

January 16, 2021

Issue Details		
Issue Opens	18-01-21	
Issue Closes	20-01-21	
Issue Size (in Rs. Crs)	4455.17- 4633.38	
Issue Size (Shares)	1,78,20,69,000	
Authorised Shares	250,000,000,00	
Issued, Subscribed and Paid Up Sh. Pre offer	118,804,600,00	
Offer for Sale	59,40, 23,000	
Face Value	Rs. 10.00	
Lot Size (Sh)	575.00	
Price Band	Rs.25 - Rs.26	
Issue Type	Book Building	
Book Value (in Rs.)(H1FY21)	26.67	
BRLMs	DAM Capital, HSBC, ICICI Securities, SBI Capital Markets.	
Registrar	KFin Technologies Pvt. Ltd.	
Listing Venue	BSE/NSE	
Finalization of Allotment	25-Jan -21	
Initiation of refund	27-Jan -21	
Credit to Demat Account	28-Jan -21	
Listing	29-Jan -21	
Issue Structure		
Categories	Allocation	
QIBs	50.00%	
Non-Institutional	15.00%	
Retail Portion	35.00%	
Total	100.00%	
Shareholding Pattern		
Categories	Pre issue	Post Issue
Promoter & Promoter Group	100.00%	86.00%
Public	0.00%	14.00%
Total	100.00%	100.00%
Recommendation		
SUBSCRIBE		

Company Background

Indian Railway Finance Corporation (IRFC) is wholly-owned by the Government of India and acts through the Ministry of Railways (MoR). It is registered with the Reserve Bank of India (RBI) as a Non-Banking Finance Company (NBFC) under the category of an Infrastructure Finance Company. The primary business of IRFC is financing the acquisition of rolling stock assets, which includes both powered and unpowered vehicles such as locomotives, coaches, wagons, trucks, flats, electric multiple units, containers, cranes, trollies of all kinds and other items of rolling stock components as enumerated in the Standard Lease Agreement, leasing of railway infrastructure assets and national projects of the Government of India and lending to other entities under the Ministry of Railways, Government of India.

Objects of the Issue

IRFC proposes to utilize the net proceeds from the fresh issue for augmenting its equity capital base to meet the future capital requirements arising out of growth in its business and general corporate purposes.

Key Points

- IRFC has a strong leasing model for financing the rolling assets. Typically, the period of lease is around 30 years with the first 15 years focused on recovering the principal amount along with the weighted cost of borrowing plus a margin and the last 15 years to generate revenue.
- Since commencement of business till September 30, 2020 IRFC has financed 11,670 Locomotives, 66,603 Coaches, 244,902 Wagons and 85 Cranes & Truck Machines which amounts to 2,34,627 crores of Rolling Stock Assets already being financed is a huge milestone company has achieved.
- IRFC earned a margin of 40 basis points(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 internal borrowing for financing project assets.
- Company has been consistently maintaining the highest possible credit ratings assigned by CRISIL, ICRA & CARE i.e. AAA; A1+ which is indeed the highest credit rating benchmark in India.
- IRFC's plays a strategic role in financing growth of Indian railways through its embedded low risk business model backed by strong asset-liability management; competitive cost of borrowings and diversified sources of funding. Company has demonstrated consistent growth in funding and profitability. Besides, cost-plus based standard lease agreement with the MoR has historically rendered with a margin over the weighted average cost of incremental borrowing. At the upper end of the price band at Rs.26 the IRFC stock is valued at one time FY20 price to book value. **Investor with long term view can Subscribe to this issue.**

Particulars (₹ Crs.)	H1FY21	H1FY20	Var%	FY20	FY19	FY18	FY17
Revenue from Operations	7383.12	6574.77	12.29%	13838.46	11133.59	11018.51	9046.77
Other Income	1.71	2.12	-19.34%	0.07	0.00	1.72	0.89
Total Income	7384.83	6576.89	12.28%	13838.53	11133.59	11020.23	9047.66
Total Expenses	5497.99	4946.50	11.15%	10146.12	8232.02	8475.08	6914.39
Profit Before Tax	1886.84	1630.39	15.73%	3692.42	2901.59	2545.15	2133.27
Provision for Tax	0.00	0.00	na	0.00	646.84	537.84	1199.46
Profit After Tax	1886.84	1630.39	15.73%	3692.42	2254.75	2007.31	933.81
Earnings Per Share	1.59	1.74	-8.62%	3.11	2.40	3.08	1.43
Book Value (in Rs.)	26.67	27.98	-4.67%	26.06	26.68	20.78	18.40
Equity	11880.46	9380.46	26.65%	11880.46	9380.46	6526.46	6526.46

Source: Company's RHP, Ace Equity, AUM Research

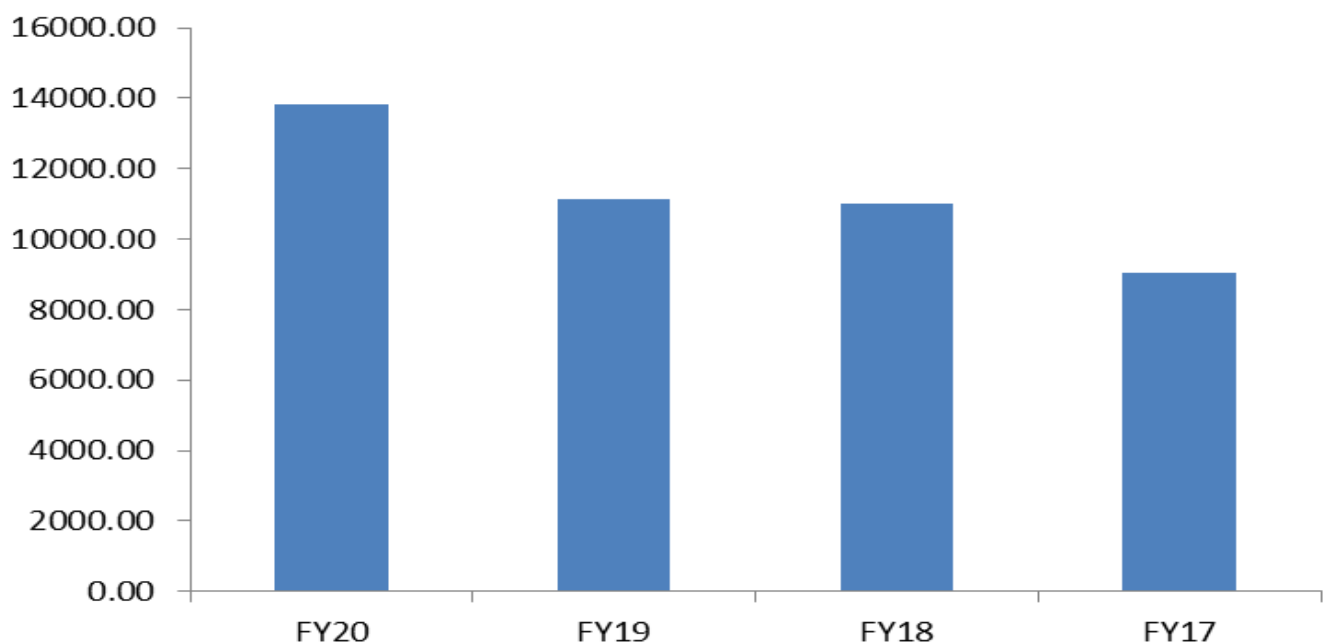
Competitive Strengths

- IRFC act as the dedicated market borrowing arm for the Indian Railways and has played a strategic role in financing the operations of the Indian Railways since its inception.
- Competitive cost of borrowings based on strong credit ratings in India and diversified sources of funding.
- IRFC funds acquisitions of Rolling Stock Assets and Project Assets through market borrowings of various maturities and currencies.
- IRFC has demonstrated consistent growth in terms of funding and profitability.
- Relationship with MoR enables company 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 in turn enables IRFC to earn a margin as determined by MoR in consultation with IRFC.
- Manages cash flow through an active asset and liability management strategy. IRFC's asset-liability management model is structured in a manner which ensures that it has minimum asset-liability mismatches.
- Diversification of borrowing portfolio.
- Plan to diversify financing portfolio and broaden lending activities.
- Experienced, passionate and professional management team.
- No NPAs as on September 30, 2020.
- As of September 30, 2020, the company's total AUM consisted of 55.34% of lease receivables primarily in relation to rolling stock assets, 2.25% of loans to central public sector enterprises entities under the administrative control of MoR and 42.41% of advances against leasing of project assets.

Risk Factors

- IRFC derives a significant amount of revenue from Indian Railways. Any direct borrowing by Indian Railways or introduction of new avenue of funding by MoR, Govt of India could have an adverse effect on IRFC's business.
- Any disruption in funding sources or any inability to raise funds at a low cost could have a material adverse effect on the business.

Revenue from Operations



Financials

Financial Highlights-Consolidated (Values in Rs. Crore)

Description	FY20	FY19	FY18	FY17
Inc / Exp Performance				
Gross Sales	13838.46	11133.59	11018.51	9046.77
Total Income	13838.54	11133.60	11020.23	9047.66
Total Expenditure	65.84	48.50	37.86	25.95
PBIDT	13772.70	11085.10	10982.37	9021.71
PBIT	13772.24	11084.68	10982.02	9021.36
PBT	3692.42	2901.59	2545.15	2133.27
PAT	3692.42	2254.75	2007.31	933.81
EPS	3.11	2.40	3.08	1.43
Book Value	26.06	26.68	20.78	18.40
Sources of Funds				
Equity Paid Up	11880.46	9380.46	6526.46	6526.46
Reserves and Surplus	19081.97	15648.19	7038.75	5483.14
Net Worth	30962.43	25028.65	13565.21	12009.60
Total Debt (Long Term plus Short Term)	234376.72	173932.68	134952.57	106394.86
Capital Employed	265339.15	198961.33	148517.78	118404.46
Application of Funds				
Gross Block	12.22	12.00	17.59	17.48
Investments	11.51	13.15	6.54	7.87
Cash and Bank balance	100.76	81.07	99.82	7.52
Net Current Assets (Including Current Investments)	181832.96	145574.52	-11364.88	-1710.31
Total Current Liabilities	93489.05	60954.91	25471.08	12797.48
Total Assets	278481.91	206603.61	162332.13	129649.63
Cash Flow				
Cash Flow from Operations	-62717.59	-41748.19	-27936.16	-19455.18
Cash Flow from Investing activities	1.47	1.31	1.67	1.79
Cash Flow from Finance activities	62713.79	41749.45	28026.79	18249.71
Free Cash flow	-62100.52	-41918.02	-28337.25	-20516.71
Key Ratios				
Debt to Equity(x)	7.57	6.95	9.95	8.86
Current Ratio(x)	2.94	3.39	0.55	0.87
ROCE (%)	5.93	6.38	8.23	8.30
RONW (%)	13.19	11.68	15.70	8.67
PBIDTM (%)	99.52	99.56	99.67	99.72
PATM (%)	26.68	20.25	18.22	10.32

Aum Capital RESEARCH DESK

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