



Indian Railway Finance Corp (IRFC) | SUBSCRIBE

Wheels of growth

Indian Railway Finance Corp (IRFC), acting through the Ministry of Railways (MOR), Government of India is a dedicated borrowing arm of the Indian Railways. Healthy asset growth, diversified borrowing mix, regulated lending margins, and lean cost structure are characteristics unique to IRFC, a PSU NBFC. *This coupled with NIL NPA and robust capital adequacy (400%+ CAR), is a perfect recipe for superior returns.* With ~Rs15tn of capital outlay towards infrastructure development by the Indian Railways till FY25, IRFC offers a play on the fast-growing railway infrastructure. On the valuation front, the IPO is priced at 1x H1FY21 ABV (at the higher end of the price band). In our view, *businesses with monopolistic nature of operations, superior asset growth, NIL NPA, and robust capital adequacy tend to trade at higher valuations.* We see a possibility of a similar story play out for IRFC in the longer run. **SUBSCRIBE**

- Sturdy 30%+ CAGR in AUM/disbursement:** IRFC has witnessed a sturdy 31%/39% CAGR in AUM/disbursement over FY18-20 led by a healthy Rs3.8tn of capital outlay by the Indian Railways over the same time. As of H1FY21, AUM stood at Rs2.78tn and was in nature of - 55.3% towards lease receivables (Rolling Stock Assets), 42.4% being towards leasing of Project Assets and balance 2.3% as loans to central public sector enterprises. *Unlike some of its PSU peers that are into a competitive lending space, IRFC enjoys a monopoly in its area of operations (see exhibit 1).* It funded 48.2% / ~44% of actual capital expenditure in FY20/FY21E. With ~Rs15tn of capital outlay by the Indian Railways till FY25E (2x+ the capital outlay over FY16-20), IRFC is well-poised for a robust AUM/disbursement CAGR in ensuing period.
- Diversified borrowing mix; regulated lending margins:** Superior rating profile (AAA/A1+ towards its long/short-term borrowing by CRISIL/ICRA) has enabled IRFC to borrow at competitive rates. As of H1FY21, the cost of borrowing was at 7.1% (calc). and was in nature of borrowings from banks, foreign borrowings, securitization, and capital market instruments (including CP). As of FY20, IRFC was entitled to a margin of 40bps / 35bps over the weighted average cost of borrowing for financing Rolling Stock Assets/financing Project assets, respectively. The regulated margins coupled with favorable asset-liability mix has enabled a stable margin (1.4% calc annualized for H1FY21) over the years. Liquidity position has remained healthy (long tenure asset and corresponding liability); shortfall if any is funded by MOR.
- NIL NPA, robust capital adequacy – recipe for superior returns:** The sheer nature of its loan exposure (sovereign-backed and budgetary approved) *has attributed to NIL NPA / superior capital position to IRFC, characteristics unique to any lending model.* The favorable margin profile and lean operating structure (an outcome of the wholesale nature of the lending model) has resulted in healthy operating profit. Under the provisions of 115BAA of the Income-tax Act, IRFC is not liable to tax. FY20 RoA/RoE stood at 1.32%/ 11.6% respectively.
- Valuation and view, key risks:** IRFC IPO is priced at 0.9x / 1x H1FY21 BV of Rs26.7. *Empirical studies suggest that businesses with characteristics of superior asset growth, limited NPA, and healthy capital position, tend to trade at higher valuations as investors gauge greater confidence in earnings.* **SUBSCRIBE.** **Key risks:** Reduction in regulated margins thus impacting profitability, delayed growth in railway infrastructure impacting AUM growth.

Object of the issue: Augmenting equity capital base to meet future capital requirements arising out of growth and general corporate purposes.

Details of the issue

Opening date	18 th Jan, 2021
Closing date	20 th Jan, 2021
Price Band	Rs25-26
Issue size (Rs bn)	44.55-46.33
Market cap (post issue – Rs bn)	326.7-339.8
Face value	Rs10
Bid Lot	575
Listing on	BSE, NSE

Source: RHP

Offer (mn shares)

Fresh Issue	1,188mn
Offer for sale	594mn

Source: RHP

Shareholding

	Pre-Issue	Post-Issue
Promoter	100.0	86.36
Public	0.0	13.64

Source: RHP

Lead managers & registrar

BRLM

DAM Capital

HSBC Securities

ICICI Securities

SBI Capital markets

Registrar: KFin Technologies Pvt. Ltd.

Source: RHP

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Y/E Mar (Rs mn)	Revenue from Operations	% YoY growth	PAT	% YoY growth	EPS (Rs)	P/E (x)	BV	P/Adj. BV (x)	Ro A (%)	RoE (%)
FY18	92,070	-	20,015	114.0	3.07	8.5	31.14	0.8	1.38	12.32
FY19	109,874	19.3	21,399	6.6	3.26	8.0	26.51	1.0	1.16	9.47
FY20	134,210	22.1	31,921	49.2	3.40	7.6	25.50	1.0	1.32	11.57
H1FY21	73,831	12.3	18,868	15.7	3.18*	8.2	26.67	1.0	0.66	6.09

Source: RHP, Company. PE/PB valuation at the higher end of the IPO price-band. * denotes annualized.

IRFC and its PSU NBFC peers

	Indian Railway Finance Corporation (IRFC)	Power Finance Corporation (POWF)	HUDCO
Underlying asset and growth drivers	Market borrowing arm of Indian Railways; funding the railway sector growth	Funding the power sector requirement; PSUs + private players + SEB's – key borrowers	Building assets for the Nation; funding housing requirements of EWS/LIG segment
Nature of existence	MONOPOLISTIC (no competition)	Highly competitive	Highly competitive
Earnings / revenue growth (FY18-20)	31.2% CAGR / 35.6% CAGR in AUM / PAT over FY18-20	11.2% CAGR / 13.5% CAGR in loans / PAT over FY18-20	25.6% CAGR / 30.0% CAGR in loans / PAT over FY18-20
Asset quality and Capital positions	NIL NPA	GNPA / NNPA at 7.4% / 3.6% respectively (FY20).	GNPA / NNPA at 4.21% / 0.49% respective (H1FY21)
Capital position	Capital adequacy at 400%+	Capital adequacy at 18.4% (H1FY21).	CAR at 56.9% as at FY20.
Return ratios and valuation	RoE low due to high capital; FY20 RoE / RoA stood at 11.6% / 1.32% respectively.	Stock trades at 0.6x FY20 BV. FY20 RoE / RoA stood at 14.6% / 1.1%	Stock trades at 0.7x FY20 BV at Rs61.7. FY20 RoE/RoA stood at 14.7%/ 2.3% respectively

Source: Companies, RHP.

Peer comparison

	CMP (Rs)	P/E			P/B			RoE (%)			RoA (%)		
		FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
IRFC	25-26	7.4-7.6	-	-	0.9-1.0	-	-	11.6	-	-	1.3	-	-
REC	146	5.1	4.9	4.5	0.8	0.8	0.7	15.9	16.7	18.2	2.0	1.8	1.9
PFC	121	4.5	4.4	3.6	0.6	0.6	0.6	14.7	15.4	16.7	1.1	1.9	2.1
HUDCO	44.7	5.3	6.5	5.5	0.7	0.7	0.6	14.7	10.6	11.3	2.3	1.8	2.0
Bajaj Finance	4,881	50.5	63.0	36.6	9.0	8.0	6.7	20.2	12.5	18.8	3.6	2.5	3.9

Source: Companies, Bloomberg.

Valuation and view

IRFC IPO is priced at 0.9x (lower end of the price-band) / 1x (higher end of the price band) H1FY21 BV of Rs26.7. The wholesale nature of business could see volatility in disbursement growth on quarter-on-quarter basis (as seen through in case of disbursement of H1FY21). However, AUM growth tends to remain healthy and follows asset profile and the growth drivers (as also seen through in case of other large wholesaler lenders).

Empirical studies suggest that businesses with characteristics of superior asset growth, limited NPA, and healthy capital position, tend to trade at higher valuations as investors gauge greater confidence in earnings. We see a possibility of a similar story play out for IRFC in the medium-to-longer run. **SUBSCRIBE. Key risks:** Reduction in regulated margins thus impacting profitability, delayed growth in railway infrastructure impacting AUM growth.

Brief profiles of the Company Directors:

- **Amitabh Banerjee** is the Chairman and Managing Director of the company. He is an officer of the Indian Railways Accounts Service. Prior to his current position, he was associated with Konkan Railway Corporation Ltd. as well as the Hindustan Paper Corporation Ltd. in the capacity of director (finance). Additionally, he has also been associated with Delhi Metro Rail Corporation Ltd. in the capacity of general manager (finance). He has prior experience in the fields of finance, accounts, and general administration.
- **Shelly Verma** is the Director (Finance) and Chief Financial Officer of the company. 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 Ltd.
- **Baldeo Purushartha** is the Part-time Government Director of the company. He is on the board of several institutions, including the India Infrastructure Finance Co. Ltd., ONGC Videsh Ltd., Indian Railway Stations Development Corporation Ltd. and Asian Infrastructure Investment Bank.
- **Chetan Venugopal** is the Part-time Non-official Director (Independent Director) of the company. He has prior experience in the field of finance, strategy, and consulting.
- **Ashok Kumar Singhal** is the Non-official Director (Independent Director) of the Company. He has prior experience in the fields of finance, management, and administration.
- **Bhaskar Choradia** is the Part-time Government Director of the company. He has prior experience in the railways accounts services in multiple capacities.

Key Managerial Personnel:

- **Vijay Babulal Shirode** is the Company Secretary and Compliance Officer of the company and was appointed with effect from March 9, 2018. He is responsible for overlooking the secretarial, legal and CSR functions in the company. He has experience in handling the secretarial, legal and CSR matters and has previously worked with various entities.
- **Ashutosh Samantaray** is the Additional General Manager (Finance) of the company. He joined the company with effect from January 20, 2006. He is responsible for overlooking the corporate finance functions, financial risk management, and fund mobilisation functions of the company. He has significant experience in the fields of accounts and finance, domestic and international fund-raising activities of the company.
- **N.H. Kannan** is the General Manager (Finance) of the company. He joined the company with effect from February 21, 2018. He is responsible for overlooking the finance related functions in the company. He has significant experience in the fields of finance and accounts.
- **Prasanta Kumar Ojha** is the General Manager (Finance) of the company. He joined the company with effect from January 9, 2019. He is responsible for overlooking the audit, accounts, finance and loan appraisal functions of the company. He has prior experience in the field of banking and finance.
- **Rahul Kumar Maurya** is the Joint General Manager (Human Resource Management) of the company. He joined the company with effect from July 29, 2020.
- **Rakhi Dua** is the Additional General Manager (Finance) of the company. She has joined the company with effect from October 1, 2020.
- **Ajay Swami** is the General Manager (Finance) of the company. He has joined the company with effect from July 29, 2020.

Key Financials

Exhibit 1: Income Statement (Key financials)

P&L - Y/E March (Rs mn)	FY18	FY19	FY20	H1FY20	H1FY21
Revenue from operation	92,070	109,874	134,210	65,748	73,831
Interest expenses.	66,376	81,831	101,627	49,373	54,410
Net interest income	25,694	28,043	32,584	16,374	19,421
Expenses (including provision)	383	490	663	92	570
Profit before Tax	25,319	27,553	31,921	16,304	18,868
Profit after Tax	20,015	21,399	31,921	16,304	18,868

Source: RHP, Company

Exhibit 2: Balance sheet (Key financials)

Y/E March (Rs mn)	FY18	FY19	FY20	H1FY20	H1FY21
Networth	203,243	248,663	302,998	262,455	316,870
Total Assets	1,614,510	2,064,383	2,755,041	2,382,780	2,919,866
AUM	1,545,347	2,009,373	2,661,370	2,219,103	2,780,076
Disbursements	367,223	525,352	713,921	245,343	190,164

Source: RHP, Company

Exhibit 3: Key Ratios

Y/E Mar	FY18	FY19	FY20	H1FY20	H1FY21
Return Ratios (%)					
ROE	12.32	9.47	11.57	6.38	6.09
ROA	1.38	1.16	1.32	0.73	0.66
Capital position					
CAR	320.6	347.1	395.4	397.6	433.9
- Tier I	320.6	347.1	395.4	397.6	433.9
- Tier II	0	0	0	0	0
Per share (Rs)					
EPS	3.07	3.26	3.4	1.74	1.59
Book value	31.14	26.51	25.5	27.98	26.67

Source: RHP, Company

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