



Indian Railway Finance Corporation Limited

Instrument	Amount	June 2015
Long term borrowing programme 2015-16	Rs 17,655 crore	[ICRA]AAA (Stable) (assigned)
Short term borrowing programme	Rs 5,000 crore ^	[ICRA]A1+ (assigned)
Long term borrowing programme 2014-15	Rs 11,790 crore	[ICRA]AAA (Stable) (Reaffirmed)
Long-term bonds	Rs 49,913 crore	[ICRA]AAA (Stable) (Reaffirmed)
Long-term bank lines	Rs 2,651 crore	[ICRA]AAA (Stable) (Reaffirmed)

^ Enhanced from Rs 3,500 crore

ICRA has assigned [ICRA]AAA (pronounced ICRA triple A) rating with stable outlook to Long Term Borrowing Programmes of Rs 17,655 crore and [ICRA]A1+ (pronounced ICRA A one plus) rating to the enhanced short term borrowing programme of Rs 5,000 crore of Indian Railway Finance Corporation Limited (IRFC)[†]. ICRA also has reaffirmed rating of [ICRA]AAA with stable outlook for long-term borrowing programme of 2014-15 of Rs 11,790 crore, long-term bonds of Rs 49,913 crore and long-term bank lines of Rs 2,651 crore of IRFC.

The ratings factor in IRFC's sovereign ownership (wholly owned by Government of India or GoI), its strategic importance for Ministry of Railways (MoR) as a sole arranger of lease finance, its stable earnings supported by a favorable lease agreement with MoR and low credit risk profile. The rating also factors in IRFC's adequate capitalization in relations to its risk profile and comfortable liquidity profile. IRFC is expected to maintain a dominant share in the MoR's increasing requirement for funding rolling stock on the strength of its ability to mobilize funds at competitive rates driven by its quasi-sovereign franchise. IRFC's funding profile strengthened with allocation of tax-free bonds by GoI; tax free bonds, relatively lower cost funds, accounted for around 50% of IRFC's incremental borrowings during FY12-FY14, while tax free bonds were not allowed in FY15, IRFC is expected to get tax-free bonds allocation of Rs 6,000 crore for FY16. As for profitability, IRFC operates on cost plus model, onlend funds to MoR with interest spread of around 50 bps. ICRA expects IRFC to report stable earnings in future on the strength of a favorable lease agreement with MoR, which provides it with protected interest spread and also protects against liquidity, interest rate and exchange rate related risks. Nevertheless, ICRA has taken note of IRFC's increasing dependence on Ministry of Railway (MoR) for fresh capital infusion in order to maintain the gearing[†] below 10 times, given relatively low internal capital generation and significant increase in business volumes over the years, though capital support from MoR has been forthcoming over the years (MoR infused equity capital of Rs.3,115 crore over last five years, FY11-FY15. MoR has provided for a sizeable capital infusion of Rs 2,711 crore in FY16. In light of continuous capital support from MoR, IRFC capitalisation profile is expected to be comfortable. ICRA has also taken note of IRFC's exposure to Rail Vikas Nigam Limited (RVNL), a special purpose vehicle of the MoR, which undertakes the construction of new railway lines, bridges and port connectivity. Loans to RVNL have increased from Rs.1,833 crore as on March 31, 2013 to Rs.2,226 crore as on March 31, 2015 and constitute around 2.6% of IRFC's credit portfolio/ lease receivables and around 26% of IRFC's net worth as on March 31, 2015. ICRA expects IRFC's credit risk profile to remain low owing to majority of lending to MoR and the supportive Memorandum of Understanding between RVNL and MoR for the re-payment of RVNL's borrowings which is likely to ensure timely re-payment by RVNL to IRFC. The loans extended to RVNL could increase in future and any material change from such repayment arrangement may entail a review of the assigned ratings. IRFC's liquidity profile remains comfortable supported by its long-tenure borrowings and strong financial flexibility. Moreover, as per lease agreement with MoR, IRFC can seek advance lease rentals from MoR in case of need.

* Reduced from Rs 6,000 crore

† For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

† Excluding short term debt

**About the Corporation:**

Incorporated in 1986 by the Ministry of Railways (MoR), Government of India, IRFC is a wholly owned Public Sector Undertaking. Its primary activity is to mobilise funds on behalf of Indian Railways (IR) to finance its procurement of Locomotives, Passenger Coaches & Wagons. Apart from providing finance to MoR, IRFC has also provided loan to Rail Vikas Nigam Limited (RVNL), a entity wholly owned by MoR. IRFC is registered as Infrastructure Finance Company-NBFC (IFC-NBFC) with Reserve Bank of India.

In 2014-15 (unaudited financials), IRFC reported a profit after tax of Rs. 760 crore on a total asset base of Rs 87,534 crore as against profit after tax of Rs. 701 crore on a total asset base of Rs.83,930 crore during 2013-14. IRFC's asset quality continues to superior with nil gross and net NPAs as on March 31, 2015. Capital adequacy of IRFC was 294% as on March 31, 2015.

June 2015

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