



# इंडियन रेलवे फाईनेन्स कॉरपोरेशन लिमिटेड

(भारत सरकार का उपक्रम) (सी आई एन : U65910DL1986GOI026363)

पंजीकृत कार्यालय : यू.जी. फ्लोर, ईस्ट टॉवर, एन.बी.सी.सी. प्लेस, भीष्म पितामह मार्ग, प्रगति विहार, लोधी रोड, नई दिल्ली-110003

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## INDIAN RAILWAY FINANCE CORPORATION LTD.

(A Government of India Enterprise) (CIN : U65910DL1986GOI026363)

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No: IRFC/SE/2020-21/17

24<sup>th</sup> February, 2021

<b>National Stock Exchange of India Limited</b> Listing department, Exchange Plaza, Bandra- Kurla Complex, Bandra (E) Mumbai- 400 051  <b>Scrip Symbol: IRFC</b>	<b>BSE Limited</b> Listing Dept / Dept of Corporate Services, PJ Towers, Dalal Street, Mumbai -400 001  <b>Scrip Code: 543257</b>
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### Sub: Transcript of the Earnings Conference call

Sir/ Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosures Requirements) Regulations, 2015, as amended from time to time, please find attached transcript of earnings conference call held with analysts and investors on 15<sup>th</sup> February, 2021, to discuss the financial results of the Company for the quarter ended 31<sup>st</sup> December, 2020.

This is submitted for your information and record.

Thanking You,  
For Indian Railway Finance Corporation Limited

(Vijay Babul Shirode)  
Company Secretary & Compliance Officer



Encl: As Above



“Indian Railway Finance Corporation Limited Q3 FY21  
Earnings Conference Call hosted by DAM Capital”

**February 15, 2021**



**MANAGEMENT: MR. AMITABH BANERJEE – CHAIRMAN AND  
MANAGING DIRECTOR, INDIAN RAILWAY FINANCE  
CORPORATION LTD.  
MS. SHELLY VERMA – DIRECTOR FINANCE & CFO,  
INDIAN RAILWAY FINANCE CORPORATION LTD.  
MR. PRASANTA OJHA – INDIAN RAILWAY FINANCE  
CORPORATION LTD.  
MR. SAMANTARAY – INDIAN RAILWAY FINANCE  
CORPORATION LTD.  
MR. VIJAY SHIRODE – INDIAN RAILWAY FINANCE  
CORPORATION LTD.**

**Moderator:**

Ladies and gentlemen, Good day and welcome to the Indian Railway Finance Corporation Limited Q3 FY21 Earnings Conference Call hosted by DAM Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘\*’ and then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amitabh Banerjee – Chairman and Managing Director of IRFC. Thank you and over to you, sir.

**Amitabh Banerjee:**

Thank you and Good evening to everyone. Well just to give a snapshot of the company that we have given last time during the road shows. IRFC has been registered with the RBI as a systematically important non deposit taking NBFC that is a infrastructure finance company status and this is majorly now owned by government of India with about 86% shareholding and rest 14% have been divested recently by way of an IPO. Now this is the dedicated marketing borrowing arm for the Indian railways this remains so post IPO too and the primary business of the company is financing the acquisition of rolling stock asset as well as railway infrastructure assets and projects of national importance and giving these assets on financial leasing terms to Ministry of Railways for a specific period of time after which after the expiry of lease period the ownership of these assets are transferred to Ministry of Railways.

Besides lending to Ministry of Railways besides lending to the sovereign IRFC also lends to the other SPVs of the Ministry of Railways like RVNL and IRCON. If you look at the AUM breakup about 53.6% to be precise is accounted by the lease receivable from the rolling stock assets and 44% is by way of receivables on account of project assets and only 2.1% is on account of loans given to other SPVs as I just mentioned. The total AUM is of the order of Rs. 2.97 trillion to end of December 2020 and it has been registering CAGR of 26.8% over the last three years with effect of FY2018 to end of December 2020. The networth as it stands on 31<sup>st</sup> of December is 32,734 crores the return on equity is 9.31% for the 9 months ended December 2020 and on a yearly basis it translates to 12.41% return on asset is 1.01% for 9 months and 1.35% on a yearly basis. There is no NPA in our books there is no tax liability of the company and we are a zero-tax company as on date. The total debt portfolio is of the order of Rs. 2.57 trillion.

The net interest margin is at 1.06% for the 9 months and which translates to 1.41% on a yearly basis. We are rated at par with the sovereign as per the international credit rating agencies is concerned and the domestic credit rating agencies rate us at AAA and A1 plus for the long term and the short-term tenor papers respectively. The capital gearing ratio as of now stands at 7.86 times the networth and the capital adequacy ratio is at 433.35%. Going to the next slide the key strength of the business as I mentioned earlier also just to recap it plays a strategic role in financing the growth of Indian railways and has financed 45% in the last financial year that is ending 31<sup>st</sup> March 2020 and in the current financial year we have slated to contribute about 47% of the total capital outlay requirements of 2,40,800 crore.

Our total demand from Indian railways to IRFC now stands at 1,13,000 crore. We enjoy a very competitive cost of borrowing on the back of highest credit rating from the domestic credit rating agencies as well as the international credit rating agencies and we have diversified funding sources from taxable and tax-free bond issuances, term loans and the structured loans from banks and financial institutions, external commercial borrowings by way of bond issuances and syndicated loans from international agencies and so on and so forth. It is a low-risk cost plus business model, it is a low risk model primarily because of the fact that all the receivables from Ministry of Railways that is from the sovereign is a part of the union budget and therefore it is totally government of India guaranteed.

I mean almost the entire income or the turnover of the company is laden with very low risk because it is currently by government of India and as far as the cost plus business model is concerned all the cost incidental to lending and borrowing are pass through the government of India including the cost on hedging of the ECB portfolio. There is a strong asset liability management in place we try to dovetail the long term loans that we are taking from the market with the long term tenure of the assets that we are funding to Ministry of Railways. These two are dovetailed so that there is no asset liability mismatch and there is a particular covenant in the standard lease agreement that we enter into with Ministry of Railways every year that covenant says that in case of any liquidity situation facing us at the time of redemption of liabilities Ministry of Railways will pitch in with the requisite amount of liquidity so that at no point of time IRFC stands the position of failing to honor its liability commitment.

Although we have never had the occasion to invoke this particular clause because we have never had any kind of an asset liability mismatch at the time of redemption of our liability both by way of redemption of bonds as well as repayment of principal and interest on the structure loans. IRFC has been having a consistent financial performance over the years with the net profit growing at a CAGR of 26% over the last more than three years and it is having a very low overhead and administrative cost at only about 0.14% of the total revenue and we are rated by a very experienced senior management team. Going to the next slide as you said earlier IRFC remains to be a systematically important NBFC and since our major plans happens to be the sovereign therefore we are enjoying certain regulatory exemption by way of asset classification norms and provisioning norms of RBI, exposure norms as well as credit concentration norms we are given an exemption except the 2.11% of our AUM which is accounted for by these direct loans that we are giving to the SPVs since they are no sovereign therefore these norms are very much applicable to the loans given to these SPVs.

As of now we are the totally tax-free company we are outside the scope of 115JB of income tax act 1961 under which we used to pay minimum amount in a tax, but with the adoption of 115BAA of income tax act with effect from September 2019 we have become a tax free company with effect from FY19-20. We are also exempt from the applicability of GST on the leasing of rolling stock assets. We will go into the next slide this shows the update on the 9 month or quarter ending December 2020. The revenue from operations is 3,932 crores for Q3 and the total revenue from operations to end of December 2020 that is for the 9 months is

11,315 crores and the profit before tax of the PBT for Q3 is 1,046 and the total PBT to end of December 2020 that is for the 9 month period is 2,933 crores as compared to 2,537 crores last year so there is an increase of 15.65% and so is the case with revenue from operations also it has gone up from 10,215 crores in the corresponding period last year to 11,315 crore for the 9 month ended December 2020 registering an increase of 11%.

Going to the next slide this shows the key ratios the net interest margin is 1.06% for the 9 months with an annualized rate of 1.41%, the return on networth is 9.31% for the 9 month period which is annualized to 12.41% per annum. Interest coverage ratio is 1.23 times, debt equity ratio as of now as I said capital gearing ratio is at 7.87 times networth and the capital adequacy ratio is 433.35%. We have declared an interim dividend of Rs. 1.05 per share which amounts of 10.5% of the face value of Rs. 10 per share that means we have declared a total dividend of about 1,380 crores this year as the interim dividend amount.

The next slide shows the borrowing highlights during this financial year we have issued 20 year bonds in the domestic capital market at an annual coupon of 6.85% for an aggregate amount of 10,643 crore and we have also recently issued a \$750 million Reg-S 144A bonds at a coupon of 2.80% which is one of the tightest in the recent times which is about 55 to 60 basis points lower than the rates that our peers have raised money from international market in the recent times and another important point was that we have priced this inside the secondary market yield of IRFC by about 9 to 10 bps. The amount raised through long term rupee loans is of the order of 31,550 crores this year from the banks and financial institutions with a moratorium period which includes the covenant of a moratorium period of five years and repayment period of 10 years. So the total tenure of the loans is 15 years having a moratorium period of five years.

Going to the next slide this shows the ratio of a funding from various sources about 47% of our total funding is through the domestic bonds, the domestic taxable bonds followed by 30% by way of rupee term loans from the banks and financial institution. 12.39% of the total portfolio is accounted for by the tax free bonds that we had issued sometime back and 9.67% of the total portfolio is by way of ECB. We are getting AAA ratings from the domestic rated agencies namely CRISIL, ICRA, Care and the international credit rating agencies like Moodys, Standard&Poor, Fitch and Japanese credit rating agencies rate us at par with sovereign.

Going to the next slide this shows the strategic role that the Indian Railway Finance Corporation has been commanding over the years vis-à-vis financing of Indian railways CAPEX requirements are concerned. It has gone up from as low as 19% in FY2015 to about 47% this year which is about 1,13,000 crore out of a total of 2,40,800 crore this year and as far as FY2022 is concerned that is in next financial year we have been given an initial mandate of 65,200 crores as against 58,000 crores that we have been given last year and the total CAPEX requirement of Indian railways this year is slated to be about 2,15,000 crore.

The next slide shows the total population of the rolling stock of Indian railways which happens to be under the ownership of IRFC roughly about 80% of the total rolling stock assets of Indian railways are owned by Indian Railway Finance Corporation they have been financed by Indian Railway Finance Corporation and given on financing leasing terms to Indian railways. The total value of rolling stock assets which we have financed as on 31<sup>st</sup> of March 2020 stands at 2,23,810 crores.

Now as far as the business model of IRFC is concerned this has already been mentioned to you earlier so just to have a recap the rolling stock assets we are giving them on financial lease we acquire these rolling stock assets and give them on financing leasing terms to Ministry of Railways for a period of 30 years comprising primary period of 15 years and a secondary period of 15 years. We get the entire lease rental in the initial period of 15 years and after the expiry of 30 year lease period the ownership of these assets are transferred to Ministry of Railways and we are getting the advance lease rentals from Ministry of Railways every year by annual installment for the period from April to September we get in the month of April and for the period from October to March we get the lease rentals in the month of October and we charge a margin of 40 bps over the all in cost that is the weighted average cost of the incremental borrowings that we are doing in a particular financial year over and above that all the costs are added to arrive at the all in cost and we add 40 bps to enable the lease rental payable by Ministry of Railways to IRFC.

The weighted average cost of borrowing to IRFC has been coming down over the years as evidence by the fact that in FY2019 the weighted average cost was at 8.09% which came down to 7.37% in FY2020 and for the 9 months ended December 2020 the weighted average cost has come down to 6.4% in this financial year.

As far as the financing of project asset is concerned the business model remains the same with the only exception being that the margin is 35 bps as compared to 40 bps in case of rolling stock assets and then you come to the income statement this has been already circulated to you, you just have a look and I have already mentioned to you the major parameters that is the total income has risen to 11,315 crores this year this 9 month period as compared to the corresponding period in the last fiscal that is which was over 10,215 crores that has increased to 11,315 crores with an 11% increase and the PBT has risen from 2,537 crores in the corresponding period last fiscal to 2,933 crores in the 9 month period this fiscal with a 15.65% increase. I think that comes to the end of the presentation. I am open to questions if any. Thank you.

**Moderator:**

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sriram Prasad Individual Investor. Please go ahead.

**Sriram Prasad:**

I have a few questions sir we noticed that the CRAR is 433% while the NBFC mandate is I think if I am not wrong at 15%, what was the reason to raise 3,000 crores of equity capital when the CRAR is extremely comfortable especially when risk weighted assets will not grow

because like you said because of sovereign risk the risk weight will be extremely low, so I just wanted you to give some color on the reason for the equity raise and keeping CRAR so high or going ahead you will not raise equity and you will let the borrowings grow and bring the CRAR, so I just want something on that aspect and in light on the same thing what would be the dividend policy going at because you need not retain much earnings to keep up your equity base, so will the dividend policy be at what would be your dividend policy be going at that is my first question with respect to CRAR. My second question is with respect to how is the spread priced between the government of India and you because you said that it is 40 bps and I remember also seeing that the NIMs are at 1.4% so how does this 40 bps translate into 1.4% that is something calculation is not able to do so these two questions sir I will come back in the queue for further questions?

**Amitabh Banerjee:**

Number one is that yes we are having a very high CRAR primarily because most of the assets under management are all zero risk weighted assets and the only risk weighted assets that are included in the calculation is the asset under management that pertains to RVNL and IRCON which is only 2% of our portfolio. So definitely it is about **433%** it is much higher than the mandated one, but coming to the question of that what was the need of raising this equity this is primarily because of the fact we are an NBFC and the mandate from borrower that is the sovereign there is increasing by leaps and bounds over the year as is evident from the slide that I have already circulated to everybody you see if you look at slide number 9 you will see that at one point of time we used to just fund 19% of the total capital outlay requirements and now it has grown to about 47% and going further the requirement will definitely go northward. Now the point is that we have got a policy of having a capital gearing ratio 10:1 and we generally hover around that particular percentage.

**Sriram Prasad:**

What is the ratio you mentioned sorry I cannot hear it?

**Amitabh Banerjee:**

The ratio is 10x basically we have a feeling of 10x as far as the capital gearing ratio is concerned and now we are at 7.78x we are comfortably placed, but most of the time we are hovering around 10 it is either 9.5 or 9.6. Now how I came all of a sudden to 7.78 that was primarily because of the fact that last year when we were given an exemption in 2018 from the provisioning of DTL the deferred tax liability we had a reserve of about 6,500 crores in the DTL and then last year ministry of corporate affairs had allowed us to include this amount as a part of our networth previously it used to be a part of our liability now it has been included in the networth and that has actually helped us in having a lee way as far as the capital gearing ratio is concerned that has brought down the capital gearing ratio from about 9.6 earlier to now about 7.7x. So we still have some amount of money, but main problem is that I need to have the requisite networth to mobilize the funds required in order to serve the Ministry of Railways especially the mandate that they are giving us. Now that initial mandate that ministry of railway has given us in FY2021 that is in the current financial year was only 58,000 crore. Now this 58,000 crore has jumped to by more than 100% now I mean by about 100% it has gone up to about 1,13,500 crores. Now where do I unless I have the requisite equity base or the networth I would not be able to garner that much money from the market. So therefore, another

important point is that since my margins as you said just now is only 40 bps because it is a risk free business model you are not having any kind of a NPA in our books naturally it also comes with a lower margin from government of India. So with something like 12,000 crores of the total networth as of now is about 32,000 crore comprising about 12,000 crore of equity and 20,000 crore of reserve and surplus with that thing in view unless I have the requisite capital inclusion I would not be able to mobilize that amount of money. So that is the reason that we will require to go to the market and raise equity so that we have the necessary capital gearing to enable us raise the requisite amount of money from the market to serve the demand from ministry of affairs in this particular fiscal and the number two question was regarding 40 bps and the NIM the variation between this how does it translate to that is primarily because of the fact that yes you are absolutely right it is a very good question that you asked because of the leverage that we get from the because we are not only giving the money to Ministry of Railways or we are lending to Ministry of Railways not only from the loans that we are raising from the market, but also from the equity infusion that has been given by Ministry of Railways as well as our reserves and surplus therefore and since they do not come with any attendant cost so that actually adds on to my NIM and that is why that actually accounts for the variation between the NIM and the margin I mean obtrusively that we are taking from Ministry of Railways.

**Sriram Prasad:** I think my second question is clear sir the first question is the capital gearing at 10x is it a matter of regulation or is it a matter of policy?

**Amitabh Banerjee:** It is a matter of policy there is no regulation which proposes need to remain within 10x but right from inception and as per the market convention also we have generally been keeping ourselves within 10 to be more on the conservative side. We do not want to actually because being an NBFC we have to look at the ALM position very closely and we do not want to spread this too thin so we feel that 10x is the right kind of a gearing that we should go by going forward, but yes there is no such limit on this and if the occasion so arises there is no such I mean as far as the lending agencies are concerned there are certain lending agencies who are quite comfortable also with a 15:1 ratio that they have also I mean as per their approval they have already given an approval for that, but having said that we want to keep it as a matter of policy.

**Sriram Prasad:** And the reason I asked is eventually capital gearing is a measure of risk and so is the CRAR and our CRAR is comfortable so I think we can go slightly easy on the gearing because CRAR is so high but anyway that is a matter of.

**Moderator:** Thank you. The next question is from the line of Siddhartha Gupta from BM Stock Broking. Please go ahead.

**Siddhartha Gupta:** Sir my question actually carries forward from the first question that was asked with regard to the dividend policy because as it was mentioned going further even if I am assuming that the cost even if the cost that the government requires you to raise over the next 10 years doubles or



triples the actual processing cost would still remain the same, what would be the company dividend policy going forward?

**Amitabh Banerjee:** No you see the dividend policy would be determined on a year-to-year basis. Now as far as we used to generally have a dividend policy about 10% to 15% of our PAT that used to be the dividend payout generally, but with effect from this financial year we have taken a decision duly in consultation with DIPAM as well as DPE that is department of public enterprises that this year we should be following the policy as enjoin by DIPAM and the ministry of finance there is specific DIPAM guideline on dividend payout by all the public sector enterprises and we are abiding by the same guidelines that is 30% of PAT or 5% of networth whichever is higher. So we are abiding by this particular principle as far as FY2021 is concerned and accordingly we have under that only we have decided to come out with this interim dividend payout.

**Siddhartha Gupta:** So with regard to the rolling stock assets and further on assets that the company owns are they housed in different subsidiaries or they housed by the company in itself, my question is generally based on the fact that in the future would possible private investment into the subsidiaries to kind of pseudo InVITs if I can put it in that way is that something on the anvil or is it simply completely owned by IRFC in their own hands?

**Amitabh Banerjee:** Yeah it is completely owned by IRFC in our own hands we do not have any kind of a subsidiary and as far as InvITs are concerned that is for the Ministry of Railways and IRFC to take call and I mean if at all as far as the monetization of assets is concerned, but yes as far as the ownership of these assets are concerned there is no such subsidiary in place and this entirely owned by IRFC as of now the entire stock.

**Moderator:** Thank you. The next question is from the line of Naman Kumar Individual Investor. Please go ahead.

**Naman Kumar:** I have three basic questions just to understand the business more appropriately it is not related to the quarterly numbers but my first question is because we do not have tax liability because we have higher tax rate or tax depreciation so I just want to check what is the tax depreciation in the income tax act to be claimed on rolling assets and then the second question is till date whatever liability sitting on the balance sheet what is the average weighted average cost of all the liability not just for one year or two year like combined all the liabilities and my third question is if the management can throw more color on the recent reconciliation which happened with Ministry of Railways accounts and that resulted in some restatement of accounts?

**Amitabh Banerjee:** Now as per the tax rate is concerned we are now governed by 115BAA that is the normal corporate tax rate and we have the unabsorbed depreciation which is more than the net taxable income and therefore the net taxable income comes to below 0 and therefore the tax liability the question of tax liability arising it does not really arise with effect from FY2020. So that is

as far as the tax position is concerned as far as the rate of depreciation on rolling stock and other matters are concerned that will be dealt with one of my colleague and number three is regarding this result of some reconciliation that we had with the SPV that is the RVNL and Ircon we have saved certain I mean I think it is about 1.2 crores odd that has come to our revenue and we have saved by way of interest and that was on account I mean these are all on account of some discrepancy by one or two days which has gone to the advantage of Indian Railway Finance Corporation and as far as the rates are concerned Mr. Prasanta Ojha can throw some light on the rate of depreciation on rolling stock assets and so on. Ojha please take over.

**Prasanta Ojha:** The rate of depreciation of rolling stock is 25% annual basis and this is charged in two ways that is if rolling stock assets are acquired from 1<sup>st</sup> April to 30<sup>th</sup> September then full 100% depreciation that is 25% is charged and rolling stock acquire from 1<sup>st</sup> October to 31<sup>st</sup> March it will carry 50% of the required rate that is 12.5% of 25%.

**Management:** Just to correct on one figure income tax rate on depreciation for rolling stock is 15% it has been reduced.

**Amitabh Banerjee:** And the other question was what is the weighted average cost as of now I mean of all the loans put together I remember that question Ojha are you having that figure?

**Prasanta Ojha:** Sir till December 2020 average cost of my total outstanding borrowing is 5.28% for the 9 months so I can just throw rate for that. This is till 31<sup>st</sup> December.

**Amitabh Banerjee:** The question is what is the weighted average cost of borrowings to end of December 2020.

**Prasanta Ojha:** This is 6.4% from 1<sup>st</sup> April to...

**Amitabh Banerjee:** 5.28% for the 9 months ended December 2020.

**Naman Kumar:** One more question on that reconciliation thing I understand the 19-20 annual report showed a PAT of 3,700 crore but post reconciliation in your final IPO document that got revised to I think 3,100 crore there were some 500, 600 crores?

**Amitabh Banerjee:** That was on account of some prior period adjustment which was already explained in the last meeting it was already explained in the RHP it was primarily because of the prior period adjustment on account of certain entries to be done between Ministry of Railways and IRFC.

**Naman Kumar:** So it was not for one year it is like all prior years four, five years?

**Amitabh Banerjee:** Yes absolutely.

**Moderator:** Thank you. The next question is from the line of Aalok Shah from Monarch Network Capital Limited. Please go ahead.

- Aalok Shah:** But a quick request it is more of data point that I am trying to understand here, sir can you put out help us with the number on disbursement that we have done YTD so that would be really helpful?
- Amitabh Banerjee:** The disbursements are of the order of the total disbursement is about it is more than 3.75 lakh crore correct me if I am wrong it is more than 3.75 lakh crore the total disbursement that we have done to end of December 2020.
- Aalok Shah:** And how would this number looks like for the same quarter last year?
- Amitabh Banerjee:** As far as the disbursements are concerned it has been going up pretty significantly over the years and especially over the last couple of years. So like it is about 3,75,000 crore to end of December 2020 then it will be nearing say it will be more than 4 lakh crore in the next financial year so therefore it is going to go up as of now we have another 65,000 crore disbursements mandate in FY22 as compared to 58,000 crore initial mandate that was given in last financial year so that is a 7,000 crore increase and this last year 58,000 crore got revised to 1,13,567 crore so this year also we do not know what the final numbers would be, but the initial numbers has 7,000 crore more than the corresponding period last year and especially since you must be aware of the fact that there is a national railway plan NRP which is in place for 2030 which mandates almost about 10 lakh crore would be spent on CAPEX in the current decades and to make railway future ready up to 2050. Therefore there is a lot of role there is a significant role that IRFC would be playing towards this CAPEX program of Indian railways and even for 2024 there is a rail vision plan of 2024 which mandates about 2, 45,000 crore of CAPEX outlays. So we will again be playing a major role in this CAPEX program too.
- Aalok Shah:** Just a book keeping question again you mentioned that weighted average cost of borrowings of first 9 months is 5.28% that is right?
- Amitabh Banerjee:** No that is 6.4% and 5.29% is the total average cost of all the loans that stands in our books on date and for the 9 months the marginal weighted average cost is 6.40% as compared to say 7.37% last year the entire year.
- Aalok Shah:** Sir this marginal cost of borrowing is?
- Amitabh Banerjee:** It is the marginal weighted average cost of borrowing for the 9 months ended December 2020 is 6.4% and the total liability that in our books that fetch a return I mean the average cost of funding of all those is about 5.25% whatever we just now mentioned.
- Moderator:** Thank you. The next question is from the line of Sriram Prasad Individual Investor. Please go ahead.
- Sriram Prasad:** When the government and you decide together what the spread should be is there consideration of what the maximum ROE the company can make, is there something like that sort of a

discussion happening or what factors determine how the ministry and the company agrees on a spread?

**Amitabh Banerjee:**

You see the spread is determined I mean it is consequence of negotiation between MOR Ministry of Railways and the IRFC on year-to-year basis every year this is negotiated. Now what are the factors that determine the spread is number one is that the viability of the underlying projects or underlying rolling stock assets. So that as far as the Ministry of Railways is concerned they take into account the viability of these projects and accordingly the cost of funding has to be commensurated so that the viability of the underlying assets by way of rolling stock and project assets is maintained. So from their side they have got certain kind of a benchmark as far as the markup is concerned. As far as IRFC is concerned well the thing is that we have to see that our network is built up by way of accretion to reserves and surplus. So this is basically a tradeoff between the two forces and we come to an amicable agreement on this. Yes definitely it is not comparable to the going market trends of markups, but the point is that we are a zero NPA company that is a totally sovereign guaranteed kind of an income of the company, the entire income is guaranteed by sovereign. So keeping all those factors in view and keeping also the fact in view that it is a volume gain that we are engaging in we are dealing in huge volume. So therefore even with a limited spread we are able to generate enough surplus and with a very asset light company and with the kind of very low cost-to-income ratio that we have this is one of the lowest in the world with a very slim staff strength. So we are trying to leverage these trends to advantage and even within apparently low mark up we are able to generated a substantial amount of revenue which goes to strengthen our network and since we are a NBFC so we have to ensure that the network is on a continues increase is on a continues rise otherwise we do not have the wealth at all to raise the requisite amount of funds from the market without again going into the market for equity infusion further equity infusion into our networks. So these are the various dynamics which actually play out while arriving at a particular date, but having said that it has been a general trend to have a uniform kind of a rate and so that every year we do not have to revisit the same kind of dynamics by year in and year out.

**Moderator:**

Thank you. We will take the next question from the line of Yusufi Laxmidhar from Apex Investment Consultant. Please go ahead.

**Yusufi Laxmidhar:**

Sir I just want your dividend policy you mentioned PAT 30% odd?

**Amitabh Banerjee:**

5% of network whichever is higher.

**Moderator:**

Thank you. The next question is from the line of Harshvardhan Agrawal from Infina Finance. Please go ahead.

**Harshvardhan Agrawal:**

Sir just wanted to confirm the disbursement we did in this quarter if you can share that number please?

- Amitabh Banerjee:** In this particular quarter that is September to December.
- Harshvardhan Agrawal:** Right.
- Prasanta Ojha:** Yes actually we have my revenue from operation is 3,923 crore as against the corresponding quarter.
- Amitabh Banerjee:** No disbursements only to the Ministry of Railways I will tell you something I have got some rough figures you see the disbursements that we have done is to end of 31.12.2020 is of the order of 34,000 crore.
- Harshvardhan Agrawal:** This is really in the 9 months.
- Amitabh Banerjee:** In the 9 months yes and yet to be disbursed is about 67,000 crores or something, but to end of 13<sup>th</sup> of February 2021 we have disbursed 46,751.57 crores already.
- Harshvardhan Agrawal:** If I understand it correctly you said 34,000 crores have been disbursed in the first 9 months and 19,000 crore were disbursed in the first 6 months so they are saying that 15,000 crore is what you have disbursed in the first quarter?
- Amitabh Banerjee:** Yeah it is about 13,000 crore that we have disbursed in approximately one and half months.
- Harshvardhan Agrawal:** And sir if you could share the same number for September 19 to December 19 quarter?
- Amitabh Banerjee:** That will be difficult, but you see it all depends I will tell you the raising of funds is absolutely depended on the indents given by Ministry of Railways. So as soon as the indent is given we immediately disburse the funds. It is not like that they have already placed the indent and then we starve for funds. They are already in place I mean we already have these sanctions loan sanctioned by the commercial banks in place and as soon as we get the indent immediately on the very same day or the following day we disburse the amount because we have the funds available. So because otherwise it will entail negative carry from our side which will be not in the interest of the company.
- Harshvardhan Agrawal:** And sir just one last thing so just to confirm like let us just say we have a target of around 65,000 crores of disbursements for the next fiscal year, so is it that the 65,000 crore would be equally spread during the four quarter?
- Amitabh Banerjee:** No generally the bulk of the demand over the years we have seen comes in Q4 and even in Q4 also it comes in the last couple of months and principally in the month of March I mean it is not evenly spread.
- Moderator:** Thank you. The next question is from the line of D.N. Shah from SFPL Global Trade Wings Pvt. Ltd. Please go ahead.

**DN. Shah:** Sir I have two questions you had mentioned that the national railway plan has plans of about Rs. 10 trillion by 2030 railway vision plan is something like 2,50,000 crores or something so this two things this national railway plan includes this 2,45,000 or it is?

**Amitabh Banerjee:** The 2,45,000 is a subset of 10 lakhs.

**DN. Shah:** So that was the first question second is sir we have a completely risk free model so it is a very safe model, but then you know I just want to understand that do we also get any opportunity for any margin levers or increasing the ROE because if we have this 35 bps is there or 40 bps is there which is our return plus or return on networth so if any way we can earn anything extra over and above these or that is not possible?

**Amitabh Banerjee:** You see as I told you the NIM is much more than that primarily because of the leverage as well our reserves and surplus so it is there not having any attendant cost, so therefore our NIM is at the in the range of 1.4%, but going ahead we also have plans of diversification and once that happens then the probably the markup will also rise, but that would be I mean it is yet to be seen that what would be the percentage of our AUM as far as those lending are concerned, but IRFC has got the mandate to lend to any sector which has got a backward and or a forward linkage with Ministry of Railways so we can lend to other sectors also which goes towards enhancement of the freight or passenger earning capacity of Ministry of Railways we are absolutely having the mandate to lend to those sectors also. So going forward there is a lot of scope.

**DN. Shah:** And sir one more question if I am permitted whatever money you raised through bonds I am not talking about raising through banks where you can withdraw as per your requirements, but bonds which you get the money, but the disbursements let us say happens subsequently down the line in between you might be investing somewhere and there is some other income generated on that, so that other income generated is over and above this 40 bps or that is already factored while calculating this 40 bps?

**Amitabh Banerjee:** You mean that I mean how do I manage the resource gap that just in case.

**DN. Shah:** Whatever means you have extra resources which you might be investing in the money market funds or whatever government safe asset so whatever income that is generated is also factored into this 40 bps or that comes over and above 40 bps?

**Amitabh Banerjee:** No it is over and above those 40 bps. I mean in 40 bps it is only the cost of funds plus 40 bps cost of raising funds and the 40-bps rest other income.

**DN. Shah:** Surplus funds you have till you disburse to the Ministry of Railways?

**Amitabh Banerjee:** That is separate.

**DN. Shah:** That is separate and that just added to the P&L of the company.

- Amitabh Banerjee:** Yeah.
- Moderator:** Thank you. The next question is from the line of Piyush Kherada Individual Investor. Please go ahead.
- Piyush Kherada:** My question is that going forward whether you will be following the DIPAM guidelines of 30% of distribution of income as a dividend or it may change or it might be possible that you may reduce the dividend debt?
- Amitabh Banerjee:** At this point of time I would not really venture any kind of a guess on that particular issue because as far as we go from year-to-year as far as this year is concerned we have decided to go by the DIPAM guidelines and in consultation and DIPAM and DPE and going forward it will again have the consultations and I mean then we will take a call on that.
- Moderator:** Thank you. The next question is from the line of Rikhav Shah from Zhero Capital. Please go ahead.
- Rikhav Shah:** One question is I am still not able to understand why the income is exempt and I am not able to understand the section, so can you just put it in a layman terms why income tax is exempt for us and my second question is does the cost of capital matter to us because our margins are fixed, so whether we raise capital at 6% or 8% we are only able to earn 40 bps or 30 bps but it really matters to us and my last question would be what was the idea to raise equity when you are distributing dividend or one hand you are raising equity or in other hand you are distributing dividend would not be a good idea where you can reduce the issue price rather than issuing capital at a 26 and then distributing dividend?
- Amitabh Banerjee:** You see about three years ago we used to pay tax at 56% you will be surprised to know which comprised majorly 35% on account of DTL and about 21% by way of MAT now in 2018 we were exempt from DTL provision because more than 75% of our lease was from the sovereign therefore we were exempt from the provisioning of the DTL under IndAS 12 then in September 2019 we were given the options of opting for section 115BAA instead of 115JB that covered the MAT provision. So we opted for 115BAA instead of 115JB. So therefore the MAT provisioning of 21% was also dispensed with. We are not exempt from tax at all please do not get that wrong impression that we are exempt from payment of tax.
- Rikhav Shah:** Sir whether in future years will be liable to pay income tax?
- Amitabh Banerjee:** Yeah the answer to the question is we are always liable to pay income tax as per the 115BAA of income tax that is concerned. Now why we are not paying that is the question. Since we have a very substantial amount of unabsorbed depreciation in our books therefore our net taxable income become subzero and going forward since my future asset procurement will be on an upsurge in going forward in the coming years this unabsorbed depreciation balance will go on accumulating over the years and therefore what will happen the probability of paying tax

is that much low and it is surmised that in the years to come say in a decade or so at least we would not have to pay any kind of tax because of this particular provision. So we are not exempt from payment of tax I mean as per the income tax act and the provisions there under we are not our net taxable income is coming to be less than zero so that is the reason that we are not paying any tax and going forward also the possibility is very bleak.

**Rikhav Shah:** And my second question what was the cost of capital?

**Amitabh Banerjee:** Cost of capital in a sense that or...

**Rikhav Shah:** So whether we raised funds at 6% or 8% or 9% does it matter to us?

**Amitabh Banerjee:** No it does not really matter to us except the fact that the IRR varies the internal rate of return varies.

**Rikhav Shah:** And what is the possibility that the Ministry of Railways can arm twist us I think last year they gave us only 30 bps and maybe they would not give 30 bps and later in future also what is the possibility?

**Amitabh Banerjee:** It was not last year it was in 2018 it happened. It was just once in the last 34 years of its existence that it was reduced to 30 bps that was primarily because of certain headwinds that Ministry of Railways had faced as far as their freight traffic was concerned in that particular year so they were not able to have this thing, but going forward the possibility of any further reductions is almost ruled out number one and number two is the basic reason for that is that it is not in the interest of Ministry of Railways to reduce the bps because in that case the band of IRFC for further equity infusion that must get exacerbated and therefore the demand gets dissipated and therefore Ministry of Railways would be then asked to fund more by way of equity infusion. So it really does not really serve the interest of Ministry of Railways in decreasing the dips or accretion to reserves and surplus that must goes down and therefore I am not able to build the networth that is required to fund again Ministry of Railways so it is a sort of a thing which actually would be counterproductive to the interest of Ministry of Railways. So therefore it will not be in the interest of Ministry of Railways further decrease it.

**Rikhav Shah:** And my last question was regarding the what was the idea of raising equity when in earlier years we were only distributing around 10% to 15% of our free cash flows and this year we decided to distribute dividend to 30% plus of our cash flows, so what was the idea of raising capital?

**Amitabh Banerjee:** Of course idea of raising capital I have already discussed earlier now as far as distribution of dividend is concerned this was a joint decision of department of public enterprises and DIPAM that no further I mean in this year especially when you are going for IPO and other factors also that no special dispensation will be given to IRFC as far as payment of dividend is concerned because we were getting special dispensations from DIPAM from these guidelines from



dividend payout guidelines, but this year this has been especially decided by DIPAM in consultation with department of public enterprises of not giving any kind of a dispensation to IRFC as far as dividend payout is concerned for this financial year that is FY20-21 so accordingly we have gone ahead.

**Moderator:** Thank you. The next question is from the line of Naman Kumar Individual Investor. Please go ahead.

**Naman Kumar:** My question is with regarding to the LIC extra budgetary resources deal which was supposed to happen between 2015 and 2020 I believe the amount raised was estimated to be 1,50,000 crore and for due to some LIC regulations for insurance IRDA regulations LIC exposure norms, so what is the outcome as of today like how much finally did we borrow from LIC and how did we meet the remaining shortfall and by any chance did this have any adverse impact on the IRFC business?

**Amitabh Banerjee:** As far as the MOU there was an MOU between Ministry of Railways and LIC drawn in the year 2015 starting from FY15-16 to FY19-20 the total amount of disbursements by way of issuance of IRFC bonds would be of the order of 1,50,000 crores. Now since Ministry of Railways cannot directly take from LIC so obviously IRFC have to issue the bonds through LIC, the LIC would subscribe to those bonds. Now at the end of March 2020 the actual borrowing was only to the tune of 20,500 crores this was primarily because of the exposure norms of 20% of the network that is as per the IRDA guidelines LIC could not subscribe to bonds beyond that limit. So that is why it was restricted to 20,500 crores and going forward I mean that MOU has expired in March 2020 and the shortfall whatever was there as per the project funding was concerned it was roughly around 71,000 to 75,000 crore that was met through from structured loans from the banks and financial institutions primarily and it had no adverse impact as far as the business the proposition of IRFC was concerned and since it is a cost plus business model so even if it entailed more cost the entire cost was pass through to government of India and there was no adverse impact as far as the financials of IRFC is concerned on account of that.

**Moderator:** Thank you. The next question is from the line of Pankaj Kedia Individual Investor. Please go ahead.

**Pankaj Kedia:** Based on your understanding of the railway CAPEX going forward, can you throw some light on how would your AUM grow in the next four to five years from the current 3 lakh crores?

**Amitabh Banerjee:** Well as I said that the total disbursement has been really galloping ahead at more than 35% on a CAGR basis, so it is very difficult to really, but then the AUM will be really going ahead at a very good pace especially with the NRP national railway plan that has been replaced and since EBR extra budgetary resources funding of railways happens to be a very major part that would play major part in the CAPEX funding is concerned and IRFC happens to be the major source

of funding as far as EBR funding of government of India is concerned. I think the growth in AUM would be quite substantial in the years to come at least in the next decade.

**Pankaj Kedia:** So would it be fair to assume that on a conservative basis the 20%, 25% growth in AUM is quite possible?

**Amitabh Banerjee:** Yes, I think so because out of say I will give you a small instance in the last five years alone out of total AUM of say about 2.67 lakh crore to end of March approximately 2.67 lakh crore, 2.22 lakh crore was alone in this AUM grew in the last five years from '15-16 so that speaks volumes about the growth in AUM about the CAGR of AUM in the recent years. So therefore, your estimation is not far from the truth.

**Pankaj Kedia:** Sir another question is if I look at your network and if I look at the dividend policy and if we add the 20%, 25% kind of an AUM growth it seems that the current policy of a 10x gearing will restrict your growth in your AUM going forward maybe after one or two years, is that a fair understanding?

**Amitabh Banerjee:** Yes it depends upon the final mandate of Ministry of Railways on IRFC that is a very important factor that what is the mandate I mean if the mandate is leapfrogged then we have to come to the market because anyways for offloading 11% in the next three years and we hopefully we will try to manage our network by these issuances that anyway we have to do at sustaining a guideline, we have to offload 11% in next three years.

**Pankaj Kedia:** But that would not impact your network because that would be an offer for sale from the ministry?

**Amitabh Banerjee:** It may not impact the network much I totally agree I mean let us hope that I mean it depends if the mandate is more than of course we have to come out with fresh issue.

**Pankaj Kedia:** So if you look at the current borrowing which you have done and you would probably have some covenant of restrictions on the gearing ratio, would that be a stumbling block if you at some point of time chose to increase the gearing ratio from 10 to 15 or 20?

**Amitabh Banerjee:** No there is no stumbling block as far as this has been policy of the company, there is no such regulations, there is no regulatory constraints as far as increasing the gearing ratio from 10 is concerned, but as a matter of abundant precaution and a matter of prudence and as a matter of market trends that we have as far as our peers are concerned most of them they go by this 10:1 kind of a ratio as far as capital gearing is concerned. So there would not be any kind of constraint as such, but yes as you are saying that yes I mean going forward with the kind of mandate that we are faced with in the coming years we might have to go for the further issuances.

**Pankaj Kedia:** So that means that even if you maintain a high dividend payout as per the DIPAM guidelines etcetera if the railway ministry chooses to go for very strong CAPEX based on what we read in the newspaper your networth would not be an issue in terms of borrowing more?

**Amitabh Banerjee:** Would not be a constraint.

**Pankaj Kedia:** Another last question is how do you look at the borrowing plan going forward if you need a substantial increase on your AUM would you be largely relying on the existing lines which you have from the banks or if you would be exploring more borrowing from EPFO etcetera?

**Amitabh Banerjee:** You mean the point is that generally it depends on the market dynamics, we go to the market, we mobilize resources from the domestic market or the offshore market depending on the market dynamics like in the current financial year we leverage the liquidity flush that we had in the domestic market and we raise as much money as possible of course depending upon the mandate from the Ministry of Railways, but as of now about 47% of our total borrowing portfolio accounted by the domestic bonds the taxable bond and only 9.67% is ECB. So going forward we might have to take a recourse of more of ECB. We have got a plan of going for substantial ECB this year of around about I mean more than 4.5 billion USD. We have already raised 750 million USD recently at a very competitive rate it was 2.8% coupon rate which is one of the tightest in the recent times and we also propose to go for further issuances in the offshore market by way of bond issuances under 144a and Reg-S windows in the remaining part of the year.

**Pankaj Kedia:** So do you hedge this borrowing which you borrow from the ECB side?

**Amitabh Banerjee:** Yes, we go for selective hedging we do not entirely hedge the money otherwise we will not be able to get the advantage of a low rate in the market. So for that we have a risk management committee in place in the organization at the very apex level and we are guided by a very professional agency in this regard and whatever amount of ECBs are to be hedged by interest rates swaps or currency swaps to hedge the interest rate fluctuation risk and the currency fluctuation risk and we take a call on those and we just do it flexibly based on requirement so that the advantage of low rate is passed on to the government to the extent possible and since all the risks are anyway pass through government of India so it would not have any kind of an adverse impact on the financial of IRFC as far as hedging cost is concerned.

**Pankaj Kedia:** And sir since IRFC is also as you mentioned in the call is looking at diversifying its model into areas where there are linkages to railways, would you look at the CAPEX which would be done by private sector in this regard?

**Amitabh Banerjee:** Yes absolutely we are open to that some of the private players especially those who have responded to the RFP provided by the Ministry of Railways recently for operation of high speed trains on certain routes around 150 pairs of trains they are already in talks with us for financing their rolling stock requirements and since it has got a direct link with Ministry of

Railways so we are open to considering those aspects also, but having said that we have to also ensure that the viability of their project is absolutely in place since we have a no NPA record so we will be extremely circumspect as far as lending to private sector or lending to other sectors are concerned. So all those aspects would be looked into in finer details and then we will take a call on how much and when to lend to the other sectors other than the sovereign that we have been lending to here before.

**Pankaj Kedia:** And sir lastly the 40-bps margin which you enjoy is that renegotiated or looked at on a normalized annual basis or it is a long term thing where you have a comfort zone of 10, 15 years?

**Amitabh Banerjee:** Yeah I mean it is a long term thing, but technically it is decided every year that is the point. So if we need to revisit we are absolutely we can revisit every year there is no problem on that.

**Moderator:** Thank you. The next question is from the line of Aalok Shah from Monarch Network Capital Limited. Please go ahead.

**Aalok Shah:** Two quick things you have mentioned an AUM of 2.96 trillion and the growth there in is 26.8% is that the right number for this quarter?

**Amitabh Banerjee:** Yes over the last three years 9 months.

**Aalok Shah:** And in terms of disbursements, you mentioned that the first 9 months disbursement are at 34,000 crores which has gone up to something 47% odd crores for first 9 months?

**Amitabh Banerjee:** Yes. Not first 9 months to end of 13<sup>th</sup> February.

**Aalok Shah:** For any disbursement target that you have for entire FY21?

**Amitabh Banerjee:** The mandate for FY21 the revised mandate for FY21 is of the order of 1,13,567 crores to be precise and we have already disbursed 47,000 crore out of that so yet to be disbursed is roughly around 65000 crores which is very much possible in the remaining days.

**Aalok Shah:** And on the FY22 disbursement did you make a mention of any number sir there?

**Amitabh Banerjee:** Yes 65,000 crore has been given as an initial mandate out of a total CAPEX program of 2,14,000 crores in the next financial year of Indian railways and that is the initial target let us see how it plans out over the year.

**Moderator:** Thank you. The next question is from the line of DN Shah from SPFL Global Trade Wings. Please go ahead.

**DN. Shah:** Sir one is this your bps has risen of 35 or 40 basis points which it gets decided technically every year although it may remain same, so when does it get decided?

- Amitabh Banerjee:** At the end of the year.
- DN. Shah:** So for financial year 22 it will get decided in March month of 21?
- Amitabh Banerjee:** No the point is that the bps that will be charged for 2021 would be decided after 2021 I mean at the end of 2021 in the March of 2021.
- DN. Shah:** But sir we already started booking the income?
- Amitabh Banerjee:** It is assumed at that level.
- DN Shah:** So if the bps changes in March once then the last quarter will have a substantial P&L?
- Amitabh Banerjee:** The entire year will accordingly be decent.
- DN. Shah:** Sir second question is that we discussed about the hedging that some portion we hedge, and some portion is not hedged based on the guidance of the professional firms and whatever is filed by the company?
- Amitabh Banerjee:** No, the risk management committee is there.
- DN. Shah:** Yeah, what I understood was that the hedging cost is already passed on to the ministry of railway now suppose if there is some risk because of the un-hedge portion that risk is also pass through that?
- Amitabh Banerjee:** Absolutely.
- Moderator:** Thank you. Ladies and gentlemen that was the last question for today. I now hand the conference over to Ms. Anuja Dighe for closing comments.
- Anuja Dighe:** Thank you. On behalf of DAM Capital, we thank IRFC management for giving us the opportunity to host the call. Thank you everyone and have a nice day.
- Amitabh Banerjee:** Thank you very much everybody. Thank you, all the best.
- Moderator:** Thank you. Ladies and gentlemen on behalf of DAM Capital that concludes this conference. Thank you for joining us and you may now disconnect your lines.