

**Rating: Subscribe**

**Issue Offer**

**OFS of 59,40,23,000 shares by Promoter (GoI) and fresh issue of Rs 3,089 cr taking the total issue size at Rs 4,633 cr**

**Issue Summary**

Price Band (Rs)	25-26
Face Value (Rs)	10
Implied Market Cap (Rs Cr)	33,978
Market Lot	575
Issue Opens on	Jan 18, 2020
Issue Close on	Jan 20, 2020
No. of share pre-issue	11,88,04,60,000
No. of share post issue	13,06,85,06,000
Listing	NSE and BSE

**Issue Break-up (%)**

QIB Portion	50
NIB Portion	15
Retail Portion	35

**Book Running Lead Managers**

DAM Capital Advisor Ltd  
HSBC Securities and Capital Markets  
ICICI Securities Ltd  
SBI Capital Markets Ltd

**Registrar**

Kfin Technologies Private Limited

**Shareholding Pattern**

	Pre-Issue	Post-Issue
Promoters	100%	86.4%
Public & Others	-	13.6%

**Objects of the offer**

1. Augmenting equity capital base to meet future capital requirements
2. General corporate purposes

Indian Railway Finance Corporation (IRFC) was incorporated on 12th December 1986, is a dedicated market borrowing arm of the Indian Railways. The company is promoted by president of India acting through the Ministry of Railways (MoR). Financing the acquisition of Rolling Stock Assets, both powered and unpowered vehicles, (for eg. locomotives, coaches, wagons, trucks, flats, EMU, containers, cranes, trollies), leasing of rail infra assets and Project Assets and lending to other entities under the MoR is the primary business of the company. Over the last three decades, Company has played a significant role in supporting the capacity enhancement of the Indian Railways by financing a proportion of its annual plan.

**Cost plus business model:** Financing of Rolling stock assets and Project Assets is typically for 30 years lease period after which ownership is transferred to MoR. Company enters into lease with MoR which includes value of stock, incremental borrowing cost (COB) and margins. As per standard lease agreement with the MoR, IRFC earns a margin over the COB determined by the MoR. In Rolling stock assets financing, margin is at 40bps over COB and 35 bps over COB in Project assets financing (In FY20). In FY18, margin on the Rolling Stock Assets had reduced to 30bps from 50bps in FY17. NIM of the company was 1.83%, 1.57%, 1.38% in FY18, FY19 and FY20 respectively.

**Strong AUM growth:** Company has registered AUM growth of 31% CAGR over the period of FY18-20. As of H1FY21, AUM of the company stood at Rs 2,780 bn which consist of 55.34% of lease receivables primarily in relation to Rolling Stock Assets, 2.25% of loans to Other PSU Entities, and 42.41% of advances against leasing of Project Assets.

**Low risk business model:** Company's relationship with MoR enables a low risk profile. The expenses incurred with respect to any foreign currency hedging costs and/ or losses (and gains, if any) as well as any hedging costs for interest rate fluctuations are built into COB, which enables IRFC to earn a margin determined in consultation with the MoR. Risks related to damage of physical assets is also passed on to MoR. As of September 30, 2020, IRFC did not have any non-performing asset.

**Diversified funding profile:** Company has diversified funding sources including taxable & tax-free bonds issuances, term loans from banks/financial institutions, ECB's, internal accruals, asset securitization, lease financing, equity infusion from time to time by Government of India. The Company has received the highest credit ratings from CRISIL: CRISIL AAA, ICRA: ICRA AAA, and CARE: CARE AAA. The cost of borrowings was 6.82%, 7.09% and 7.27% in FY18, FY19 and FY20.

**Sound management:** Company is headed by Mr. Amitabh Banerjee (Chairman & MD), who was an employee of the India Railways Accounts Service and has been associated with Konkan Railway Corporation Ltd as well as the Hindustan Paper Corporation Ltd in the capacity of director (finance).

**Valuation and View; Low risk, low return business model**

At upper price band of Rs 26, the issue has been offered at ~1x H1FY21 P/BV (post issue). The issue is attractively priced considering its, Secured AUM growth, Zero NPA status, low borrowing cost (led by strong credit rating of AAA), low cost structure business (Cost/Income ratio ~2%) and strong asset liability management. IRFC is planning to increase its financing portfolio by funding in expanding existing network and future requirements such as funding under high-speed train project and public private partnership (PPP) mode. Hence, we recommend investor to 'Subscribe' for this issue.

**Other Highlights:**

- In Fiscal 2020, IRFC financed Rs 71,392 crore accounting for 48.22% of the actual capital expenditure of the Indian Railways.
- Currently, Company will have Nil tax liability for the next few years as unabsorbed depreciation balance is more than taxable income. Company is exempted from GST and dividend distribution tax (DDT).
- IRFC is a high dividend paying company with dividend payout ratio at 12%/15%/6% and 33% in FY18, FY19, FY20 and H1FY21 respectively.

The details of the Rolling Stock Assets financed by the company and the total Rolling Stock Assets held by the Indian Railways.

Particulars	Rolling Stock Assets held by the Indian Railways (in units)			Rolling Stock Assets financed by the Company (in units)			Percentage of Rolling Stock Assets financed by the Company (%)		
	FY19	FY18	FY17	FY19	FY18	FY17	FY19	FY18	FY17
Locomotive	12,108	11,725	11,422	10,350	9,643	8,998	85.48%	82.24%	78.78%
Passenger coaches	67,573	65,305	64,255	57,370	51,772	47,825	84.90%	79.27%	74.43%
Freight wagons	2,89,185	2,79,308	2,77,992	2,29,815	2,20,746	2,14,456	79.47%	79.03%	77.14%

The information with respect to the value of assets leased:

Period	in cr.
FY18	18,670
FY19	24,055
FY20	33,544
H1FY21	10,816

The cost-plus based Standard Lease Agreement with the MoR has historically provided IRFC with a margin over the weighted average cost of borrowing determined by the MoR in consultation with them at the end of each Fiscal.

The margin on the incremental Rolling Stock Assets leased to the MoR:

Period	Cost to MoR	Weighted Average Cost of incremental Borrowing to the Company for financing 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%

**Key Risk:**

- IRFC is the market borrowing arm of the Indian Railways. The vast majority of revenue is generated from leasing of Rolling Stock Assets to the Indian Railways. Lease income, interest on loans and pre commencement lease interest income together represented 99.75% and 99.87% of total revenue from operations in FY20 and H1FY21. Company's business is substantially dependent on the policies of the MoR and operations of the Indian Railways. A loss of or reduction in business from the Indian Railways, any direct borrowing by the Indian Railways or introduction of any new avenues of funding by the MoR could have an adverse effect on the business of the company.
- The margins is determined by the MoR in consultation with IRFC at the end of each fiscal year. There can be no assurance that the margin determined will be favorable for IRFC. Any adverse determination of the margin will also impact the profitability and results of operation including leverage capacity.
- Any change in the terms of the Standard Lease Agreement entered into with the MoR may have an adverse effect on the business, financial position and result of operations.

## Financial Performance

in Cr.	FY18	FY19	FY20	H1FY21*
<b>P&amp;L</b>				
Interest Income	989	1,723	2,748	1,717
Lease Income	8,218	9,264	10,672	5,666
Total Income (in. other income)	9,208	10,987	13,421	7,385
Finance cost	6,638	8,183	10,163	5,441
Other Expenses	38	49	66	57
Total Expenses	6,676	8,232	10,229	5,498
PAT	2,001	2,140	3,192	1,887
<b>Balance Sheet</b>				
Net Worth	20,324	24,866	30,300	31,687
Borrowings (in. Debt securities)	1,34,006	1,73,933	2,34,377	2,45,349
Total Assets	1,61,451	2,06,438	2,75,504	2,91,987
AUM	1,54,535	2,00,937	2,66,137	2,78,008
AUM Growth (%)	25%	30%	32%	25%
<b>Ratios</b>				
RoAA (%)	1.4	1.2	1.3	1.3
RoAE (%)	12.3	9.5	11.6	12.2
NIM (%)	1.8	1.6	1.4	1.4
Cost of Borrowings (%)	6.8	7.1	7.3	7.1
Cost to Income Ratio (%)	1.5	0.8	2.0	2.9
CAR (%)	320.6	347.1	395.4	433.9
GNPA/NNPA	-	-	-	-
<b>Valuation</b>				
EPS (Rs)	3.1	3.3	3.4	3.2
Book Value per Share (Rs)	31.1	26.5	25.5	26.7
P/E	8.5	8.0	7.6	8.2
P/BV	0.8	1.0	1.0	1.0

\*H1FY21 ratios are on annualized basis

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