

# IRFC

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## Low risk Business profile

### Summary

IRFC (registered as NBFC) is wholly owned by GOI and administered through the Ministry of Railways (MoR). IRFC is a market borrowing arm of Indian railways and is primarily in the business of leasing operation and financing of project assets. In FY20, AUM of IRFC grew by 32.4% YoY and disbursement by 35.9% YoY. IRFC saw a strong growth during FY20, NII grew at 16.2% vs 9.2% in FY19, PPOp by 14.8% vs 9.9% in FY19, PAT saw a strong growth of 49.2% vs 6.9% in FY19 as it is not required to pay MAT tax. As a borrowing arm, IRFC financed 48.2% of Capex of Indian railways through various sources of funding from market. At upper price band, IPO is priced at a P/E of 7.6x and P/BV of 1.0x based on FY20 with ROA of 1.3%. As backed by GOI with nil asset quality and strong CAR at 434% and ROA of 1%+, we recommend subscribing the issue.

### Key Investment Rationale

- **Financing arm of Indian railways-** As dedicated borrowing arm of MOR. It plays a key role to finance its operations. Its main focus is to finance rolling stock assets (47% of total capex) and Project assets (47.5% of total capex). IRFC had financed till now Rs1.79tn to Indian railways (from 1<sup>st</sup> April 2017 to 30<sup>th</sup> Sept. 2020). Its financing targets depend on annually capital outlay in union budget by MOR. As expansion plans of MOR increase its financing will also increase in future.
- **Diversified sources of funding with cost plus model-** IRFC focus is long term debt (97%) for financing with varied sources of funding such as ECB, bonds and rupee term loans. IRFC also enter into agreement with LIC to avail Rs 1,500bn over a period of five years (starting from FY2016) with 30 years of tenor (Under MoU). Its cost-plus based Standard Lease Agreement with the MoR has led it to earn margin over the weighted average cost of borrowing determined by the MoR. In FY20, IRFC is enabled to a margin of 40 bps over the weighted average cost of borrowing for financing Rolling Stock Assets and a margin of 35 bps over the weighted average cost of borrowing for financing Project Assets. Overall the Cost of Borrowings stood at 7.27% in FY20. IRFC follows the cost-plus pricing model for their financing to Other PSU Entities Such financing activity has allowed it to maintain a NIM of 1.38% in FY20.
- **Lower liquidity risk and business profile-** As backed by MoR its enjoy low risk as expenses related to hedging cost and hedging for interest rate fluctuation is included in WACC (determined by MoR). Apart from this loss due to natural calamities, accidents are passed through to MoR and they also have to indemnify IRFC against any loss or seizure of the Rolling Stock Assets under distress, execution or other legal process. Its liquidity risk is also reduced 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.

Issuer	Indian Railway Finance Corporation Limited.
Transaction Type	Fresh issue of 1,188.05mn equity shares and OFS of 594.02mn equity share (face value of Rs10 each)
Issue Open / Close	Jan 18 <sup>th</sup> 2021 / Jan 20 <sup>th</sup> 2021
Type of Offering	Fresh issue and offer for sale
Total Offer Size	Rs 44,552-46,334mn
Price Band	Rs. 25-26
Total Offer Size as % of Post Issue Capital	13.6%
Percentage of Offer Size (Allocation)	<ul style="list-style-type: none"> <li>QIB: 50%</li> <li>NIB: 15%</li> <li>Retail: 35%</li> </ul>

### Share holding pattern

	Pre-Issue	Post-Issue
Promoter	100.0	86.4
Public	0.0	13.6
<b>Total</b>	<b>100%</b>	<b>100%</b>

### Financial Snapshot

	FY17	FY18	FY19	FY20	H1FY21
NII	21,395	25,694	28,043	32,584	19,421
PAT	9,212	20,015	21,399	31,921	18,868
EPS	1.4	3.1	3.3	3.4	3.2
BV	18.6	31.1	26.5	25.5	26.7
P/E	18.6	8.4	7.9	7.6	8.2
P/BV	1.4	0.8	1.0	1.0	1.0
NIM	1.9	1.8	1.6	1.4	1.4
ROA	0.8	1.4	1.2	1.3	1.3
CRAR	380.6	321.0	347.0	395.0	434.0

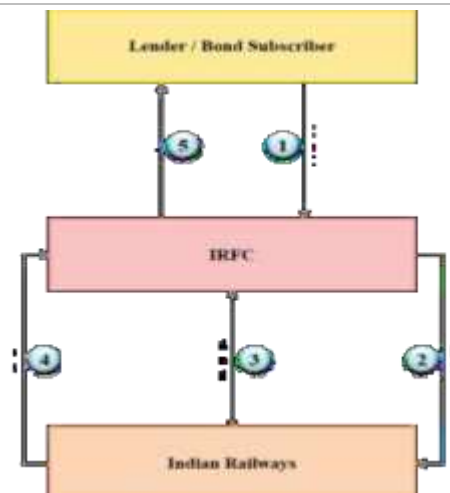
## Company Background

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Indian Railway Finance Corporation Limited (IRFC) is registered as NBFC and wholly owned by the Government of India (GOI) and incorporated on 12th December 1986. IRFC is the market borrowing arm of the Indian Railways and primarily in business of 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 as enumerated in the Standard Lease Agreement (collectively, “Rolling Stock Assets”), leasing of railway infrastructure assets and national projects of the GOI (collectively, “Project Assets”) and lending to other entities under the Ministry of Railways, GOI. Ministry of Railways is responsible for the procurement of Rolling Stock Assets and for the improvement, expansion and maintenance of Project Assets while IRFC is responsible for raising the finance necessary for such activities.

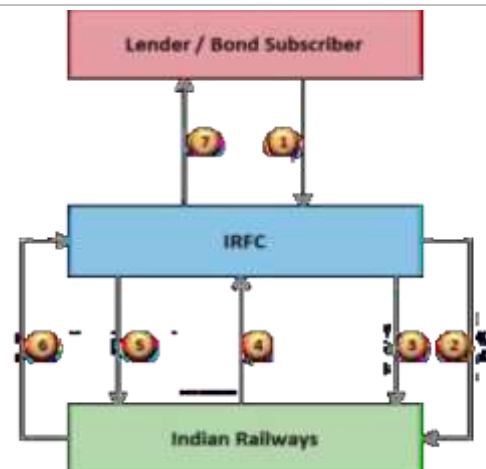
### IRFC has two Business models -

- **Leasing Operation-** Under this IRFC follow a financial leasing model for financing the Rolling Stock Assets. The period of lease with respect to Rolling Stock Assets is typically 30 years comprises a primary period of 15 years followed by a secondary period of 15 years, unless otherwise revised by mutual consent. IRFC also follow a leasing model for Project Assets with lease periods of 15 to 30 years depending on the mode of raising funds for such leasing. However; for all Rolling Stock Assets acquired during a financial year by Indian Railways IRFC enter into a lease agreement with the MoR following the close of each respective Fiscal (the “Standard Lease Agreement”).

**Exhibit 1: Leasing Operations Process**


Source: RHP; IDBI Capital Research

- **Financing of Project assets-** Under this, IRFC acquire leasehold interest in the project asset under a lease agreement and MoR is required to pay lease rentals.

**Exhibit 2: Financing of project assets Process**


Source: RHP; IDBI Capital Research

### Risks and Concerns

- Significant revenue portion comes 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 MoR could have an adverse effect on business.
- Business mainly dependent on continued growth of the Indian railways and any slowdown in the growth would impact business and operations of IRFC.
- IRFC ability to operate efficiently is dependent on ability to maintain diverse sources of funds at a low cost. Any disruption in funding sources or any inability to raise funds at a low cost could have a material adverse effect on their business, financial condition and results of operations.
- Mismatch in the tenor of leases and borrowings may lead to reinvestment and liquidity risk, and also any change in standard lease agreement with MoR, may have an adverse impact on their financial condition and results of operations.
- The Standard Lease Agreement is executed after the end of the Fiscal to which it relates and there can be no assurance that the agreement will be executed each year.
- Non-availability of funding from the Life Insurance Corporation of India matching the requirement of funds by Indian Railways for railway projects under EBR-IF may affect the asset-liability position of the Company.
- IRFC risk management measures may not be fully effective in mitigating the risks in all market environments or against all types of risks, which may adversely affect business and financial performance.

**Exhibit 3: Details of Shareholding Pattern:**

Entity	Pre-Issue Shareholding		Post-Issue Shareholding	
	Number of Shares held	Shareholding (%)	Number of Shares held	Shareholding (%)
President of India	11,88,04,60,000	100.0	11,28,64,37,000	86.4
Others	0.0	0.0	1,78,20,69,000	13.6
<b>Total</b>	<b>11,88,04,60,000</b>	<b>100.0</b>	<b>13,06,85,06,000</b>	<b>100.0</b>

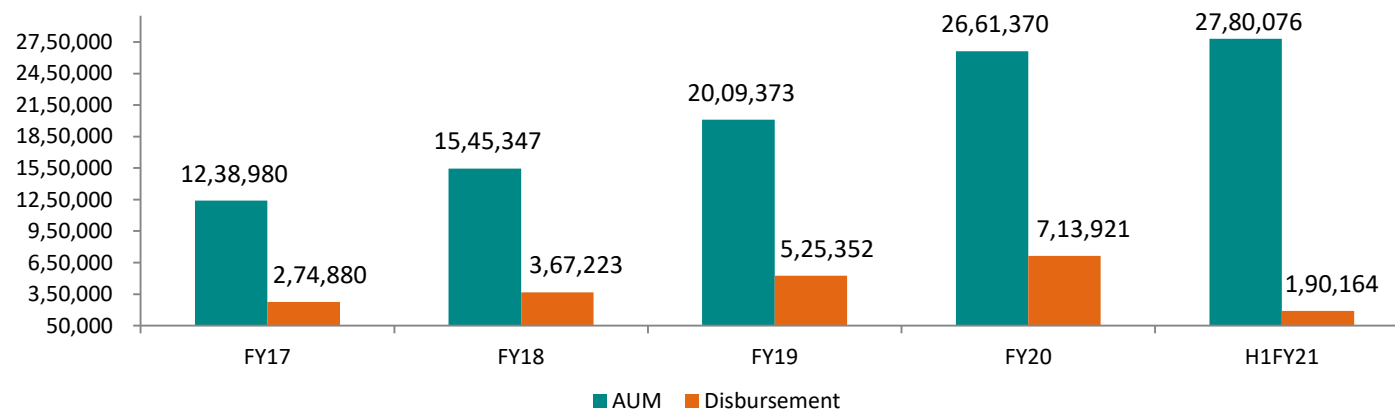
Source: Company; IDBI Capital Research

**Exhibit 4: Break-up of Revenue (%)**

	FY17	FY18	FY19	FY20	Q1FY21
<b>Total Revenue from operations (Rs Mn)</b>	<b>80,138</b>	<b>92,078</b>	<b>109,874</b>	<b>134,211</b>	<b>73,848</b>
<b>(%)</b>					
Interest on loans	3.1	2.5	4.8	4.1	3.9
Interest income from deposits	0.5	0.2	0.2	0.2	0.1
Interest income from investments	0.0	0.0	0.0	0.0	0.0
Pre commencement lease - Interest Income	2.8	8.0	10.7	16.1	19.2
Interest income on application money	0.0	0.0	0.0	0.0	0.0
Lease income	93.6	89.2	84.3	79.5	76.7
Other Income	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

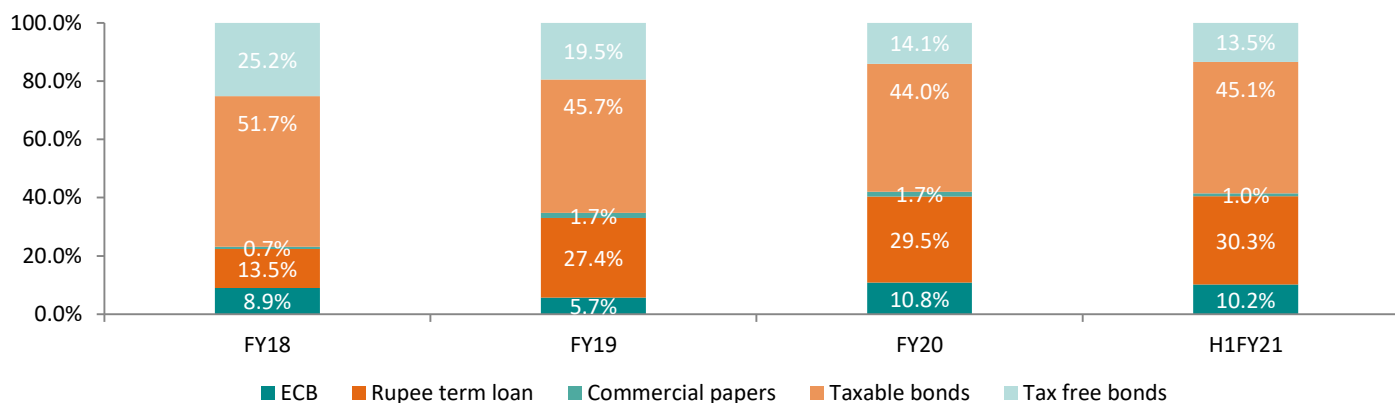
Source: Company; IDBI Capital Research

**Exhibit 5: AUM grew at CAGR of 29% (FY17-FY20) and Disbursement at CAGR of 38% (FY17-FY20).**

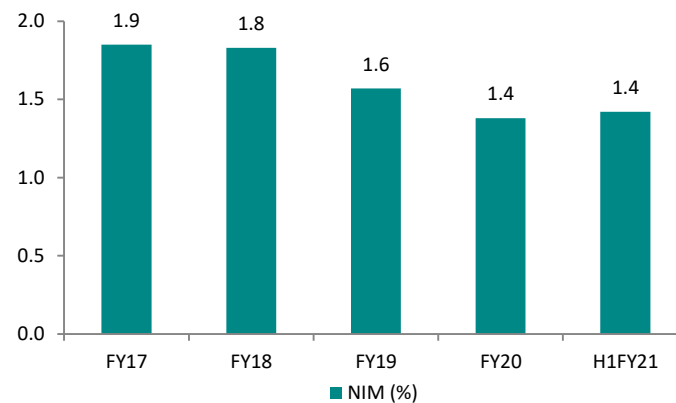


Source: Company; IDBI Capital Research

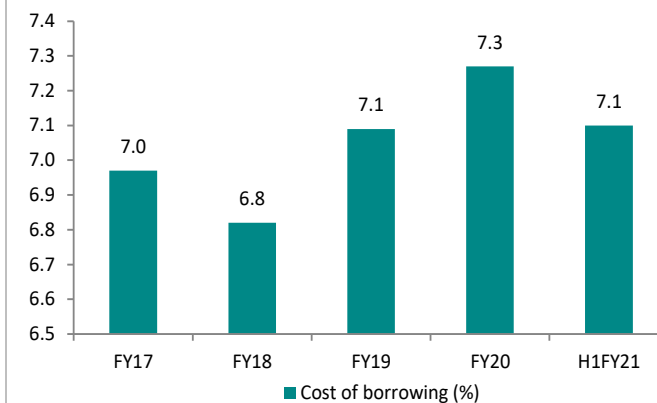
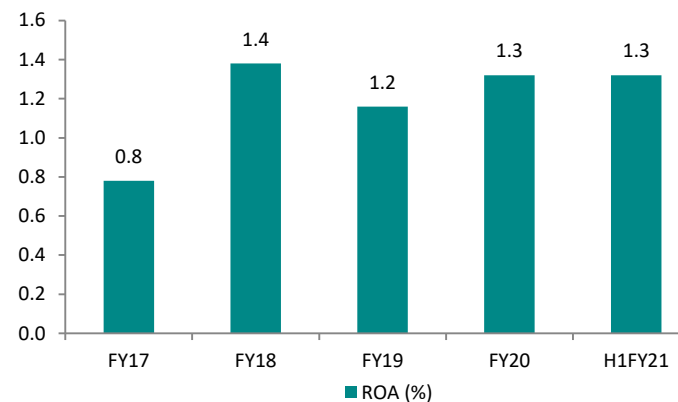
**Exhibit 6: 75% of sourcing of funds through Rupee term loans and taxable bonds.**



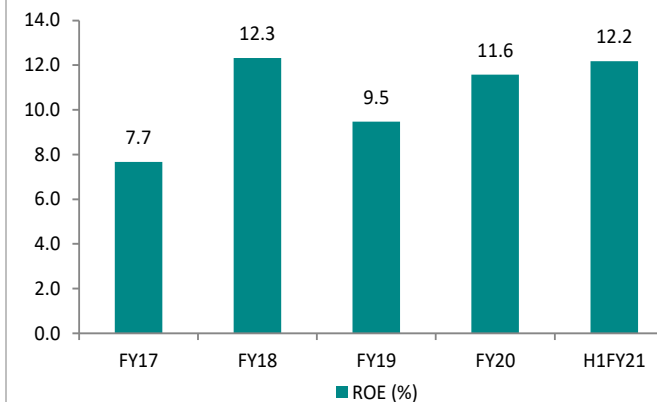
Source: Company; IDBI Capital Research

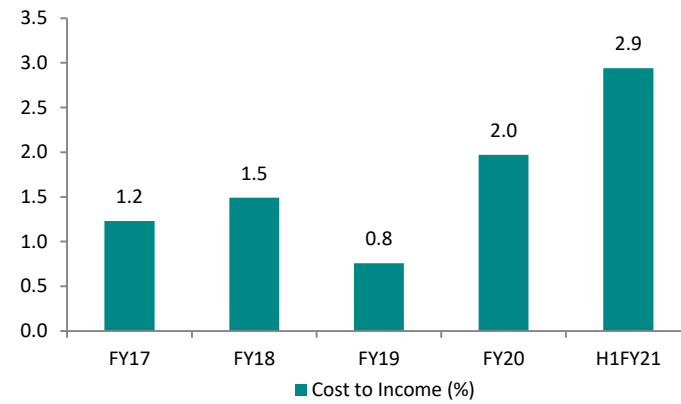
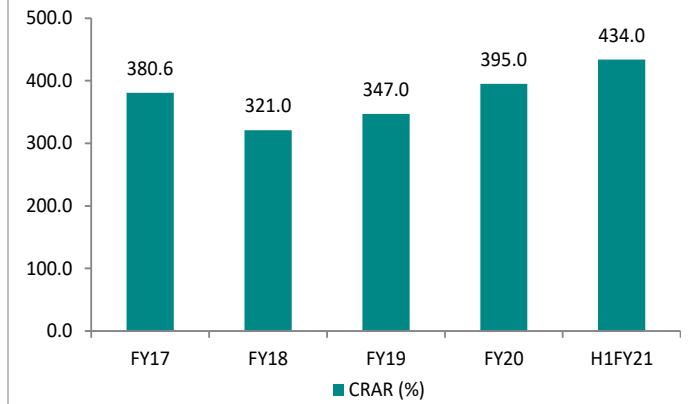
**Exhibit 7: NIM stable at 1.4% in H1FY21.**


Source: RHP; IDBI Capital Research; Note- H1FY21 figure is annualized.

**Exhibit 8: Cost of Borrowing is in range of 6.8%- 7.3%.**

**Exhibit 9: Stable ROA growth at 1.3%.**


Source: RHP; IDBI Capital Research; Note- H1FY21 figure is annualized.

**Exhibit 10: ROE continues to grow YoY basis.**


**Exhibit 11: Cost to Income higher in H1FY21.**

**Exhibit 12: Sufficient adequate capital at 434%.**


Source: RHP; IDBI Capital Research



**Exhibit 13: Key Management profile**

Name	Designation	Profile
Amitabh Banerjee	Chairman and M.D.	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 ICAI. Prior to his current position, he was associated with Konkan Railway Corporation Limited as well as the Hindustan Paper Corporation Limited as Director (Finance). He also has been associated with Delhi Metro Rail Corporation Limited in the capacity of General Manager. He has prior experience in the fields of finance, accounts, and general administration.
Shelly Verma	Director (Finance) and Chief Financial Officer	She holds a bachelor's degree in commerce from the University of Delhi and is also a fellow member of the ICAI. She has more than 30 years of experience in power sector financing. Prior to her appointment, she has served in various capacities, including, most recently, as an executive director with Power Finance Corporation Limited.
Baldeo Purushartha	Part-time Government Director	He is an IAS officer and a Joint Secretary at the Department of Economic Affairs, Ministry of Finance, GoI. He holds a bachelor's degree and a master's degree in history, from the University of Delhi. He is on the board of several institutions, including the India Infrastructure Finance Company Limited, ONGC Videsh Limited, Indian Railway Stations Development Corporation Limited and Asian Infrastructure Investment Bank. In the past, he has discharged several governmental roles also been the recipient of several awards and accolades, national and international.
Chetan Venugopal	Part-time Non-official Director (Independent Director)	He holds a bachelor's degree in commerce from Bangalore University. He is admitted as a fellow member of the ICAI. He has prior experience in the field of finance, strategy and consulting. He is the co-founder and a director on the board of Pierian Services Private Limited and Pierian Digital Private Limited. He has previously worked with Netkraft Private Limited and was founding partner at Chetan and Gurunath, Chartered Accountants
Ashok Kumar Singhal	Non-official Director (Independent Director)	He is a former head of the Indian Cost Accounts Service. He holds a bachelor's degree in arts and a bachelor's degree in law from Dr. Bhimrao Ambedkar University (formerly, Agra University). He also holds a master's degree in science, with a specialisation in finance from the University of Strathclyde, UK. He is also a qualified chartered accountant, and fellow member of the ICAI. He has prior experience in the fields of finance, management and administration. He has held various positions with the GoI in the past, including as the additional chief advisor (cost) at the Ministry of Finance (department of expenditure), principal adviser (finance) at the Ministry of Defence, adviser (pricing) at the Ministry of Chemicals & Fertilizers, director (finance) at the Ministry of Finance (department of revenue), among several others.
Bhaskar Choradia	Part-time Government Director	He is an officer of the Indian Railway Accounts Service. He holds a bachelor's degree in mechanical engineering from the University of Roorkee. He was appointed as an executive director, Finance (Budget) on the railway board with effect from October 28, 2020. He has prior experience in the railways accounts services in multiple capacities, including the Railway Board (New Delhi), Ministry of Commerce and West Central Railway.

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY17	FY18	FY19	FY20
Interest Income	80,134	92,070	1,09,874	1,34,210
Interest Expenses	58,739	66,376	81,831	1,01,627
<b>Net Interest Income</b>	<b>21,395</b>	<b>25,694</b>	<b>28,043</b>	<b>32,584</b>
Other Income	4	9	0	1
Operating Income	21,399	25,703	28,043	32,584
Other Operating expenses	264	383	215	642
Employee expense	31	55	63	63
Other Operating Expenses	233	328	152	579
<b>Operating Profit</b>	<b>21,135</b>	<b>25,320</b>	<b>27,828</b>	<b>31,942</b>
Provision	0	0	275	21
Profit Before Tax	21,135	25,320	27,553	31,921
Tax	11,923	5,305	6,154	0
<b>Profit After Tax</b>	<b>9,212</b>	<b>20,015</b>	<b>21,399</b>	<b>31,921</b>

### Balance Sheet

(Rs mn)

Year-end: March	FY17	FY18	FY19	FY20
Share capital	65,265	65,265	93,805	118,805
Reserves & surplus	56,335	137,978	154,858	184,193
<b>Total Networth</b>	<b>121,600</b>	<b>203,243</b>	<b>248,663</b>	<b>302,998</b>
Borrowings	1,055,893	1,340,055	1,739,327	2,343,767
Other Liabilities & Provision	110,011	71,212	76,393	108,276
<b>Total equity &amp; liabilities</b>	<b>1,287,504</b>	<b>1,614,510</b>	<b>2,064,383</b>	<b>2,755,041</b>
Cash & Bank Balances	75	998	811	1,008
Investments	146	140	131	115
Loans	1,003,702	1,147,096	1,309,220	1,550,032
Fixed Assets	115	113	113	110
Other Assets	283,466	466,163	754,109	1,203,776
<b>Total Assets</b>	<b>1,287,504</b>	<b>1,614,510</b>	<b>2,064,383</b>	<b>2,755,041</b>

### Growth

(%)

Year-end: March	FY17	FY18	FY19	FY20
<b>Growth</b>				
Borrowing	0.0	26.9	29.8	34.8
Advances	0.0	14.3	14.1	18.4
NII	0.0	20.1	9.1	16.2
Pre-Provision Profit	0.0	19.8	9.9	14.8
Net Profit	0.0	117.3	6.9	49.2
<b>Spreads</b>				
Yield on Assets	8.0	8.6	8.9	9.4
Cost of Funds	7.0	6.8	7.1	7.3
NIM	1.9	1.8	1.6	1.4
<b>Operating Efeciency</b>				
Cost-to-Income	1.2	1.5	0.8	2.0
Cost-to-Assets	0.0	0.0	0.0	0.0
<b>Asset Quality</b>				
GNPA	0.0	0.0	0.0	0.0
NNPA	0.0	0.0	0.0	0.0
Provision Coverage	0.0	0.0	0.0	0.0
Credit Cost	0.0	0.0	0.0	0.0
<b>Capital Adequacy</b>				
CAR	380.6	321.0	347.0	395.0
Tier I	380.6	321.0	347.0	395.0
<b>Valuation</b>				
EPS	1.4	3.1	3.3	3.4
BV	18.6	31.1	26.5	25.5
P/E	18.6	8.4	7.9	7.6
P/BV	1.4	0.8	1.0	1.0
ROE	7.7	12.3	9.5	11.6
ROA	0.8	1.4	1.2	1.3



# Notes

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