

Indian Railway Finance Corporation Limited

April 22, 2020

Ratings

Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Market Borrowing Programme (FY'21)	58,000.00 (Rs. Fifty Eight Thousand crore only)	CARE AAA Stable [Triple A, Outlook: Stable]	Assigned

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to long term market borrowing programme of Indian Railway Finance Corporation Limited (IRFC) factors in 100% ownership by Government of India (GoI) and IRFC's strategic role as a dedicated financing arm of Indian Railways (IR) responsible for arranging funds for meeting planned outlay of IR. The company's principal business is to borrow funds from the commercial markets to finance the acquisition of new rolling stock which is then leased to IR. Ratings also factor in IRFC's strong financial fundamentals with consistently profitable operations, strong asset quality with history of nil non-performing assets (NPAs), comfortable capitalization profile and adequate liquidity position. Additionally the rating on IRFC draws comfort from demonstrated government support as evident via regular equity infusions and favorable lease agreements that protect IRFC against any exchange rate volatility, interest rate fluctuations and liquidity risk by transferring of risks to Ministry of Railways (MoR). Going forward, the continued sovereign ownership and support from GoI in maintaining comfortable capital structure and asset quality will remain key rating sensitivities.

Rating Sensitivities

Negative factors-

- Any material change in government support and/or strategic role played by IRFC in supporting Indian Railways or reduction in GoI's shareholding below 51%
- Deterioration in IRFC's standalone credit profile including its profitability, asset quality and capitalization metrics

Detailed description of the key rating drivers

Key Rating Strengths

100% GoI ownership marked with demonstrated government support and strong integration with parent: Wholly owned by GoI, IRFC is a Schedule 'A' Public Sector Enterprise under the administrative control of MoR. The company has a demonstrated history of receiving timely and regular parent support in the form of regular capital infusions to ensure comfortable capital structure and overall gearing below 10x at all times. During FY19, the tangible net-worth of IRFC increased by 33% Y-o-Y to Rs.18,585 crore on account of capital infusion of Rs.2,854 in FY19 from GoI and healthy internal accruals. In the last four fiscals (FY16-FY19), GoI has infused a total of Rs.7,254 crore in IRFC (incl. Rs.2,000 crore in FY16 and Rs.2,400 crore in FY17). Additionally, the favorable lease agreement with MoR protects IRFC against any exchange rate volatility, interest rate fluctuations and liquidity risk. In line with disinvestment objective of GoI, it was expected that the GoI's shareholding in IRFC will come down by 13.64% in FY20, however, the disinvestment did not happen in FY20 and as per latest discussion with IRFC's management, disinvestment by GoI may not happen in FY20-21 as market is negatively impacted on account of Covid-19 pandemic. Further, GoI infused equity capital of Rs.2500 crore in IRFC in March-20. CARE believes that given IRFC is positioned as a dedicated financing arm of IR, IRFC will maintain strategic importance for IR. Given 100% government ownership, timely support from GoI is expected to be forthcoming and any material change in the ownership of and/or support to IRFC will remain a key rating monitorable.

Strategic Role in providing financial assistance to meet planned outlay of Indian Railways: IRFC is an arranger of finance for MoR and raises money from the market to part finance the planned outlay of IR. The MoR is responsible for the acquisition of rolling stock, improvement, expansion and maintenance of the railway infrastructure while IRFC is responsible for mobilizing resources necessary for the acquisition of rolling stock ordered by the MoR. The resources thus raised are used for part funding for creation of assets (through lease financing) for IR. At the beginning of each fiscal year, the MoR notifies IRFC of its financing requirements that are to be met through market borrowings. At the end of each year, a finance lease agreement is drawn in relation to the rolling stock acquired by the MoR from IRFC funds during the previous year. The lease is for a period of 30 years comprising primary lease period of 15 years followed by a secondary lease period of another 15 years. Lease rentals comprise IRFC's capital recovery, cost plus a net interest margin. Over the last few years, IRFC has provided funding

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

for various railway infrastructure asset projects such as electrification, doubling of railway line etc. The company's resources have been predominantly used for acquisition of rolling stock assets and meeting other developmental needs of IR.

IRFC maintains a dominant share in MoR's increasing requirement for rolling stock on the strength of its ability to mobilize funds at competitive rates. IRFC, under the directives of MoR, also extend loans to other entities of MoR viz. Rail Vikas Nigam Ltd. (RVNL) and IRCON International Limited (IRCON). As on March 31, 2019, 62% of the loans and advances were towards lease receivable from MoR, 32% was advance against lease of railway infrastructure assets, 2.5% was advance against National Project and remaining 3.5% as loans provided to IRCON and RVNL and other advances. As on March 31, 2019, 95% of IRFC revenue is from lease income and remaining 5% is from income from loans and advances and investment income.

Strong asset quality on account of entire exposure to MoR/MoR owned entities: As a non-banking finance company (NBFC) fully owned by Gol, IRFC does not have to comply with Reserve Bank of India's (RBI) regulatory requirements on asset classification, income recognition, provisioning, and prudential exposure norms to the extent of its exposure to MoR, which restrict a non-banking finance company's maximum exposure to a sector or an entity. On account of entire exposure of IRFC to MoR/MoR owned entities which are controlled by Gol, the recovery risk is largely mitigated. As a result, IRFC continues to have strong asset quality with a history of nil non-performing assets (NPAs)

Healthy capitalization: The capitalization profile of IRFC (given zero percent risk weight is assigned to MoR's exposure) remains strong marked with overall CAR at 265.10% as of March 31, 2019 and 313.25% as on December 31, 2019 (224.77% as on March 31, 2018). The capitalization metrics are also supported by tangible net worth of Rs.18,585 crore as on March 31, 2019 and Rs.21,081 crore increased from Rs.13,929 crore as on March 31, 2018 on account of capital infusion of Rs.2,854 from Gol in FY19 and healthy internal accruals.

Diversified borrowings profile: End fiscal 2019, the total borrowings stood at Rs.173,932 crore, up 30% Y-o-Y with funds from various investors banks, other financial institutions and foreign institutional investors. Total borrowings of the company stood at Rs.192,829 crore as on December 31, 2019. During the fiscal 2019, the company raised funds to the tune of Rs.55,442 crore, of which 45% were via rupee term loans, another 35% from taxable bonds, 14% from National Small Savings Fund (NSSF) and 6% via external commercial borrowings (ECB). The company's reported weighted average cost of borrowings stood at 8.09% with an average tenor of 9.57 years as against 7.75% and 9.7 years respectively previous fiscal. The company's overall gearing stood at 9.36 times as on March 31, 2019 reduced from 9.62 times as on March 31, 2018. End December 2019, the gearing stood at 9.15 times.

Key Rating Weaknesses

Moderate profitability: IRFC operates on a cost-plus based model and as per the lease agreement with MoR, the lease rentals are calculated as equal to half yearly payments to be made by the MoR based on weighted average cost of incremental borrowing during the relevant year together with a reasonable markup mutually agreed between the MoR and IRFC. IRFC has moderate financial profile marked by modest revenue growth, controlled borrowing costs, low credit costs and overall profitability protected under lease agreement with MoR. For the fiscal year ending March 31, 2019, the total income of IRFC grew by 20% Y-o-Y to Rs.11,133 crore as against Rs.9,268 crore in FY18 driven by 17% Y-o-Y increase in lease income to Rs.10,586 crore coupled with twofold rise in interest income from loans to Rs.525 crore. End fiscal 2019, the profit after tax (PAT) of IRFC increased by 10% Y-o-Y to Rs.2,254 crore in FY19. IRFC's NIM% and ROTA are moderate at 1.6% and 1.22% respectively as on March 31, 2019 vs. NIM and ROTA at 1.74% and 1.36% respectively as on March 31, 2018.

During 9M FY20, IRFC reported net profit of Rs.2,746 crore on total income (net of interest expense) of Rs.2,763 crore. The annualized NIM and RoTA stood at 1.58% and 1.58% respectively as on Dec 31, 2019.

High Concentration Risk: The loan book of IRFC is highly concentrated as the entire exposure is to MoR or MoR related entities. As on March 31, 2019, 62% of the loans and advances are towards lease receivable from MoR, 32% is advance against lease of railway infrastructure assets, 2.5% is advance against National Project and remaining 3.5% is loans provided to IRCON and RVNL and other advances. Also, the development of IRFC's business is dependent on the Ministry of Railways' strategy concerning the growth of Indian Railways. However, IRFC is exempted from RBI's credit concentration norms.

Liquidity Position: Adequate

As on March 31, 2020, the company had expected inflows in the form of lease rentals from MoR at Rs.11,774 crore and other receipts (receivable from RVNL and IRCON) of Rs.1,344 crore till June-20, totaling to inflows of Rs.13,118 crore till June-20. Against the estimated inflows, the company has debt repayments of Rs.17,019 crore till June-20, leading to cumulative mismatches of Rs.3,901 crore till June-20. However, the company had sanctioned but un-utilised bank lines to the tune of

Rs.9,789 crore as on March 31, 2020. Additionally, the liquidity profile of the IRFC remains comfortable on the back of GoI ownership and support from GoI in the form of regular equity infusions and favorable lease agreement wherein IRFC can get advance lease rentals from MoR if need arises. Due to IRFC's status as a government company, it is exempt from provisions of the RBI Act relating to the maintenance of liquid assets.

Analytical approach: Standalone along with factoring in majority ownership by Government of India.

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Short Term Instruments](#)

[Rating Methodology - Non Banking Finance Companies \(NBFCs\)](#)

[Financial Ratios – Financial Sector](#)

[Rating Methodology: Consolidation and Factoring Linkages in Ratings](#)

About the Company

Indian Railway Finance Corporation (IRFC), a GoI undertaking under the purview of Ministry of Railways (MoR) is a financing arm of Ministry of Railways. It is also registered as Systemically Important Non-Deposit taking Non-Banking Financial Company (NBFC – ND-SI) and Infrastructure Finance Company (NBFC- IFC) with Reserve Bank of India (RBI). The company is a notified Public Financial Institution (PFI) under the Companies Act. IRFC's principal business is to borrow funds from the financial markets to finance the acquisition / creation of assets which are then leased out to the Indian Railways. The funds are utilized for acquiring rolling stock assets and also building up infrastructure, constituting significant part of annual capital expenditure of Indian Railways. Besides, the Company has been assigned the task of funding Railway Projects through Institutional Finance (EBR-IF) route. A significant portion of IRFC's revenue is generated from the leasing of rolling stock assets, comprising locomotives, passenger coaches and freight wagons, to the Indian Railways.

IRFC operates on a cost-plus based model and as per agreement, the lease rentals are calculated as equal to half yearly payments to be made by the MoR based on weighted average cost of incremental borrowing during the relevant year together with a reasonable markup mutually agreed between the MoR and IRFC. While economic ownership of assets vests with MoR, IRFC retains the legal title of the asset. MoR pays lease rentals to IRFC which are sufficient to meet the debt obligations of IRFC. Apart from leasing assets to IR, IRFC under the directives of MoR also extends loans to other entities of MoR viz Rail Vikas Nigam Ltd. (RVNL) etc. The responsibility of debt servicing lies with MoR as debt servicing is done from revenues generated by MoR from these projects.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total Income	9,268	11,133
PAT	2,055	2,254
Interest coverage (times)	1.39	1.35
Total Assets	1,61,371	2,06,554
Net NPA (%)	Nil	Nil
ROTA (%)	1.36%	1.23%

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Borrowings-Market Borrowing Programme		Proposed		58000.00	CARE AAA; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Borrowings-Secured Long Term Borrowings	LT	1570.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Dec-19)	1)CARE AAA; Stable (19-Oct-18)	1)CARE AAA; Stable (09-Oct-17)
2.	Borrowings-Secured Long Term Borrowings	LT	4879.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Dec-19)	1)CARE AAA; Stable (19-Oct-18)	1)CARE AAA; Stable (09-Oct-17)
3.	Borrowings-Secured Long Term Borrowings	LT	2421.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Dec-19)	1)CARE AAA; Stable (19-Oct-18)	1)CARE AAA; Stable (09-Oct-17)
4.	Borrowings-Secured Long Term Borrowings	LT	5731.47	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Dec-19)	1)CARE AAA; Stable (19-Oct-18)	1)CARE AAA; Stable (09-Oct-17)
5.	Borrowings-Secured Long Term Borrowings	LT	4529.83	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Dec-19)	1)CARE AAA; Stable (19-Oct-18)	1)CARE AAA; Stable (09-Oct-17)
6.	Borrowings-Secured Long Term Borrowings	LT	11385.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Dec-19)	1)CARE AAA; Stable (19-Oct-18)	1)CARE AAA; Stable (09-Oct-17)
7.	Borrowings-Market Borrowing Programme	LT	8106.04	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Dec-19)	1)CARE AAA; Stable (19-Oct-18)	1)CARE AAA; Stable (09-Oct-17)
8.	Borrowings-Market Borrowing Programme	LT	8828.34	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Dec-19)	1)CARE AAA; Stable (19-Oct-18)	1)CARE AAA; Stable (09-Oct-17)
9.	Borrowings-Market Borrowing Programme	LT	2625.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Dec-19)	1)CARE AAA; Stable (19-Oct-18)	1)CARE AAA; Stable (09-Oct-17)
10.	Borrowings-Market Borrowing Programme	LT	19200.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Dec-19)	1)CARE AAA; Stable (19-Oct-18)	1)CARE AAA; Stable (09-Oct-17)
11.	Borrowings-Market Borrowing Programme	LT	40985.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Dec-19)	1)CARE AAA; Stable (19-Oct-18)	1)CARE AAA (09-Oct-17)
12.	Short Term Instruments-Short Term Borrowing	ST	8000.00	CARE A1+	-	1)CARE A1+ (06-Dec-19)	1)CARE A1+ (19-Oct-18)	1)CARE A1+ (09-Oct-17)
13.	Short Term Instruments-Short Term Borrowing	ST	12000.00	CARE A1+	-	1)CARE A1+ (06-Dec-19)	1)CARE A1+ (19-Oct-18)	1)CARE A1+ (09-Oct-17) 2)CARE A1+ (30-May-17)
14.	Borrowings-Market Borrowing Programme	LT	40000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Dec-19)	1)CARE AAA; Stable (19-Oct-18)	1)CARE AAA; Stable (09-Oct-17) 2)CARE AAA; Stable (30-May-17)
15.	Commercial Paper	ST	15000.00	CARE A1+	-	1)CARE A1+ (06-Dec-19)	1)CARE A1+ (19-Oct-18) 2)CARE A1+ (26-Jun-18)	-
16.	Borrowings-Market	LT	54940.00	CARE AAA;	-	1)CARE AAA;	1)CARE AAA;	-

	Borrowing Programme			Stable		Stable (06-Dec-19)	Stable (19-Oct-18)	
17.	Borrowings-Market Borrowing Programme	LT	55471.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Dec-19) 2)CARE AAA; Stable (06-Jun-19)	-	-
18.	Borrowings-Market Borrowing Programme	LT	58000.00	CARE AAA; Stable	-	-	-	-

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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