

# Indian Railway Finance Corporation Ltd.

Issue Opens: Jan 18, 2021; Issue Closes: Jan 20, 2021; Price Band: ₹25-26

## Recommendation

### NOT RATED

#### Issue Details

Face Value	₹10
Public Issue	~178.21 Cr shares
Price Band	₹25-26
Issue Size#	₹4,633 Cr
Bid lot	575 Equity shares
Issue Type	OFS & Fresh Issue
Post Issue M. Cap: ~₹33,978cr; # - at upper band	

#### % Shareholding

	Pre IPO	Post IPO
Promoter group	100	86.4
Public	--	13.6

Post Issue percentage is at upper price band

#### Share Reservation

	% of Net Issue
QIB	50
NII	15
Retail	35

#### Company Management

Mr. Amitabh Banerjee	Chairman & MD
Mrs. Shelly Verma	Chief Financial Officer

#### Issue Managers

BRLMs	DAM Capital Advisors, HSBC Securities & Capital Markets, ICICI Securities and SBI Capital Markets
Registrar	KFin Technologies Pvt. Ltd.

Source: RHP

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January 15, 2021

**Indian Railway Finance Corp. (IRFC), registered with RBI as a systemically important NBFC (ND-IFC), is the dedicated market borrowing arm of the Indian Railways (IR). Its primary business is to finance the acquisition of rolling stock, leasing of railway infrastructure assets & national projects of the Government of India (GoI) and lending to other entities under the Ministry of Railways (MoR).**

**Strategic importance to IR:** IRFC mainly raises money from the markets (both domestic and / or international) to buy railway assets like rolling stock and finances infrastructure assets. It then leases them to IR over a period of 15-30 years and earns lease rentals in return. IRFC plays a critical role in facilitating priority capex for IR which has been historically lagging, owing to constraints on budgetary support and has been garnering attention over the past 6-7 years, thanks to assistance from Extra Budgetary Resources.

**Nil asset quality concerns:** IRFC's gross NPAs are nil as it has entire exposure to MoR or its controlled entities for which the RBI has exempted IRFC from asset classification norms. As per the RHP, the MoR has historically never defaulted in its lease payment obligations which is likely to continue going ahead.

**Outlook & Valuation:** We believe that IRFC is primed to benefit from railway capex by MoR owing to its dependency on the latter for business growth. IRFC operates on a cost plus model where it passes the hike or decline in cost of funds to MoR which insulates it from any adverse movement in interest / exchange rates. Although the company has more than sufficient capitalization and internal generation, the management has suggested that they would keep the gearing in check (~10x) which would require fresh capital for the growth. IRFC has a low risk model, adequate liquidity & ALM and ability to raise funds at most competitive rates. At the upper end of the price band, IRFC is seeking post IPO multiple of ~1xx 1HFY21 P/BV (~0.6x/0.7x for PFC/REC).

#### Financial Summary (Consolidated)

Particulars	FY18	FY19	FY20	1HFY20*	1HFY21*
Adj. II (₹Cr)	10,729	13,697	18,064	8,621	10,449
NIM (%)	1.8	1.6	1.4	0.8	0.7
Cost to income (%)	1.5	0.8	2.0	0.6	2.9
PAT (₹Cr)	2,001	2,140	3,192	1,630	1,887
EPS (₹)	3.1	3.3	3.4	1.7	1.6
P/BV (x)	0.8	1.0	1.0	0.9	1.0
ROE (x)	12.3	9.5	11.6	6.4	6.1
ROA (x)	1.4	1.2	1.3	0.7	0.7
Net Gearing Ratio	6.6	7.0	7.7	7.0	7.7

Source: RHP; IIFL Research; \*Ratios and other figures are not annualized and are on pre IPO basis.

## Offer Details

The total issue size is ₹4,633Cr which consist of Fresh Issue of ₹3,089Cr and Offer for sale of ₹ 1,544Cr at the upper end of the price band. The proceeds from the fresh issue are proposed to be utilized towards:

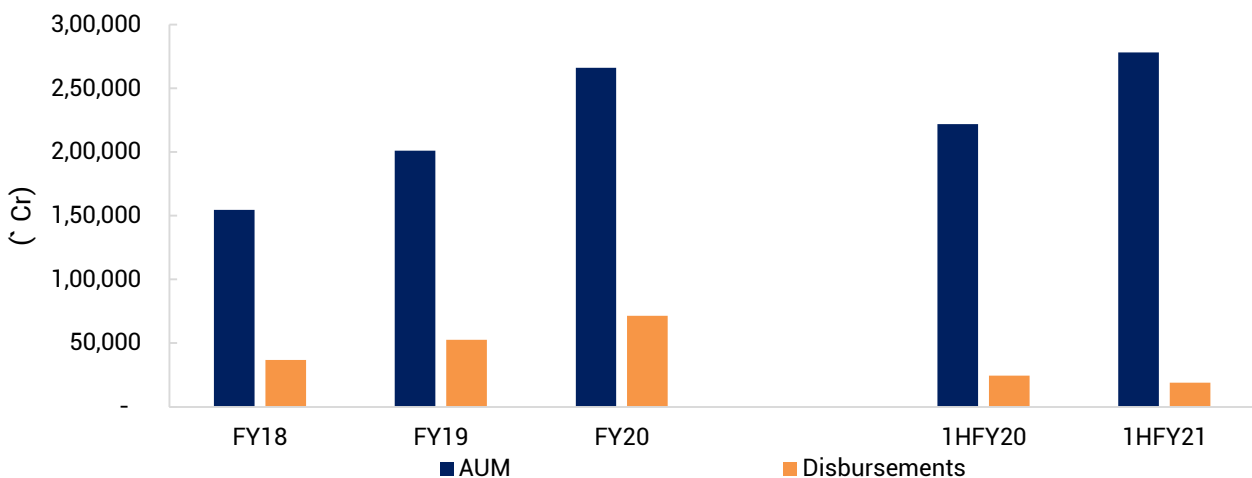
- ❖ Augmenting IRFC's equity capital base to meet future capital requirements arising out of growth in its business; and
- ❖ General corporate purposes

## Business Description

IRFC is primarily responsible for financing the acquisition of assets such as rolling stock assets, which includes both powered and unpowered vehicles, for example locomotives, coaches, wagons, trucks, flats, electric multiple units, containers, cranes, trollies, etc. for the MoR. It enters into the Standard Lease Agreement with the MoR. The MoR is responsible for the procurement of Rolling Stock Assets and for the improvement, expansion and maintenance of Project Assets which are railway infrastructure assets and national projects of the GoI. **As on FY19, IRFC financed 80-85% of the rolling stock assets held by the Indian Railways.**

As of September 30, 2020, its total AUM which represents sum of total lease receivables, loans to Other PSU Entities, and advances against leasing of Project Assets was ₹ 2,78,008Cr. Its AUM consisted of 55.34% of lease receivables primarily in relation to Rolling Stock Assets, 42.41% of advances against leasing of Project Assets and 2.25% of loans to central public sector enterprises entities under the administrative control of MoR.

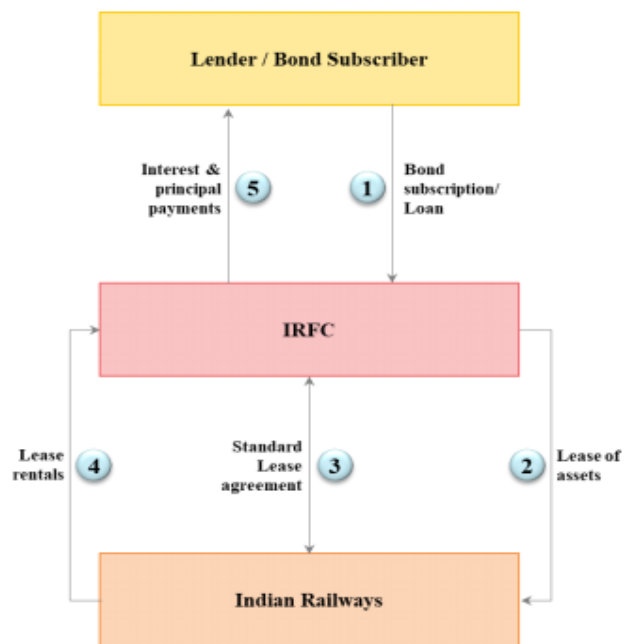
### Exhibit 1: AUM has grown by 31% CAGR over FY18-20.



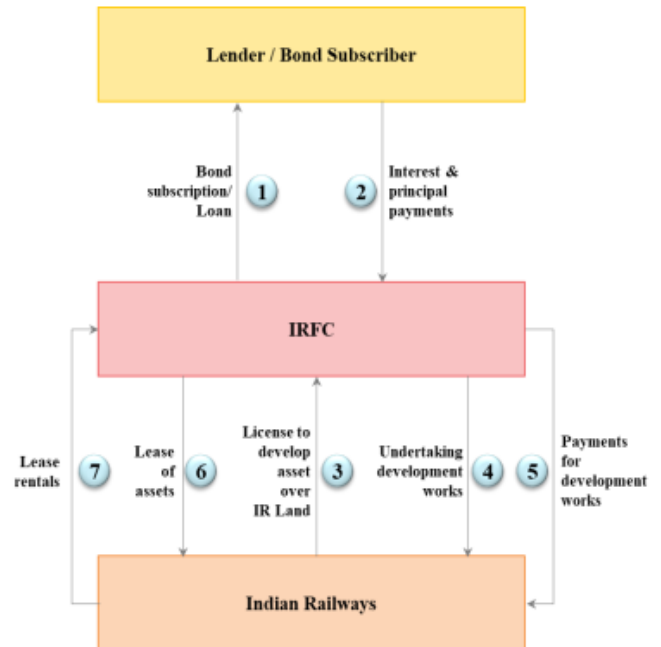
Source: RHP, IIFL Research

## Exhibit 2: Financing of Rolling Stock and Project Assets

### Financing of Rolling Stock Assets



### Financing of Project Assets



Source: RHP, IIFL Research

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 followed by a secondary period of 15 years, unless otherwise revised by mutual consent. In FY20, IRFC was entitled to a margin of 40 bps over the weighted average cost of incremental borrowing for financing Rolling Stock Assets and a spread of 35 bps over the weighted average cost of incremental borrowing for financing Project Assets.

### Exhibit 3: Maturity profile and average interest rate

	Fiscal 2021		Fiscal 2022 – Fiscal 2026		After Fiscal 2026	
	Maturity Amt (₹ Cr)	Interest Rate pa	Maturity Amt (₹ Cr)	Interest Rate pa	Maturity Amt (₹ Cr)	Interest Rate pa
<b>Domestic</b>	29,394	3.95% - 8.35%	72,127	5.75% - 10.70%	1,19,420	5.95% - 10.04%
<b>Overseas (in other currencies)</b>	33	1.70%	5,071	3.73%	19,903	3.25% - 3.95%

Source: RHP, IIFL Research

### Key Risk Factors:

IRFC has significant dependence on IR and MoR for its revenues. Change in capex plans or policies like IR having ability to raise its own funds, detrimental changes to term of agreement, lack of support in terms of ability to raise funds at lower rate or availability of funds are some of the key risk factors impacting the business and result of operation.

**Recommendation Parameters for Fundamental/Technical Reports:**

Buy – Absolute return of over +10%

Accumulate – Absolute return between 0% to +10%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

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