

16 January 2021

Indian Railway Finance – SUBSCRIBE

Investment Thesis

Indian Railway Finance Corporation Ltd. (IRFCL) is coming out with an initial public offering (IPO) on January 18, 2021. The Issue comprises of a fresh issue and an offer for sale. IRFCL plans to issue new 1,188,046,000 equity shares and will offer 594,023,000 equity shares for sale. The net proceeds of the fresh issue are proposed to be utilised to augment company's equity capital base to meet business future growth requirements and for general corporate purposes.

IRFCL is a dedicated market borrowing arm for the Indian Railways and has played a strategic role in financing the operations of the Indian Railways. In FY20, it has financed Rs.713.92bn accounting for 48.22% of actual capital expenditure of the Indian Railways. IRFCL's financing targets determined annually by the Ministry of Railways (MoR) based on the annual planned capital outlay contained in the Union Budget for Indian Railways which it undertakes to meet through various sources including taxable and tax-free bonds issuances, term loans from banks/financial institutions, external commercial borrowings, internal accruals, asset securitization and lease financing. We believe that the extensive expansion plans of the Indian Railways in the future will involve significant financing and IRFCL being a primary financing source for the Indian Railways, the operation of IRFCL will increase significantly.

IRFCL meet its funding requirements through various sources. It funds acquisitions for Rolling Stock Assets and Project Assets is done through market borrowings of various maturities and currencies. Its 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 IRFCL from domestic sources. We believe its diversified sources of funding, credit ratings and strategic relationship with the MoR has enabled it to keep its cost of borrowing competitive. Also, IRFCL follow the cost-plus pricing model for financing to other PSU entities, which provide a relatively higher margin.

Financials

- During the past 5 years, revenue of IRFCL grew at a CAGR of 15.2% while PAT grew at a CAGR of 58.1% in the same period.

Standal. (Rs.Mn.)	FY18	FY19	FY20	FY21E	FY22E
Revenue	110,185	111,336	138,385	159,142	183,014
EBITDA	25,438	29,020	36,928	42,467	48,837
% growth	19.3	14.1	27.3	15.0	15.0
PAT	20,073	22,547	36,924	42,463	48,832
EPS (Rs.) #	1.7	1.9	3.1	3.5	4.1
P/E (x) *#	15.5	13.8	8.4	7.3	6.4
RoE (%) #	10.5%	8.2%	11.9%	12.9%	13.9%

* At highest price band # Post listing

IPO Details

Issue Open Date	18 January, 2021
Issue Close Date	20 January, 2021
Price Band (Rs.)	25.00 to 26.00
Issue Size (Rs. Mn)	~46,333.78*
Issue Size (Shares)	1,782,069,000
Market Lot	575 Equity Share
Listing Exchanges	BSE and NSE
Face Value (Rs.)	10/-

* At highest price band

Key Details

Fresh Issue	1,188,046,000 Equity Shares
Offer for Sales	594,023,000 Equity Shares
Issue Type	100% Book Built Issue
Book Running Lead Manager	DAM Capital Advisors HSBC Securities and Capital Markets, ICIC Securities and SBI Capital Markets
Issue structure	QIB: 50% Retail: 35% Non – Institutional: 15%

Key Business Highlights

- Incorporated in 1986, IRFCL is a public-sector enterprise that is wholly-owned by the Government of India. IRFCL is primarily engaged in financing the acquisition of rolling stock assets, leasing of railway infrastructure assets and lending to entities under the MoR.
- Being the borrowing arm of Indian Railways, IRFCL 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.
- As on September 30, 2020, total AUM of IRFCL consisted of 55.34% of lease receivables to Rolling Stock Assets, 2.25% of loans to central public sector enterprises under the administrative control of MoR and 42.41% of advances against leasing of Project Assets. Value of Rolling Stock Assets financed by IRFCL in FY20 and H1FY21 was Rs.3,35,441mn and Rs.1,08,164mn, respectively.

Valuation

- IRFCL 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. IRFCL also intend 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. IRFCL also can leverage its role as a primary financing partner of the MoR to provide financing for various joint venture entities established by the MoR with various State governments and other public sector undertakings for the development of railways infrastructure across India.
- With its focus on improving connectivity in India, the Indian Railways has continuously added running track kilometres to its foray. The total running track kilometres, which was 81,865 kilometres as of March 31, 2001, have increased to 95,981 kilometres as of March 31, 2019. During the period between FY09-14, electrification was done at an average of 1,184 route kilometres every year whereas the MoR has plan to increase the pace of electrification to almost 6,000 route kilometres every year FY20 onward. In these directions, the Research Design and Standards Organization has cleared mechanized foundation and all future railway electrification projects will be with minimum 50% of mechanized execution. This is expected to reduce project execution time. Further, routes have been identified and targeted for commissioning on yearly basis till FY21 to set a clear direction to the 'Mission Electrification'.
- With dedicated market borrowing arm for the Indian Railways, meet its funding requirements through various sources, plans to diversify its financing portfolio and broaden its lending activities and Indian Railways has continuously added running track kilometres to its foray, we are recommending **SUBSCRIBE** to the IPO of Indian Railway Finance Corporation Ltd.

Risk & Concern

- Major portion of assets are in the form of lease receivables from the MoR and other railway entities which carry risk. Any adverse scenario may have negative impact on the business of IRFCL.
- In order to minimize foreign exchange risks, IRFCL hedge its foreign currency exposure associated with external commercial borrowings, any negative movement may impact margin of the company.
- Any damage to Rolling Stock Assets as a result of natural calamities or accidents may have negative impact on the business of IRFCL.

Graphs & Charts

Figure 1: Net Sales Trend

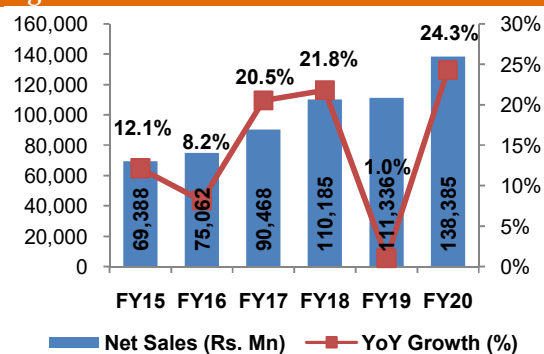


Figure 2: EBITDA & EBITDA Margin Trend

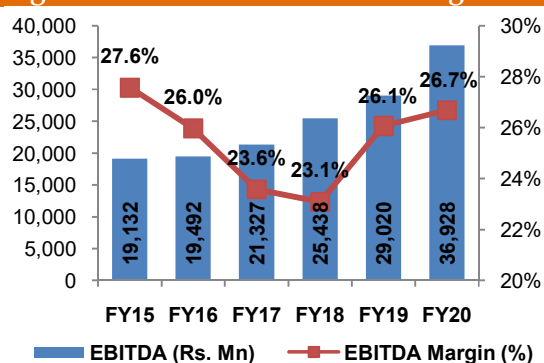


Figure 3: PAT Trend

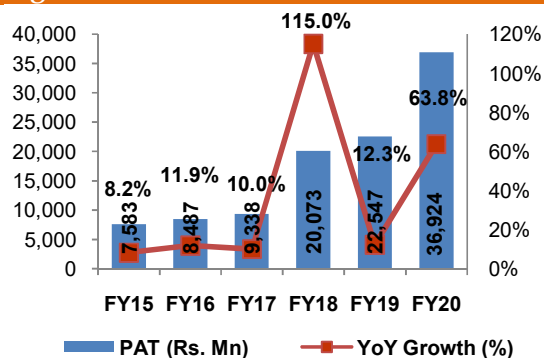
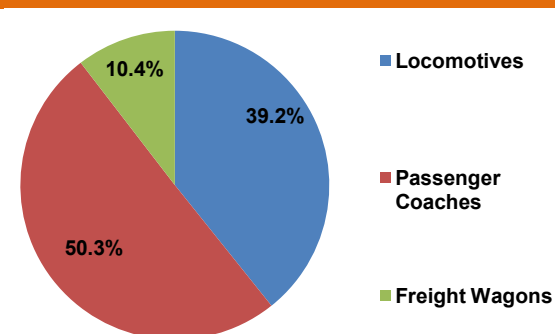


Figure 4: Book Value of Rolling Stock Assets (FY20)



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