

# INDIAN RAILWAY FINANCE CORP.

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IPO NOTE



# OVERVIEW

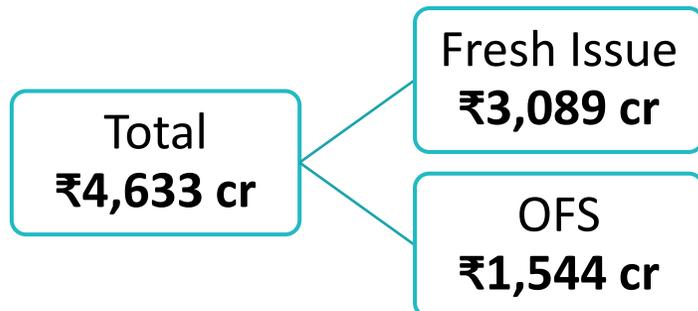
**Indian Railway Finance Corporation (IRFC)** was incorporated on **12<sup>th</sup> December, 1986** as the financing arm of the Indian Railways for raising funds from domestic and overseas capital markets. IRFC is **wholly owned by the Government of India (GOI)** through the **Ministry of Railways (MoR)** and registered with the Reserve Bank of India as a Non-Banking Finance Companies (NBFC) and classified under the category of **Infrastructure Finance Company (IFC)**. The company proposes to utilize the net proceeds (₹3,089 crore) towards **increasing the equity capital base in order to meet the future capital requirements.**

## FINANCIAL HIGHLIGHTS

	FY18	FY19	FY20
Revenue from Operations	9,207	10,987	13,421
Net Interest Income	2,554	2,782	3,225
Net Profit	2,001	2,140	3,192
Borrowings	1,34,006	1,73,933	2,34,377

₹ crore

## ISSUE SIZE



## ISSUE DETAILS

Issue Date	18 Jan'21 to 20 Jan'21
Price Band	₹25-₹26
Bid Lot	575 shares
Issue Size	₹4,633 cr
No. of Shares (Post Issue)	1,366.25 cr
Post-Issue Implied Market Cap*	₹35,523 cr
Price to Book Ratio (FY20 earnings)*	~1.02x

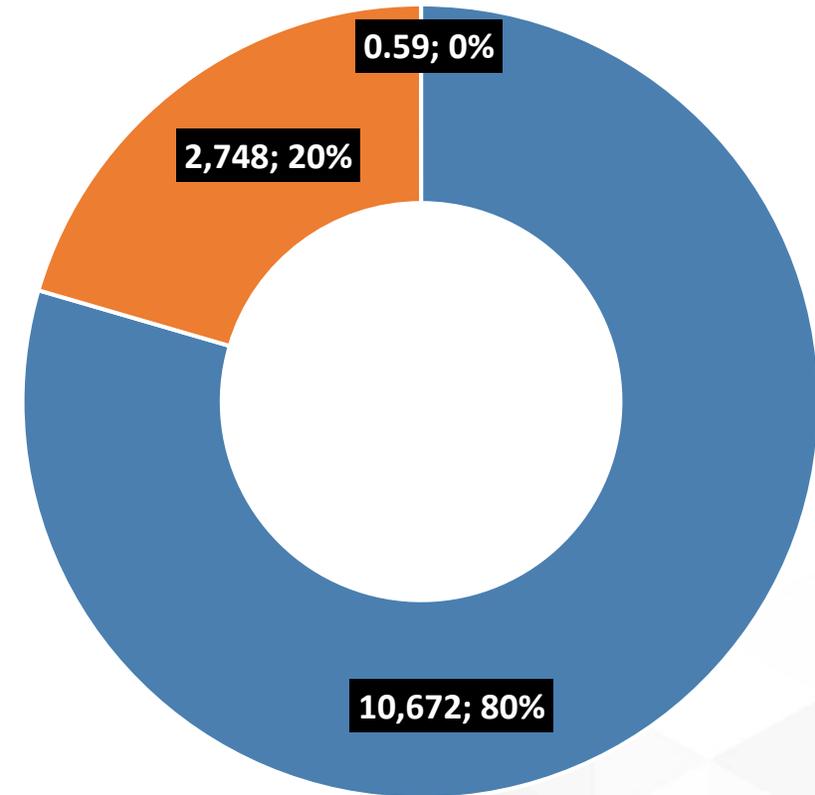
\* At upper price band

# ABOUT THE COMPANY

- IRFC's primary business is financing the acquisition of rolling stock assets which comprises of powered and unpowered vehicles like locomotives, coaches, wagons, trucks and all kinds of rolling stock instruments.
- IRFC is also involved in leasing of railway infrastructure assets and national projects of the GOI and lending to other companies under the Ministry of Railways (MoR).
- In FY20, IRFC financed ₹70,250 crore that is 48.22% of the actual capital expenditure of the Indian Railways.
- IRFC also provides debt to other Public Sector Undertakings (PSU) along with financing sufficient funds to the Indian Railways.
- IRFC funds acquisitions of the Rolling Stock Assets and Project Assets by borrowing from the market for various maturities and currencies.
- IRFC has the highest credit rating as an Indian issuer for the domestic (89%) and international (11%) borrowings.

## REVENUE FROM OPERATIONS (FY20)

TOTAL: ₹ 13,421 cr



■ Lease Income ■ Interest Income ■ Dividend Income

₹ crore

## ABOUT THE COMPANY

As the company is a non-deposit taking NBFC, it has restricted access to funds in comparison to banks and deposit taking NBFCs. The company is fundamentally dependent upon funding from the debt markets and commercial borrowings. Its ability to continue to obtain funds from the debt markets and through commercial borrowings on acceptable terms and to access new sources of funding, markets or investors, is dependent on factors which are outside its control. It includes the economic conditions in the Indian economy and liquidity in the domestic and global financial markets.

### SOURCES OF FUNDING\*

Particulars	As of 30th September 2020
External Commercial Borrowings	25,007
Taxable Bonds	1,10,890
Rupee Term Loan	74,421
Tax Free Bonds	33,080
Commercial Papers	2,550
<b>Total</b>	<b>2,45,948</b>

## ABOUT THE COMPANY

Over the past three decades IRFC played a pivotal role in financing a significant proportion of the capital requirement for the Indian Railways. The MoR provides a target fund requirement to the IRFC at the beginning of each financial year. On the basis of the targets, IRFC raises funds from various sources. However, the targets for FY21 was revised from ₹58,000 crore to ₹62,567 crore in order to finance its rolling stock assets and projects by Rail Vikas Nigam Ltd. For FY21, the Union Budget proposed a capital expenditure of ₹1,61,000 crore for the Indian Railways.

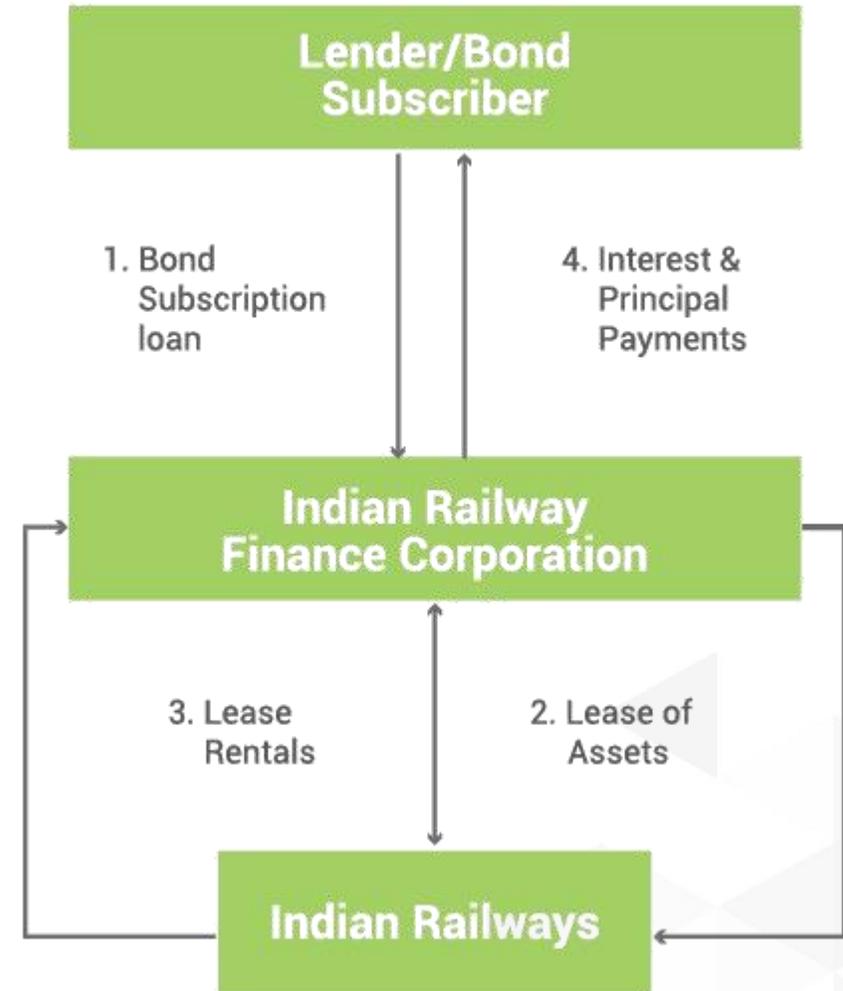
### TARGET BORROWINGS FROM IRFC FOR FY21

Particulars	Previous targets as of April 2020	Revised Targets as of January 2021
Rolling Stock	29,300	33,137
Projects by Rail Vikas Nigam Limited (RVNL)	700	1,430
Projects under Extra Budgetary Resources (Institutional Financing)	28,000	28,000
<b>Total</b>	<b>58,000</b>	<b>62,567</b>

# ABOUT THE COMPANY

IRFC follows a leasing model to finance the rolling stock assets and project assets of Indian Railways. The lease period is typically for 30 years, comprising a primary component of 15 years followed by a secondary period of 15 years. As part of the lease, recovery of the principal component and interest is affected during the primary lease period and at the end of the lease, assets are typically sold to the MoR for a nominal price.

The company has adopted a cost plus lease arrangement with the Ministry of Railways which ensures a net interest margin for IRFC. The MoR pays lease rentals to the company on half yearly basis and the lease pricing comprises both principal repayment and interest payment.



# SECTOR OUTLOOK

The Indian Railways is a departmental undertaking of the GoI, which owns and operates India’s rail transport, through the MoR. It is the largest rail network in Asia. The Indian Railways plays a pivotal role towards the social and economic development of the economy as it is one of the cheapest means of transport.

In FY19, the Indian Railways was running ~13,523 passenger trains everyday to commute approx 2 crore passengers. The Indian railway primarily generates its revenue from passenger and freight traffic.

Revenue for the Indian Railways increased from ₹1,78,725 crore in FY18 to ₹1,89,907 crore in FY19. For FY19, the railways has used 12,147 locomotives, 67,597 passenger service vehicles, 2,89,185 wagons and 6,406 other coaching vehicles.

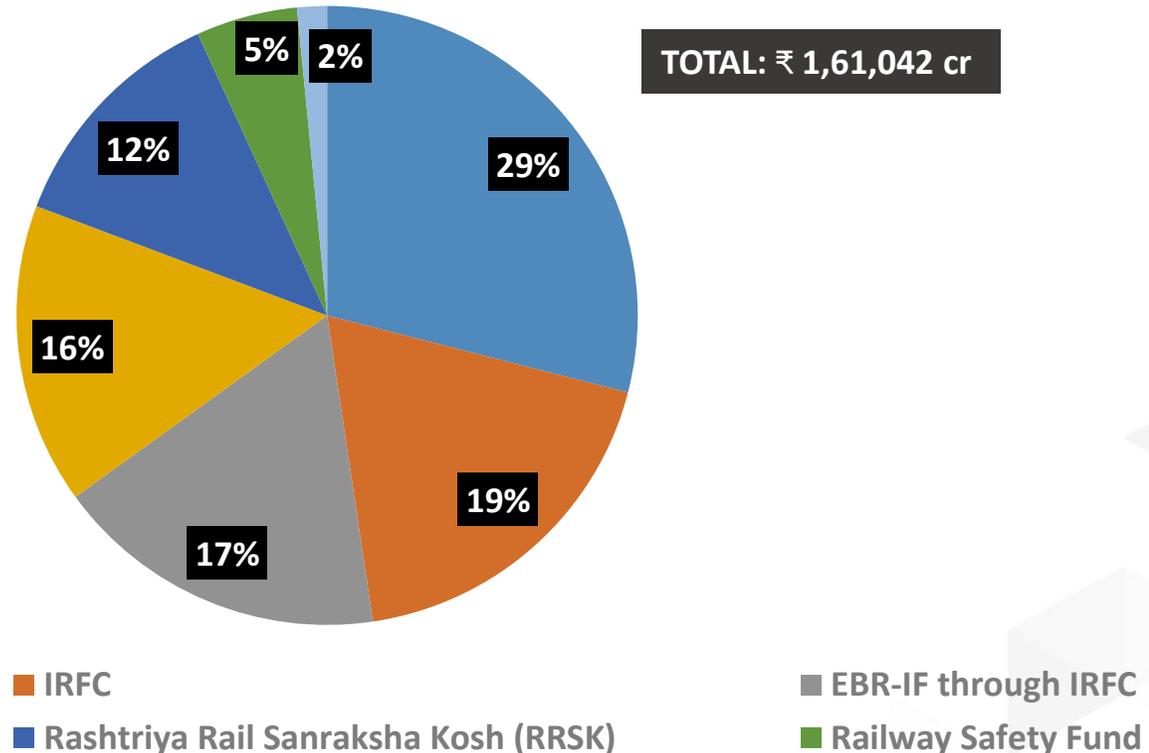
**REVENUE GENERATION OF INDIAN RAILWAYS FROM PASSENGER AND FREIGHT TRAFFIC**



# SECTOR OUTLOOK

Indian Railways capital structure plan are funded through various sources: the Gross Budgetary Support, internally generated funds, IRFC and others. For FY21, the revised capital expenditure plan was ₹1,61,042 crore, 2.99% higher than the revised estimate for FY20 (₹4,690.03 crore).

## INDIAN RAILWAYS CAPITAL OUTLAY AND ITS SOURCE OF FINANCING FOR FY21\*



- Gross Budgetary Support
- Public Private Partnership
- Internally Generated Funds

- IRFC
- Rashtriya Rail Sanraksha Kosh (RRSK)

- EBR-IF through IRFC
- Railway Safety Fund

\*Budgetary Estimates

# PROMOTER BACKGROUND AND SHAREHOLDING

IRFC is a Schedule 'A' **Public Sector Undertaking** under the administrative control of the **Ministry of Railways, Government of India.**

Shareholding	Pre IPO	Post IPO
Promoter	100.0%	86.4%
Public	0.0%	13.6%
Total	100.0%	100.0%

	Share in Issue (₹ crore)	% of Issue
QIB	2,316.7	50%
NIB	695.0	15%
Retail	1,621.7	35%
Total	4,633.4	100%

# COMPETITIVE LANDSCAPE

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- IRFC being a public sector unit, enjoys the privilege of financing a major chunk of the Indian Railways underwriting works.
- IRFC may face an increased competition from the public, private sector commercial banks and other financial institutions which provide funds to other public sector undertakings under the administration of Indian Railways.
- The potential competitors of IRFC are public sector infrastructure finance companies, public sector banks, private banks and financial institutions including foreign banks and other NBFCs.

# MANAGEMENT



**Amitabh Banerjee**  
*Chairman and  
Managing Director*

**Shelly Verma**  
*Director and Chief  
Financial Officer*

**Baldeo Purushartha**  
*Part-time  
Government Director*

**Chetan Venugopal**  
*Part-time Non-official  
Director*

**Ashok Kumar Singhal**  
*Non-Official Director*

# RISK FACTORS

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- IRFC generates a significant amount of revenue from the Indian railways. Reduction in business or any shift in the funding pattern of the Indian Railways will have an adverse impact on IRFC's operations. Also, any change in the policies of GoI and its related entities (MoR) will have a direct impact on the financial condition of the company.
- IRFC's liquidity is largely dependent on its ability to raise funds from its various sources at low cost. Any disruption in obtaining adequate amount of funds while maintaining the costs will have an adverse impact on the financials of the company.
- Another major proportion of IRFC's revenue comes from the Standard Lease Agreements (SLA). Any mismatch in the tenor of IRFC's leases and borrowings and any change in the terms of SLA by the MoR, will lead to both reinvestment and liquidity risk.
- According to the Indian law, IRFC can raise foreign currency borrowings up to \$750 million, this constraint on raising foreign currency debt limits the ability to finance and refinance its additional and existing debts respectively.
- IRFC has a significant proportion of borrowings denominated in US dollars and Japanese Yen. Any fluctuation in the foreign currency exchange rates will directly impact the cost of borrowings of the company.

# STATEMENT OF PROFIT AND LOSS

Particulars	Data as on 31 <sup>st</sup> March				
			₹ crore		
	Sep'2019	Sep'2020	2018	2019	2020
<b>Revenue From Operations</b>	<b>6,574.8</b>	<b>7,383.1</b>	<b>9,207.0</b>	<b>10,987.4</b>	<b>13,421.0</b>
Other Income	2.1	1.7	0.8	0.0	0.1
<b>Total Income (I)</b>	<b>6,576.9</b>	<b>7,384.8</b>	<b>9,207.8</b>	<b>10,987.4</b>	<b>13,421.1</b>
Finance Costs	4,937.3	5,440.9	6,637.6	8,183.1	10,162.6
Impairment on financial instruments	-	-	-	27.5	2.1
Employee Benefits Expense	2.3	2.7	5.5	6.3	6.3
Depreciation and Amortization Expense	0.2	0.2	0.4	0.4	0.5
Other Expenses	6.7	54.1	32.4	14.7	57.5
<b>Total Expenses (II)</b>	<b>4,946.5</b>	<b>5,497.9</b>	<b>6,675.9</b>	<b>8,232.0</b>	<b>10,229.0</b>
Profit Before Tax (III) = (I-II)	1,630.4	1,886.8	2,531.9	2,755.4	3,192.1
Total Tax Expense (IV)	-	-	530.5	615.4	-
<b>Net Profit for the Period (III-IV)</b>	<b>1,630.4</b>	<b>1,886.8</b>	<b>2,001.4</b>	<b>2,140.0</b>	<b>3,192.1</b>

# STATEMENT OF ASSETS AND LIABILITIES

Particulars	Data as on 31 <sup>st</sup> March				
			(₹ crore)		
	Sep'2019	Sep'2020	2018	2019	2020
Cash and Bank Balance	9,618.8	95.9	99.8	81.1	100.8
Lease Receivables	1,34,922.5	1,53,846.8	1,09,471.7	1,25,026.5	1,48,579.8
Other Financial Assets	91,630.8	1,35,590.9	50,426.1	79,779.3	1,24,709.1
Property, Plant And Equipment	11.1	10.9	11.3	11.2	11.0
Current Tax Assets (Net)	625.2	863.1	38.8	41.5	630.8
Other Assets	1,469.6	1,579.0	1,403.3	1,498.7	1,472.6
<b>Total Assets</b>	<b>2,38,278.0</b>	<b>2,91,986.6</b>	<b>1,61,451.0</b>	<b>2,06,438.3</b>	<b>2,75,504.1</b>
Financial Liabilities	1,84,957.2	2,45,781.8	1,34,763.8	1,74,255.4	2,34,821.0
Other Financial Liabilities	27,050.4	14,502.9	5,692.8	7,300.0	10,337.4
Non Financial Liabilities	24.9	14.9	670.1	16.6	46.0
Total Equity	26,245.5	31,687.0	20,324.3	24,866.3	30,299.7
<b>Total Liabilities and Equity</b>	<b>2,38,278.0</b>	<b>2,91,986.6</b>	<b>1,61,451.0</b>	<b>2,06,438.3</b>	<b>2,75,504.1</b>

## KEY METRICS

Particulars	Data as on 31 <sup>st</sup> March (₹ crore)				
	Sep'2019*	Sep'2020*	2018	2019	2020
Asset Under Management (AUM)	2,21,910.3	2,78,007.6	1,54,534.7	2,00,937.3	2,66,137.0
AUM Growth (%)	-	25.28	24.73	30.03	32.45
Disbursements	24,534.3	19,016.4	36,722.3	52,535.2	71,392.1
Operating Expense	9.2	57.0	38.3	21.4	64.2
Average Net Worth	25,555.9	30,993.4	16,242.1	22,595.3	27,583.0
EPS (Diluted)	1.74	1.59	3.07	3.26	3.40
Return on Average Net Worth (%)	6.38	6.09	12.32	9.47	11.57
Cost of Borrowings (%)	3.91	3.55	6.82	7.09	7.27
Net Interest Margins (%)	0.76	0.71	1.83	1.57	1.38
Cost to Income ratio (%)	0.56	2.94	1.49	0.76	1.97
Gross/ Net Non Performing Assets	-	-	-	-	-

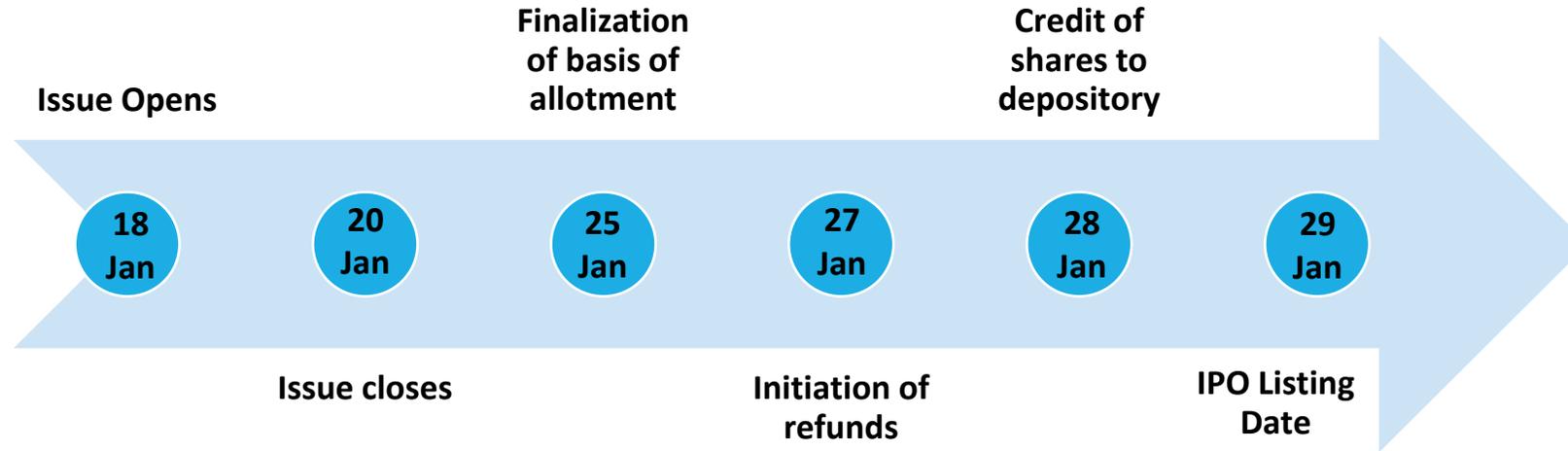
# SWOT ANALYSIS



- IRFC’s diversified sources of funding, highest credit ratings and strategic relationship with the MoR enables the company to keep its borrowing cost lower.
- IRFC has a low risk business model with no non-performing assets.
- IRFC follows an active asset liability management strategy to maintain its cash flows.



# TIMELINES



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