

Subscribe for Long Term

Issue Details

Price Band (Rs)	Rs.25 - 26
Face Value (Rs)	10
Issue Size (Rs)	4633.38Cr
Issue Type	Book Building
Minimum lot	575
Issue Opens	January 18, 2021
Issue Closes	January 20, 2021
Listing on	BSE, NSE

Indicative Timeline

On or before	
Finalization of Basis of Allotment	January 25, 2021
Unblocking of Funds	January 27, 2021
Credit of shares to Demat Account	January 28, 2021
Listing on exchange	January 29, 2021

Other Detail

Book Running Lead Managers	DAM Capital Advisors Limited, HSBC Securities and Capital Markets (India) Private Limited, ICICI Securities Limited, SBI Capital Markets Limited.
Registrar	KFin Technologies Private Limited

INDIAN RAILWAY FINANCE CORPORATION LIMITED

Company Background

The company was incorporated as "Indian Railway Finance Corporation Limited"(IRFC) on December 12, 1986. Company's Promoter is the President of India, acting through the Ministry of Railways ("MoR"), Government of India ("GoI"). They are registered with the Reserve Bank of India as a NBFC (Systematically Important) and are classified under the category of an "Infrastructure Finance Company" and notified as a "Public Financial Institution" under the Companies Act, 1956. The company was conferred with the 'Mini-Ratna Category-I' status in 2008. IRFC is the dedicated market borrowing arm of the Indian Railways. Their primary business is financing the acquisition of rolling stock assets, leasing of railway infrastructure assets and national projects of the GoI and lending to other entities under the MoR.

Issue Details

The offer comprises Fresh Issue of Equity shares aggregating upto Rs.3088.91Cr and Offer for sale of Equity Shares aggregating upto Rs.1544.47Cr

Issue Objectives

- To augment the company's equity capital base to meet future growth requirements.
- To meet general corporate purposes.

IPO Share Allotment Pattern

Category	Allocation	Number of Shares	Issue Size (Rs.Cr) at Rs.25	Issue Size (Rs.Cr) at Rs.26
QIB	50%	890,934,500	2,227.34	2,316.43
Non-Institutional	15%	267,280,350	668.20	694.93
Retail	35%	623,654,150	1,559.14	1,621.50
Employee		200,000	0.50	0.52
Total		1,782,069,000	4,455.17	4,633.38

Outlook and Valuations

IRFC is the dedicated market borrowing arm of the Indian Railways. IRFC plans to increase its financing portfolio by funding Project Assets such as decongestion of railway network, expansion of existing network and future requirements. The company also plans to expand to forward and backward linkages to the railway sector and become a holistic infrastructure financing company that will benefit from the proposed GoI investments, budgetary allocations and expansion of railway network by opening up to the private sector. At the upper price band of Rs.26, stock is valued at 0.97x September 2020 Book Value, **We recommend to subscribe the issue from a long-term prospective.**

Investment Rationale

Strategic role in financing growth of Indian Railways

IRFC was incorporated as the dedicated market borrowing arm for the Indian Railways and has played a strategic role in financing the operations of the Indian Railways. In Fiscal 2020, they financed Rs. 71,392 crore accounting for 48.22% of the actual capital expenditure of the Indian Railways. respectively. In addition to financing of Rolling Stock Assets, they have also financed Project Assets aggregating to Rs.33,940.00 crore and Rs.7,500.00 crore in Fiscal 2020 and the 6 months ended September 30, 2020, respectively. The extensive expansion plans of the Indian Railways in the future will involve significant financing, and their operations, as a primary financing source for the Indian Railways, will increase significantly.

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

The company meets their funding requirements through various sources. They fund acquisitions of Rolling Stock Assets and Project Assets through market borrowings of various maturities and currencies. Their diversified sources of funding, credit ratings and strategic relationship with the MoR, have enabled them to keep the cost of borrowing competitive. IRFC has the ability to source external commercial borrowings in the form of syndicated foreign currency term loans, issuance of bonds/ notes in offshore markets at competitive rates supplement the funds available to them from domestic sources. It is categorized as a "Infrastructure Finance Company" and allowed to borrow up to \$750 million from ECBs without prior approval from RBI. The Cost of Borrowings was 6.82%, 7.09% and 7.27% in Fiscals 2018, 2019 and 2020.

Low risk business model

Company's relationship with the MoR enables them to maintain a low risk profile. Typically, the expenses incurred by them 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 borrowing. This enables them to earn a margin, as determined by the MoR in consultation with them at the end of each Fiscal, over the life of the lease. Risks relating to damage to Rolling Stock Assets as a result of natural calamities and accidents are also passed on to the MoR. Further, the MoR is required to indemnify IRFC at all times from and against any loss or seizure of the Rolling Stock Assets under distress, execution or other legal process. **As of September 30, 2020, IRFC did not have any non-performing assets.**

Strong asset-liability management

In addition to traditional cash flow management techniques, IRFC manages their cash flows through an active asset and liability management strategy. The asset-liability management model is structured in a manner which ensures that they have minimum asset-liability mismatches. They borrow on a long-term basis to align with the long-term tenure of the assets funded by them which allows them to manage their liquidity better and meet the growing demands of the Indian Railways.

Financial Snapshot

As of March 31				
Key Financial Indicator (Amt in Mn)	2018	2019	2020	H1FY21
Revenue from Operations	92,078	1,09,874	1,34,211	73,848
Revenue Growth (%)	-	19.32%	22.14%	12.29%
Net Profit	20,015	21,399	3 1,921	18,868
EPS	3.07	3.26	3.40	1.59
AUM	154,5346	2,009,373	2,661,369	2,780,076
AUM Growth (%)	24.73%	30.03%	32.45%	25.28%
Disbursements	367,223	525,352	713,921	190,164
Disbursement Growth (%)	33.59%	43.06%	35.89%	(22.49%)
Cost to income ratio	1.49%	0.76%	1.97%	2.94%
GNPA/NNPA	Nil	Nil	Nil	Nil
Capital Adequacy Ratio	320.58%	347.14%	395.39%	433.92%
Net worth	2,03,242	2,48,662	3,02,997	3,16,869
NAV	31.14	26.51	25.50	26.67
ROE (%)	12.33%	9.47%	11.57%	6.09%*
ROA (%)	1.38%	1.16%	1.32%	0.66%*
Dividend(%)	0.51%	2.68%	2.13%	5.33%

*Not annualized , Source: Company RHP, ACMIIL Research

Comparison With Listed Peers: There are no listed companies in India in the same line of business as that of the Company.

Risk and Concern

- 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 Ministry of Railways, Government of India could have an adverse effect on their business.
- Any slowdown in the growth of Indian Railways will impact their business and results of operations.

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