



Indian Railway Finance Corporation Ltd.

– Financing Indian Railways

New Delhi, 26 March 2009

Background

- The concept behind setting up of Indian Railway Finance Corporation (IRFC) represents path breaking innovation towards Government financing through the Public Sector in India in mid-1980s itself.
- IRFC was set up in 1986 with the objective of meeting part of Indian Railways' funding needs for infrastructure creation through market borrowing.
- IRFC model of financing has synergistically leveraged efficiencies of a corporate unit and strengths of a sovereign entity.
- Validation of the model, untested till then, was facilitated by unambiguous recognition by IRFC and MOR of the need to confine use of borrowed capital to unquestionably productive areas.

Background *(contd)*

- The Company has been primarily raising finance necessary for acquisition of highly productive rolling stock for use by MOR – low gestation period.
- To simplify the working relationship between MOR and IRFC, a Finance Lease model has been adopted. It comprises a primary lease of 15-year duration followed by secondary lease for another period of 15-years.
- As lessor of Leased assets, IRFC retains legal title to the assets leased to MoR. This allows the company to obtain depreciation benefit under Indian tax law.
- Full cost recovery (both principal and interest components) takes place during primary lease period.

Role played by IRFC so far

- Till the end of 2008-09, IRFC would have funded acquisition of rolling stock assets valued at Rs. 51,061 crore (US$ 10.21 billion). In numerical terms, IRFC's share in the rolling stock fleet of Indian Railways (IR) is about 53%.
- In terms of physical capacity generated, IRFC's ownership is more than 60%.
- By virtue of assuming responsibility for almost one-fourth of IR's funding of infrastructure over the two decades of its existence, IRFC's contribution to consolidation & growth of Railways in India has been very significant indeed.
- Besides funding rolling stock acquisition, IRFC has also selectively assisted a few other MOR owned entities with financing support.
- Through successful execution of its mandate to arrange lease finance for MOR year-after-year, IRFC has been able to establish a respectable niche franchise and has managed to sustain a strong financial performance track record.

Growth of IRFC's business

- From a modest Rs. 770 crore in the first year of IRFC's operation (1987-88), size of IRFC's business in the current year has increased to Rs. 7,200 crore (US$1.44 billion)
- Growth has been steeper in recent years. From Rs. 2510 crore in 2002-03, the annual borrowing target has gone up to Rs. 8030 crore for 2009-10, a CAGR of 18%.
- Through the core competencies established, IRFC has come to be regarded as a Public Finance Institution of high repute and standing. Its operations are carried out entirely on the strength of its own financials, without a Government guarantee.
- MOR views IRFC as its sole market borrowing arm. Role played by IRFC in lending funding assistance to entities such as KRCL, RCIL, RVNL, RLDA and PRCL at MOR's instance supports such a conclusion.

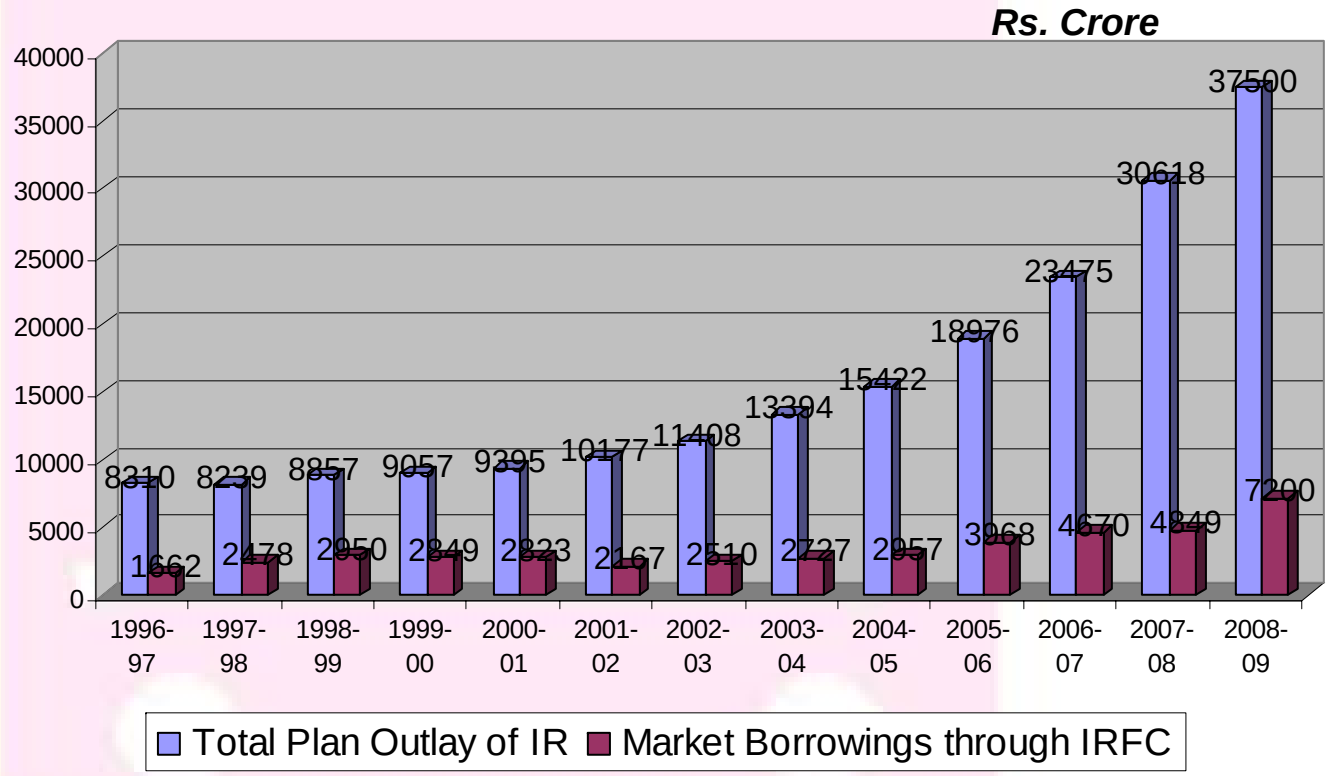
Efficiency of Operations

- Not only has IRFC succeeded in meeting the increasingly growing targets assigned to it from year to year, the Company has also been able to do so at competitive cost.
- IRFC's cost of borrowing has generally compared well with cost of borrowing by Government of India. Amongst corporate entities, IRFC's cost of borrowing has been generally over 0.50% lower than best of others in the domestic market. Similar debt-pricing edge exists for IRFC's overseas borrowings as well.
- IRFC's transactions invariably set industry benchmarks in terms of tight pricing attained.
- The Company has been accorded the highest possible credit rating by all the three domestic credit rating agencies - CRISIL, ICRA and CARE. It has also been accorded rating equivalent to rating of India Sovereign by the four major International Credit Rating Agencies - Standard & Poor's, Moody's, FITCH Ratings and Japanese Credit Rating Agency.

Efficiency of Operations *(contd)*

- IRFC has been rated “Excellent” by the Government of India based on its performance in the last eleven years. It ranked amongst Top Ten PSUs based on its performance during 2001-02, 2002-03, 2003-04 and 2004-05. It has achieved perfect score of 1.00 for its performance during 2005-06, 2006-07 and 2007-08.
- Despite its asset base of over Rs. 50,000 crore and balance sheet size of over Rs. 30,000, IRFC is a unique organization in terms of its size. Its operations are run by a small team of 20 personnel only. Its overheads-to-turnover ratio stands at merely 0.11%, which is amongst the lowest the world over.

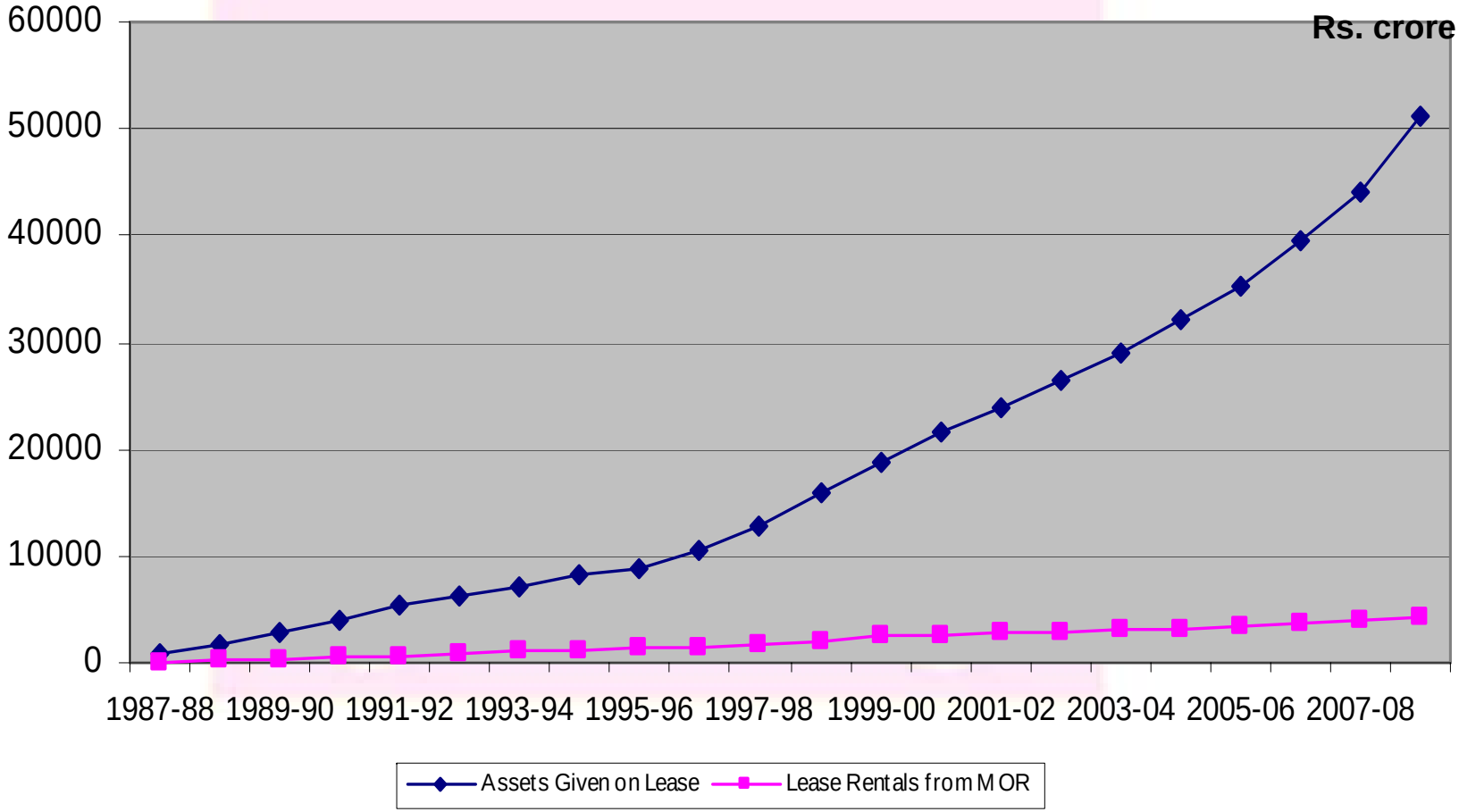
Value Creation for MOR



Total Plan Outlay of IR during the year 1996-97 to 2008-09: Rs.2,04,828 Crore
Funding by IRFC during the period 1996-97 to 2008-09 : Rs.43,810 Crore
Share of IRFC in Total Plan Outlay : 21.39%

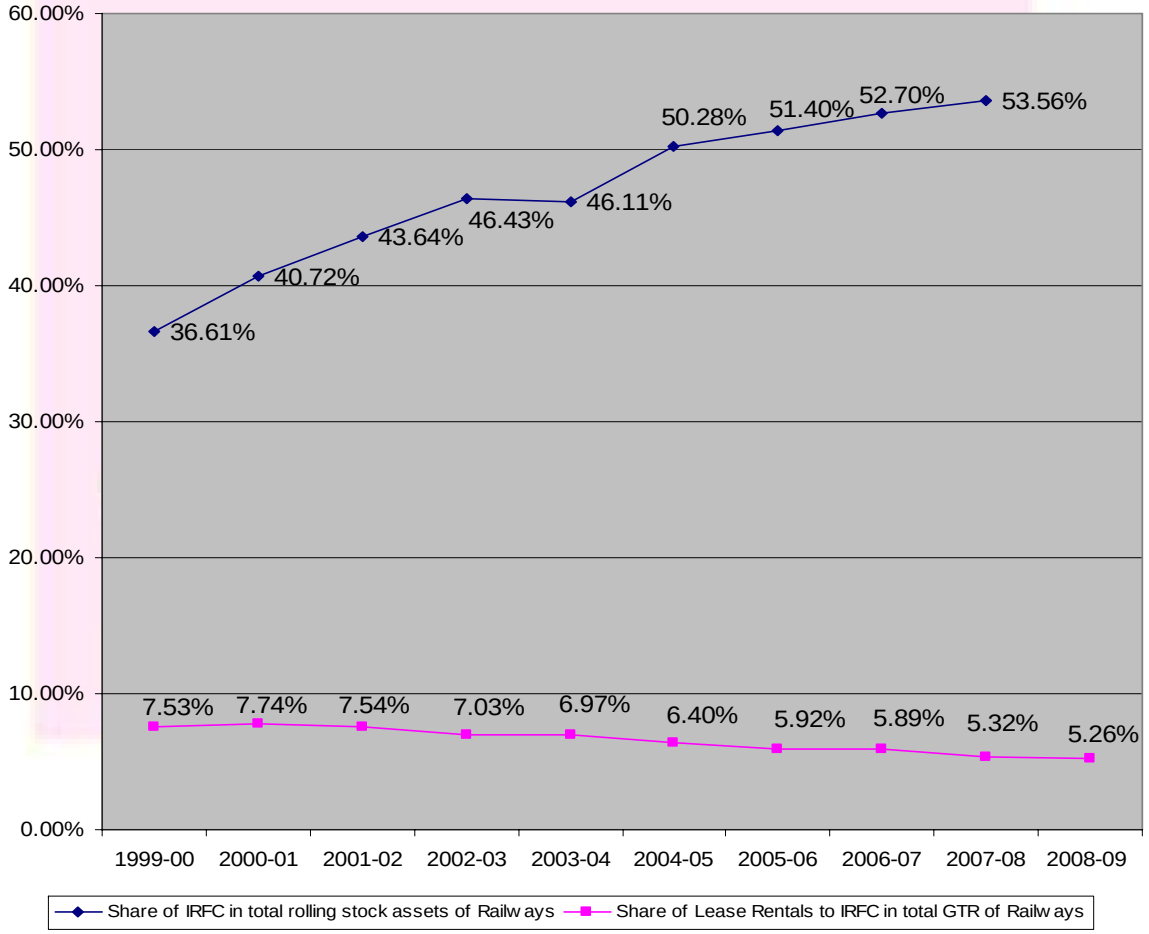
Value Creation for MOR *(contd)*

Assets Leased to MoR and Lease Rentals Received



Value Creation for MOR *(contd)*

Asset Creation by IRFC and Cost-Benefit to MoR



Value Creation for MOR *(contd)*

- The Effective Cost to MOR on the outstanding Lease Receivables has remained reasonably low due to low margins charged on Incremental Borrowings (50 to 55 bps), significant benefits passed on to MOR on account of savings on Interest & Exchange Rate Variation (Rs.252 Crore during the last 5 years) and substantial dividend payout (Rs.725 Crore during the last 6 years).
- Despite rise in cost of incremental Borrowings during the last few years due to firming up of interest rates in domestic and international markets, the effective cost to MOR on the outstanding Lease Receivables has remained almost flat – 8.53% during 2003-04, 8.07% during 2004-05, 7.52% in 2005-06, 7.84% in 2006-07 and 8.56% during 2007-08.

Value Creation for MOR *(contd)*

- Financial Re-engineering through Review of existing Debt Portfolio
  - Savings over the balance life:

    - Financial Foreclosure of the Leases: Rs.226.51 Cr.
    - Restructuring / Refinancing High Cost Loans : Rs.826.61 Cr.
    - Exercise of Call Option on Bonds : Rs.128.22 Cr.
    - Restructuring of High Cost Bonds : Rs. 37.46 Cr.
    - Restructuring / Refinancing ECBs : Rs. 50.98 Cr.

    Total : Rs. 1269.78 Cr.(US$ 254 million)

Value Creation for MOR *(contd)*

Prudent use of Financial Derivatives:

- Interest Rate Swap on 30th & 31st Series Taxable Bonds : Savings of **Rs.46.49 Cr.**
- Currency Swap for 51st Series Taxable Bonds : Savings of **Rs.9.24 Cr.**
- Interest Rate Cap on USD 100 Mio : Savings of **Rs.19.94 Cr.**
- Interest Rate Swap on USD 75 Mio : Savings of **Rs.9.07 Cr.**
- Currency Swap for 53rd C Series Taxable Bonds : Savings of **Rs.7.64 Cr.**

Value Creation for MOR *(contd)*

Cost Competitiveness



	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Incremental Cost of Borrowing by GOI	9.44%	7.34%	5.71%	6.11%	7.34%	7.89%	8.12%
Incremental Cost of Borrowing by IRFC	9.89%	7.00%	5.70%	5.55%	7.00%	8.22%	9.33%
Incremental Cost of Borrowing by AAA rated Companies	10.44%	7.55%	6.26%	6.78%	7.98%	9.06%	9.62%

Credit Ratings

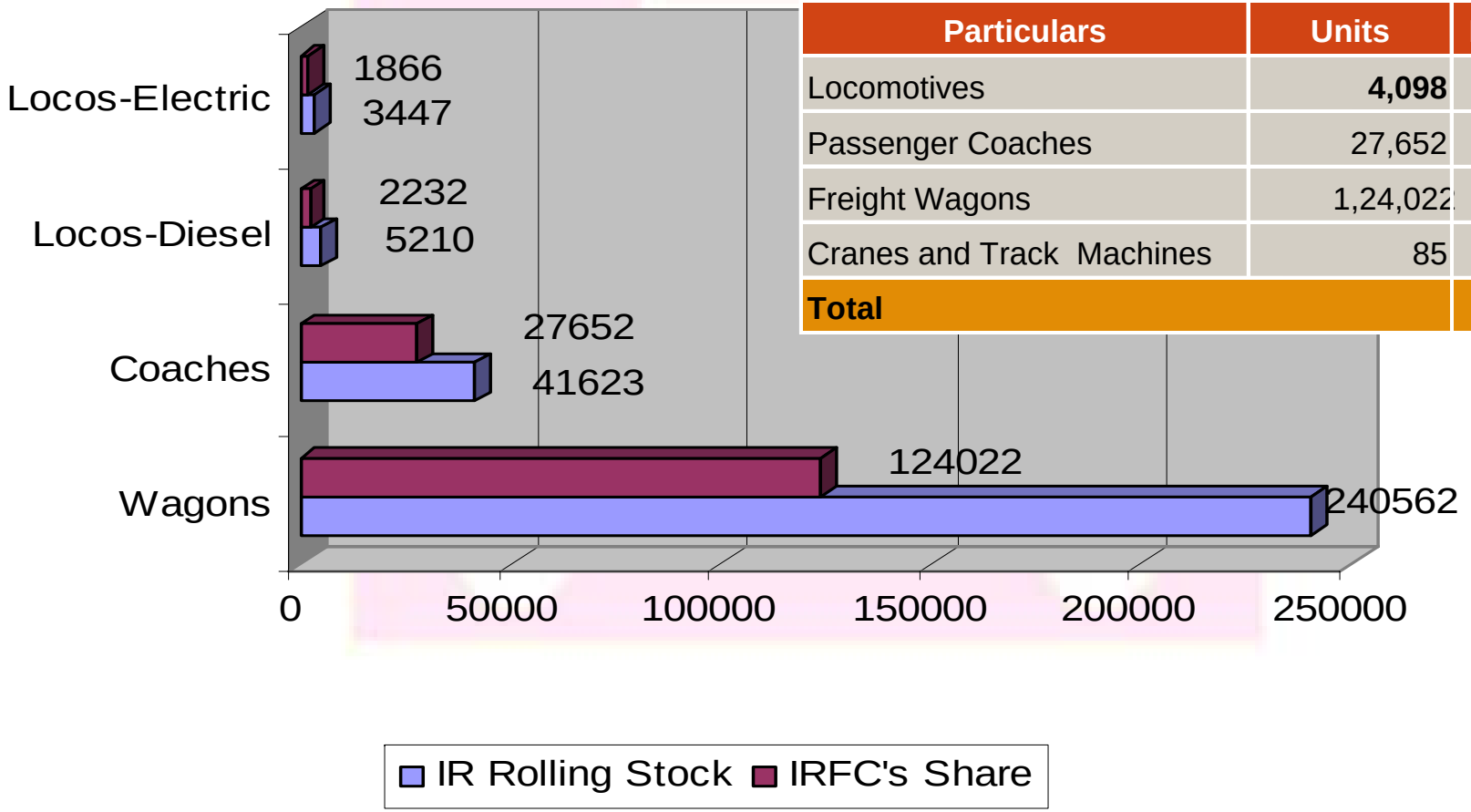
- IRFC maintains the highest possible ratings for an Indian issuer, reflecting its sound financials and special status as a wholly-Government owned Public Financial Institution:

	Foreign Currency Issuer Rating	Outlook	Effective Year
Indian Railway Finance Corporation Ltd.			
Moody's	Baa3	Stable	2004
Standard and Poors'	BBB-	Negative	2009
Fitch	BBB-	Stable	2007
Japanese Credit Rating Agency	BBB	Stable	2007

	Domestic Rating	Outlook	Effective Year
CRISIL	AAA	Stable	1998
ICRA	LAAA	Stable	1998
CARE	AAA	Stable	2006

IRFC Share in Indian Railways Rolling Stock

31-03-2008



Particulars	Units	Rs. Crore
Locomotives	**4,098**	16907
Passenger Coaches	27,652	13131
Freight Wagons	1,24,022	13757
Cranes and Track Machines	85	360
Total		**44155**

Why is IRFC credit rated high?

- IRFC is uniquely placed in the sense that not only is it owned wholly by Government of India, it does business also with Government of India.
- Bulk of IRFC's receivables is from MOR. Receivables from the Sovereign lend to its quality of credit a unique credibility.
- IRFC's business carries unparalleled role of the Government. Market borrowing targets assigned to IRFC as well as payment of lease rentals by MOR to IRFC both form part of the Railway Budget, which is approved by the Parliament of India each year.
- Railways are critical to the good health of the national economy. In turn, MOR considers IRFC as of high strategic importance for its critical role in capital formation in Railways. The resultant fillip to investor confidence is valuable indeed.

Why is IRFC credit rated high? *(contd)*

- Deep understanding of business, pursuit of transparent and ethical business practices, and accumulation and nurturing of professional expertise have gone a long way in establishing IRFC as a most favoured destination for investors and lenders.
- IRFC's track record in meeting its obligations towards the diverse community of its investors and lenders, with not even a minor default, gives them a unique comfort and confidence.
- Small size of the organization makes the decision making process smooth and efficient, with the result that IRFC finds itself capable of capturing market cycles at their most optimum levels.
- The Company retains a balanced mix of innovation and conservatism. Resultantly, without exposing itself to avoidable risks, it has been deriving benefits of diverse markets, investors and financial instruments.

Financial Instruments used by IRFC

- **Domestic Market:**

➢ Issue of Tax Free Bonds

➢ Issue of Taxable Bonds

➢ Term Loans from Banks

➢ Lease Financing

➢ Securitization or Assignment of Receivables

Financial Instruments used by IRFC *(contd)*

Domestic Market – Bonds Issuance

- Issue of Tax-free Bonds constituted the main source of financing in the initial phases of IRFC's existence. Gradually, MOF's allocation to IRFC for tax free bonds has dried up.
- Taxable Bonds can be issued through Book Building process, when arrangers need to be appointed at a fee of about 0.10% of the Bond value, or through Private Placement process with direct negotiations with the investors. Overheads in the latter case are almost nonexistent.
- IRFC's Bond issuance generally takes the private placement route. Bonds are initially subscribed by large investment banks etc., but are soon purchased in the secondary market by diverse market entities such as Provident Fund Trusts, Pension Funds, Cooperatives, Insurance Companies etc.

Financial Instruments used by IRFC *(contd)*

Domestic Market – Bonds Issuance

- Bond issuance is done through a process of inviting quotes from all prominent investment banks and other institutions with known interest in Bonds. In a need based manner, a system of counter-offering the lowest quoted interest rate to parties quoting higher cost is used.
- New Bonds are issued only in Dematerialised Form and listed in the Wholesale Debt Market segment of National Stock Exchange of India.
- An Umbrella Information Memorandum is required to be hosted on the website of NSE.
- Issuance of Bonds must be preceded by Rating of IRFC's borrowing programme.

Financial Instruments used by IRFC *(contd)*

Domestic Market - Term Loans & Securitization

- Term loans are availed generally from Public sector Banks. The cost is often linked to the Bank's PLR.
- Term loans are usually for period of about 5 to 7 years.
- The main attraction of term loans is that they carry an option of prepayment, which becomes a cost-saving tool in a falling interest scenario.
- Securitization involves assignment of identified streams of lease receivables from MOR in favour of investors, with or without issuance of Pass Through Certificates. Since IRFC ceases to have ownership of the assigned stream of cash flow, Securitization becomes off-balance sheet debt for IRFC, and helps in keeping its financial leverage under control.

Financial Instruments used by IRFC *(contd)*

Domestic Market - Lease Finance

- Lease Finance is more cost effective vis-à-vis term loans as the Lessor (Lender) is entitled to depreciation benefit as per the Income Tax Act,1961.
- Lease Finance also helps in optimum utilisation of unabsorbed depreciation in the books of Lessee (Borrower)
- However, lease finance as a source of raising funds has lost attractiveness on account of issues which the tax authorities had as to the entitlement of depreciation benefit to the lessor involving assets taken on lease by IRFC for onward sub-leasing of the same to MOR.

Financial Instruments used by IRFC *(contd)*

- **Overseas Markets:**

  - Floating Rate Notes
  - Syndicated Loans
  - Issue of Bonds through Book Building Process
  - Issue of Bonds through Private Placement
  - Export Credit

Financial Instruments used by IRFC *(contd)*

Overseas Markets

- Borrowing from the overseas market by IRFC is through RBI approval route. The quantum of funds to be mobilised from overseas market in a particular fiscal is subject to the prior approval of RBI.
- External Commercial Borrowings help in lowering the average cost of borrowings and diversifying the borrowing portfolio in terms of currencies, markets and instruments.
- The decision for raising funds from overseas market is preceded by a meticulous analysis of the cost differential vis-à-vis borrowing from the domestic market. Interest rate differential and exchange rate fluctuations are major determinants.

Financial Instruments used by IRFC *(contd)*

Overseas Markets

- Floating Rate Notes are unsecured and tradable debt instruments issued in the offshore market for a period ranging from five to seven years with interest payable at half yearly intervals linked to an international benchmark such as LIBOR. IRFC had concluded two issues of Floating Rate Notes in March, 96 and July, 97 for amounts of USD70 Mio and USD 150 Mio respectively, and tenor of 7 years each at interest rate of 115bps and 75bps respectively over the 6 M USD LIBOR.
- Foreign Currency Loans are raised from offshore markets through selected syndicates of International Banks / FIs. These are for a medium tenor of five years. Interest rate on Syndicated Foreign Currency Loan is usually floating and linked to international benchmark like LIBOR. IRFC has raised USD 380 Million through this route till date at interest rate of 40 bps to 80 bps over the benchmark LIBOR.

Financial Instruments used by IRFC *(contd)*

Overseas Markets

- Bonds issued in overseas markets usually have tenor ranging from five to ten years and bear fixed coupon. The bonds are listed in international stock exchanges. IRFC has issued EURO YEN Bonds to the extent of JPY 13 Bn at a coupon of 1.43%. It has also issued Samurai bonds in Japanese Capital market at a coupon of 1.91%. Bonds have also been issued in the US Capital market through Private Placement route for a tenor ten years having a fixed coupon of 5.94%.
- Credit facility has been availed from multilateral export credit agencies like Export Development Canada and KfW Germany for financing import of rolling stock assets by Indian Railways. Such export credit facilities are available at relatively lower cost and for longer tenors of over ten years. The cost is only 23 to 35 bps over the benchmark LIBOR as against 70 to 80 bps paid for Syndicated Foreign Currency Loan.

Financial Instruments used by IRFC *(contd)*

Prudent use of Financial Derivatives

- Derivatives are prudently used as a tool for hedging the Forex and Interest Rate Exposure.
- Derivatives are also used as a mechanism for structuring financial products to achieve low cost funding.
- Philosophy behind derivative transactions is to optimally contain the financial risks and achieve low cost funding without exposing the company to undue risk.
- Timing is of essence, and it is IRFC's experience that selecting the right time for a derivative transaction can have very significant bearing on cost.
- The Principal amount outstanding against the External commercial borrowings involving bullet repayment at the end of 5/10 years is hedged through suitable derivative products at an opportune time over the life of such borrowings.

Financial Instruments used by IRFC *(contd)*

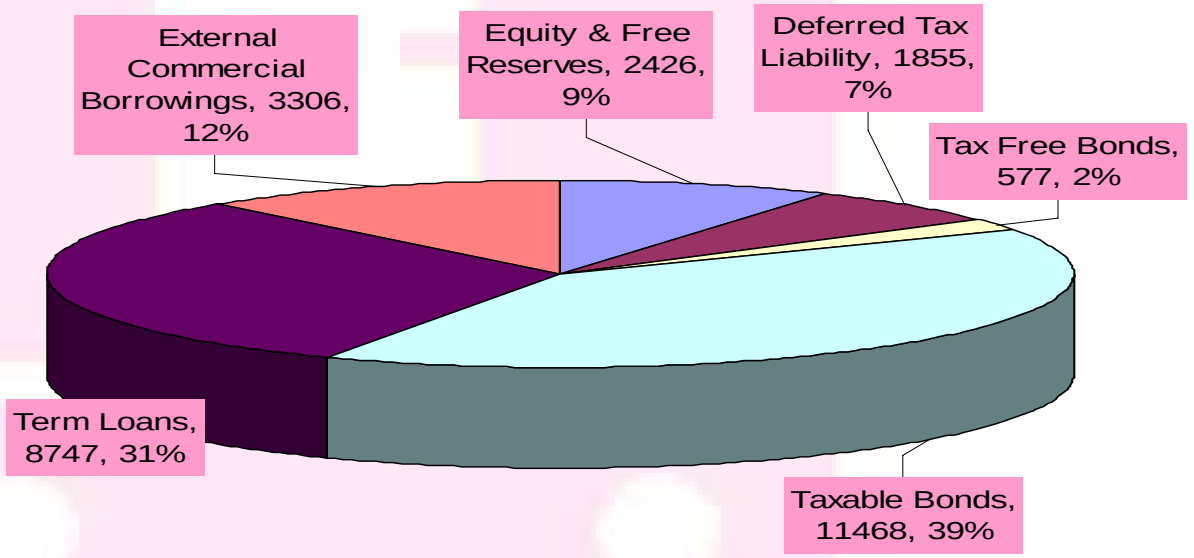
Prudent use of Financial Derivatives

- For Interest servicing in respect of External Commercial Borrowings and repayment of principal amount against overseas borrowings with amortized repayment structure, hedging philosophy is not to contract any derivative products, mainly because the amortized structures offer a natural hedge.
- Exotic and Complex derivative structures are avoided, as they tend to be riskier.
- Derivative portfolio is constantly monitored and the company keeps in preparedness to 'exit' from the derivatives if the conditions are expected to become grossly unfavorable.
- Decisions about timing, quantum of hedging and structure of hedge products are preceded by constant monitoring of macro economic factors, financial market movements and meticulous cost-benefit analysis. Expert external advice is also sought.
- The net Mark to Market gain (notional) as on 28-01-2009 including the actual savings on account of derivatives contracted by IRFC is Rs. 495 crore (USD 98.97 Mio).
- Prudent decisions not to hedge some of the Foreign Exchange Exposure due to long tenors or amortised repayment structure have resulted in a saving of Rs. 1263 crore.

Sources of Finance

- IRFC's principal sources of funding are borrowings through issue of bonds, term loans & external borrowings besides sums which are generated internally from lease rentals received from MoR:

As on 31 March 2008



Total: Rs. 28,379 crore (USD 5.68 Bn.)

Summary of Key Financial Indicators (INR Million)

For the year ended 31 March	2008 (USD)	2008	2007	2006	2005	2004
Total Income	524.96	26247.90	22840.60	20196.90	19588.10	18943.50
Total Expenditure	397.29	19864.40	16723.20	15157.10	14554.50	14839.20
Profit Before Tax	127.67	6383.50	6117.40	5039.80	5033.50	4104.30
Net Profit After Current Tax	113.21	5660.30	5436.10	4612.70	4638.50	3788.50
Net Profit After Tax *	84.30	4215.10	3987.00	3338.90	4047.70	3788.50
Share Capital	100	5000.00	2320.00	2320.00	2320.00	2320.00
Reserves & Surplus (Incld. DTL) *	756.08	37804.20	35993.90	29702.20	26799.90	23466.00
Total Loans	4819.71	240985.70	217941.70	199160.70	175380.50	166569.20
Total Balance Sheet Size	5675.80	283789.80	256255.50	231183.00	204500.40	192355.20

** IRFC has decided to provide for Deferred Tax liability in line with AS-22 from fiscal 2004-05.*

THANK YOU!!!