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INDIAN RAILWAY FINANCE CORPORATION LIMITED

IPO Note

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Analyst:

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IPO details

Key Data	
Issue Opens	18-Jan-21
Issue Closes	20-Jan-21
Equity Shares Offered (in mn.)	1,782.07
QIB	Up to 50%
NIB	Min 15%
Retail	Min 35%
Face Value (Rs)	10
Price Band (Rs)	25-26
Max. Issue Size (Rs mn)	46,334
Lot Size (Eq. Shares)	575 and multiple thereof
Market Cap (mn)	3,39,781
P/E	7.6

	Pre Issue		Post Issue^	
	# mn Shares	% Holding	# mn Shares	% Holding
Promoters	11,880.5	100.0%	11,286.4	86.4%
Public	0.0	0.0%	0.0	0.0%
Others	0.0	0.0%	0.0	0.0%
Offer for sale		0.0%	594.0	4.5%
Fresh Issue		0.0%	1,188.0	9.1%
Total	11,880.5	100.0%	13,068.5	100.0%

Object of the issue

- To augment the company's equity capital base to meet future growth requirements
- To meet general corporate purposes

Recommendation

IRFC has an monopoly in its segment of finance. The extensive expansion plans of the Indian Railways in the future will involve significant financing, and IRFC being the only player will benefit from it greatly. It has show a revenue growth of 20% CAGR over 5 years and zero risk of NPAs. With EPS at Rs 3.4 for FY 20, the stock is available at a P/E of 7.6x which is at a discount from its NBFC peers which has an avg P/E of 17. Hence, **we recommend to Subscribe over the issue for long term perspective.**

Source: Red Herring Prospectus, Dealmoney research

Company Profile

- Indian Railway Finance Corporation (IRFC) is a dedicated market borrowing arm of the Indian Railways. Incorporated in 1986, the Indian Railway Finance Corporation (IRFC) is a public-sector enterprise that is wholly-owned by the Government of India. IRFC is primarily engaged in financing the acquisition of rolling stock assets, leasing of railway infrastructure assets, and lending to entities under the Ministry of Railways (MoR). Being the borrowing arm of Indian Railways, IRFC is responsible to raise funds for MoR that is required to procure rolling stock assets (wagons, trucks, electric multiple units, locomotives, coaches), its improvement, expansion, and assets management.
- The MoR is responsible for the procurement of Rolling Stock Assets and for the improvement, expansion and maintenance of Project Assets. IRFC is responsible for raising the finance necessary for such activities. Over the last three decades, it has played a significant role in supporting the capacity enhancement of the Indian Railways by financing a proportion of its annual plan outlay. The Union Budget proposed a capital expenditure of Rs1,602 billion for the Indian Railways for Fiscal 2020, which was higher than the capital expenditure (revised estimate) of Rs1,388.58 billion in Fiscal 2019.
- IRFC follows a financial leasing model for financing the Rolling Stock Assets. The period of lease with respect to Rolling Stock Assets is typically 30 years comprising a primary period of 15 years folloItd by a secondary period of 15 years, unless otherwise revised by mutual consent.
- Our total revenue from operations increased by 15.65% from Rs 80,133.58 million in Fiscal 2017 to Rs 92,671.44 million in Fiscal 2018 and by 20.13% to Rs 111,323.21 million in Fiscal 2019, and was Rs 66,572.47 million in the six months ended September 30, 2019. In Fiscals 2017, 2018 and 2019, and the six months ended September 30, 2019, our profit for the period was Rs 9,211.71 million, Rs 20,490.86 million, Rs 22,546.61 million and Rs 17,147.96 million, respectively.

Source: Red Herring Prospectus, Dealmoney research

Company Profile

- IRFCs AUM, which represents sum of total lease receivables, loans to Other PSU Entities, and advances against leasing of Project Assets, have grown by 24.73% from Rs 1,238,980.07 million in Fiscal 2017 to Rs 1,545,346.66 million in Fiscal 2018 and by 30.03% to Rs 2,009,373.33 million in Fiscal 2019, and was Rs 2,219,102.49 million in the six months ended September 30, 2019.
- Disbursements to the MoR increased by 33.59% from Rs 274,879.71 million in Fiscal 2017 to Rs 367,222.54 million in Fiscal 2018 and by 43.06% to Rs 525,351.84 million in Fiscal 2019, and was Rs 245,343.25 million in the six months ended September 30, 2019. Our capital adequacy ratio as of March 31, 2019 and September 30, 2019 was 259.46% and 303.78%, respectively. As of September 30, 2019, It did not have any non-performing assets.
- It maintains the highest possible credit ratings for an Indian issuer both for domestic and international borrowings. It have received the highest credit ratings from CRISIL – CRISIL AAA and CRISIL A1+, ICRA – ICRA AAA and ICRA A1+, and CARE – CARE AAA and CARE A1+. It have also been accorded with Baa2 (Negative) rating by Moody's, BBB- (Stable) rating by Standard and Poor's, BBB- (Stable) rating by Fitch and BBB+ (Stable) rating by Japanese Credit Rating Agency that are on par with India's sovereign ratings.

Source: Red Herring Prospectus, Dealmoney research

Strengths

- **Strategic role in financing growth of Indian Railways:** IRFC was incorporated as the dedicated market borrowing arm for the Indian Railways and have played a strategic role in financing the operations of the Indian Railways. In Fiscal 2019, it financed Rs 525.35 billion accounting for 39.38% of the actual capital expenditure of the Indian Railways. In Fiscals 2017, 2018 and 2019, and in the six months ended September 30, 2019, it financed Rolling Stock Assets worth Rs 142,808.41 million, Rs 186,698.64 million, Rs 240,550.84 million and Rs 146,517.25 million, respectively. In addition to financing of Rolling Stock Assets, it also financed Project Assets aggregating to Rs 223,554.00 million and Rs 92,516.00 million in Fiscal 2019 and the six months ended September 30, 2019, respectively. The extensive expansion plans of the Indian Railways in the future will involve significant financing, and It believe that its operations, as a primary financing source for the Indian Railways, will increase significantly.
- **Competitive cost of borrowings based on strong credit ratings in India and diversified sources of funding**: It meets its funding requirements through various sources. It fund acquisitions of Rolling Stock Assets and Project Assets through market borrowings of various maturities and currencies. Its ability to source external commercial borrowings in the form of syndicated foreign currency term loans, issuance of bonds/ notes in offshore markets at competitive rates supplement the funds available to it from domestic sources.
- **Consistent financial performance and cost plus model**: It has demonstrated consistent growth in terms of funding and profitability. Its total revenue from operations increased by 15.65% from Rs80,133.58 million in Fiscal 2017 to Rs92,671.44 million in Fiscal 2018 and by 20.13% to Rs111,323.21 million in Fiscal 2019, and was Rs66,572.47 million in the six months ended September 30, 2019. Its cost-plus based Standard Lease Agreement with the MoR has historically provided it with a margin over the Itighted average cost of borrowing determined by the MoR in consultation with it at the end of each Fiscal.

Source: Red Herring Prospectus, Dealmoney research

Strengths

- **Low risk business model**: Its relationship with the MoR enables it to maintain a low risk profile. Typically, the expenses incurred by it with respect to any foreign currency hedging costs and/ or losses (and gains, if any) as Itll as any hedging costs for interest rate fluctuations are built into the Itighted average cost of borrowing. This enables it to earn a margin, as determined by the MoR in consultation with us at the end of each Fiscal, over the life of the lease. Risks relating to damage to Rolling Stock Assets as a result of natural calamities and accidents are also passed on to the MoR. Further, the MoR is required to indemnify IRFC at all times from and against any loss or seizure of the Rolling Stock Assets under distress, execution or other legal process.
- **Strong asset-liability management**: In addition to traditional cash flow management techniques, it manages its cash flows through an active asset and liability management strategy. Its asset-liability management model is structured in a manner which ensures that it have minimum asset-liability mismatches.
- **Experienced senior management and committed team**: The industry knowledge and experience of its senior management has enabled it to develop and implement a consistent business plan and streamlined operational procedures, and alloItd it to maintain consistent business growth over the years. In particular, members of its senior management team have extensive experience in the finance industry.

Source: Red Herring Prospectus, Dealmoney research

Future road ahead

- **Diversification of borrowing portfolio**: It have historically issued, through public issues of tax-free bonds and private placements of tax-free and taxable bonds with innovative structures, securitized receivables from the MoR and availed external commercial borrowings including syndicated loans, bonds and notes. It continue to diversify its borrowing portfolio through a range of financing instruments and identifying new markets and investors, including through issuance of ‘green bonds’ and ‘medium term notes’. For instance, in March 2019, It set up its first US $ 2 billion Euro Medium Term Note (“EMTN”) Programme and issued US $ 500 million Notes due in March 2024 under this EMTN Programme. In addition, It issued ‘Reg-S Bonds Green Bond 1st Series’ of US $ 500 million in December 2017. Further, It have issued bonds aggregating to Rs15.80 billion out of which a ‘green shoe option’ of Rs7.90 billion has been reserved exclusively for the Bharat Bonds Exchange Traded Fund (“ETF”), which has been set up by the Cabinet Committee on Economic Affairs and the Department of Investment and Public Asset Management.
- **Broaden its financing portfolio**: It intend to leverage its role as a primary financing partner of the MoR to provide financing for various joint venture entities established by the MoR with various State governments and other public sector undertakings for the development of railways infrastructure across India. It also intend to further diversify its lending portfolio by addressing the various financing requirements of the entities under the MoR, including by extending guarantees to entities under the MoR and providing short term borrowings. IRFC believes that this will enable it to more effectively address the funding requirements of the Indian Railways and ensure financing for focused implementation and monitoring of railways projects.
- **Continued focus on asset-liability management**: In order to manage its liquidity risk and interest rate risk, it intends to continue to undertake periodic analysis of profiles of its assets, liabilities, receipts and debt service obligations. As part of its measures to improve its asset-liability management, it takes into account interest rate forecasts and spreads, internal cost of funds, operating results, projected funding needs of the MoR, projected loan disbursements, its current liquidity position and funding strategies.

Source: Red Herring Prospectus, Dealmoney research

Future road ahead

- **Provide advisory and consultancy services and venture into syndication activities**: It intend to leverage its significant and diversified experience in fundraising and financing activities for the Indian Railways to provide financial structuring advisory and consultancy services. It intend to assist other Indian Railways entities with their funding requirements, providing strategic advice on, long-term access to capital, acquisition finance and equity capital. It further intend to leverage its significant industry experience as an NBFC and an infrastructure finance company to provide customized financing solutions for other railway entities.

Source: Red Herring Prospectus, Dealmoney research

Summary Financials

Particulars	FY18	FY19	FY20	H1FY21
Revenue from Operations	92,078.0	1,09,874.0	1,34,211.0	73,848.0
Revenue Growth (%)	-	19.3%	22.1%	12.3%
Net Profit	20,015.0	21,399.0	1,921.0	18,868.0
EPS	3.1	3.3	3.4	1.6
AUM	15,45,346.0	20,09,373.0	26,61,369.0	27,80,076.0
AUM Growth (%)	24.7%	30.0%	32.5%	25.3%
Disbursements	3,67,223.0	5,25,352.0	7,13,921.0	1,90,164.0
Disbursement Growth (%)	33.6%	43.1%	35.9%	-22.5%
Adjusted Interest Income	1,07,287.6	1,36,971.5	1,80,635.6	1,04,485.4
Adjusted Finance Costs	81,749.6	1,09,155.7	1,48,390.3	85,156.3
Cost to income ratio	1.5%	0.8%	2.0%	2.9%
GNPA/NNPA	Nil	Nil	Nil	Nil
Capital Adequacy Ratio	320.6%	347.1%	395.4%	433.9%
Net worth	2,03,242.0	2,48,662.0	3,02,997.0	3,16,869.0
NAV	31.1	26.5	25.5	26.7
ROE (%)	12.3%	9.5%	11.6%	6.09%
ROA (%)	1.4%	1.2%	1.3%	0.66%
NIM (%)	1.8%	1.6%	1.4%	0.71%
Dividend(%)	0.5%	2.7%	2.1%	5.3%

Source: Red Herring Prospectus, Dealmoney research

Key Risks

- 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 Ministry of Railways, Government of India could have an adverse effect on their business.
- Any slowdown in the growth of Indian Railways will impact their business and results of operations.
- In the event the margin on the Rolling Stock Assets leased to the MoR by the Company is not favourable, it may have an adverse impact on its financial condition and results of operation.
- Mismatch in the tenor of leases and borrowings may lead to reinvestment and liquidity risk.

Source: Red Herring Prospectus, Dealmoney research

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