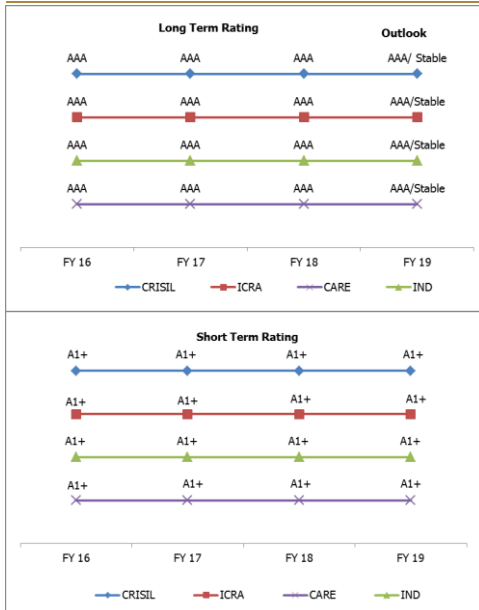


Shareholding pattern as on Dec 31, 2018

Government of India (GoI)	100.0%
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Credit Rating History



Credit Drivers:

- **Expectation of continued strong support from GoI:** IRFC is strategically important to the Ministry of Railway (MoR) as it funds around 25% to 35% of the total funding requirement (plan outlay) of the MoR. It plays an important role as the sole arranger of lease finance for MoR and hence strong GoI support is expected on an on-going basis.
- **Healthy growth in portfolio supported by high capex by Indian Railways (IR):** IRFC's loan book increased at a CAGR of 20% over the last 3 years (growth of ~24% in FY18).
- **Stable resource profile:** IRFC's stable resource profile is underpinned by its ability to raise long-term funds from a diversified set of wholesale investors.
- **Strong capitalisation aided by continued GoI support:** IRFC's strong capitalisation is reflected in significantly higher capital adequacy ratio (CAR) of 214.75% as on Mar 31, 2018 (355.88% as on Mar 31, 2017). This is on account of the zero risk weight assigned to assets leased to Indian Railways (IR). Its gearing stood at 10.1 times as on Mar 31, 2018. CAR stood at 251.2% as on Sep 30, 2018 with a gearing of 9.1 times.
- **Robust asset quality:** IRFC has robust asset quality, as it lends predominantly to IR, a sovereign entity. Till date, it has had zero non-performing assets (NPAs).
- **Consistent track record of adequate core profitability:** IRFC's earnings profile is marked by moderate interest spreads and low operating expenses. Since IRFC is the funding vehicle for IR; enhancing profitability is, therefore, not the primary objective of IRFC.

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. Incorporated in 1986, IRFC is a wholly-owned public sector undertaking. Its primary activity is to mobilise funds on behalf of the Indian Railways (IR) to finance its procurement of locomotives, passenger coaches and wagons. IRFC is registered as an infrastructure finance company- NBFC (IFC-NBFC) with the Reserve Bank of India. While economic ownership of assets vests with MoR, IRFC retains the legal title of the asset. IRFC leases rolling stock to IR and collects lease rentals from IR in advance, at half- yearly intervals. An annual lease agreement is structured to ensure that IRFC's expenses (mainly cost of borrowing) are covered, and allows IRFC to earn adequate margin. Apart from leasing assets to IR, IRFC under the directives of MoR also extends loans to other entities of MoR such as Rail Vikas Nigam Ltd. (RVNL).

Industry Outlook:

Indian Railways plays a pivotal role in reviving economic growth in the country. Investment in the Railways has a larger multiplier effect on the rest of the economy. There has been a significant growth in the Annual Plan Outlay of Indian Railways in recent years. The Annual Plan Outlay of Indian Railways has gone up consistently and reached a staggering level of Rs.1200.0 billion for the year 2017-18. The Annual Plan outlay for the year 2018-19 has been pegged at Rs.1465.0 billion. Besides, the Indian Railways has embarked on a massive expansion plan with a total plan outlay of Rs.8.56 trillion over the next five years commencing from the financial year 2015-16. The enormous investment in Indian Railways will lead to significant capacity enhancement, network decongestion, electrification, redevelopment of stations, safety and security of passengers, improvement in passenger amenities, etc. Out of Rs.8.56 trillion, Rs.1.9 trillion each is going to be utilized for network decongestion and network expansion, Rs.1.3 trillion to be spent on safety measures, Rs.1.0 trillion on rolling stock, Rs.1.0 trillion on station redevelopments and the balance funds to be invested in various other activities such as high speed rail and elevated corridors, national projects and passenger amenities etc. The funds for this planned layout is going to come from various sources: Rs.2.56 trillion from budgetary support, Rs.2.50 trillion from debt, Rs.1.2 trillion from JVs & Rs.1.3 trillion from PPP partnership, Rs.1.0 trillion from internal generation, Rs.1.5 trillion from institutional financing & Rs.1.0 trillion from rolling stock lease arrangement.

Financial Performance

Rs. Bn

Particulars (SA)	FY18	FY17	% chg.
Advances	1,520.7	1,229.7	23.7
Total Assets	1,623.0	1,296.0	25.2
Net interest income (NII)	25.8	21.6	19.4
Total income	110.2	90.5	21.8
Operating exp.(excl. int.)	0.4	0.3	33.3
PAT	20.1	9.3	116.1
Net worth	135.7	120.1	13.0
Borrowings	1,370.0	1,081.0	26.7
Debt/Equity(x)	10.10	9.00	-
CAR (%)	214.75	355.88	-
ROA (%)	1.37	0.78	-
RONW (%)	15.70	7.94	-
GNPA (%)	Nil	Nil	-
NNPA (%)	Nil	Nil	-

Financial Performance

Rs. Bn

Particulars (SA)	H1 FY19	H1 FY18	% chg.
Net interest income (NII)	14.1	13.5	5.0
Total income	66.3	53.9	23.0
Operating Exp. (excl. interest)	0.1	0.1	(27.3)
PAT	11.0	5.9	85.8
Net worth	149.9	126.8	18.3
Debt/Equity(x)	9.13	8.03	-
CAR (%)	251.2	452.8	-
ROA (%)*	0.16	0.11	-
GNPA (%)	Nil	Nil	-
NNPA (%)	Nil	Nil	-

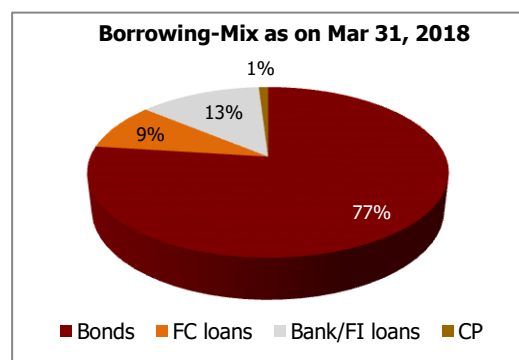
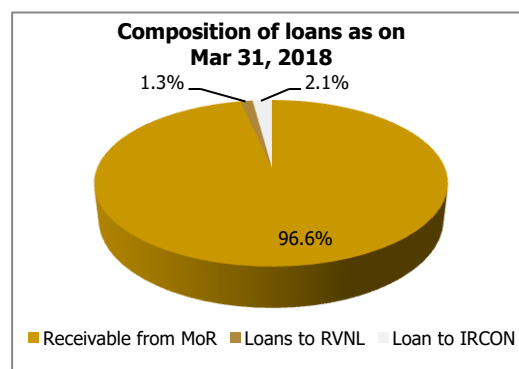
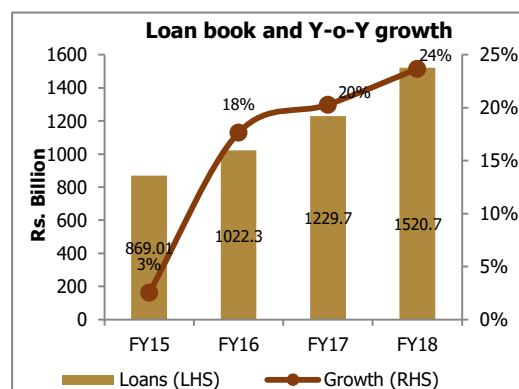
*Not annualised, As per Ind-AS wherever applicable

Source: Company Reports, SA – Standalone Financials

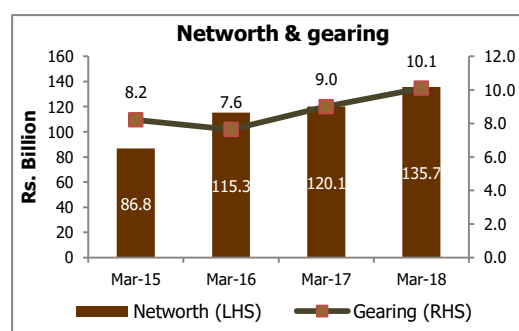
Key Credit Drivers:

Expectation of continued strong support from GoI: IRFC's primary objective is to meet the predominant portion of the Extra Budgetary Resources requirement of the Indian Railways (IR) through market borrowings. The company's principal business is to borrow funds from the financial markets to finance the acquisition/creation of assets, which are then leased to the IR. IRFC, being the financing arm of IR provides market funding to about 25% of IR's rolling stock acquisitions. IR's lease payments to IRFC are part of the annual Railway Budget, and thus, get parliamentary approval. Consequently, IRFC derives substantial business and financial support from GoI. The company's importance to IR is also evident from the fact that IRFC also raises market borrowings required by Rail Vikas Nigam Ltd (RVNL), a company wholly owned by GoI, for execution of projects relating to upgrading railway infrastructure. The underlying risk on this exposure is, however, borne by MoR. Given the large capital expenditure (capex) requirements of IR, IRFC will continue to play a critical role in mobilising funds for IR at competitive rates. IRFC, therefore, is expected to derive significant GoI support, both on an ongoing basis and in the event of distress, if any.

Healthy growth in portfolio supported by high capex by IR: Considering the significant investments made by the Indian Railways in the last 3-4 years, IRFC's loan book has increased rapidly. The loan book has increased at a CAGR of 20% over the last 3 years (growth of ~24% in FY2018). For FY18, IRFC's disbursements stood at Rs.365.92 billion (Rs.364.99 billion to IR and Rs.0.93 billion for RVNL) compared to Rs.300 billion in FY17. As on March 31, 2018, around 97% of IRFC's total assets were in the form of leased assets, loans or receivables to the MoR while the rest was in the form of long-term loans to other MoR agencies like RVNL and IRCON International Limited (IRCON). IRFC lends to the MoR at a fixed spread of 50 bps above its cost of borrowings and the lending spread is relatively higher at 90 bps in loans to IRCON and RVNL. As on Mar 31, 2018, the loan book of IRFC stood at Rs.1520.7 billion with 97% of the loan portfolio is receivables from MoR, 2% comprises loans to IRCON and the balance 1% is in the form of loans extended to RVNL.



Stable resource profile: Given its quasi-sovereign status, IRFC has been able to raise funds from domestic and international markets at competitive costs. Around 90% of IRFC's borrowing is primarily through bonds and loans from banks and Financial Institutions. It also borrows through ECB programs, which comprise of ~9.0% of the resource profile as on Mar 31, 2018. IRFC was granted regulatory approval for raising ECBs over and above the general limits (up to USD500 million per annum subject to overall foreign currency borrowing not exceeding 50% of net owned funds). A sizeable proportion of the ECBs raised by IRFC are hedged. While the remaining portion is left unhedged to benefit from the exchange rate movements, IRFC monitors its unhedged portion regularly to ensure that it is not adversely impacted because of any unfavorable exchange rate movements. Given the overall softening of systemic interest rates, IRFC's average borrowing costs reduced to 6.73% in FY18 from 6.86% in FY17. IRFC's resource profile remains stable, supported by its diversified and long-tenure borrowings and strong financial flexibility.

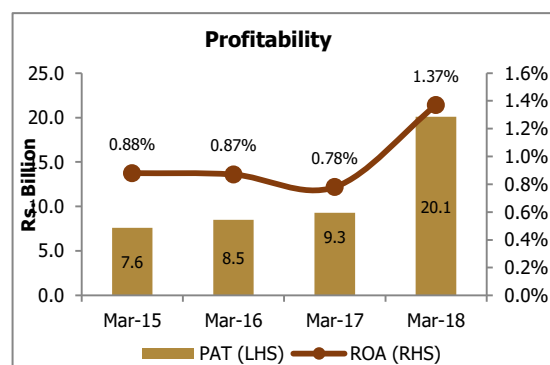


Strong capitalisation aided by continued GoI support: IRFC has strong capitalisation, which is aided by 100% ownership by GoI. As on Mar 31, 2018, its networth was ~Rs.135.6 billion with a gearing stood at 10.1 times as on Mar 31, 2018 (9.0 times as on March 31, 2017). The gearing of the company is expected to remain below 10 times over the medium term. GoI has regularly provided equity capital support in the past; it infused Rs.24.0 billion in FY15, Rs.6.3 billion in FY14, Rs.6.0 billion in FY13, Rs.2.5 billion in March 2012 and Rs.5.0 Billion in Jan 2012. As on Mar 31, 2018, IRFC reported a capital adequacy ratio of 214.75% (Sep 30, 2018 – 251.2%) because IRFC does not need to ascribe any risk weight to the assets leased to IR. Given IRFC's modest accruals to networth, GoI will continue to infuse equity capital at regular intervals to enable IRFC to maintain gearing within 10 times, while meeting the growing funding requirements of IR, over the medium term. IRFC plans to file for an IPO soon, however, GoI is expected to remain a majority shareholder post the stake sale.

Robust asset quality: IRFC also has very strong asset quality, as it lends

predominantly to IR, which is a sovereign entity. With exposure only to the MoR and its related entities, IRFC's credit risk continues to be very low as evident from its nil gross NPAs as on Mar 31, 2018. IRFC continues to maintain zero NPA status on the strength of its exposure to the MoR and the timely recovery of receivables from the same. Till date, IRFC has had zero non-performing assets (NPAs). IRFC is a public financial institution under Section 4A of the Companies Act of 1956 and was so far exempted from Reserve Bank of India's (RBI's) guidelines for systemically important non-deposit taking non-banking financial companies (NBFC-ND-SI) regarding compliance with single/group exposure norms to the extent that the exposures are towards IR/GoI. With respect to the recent RBI circular concerning the withdrawal of exemptions for government owned entities, IRFC will continue to be exempt from single/group exposure norms. However, at the same time, IRFC's credit concentration risk remains high as the entire exposure is to the MoR. Moreover, its growth prospects depend entirely on the MoR's expansion plans and strategy.

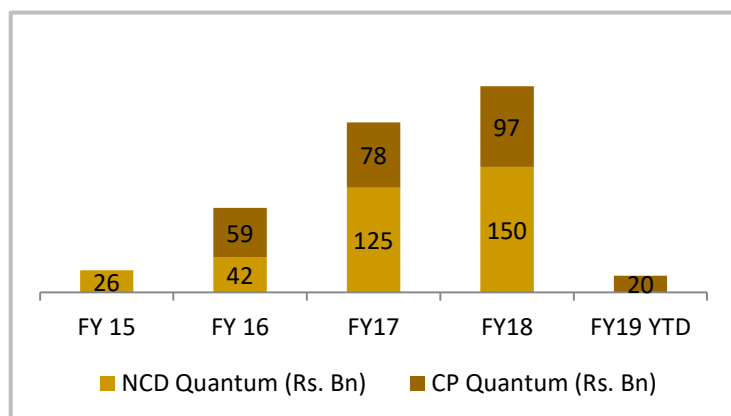
Consistent track record of adequate core profitability: IRFC's earnings profile is marked by moderate interest spreads and low operating expenses. It operates on a fixed lending spread model, where it on-lends to the MoR with an interest spread of around 50 bps over its cost of borrowing. Furthermore, the lease agreements with IR protect IRFC's net interest margins, and transfer the interest and foreign exchange risks on its borrowings to IR. In Feb 2018, the Ministry of Corporate Affairs exempted IRFC from the ambit of Accounting Standard (AS) 22 related to deferred tax assets (DTA)/deferred tax liability (DTL). As a result, tax expenses declined by 55% and profit after tax (PAT) increased to Rs.20.1 billion in FY18 from Rs.9.3 billion for FY17. The company reported RoA of 1.37% and return on net worth (RoNW) of 15.70% during FY18 (RoA of 0.78% and RoNW of 8.67% during FY17). For the period ending on Sep 30, 2018, IRFC report RoA of 0.16% (not annualized) vis-à-vis that of 0.11% for the corresponding period of the previous year. While IRFC's earnings profile is not expected to improve significantly over the medium term, IR will ensure that the company remains profitable and generates adequate returns on its assets.



For the period ending on Sep 30, 2018, IRFC report RoA of 0.16% (not annualized) vis-à-vis that of 0.11% for the corresponding period of the previous year. While IRFC's earnings profile is not expected to improve significantly over the medium term, IR will ensure that the company remains profitable and generates adequate returns on its assets.

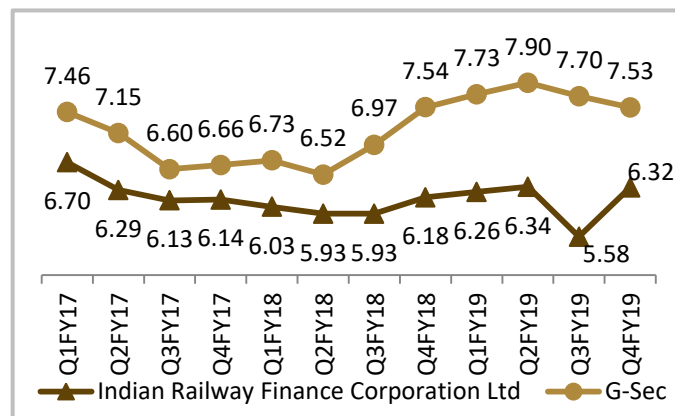
Adequate Liquidity: IRFC has comfortable liquidity. The company had positive cumulative mismatches in maturities of up to 1 year as on Mar 31, 2018; IRFC's liquidity is supported by the arrangement with IR, whereby IR makes advance lease rental payments if IRFC is short of funds to service its debt. IRFC also follows a policy of maintaining bank fixed deposits of ~Rs. 1.0 billion on a steady state basis, against which it can raise short-term bank borrowings to meet any liquidity requirements.

NCD & CP Issuances over the last 5 years



Source: NSDL, Prime Database

Credit spread over 3 year G-sec



Source: Reuters

Board of Directors

Name	Designation
Ms. A.K. Prasad	Chairman IRFC & Financial Commissioner (Railways)
Mr. Vijay Kumar	MD IRFC & Additional Member (Budget Railway Board)
Mr. Niraj Kumar	Director Finance
Dr. Prasanna Kumar Mohanty	Central Board of Director, RBI

Latest Issuances:

Name	Type	Date	Tenor	Coupon (%)	Quantum (Rs. Bn)
IRFC (Primary)	Secured	March 29, 2019	10 years	8.23 p.a.	25.0
IRFC (Primary)	Secured	March 25, 2019	10 years	8.30 p.a.	30.0

Source: NSDL

Other Information:

Auditors	M/s SPMG & Company
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Financials: (Standalone as per IGAAP)
Profit & Loss Statement

Particulars (in Bn.)	FY16	FY17	FY18
Operating Income	75.06	90.47	110.19
Other Income	0.01	0.01	0.02
Total Income	75.07	90.48	110.20
Employee Cost	0.04	0.03	0.05
Operating & Establishment Expenses	0.01	0.02	0.02
Administrations & Other Expenses	0.02	0.03	0.05
Provisions and Contingencies	0.00	0.00	0.00
Miscellaneous Expenses	0.31	0.19	0.25
Total Expenditure	0.38	0.26	0.38
Operating Profit	74.69	90.22	109.82
Interest	55.19	68.88	84.37
Depreciation	0.00	0.00	0.00
Profit Before Taxation & Exceptional Items	19.50	21.33	25.45
Profit Before Tax	19.50	21.33	25.45
Provision for Tax	11.01	11.99	5.38
Profit After Tax	8.49	9.34	20.07

Key Ratios

Particulars	FY16	FY17	FY18
Spread Analysis			
Interest Earned/ Avg. Assets (%)	7.66	7.60	7.55
Interest Expended/ Avg. Assets (%)	5.63	5.79	5.78
Net Interest Margin (NIM (%))	2.03	1.81	1.77
Operational & Financial Ratios			
Earnings Per Share (Rs)	187.50	1.43	3.08
DPS(Rs)	75.00	0.57	0.57
Book Value (Rs)	2104.37	18.40	20.78
Performance Ratios			
ROA (%)	0.87	0.78	1.37
ROE (%)	9.61	8.67	15.70
Financial Stability Ratios			
Total Debt/Equity(x)	9.19	8.86	9.95

Peer Comparison as on March 31, 2018

Particulars (in Bn.)	IRFC	SIDBI	NABARD
Total Income	110.20	66.0	243.91
PAT	20.07	14.29	29.62
Equity	135.65	148.92	612.73
Debt	1349.5	466.09	1185.74
GNPA (%)	Nil	0.9	0.05
NNPA (%)	Nil	0.3	NA
ROE (%)	15.70	10.03	5.19
ROA (%)	1.37	1.52	0.80
Leverage (x)	9.95	3.13	1.94

Source: Company Reports, ACE Equity, Figures are on standalone basis

Information Source: Ace Equity, Company Reports, IBEF, NSDL, Prime Database, Bloomberg, Thomson Reuters, Rating Agencies, CRISIL

Balance Sheet

Particulars (in Bn.)	FY16	FY17	FY18
EQUITY AND LIABILITIES			
Share Capital	45.26	65.26	65.26
Shareholder's Funds	115.25	120.10	135.65
Long-Term Borrowings	758.92	967.10	1148.54
Other Non-Current Liabilities	61.59	81.32	84.42
Total Non-Current Liabilities	820.51	1048.43	1232.96
Other Current Liabilities	91.48	70.28	205.04
Short Term Borrowings	56.76	57.69	49.67
Total Current Liabilities	148.24	127.97	254.71
Total Liabilities	1084.00	1296.50	1623.32
ASSETS			
Net Block	0.12	0.12	0.11
Capital Work in Progress	0.00	0.00	0.00
Other fixed assets	0.00	0.00	0.00
Non-Current Investments	0.08	0.07	0.05
Long Term Loans & Advances	142.79	245.59	423.85
Other Non-Current Assets	836.07	939.86	1058.24
Total Non-Current Assets	979.06	1185.62	1482.26
Cash and Bank	12.11	0.08	1.00
Other Current Assets	74.09	108.60	123.65
Short Term Loans and Advances	18.74	2.19	16.42
Total Current Assets	104.94	110.87	141.06
Miscellaneous Expenses not written off	0.00	0.00	0.00
Total Assets	1084.00	1296.50	1623.32

Cash flow Statement

Particulars (in Bn.)	FY16	FY17	FY18
Profit Before Tax	19.50	21.33	25.45
Adjustment	-102.28	3.09	4.17
Depreciation	0.00	0.00	0.00
Dividend Received	0.00	0.00	0.00
Interest Income	0.00	0.00	0.00
Provision & Written Off	-0.01	1.98	2.15
Bad debts irrecoverable written off	0.00	0.00	0.00
Provision for doubtful debts & advances	0.00	0.00	0.00
Other Adjustments	-102.27	1.12	2.02
	-	-	-
Changes in working Capital	-76.35	-214.51	303.45
Cash Flow after changes in Working Capital	159.13	-190.08	273.83
Tax Paid	-4.64	-4.47	-5.53
Extra & Other Item	0.00	0.00	0.00
	-	-	-
Cash From Operating Activities	163.77	-194.55	279.36
Cash Flow from Investing Activities			
Purchase of Fixed Assets	0.00	0.00	0.00
Sale of Fixed Assets	0.00	0.00	0.00
Purchase of Investment	0.00	0.00	0.00
Sale of Investments	0.00	0.00	0.00
Investment in Subsidiaries	0.00	0.00	0.00
Dividend Income	0.00	0.00	0.00
Interest Income	0.00	0.00	0.00
Other Investment Activities	0.02	0.01	0.01
Cash From Financing Activities	175.82	182.50	280.27
Net proceeds from borrowings & pref. shares	161.18	189.30	283.13
Net proceeds Equity Share Capital	24.00	0.00	0.00
Other Financial Activities	-9.37	-6.80	-2.86
Net Cash Inflow / Outflow	12.06	-12.04	0.92
Opening Cash & Cash Equivalents	0.05	12.11	0.08
Closing Cash & Cash Equivalent	12.11	0.08	1.00

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