

Annual Report 2000-2001



**Indian Railway
Finance Corporation Ltd.**

(A Government of India Enterprise)



Dividend Cheque of Rs. 64.96 Crore for 2000-01 being presented by MD/IRFC to the Hon'ble Minister for Railways.



Board of Directors

Shri S.Murali
Chairman

Shri S.Balachandran
Managing Director

Shri Kanwarjit Singh
Director

Shri Ashok Lavasa
Director

Shri Birendra Kumar
Director

**Group General Manager (Bonds)
& Company Secretary**

Shri C. S.Verma

Bankers

Bank of India
Corporation Bank
Indian Bank
Indian Overseas Bank
State Bank of India
State Bank of Travancore
Vijaya Bank

Internal Auditor

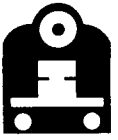
Shri S. Prakash Chaturvedi
Chartered Accountant
61, Regal Building,
New Delhi – 110 001.

Statutory Auditors

Sunil K. Gupta & Associates
Chartered Accountants
4232/1, Ansari Road
New Delhi – 110 002.

Registered Office

Upper Ground Floor,
East Tower, NBCC Place,
Bhisham Pitamah Marg,
Pragati Vihar, Lodhi Road,
New Delhi – 110 003.



Chairman's Statement

Gentlemen,

It gives me great pleasure to welcome you all to the Fourteenth Annual General Meeting of the Indian Railway Finance Corporation. The audited accounts for the year ended 31st March, 2001 together with the Directors' Report, are with you for your consideration, and with your permission, I shall take them as read. I take this opportunity to give a brief resume of the performance of the Company.

The quantum of borrowing required by the Ministry of Railways has moved up in the recent years. It was Rs. 2836 crore during 1999-2000, Rs.2950 crore in 2000-01 and for the current fiscal 2001-02 the market borrowing has been pegged at Rs.3,000 crore.

During 2000-01, your Company has acquired 150 Locomotives, 1,322 Passenger Coaches, and 5,344 Freight Wagons, valued at Rs.2,273.30 crore. With this addition, the assets leased to Indian Railways as on 31st March, 2001 stood at 2,336 Locomotives, 12,707 Passenger Coaches and 92,021 Freight Wagons, valued at Rs. 19,755.03 crore. This has enabled the Indian Railways to replace its ageing stock, modernise its fleet, and improve productivity.

Your Company has been tapping domestic as well as overseas markets through diverse and innovative instruments with varying tenors to raise a pool of resources so as to minimise the weighted average cost of borrowing. This strategy has enabled your Company to reduce progressively the Lease charges payable by the Ministry of Railways from 17.5% in 1996-97, 16.5% in 1997-98, 14.5% in 1998-99, 13.80% in 1999-2000 to 13.50% during 2000-2001. Expenses on raising funds have also come down considerably as a result of direct interaction with the Banks and the Financial Institutions. The cost to the Ministry has come down from 14.97% in 1996-97 to 11.69% in 2000-01. This favourably compares with the decrease in SBI PLR from 16.5% in 1996-97 to 12% in 2000-01.

You will be happy to know that your Company has recommended a dividend at 28% of the paid-up capital of the Company, amounting to Rs.64.96 crore, for the year

2000-01. The net profit for the year 2000-01 is down by about 21% compared to that of the previous year at Rs. 301 crore. This is because of heavy redemption amounting to Rs.2,128 crore during 2000-01, and the resultant decrease in the investment income.

In the current fiscal 2001-02, sovereign yields have consolidated at historic lows and there is liquidity overhang in the market and this in fact continues to be the factor driving the market. Your Company has already taken the benefit of the prevailing low interest rates and has raised in excess of one third of its borrowing need for the current year 2001-02 on cost effective terms. A sizeable proportion of the debt is in the nature of bonds of varying tenors with both floating and fixed rate coupons ranging from 8.5% to 10.5% p.a. I am glad to inform you that your Company has also availed from EDC, Canada, an export credit to part finance the import of Diesel Passenger Locomotives from M/s.General Motors Corporation, USA. With the poor appetite for commercial credit and easy liquidity, your Company is confident of achieving the target of borrowing set by the administrative Ministry at the most optimum cost.

You will be happy to note that your Company has been rated "Excellent" for the fourth year in succession, by the Department of Public Enterprises, on the basis of achievement of performance targets set in the MOU. Looking into the financials and the Balance Sheet strength of the Company, both CRISIL and ICRA have, again accorded a stand-alone 'AAA' rating. Standard & Poor's, the well known international credit rating agency has re-affirmed the sovereign ratings to your Company. Considering the size of the organisation with a meagre strength of 15 employees, your Company can take justifiable pride in its financial management with a huge borrowing programme annually of around Rs.3,000 crore and ensuring timely debt servicing. In order to improve the service levels further, and to face more challenges, your Company is in the process of augmenting its strength through a modest increase.

To make effective use of the recent developments in information technology, your Company is in the process of



upgrading the existing Computer systems & software for improving productivity in all its functions.

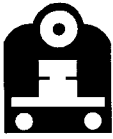
I wish to thank on behalf of the Board of Directors and on my own behalf, the Ministry of Railways, Ministry of Finance, Department of Public Enterprises, Department of Company Affairs, Banks, Financial Institutions, and the Reserve Bank of India, for their timely support and co-operation. I am also thankful to all the investors and lending institutions for reposing their confidence and trust in the Company.

I wish to place on record my sincere appreciation of the valuable contribution made by the former Chairman who relinquished office on 31st July, 2001, on superannuation.

I also take this opportunity to personally thank the small team of officers and staff of the Company for their valuable contribution in the running and management of the Company.

Place : New Delhi
Dated : 18-9-2001

S. Murali
Chairman



Directors' Report

Gentlemen,

Your Directors take pleasure in presenting the Fourteenth Annual Report on the working of your Company together with the Audited Annual Accounts for the year ended 31st March, 2001.

Performance Highlights

During the year 2000-01, your Company's Gross Receipts were Rs. 2,990.33 crore, up from Rs. 2,852.02 crore in the previous financial year. The Net Profit after tax was Rs. 238.22 crore.

Financial Highlights

The financial results of your Company are summarised below :-

(Figures in Rupees Crore)

	2000-2001	1999-2000
1. Lease Rental	2,700.48	2,479.11
Less :		
Lease Equalisation A/c	142.03	222.74
2. Other Receipts	289.85	372.90
3. Expenditure	1,709.02	1,493.37
4. Depreciation	879.00	795.59
5. Provision for diminution in value of investments	—	(-) 0.83
6. Profit before tax	260.28	341.14
7. Provision for tax	22.06	39.98
8. Profit after tax	238.22	301.16
9. Dividend	64.96	64.96
10. Dividend Tax	6.62	7.91
11. Transferred to General Reserve	30.00	31.00
12. Balance appropriated to Bonds Redemption Reserve	136.64	197.29

Capital Structure

The entire paid-up share capital of the Company is held by the President of India and his nominees. During the year there has been no change in the paid-up share capital of the Company and at the end of March, 2001 it stood at Rs.232 Crore.



Dividend

The Directors have pleasure to recommend a dividend of 28% of the paid up share capital amounting to Rs. 64.96 crore. This constitutes more than 27% of the net profit after tax.

Market Borrowings during 2000-01

During the year under review, your Company achieved the annual borrowing target of Rs.2,950 crore, set by the Ministry of Railways. This comprised Rs.550 Crore of lease finance from Banks / FIs, foreign currency loan of Euro 19.5 Million (INR Rs. 77 crore) for financing the import of LHB Coaches from Germany, and the balance amount of Rs.2,323 crore through long term loans, taxable and tax-free bonds.

The weighted average cost of funds worked out to 11.34% while the average tenor was 10.38 years.

Lease Arrangement with the Ministry of Railways for 2000-01

The Leasing arrangement between your Company and the Ministry of Railways is governed by a standard lease agreement. The lease pricing for 2000-01 has been fixed for the domestic transactions, with a lease rental of 13.5% p.a. which carry an IRR of 11.69%. In the case of external borrowing to finance the import of equipment and Transfer of Technology, separate lease agreements have been drawn. As regards lease financing availed by your Company, the assets have been sub-leased to the Ministry of Railways on identical terms with a marginal spread.

Export Credit for the import of Rolling Stock

(A) From KFW, Germany

Your Company has taken in October, 2000, Euro 19.5 Million to part-finance the import of 24 Nos. Light Weight High Speed BG Coaches, including 3 Generator Cars from M/s.Alstom LHB Gmbh, Germany. The all-in-cost to your Company is lower than the domestic borrowing cost of similar tenor.

(B) From Export Development Corporation (EDC), Canada

Your Company has availed in April, 2001, a sum of USD 20.4 Million credit from Export Development Corporation, Canada to part-finance the supply of 10 Diesel Passenger Locomotives from M/s.General Motors Corporation, USA. The entire principal Dollar liability has been converted into Rupee liability and the all-in-cost to your Company is significantly lower than the domestic borrowing cost of similar tenor.

Resource Mobilisation for 2001-02

The Ministry of Railways has conveyed its decision to manufacture / procure during 2001-02 Rolling Stock assets of different types viz. Electric & Diesel Locomotives, Wagons, Coaches etc. with an estimated value of Rs.3,000 crore out of the extra budgetary resources to be provided by IRFC.

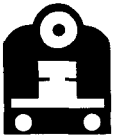
During the current fiscal 2001-02, your Company has already mobilised Rs.1000 crore in the domestic market and Rs.95.82 crore (USD 20.4 Million) as export credit for import of Diesel Passenger Locomotives from M/s.General Motors Corporation, USA. Considering the liquidity in the domestic market and low interest rates, your Company is confident of achieving the target of borrowing set by the Ministry of Railways at the most optimum cost.

Reserves

A sum of Rs.30 crore has been transferred to General Reserve to meet the requirements of the Companies Act. After providing for dividend, dividend tax and General Reserve, the balance of Rs.136.64 crore has been transferred to the Bonds Redemption Reserve in the Accounts for the year ending 31st March, 2001.

Redemption of Bonds / Repayment of Loans

Your Directors are pleased to inform that, during the year under review, Bonds amounting to Rs.1594 crore were redeemed on their normal maturity, whereas Bonds amounting to Rs.162 crore carrying 16.5% interest were redeemed by exercising call option by the Company. Further, a sum of Rs.372.08 crore has also been repaid by your Company towards the principal repayment of the long term loans availed.



During the current fiscal 2001-2002, maximum redemptions are expected. Bonds amounting to Rs.820 crore have been redeemed between May to August, 2001, on their normal maturity, and during the same period Bonds amounting to Rs.368 crore carrying 16.5% interest were redeemed by invoking call option by the Company. Further, Bonds amounting to Rs.1,082 crore would be redeemed by March, 2002. In addition, under the long term loans, a sum of Rs.122.96 crore has been repaid till date, and another sum of Rs.125.97 crore is scheduled to be repaid till March, 2002.

Credit Ratings

S&P a reputed international rating agency has re-affirmed its Sovereign rating to your Company, based on its financials and clear support from the Government. Your Company has been consistently getting standalone "AAA" rating from both CRISIL & ICRA for its domestic borrowings.

Corporate Governance

- Constitution of Audit Committee

In terms of Section 292-A of the Companies Act, 1956, a Committee of the Board known as Audit Committee has been constituted in June, 2001. The Annual Accounts of the Company during the year under review were discussed and approved by the Audit Committee.

Regulatory Concerns

(A) Lease Accounting Standard

The Company was accounting for lease transaction in accordance with the earlier guidelines issued by the Institute of Chartered Accountants of India (ICAI). In accordance with such guidelines, the leased assets and the corresponding depreciation on such assets are required to be shown in the books of accounts of the lessor.

ICAI has now issued a new Accounting Standard for lease accounting, whereby the leased assets are required to be shown in the books of the lessee and the lessor is required to only account for finance income in its books. The Standard has been made mandatory with effect from April 1, 2001.

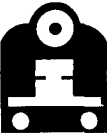
(B) Service Tax

In terms of the latest amendment to the Service Tax Act, 5% Service Tax will be leviable on the interest portion of the lease rental in respect of the lease transactions entered into on and after 16th July, 2001. The impact of such service tax on a transaction size of Rs.3000 crore for the current fiscal 2001-02 would work out to about Rs.44 crore payable over a lease period of 10 years, assuming an internal rate of return of 11%. In terms of the newly introduced Service Tax on lease, your Company is currently examining leasing versus loan option for the Railways. Further course of action will be decided in consultation with the Ministry of Railways.

Directors Responsibility Statement

As per Section 217 (2AA) of the Companies Act, 1956 as amended, it is confirmed that :-

- (a) In the preparation of the annual accounts, the applicable accounting standards have been followed alongwith proper explanation relating to material departures;
- (b) The Directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period;
- (c) The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (d) The Directors have prepared the annual accounts on going concern basis.

**Computerisation**

The entire working of IRFC is computerised. Hard copies of all its records are invariably taken and preserved. Software used are customised application packages for Accounting function and Pay roll. While the entire accounting function is carried out in IRFC's Office with the help of a Chartered Accountants firm, the servicing of Bond holders is being done through the agency of Registrars. The Registrars - M/s. Karvy Consultants Ltd., are an ISO 9000 organisation and looks after the servicing of domestic Bondholders. The entire records of the Bondholders are maintained on the Computer by the Registrar and your Company has recently assigned the job of servicing of Bondholders to the Registrar.

Your Company is in the process of upgrading the existing Computer systems & software for improving the productivity in all its functions.

Human Resource Development

Your Company has been facing difficulties to cope with various administrative and functional requirements all these years, due to total strength of the Company being limited to 15. While these difficulties are to an extent being overcome by outsourcing the activity, your Company is in the process of taking action with the active support of the administrative Ministry to strengthen the organisation to take on more challenges in the days to come.

Women Employees

As stated above, the Company has a very small organisational setup, comprising 15 employees in all. Out of these, three employees are in the category of Assistants, which include one women employee. It represents 33.33% of the sanctioned strength of Assistants.

Particulars of Employees

There was no employee of the Company who received remuneration in excess of the limits prescribed under Section 217-2(A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975.

Office Accommodation

Your Directors are pleased to inform that your Company has purchased a new office accommodation at NBCC Place in the Lodi Road Institutional area, New Delhi, and has shifted its registered Office in November, 2000 to its own premises.

Official Language

In accordance with the Official Language Policy of the Government, your Company is progressively making use of Hindi. Letters received in Hindi are replied to in Hindi. Press Releases including Advertisement Campaigns are published in Hindi also. Section 3 (3) of Official Language Act is invariably complied with. The Annual Report of the Company is also concurrently published in Hindi. Officers and staff possess working knowledge of Hindi.

During the year under review Rajbhasha Committee meetings were held.

Conservation of Energy and Technology absorption

As IRFC is a Finance Company, provisions of Section 217(1) and (2-A) of the Companies Act, 1956 as amended by the Amendment Act, 1988 in respect of Conservation of Energy and Technology absorption are not applicable.

Meetings of the Board of Directors

Four meetings of the Board of Directors were held during the financial year 2000-01.



Board of Directors

During the financial year 2000-01 and up to the date of the Report, the following Directors held office :-

Shri P. V. Vasudevan As Chairman	From 04-9-1997 to 30-9-2000
Shri N.P. Srivastav As Chairman	From 24-10-2000 to 31-1-2001
Shri P. Rajagopalan As Managing Director As Chairman	From 03.9.1997 to 22-2-2001 From 23-2-2001 to 31-7-2001
Shri S. Murali As Director As Chairman	From 31-8-2000 to 06-08-2001 From 07-8-2001 onwards
Shri S. Balachandran Managing Director	From 23-2-2001 onwards
Shri S. Suryanarayanan Director	From 24.11.1997 to 31.8.2000
Shri C. S. Sharma Director	From 22.12.1997 to 31.8.2000
Shri C. S. Saroy Director	From 22.12.1997 to 31.8.2000
Shri R. S. Sharma Director	From 17.2.1999 to 31.8.2000
Shri P. K. Wahi Director	From 31-8-2000 to 17-5-2001
Shri Ashok Lavasa Director	From 20-11-2000 onwards
Shri Kanwarjit Singh Director	From 17-5-2001 onwards
Shri Birendra Kumar Director	From 3-7-2001 onwards

Statutory Auditors

M/s. Sunil K. Gupta & Associates, Chartered Accountants were re-appointed by the Company Law Board to audit the accounts of the Company for the year 2000-01.