

Indian Railway Finance Corporation Ltd

Incorporated in 1986, Indian Railway Finance Corporation Limited (IRFC) is a dedicated market borrowing arm of Indian Railways. Their primary business is financing the acquisition of rolling stock assets, which includes both powered and unpowered vehicles, for example locomotives, coaches, wagons, trucks, flats, electric multiple units, containers, cranes, trollies of all kinds and other items of rolling stock components, leasing of railway infrastructure assets and national projects of the Government of India (GoI) and lending to other entities under the Ministry of Railways, GoI.

Positives: (a) Strategic role in financing growth of Indian Railways (b) Competitive cost of borrowings based on strong credit ratings in India and diversified sources of funding (c) Consistent financial performance and cost plus model (d) Low risk business model along with strong asset-liability management.

Investment concerns: (a) Company derives a significant amount of their revenue from operations from 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 Ministry of Railways, Government of India could have an adverse effect on their business. (b) Their business is dependent on the continued growth of the Indian railway sector, making them susceptible to the GoI initiatives to modernize the railways and other policies. (c) Disruption in their funding sources or any inability to raise funds at a low cost.

Outlook & Valuation: IRFC has posted strong growth in operating income of 20.7% CAGR between FY18-20 while net profits have grown at a CAGR of 26.3% during the same period. Company is unlikely to face any asset quality issues given the fact that the company caters to the Government of India. At the higher end of the price band the stock would be trading at P/BV of 1.0x fully diluted post issue book value of ₹26.6 per share. We expect the company to post strong growth driven by capex by Indian railways along with stable margins due to cost plus model. Given the growth prospects, **we recommend a SUBSCRIBE rating on the issue.**

Key Financials

Y/E March (₹ Cr)	2018	2019	2020
Operating Income	9,206	10,987	13,420
% chg	-	9%	16%
Net Profit	2,001	2,140	3,192
% chg	-	7%	49%
NIM (%)	1.7%	1.6%	1.4%
EPS (₹)	3.1	2.3	2.7
P/E (x)	8.5	11.4	9.7
P/BV (x)	0.8	1.0	1.0
RoA (%)	1.2%	1.2%	1.3%
RoE (%)	9.8%	9.5%	11.6%

Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

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Issue Open: January 18, 2021

Issue Close: January 20, 2021

Issue Details

Face Value: ₹ 10

Present Eq. Paid up Capital: ₹ 11,880cr

Offer for Sale: 59.4 cr share

Fresh issue: 118.8 cr share

Post Eq. Paid up Capital: ₹ 13,069 cr

Issue size (amount): *₹4,455cr - **₹4,633cr

Price Band: ₹ 25-26

Lot Size: 575 shares and in multiple thereafter

Post-issue implied mkt. cap: * ₹ 32,671cr - **₹ 33,978cr

Promoters holding Pre-Issue: 100%

Promoters holding Post-Issue: 86.4%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

Post Issue Shareholding Pattern

Promoters	86.4%
Others	13.6%

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Company background

Indian Railway Finance Corporation Limited is a dedicated market borrowing arm of Indian Railways founded on 12th December 1986 as a public limited company. Company received a certificate of commencement of business from the RoC on 23rd December 1986. RBI on November 22, 2010 classified the company as NBFC-ND-Infrastructure Finance Corporation.

The company is primarily engaged in the business of financing acquisition of rolling stock assets, leasing of project assets loans and lending to other entities under administrative control of Ministry of Railways.

The MoR is responsible for the procurement of rolling stock assets and for the improvement, expansion and maintenance of project assets. The company is responsible for raising the finance necessary for such activities.

Issue details

IPO is a mix of offer for sale & issue of fresh equity shares. 118.8 crore new shares would be issued and 59.4 crore shares will be sold by promoter in the offer for sale in the price band of ₹ 25-26.

Pre and post IPO shareholding pattern

	No of shares (Pre-issue)	%	No of shares (Post-issue)	%
Promoter	11,880,460,000	100	11,286,437,000	86.4
Public	-	-	1,782,069,000	13.6
Total	11,880,460,000	100	13,068,506,000	100

Source: Source: RHP, Note: Calculated on upper price band

Objectives of the Offer

- Augmenting company equity capital base to meet their future capital requirements arising out of growth in their business
- General corporate purposes, subject to the applicable laws.

Key Management Personnel:

Amitabh Banerjee is the Chairman and Managing Director of the company. He holds a bachelor's degree honours) in commerce from the Shri Ram College of Commerce, University of Delhi and a master's degree in commerce from University of Delhi and is also a fellow member of the Institute of Cost Accountants of India. He is an officer of the Indian Railways Accounts Service (1988 batch). Prior to his current position, he was associated with Konkan Railway Corporation Limited as well as the Hindustan Paper Corporation Limited in the capacity of director (finance).

Shelly Verma is the Director (Finance) and Chief Financial Officer of the company. She holds a bachelor's degree in commerce from the University of Delhi and is also a fellow member of the Institute of Chartered Accountants of India. She has more than 30 years of experience in power sector financing. Prior to her appointment to the Board, she has served in various capacities, including, most recently, as an executive director with Power Finance Corporation Limited.

Income Statement

Y/E March (₹ Cr)	FY18	FY19	FY20	H1FY20	H1FY21
Operating Income	9,206	10,987	13,420	6,575	7,383
Interest Expended	6,638	8,183	10,163	4,937	5,441
Net Operating Income	2,569	2,804	3,258	1,637	1,942
- YoY Growth (%)		9%	16%	-	19%
Other Income	1.4	0.5	0.7	2.7	1.9
- YoY Growth (%)		-62%	29%	-	-28%
Total Income	2,570	2,804	3,258	1,640	1,944
- YoY Growth (%)		9%	16%	-	19%
Operating Expenses	38	21	64	9	57
- YoY Growth (%)		-44%	200%	-	521%
Pre - Provision Profit	2,532	2,783	3,194	1,631	1,887
- YoY Growth (%)		10%	15%	-	16%
Prov. & Cont.	-	28	2	-	-
- YoY Growth (%)		-	-92%	-	-
Profit Before Tax	2,532	2,755	3,192	1,631	1,887
- YoY Growth (%)		9%	16%	-	16%
Prov. for Taxation	530	615	-	-	-
- as a % of PBT		16%	-100%	-	-
PAT	2,001	2,140	3,192	1,631	1,887
- YoY Growth (%)		7%	49%	-	16%

Source: Company, Angel Research

Balance Sheet

Y/E March (₹ Cr)	FY18	FY19	FY20	H1FY20	H1FY21
Equity	6,526	9,380	11,880	9,380	11,880
Reserve & Surplus	13,798	15,486	18,419	16,865	19,807
Networth	20,324	24,866	30,300	26,245	31,687
Debt Securities	110,844	123,598	155,290	135,190	161,259
- Growth (%)		12%	26%	-	19%
Borrowings	23,161	50,335	79,086	49,442	84,091
Other Liab. & Prov.	7,121	7,639	10,828	27,401	14,950
Total Liabilities	161,451	206,438	275,504	238,278	291,987
Cash Balances	1	4	1	1	2
Bank Balances	99	77	99	9,618	94
Investments	14	13	12	12	11
Lease Receivables	149,297	195,018	259,688	216,238	271,739
- Growth (%)		31%	33%	-	26%
Advances	5,238	5,895	6,423	5,650	6,243
- Growth (%)		13%	9%	-	11%
Fixed Assets	11	11	11	11	11
Other Assets	6,791	5,419	9,270	6,749	13,886
Total Assets	161,451	206,438	275,504	238,278	291,987
- Growth (%)		28%	33%	-	23%

Source: Company, Angel Research

Key Ratios

Y/E March	FY18	FY19	FY20
Profitability ratios (%)			
NIMs	1.7%	1.6%	1.4%
Cost to Income Ratio	1.5%	0.8%	2.0%
RoA	1.2%	1.2%	1.3%
RoE	9.8%	9.5%	11.6%
B/S ratios (%)			
Debt/Equity	6.6	7.0	7.7
Financial Leverage	7.9	8.3	9.1
CAR	320.6%	347.1%	395.4%
Tier I	320.6%	347.1%	395.4%
Asset Quality (%)			
Gross NPAs	-	-	-
Net NPAs	-	-	-
Per Share Data (Rs)			
EPS	3.1	2.3	2.7
BVPS	31.1	26.5	25.5
DPS	0.36	0.48	0.21
Valuation Ratios			
PER (x)	8.5	11.4	9.7
P/BVPS (x)	0.8	1.0	1.0

Source: Company, Angel Research (Valuation at the upper price band)

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