



## INDIAN RAILWAY FINANCE CORPORATION LIMITED

Issue opening on 25 Feb 2013

### HIGHLIGHTS OF TAX BENEFITS

- Interest from these Bonds do not form part of total income as per provisions of Section 10 (15) (iv) (h) of Income Tax Act, 1961 read along with Section 14A (1) of the IT Act.
- There shall be no deduction of tax at source from the interest payable on the Bonds.
- Wealth Tax is not levied on investment in bonds under section 2(ea) of the Wealth-tax Act, 1957
- As per Section 2 (29A) of the IT Act, read with section 2 (42A) of the IT Act, the Bonds since listed on BSE and NSE, shall be treated as a long term capital asset if the same is held for more than 12 months immediately preceding the date of transfer. Under section 112 of the Income Tax Act, 1961, capital gains arising on the transfer of long term capital assets being listed securities are subject to tax at the rate of 20% of capital gains calculated after reducing indexed cost of acquisition or 10% of capital gains without indexation of the cost of acquisition

### COMPANY PROFILE

- IRFC was incorporated as a financing arm of Indian Railways, for the purpose of raising a part of the resources necessary for meeting the developmental needs of the Indian Railways.
- 100% shareholding held by Government of India as on September 30, 2012
- Classified as a Public Financial Institution under Section 4A of the Companies Act, 1956
- Classified as a NBFC-ND and classified as an Infrastructure Finance Company by the RBI
- As of September 30, 2012, IRFC does not have any non performing assets.
- The vast majority of assets of the Company consists of railway rolling stock and lease receivables in respect of rolling stock.
- As at March 31, 2012, the Company's outstanding leased assets (net of capital recovery) to the Ministry of Railways (MoR) were Rs 52,82,7.09 crore, representing 87.93 % of its total assets.
- Net worth of Rs 5,699.79 crores as on September 30, 2012
- Company's income has increased to Rs 4643.10 crores in FY 2012 from Rs 2610.73 crores in FY 2008
- Company's net profit has increased to Rs 480.78 crores in FY 2012 from Rs 421.51 crores in FY 2008

Source: Shelf Prospectus dated December 21, 2012

**Disclaimer: "Invest only after referring to the final prospectus"**

## **SALIENT FEATURES OF THE PROPOSED TAX FREE BONDS**

- **Tax benefits u/s 10 (15) (iv) (h) of the Income Tax Act, 1961**
- **Interest from these Bonds shall not form part of total income of any person/ assessee**
- **Credit Rating of “CRISIL AAA/Stable” by CRISIL, “[ICRA] AAA” by ICRA and “CARE AAA” by CARE**
- **Bonds can be held in physical or in dematerialized form, at the option of bondholders but the trading of the Bonds shall be in dematerialized form only**
- **Bonds are proposed to be listed on the BSE and National Stock Exchange of India Limited (“NSE”).**

## **Strengths**

- **Assured Net Interest Margin**

IRFC’s cost plus based lease agreement with Ministry of Railways (“MoR”) ensures a net interest margin. IRFC enters into lease agreements with the MoR each year and the internal rate of return on the lease is arrived at by adding a net interest margin to the cost of incremental borrowings. This enables the Company to earn a fixed margin over the life of the leases.

- **Strategically important position in the Indian Railway Sector**

IRFC is wholly owned by the Government of India. It has been established for and by Ministry of Railways as a special purpose vehicle for its funding requirements. IRFC is a public financial institution and a non-banking financial company providing fund based support for the development of the Indian Railways.

- **Zero Non Performing Assets**

As of September 30, 2012, IRFC does not have any non performing assets. All its loans and receivables accrue from the MoR and other related entities like RVNL and RailTel.

- **Consistent Financial Performance**

IRFC has demonstrated consistent growth in its profitability. The Company has been able to maintain almost consistent net interest margins ranging from 0.53% to 0.5% from FY 2008 to FY 2012. It has low establishment, overhead and administrative expenses and its operational efficiency is high, which results in increased profitability.

- **Low financial risk due to government support.**

The entire equity share capital of the Company is held by the President of India, acting through the MoR, therefore, the Company is a quasi-sovereign entity and enjoys Government support.

- **Low Cost of Borrowings**

IRFC’s incremental cost of borrowings was 8.73%, 7.62% and 7.70% in FY 2012, FY 2011 and FY 2010 respectively

*Source: Shelf Prospectus*

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## Issue Structure

<b>Issuer</b>	<b>Indian Railway Finance Corporation Limited</b>
<b>Mode of issue and nature of instrument</b>	Public issue by Indian Railway Finance Corporation Limited of tax free, secured, redeemable, non-convertible bonds of face value of Rs 1,000 each in the nature of debentures having tax benefits under section 10(15)(iv)(h) of the Income Tax Act, 1961, as amended, aggregating up to Rs 8886.40 crore* in the Fiscal Year 2013, including all tranches. The Bonds will be issued in one or more tranches subject to the Shelf Limit. This Tranche Issue by the Issuer of bonds aggregating to Rs 1000 crores with an option to retain oversubscription upto the Shelf Limit* (i.e. Upto Rs 8886.40 crores*) and is being offered by way of the Prospectus Tranche-2 containing, inter alia, the terms and conditions of the Tranche-2, which should be read together with the Shelf Prospectus dated December 21, 2012 filed with the RoC, BSE(Designated Stock Exchange), NSE and SEBI. <i>* Pursuant to the CBDT Notification, IRFC has raised Rs 1113.60 crores through the private placements of Bonds. In case IRFC raises any further funds through private placement not exceeding Rs 2500 crores, i.e. upto 25% of the allocated limit for raising funds through Tax Free Bonds during Fiscal Year 2013, during the process of the present Issue, the Shelf Limit for the Issue shall get reduced by such amount raised.</i>
<b>Mode of Issue</b>	Public Issue
<b>Base Issue Size</b>	Rs 1,000 Crores
<b>Option to retain oversubscription</b>	Upto the residual Shelf Limit
<b>Security</b>	<i>Secured by creating a first pari-passu charge on the movable assets of the Company comprising of rolling stock such as wagons, locomotives and coaches by a first pari passu charge, present and future, as may be agreed between the Company and the Debenture Trustee, pursuant to the terms of the Debenture Trust Deed.</i>
<b>Security cover</b>	At least one time of the value of the total outstanding Bonds
<b>Listing</b>	The Bonds are proposed to be listed on BSE and NSE. BSE is the Designated Stock Exchange for the Issue
<b>Credit Ratings</b>	"CRISIL AAA/Stable" by CRISIL, "[ICRA] AAA" by ICRA and "CARE AAA" by CARE
<b>Issuance mode</b>	In dematerialised form as well as in physical form, at the option of Applicants
<b>Trading mode</b>	*In dematerialised form only
<b>Lead Managers to the Issue</b>	<b>A.K. Capital Services Limited</b> , SBI Capital Markets Limited, Axis Capital Limited#, ICICI Securities Limited and Kotak Mahindra Capital Company Limited
<b>Interest Payment Date</b>	Annual
<b>Interest on application monies received which are used towards allotment of Bonds</b>	@ 6.88%p.a. and 7.04% p.a. for the Tranche-2 Series I Bonds and Tranche-2 Series II Bonds, respectively for Allottees under Categories I, II and III (except for ASBA Applicants) subject to deduction of tax at source, as applicable @ 7.38%p.a. and 7.54%p.a. for the Tranche – 2 Series I Bonds and Tranche – 2 Series II Bonds, respectively for Allottees under Categories IV, (except for ASBA Applicants) subject to deduction of tax at source, as applicable
<b>Interest on refund money</b>	@ 5% p.a (except Application Amounts received after the Issue Closure Date and ASBA Applicants), subject to deduction of tax at source, as applicable
<b>Issue Price</b>	Rs. 1,000 per Bond
<b>Put/Call Option</b>	Not applicable
<b>Deemed Date of Allotment</b>	Deemed Date of Allotment shall be the date on which the Directors of the Company or any committee thereof approves the allotment of the Bonds for each Tranche Issue or such date as may be determined by the Board of Directors or any committee thereof and notified to the stock exchanges. All benefits relating to the Bonds including interest on Bonds (as specified for each tranche by way of Tranche Prospectus) shall be available to the investors from the Deemed Date of Allotment. The actual allotment of Bonds may take place on a date other than the Deemed Date of Allotment.
<b>Depositories</b>	NSDL and CDSL
<b>Trustee</b>	SBICAP Trustee Company Limited

\*In terms of Regulation 4(2)(d) of the Debt Regulations, the Company will make public issue of the Bonds in the dematerialised form. However, in terms of Section 8 (1) of the Depositories Act, the Company, at the request of the Investors who wish to hold the Bonds in physical form will fulfill such request. However, trading in Bonds shall be compulsorily in dematerialized form.

#The merchant banking business of Enam Securities Private Limited, has vested with Axis Capital Limited, which is in the process of completing the formalities of SEBI registration

Source: Prospectus

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**Bond Particulars**

<b>Series</b>	<b>Series I</b>	<b>Series II</b>
<b>Tenor</b>	10 Years	15 Years
<b>Face Value per Bond</b>	Rs. 1,000	Rs. 1,000
<b>Minimum Application</b>	Rs. 5,000 (5 Bonds) across all Series of Bonds	
<b>In Multiples of</b>	Rs. 1,000 (1 Bond) across all Series of Bonds	
<b>Frequency of Interest Payment</b>	Payable annually	
<b>Coupon Rate (%) p.a.</b>	For Category I, II, III Investors: 6.88% For Category IV Investors: 7.38%**	For Category I, II, III Investors: 7.04% For Category IV Investors: 7.54%**
<b>Coupon Type</b>	Annual	
<b>Effective Yield</b>	For Category I, II, III Investors: 6.88% For Category IV Investors: 7.38%	For Category I, II, III Investors: 7.04% For Category IV Investors: 7.54%
<b>Redemption/Maturity Date</b>	At the end of 10 years from the Deemed Date of Allotment	At the end of 15 years from the Deemed Date of Allotment
<b>Redemption Amount</b>	Repayment of the Face Value plus any interest that may have accrued at the Redemption Date	

The Company would allot Series II Bonds to all valid applications, wherein the applicants have not indicated their choice of the relevant series of Bonds in their Application Form.

\*\*Please note that the additional interest of 0.50% p.a shall only be available to the original Allottees under Category IV for the Series I Bonds and the Series II Bonds. In the event the Bonds held by the original Allottees under Category IV are sold/ transferred (except in case of transfer of Bonds to legal heir in the event of death of the original Allottee), the coupon rate shall stand revised to the coupon rate applicable for Allottees falling under Category I, Category II and Category III.

Source: Prospectus

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## Who can apply?

Category I (QIB Portion)	Category II (Corporate Portion)	Category III (High Net Worth Individual Portion)	Category IV (Retail Individual Investor Portion)
<ul style="list-style-type: none"> <li>Public Financial Institutions, scheduled commercial banks, multilateral and bilateral development financial institutions, state industrial development corporations, which are authorised to invest in the Bonds;</li> <li>FII's and their sub – accounts (other than a sub-account which is a foreign corporate or foreign individual), registered with SEBI;</li> <li>Provident funds and pension funds with minimum corpus of ` 2,500 lakhs, which are authorised to invest in the Bonds;</li> <li>Insurance companies registered with the IRDA;</li> <li>National Investment Fund;</li> <li>Insurance funds set up and managed by the army, navy or air force of the Union of India or set up and managed by the Department of Posts, India;</li> <li>Mutual Funds; and</li> <li>Alternative Investment Funds, subject to investment conditions applicable to them under the Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012.</li> </ul>	<ul style="list-style-type: none"> <li>Companies within the meaning of section 3 of the Companies Act and bodies corporate registered under the applicable laws in India and authorized to invest in Bonds</li> </ul>	<p>The following Investors applying for an amount aggregating to above Rs 10 lakhs across all Series of Bonds in each Tranche Issue:</p> <ul style="list-style-type: none"> <li>Resident Indian individuals;</li> <li>Eligible NRIs on a repatriation or non – repatriation basis; and</li> <li>Hindu Undivided Families through the Karta.</li> </ul>	<p>The following Investors applying for an amount aggregating to up to and including Rs 10 lakhs across all Series of Bonds in each Tranche Issue:</p> <ul style="list-style-type: none"> <li>Resident Indian individuals;</li> <li>Eligible NRIs on a repatriation or non – repatriation basis; and</li> <li>Hindu Undivided Families through the Karta.</li> </ul>

Source: Prospectus

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**Applications cannot be made by:**

- (a) Minors without a guardian name (A guardian may apply on behalf of a minor. However, Applications by minors must be made through Application Forms that contain the names of both the minor Applicant and the guardian);
- (b) Foreign nationals who are (i) based in the USA, and/or, (ii) domiciled in the USA, and/or, (iii) residents/citizens of the USA, and/or, (iv) subject to any taxation laws of the USA;
- (c) Overseas Corporate Bodies;
- (d) Indian Venture Capital Funds;
- (e) Foreign Venture Capital Investors;
- (f) Qualified Foreign Investors;
- (g) Co-operative societies;
- (h) Regional rural banks;
- (i) Societies;
- (j) Persons ineligible to contract under applicable statutory/ regulatory requirements;
- (k) All banks other than scheduled commercial banks;
- (l) Trusts;
- (m) Scientific and/or industrial research organisations;
- (n) Partnership firms;
- (o) Limited liability partnerships; and
- (p) Any other categories of Investors who have not been specifically mentioned as eligible Investors under Categories I, II, III and IV.

**Allocation Ratio:**

Category I (QIB Portion)	Category II (Corporate Portion)	Category III (High Net Worth Individual Portion)	Category IV (Retail Individual Investor Portion)
20% of the Overall Issue Size	20% of the Overall Issue Size	20% of the Overall Issue Size	40% of the Overall Issue Size

Note: Allotments in the first instance up to the Allocation Ratio for the respective categories on First come first serve basis determined on the basis of the date of upload of each Application into the electronic system of the Stock Exchanges

**The prescribed colour of the Application Form for the Applicants is as follows:**

Category	Colour of the Application Form
Resident Indian ASBA Applicants as well as non-ASBA Applicants	White
FIIIs and Eligible NRIs (applying on a repatriation as well as non- repatriation basis) -ASBA Applicants as well as non-ASBA Applicants	Blue

Source: Shelf Prospectus

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Mode of Application	To whom the Application Form has to be submitted
ASBA Applications <sup>^</sup> (for Allotment only in dematerialized form)	(i) to the Members of the Syndicate only at the Syndicate ASBA Application Locations; or  (ii) to the Designated Branches of the SCSBs where the ASBA Account is maintained; or  (iii) to Trading Members only at the Syndicate ASBA Application Locations.
Non- ASBA Applications <sup>^^</sup>	(i) to the Members of the Syndicate; or  (ii) to Trading Members.

<sup>^</sup>For further details please see: "Methods of Application - Applications through the ASBA process"

<sup>^^</sup> For further details please see: "Methods of Application- Non-ASBA Applications"

Note:

- i. Application through ASBA is optional for all categories of Applicants.
- ii. Applicant cannot apply for the Bonds through the ASBA process if you wish to be Allotted the Bonds in physical form.

Source: Prospectus

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**FINANCIAL HIGHLIGHTS**

	(Rs. in crore)				
As on/For the year	March 31, 2008	March 31,2009	March 31, 2010	March 31,2011	March 31, 2012
<b>Share Capital</b>	<b>500.00</b>	<b>500.00</b>	<b>1091.00</b>	<b>1602.00</b>	<b>2102.00</b>
<b>Reserve and Surplus</b>	<b>1925.76</b>	<b>1980.70</b>	<b>2314.47</b>	<b>2683.96</b>	<b>3048.52</b>
<b>Share Application Money</b>	-	300.00	-	-	250.00
<b>Long Term Borrowings*</b>	18792.05	23273.84	28675.96	34536.49	46950.24
<b>Short Term Borrowings</b>	2311.00	1746.16	1448.99	23.25	405.65
<b>Long Term Loans and Advances#</b>	25300.68	29923.68	36046.98	42384.12	54133.64
<b>Cash &amp; Cash Equivalents</b>	1502.19	1012.73	1508.19	494.00	1545.96
<b>Short-Term Loans &amp; Advances</b>	289.48	14.39	143.65	55.28	152.15
<b>Total Revenue</b>	<b>2610.73</b>	<b>3022.82</b>	<b>3472.77</b>	<b>3841.60</b>	<b>4643.10</b>
<b>Total Expenditure</b>	1972.38	2365.13	2684.49	2943.25	3629.92
<b>Profit Before Tax</b>	638.34	657.68	788.28	898.34	1013.18
<b>Net Profit After Tax</b>	<b>421.51</b>	<b>180.79</b>	<b>442.69</b>	<b>485.20</b>	<b>480.78</b>
<b>Gross NPA to Gross Advances (%)</b>			<b>Nil</b>	<b>Nil</b>	<b>Nil</b>
<b>Net NPA to Net Advances (%)</b>			<b>Nil</b>	<b>Nil</b>	<b>Nil</b>
<b>Tier I Capital Adequacy Ratio (%)</b>			<b>152.75%</b>	<b>195.24%</b>	<b>204.23%</b>

\*Long-term borrowings excludes Current maturities of long term debt

# Long-term Loans & Advances excludes amount of loans due within a year

Source: Shelf Prospectus dated December 21, 2012

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