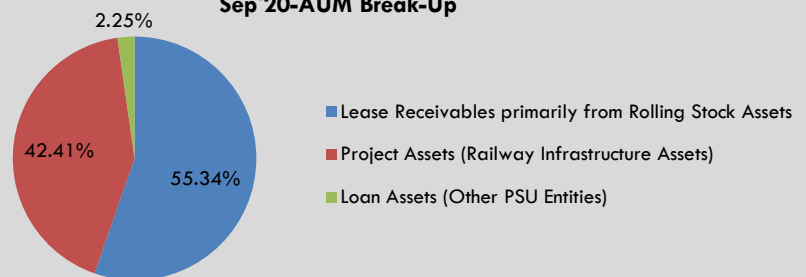
IRFC is registered with RBI as a systemically important NBFC-ND-IFC, wholly owned by the GOI acting through Ministry of Railways ("MoR")

It is the dedicated market borrowing arm for the Indian Railways.

Its primary business is:

- financing the acquisition of rolling stock assets,
- leasing of railway infrastructure assets and national projects of the GOI and
- lending to other entities under the MoR

Sep'20-AUM Break-Up



Source: Investor Presentation, RHP

Fast Facts

AUM & CAGR	NetWorth	RoE/RoA	Gross NPA	Tax Liability
₹2,780,075.92mn 26.48% (FY18-Sep'20)	₹316,869.67mn	6.09%/0.66%	Nil	Nil
Total Debt	NIM	Ratings	Net Gearing Ratio	CRAR
₹24,53,493.18mn	0.71%	Crisil AAA ICRA AAA CARE AAA	7.74x	433.92%

Source: Investor Presentation, RHP

Low Risk, cost plus business model

i. Financing of Roll Stock Assets

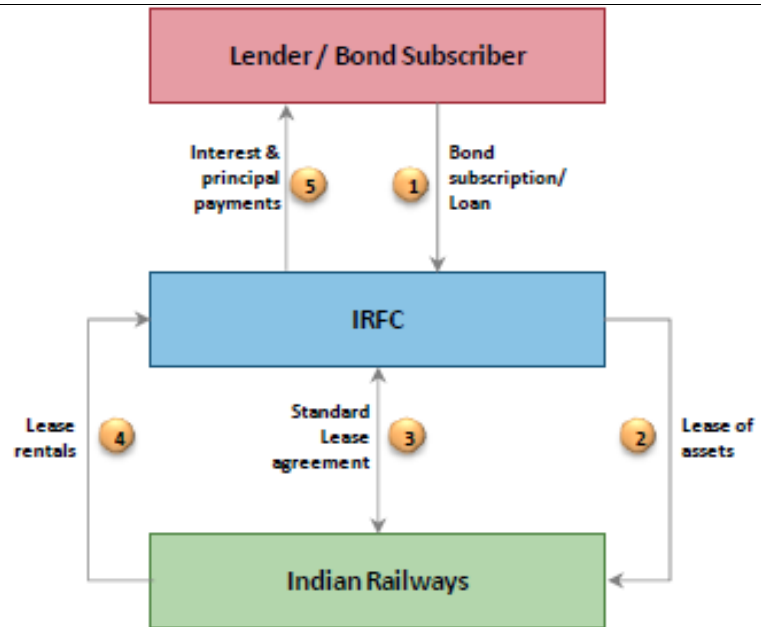
Lease Period	<ul style="list-style-type: none"> ○ 30 years (primary & secondary period of 15 years) ○ During the primary and secondary lease periods, the full value of assets, including interest is recovered from the MoR ○ After 30 years, assets are transferred to MoR at nominal price
Standard Lease Agreement	<ul style="list-style-type: none"> ○ Every year, IRFC enters into a Standard Lease Agreement with MoR ○ Lease Rentals include the value of the Rolling Stock Assets leased by IRFC to the MoR in the relevant fiscal year, the weighted average cost of borrowing as well as certain margin, all in accordance with the terms of the Standard Lease Agreement
Advance Lease Rentals	Arrangement to pay lease rentals in advance by MoR in case of difficulties experienced by IRFC in debt servicing
Margin	In FY20, IRFC was entitled to a margin of 40 bps over weighted average cost of incremental borrowing.

Source: Investor Presentation, RHP

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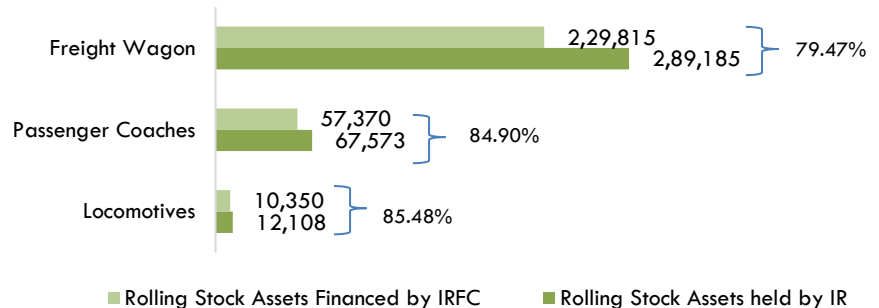
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Period	Cost to MoR	Wt Avg Cost of Incremental Borrowing for acquisition of Rolling Stock Assets	Margin on Incremental Rolling Stock Assets leased
FY18	8.05%	7.75%	0.30%
FY19	8.49%	8.09%	0.40%
FY20	7.77%	7.37%	0.40%

Source: Investor Presentation, RHP

IRFC Share in Indian Railway Rolling Stock as on 31st March 2020 (No. of units)



Total value of rolling stock assets financed by IRFC as of 31st March 2020 is ₹22,38,107.84mn

76% of Indian Railways' total rolling stock is financed by IRFC in FY20

Source: Investor Presentation, RHP

ii. Financing of Project Assets

Standard Lease Agreement	IRFC acquires leasehold interest in the project areas under a lease agreement and MoR is required to pay lease rentals
Margin	In FY20, IRFC was entitled to a margin of 35 bps over weighted cost of borrowing

Source: Investor Presentation, RHP

iii. IRFC also extends debt financing to other PSU entities consistent with the objective of being the principal source of finance for the Indian Railways.

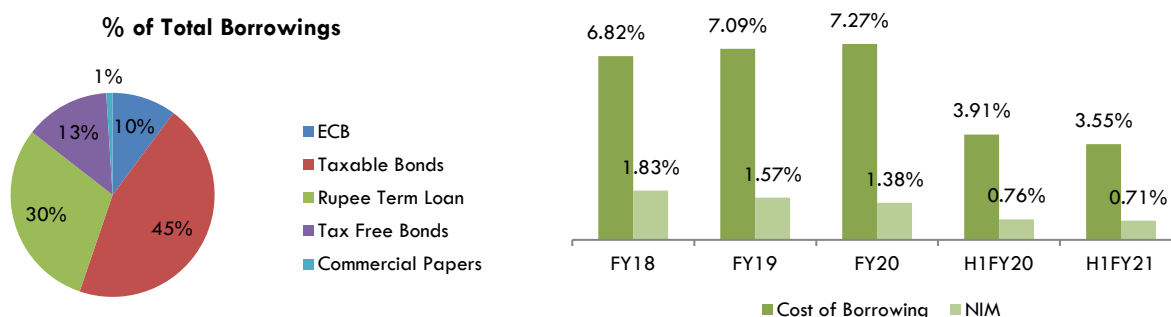
The range of margin is higher, 65-88 bps over weighted average cost of borrowing.

Borrowing

At the beginning of each Fiscal, the MoR provides the company with its target fund requirement based on its planned capital expenditure, which the company meet by raising funds through various sources including the issue of taxable and tax-free bonds in India, term loans from banks/ financial institutions, external commercial borrowings including bonds and syndicated loans, internal accruals, asset securitization and lease financing.

For Fiscal 2020, the MoR has provided targets for market borrowings from IRFC for funding of Rolling Stock Assets and Project Assets, which includes financing of ₹284,000mn for Rolling Stock Assets and financing of ₹6,310mn for project assets being executed by RVNL and financing ₹264,400mn for Project Assets through institutional finance. The Union Budget proposed a capital expenditure of ₹1,602bn for the Railways Ministry for Fiscal2020 (Source: Ministry of Railways).

Diversified sources of funding, credit ratings and strategic relationship with the MoR, have enabled IRFC to keep borrowing costs competitive.

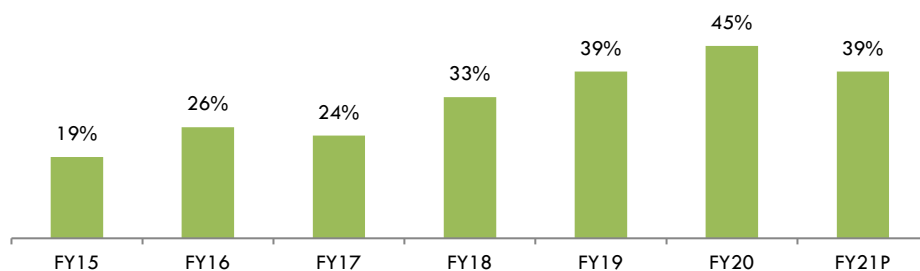


Source: Investor Presentation, RHP

Competitive Strength

i. Strategic role in financing growth of Indian Railways

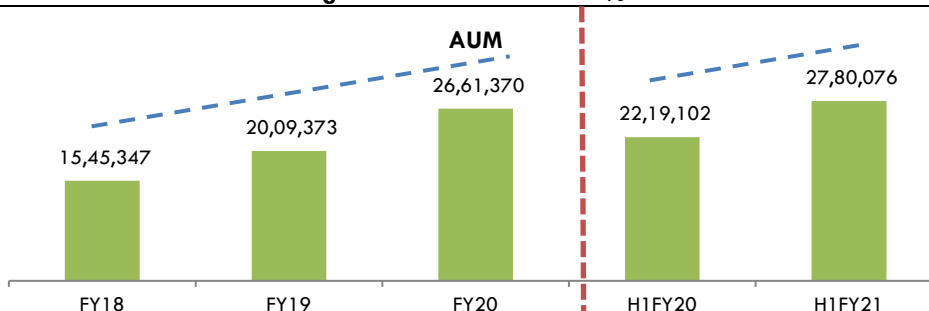
Rising share in financing growth of Indian Railways



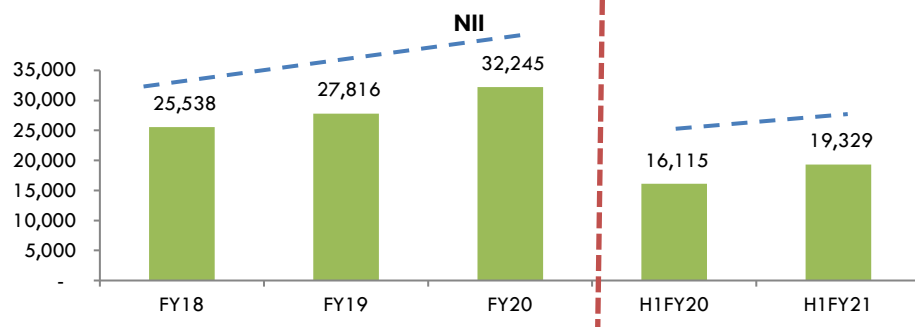
Source: Investor Presentation, RHP

ii. Consistent financial performance and Cost plus business model

AUM have grown at a CAGR of ~27% since FY18



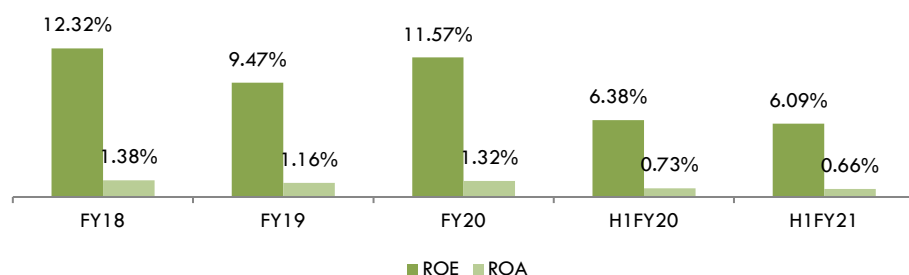
Source: Investor Presentation, RHP

NII has shown steady growth...


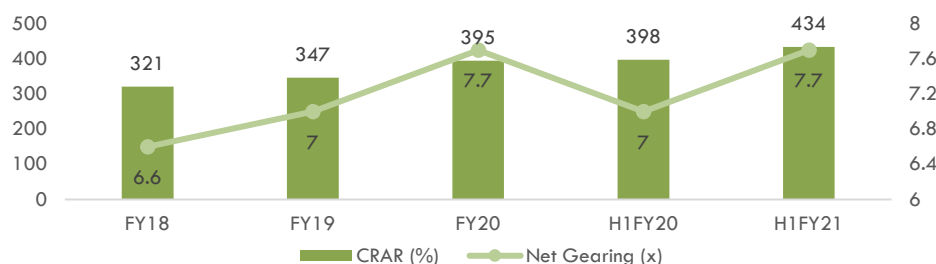
Source: Investor Presentation, RHP

Low overheads, administrative costs and high operational efficiency has resulted in lower C/I ratio
Cost to Income Ratio


Source: Investor Presentation, RHP

Steady Return Ratios...


Source: Investor Presentation, RHP

Adequate Capital Adequacy Ratio...


Source: Investor Presentation, RHP

iii. Low Risk Business Model

As of September 30, 2020, IRFC does not have any non-performing assets. Although historically they have not been required to resort to such funding from the MoR, their liquidity risk is also minimized as the MoR is required to cover any funding shortfall required by them for the redemption of bonds issued by them on maturity or repay term loan facilities availed by them. The MoR has historically never defaulted in their payment obligations under the Standard Lease Agreement. In addition, lease payments to them by the MoR form part of the annual railway budget in the Union Budget of India.

In order to minimize interest rate and foreign currency exchange risks, IRFC enters into hedging arrangements with respect to a portion of their interest rate risk and foreign currency exposure, particularly arising from their external commercial borrowings. The costs of such hedging are typically included in the weighted average cost of borrowing which are included in the lease rentals payable by the MoR.

iv. Strong Asset Liability Management

In addition to traditional cash flow management techniques, IRFC manages their cash flows through an active asset and liability management strategy. The asset-liability management model is structured in a manner which ensures that they have minimum asset-liability mismatches. They borrow on a long-term basis to align with the long-term tenure of the assets funded by them which allows them to manage their liquidity better and meet the growing demands of the Indian Railways.

Further, in the event they do not have sufficient funds to redeem bonds or repay term loans owing to inadequate cash flows during the fiscal year, the MoR is required under the Standard Lease Agreement to provide for such shortfall, through bullet payments in advance prior to maturity of the relevant bonds or term loans.

v. Experienced senior management and committed team

The industry knowledge and experience of their senior management has enabled IRFC to develop and implement a consistent business plan and streamlined operational procedures and allowed them to maintain consistent business growth over the years. Members of the senior management team have extensive experience in the finance industry. As of September 30, 2020, IRFC had 26 permanent employees. Their senior management team and executive team has a range of professional qualifications and experience in corporate lending, structured finance and law, working at government agencies as well as leading commercial banks and financial institutions.

Anchor List

IRFC has raised Rs.1,390 Cr from 31 anchor investors ahead of its proposed IPO. For the first time, the state-owned company has made provisions for allotment to anchor investors to help garner more value for the IPO.

Investors List

HDFC MF	Kuwait Investment Authority
Nippon Life	Monetary Authority of Singapore
Invesco	SBI Pension Fund
Rising India Focused Fund	Kotak Mahindra International
Aditya Birla Sun Life Insurance	Tata AIG General Insurance

Our View

IRFC being the dedicated borrowing arm of Indian Railways (IR) and government's focus on developing rail infrastructure gives the company enough space to grow its business. In addition, lease payments to the company by MoR form part of the annual railway budget in the Union Budget of India leading to zero default in its payment obligations under the standard lease agreement.

Post fund raising, IRFC demands a price-to-book multiple of 1.0x which is reasonable considering low risk business model, no NPAs, strong financial performance, strong credit rating and well matched ALM.

We recommend investors with long horizon view to subscribe to the IPO.

Financials

	(₹ mn)				
P & L Statement	FY18	FY19	FY20	Sep-19	Sep-20
Revenue from operations					
Interest income	9,885.72	17,230.71	27,479.98	14,034.90	17,167.76
Dividend income	4.87	5.14	5.92	-	2.32
Lease income	82,179.06	92,637.69	1,06,724.27	51,712.78	56,661.12
Total revenue from operations	92,069.65	1,09,873.54	1,34,210.17	65,747.68	73,831.20
Other income	8.74	0.01	0.73	21.23	17.09
Total income	92,078.39	1,09,873.55	1,34,210.90	65,768.91	73,848.29
Expenses					
Finance costs	66,375.85	81,830.62	1,01,626.62	49,373.24	54,409.80
Impairment on financial instruments	-	275.44	21.41	-	-
Employee benefit expense	55.20	62.51	62.65	22.52	26.54
Depreciation, amortization and impairment	3.54	4.18	4.58	2.16	2.34
Other expenses	324.37	147.37	574.68	67.06	541.20
Total expenses	66,758.96	82,320.12	1,02,289.94	49,464.98	54,979.88
Profit before exceptional items and tax	25,319.43	27,553.43	31,920.96	16,303.93	18,868.41
Exceptional items	-	-	-	-	-
Profit before tax	25,319.43	27,553.43	31,920.96	16,303.93	18,868.41
Tax expense					
Current tax	5,304.83	6,154.10	-	-	-
Deferred tax	-	-	-	-	-
Total Tax Expenses	5,304.83	6,154.10	-	-	-
Profit for the period from continuing operations	20,014.60	21,399.33	31,920.96	16,303.93	18,868.41
Profit from discontinued operations	-	-	-	-	-
Tax expense of discontinued operations	-	-	-	-	-
Profit from discontinued operations (after tax)	-	-	-	-	-
Profit for the period	20,014.60	21,399.33	31,920.96	16,303.93	18,868.41

(₹ mn)

Balance sheet	FY18	FY19	FY20	Sep-19	Sep-20
ASSETS					
Financial assets					
Cash and cash equivalents	11.28	37.07	13.80	13.03	16.61
Bank balance other than above	986.92	773.59	993.83	96,175.05	942.18
Derivative financial instruments	968.47	466.90	-	-	-
Receivables					
- Lease receivables	10,94,716.56	12,50,265.12	14,85,798.00	13,49,225.35	15,38,468.10
Loans	52,379.55	58,954.87	64,233.71	56,495.21	62,430.44
Investments	139.78	131.45	115.12	119.23	114.05
Other financial assets	4,50,773.10	7,38,239.44	11,82,742.54	8,59,693.33	12,93,364.17
Total financial assets	15,99,975.66	20,48,868.44	27,33,897.00	23,61,721.20	28,95,335.55
Current tax assets (net)	388.49	414.67	6,308.41	6,251.52	8,630.52
Property, plant and equipment	112.69	112.25	110.04	111.17	109.27
Other Intangible assets	0.27	0.50	0.43	0.51	0.41
Other non-financial assets	14,033.30	14,987.09	14,725.41	14,695.39	15,790.06
Total non-financial assets	14,534.75	15,514.51	21,144.29	21,058.59	24,530.26
Total Assets	16,14,510.41	20,64,382.95	27,55,041.29	23,82,779.79	29,19,865.81
LIABILITIES AND EQUITY					
LIABILITIES					
Financial liabilities					
Derivative financial instruments	7,495.79	3,105.95	4,065.15	3,102.49	3,883.47
Payables					
- Trade payables					
(i) total outstanding dues of micro enterprises and small enterprises	-	-	-	-	-
(ii) total outstanding dues of creditors other than micro enterprises and small enterprises	-	-	-	-	-
- Other payables					
(i) total outstanding dues of micro enterprises and small enterprises	2.40	0.08	0.50	4.58	1.52
(ii) total outstanding dues of creditors other than micro enterprises and small enterprises	84.69	121.65	377.02	148.02	439.90
Debt securities	11,08,442.46	12,35,978.99	15,52,904.56	13,51,895.53	16,12,586.66
Borrowings (other than debt securities)	2,31,612.82	5,03,347.76	7,90,862.65	4,94,421.01	8,40,906.52
Other financial liabilities	56,928.32	72,999.42	1,03,373.67	2,70,504.01	1,45,029.44
Total financial liabilities	14,04,566.48	18,15,553.85	24,51,583.55	21,20,075.64	26,02,847.51
Non-financial liabilities					
Current tax liabilities (net)	-	-	-	-	-
Provisions	108.37	117.96	138.03	140.89	92.97
Deferred tax liabilities (net)	-	-	-	-	-
Other non-financial liabilities	6,592.73	48.15	322.19	108.38	55.66
Total non-financial liabilities	6,701.10	166.11	460.22	249.27	148.63
Total liabilities	14,11,267.58	18,15,719.96	24,52,043.77	21,20,324.91	26,02,996.14
EQUITY					
Equity share capital	65,264.60	93,804.60	1,18,804.60	93,804.60	1,18,804.60
Other equity	1,37,978.23	1,54,858.39	1,84,192.92	1,68,650.28	1,98,065.07
Total equity	2,03,242.83	2,48,662.99	3,02,997.52	2,62,454.88	3,16,869.67
Total Liabilities and Equity	16,14,510.41	20,64,382.95	27,55,041.29	23,82,779.79	29,19,865.81

(₹ mn)

Return and Leverage Metrics	As of/ for the year ended March 31,			As of / for the 6months ended Sep'30	
	2018	2019	2020	2019	2020
Net Profit	2,001.46	2,139.93	3,192.10	1,630.39	1,886.84
Average Total Assets	145,100.71	183,944.67	240,971.21	222,358.14	283,745.36
Average Net Worth	16,242.12	22,595.29	27,583.03	25,555.89	30,993.36
Average Liabilities	128,858.60	161,349.38	213,388.19	196,802.24	252,752.00
Total Debt	134,005.53	173,932.68	234,376.72	184,631.65	245,349.32
Average Debt	119,797.41	153,969.10	204,154.70	179,282.17	239,863.02
Return on Average Total Assets (%)	1.38%	1.16%	1.32%	0.73%	0.66%
Return on Average Net Worth (%)	12.32%	9.47%	11.57%	6.38%	6.09%
Average Debt / Average Net Worth	7.38	6.81	7.40	7.02	7.74
Net Gearing Ratio	6.59	6.99	7.74	7.03	7.74
Average Net Worth as a % of Average Total Assets	11.19%	12.28%	11.45%	11.49%	10.92%
Earnings per Share (in ₹)	3.07	3.26	3.40	1.74	1.59
Book Value per Share (in ₹)	31.14	26.51	25.50	27.98	26.67

(₹ mn)

Particulars	As of/ for the year ended March 31			As of / for the 6months ended Sep'30	
	2018	2019	2020	2019	2020
AUM	154,534.67	200,937.33	266,136.99	221,910.25	278,007.59
AUM Growth (%)	24.73%	30.03%	32.45%	NA	25.28%
Average AUM	139,216.34	177,736.00	233,537.16	211,423.79	272,072.29
Disbursements	36,722.25	52,535.19	71,392.07	24,534.33	19,016.38
Disbursement Growth (%)	33.59%	43.06%	35.89%	NA	(22.49%)
Adjusted Interest Income	10,728.76	13,697.15	18,063.56	8,621.03	10,448.54
Adjusted Finance Costs	8,174.96	10,915.57	14,839.03	7,009.57	8,515.63
Net Interest Income	2,553.80	2,781.58	3,224.53	1,611.45	1,932.91
Adjusted Total Income	2569.38	2,804.29	3,258.36	1,637.44	1,942.14
Operating Expense	38.31	21.41	64.19	91.74	570.08
Credit Cost	-	27.54	21.41	(21.23)	(14.36)
Cost of Borrowings	6.82%	7.09%	7.27%	3.91%	3.55%
Net Interest Margin	1.83%	1.57%	1.38%	0.76%	0.71%
Cost to Income Ratio	1.49%	0.76%	1.97%	0.56%	2.94%
Operating Expense/ Average AUM (%)	0.03%	0.01%	0.03%	0.004%	0.02%
Gross NPA/ Net NPA	-	-	-	-	-

Team

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Disclosure of Interest Statement in Indian Railway Finance Corporation (IRFC) as on January 19, 2021

Name of the Security	Indian Railway Finance Corporation (IRFC)
Name of the analyst	Harshil Gandhi
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

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