

Issue Details

Listing	BSE & NSE
Open Date	18 Jan 2021
Close Date	20 Jan 2021
Price Band	Rs. 25-26
Market Lot	575 shares
Minimum Lot	1 Lot

Indian Railway Finance Corporation (IRFC) Limited is a company wholly-owned by the Government of India acting through the Ministry of Railways (MoR). The company is registered with the Reserve Bank of India as a NBFC (Systematically Important) and is classified under the category of an “Infrastructure Finance Company” under Section 45-IA of the Reserve Bank of India Act, 1934.

Issue Structure

Offer for sale	33%
Fresh Issue	67%

IRFC Ltd is the dedicated market borrowing arm of the Indian Railways with a primary business of financing the acquisition of rolling stock assets, which includes both powered and unpowered vehicles. In addition, the company also extends debt financing to Other PSU entities consistent with its objective of being the principal source of finance for the Indian Railways.

Issue Size (Cr.)	Rs. 4,633.38
No of shares (Cr.)	178.206
QIB share (%)	≤ 50
Non-Inst share (%)	≥ 15
Retail share (%)	≥ 35

In Fiscals 2017, 2018, 2019 and 2020 (revised estimate), the company was responsible for financing 72%, 93%, 84% and 76% of the rolling stock purchased and leased to the MoR (Source: MoR), respectively. The total value of Rolling Stock Assets financed by the company as on 31st March 2020 and as on 30th September 2020 was Rs. 2,23,810.78 cr and Rs. 2,34,627.17 cr, respectively.

Shareholding Pattern

Shareholder	%	%
Promoters	100.0	86.36
Institutional	0.0	6.82
Public	0.0	6.82

The Total Revenue from operations grew by 20.7% CAGR from Rs. 9,207.84 cr in FY18 to Rs. 13,421.09 cr in FY20 and currently stands at Rs. 7,384.83 cr for H1FY21. The AUM, which represents the sum of total lease receivables, loans to Other PSU Entities, and advances against leasing of Project Assets, have grown by 31.2% CAGR from Rs. 1,54,534.67 cr as on 31st March 2018 to Rs. 2,66,136.99 cr as on 31st March 2020. The AUM as on 30th September 2020 stood at Rs. 2,78,007.59 cr. NIMs for FY20 were stable at 1.38%, whereas NIMs for the half year ended September 2020 stood at 0.71%. The company reported NIL NPA with CRAR of 395.4% as on March 2020. The higher CRAR is mainly on account of the company’s ~97.7% exposure to MoR, which is considered as risk free.

Key Financials (in ₹ crores)

	AUM	Adj. Nil	PPOP	PAT	EPS ₹	BVPS ₹	RoAE (%)	P/E (x)	P/BV (x)
FY18	1,54,534.7	2,553.8	2,531.9	2,001.5	3.1	31.1	12.3	8.4	0.8
FY19	2,00,937.3	2,781.6	2,782.9	2,139.9	3.3	26.5	9.5	7.9	1.0
FY20	2,66,136.9	3,224.5	3,194.2	3,192.1	3.4	25.5	11.6	7.6	1.0

❖ **Key investment highlights:**

Indian Railway Finance Corporation Ltd. has the following competitive strengths, which makes it a good choice to invest in:

➤ **Competitive cost of borrowings based on strong credit ratings in India and diversified sources of funding:**

The company meets its funding requirements through various sources. It funds acquisitions of Rolling Stock Assets and Project Assets through market borrowings of various maturities and currencies. The company's diversified sources of funding, highest credit ratings and strategic relationship with the MoR, has aided in keeping its cost of borrowing at a competitive level. The company has 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+. The company's Cost of Borrowings was 6.82%, 7.09% and 7.27% in FY18, FY19 and FY20, respectively, and 3.55% (non-annualized) during H1FY21.

➤ **Strategic role in financing growth of Indian Railways:**

IRFC Ltd was incorporated as the dedicated market borrowing arm for the Indian Railways and has played a strategic role in financing its operations. In FY20, the company financed Rs. 713.92 bn accounting for 48.22% of the actual capital expenditure of the Indian Railways. The Union Budget had proposed a capital expenditure of Rs. 1,610 bn for the Railways Ministry for FY 2021. The MoR, through its letter dated 7th January 2021 has revised the target to be borrowed to Rs. 625.67 bn for FY21 from earlier target of Rs. 580 bn. In addition, the company expects an additional borrowing of Rs. 530 bn from the MoR in FY21. The company will be informed about this after the necessary approvals are obtained. This, along with extensive expansion plans of the Indian Railways in the future, involving significant financing, it will help in increasing the company's operation significantly in the coming period. On account of this, the company expects to finance more than 70% of the Indian Railway's CapEx requirements for FY21.

➤ **Low risk business model**

The company's relationship with the MoR enables it to maintain a low risk profile. Risks relating to damage to Rolling Stock Assets as a result of natural calamities and accidents are passed on to the MoR by the company. Further, the MoR is required to indemnify the company at all times from and against any loss or seizure of the Rolling Stock Assets under distress, execution or other legal process. As on 30th September 2020, the company did not have any non-performing assets. The MoR has historically never defaulted in their payment obligations under the Standard Lease Agreement. In addition, lease payments to the company by the MoR form part of the annual railway budget in the Union Budget of India.

Apart from the above-mentioned strengths, there are certain risks associated with the company which need to be kept in mind before investing. Following are the risks:

➤ **Post completion of the Issue, the company's cost of borrowings may go up:**

The company is presently wholly owned by the GoI which makes it eligible for certain benefits, such as, inclusion of offshore issuance of bonds/ notes of USD 500 mn and above in the Morgan Stanley Capital International Emerging Markets Bond Index. Further, rating agencies factor the company's strategic importance to the MoR due the ownership by the GoI and business with only the MoR and other entities owned by the MoR. This helps in obtaining credit rating at par with sovereign ratings from domestic and international credit rating agencies. Following completion of the IPO, the cost of borrowings of the company may be affected due to change in risk perception of the investors and rating agencies and non-inclusion of its bonds in the Morgan Stanley Capital International Emerging Market Bond Index.

➤ **Wholly-owned and controlled by the Government of India (GoI), which makes it susceptible to changes to its policies and actions which might not be profitable or financially feasible:**

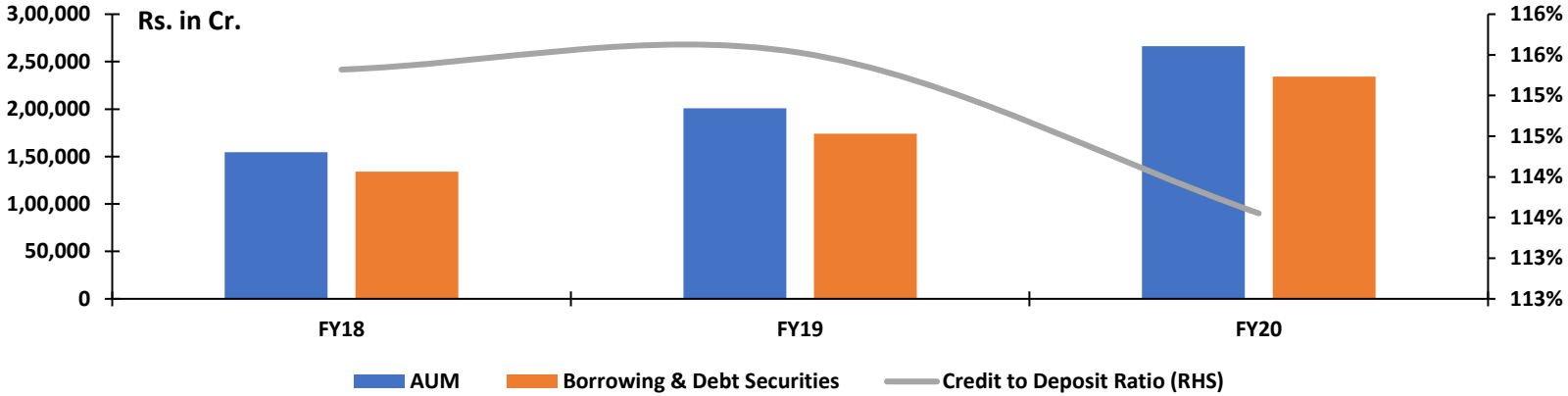
Upon completion of the issue, the GoI will control approximately 86.36% of the company's paid up Equity Share capital. Accordingly, the GoI will continue to exercise significant influence over the business policies and affairs and all matters requiring shareholder approval. In particular, given the importance of the Indian Railways to the Indian economy, the GoI could require the company to take actions aimed at serving the public interest, which may not necessarily be profitable or financially feasible. Further, the company has also indicated that it will not look to exponentially expand its margins by leveraging lower cost of funds, mainly on account of providing low-cost finance to Indian Railways. This will hinder the company's profitability going forward.

➤ **Non-availability of funding from the Life Insurance Corporation of India ("LIC") matching the requirement of funds by Indian Railways for railway projects under EBR-IF may affect the asset-liability position of the Company:**

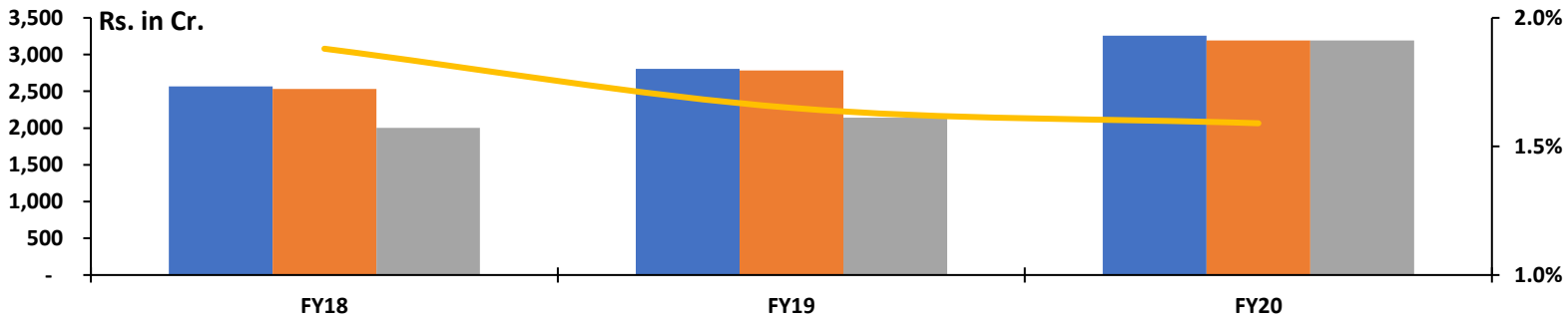
The MoR had entered into a MoU dated 11th March 2015 with LIC to avail Rs. 1,50,000 cr over a period of 5 years, commencing from FY16. Based on this MoU, IRFC Ltd entered into a MoU with the MoR dated 23rd May 2017 to be the intermediary for the funding from LIC. This arrangement with the LIC subsequently ended in FY20. Unavailability of funding from the LIC matching the requirement of funds by Indian Railways for railway projects under EBR-IF may affect the company's asset-liability position adversely.

IRFC Ltd. story in charts

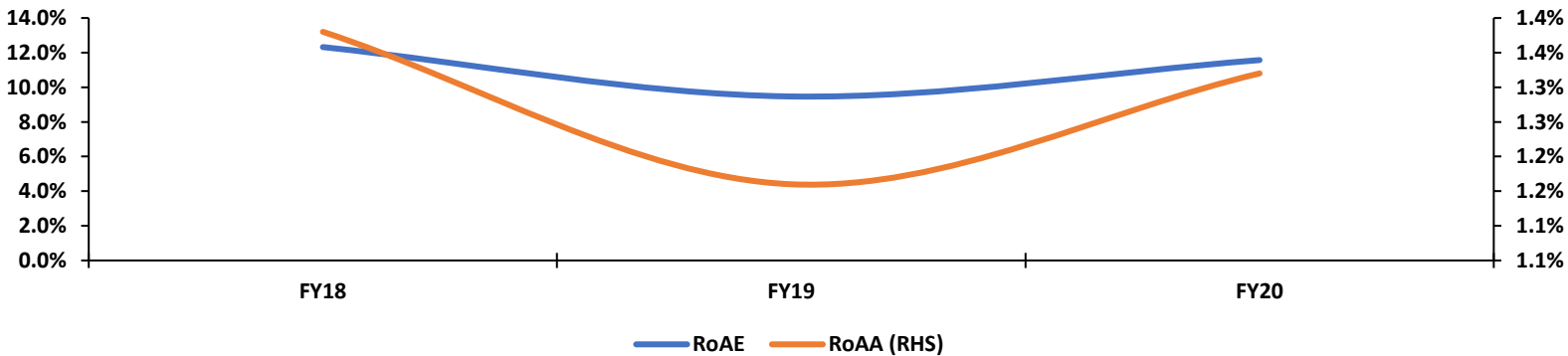
AUM & Borrowings



Profitability and Margins



Return Ratios



❖ Issue Structure and Offer Details

The proposed issue size of IRFC Ltd's IPO is Rs. 4,633.38 cr with a Fresh Issue of Equity shares of upto 1,18,80,46,000 shares and Offer for sale of up to 59,40,23,000 Shares. The price band for the issue is in the range of Rs. 25-26 per share, and the bid lot is 575 shares and multiples thereof.

Issue Structure		
Category	No of Shares Offered	% of shares Offered
QIB	89,09,38,346	≤ 50
Non Institutional Bidders	26,72,81,504	≥ 15
Retail	62,36,56,842	≥ 35
Sub-Total	1,78,18,76,692	100
Employee Reservation Portion*	1,92,308	
Total	1,78,20,69,000	

* no. of shares based on higher price band of Rs. 26 for Rs. 5 million

Source: Company Reports, RHP & SEBI

❖ Objects of Offer:

The objects of the Offer are to augment the equity capital base of the company to meet its future capital requirements arising out of growth in the company's business

Objects of the offer	
Purpose	Amount (Rs. In Cr)
Augmenting the company's equity capital base to meet its future capital requirements arising out of growth in business	0
General Corporate Purposes*	0
Total Net Proceed	0

* To be finalised upon determination of the Offer Price. The amount shall not exceed 25% of the gross proceeds of the Fresh Issue

Source: Company Reports, RHP & SEBI

❖ Valuation

At the higher price band of Rs. 26, IRFC Ltd. is trading at P/BV of 1X (BVPS as on 30th September 2020 of Rs. 26.67)

Key Management Personnel

Key Person	Designation	Details
Amitabh Banerjee	Chairman and Managing Director	Mr. Banerjee 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
Shelly Verma	Director (Finance) and CFO	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.
Ashutosh Samantaray	Additional General Manager (Finance)	Mr. Samantaray joined the company with effect from January 20, 2006. He holds a bachelor's degree in commerce, a master's degree in commerce and a master's degree in finance and control from Utkal University, Orissa. He is responsible for overlooking the corporate finance functions, financial risk management, and fund mobilisation functions of the Company.
N.H. Kannan	General Manager (Finance)	Mr Kannan joined IRFC Ltd with effect from February 21, 2018. He holds a bachelor's degree in commerce and a master's degree in business administration with specialization in financial management. He is a qualified chartered accountant and cost and works accountant. He is responsible for overlooking the finance related functions in the company.
Prasanta Kumar Ojha	General Manager (Finance)	Mr Ojha holds a bachelor's degree in commerce from Utkal University. He has completed the CAIIB examination conducted by the Indian Institute of Banking and Finance. He is also an associate of the ICAI. He is responsible for overlooking the audit, accounts, finance and loan appraisal functions of the company

Source: Company Reports & RHP

Financial Statements

Y/E March (₹ crore)	FY18	FY19	FY20	Y/E March (₹ crore)	FY18	FY19	FY20
Income Statement				Ratio Analysis			
Interest Income	9,206.5	10,986.8	13,420.4	Efficiency Ratio (%)			
Interest Expense	6,637.6	8,183.1	10,162.7	Int Expended / Int Earned	72.1	74.5	75.7
Net Interest Income	2,568.9	2,803.8	3,257.8	Int Income / Total Funds	5.7	5.3	4.9
YoY change (%)		9.1	16.2	NII / Total Income	27.9	25.5	24.3
Non Interest Income	1.4	0.5	0.7	Other Inc. / Total Income	0.0	0.0	0.0
Total Net Income	2,570.3	2,804.3	3,258.4	Ope. Exp. / Total Income	0.4	0.2	0.5
Total Operating Expenses	38.3	21.4	64.2	Net Profit / Total Funds	1.2	1.0	1.2
Pre Provision profit	2,531.9	2,782.9	3,194.2	Credit / Deposit	0.0	0.0	0.0
YoY change (%)		9.9	14.8	Investment / Deposit	0.0	0.0	0.0
Provisions	0.0	27.5	2.1	NIM	1.9	1.7	1.6
Profit Before Tax	2,531.9	2,755.3	3,192.1	Solvency			
YoY change (%)		8.8	15.9	Gross NPA (Rs. Cr)	0.0	0.0	0.0
Taxes	530.5	615.4	0.0	Net NPA (Rs. Cr)	0.0	0.0	0.0
Net profit	2,001.5	2,139.9	3,192.1	Gross NPA (%)	0.0	0.0	0.0
YoY change (%)		6.9	49.2	Net NPA (%)	0.0	0.0	0.0
Balance Sheet				Capital Adequacy Ratio (%)	320.6	347.1	395.4
Cash & cash equivalents	1.2	3.7	1.4	Tier I Capital (%)	320.6	347.1	395.4
Other Bank balance	98.7	77.4	99.4	Tier II Capital (%)	0.0	0.0	0.0
Investments	14.0	13.1	11.5	Per Share Data (₹)			
Loan and Lease Receivable	1,14,709.6	1,30,922.0	1,55,003.2	EPS	3.1	3.3	3.4
Other Assets	46,616.3	75,410.8	1,20,377.6	Book Value	31.1	26.5	25.5
Total Assets	1,61,451.0	2,06,438.3	2,75,504.1	Adj Book Value of Share	31.1	26.5	25.5
Debt Securities	1,10,844.2	1,23,597.9	1,55,290.5	Valuation Ratio			
Borrowings	23,161.3	50,334.8	79,086.3	Price/Earnings (x)	8.4	7.9	7.6
Other Liability	7,121.2	7,639.3	10,827.7	Price/Book Value (x)	0.8	1.0	1.0
Equity	6,526.5	9,380.5	11,880.5	Price/Adj.Book Value (x)	0.8	1.0	1.0
Reserves	13,797.8	15,485.8	18,419.3	Return Ratio			
Share warrant O/s	0.0	0.0	0.0	RoAA (%)	1.4	1.2	1.3
Total Liabilities	1,61,451.0	2,06,438.3	2,75,504.1	RoAE (%)	12.3	9.5	11.6
Dupont Analysis				Growth Ratio (%)			
% of Average Assets				Interest Income		19.3	22.1
Net Interest Income	1.6	1.5	1.4	Interest Expenses		23.3	24.2
Non Interest Income	0.0	0.0	0.0	Other Income		-62.2	29.1
Net Income	1.6	1.5	1.4	Total Income		19.3	22.2
Operating Expenses	0.0	0.0	0.0	Net profit		6.9	49.2
Operating Profit	1.6	1.5	1.3	Deposits		11.5	25.6
Provisions & Contingencies	0.0	0.0	0.0	Advances		14.1	18.4
Taxes	0.3	0.3	0.0				
ROAA	1.2	1.2	1.3				

*Net Interest income as per financials and as per company's presentation may differ, mainly due to calculation of NII by the company on the bases of Adjusted interest income and expenses. (refer pg. no. 151 of the RHP)

Source: Company Reports, RHP & Ventura Research

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