smc

Moneywise. Be wise.

INDIAN RAILWAY FINANCE CORPORATION (IRFC)

January 15, 2021

SMC Ranking

★★★☆☆ (3/5)

Issue Highlights

Industry	NBFC
Offer for sale (Shares)	1,188,046,000
Fresh Issue (Shares)	594,023,000
Employee reservation	192,308
Net Offer to the Public	1,781,876,692
Issue Size (Rs. Cr.)	2970-3089
Price Band (Rs.)	25-26
Offer Date	18-Jan-21
Close Date	20-Jan-21
Face Value	10
Lot Size	575

Issue Composition

	In shares
Total Issue for Sale	1,781,876,692
QIB	890,938,346
NIB	267,281,504
Retail	623,656,842

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	100.00%	85.71%
QIB	0.00%	7.14%
NIB	0.00%	2.14%
Employee reservation	0.00%	0.00%
Retail	0.00%	5.00%
Total	**100.00%**	**100.00%**

*calculated on the upper price band

Objects of the Issue

To augment company's equity capital base to meet business future growth requirements.

To meet general corporate purposes.

Book Running Lead Manager

- DAM Capital Advisors Limited
- HSBC Securities and Capital Markets
- ICICI Securities Limited
- SBI Capital Markets Limited

Name of the registrar

- KFin Technologies Private Limited

About the Company

Incorporated in 1986, the Indian Railway Finance Corporation (IRFC) is a public-sector enterprise that is wholly-owned by the Government of India. IRFC is primarily engaged in financing the acquisition of rolling stock assets, leasing of railway infrastructure assets, and lending to entities under the Ministry of Railways (MoR). Being the borrowing arm of Indian Railways, IRFC is responsible to raise funds for MoR that is required to procure rolling stock assets (wagons, trucks, electric multiple units, locomotives, coaches), its improvement, expansion, and assets management. It follows a financial leasing model to finance rolling stock assets procurement for a lease period of 30 years. In fiscal 2019, the actual capital expenditures by the Indian Railways were Rs. 1,334 billion, out of which, IRFC financed Rs. 525.35 bn accounting for 39.34% expenditures. In Fiscals 2017, 2018, 2019 and 2020 (revised estimate), the company was responsible for financing 72%, 93%, 84% and 76%, respectively, of the rolling stock purchased by the company and leased to the MoR.

Strength

Strategic role in financing growth of Indian Railways: In Fiscal 2020, the company financed INR 713.9 Bn accounting for 48.22% of the actual capital expenditure of the Indian Railways; For Fiscal 2021, the MoR, through its letter dated April 10, 2020, indicated its intention to borrow INR 580.0 Bn from the Company. Subsequently, the MoR, through its letter dated January 7, 2021, has revised the said target to be borrowed from IRFC to INR 625.7 Bn for Fiscal 2021 . From April 1, 2017 to September 30, 2020, the Company has financed INR 1.79 Tn to the Indian Railways in relation to capital expenditure plan from Fiscal 2016 to Fiscal 2020. The company believes that the extensive expansion plans of the Indian Railways in the future will involve significant financing, and it believes that its operations, as a primary financing source for the Indian Railways, will increase significantly.

Competitive cost of borrowings based on strong credit ratings in India and diversified sources of funding: The company believes that its diversified sources of funding, credit ratings and strategic relationship with the MoR, have enabled it to keep its cost of borrowing competitive. its diversified funding sources including taxable and tax-free bonds issuances, term loans from banks/financial institutions, ECB's, internal accruals, asset securitization, lease financing, equity infusion from time to time by Government of India. 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+.

Consistent financial performance and cost plus model: The company has demonstrated consistent growth in terms of funding and profitability. Its total revenue from operations increased by 19.33% from ₹ 92,078.39 million in Fiscal 2018 to ₹ 109,873.55 million in Fiscal 2019 and by 22.15% to ₹ 134,210.90 million in Fiscal 2020, and was ₹ 73,848.29 million in the six months ended September 30, 2020. Its cost-plus based Standard Lease Agreement with the MoR has historically provided it with a margin over the weighted average cost of incremental borrowing determined by the MoR in consultation with it at the end of each Fiscal. In addition, it believes that its low overhead and administrative costs and high operational efficiency has resulted in increased profitability.

Low risk business model: The company believes that its relationship with the MoR

enables it to maintain a low risk profile. Typically, the expenses incurred by the company with respect to any foreign currency hedging costs and/ or losses (and gains, if any) as well as any hedging costs for interest rate fluctuations are built into the weighted average cost of incremental borrowing. This enables it to earn a margin, as determined by the MoR in consultation with the company at the end of each Fiscal, over the life of the lease.

Strong asset-liability management: In addition to traditional cash flow management techniques, the company manages its cash flows through an active asset and liability management strategy. Its asset-liability management model is structured in a manner which ensures that it has minimum asset-liability mismatches. It borrows on a long-term basis to align with the long-term tenure of the assets funded by the company. It believes that such an approach of matching the tenure of its advances with its borrowings allows it to manage its liquidity better and meet the growing demands of the Indian Railways.

Strategy

Diversification of borrowing portfolio: The company continues to diversify its borrowing portfolio through a range of financing instruments and identifying new markets and investors, including through issuance of 'greenbonds' and 'medium term notes'. As part of its diversification strategy, it continues to explore additional fund raising options at cost effective rates, including Indian Rupee denominated bonds issued in international markets. It may explore funding from sovereign wealth funds and pension funds, as well as multilateral agencies such as the World Bank and the Asian Development Bank where its funding requirements are aligned with their infrastructure and development funding targets.

Broaden financing portfolio: The company plans to diversify its financing portfolio and broaden its lending activities by funding financially viable Project Assets. It plans to fund various Project Assets including those relating to the decongestion of the railways network and the expansion of the existing network of the Indian Railways. It also intends to fund projects undertaken by other MoR entities to improve railways infrastructure in India. It further intends to meet the financing requirements of public private partnership projects, including funding of redevelopment of stations as well as manufacturing of Rolling Stock Assets.

Continued focus on asset-liability management: The company intends to have a strong in-house team comprising of consultants to provide guidance and inputs on improving its asset-liability framework and strategies. The company will continue to target funding sources with long-term repayment schedules that match with the lease term of the Rolling Stock Assets and Project Assets that it funds.

Provide advisory and consultancy services and venture into syndication activities: The company intends to leverage its significant and diversified experience in fund-raising and financing activities for the Indian Railways to provide financial structuring advisory and consultancy services. It intends to assist other Indian Railways entities with their funding requirements, providing strategic advice on, long-term access to capital, acquisition finance and equity capital. It further intends to leverage its significant industry experience as an NBFC and an infrastructure finance company to provide customized financing solutions for other railway entities. The company also proposes to leverage its role as the principal source of finance for the MoR to venture into syndication activities. It intends to engage in loan syndication and equity syndication.

Risk factors

- The company derives significant revenue from Indian Railways. If there is a loss or reduction in business or if Indian Railways find other avenues for direct borrowing, this would impact company business.
- Its business growth is dependent on the growth of Indian Railways. Such business is susceptible

to Govt of India initiatives to either modernize the railways or slow down the growth of Indian Railways.

- Its operational efficiency would completely dependent on its ability to maintain and get diverse sources of funds and at a low cost. If there is any disruption in its funding sources or if there is any inability to raise funds for low cost, it would impact its business.
- Its business need to match with tenure of lease and borrowings. If there is any mismatch, it can lead to reinvestment and liquidity risks and it would adversely impact its financial condition and operations.

Peer comparison

As per the RHP, there are no listed entities similar to its line of business and operating profile.

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs. 26, the stock is priced at pre issue P/E of 9.68x on its actual annualised FY20 EPS of Rs. 2.69. Post issue, the stock is priced at a P/E of 10.16x on its EPS of Rs. 2.56. Looking at the P/B ratio at Rs. 26 the stock is priced at P/B ratio of 0.97x on the pre issue book value of Rs.26.67 and on the post issue book value of Rs. 28.15the P/B comes out to 0.92x.

On the lower end of the price band of Rs.25 the stock is priced at pre issue P/E of 9.30x on its annualised FY20 EPS of Rs. 2.69.Post issue, the stock is priced at a P/E of 9.77x on its EPS of Rs. 2.56. Looking at the P/B ratio at Rs.25, the stock is priced at P/B ratio of 0.94x on the pre issue book value of Rs. 26.67 and on the post issue book value of Rs. 28.15, the P/B comes out to 0.89x.

Industry overview

The Indian Railways is a departmental undertaking of the GoI, which owns and operates India's rail transport, through the Ministry of Railways, GoI ("MoR"). The Indian Railways is the largest rail network in Asia, running approximately 13,523 passenger trains every day in Fiscal 2019 to transport approximately 23.12 million passengers per day in Fiscal 2019. The Indian Railways has constantly expanded its network, developed, and grown across various parameters including freight and passenger revenues. Indian Railways has always played a key role in India's social and economic development as it is a cheap and affordable means of transportation for millions of passengers and as a carrier of bulk freight, plays a significant role in various industries, including agriculture. The capital expenditure plan from Fiscal 2016 to Fiscal 2020 (planned outlay of INR 8,560.2 Bn) focuses on improving freight carrying capacity through capacity augmentation to achieve network decongestion, enhancing outlay for doubling third and fourth line projects, developing dedicated freight corridors and improving competitiveness of the Indian Railways through cost optimisation through electrification and improving customer experience by increasing outlay for safety, station redevelopment and passenger amenities. With the expansion of the freight network and passengers demand, the requirement of rolling stock will increase substantially.

Outlook

IRFC is the public sector company that finances for Indian Railways projects. It has shown strong revenue and margin growth. However, its operational efficiency would completely dependent on its ability to maintain and get diverse sources of funds and at a low cost. Investors may consider investment for long term rewards as this company is laying its future on track and it is expected that the company would see good growth going forward.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	January 18, 2021
Bid/Offer Closing Date	January 20, 2021
Finalisation of Basis of Allotment with the Designated Stock Exchange	On or about January 25, 2021
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	On or about January 27, 2021
Credit of Equity Shares to depository accounts of Allottees	On or about January 28, 2021
Commencement of trading of the Equity Shares on the Stock Exchanges	On or about January 29, 2021

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Sep-20 (9 Months)	Period ended 31-Mar-20 (12 Months)	Period ended 31-Mar-19 (12 Months)
Interest earned	7,383.12	13,421.02	10,987.35
Interest expended	5,440.98	10,162.66	8,183.06
Net interest earned	**1,942.14**	**3,258.36**	**2,804.29**
Operating expenses	56.77	65.87	48.53
Operating Profit	**1,885.37**	**3,192.49**	**2,755.76**
OPM%	25.54	23.79	25.08
Other Income	1.71	0.07	0.00
PBDIT	**1,887.08**	**3,192.56**	**2,755.77**
Depreciation	0.23	0.46	0.418
PBIT	**1,886.85**	**3,192.10**	**2,755.35**
Financial charges	0.00	0.00	0.00
PBT	**1,886.85**	**3,192.10**	**2,755.35**
Tax	0.00	0.00	615.41
Profit After Tax	**1,886.85**	**3,192.10**	**2,139.94**

Balance sheet is on next page

Moneywise. Be wise.

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Sep-20	As on 31-Mar-20	As on 31-Mar-19
Non-current assets			
Current Tax Assets (Net)	863.05	630.84	41.47
Property, plant and equipment	10.93	11.00	11.23
Other Intangible Assets	0.04	0.04	0.05
Other Non -current assets	1579.01	1472.54	1498.71
Total non-current assets	**2453.03**	**2114.43**	**1551.45**
Financial Assets			
cash and cash equivalents	1.66	1.38	3.71
Bank balance other than above	94.22	99.38	77.36
Derivative financial instruments	0.00	0.00	46.69
Receivable - lease recevables	153846.81	148579.80	125026.51
Loans	6243.04	6423.37	5895.49
Investments	11.41	11.51	11.23
Other financial assets	129336.42	118274.25	73823.94
Total Financial assets	**289533.56**	**273389.70**	**204884.92**
Total Assets	**291986.58**	**275504.13**	**206436.38**
Non-current liabilities			
Provisions	9.30	13.80	11.80
other non-financial liabilities	5.57	32.22	4.82
Total non-current liabilities	**14.86**	**46.02**	**16.61**
Financial Liabilities			
Derivativ financial instruments	388.35	406.52	310.60
payables-total o/s due msme	0.15	0.05	0.01
payables - total o/s dues creditors	43.99	37.70	12.17
Debt securities	161258.67	155290.46	123597.90
Borrowings	84090.65	79086.27	50334.78
other financial liabilities	14502.94	10337.37	7299.94
Total Financial Liabilities	**260284.75**	**245158.36**	**181555.39**
Total Liabilities	**260299.61**	**245204.38**	**181572.00**
NET Worth	**31686.97**	**30299.75**	**24864.38**
Net worth represented by:			
Share capital	11880.46	11880.46	9380.46
Other Equity	19806.51	18419.29	15485.84
Total Networth	**31686.97**	**30299.75**	**24866.30**

Moneywise. Be wise.

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

E-mail: smc.care@smcindiaonline.com

Moneywise. Be wise.

Corporate Office:
11/6B, Shanti Chamber,
Pusa Road, New Delhi - 110005
Tel: +91-11-30111000
www.smcindiaonline.com

Mumbai Office:
Lotus Corporate Park, A Wing 401 / 402 , 4th Floor , Graham Firth Steel Compound, Off Western Express Highway, Jay Coach Signal, Goreagon (East) Mumbai - 400063
Tel: 91-22-67341600, Fax: 91-22-67341697

Kolkata Office:
18, Rabindra Sarani, Poddar Court, Gate No-4,
5th Floor, Kolkata - 700001
Tel.: 033 6612 7000/033 4058 7000
Fax: 033 6612 7004/033 4058 7004