इंडियन रेलवे फाईनेन्स कॉरपोरेशन लिमिटेड
(भारत सरकार का उपक्रम) (सी आई एन : L65910DL1986GOI026363)
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(A Government of India Enterprise) (CIN : L65910DL1986GOI026363)
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No: IRFC/SE/2022-23/26 **18th August 2022**

National Stock Exchange of India Limited Listing department, Exchange Plaza, Bandra- Kurla Complex, Bandra (E) Mumbai- 400 051 **Scrip Symbol: IRFC**	**BSE Limited** Listing Dept / Dept of Corporate Services, PJ Towers, Dalal Street, Mumbai -400 001 **Scrip Code: 543257**

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 herewith transcript of earnings call held with analysts and investors on Tuesday, 16th August 2022, to discuss the Unaudited Q1/ FY23 Financial Results.

This is submitted for your information and record.

Thanking You,
For **Indian Railway Finance Corporation Limited**

Indian Railway Finance Corporation Ltd. IRFC CIN L65910DL1986GOI026363 New Delhi

(Vijay Babulal Shirode)
Company Secretary & Compliance Officer

Enclosure: As above

आज़ादी का अमृत महोत्सव

Indian Railway Finance Corporation Limited
Q1 FY23 Earnings Conference Call

Event Date / Time : 16/08/2022 , 16:00 Hrs
Event Duration : 59 minutes and 01 seconds

MODERATOR: **MR. VIVEK SINGH, DAM CAPITAL ADVISORS LIMITED**

MANAGEMENT TEAM: **MR. AMITABH BANERJEE-CHAIRMAN AND MANAGING DIRECTOR- INDIAN RAILWAY FINANCE CORPORATION LIMITED**
MS. SHELLY VERMA- DIRECTOR FINANCE- INDIAN RAILWAY FINANCE CORPORATION LIMITED

Moderator

Good evening, ladies and gentlemen. I am Honeyla, moderator of Indian Railway Finance Corporation Q1 FY23 Earnings Conference Call hosted by DAM Capital Advisors Limited. 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 touch tone telephone. Please note this conference is recorded. I now like to handle the flow to Mr. Vivek Singh from DAM Capital Advisors. Thank you and over to you, Sir.

Vivek Singh

Thank you, Honeyla. Good afternoon, everyone. We on behalf of DAM Capital would like to welcome the management of Indian Railway Finance Corporation Limited. Today, we have with us Mr. Amitabh Banerjee, Chairman and Managing Director , along with the Director f Finance and other members of the Management team. We will have opening remarks from Chairman and Managing Director and then move on to the Q&A. Thank you and over to you Sir.

Amitabh Banerjee

Good afternoon, everyone. I would at the outset thank DAM Capital for having organized this investor's call and good afternoon, my dear investors, we have had an organic growth in the Q1 of FY23. I'll be just running you through the presentation that has already been circulated to you all. If you go to the first slide, you see that it displays the key strengths of IRFC.

IRFC happens to be the dedicated market borrowing arm of Indian Railways, we are the sole borrowing arm of Ministry of Railways and whenever Ministry of Railways has to take recourse to extra budgetary financing, then IRFC is the only source to which the Ministry of Railways draws the funds for financing its infrastructure requirements which is not financed out of the government budgetary support, and the AUM of IRFC has grown at 15.13% in the Q1 YoY, and it now stands at INR 4,32,474 crores.

I would just like to mention here that AUM wise IRFC has become the largest NBFC in the public sector domain as on 31st of March 2022. Another thing is that we are, we have always been, you know, having a strategic relationship with the Ministry of Railways with a very low risk profile. We have a cost-plus standard lease agreement, and we have been always charging a consistent spread on our weighted average cost of funding year after year from Ministry of Railways and it's a low-risk cost plus business model, and we have never had any NPA in our books and in our 36 years of existence.

The firm is also characterized by a very competitive cost of borrowing backed by a highest credit rating from the domestic credit rating agencies like ICRA, CARE and CRISIL and we are rated at par with that of the sovereign in the international market. We have diversified funding sources with varying maturities and currencies, and we keep the cost of borrowing at a very low level due to diversified borrowing sources.

We have a strong asset liability management in place in the organization for any NBFC, I think the ALM happens to be the topmost priority of any NBFC that we should have a very balanced asset liability management, and we borrow on a long term basis and that is in sync with the tenure of the assets that we are financing of Indian Railways, and as one of the covenants of the lease agreements, the Ministry of Railways also undertakes to provide any shortfall that IRFC might face at the time of repayment of a loan or liquidation of its bond.

If IRFC happens to be short of liquidity, then Ministry of Railways undertakes to fill up that gap well in advance, so that there's no point of time theoretically speaking at no point of time IRFC stands to default at the time of repayments. Although in these 36 years of our existence, we have never had this occasion to invoke this clause of the standard lease agreements. Nevertheless, this serves as a comfort for the creditors of IRFC. The net worth as on 30th of June 2022, stands at INR 42,657 crores and revenue from operation during this quarter has grown at 22.83% YoY sand the profit during this quarter has also grown at 10.63% YoY.

We are characterized by very low overhead at only 0.1% of the total revenue and very low administrative costs with a very high operational efficiency. We have a healthy return ratio at return on assets at 1.59% and return on net worth at about 14.4% annually, and we are also exempted from various guidelines of RBI like asset classification norms provisioning norms, disclosure norms, because more than 98% of all AUM is direct exposure to the Minister of Railways that is the sovereign , and therefore, we have been given this dispensation from the RBI regulation, and we are also not required to pay any tax as our net taxable income falls below zero, because of the existence.

We don't pay any tax because of the existence of the unabsorbed depreciation in our books of accounts, and that makes our taxable income at 0 or below 0 level. See, if you look at the next slide, you'll see that the total penetration of Indian Railways in our country is pretty low at about only 50 route KM per million populations as against 592 in Russia or 464 in USA, which shows that there is a great scope for capacity augmentation of Indian Railways in the years to come, and the IRFC funding to MOR has also been on the rise since FY18.

It took a small dip in the last financial year as because of the better GST collections, the government budgetary support for the afford supporting the Railway infrastructure requirements was that much higher as compared to the earlier years during the COVID years, and therefore, the recourse of Indian Railways to extra-budgetary financing was kept at a lower level. But still it was 31.4% of the total CapEx expenditure of Ministry of Railways that was catered to by IRFC. If you look at the next slide, the asset under management as I said earlier INR 4,32,473 crores, as on 30th of June 2022.

It is Berkman, this quarter is almost INR 6000 crores, as against INR 8,056 crores in the Q1 of the last financial year. About 98.62% of our AUM is directly to the sovereign and the rest 1.38% is to RVNL and IRCON put together to have the other SPVs of Ministry of Railways, which are the PSUs of Ministry of Railway. We have been charging consistent spread on both the rolling stock as well as the project loans that we have been giving to Ministry of Railways, that IRFC has been given to Ministry of Railways, which stands at 40 bits in case of rolling stock lease and 35 bits that is 0.35% on the project asset financing.

The borrowing mix as on 30th of June 2022, reflect that the major portion of our borrowing is accounted for by the bond which accounts for 44% of the total borrowing portfolio closely followed by a term loan at 33.54%, and then it is followed by the external commercial borrowing which stands at 17.33% as on 30th of June 2022. We have given a comparative chart with respect to the Q1 of the last financial year also and as you can see, the percentage of bonds has come down from 47to 44%, and the term loans has increased from 27 to33%.

There has been having consistent financial performance over the years, the net interest income in Q1 stands at INR 1,687 crores as against INR 1,507 crores last quarter, and the profit after tax has registered an increase of more than 10% from INR 1,501 to1,661 crores in the current quarter. The operating expenses are also pretty negligible as I said, it was only 0.10% of our total revenue.

The return ratio if you see in the next slide, the risk of an asset is 1.59% as I said earlier and return on equity is 14.4% annually, and the capital adequacy ratio has now crept up to 500% in this quarter with a gearing ratio of 9.09 which is within 10, that we have always been maintaining. The net interest margin is about 1.55%. If you look at the key ratios, the net interest margin of 1.55, return on equity is 14.4, net gearing 9.09, and EPS is annualized as 5.09.

The revenue from operations in the Q1 has grown by 22.83% YoY as compared to the Q1 of the last financial year, and the net interest income has also registered a growth of about 12% profit before tax has grown at 10.60%. That brings us to the end of the presentation, and as you can see, if you look at the financials, the balance sheet and the profit and loss account, we have the balance sheet size to end of Q1 has surpassed INR 4,50,000 crores, so it is now 4,50,986.44 crores. So, that brings us to the end of the presentation. We are open to questions, if any, the field is all yours. Thank you very much.

Moderator

Thank you Sir. Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you'd like to withdraw your request, you may do so by pressing * and 1 again. Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad. The first question comes from Rajiv Malhotra, Skanda Investments. Please go ahead.

Rajiv Malhotra

Hi, this is an interesting set of numbers. Thank you for the presentation. The question is regarding the spreads charged by IRFC on rolling socket project assets, they seem to be consistently different as 0.4 and point 0.35, so is that as per an agreement with the Government of India or something? That's my question number 1.

Amitabh Banerjee

Yes, that is.

Rajiv Malhotra

So, it's an agreement. So, the question is that an agreement with the government?

Amitabh Banerjee

Yeah, it’s a part, every year we enter into a standard lease agreement with Ministry of Railways, and this rate is decided upon in course of the agreement.

Rajiv Malhotra

So, that means taking on from this point that every year we enter into an agreement with the Government of India that means that if there is any variation in our cost of borrowing year to year that will be taken care of by this spread, am I correct?

Amitabh Banerjee

No, it's not like that. What we do is the spread is consistent, and the weighted average cost of borrowing that would obviously differ from year to year. The variation in the weighted average cost is not taken care of by this. This is cost plus model, so whatever is the weighted average cost, we add 0.4% in case of rolling stock, and 0.35% in case of project added.

Rajiv Malhotra

So, this would be sort of an annual exercise so that means that our interests what we earn will always be adjusted by that.

Amitabh Banerjee

Yes

Rajiv Malhotra

Correct, my second question is that how much is the carry forward unabsorbed depreciation, which we are assuming is because of the lease that it's?

Amitabh Banerjee

No, I think it should be around INR 7000-7500 crores right now.

Rajiv Malhotra

INR 7000-7500 crores. Okay. Thank you for your answers, Sir.

Moderator

Thank you, Sir. The next question comes from Ralson, an Individual Investor, please go ahead.

Ralson

Yeah, the question was more related to interest rates going up globally.

What I was interested in knowing is about the interest rates going up globally. How does that impact the overall borrowing plans from the Indian Railways for its rolling stock requirements or expansion?

Amitabh Banerjee

You see, as I said earlier, IRFC has been taking the cost to very diversified sources of borrowing, we borrow through the domestic bond market, the 54 EC bonds that the capital gains tax exemption bonds, and we also take recourse to domestic loans from the financial institutions, we take recourse to external commercial borrowings by way of this 144A, as well Reg S bond in the US and the European market and the Asian markets, as well as we take syndicated loans from various multilateral funding agencies.

So, we have a very wide source of funding, and as I said, you know, if you would have seen in the last year, when I was in course of my presentation, I said that the total proportion of the bond portfolio has reduced in 21-22 as compared to 20-21. So, if you can see in Q1 for instance, Q1 FY23 and Q1 FY22, if you see the bond holding has gone down from 47 to44, and the term loans has increased from 27 to35. you would be recollecting that the bond market last year was pretty tight.

So, therefore, we took more recourse to the term lending institutions in the banks, and we got very good rates, very competitive rate from the banks as compared to the rates prevalent in the bond market. So, we gauge the market at the time of going to market. We gauge the market, we have got our teams which go through the various sources of financing and whatever the best source at any point of time, we take recourse to that source of funding to keep the cost at a very competitive level.

We approached the external commercial borrowing market also at a very opportune time when the rates were pretty competitive. So, last time also when we went to the ECB, when we went for the $500 million green bonds, at that point of time, it was just before the US Treasury rate was increased. So, we got a very, very competitive rates taking into account the declining factor.

So, and also buffeted by the fact that since we are perceived to be a Quasi Sovereign Entity, as far as our rating goes, besides the fact that we are rated at par with the sovereign in the international market, and we are getting the highest credit rating in the domestic market, we are also perceived as almost like a sovereign, because all our receivables, the entire revenue is totally, you know, guaranteed by government through budgetary provision. So, there is a line item in the budget which was specifically denotes what is the least payable by Ministry of Railways to IRFC.

So, that gives some kind of comfort to the investors and to the creditors. You know, while advancing loans, so that is why that is the reason that we are able to leverage the market to our advantage, and we're able to get the money at very competitive costs.

Ralson

My question was more with respect to you know, not be in the ability of IRFC to you know, get the borrowing at the lowest interest rates, but more about you know, the plans of Indian Railways as such, because I remember somewhere reading on the internet, that in 2007, 2008, when the interest rates are doubled from 5.75 to11% at that point of time, they have polluted the old borrowing the Indian Railways and they had looked at some public private partnerships for the overall plans in the expansions. So, just wanted your thoughts, whether the overall borrowing plan of Indian Railways as such will reduce which in turn will mean that it will request less amount of request to IRFC.

Amitabh Banerjee

Well, you see as far as the funding of the infrastructure requirements of Indian Railways is concerned, that is pretty substantial. And it forms a major portion of the national infrastructure pipeline of the government of India. It forms a very substantial portion of the Rupees 111 trillion as NIP that we have for government of India, and therefore, you see, as far as the trust on PPP is concerned that is business there is on cards, but that itself will not really be adequate to fund the burgeoning requirements of Indian Railways as far as the capital requirement is concerned.

So, it's not that the PPP is actually substituting the requirement that EBR requirement of Indian railways, but of course, I mean, there are various ways that Indian Railways looked at to augment their, you know, the revenue potential, the non-fare revenue, the non-farebox revenue, both idea of this monetization of assets as well as to public private partnerships with various private organizations as well as there are some FCB’s which have been created by Ministry of Railways in association with various State Government for creation of infrastructure in various States.

Railway infrastructure in various states. So, there are various ways that specifically Indian Railways has fructifying its efforts at augmenting the, carrying capacity of Indian Railways, but as far as the funding requirements are concerned, basic funding requirements are met through the government budgetary support, and the extra budgetary resources requirement that is catered to by IRFC.

Ralson

Okay. And my last question, Sir, was with regards to the, you know, last time when you had mentioned that you were talking to large funds. Overall, in the investments in IRFC. Any update that you would want to share with the individual investors like me about any large investments coming up in IRFC or for that matter, you know, reducing the overall plans of the IRFC stake to bring it below 75%, if you can just share some light on that.

Amitabh Banerjee

No. As per I don't know, what exactly your question is, because it seems to be you said that, as far as the investments of IRFC are concerned, I mean, we are basically into you know, we are basically into raising money for the infrastructure requirements of Indian Railways, that is one portion, you don't have the investment is totally in Indian Railways, I mean, almost more than 98% in Indian Railways or some PSU that we are lending to.

Ralson

More related to the stock price. The last time, we had spoken that you we're in talks with some of the larger institutional investors about making a space for them.

Amitabh Banerjee

Yes, we have, it is not a one-time kind of thing, we are regularly interacting with the investors with the potential investors as well as the existing investors, and they have been coming to our office also. They have been contemplating with us. We also go to the investors, and we talk to them, and that kind of an engagement is an ongoing engagement. It is regularly going on, but yes, there are certain issues as far as the share price is concerned.

Share price is very difficult to really gauge what drives the share price. It is the so that you see the results are for you to see, the results are pretty robust as far as IRFC are concerned in the last 3-4 years, the CAGR has been hovering around 20% in almost all the financial parameters, so, results are robust, but yes, it is the perception of the market that drives the share price.

But we have been engaging with various investors with industrial community in general, and all our officers are going even I have been on my feet, and I have been interacting personally with many major investors, and we have been, and they're also pretty positive as far as this particular organization is concerned. So, on that there is no issue as far as the further dilution is concerned, below 86% We are now government is holding 86% of the total equity portfolio. So as far as this financial year 22-23, I think we don't feel the need for further capitalization this year.

Because our leveraging issue will be well within 10 keeping in view the funding requirements of Ministry of Railways in FY23, which stands at INR 66,500 crores right now. But yes, as per the SEBI guidelines, we have to go up to 75% to end of FY24. So, yeah, but as far as this financial year concerned, we don't really, because anyway you will see that we are having a substantial proportion of our net worth in the form of equity share capital, it is about INR 13,068 crores EBITDA out of INR 42,000 crores.

So, we don't want to further as in this particular year, we will not require to go for further, and as of now, there is no such plan. You don't know what, how do you get? We don't have any.

Ralson

Thank you.

Amitabh Banerjee

Thank you, Sir.

Moderator

Participants are requested to ask 2 questions in the initial round and may join the queue for more questions. We have a question from Santosh Keshri from Keshri Wealth, please go ahead.

Santosh Keshri

Yeah. Congratulations for such a good set of numbers. I have 2 questions. One is about the EPS that you disclosed in the slide number 9 of the presentation.

First question is about EPS that is disclosed in slide number 9 of the presentation, where in the EPS is 5.09. So, my question was, is this the quarterly EPS that is analyzed by multiplying it by 4 or this is trailing 12month EPS, that is my first question. How will you arrive at this EPS?

Amitabh Banerjee

I think it is the annualized one by multiplied by 4. Correct me, if I am wrong, Sunil?

Management Team

It is multiplied by 4, Sir.

Santosh Keshri

Sir, then in projecting that there will not be any growth for compared to the EPS that we have in the current quarter.

Amitabh Banerjee

No, not really. No, this is just an extrapolation as far as Q1 is concerned. So, generally, the Q1 numbers are always on the lower side as compared to the other quarterly numbers and it picks up in course of the year. So, definitely it will move up.

Santosh Keshri

So that it means that like 30% dividend that needs to be declared by a PSU as to the government norms, so we can expect to dividend of something like Rs.1.5.

Amitabh Banerjee

Yes, dividend this year would be about INR 1.4. What is the dividend?

Management Team

Sir, for FY2122, we have declared INR 1.4, and we can expect 10% growth in the dividend payment at going forward for FY23.

Santosh Keshri

Okay. That's great. So, Sir my second question was about the presentation in slide number 10, where we have seen a revenue for operations has gone up by 22%, and finance costs have grown up by 28%. So, I just wondered that when we are a cost plus entity, we are charging for 40 bips and 35 bips on two schemes of revenue, why should not be the profit also be going in the same proportion as you have the revenue, because finance costs going up by so much means that we are under recovering or our cost of financing more than what we are able to recover from MOR. Is my understanding correct on this?

Management Team

On the revenue side, we have two types of schemes, one is pre-leased pre disbursement interest income and another is the lease rentals. Basically, the pre-leased disbursement income, we are just booking the margin on the borrowed funds and the entire cost of borrowing plus margin on the funding done through own fund and whatever the lease rentals we are receiving from the MOR, the revenue portion of that is being booked as a lease income in the P&L, so basically, we are in the process of signing the agreement for our project funding assets also.

Basically, things in case of advance, till the time of its advanced, we are just booking only the margin portion as the income in our top line, but as soon as we sign the agreement, then the lease rental starts to IRFC, and accordingly, in the top line entire revenue portion of the lease rental is going into the top line and in similar fashion, we are booking whatever extra expenditure we are incurring on that account, we are booking as a finance cost, because of the movement of the incremental borrowing.

Amitabh Banerjee

Because of the fact, yeah, just let me just step in here, you see the point is that you have this kind of an apparent mismatch only, because of the difference in the assets that we have. As far as the lease rentals from the rolling stock assets are concerned, there is no moratorium period. So, the lease rentals start flowing in from the very next year. Whereas in case of projects assets, which actually has surpassed the rolling stock assets as of now, it's more than INR 2,10,000 crores as against INR 2,00,000 crores in case of rolling stock assets, there is a moratorium period of 5 years during which, we don't get the lease payments.

And that is why there is a variation in the recognition of revenue between that of rolling stock as well as project assets that's why there is an apparent mismatch just to you know, put it succinctly that is why there is an apparent mismatch otherwise, as you rightly saying, it should be growing in sync with the growth in the project cost revenue. It is actually growing in that way, but because of the difference in the recognition of revenue, there this apparent mismatch there.

Santosh Keshri

Looks like it is little-bit complicated, and IRFC being such a unique NBFC there is nothing like it in the whole of Indian economy. So, see for simplified presentation can be given like what is your asset under project management, under different categories that we spoke about, so that we can analyze, and investor community can see that how the profit is reconciling with the profit that it disclosed, it will be really helpful.

Amitabh Banerjee

Yeah, we get your point, you see as far as the revenue from operations or finance sources concerns, these have been taken from the financial statements, which are in accordance with the N days. So, we can't what you're rightly mentioning is that we can give you an offline kind of management information, where you can directly see that, that of course, can be given, but these all these figures are as per the Profit and Loss account and Balance Sheet.

Basically, all these ratios and all these parameters that we have given, so we can't deviate from the accounting standard requirements. So, the recognition of revenue has to be accordingly tailored that way, but your point makes sense that for your benefit for the benefit of the normal investor, we can give an offline kind of information.

Santosh Keshri

That will be very helpful.

Moderator

Thank you, Sir. The next question comes from Shailendra Mundra, from Veba Financials, please go ahead.

Shailendra Mundra

Hello, good evening everybody, congratulation for achieving a good set of numbers and a very good growth in the company over last few years. So, I'm a new investor, post the IPO, I invested recently. I am trying to understand the leasing part of your operation, so I just learned that, you know, there is a moratorium of 5 years, and you know, could you please explain to me the business model. So, you say that you have a 0.4 or 0.35% spread over lending. So, how does that apply in a leasing business where the value of the asset is depreciating every year?

Amitabh Banerjee

Right, okay. Group General Manager, please elaborate on that.

Management Team

Basically, for funding of this project assets as such, we are following a financing model where we have to fund as per the requirement of the MOR. And in that way, as per the MoU signed with MOR, we generally follow a moratorium period of 5 years, after the completion 5 year, we will execute a lease agreement with MOR, whatever our cost of borrowing will add 30 pips bits over it. And based on that, IRR, we will determine the lease rentals which are going to be paid by the amount during the next 15 years.

So, basically, it's like a cost-plus model. So, during this period of 5 year, we are recognizing whatever margin we are getting on this funding as our top line, and once we find the lease agreement, whatever rental we are receiving against these research from MOR, the revenue portion, which is based on my cost of borrowing plus this margin, I'm recognizing in the P&L as a top line. I think I have answered your question.

Amitabh Banerjee

No, I just like to add one thing very important thing, that what you talked about the business model, you see the business model is very interesting as far as IRFC and Minister of Railways is concerned the business model is like this, you know, there is something called allocation of businesses in Government of India. You see, you might be wondering that why don't we directly give loans to Ministry of Railways and from that loan, they can directly buy the assets and whereas, then the question of leasing will not arise, it will be a simple lending business.

As per allocation of business rule, as per that, you know, no Ministry or no Department of Government of India other than Ministry of Finance can directly raise loans from the market. By that reason, even Ministry of Railways cannot directly take loans from IRFC. So, that is why IRFC was formed as a special purpose vehicle of Ministry of Railways to raise loans from the market, then buy those assets and then lease those assets to Ministry of Railways for a particular period, which usually coincides with the useful life of those assets, which is generally 30 years. The average period of the asset life is 30 years. So, all these assets are in our books, and they are owned by IRFC.

You'll be surprised to know that more than 86% of the total trains that fly on Indian Railways is owned by IRFC, and they have been given on lease basis to Ministry of Railways, and after the lease period is over those 30 years, then the ownership is passed on to Ministry of Railways at a very nominal residual value. So, this is a transfer. So, this is basically the business model that IRFC has. So, that is why we are into leasing business otherwise it could have been as simple lending business.

So, we have to acquire those assets and then but having said that, you also must know that all the techno-commercial aspects of all the transactions pertaining to the acquisition of these assets, be the rolling stock assets or be the project assets that is totally looked after by Ministry of Railways. IRFC does not have any local standby as far as the techno commercial financial aspects of the transactions are concerned. We basically are facilitators by way of being the funding source. Yes please, you were saying something.

Shailendra Mundra

So, let's, you know, to for the sake of better understanding, let's talk about some numbers. So, hypothetical numbers. So, let's say let you acquire some asset per INR 100. So, you take loan from the market, okay. Let's say INR 100 loan from the market and you buy an asset worth INR 100, and lease it to Indian Railways for 30 years, okay. Now, this INR 100 asset, you said that after 30 years will be transferred to Railways at nominal value or not nominal value, at let's say 0 value, hardly any value, right? Over 30 years in your books, the value of the asset will become 0, okay.

So, first 5 years, you will not receive any revenue from the Ministry of Railways, and you will be receiving revenues or lease rentals starting from the 6^{th} year up to the end of the 30^{th} year, right. So, suppose we borrowed the INR 100 at 6% interest, okay. And you said that you apply a spread of 0.4 bits.

Amitabh Banerjee

0.35 in case a project assets.

Shailendra Mundra

Okay. So, 0.35, your cost you will be charging 6.35 on this 100 purely as an interest to the Railways. So, how do you recover the value of the asset which has gone from 100 to 0 in the course of next 30 years. In case of a loan, you lend INR 100 to the other entity, you charge the interest and they start paying you the principal also along with the interest.

Amitabh Banerjee

I get your point. You see what you're trying to associate is these results with the book value of the assets.

Shailendra Mundra

Yeah, so, how do you recover the book value?

Amitabh Banerjee

No, the book value of the assets has got nothing to do with the lease rentals that you must dissociate the 2, they are no different things.

Shailendra Mundra

I'm not looking at the accounting book value and I am saying you invested INR 100 in an asset and lend it to. So, you know, let me add one more thing suppose since you will be charging.

Amitabh Banerjee

No, because this request some discussion, you can always.

Shailendra Mundra

Just in one minute in I will complete it will not drag it. Yeah.

Amitabh Banerjee

So, it's not just for the benefit of all the other.

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Shailendra Mundra

Yes, absolutely. So, 30 year life, 5 year moratorium, so the lease rentals will be charged over 25 years. So, if you divide 100 by 25 years 4% comes as the if you are adding to 6.35 another 4% as the cost of amortization of assets. So, if you're if your lease rentals to the Railways is approximately 10.35% per year, then I think it should be fine. I just wanted to comment on that you are recovering the value of the asset, which will become 0 in your book.

Amitabh Banerjee

Basically, one thing, one thing which I would like to mention here is that we recover the lease rentals in the first 15 years of this 30 years as the primary lease period, right, and in this year, so, we are recovering the entire value of the lease in the first 15 years only.

In case of both that is rolling stock as well as project assets with the only difference than in case of project assets, we have a moratorium of 5 years and then we recover in the next 15 years, and in case of rolling stock assets, we get the lease rentals in the very first 15 years only, that is called the primary lease period. And then a secondary lease period, we just get a very broken lease rental of about 1,00,000 per annum for the assets put together so, we in effect, it is basically a lease of 15 years.

But as far as the useful life of these 30 years, so, we try to stretch the lease period by another 15-30 years so, that the, at the time of transfer, the transferer gets the normal value. That is the only thing. So, the entire lease rental we are first 15 years.

Shailendra Mundra

But I just wanted the confirmation that you are able to recover the cost of assets because you are when you're leasing you are sitting on a depreciating asset, right?

Amitabh Banerjee

No, the lease rental is not based on the depreciated asset value. The lease rental is so, that's why I said to dissociate yourself from the depreciable value.

Management Team

Just to supplement your this thing, during this moratorium period, we are capitalizing the interest when we are not getting the rentals, we're capitalizing the interest and after 5 years, when the moratorium period ends on the capitalized value, we are working on the rentals which is recovered for the next 15 years. As we you have said for INR 100, take a case of a simple interest the INR 100 after moratorium period will become INR 131 or 132.

And we are executing the agreement based on INR 132, the entire cost of asset and the cost of borrowing plus margin, we are recovering during the first initial 15 years. So, in that way, I am recovering the entire cost of my asset, whatever we might be borrowing cost plus margin. So, basically lease rentals has been calculated based on this formula, and accordingly the MOR will pay him during the initial 15 years based on these 3 components, there are 3 components, the cost of the asset, the borrowing cost, which we have incurred for this funding, and the margin, which is payable by the MOR.

Shailendra Mundra

This is exactly trying to confirm. So yeah, 100 divided by 15. And you know, so let's say you borrow 100, you buy an asset of 100, you give it to the Minister of railways, but in 5 years moratorium period, the capitalized value of that becomes 132, let's say, so you divide that by 15 to approximately INR 9 every year will be your cost of assets plus 6% on 132 will be your interest rate plus 0.35 will be your spread. So, all that so 9 plus 6 plus. If this is what you will be charging, right?

Amitabh Banerjee

Yes. It has got nothing to do with the book value of the asset, that's what I was saying.

Shailendra Mundra

Yeah, I'm not talking about book value accounting book value. I'm talking the initial acquisition cost of the assets you have to recover it because it is becoming zero. Yes. It is only based on code. Yeah, you have to accrue the interest because you are not charging for first 5 years. So that is clear. Now, second question.

Moderator

I'm so sorry to interrupt, Sir. Can you please join the queue for more question? I'm really sorry.

Shailendra Mundra

I mean, this is, you know, it's up to the management to decide I'm trying to clarify the business model for the benefit of everybody. I just have one tax related question. So, because you mentioned that there is no tax, your tax liability. So, I'm assuming that since the assets are sitting on your books, and you're getting the depreciation benefit, but that is the reason you are not getting.

Amitabh Banerjee

That is the reason, yes.

Shailendra Mundra

Okay. Thank you, Sir. I'll join the queue again.

Moderator

Thank you, Sir. Participants are requested to ask one question in the initial round and may join the queue for more question. The next question comes from Phani Rajesekar, an Individual Investor, please go ahead.

Phani Rajesekar

Good evening, Sir. My name is Rajesekar. I'm from Vijayawada. My question is, whenever the offer for sale comes in the due course of 1-2 years, assume that the book value will be approximately 35 rupees. Now the present market value where the middlemen or the broker are trying to keep the price low, except when the OFS comes, they can force the management to keep the price less than book value, but as an investor, every year, our profits are increasing the book value where I'm not getting dividends. So how the management can assure the OFS price will not be less than the book value?

Amitabh Banerjee

Okay, you go ahead. I'm asking my team members respond please.

Management Team

Basically, at present the book value is 32.64 as on 30th June 22, and as per the DIPAM guidelines because you must appreciate being NBFC, we need redeployment of our profits for further borrowings, so that my gearing ratio will be in a range. So, that way as per the DIPAM guidelines we are required to pay dividend 30% of my PAT or 5% of net worth, whichever is more.

So, accordingly we are paying the dividends and whatever the surplus, we are redeploying in our business accordingly the book value of my per share is increasing so these redeployment is considered because of the nature of the business and to manage our gearing ratio.

Phani Rajesekar

No Sir. My question is not that. My question is how the company is going to protect the investor, when the book value is going to be INR 35 or INR 45 when OFS will come. I don't want company to give into the market less than book value and do injustice to investors who are there with the company long time without taking dividends, this is our profit, which is increasing the book prices, but the brokers are trying to keep the price low, so how do you protect that?

Amitabh Banerjee

You see the point is, yeah, we get your question. If you recall, when we went for the IPO, our offer price was almost the same level that we had for the book value. It was 26 at that point of time, if you recall, and we generally try to ensure that our book value is protected.

So, when we go for the OFS next time or for new issuance or fresh issuance can be either OFS or it can be fresh issuance, either of these two routes are available to us, we will definitely you know, ensure that our, you know, that threshold of book value is always maintained as far as when we approach the market for fresh issuance of share, with fresh issuance of share, you should not go beyond or below book value, because as you rightly say, the book value is enhanced because of the profit that we have that we have made over these years to our efficiencies.

So, that should not be sacrificed. Your point is well taken, and we shall definitely see when we go for the next OFS or fresh issuance when we approach the market next time.

Phani Rajesekar

Thank you, Amitabh Sir. My second question, can I ask Sir? Is it possible?

Amitabh Banerjee

Yes.

Phani Rajesekar

Only 1 minute, I will ask. The Rupee depreciated from $70 approximately to $79.5. I know it is a cost-plus model. Is it 100% cost of depreciation of Rupee will be passed to Indian Railway in the coming year?

Amitabh Banerjee

Yes. I mean, that is the business model. That's all the costs incidental to borrowing or lending are passed through to Government of India including the cost of hedging in case of ECB portfolio loans.

Phani Rajesekar

Thank you.

Amitabh Banerjee

So having said yeah, having said that, we hedge we go for hedging, we go for partial hedging of our ECD portfolio from time to time we are regularly keeping track of the markets. And whenever we are raising money, we hedge the requisite portion of ECB that is required to safeguard the interests of Ministry of Railways.

Phani Rajesekar

Thank you, Sir.

Moderator

Thank you, Sir. The next question comes from Siddharth Gupta, from Voyager Capital, please go ahead.

Siddharth Gupta

Good evening Sir, and good evening for entire management present. First of all, let me congratulate all of you for this great set of numbers as usual. The company continues to pay despite the stock price is not performing. Before I ask my question, just one small 30 second piece of advice for all analysts and investors on the calls. A lot of the questions that the management' answering right now have already been answered in some of the past and this call over the past few quarters about the module in much detail. And it would be a great thing it those could be explored before the call, so that the timing of the call could be saved.

Moving on to my question. So, in the past couple of quarters, the management has been moving towards amending its MOA and starting to lend to other ancillary railway related projects. Has there been any progress in that term? Because in that there was a project signed to the Haryana State Government. But are there any other possible projects in the pipeline that are coming up?

Second, is there a proposal for a possible buyback that has been discussed at the management or Ministry level? Because that's a possible way of rewarding shareholders a possible way, one of the concerns expressed by the investors is often OFS or further dilution of the government stake at a price level than the IPO price, a possible way of doing so could be that the government the board carries out a buyback and the government doesn't participate in the buybacks thereby diluting the stake.

Amitabh Banerjee

A bit of a hypothetical question. The latter part of your question is concerned that is buyback, no such thought process has really caught our minds or the government of India's mind as far as IRFC is concerned. Number 1, and number 2, the first part of your question was regarding just not recollecting if you can just for my benefit, if you can just repeat the first part of your question. No such proposals for buyback are there as of now.

Siddharth Gupta

Sir, my question was about ancillary railway projects, we've been amended.

Amitabh Banerjee

Yeah. We are in the process. I recall now. And that is under consideration of the Ministry of Railways as far as the alteration of the object clause of Memorandum of association is concerned, yes.

Siddharth Gupta

Yes, do we have a timeline on this last as to by when?

Amitabh Banerjee

There is no such timeline as of. I mean, the final call has to be the Minister of Railways call as far as the alteration is concerned.

Siddharth Gupta

So just one final question. There was one recent project that was sanctioned with the Haryana State Government. Are there any further?

Amitabh Banerjee

Yes, that is in the pipeline.

Siddharth Gupta

So, it's correct to assume that there are other state governments trying to explore their local trains and metros project

Amitabh Banerjee

Of Course, why not.

Siddharth Gupta

Thank you, Sir.

Moderator

Thank you, Sir. that will be the last question for the day. I now like to hand over the floor to the management for closing comments. Please go ahead Sir.

Amitabh Banerjee

Dear investors, thank you very much for sparing your valuable time to confabulate with us to interact with us, and we have got very good suggestions also very good, there have been very incisive questions. And we really thank the interest that has been evidenced by the investors in IRFC and this is your company, and we would like your company to grow, it should be a robust growth in the coming years.

And since we are dealing with Ministry of Railways and Railways has got a very ambitious CapEx plan in the coming years, so the good prospects of IRFC is closely interlinked with the growth prospects of Indian Railways. And we see the very bright future ahead for your company IRFC. Thank you so much.

Moderator

Thank you Sir. Ladies and gentlemen, this concludes your conference call for today. Thank you for your participation and for using Door Sabha’s conference call service. You may all disconnect your lines now. Thank you and have a good day everyone.