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RAILWAY CONVENTION COMMITTEE

(2014)

(SIXTEENTH LOK SABHA)

MINISTRY OF RAILWAYS

(RAILWAY BOARD)

ROLE OF IRFC AND USE OF SPV METHODOLOGY IN FINANCING DEVELOPMENT NEEDS OF INDIAN RAILWAYS

सत्यमेव जयते

LOK SABHA SECRETARIAT

NEW DELHI

August, 2016 /Sharavana, 1938 (Saka)

FOURTH REPORT

RAILWAY CONVENTION COMMITTEE

(2014)

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ROLE OF IRFC AND USE OF SPV METHODOLOGY IN FINANCING DEVELOPMENT NEEDS OF INDIAN RAILWAYS

Presented to Lok Sabha on 11.8.2016

Laid in Rajya Sabha on 11.8.2016

LOK SABHA SECRETARIAT

NEW DELHI

August, 2016 /Sharavana, 1938 (Saka)

CONTENTS

COMPOSITION OF RAILWAY CONVENTION COMMITTEE-(2014)

Shri Bhartruhari Mahtab - Chairperson

MEMBERS

LOK SABHA

2. Shri Abhishek Banerjee
3. Shri Sanganna Amarappa Karadi
4. Shri K. Ashok Kumar
5. Shri Kamalbhan Singh Marabi
6. Vacant#
7. Shri Nana Patole
8. Shri Janak Ram
9. Shri Rahul Ramesh Shewale
10. Shri Bharat Singh
11. Shri Liladharbhai Khodaji Vaghela
12. Shri K.C. Venugopal

RAJYA SABHA

13. Shri Derek O' Brien
14. Vacant*
15. Shri T.K. Rangarajan
16. Vacant**
17. Shri Prem Chand Gupta***
18. Shri Abdul Wahab***

SECRETARIAT

1. Shri K. Vijayakrishnan	-	Additional Secretary
2. Shri S.C. Chaudhary	-	Joint Secretary
3. Shri M. K. Madhusudhan	-	Director
4. Shri D. R. Mohanty	-	Additional Director
5. Shri J.S. Patiyal	-	Committee Officer

Vacanty occurred w.e.f. 05th July, 2016 vice Smt. Anupriya Patel was appointed MOS.

*Vacancy occurred w.e.f. 29th June, 2016 vice Dr. Vijaylaxmi Sadho retired from Rajya Sabha.

**Vacancy occurred w.e.f. 07th July, 2016 vice Sh. K.C. Tyagi retired from Rajya Sabha.

***Nominated w.e.f. 20th June, 2016.

INTRODUCTION

I, the Chairperson, Railway Convention Committee (2014), having been authorized by the Committee, present this Fourth Report on 'Role of IRFC and use of SPV methodology in financing development needs of Indian Railways'.

2. The Committee obtained background material and written information from the Ministry of Railways (Railway Board) and IRFC in connection with the examination of the subject. The Committee also took oral evidence of the representatives of the Ministry of Railways (Railway Board) and IRFC on 21st May, 2015 and 04th April, 2016. The Committee express their thanks to the representatives of the Ministry of Railways (Railway Board) and IRFC for appearing before the Committee and also for furnishing requisite written information in connection with the examination of the subject.

3. The Committee considered and adopted this Report at their sitting held on 8th August, 2016. The Minutes of the sitting of the Committee are appended to the Report.

4. For facility of reference and convenience, the Observations/ Recommendations of the Committee have been printed in bold letters in the Report.

New Delhi:
08 August, 2016
17 Shravana, 1938 (SAKA)

BHARTRUHARI MAHTAB
CHAIRPERSON
RAILWAY CONVENTION COMMITTEE

REPORT

PART - I

I. INTRODUCTORY

As per the Allocation of Business Rules of the Government of India, no Government Department other than the Ministry of Finance is permitted to raise borrowings from the market. In other words, raising borrowings for the Central Government falls within the purview of the Ministry of Finance. The Ministry of Railways cannot, therefore, directly enter the market to raise funds. At the same time, keeping in view the inadequacy of the budgetary support and shortfalls in Railways' internal resources to meet the growing investment needs of the Indian Railways, it was felt necessary to raise Extra-Budgetary Resources (EBR) to augment finances for investment. Accordingly, the Indian Railway Finance Corporation (IRFC) was set up in December, 1986 as a Public Limited Company under the Companies Act to raise market borrowings and to use the funds mainly to finance the acquisition of Railway rolling stocks like locomotives, coaches, wagons etc. as per the rolling stock programme that forms a part of the Annual Railway Budget, approved by Parliament. As the rolling stock acquired is leased by IRFC to the Indian Railways, the investment does not form part of the Government's debt. Being a company, IRFC's organizational structure allows for greater flexibility in operations and decision making which is essential to deal with the financial market and to ensure timely and efficient debt servicing.

2. The Plan Expenditure which represents the Capital Expenditure of the Indian Railways during a particular Financial

Year is financed from three sources, namely, Gross Budgetary Support, Internal Generation and Extra Budgetary Resources. Predominant portion of the EBR requirements of Railways has been financed through market borrowings by IRFC. The Corporation has also been providing funding assistance to other Railway PSUs like the Rail Vikas Nigam Ltd. (RVNL), Railtel Corporation of India Ltd., Rail Land Development Authority (RLDA), Konkan Railway Corporation Limited (KRCL) and Pipavav Railway Corporation Ltd. (PRCL). The Company has been providing 97.4 per cent of the total funding for Indian Railways' rolling stocks and 2.6 percent for the Railway PSUs.

3. Against the above backdrop and with a view to gauging the attainment of the objectives of setting up of the IRFC, the Committee took up the subject for examination and report. In the process, the Committee obtained background notes, written replies and other requisite documents from the Ministry of Railways and IRFC. The Committee also took oral evidence of the representatives of the Ministry of Railways (Railway Board) and IRFC on two occasions. Besides the Committee undertook study visits to various Zonal Railways to gather first hand information at the field level. Based on the written and oral deposition of the Ministry of Railways and IRFC, and inputs gathered during the study visits, the Committee have deliberated on the issues concerning the subject matter as enumerated below.

II. Overall Performance of IRFC

4. As regards the performance of IRFC since its inception in raising EBR to augment the resources for investment in Indian Railways, the Committee were informed that IRFC had been

consistently funding roughly one-fourth of the Plan outlay of the Ministry of Railways. The funds raised by IRFC were utilized mainly for acquiring rolling stock assets including Wagons, Coaches and Locomotives, constituting a vital component of the annual capital expenditure of the Railways. Till the end of the FY 2014-15, IRFC had funded acquisition of 7,798 locomotives, 42,878 passenger coaches, 1,94,700 wagons and 85 track machines and cranes which constituted around 68% of the total Rolling Stock fleet of Indian Railways. In monetary terms, total value of these Rolling Stock assets stood at Rs.1,23,020 crore. IRFC also funded select capacity enhancement projects of doubling and electrification to the tune of Rs.2,078 crore in 2011-12. Besides, IRFC had funded other Railway PSUs to the extent of Rs.3,574.94 crore till 31st March, 2016. The Committee were also apprised that for the first time during FY 2015-16, IRFC has been assigned the additional task of funding Railway projects through Institutional Finance.

5. Elaborating the performance of IRFC in raising funds for the Railways, the Chairman, Railway Board, submitted in evidence:

> "…about 97 percent or 98 percent of the funding of IRFC has been used only for rolling stock. Today we have Rs. 1.42 lakh crore worth of assets which have been leased by IRFC to Indian Railways. Our 70 percent of the rolling stock today comes from only through IRFC acquisitions."

6. The Chairman, Railway Board, further stated:

> "…in fact, IRFC funding model has helped Railways in replenishing and augmenting our rolling stock so as to earn more…"

7. Asked to state the performance of the Company during the 12th Plan period in terms of funds raised for various purposes, the following information was furnished to the Committee:

(Figures Rs. Crore)

Year	Funding for Rolling Stock Assets	Funding for Railway Projects (Institutional Finance)	Funding to RVNL	Total
2012-13	14796	-	104	14900
2013-14	14741	-	440	15181
2014-15	10955	-	273	11228
2015-16	15278	9,430	256	24964
2016-17 (BE)	19760	20985	240	40985
Total	**75770**	**30415**	**1073**	**107258**

8. Summing up the overall performacnce of IRFC, the Ministry submitted as under:

"IRFC has been consistently raising funds to meet the annual targets communicated by the Ministry of Railways. Investment of these funds in rolling stock assets of Railways which are essentially required for railway operations, such as Wagons, Coaches and Locomotives, has enabled the Railways to induct newly acquired/ manufactured capital equipment in to the Indian Railways system. This rolling stock includes modern, higher capacity and lower maintenance assets, thus improving earnings and achieving cost savings. In 2015-16, IRFC's cumulative funding to Rail Sector is set to cross Rs. 1,50,000 crore mark. IRFC has been mobilizing funds from the financial markets at very competitive terms and conditions and has been managing the debt in an efficient manner. As a small organization, IRFC has a very low ratio of overheads to turnover. IRFC has consistently achieved and excelled the annual targets laid down in the Memorandum of Understanding (MOU) with the Ministry of Railways."

9. In response to a specific query, the Committee were informed that out of the last 18 years, the Company had been rated "Excellent" on 16 occasions. The Committee were further apprised that IRFC had been accorded the highest possible Credit Rating by the Domestic Credit Rating Agencies and rating at par with Sovereign by the International Credit Rating Agencies.

III. Borrowings

10. As regards the borrowing targets of IRFC during the last five years, along with the Profit Before Tax (PBT) & Profit After Tax (PAT), the Ministry furnished the following information:

(Rs. Crore)

Year	Annual borrowing target	Profit Before Tax	Profit After Tax
2011-12	14,800	1,013	481
2012-13	14,900	1,454	522
2013-14	14,942	1,572	701
2014-15	10,946	1,914	758
2015-16 (Prov.)*	24,866	1,965	854

*Includes target for EBR-IF funding for railway projects."

11. On the issue of the borrowing targets of IRFC, the Chairman, Railway Board submitted in evidence as under :-

> "...IRFC started borrowing in 1987-88 and in that year they borrowed around Rs.770 crore. In 2015-16, it was around Rs.21,000 crore and in 2016-17 the target is much higher around Rs.40,000 crore..."

12. The CMD, IRFC, supplemented the Chairman, Railway Board, as under:-

> "...Our cost of borrowing has been very competitive compared to other AAA entities. Our mandate is two-fold. One is to meet

whatever are the borrowing targets assigned to us by the Ministry of Railways in the Railway Budget. The second is to borrow at the lowest possible costs. We have been achieving both these successfully for nearly three decades. As a result, the quantum assigned to us year on year has gone up substantially. This year, which has just gone by, we have probably closed with the highest ever funding that IRFC has done for the Railways which is about Rs 25,000 crore. About Rs 15,000 crore is for rolling stock and a little less than Rs 10,000 is money from LIC routed through IRFC for bankable railway projects. In next year's budget, the target assigned for us is Rs 40,000 crore and we are confident that we will meet whatever the targets Ministry assigns to us."

13. When the Committee desired to have the comparative data of the cost of incremental borrowing through IRFC *vis-à-vis* the Government of India borrowings, the following information was furnished to the Committee:

Year	Cost of borrowing through IRFC (per annum)	Cost of borrowing of Government of India (per annum)
2012-13	8.62%	8.36%
2013-14	8.39%	8.48%
2014-15	8.96%	8.51%

14. As would be seen from the above comparative data, the cost of borrowing through IRFC was 8.62 percent during 2012-13 and 8.96 percent during 2014-15 whereas the corresponding cost of borrowings of the Government of India was 8.36 percent and 8.51 percent, respectively, per annum.

15. In the above context, the Committee desired to be apprised of the reasons for the higher cost of borrowing through IRFC. In response, the Ministry submitted as under:

> "The comparison of the cost of incremental borrowings by IRFC, cost to MOR (Internal Rate of Return after adding margin of 50 basis points over the cost of incremental borrowings) and cost of borrowings of GOI during the years FY 2012-13, 2013-14 and 2014-15 is as follows:

Year	Cost of Incremental Borrowing of IRFC	Cost to MOR (Internal Rate of Return to IRFC after adding 50 bps)	Cost of borrowing of Government of India
2012-13	8.12%	8.62%	8.36%
2013-14	7.89%	8.39%	8.48%
2014-15	8.46%	8.96%	8.51%

> It may be seen from the above table that the cost to MOR is higher than the cost of borrowings by GOI during the years 2012-13 and 2014-15 due to 50 basis points spread charged by IRFC over its weighted average cost of incremental borrowings. As stated above, the Railways cannot borrow from the market directly due to restrictions placed in the Allocation of Business Rules of GOI. During the year 2013-14, the predominant portion of incremental borrowings was made from low cost borrowing sources, namely Tax Free Bonds and External Commercial Borrowings. During the year 2014-15, the Company did not have any access to low cost funding sources like tax free bonds and ECBs. Similarly, for the year 2012-13, 57% of the incremental borrowings were made through tax free bonds and ECBs and the balance 43% was raised from other sources."

16. Asked to explain the position for the year 2015-16, the Ministry stated as under:

> "For the year 2015-16, the cost of borrowings of IRFC has remained at 7.61% which is 0.14% less as compared to the 10 Year Benchmark G-Sec Yield which averaged 7.85% during the year. However, after adding margin of 50 bps, the IRR of IRFC / Cost to MOR work out to 8.11% p.a. It is relevant to mention here that 61% of the incremental funding requirements of MOR & RVNL, excluding Institutional Finance from LIC for Railway Projects, was met through tax free bonds and the balance 39% from other sources."

17. As regards the projections for meeting the borrowings target of Rs. 40,000 crore during 2016-17, the Ministry deposed as follows:

> "For the year 2016-17, no allocation of tax free bonds has been made to IRFC so far. On the other hand, the annual borrowing target has been enhanced to Rs.19,760 Crore for Rolling Stock funding and Rs.20,985 Crore for funding Railway projects through Institutional Finance. The funding of Railway projects will be done through Institutional Finance from LIC at a cost of 30 basis points over the Benchmark 10 Year GOI Yield. The actual cost of borrowing depends on the borrowing mix and the prevailing market conditions."

18. The Committee were informed that IRFC enjoyed AAA ratings for domestic borrowings and a Sovereign equivalent rating for overseas borrowings which had enabled the company to raise

large quantum of funds from the market at competitive rates. In that context, the Committee desired to have the data on weighted average cost of borrowing of IRFC vis-à-vis that of 10 years' AAA Benchmark rates. In response, the Ministry furnished the following comparative data.

Year	Cost of Borrowing of IRFC	10 Year AAA Benchmark Rate	Margin between IRFC and AAA Rated Entities
2004-05	5.55%	6.78%	1.23%
2005-06	7.00%	7.98%	0.98%
2006-07	8.22%	9.06%	0.84%
2007-08	9.33%	9.62%	0.29%
2008-09	8.98%	9.72%	0.74%
2009-10	7.70%	8.60%	0.90%
2010-11	7.62%	8.57%	0.95%
2011-12	8.73%	9.29%	0.56%
2012-13	8.12%	9.10%	0.98%
2013-14	7.89%	9.22%	1.33%
2014-15	8.46%	8.82%	0.36%

19. Underlining the competitiveness of the IRFC borrowings, the CMD, IRFC, submitted in evidence:

> "As far as competitiveness goes, the financial market views IRFC as a very solid entity for one major reason that it is owned by the Government of India. Secondly, the client of IRFC is only Government of India. So, in a sense, the exposure of the loan is actually on Government of India. Exposure to the Sovereign is considered to be the safest."

20. When the Committee desired to know IRFC's endeavours and performance in raising funds through External Commercial Borrowings (ECB), the Ministry submitted as under:

> "IRFC has been raising funds regularly through External Commercial Borrowings (ECB) from diverse markets, instruments and investor base. IRFC has raised funds through the issue of Floating Rate Notes and Reg-S Bonds in the offshore market, private placement of bonds in the Japanese and US Capital Markets, public issue of Samurai Bonds in the Japanese Capital Market, Syndicated Foreign Currency Loans from prominent Multinational Banks and overseas branches of domestic banks, Line of Credit from Multilateral Export Credit Agencies like EDC, Canada, and KFW, Germany, and Long Term Foreign Currency Loan from Multinational Insurance Company like AFLAC. Till date, the Company has raised USD 2,766.40 Million, JPY 60.37 Billion and Euro 19.53 Million through External Commercial Borrowings."

21. Asked to state the response of the international investors, the Ministry deposed as under:

> "Overseas issuances by IRFC have received overwhelming response from the international investors due to the highest possible credit rating at par with Sovereign and risk-free business model. The last issuance of Reg-S Bonds of USD 500 Million in the offshore market in February, 2014 bears testimony to this. Reg-S Bond of USD 500 Million issued in the offshore market was the first benchmark size issue by the Company. The bonds which carry a fixed coupon of 3.917% was priced at 245 bps over the 5 year US Treasury. These bonds which are

listed on the Singapore Stock Exchange, received overwhelming response from 170 investors spread across institutional groups and continents for a total bid amount of USD 3 Billion. The cost to IRFC is the lowest amongst all the issuers in this category in FY 2013-14."

IV. Risk Management Policy and Fiscal Discipline

22. In response to a query of the Committee regarding the risk management policy adopted and fiscal discipline maintained by IRFC, the Ministry stated as under:

> "IRFC has adopted a conservative approach for deploying its surplus funds available only in bank deposits of Scheduled Commercial Banks in Fixed Deposit not exceeding 1 year. There has been no Non performing asset (NPA) in the books of IRFC. Interest Rate risk is mitigated by matching the interest rate profile and tenor of assets and liabilities. Weighted tenor of borrowings is kept close to the weighted tenor of assets. Further, predominant portion of borrowings from the domestic market is through issuance of bonds at fixed rate. Since the lease rental payable by MOR is fixed, there arises no interest risk owing to mismatch in the interest rate profiles of asset and liability. IRFC adopts a proactive policy for managing the currency risk associated with the External Commercial Borrowings (ECBs) with the objective of keeping the effective All-In-Rupee Cost of ECBs well below the cost of domestic borrowings. The External Commercial Borrowings are contracted for longer tenors of 5 to 15 years. This helps the Company to monitor the exchange rate risk vigorously over the

> life of the loans. The Company has formed a Risk Management Committee (RMC) comprising of two Full Time Directors for monitoring the exchange rate risk which meets at regular intervals and formulate risk management strategies."

23. In evidence, the Committee drew the attention of the Ministry and IRFC to the comments contained in a report of the C&AG that the Indian Railways had made a payment of Rs. 12629.49 crore to IRFC during the period from 2011 to 2014 from the GBS received from the Government of India which was in violation of their own accounting policy. Secondly, this also makes the borrowings from IRFC more expensive.

24. In the above context, when the Committee desired to hear the views of Railway Board/IRFC, the Financial Commissioner, Railway Board, submitted as under:

> "…The CAG report on Railway finances where there is a comment: Indian Railway made payment of Rs 12629.49 crore to IRFC during the period 2011 to 2014 from the General Budgetary Support received from the Government of India which was in violation of their own accounting policy. The CAG Report is correct for that year. There are two components. As you are aware, the first component is the capital component of the loan. The second is the lease financing, which is the interest which we owe to our borrowers. The allocation rules say that we have created a fund called capital fund from the surpluses which go into paying the capital component whereas for the financing part the loan or the interest which is essentially a revenue expenditure which we pay from our

working expenses. This is the allocation rule. In that particular year, there was a shortfall in the generation of resources."

25. Asked to state categorically whether there was any aberration, the Financial Commissioner responded:

"...we have reversed this. This aberration has been corrected that year itself. We are not doing it any further."

V. Funding for Rolling Stocks and Lease Rentals

26. As mentioned elsewhere, funds raised by IRFC are utilized mainly for acquiring rolling stock assets including wagons, coaches and locomotives, constituting a vital component of the Annual Capital expenditure of the Railways.

27. In the above context, when the Committee desired to have the details of the number and value of assets, financed by IRFC since its inception till 2014-15, the following information was furnished to the Committee.

YEAR	Locomotives						Coaches						Wagons	
	Electric		Diesel		Total		EMU		Non-EMU		Total			
	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value
1987-88	73	115.13	147	139.70	220	254.83	-	-	420	52.27	420	52.27	8272	463.23
1988-89	100	162.11	152	161.70	252	323.81	-	-	751	117.63	751	117.63	7356	419.29
1989-90	117	207.72	72	92.97	189	300.69	58	22.80	568	112.70	626	135.50	9509	618.94
1990-91	96	181.33	90	122.79	186	304.12	49	9.74	848	175.63	897	185.37	9100	680.55
1991-92	115	239.23	47	60.57	162	299.80	25	33.31	916	221.93	941	255.24	11017	945.45
1992-93	24	57.43	-	-	24	57.43	-	`	771	168.63	771	#VALUE!	6695	735.76
1993-94	65	190.30	-	-	65	190.30	-	-	651	151.52	651	151.52	5088	558.56
1994-95	109	337.61	86	187.48	195	525.09	-	-	563	172.68	563	172.68	2960	352.33
1995-96	50	159.80	-	-	50	159.80	-	-	269	89.28	269	89.28	3374	409.66
1996-97	108	347.25	107	285.69	215	632.94	-	-	689	254.46	689	254.46	7366	956.30
1997-98	130	459.13	128	398.70	258	857.83	-	-	1546	534.64	1546	534.64	6761	845.30
1998-99	97	335.79	177	771.97	274	1107.76	-	-	1871	779.70	1871	779.70	7544	1007.72

1999-200	136	558.60	129	420.41	265	979.01	-	-	2358	1078.31	2358	1078.31	5149	705.87
2000-01	112	553.34	104	436.91	216	990.25	-	-	1877	1097.16	1877	1097.16	5744	735.86
2001-02	79	453.60	86	422.10	165	875.70	-	-	1755	792.77	1755	792.77	3938	498.68
2002-03	68	438.49	92	557.30	160	995.79	12	20.52	1641	851.62	1653	872.14	4731	642.50
2003-04	86	531.90	76	540.91	162	1072.81	-	-	1906	1006.16	1906	1006.16	3754	504.21
2004-05	88	633.85	81	488.50	169	1122.35	-	-	2230	1256.18	2230	1256.18	3278	578.30
2005-06	118	784.88	110	616.80	228	1401.68	-	-	2125	1231.08	2125	1231.08	3884	660.26
2006-07	149	1056.08	156	914.70	305	1970.78	-	-	1917	1401.86	1917	1401.86	5132	797.41
2007-08	177	1248.93	175	1216.90	352	2465.83	-	-	1836	1498.02	1836	1498.02	3376	640.96
2008-09	232	1785.07	240	1954.00	472	3739.07	-	-	2196	1399.79	2196	1399.79	7788	1851.89
2009-10	243	1935.20	233	2062.00	476	3997.20	-	-	2267	2866.78	2267	2866.78	7843	2153.80
2010-11	274	2568.01	233	2233.50	507	4801.51	-	-	1741	2228.85	1741	2228.85	9371	2649.94
2011-12	301	2571.58	205	2606.80	506	5178.38	-	-	2757	3655.31	2757	3655.31	13208	3770.52
2012-13	343	3403.95	238	3238.30	581	6642.25	-	-	1958	3397.22	1958	3397.22	14801	4995.03
2013-14	304	3459.04	331	4995.84	635	8454.88	-	-	2861	4001.40	2861	4001.40	8323	2328.22
2014-15	251	2672.90	258	3769.87	509	6442.77	-	-	1446	2103.96	1446	2103.96	9338	2224.29
Total	4045	27448.25	3753	28696.41	7798	56144.66	144	86.37	42734	32697.54	42878	#VALUE!	194700	33730.83

28. Elaborating the rolling stock assets financed by IRFC, the Chairman, Railway Board, apprised in evidence:

"They have funded most of our rolling stock and a few infrastructure projects. Out of around 5,000 electric locomotives, around 4,045 have been funded by IRFC. Similarly, on diesel loco side, it is 3,753 diesel locomotives. Out of around 2.5 lakh wagons, it is 1,94,700 wagons which have been financed. They have financed 42,878 coaches and around 85 numbers of track machines and cranes. So, total rolling stock funded by IRFC so far is Rs 1,23,000 crore and other projects funded by them are around Rs 2,000 crore. That makes total funding by IRFC around Rs 1,25,000 crore. As per the present trend, IRFC is almost funding our 20 per cent of the plan outlay and average cost of borrowing has been quite competitive with reference to AAA instruments which are available in the market and it is around 8.46 per cent."

29. The Committee then asked about the procedure followed for leasing rolling stock assets by IRFC to the Ministry of Railways. In reply, the Ministry submitted as under:-

"Against the rolling stock assets financed by IRFC out of market borrowing and leased to Railways, lease charges are paid by MOR to IRFC at rates laid down in the Lease Agreement. The lease period coincides with the average economic life of assets, i.e. 30 years. Lease charges enable IRFC to recover the principal amount along with interest/ finance cost during the Primary Lease Period of 15 years and only nominal lease charges are payable by Railways during the Secondary Lease Period. Rate of lease charges in respect of assets financed every year is linked to IRFC's weighted average cost of borrowings in that year. The lease charges also include a small margin (about 0.50% p.a.) towards IRFC's overheads and profit."

30. Asked to clarify the average 30 years of economic life of the assets and to distinguish between primary and secondary Lease period, the MD, IRFC submitted in evidence:

"We have taken the average life of rolling stock to be 30 years. This is a finance lease. In a finance lease we only place the money with the Railways. We are not involved in procurement. The procurement is done by the Railways. We only place the money. So, in a finance lease the lease term has to match the life of the asset. This was decided when the company was set up that we will take 30 years as the life of rolling stock. So, we enter into a 30 years lease. Now, raising money for 30 years is difficult. The markets cannot sustain that kind of borrowing. So, we have broken this lease into two parts. There is a primary lease during which we recover the principal, the borrowing cost and our margin in 15 years. The next 15 years is the secondary lease where we charge a very nominal amount of Rs.1 lakh for the entire lot of assets because we have already recovered the money in the first 15 years. But since it is a finance lease, so, the leasing has to continue. We are taking only token amount. End of 30 years, these assets will be transferred to the Railways at the cost of Re.1. Since we have recovered our money, repaid our loans, at the end of 30 years, let us say all the assets which I had financed in 1986, in 2016-17 all the assets will be transferred to the Railways for Re.1 and then it is for the Railways to decide whether to continue those assets or auction them. That is the Railways look out."

31. On the same issue of average economic life and the fate of the assets already created since 1987-88, the Ministry, in a written submission, further apprised as under:

"Economic life of various Rolling Stock assets has been maintained at 30 years. The tenor of the lease remains at 30 years matching the economic life of the assets. The lease tenor comprises primary lease period of 15 years followed by secondary lease period of another 15 years. During the primary lease period, the entire financial liability of MOR is discharged and a lump sum token amount of Rs.50,000/- to Rs.1,00,000/- p.a., irrespective of the quantum of assets leased, is charged during the secondary lease period. Asset leased during 1987-88 is the first bunch of assets set to complete the entire lease period of 30 years in FY 2017-18. IRFC charges only pre-tax margin of 0.50% over its cost of incremental borrowings from MOR."

32. Asked to state the lease rentals paid by the Indian Railways to IRFC during 2012-13 to 2014-15, the following information was furnished to the Committee:

Year	Amount of lease charges (Rs. crore)		
	Capital component	Interest component	Total
2012-13	4,230	4,979	9,209
2013-14	4,964	5,807	10,771
2014-15	5,450	7,023	12,473

33. The Committee then desired to know whether the leased rentals once decided remained static. In response, the Ministry stated as under:

"Once the rate of lease rental is decided, it remains static over the entire tenure of the lease. IRFC has adopted marginal costing for pricing its leases. Every year, the Internal Rate of Return is computed by adding a suitable margin which has remained at 50 basis points over the cost of incremental borrowings and embedded in the lease rentals. The tenure of the lease period has remained at 30 years, including primary lease period of 10/15 years, followed by secondary lease period of another 15/20 years. The entire lease rental liability is discharged during the primary lease period."

34. Summing up the benefits of funding of rolling stocks through IRFC, the Chairman, Railway Board, deposed in evidence:

"...rolling stock is one thing which gives immediate return and which has rate of return that can finance the debt requirement...Today we have Rs. 1.42 lakh crore worth of assets which have been leased by IRFC to Indian Railways..."

VI. Funding for RVNL Projects

35. The Committee were informed that IRFC had disbursed Rs. 2,896 crore to Rail Vikas Nigam Ltd. (RVNL) for meeting the funding needs of the following seven Railway Projects:

(i) Panvel-Jawaharlal Nehru Port Trust (JNPT) Doubling

(ii) Delhi-Rewari – 2nd Line Gauge Conversion

(iii) Ajmer-Phulera-Ringus-Rewari Gauge Conversion

(iv) Hospet-Guntakal Doubling

(v) Thanjavur-Villupuram via Cuddalore Gauge Conversion

(vi) Salem-Cuddalore via Vriddhachalam Gauge Conversion

(vii) Daitari-Banspani (Banspani-Jakhapura) Doubling

36. Asked to furnish the details of the status of each project showing *inter-alia* the anticipated cost, actual expenditure incurred up to 31 March, 2016, Rate of Return, etc., the following detailed information was furnished to the Committee:

S. No.	Name of the Project	Railway	Plan Head	Length (Km)	Anticipated Cost (in Rs. crore)	Expenditure upto March – 2016 (in Rs. Crore)	ROR %	Remarks
1	Panvel-Jasai JNPT Doubling	Central Railway	Doubling	28.5	106.00	94.82	26.43	Project completed in August 2006
2	Delhi-Rewari Gauge Conversion	Northern Railway	Gauge Conversion	94.2	233.00	191.56	16.2	Project Completed in October 2007
3	Ajmer-Phulera-Ringus-Rewari Gauge Conversion	North Western Railway	Gauge Conversion	295	701.00	700.83	18.74	Rewari-Phulera completed in January 200ra completed in January 2009 Phulera-Ajmer completed in March 2010
4	Thanjavur-Villupuram Gauge Conversion	Southern Railway	Gauge Conversion	192	655.00	592.59	8.39	Project Completed in March 2010
5	Cuddalore-Salem Gauge Conversion	Southern Railway	Gauge Conversion	193	372.00	376.33	10.06	Project Completed in November 2007
6	Hospet-Guntakal Doubling	South Central Railway	Doubling	115	340.00	257.16	24.81	Project Completed in October 2008
7	Jaroli (Banspani) – Jakhpura Doubling	East Coast Railway	Doubling	170	942.95	621.58	19.09	Targeted to be completed by March 2018

37. The Committee, then asked whether IRFC proposed to fund any other projects to be undertaken by RVNL in future. In reply, the Ministry stated that IRFC provided funds to RVNL in line with the borrowing target assigned by the Ministry of Railways. Future lending to RVNL would depend upon the Railway Ministry's plans for entrusting projects to RVNL for execution and also the sources from which funds would be provided for such projects. The Committee were also informed that IRFC did not foresee any difficulty in providing funds to RVNL for future projects, if called upon to do so.

38. The Committee were further informed that IRFC was lending funds to RVNL on a sustained basis for financing a few financially viable projects being executed by them. The scope of such funding might be enlarged commensurate with the project execution capabilities of the Zonal Railways and the Railway PSUs.

VII. Funding for Doubling and Electrification Projects

39. The Committee were informed that IRFC had provided funds to the tune of Rs. 2078.49 crore for 90 Doubling and 32

Electrification Projects executed departmentally by the Railways in 2011-12.

40. In the above context, the Committee desired to be apprised of the Zone-wise latest status of the Doubling and Electrification Projects. In response, the Ministry furnished the following details as on 31 March, 2016:

Status of Doubling Projects

S. No.	Rly	Name of Project	Length (km)	Exp. During 2011-12 through bonds raised by IRFC	Status
1	CR	Godhani-Kalumna Chord	13.7	4.75	Completed
2	CR	Panvel-Pen	35	19.6	Completed
3	CR	Pen-Roha	40	20.62	Pen-Kasu-Nagothane section completed and balance in 2016-17.
4	ECoR	Jharsuguda-Rengali	25.6	27.65	Completed
5	ECoR	Kottavalasa-Simhachalam 4th line	16.69	8.33	Completed
6	ECoR	Vizianagram-Kottavalasa 3rd line	34.7	53.65	Completed
7	ECR	Begusari-Khagaria	40.38	13.59	Completed
8	ECR	Jehanabad-Bela	27.47	26.25	Completed
9	ECR	Kursela-Semapur	27.78	5.99	Completed
10	ER	Azimganj-Manigram	20.49	9.33	Completed
11	ER	Ambika Kalna-Nabadwipdham	23.29	6.88	Completed
12	ER	Bandel-Jirat	20	1.03	Completed
13	ER	Barasat-Hasnabad (Sondalia)	12.12	3.35	Completed
14	ER	Barharwa-Bonidanga	4.73	0.3	Completed
15	ER	Baruipur-Magraghat	15	2.5	Completed
16	ER	Bethuadahari-Palassey	22.51	7.7	Completed
17	ER	Chandpara-Bongaon with MM	55.13	4.25	Main doubling project completed. MMs is in progress.

18	ER	Chinpai-Sainthia with MM	122.09	6.46	Main doubling project completed. MMs is in progress.
19	ER	Dakshin Barasat-Lakshmikantapur with MM	71.68	15.09	Main doubling project completed. MMs is in progress.
20	ER	Ghutiari Sharif-Canning with MM	56.19	21.43	Main doubling project completed. MMs is in progress.
21	ER	Habra Bongaon Ph-I (Habra-Chandpara) & Mahlandapur-Swarupnagar	37.25	0.71	Main doubling project completed. MMs is in progress.
22	ER	Jirat-Ambika Kalna	20.23	31.17	Completed
23	ER	Kajra-Kiul	15.85	1.3	Completed
24	ER	Kalinarayanpur-Krishnanagar with MMs	115.06	27.3	Main doubling project completed. MMs is in progress.
25	ER	Kalinarayanpur-Shantipur with MMs	24.02	13.59	Main doubling project completed. MMs is in progress.
26	ER	Katwa-Patuli with MM	69.62	6.49	Main doubling project completed. MMs is in progress.
27	ER	Krishnanagar-Bethuadhari	27.92	15.45	Completed
28	ER	Lalgola-Jiaganj	22.95	17.83	Completed
29	ER	Liluah-Dankuni 3rd line	30.13	10.77	Completed
30	ER	Magrahat-Diamond Harbour with MMs	65.67	22.34	Main doubling project completed. MMs is in progress.
31	ER	Nabadwipdham-Patuli	22	0.74	Completed
32	ER	Nalhati-Sagardighi	26.3	2.8	Completed
33	ER	Nalikul-Tarakeshwar	17.18	6.79	Completed
34	ER	New Alipore-Akra with MMS	40.76	1.12	Main doubling project completed. MMs is in progress.
35	ER	Pandabeswar-Chinpai with MMs	51.91	5.82	Main doubling project completed. MMs is in progress.
36	ER	Sahibganj-Pirpanti	10.45	4.51	Completed
37	ER	Sonarpur-Canning with MM	52.96	0.54	Main doubling project completed. MMs is in progress.
38	ER	Sondalia-Champapukur with MM	35.14	6.87	Main doubling project completed. MMs is in progress.
39	ER	Tinpahar-Sahibganj of Tinpahar-Bhagalpur	37.81	5.48	Completed
40	NCR	Bhinsen-Juhi	11.37	0.85	Completed

41	NCR	Chheoki-Lohgara	26.88	0.49	Completed
42	NCR	Kanpur-Panki	9	1.78	Completed
43	NCR	Manikpur-Kataiyadandi	32.68	1.28	Completed
44	NCR	Tundla-Yamuna Bridge	21	0.6	Completed
45	NE	Aurnihar-manduadih	38.8	2.63	Completed
46	NE	Babhnan-Manakapur	30.15	4.35	Completed
47	NE	Ekma-Jiradai	43.6	8.07	Completed
48	NE	Ghagharaghat-Chaukaghat	5.63	41.14	Completed
49	NE	GKP Cantt.-Baitalpur	34.13	21.04	Completed
50	NE	Gonda-Mankapur	28.17	0.85	Completed
51	NE	Indra-Mau	8	18.23	Completed
52	NE	Munderawa-Bhabhnan	45.25	14.33	Completed
53	NE	Sahjanawa-Munderawa	32.19	29.36	Completed
54	NR	Ambala Cantt-Dhappar Ph I	22.71	8	Completed. MM from Dhapper to Chandigarh is in progress
55	NR	Amroha-Kankather	30	4.33	Completed
56	NR	Bhadoi-Janghai	31	1.7	DL work completed RE in progress
57	NR	Dayabasti Grade Separator	6	16.65	In progress
58	NR	Hapur-kankather	42.71	9.7	Completed
59	NR	Jalandhar Cantt-Suchipind	3.5	0.98	Completed
60	NR	Khukrana-Panipat	6.5	17.85	Completed
61	NR	Lohta-Bhadoi	39	8.11	DL work completed RE in progress
62	NR	Phapamau-Allahabad	12.9	2.11	In progress
63	NR	Sambha-Vijapur Jammu across Basantar Br	0.22	2.1	Completed
64	NR	TKD- Palwal 4th line	33.5	34	TKD-Asothi completed. Balance in 2016-17.
65	NR	Utretia-Zafrabad (148 km)	224.12	28.47	Completed
66	NWR	Alwar-Harsauli	34.86	4.04	Completed
67	NWR	Dausa-bandikui	29.04	2.95	Completed
68	NWR	Harsauli-Rewari	39.35	13.56	Completed
69	NWR	Jaipur-Dausa	61.28	5.25	Completed
70	NWR	Keshav Ganj-Swaroopganj	26.48	37.19	Completed
71	SC	Mancheryal-Peddampet	4.37	2.16	Completed
72	SC	Raghavapuram-Mandamari	24.47	28.84	Completed
73	SEC	Champa byepass line	14	14.29	Completed

	R				
74	SEC R	Champa-Jharsuguda 3rd line	165	10.66	In progress
75	SEC R	Durg-Rajnandgaon 3rd line	31	11.96	In progress
76	SEC R	Kalumna-Nagpur	6.16	8.17	In progress
77	SE	Rajgoda-Tamluk Ph-II	13.5	30	Completed
78	SE	Tamluk-Basuliya Sutahata	24.4	35.18	Completed
79	SR	Ambalaphuzha-Haripad	18.13	1.19	Completed
80	SR	Calicut-Mangalore	221	9.53	Completed
81	SR	Chengalpattu-Villupuram with MMs	133	93.19	Main doubling project completed. MMs is in progress.
82	SR	Chengannur-Chingavanam	26.5	10.46	Completed
83	SR	Irugur-Coimbatore	17.7	1.61	Completed
84	SR	Mavelikaa-Chengannur	12.3	15.06	Completed
85	SR	Mulanturutti-Kuruppantara	24	9.96	In progress
86	SW R	Arsikere-Birur	44.28	10	Completed
87	SW R	Birur-Shivani	28.67	4.25	Completed
88	SW R	Hospet-Hubli-Londa-Tinaighat-Vasco	352.28	37.5	In progress
89	SW R	Ramanagram-Mysore with RE	91.5	42.78	Completed
90	WR	Udhna-Jalgaon with RE	306.93	90	In progress
		Total	**3977**	**1249.15**	

STATUS OF ELECTRIFICATION PROJECTS COMPLETED		
SN	*Name of Project*	*Railway*
1	Khurja-Hapur-Meerut City-Saharanpur incl Ghaziabad-Meerut	Northern
2	Shakurbasti-Rohtak	Northern
3	Ghaziabad-Moradabad	Northern
4	Moradabad- Lucknow-Utratia	Northern
5	Varanasi-Lohta-Janghai-Unchahar incl. Phaphamau-Prayag-Allahabad	Northern
6	Utratia-Sultanpur-Mughalsarai	Northern
7	Ernakulam-Trivandrum incl. Trivandrum-Kanyakumari	Southern
8	Madurai-Tuticorin-Nagercoil	Southern
9	Bangalore-Chennasandra loop via Yeshwantpur & Yelahanka-Baiyyappanhalli loop via Hebbal	South Western
10	Villupuram-Tiruchchirapalli	Southern
11	Tiruchirapalli-Madurai	Southern
12	Ujjain-Indore & Dewas-Maksi	West Central

STATUS OF ELECTRIFICATION PROJECTS COMPLETED		
SN	*Name of Project*	*Railway*
13	Jhansi-Kanpur incl Ait-Konch & Kanpur Anwarganj-Kalyanpur	North Central & North Eastern
14	Bina-Kota	West Central
15	Mathura-Alwar	North Central
16	Udhna-Jalgaon	Western Railway
17	Lingampalli-Wadi	South Central
18	Karepalli-Bhadrachalam Road-Manuguru	South Central
19	*Sitarampur-Danapur-Mughalsarai via main line of Eastern Railway incl. Rampur-Dumra-Garhara-Barauni*	*Eastern & East Central*
20	Andal-Ukhra-Pandaveswar	Eastern Railway
21	Bokaro Steel City - Muri - Hatia - Bondamunda - Bimlagarh - Kiriburu / Barsuan incl. Purulia-Kotshila	South Eastern
22	Chandil-Muri-Barkakana	South Eastern

<table>
<tr><th>B</th><th colspan="3"></th></tr>
<tr><td>SN</td><td>Name of Project</td><td>Railway</td><td>Remark</td></tr>
<tr><td>23</td><td>Jalandhar-Jammu Tawi incl Jammu Tawi-Udhampur</td><td>Northern</td><td rowspan="10">All 10 Electrification projects are under execution at various stages. Funds are being provided through Capital & Extra Budgetary Resources (Institutional Funding), for execution.</td></tr>
<tr><td>24</td><td>Rohtak-Bhatinda-Lehra Muhabat</td><td>Northern</td></tr>
<tr><td>25</td><td>Rosa-Sitapur-Burhwal</td><td>Northern & North Eastern</td></tr>
<tr><td>26</td><td>Shoranur-Mangalore-Penambur</td><td>Southern</td></tr>
<tr><td>27</td><td>Gondia-Balharshah</td><td>South East Central</td></tr>
<tr><td>28</td><td>Barabanki-Gorakhpur-Barauni; incl Siwan-Thawe</td><td>North Eastern & East Central</td></tr>
<tr><td>29</td><td>Pandabeswar-Sainthia-Pakur incl. Khana-Sainthia</td><td>Eastern</td></tr>
<tr><td>30</td><td>Barauni-Katihar-Guwahati incl Katihar-Barsoi</td><td>East Central & Northeast Frontier</td></tr>
<tr><td>31</td><td>Daund-Manmad incl. Puntamba - Shirdi</td><td>Central</td></tr>
<tr><td>32</td><td>Yelahanka - Dharmavaram - Gooty incl Penukonda-Dharmavaram via Sri Satya Sai Prashanthi Nilayam</td><td>South Central & South Western</td></tr>
</table>

41. In response to a specific query regarding the viability of the Doubling and the Electrification Projects, the Chairman, Railway Board, submitted in evidence:

> "Electrification is financially viable, Sir; they replace diesel traction. The Line cost of electric traction is lower than that of diesel traction and the saving that comes out of it makes it financially viable."

VIII. SPV Methodology in Financing Development Needs

42. The Committee were informed that though funding by IRFC in the past had mainly focused on rolling stocks, the Company had also been lending funds on a smaller scale towards the Special Purpose Vehicle (SPV) route which had been adopted by the Railways successfully for port and mine connectivity projects. The Ministry of Railways, with the approval of the Cabinet developed a SPV model in the years 2000 and 2003, respectively, for broad-gauge connectivity to Pipavav and Mangalore ports, with financial participation of strategic stake-holders. Subsequently, this model had been extended to five other railway projects, i.e. Gandhidham-Palanpur gauge conversion project, Bharuch-Dahej new line, Haridaspur - Paradip new line, Obullavaripalle- Krishnapatnam new line and Angul-Sukinda new line. Out of the total 7 joint ventures formed by Indian Railways, four projects have been implemented for connectivity of Pipavav Port, Mangalore Port, Kandla Port and Dahej Port. Three other projects which provide connectivity to Paradip Port, Krishnapatnam Port (Phase I commissioned) and Angul–Sukinda new line are yet to be commissioned.

43. Asked to furnish the details of the Projects already executed and under implementation through the SPV route, the following information was submitted to the Committee:

Sl. No.	Project name	Cost (Rs. in crores)	Kms	Date of completion
(i)	Surendernagar-Pipavav	373	267	2003 (MOR)
(ii)	Hassan-Mangalore (GC)	293	183	2009 (MOR)
(iii)	Gandhidham-Palanpur (GC)	500	301	2006 (RVNL)
(iv)	Bharuch-Dahej (New line)	395	66	2012 (RVNL)
(v)	Haridaspur-Paradip (NL)	1560	82	Under implementation (RVNL)
(vi)	Obullavaripalle-Krishnapatnam (NL)	1203	113	Phase I implemented (RVNL)
(vii)	Anugul –Sukinda (NL)	1052	95	Under implementation (RVNL)
(viii)	Gevra Road-Pendra Road New line	838	122	Under implementation (IRCON)
(ix)	Kharsia-Dharamjaigarh-Donga Mahua mines	1646	104	Under implementation (IRCON)
(x)	Digni - Jaigarh Port New line, Maharashtra	771	35	Under implementation (Konkan Railway Corporation)
(xi)	Indapur- Dighi Port New Line, Maharashtra	770	42	Under Implementation (RVNL)
(xii)	Hamrapur- Rewas port New line	349	26	In principle clearance (RVNL)
(xiii)	Rowghat-Jagdalpur New line	2000	140	Under implementation (IRCON)

44. The Chairman, Railway Board, apprised the Committee in evidence that out of the 13 projects undertaken on the SPV route so far, five projects had been completed and commissioned. For one, project in principle approval had been given, and the remaining projects were under implementation.

45. When the Committee desired to know the risk factors involved in funding SPV projects by IRFC, the Ministry deposed as under:

> "IRFC is not going to be impacted by the funding of projects through SPV route, as IRFC mainly funds rolling stock. Further, IRFC's role is limited to raising/ providing funds and IRFC is not involved in planning, appraisal and execution of projects. IRFC does not carry risks associated with project execution, such as construction risk, time and cost overrun and revenue risk. On the other hand, instruments like SPV will enable investors and strategic partners to put in equity and also bring in experience and expertise in project planning, appraisal and execution. These being different models to suit different situations and different types of funding, employing SPV models will not have any impact on IRFC."

46. The Committee then asked about the precise benefits intended to be accrued through adoption of the SPV methodology. In reply, the Ministry stated that the SPV model had brought a few clear benefits for project execution which *inter-alia* include the following:

(a) Leveraging of limited budgetary resources to bring in extra-budgetary resources (equity by non-Government participants and borrowing from Financial Institutions). Projects executed by SPV method roughly entail only 12-15% Government spending through equity. In other words, the major part of funding comes through non-budgetary sources.
(b) Assured funding, leading to timely execution of projects.
(c) Mitigation of traffic risk to a large extent by buy-in of strategic partners.

(d) Enlargement of traffic potential of Railways by connecting new traffic centres.

(e) Focus on bankability of projects.

47. The Chairman, Railway Board, supplemented in evidence as under:

> "The main advantage of forming SPV and funding through IRFC has been that the Government funding has been to the extent of 12 to 15 percent of the total demand and other major source of funding has been non-budgetary resources. The basic advantage through this model was assured funding which has resulted in timely completion of the project and increasing the overall traffic potential of railways."

48. Asked to state the measures taken to avoid time and cost overrun of the projects undertaken through the SPV route, the Ministry submitted as under:

> "The concept of time and cost overrun is strictly applicable only to projects where funds are fully tied up at the time of taking up of the project and funding is assured. In case of Railway projects, the funding is decided on a year to year basis (depending upon Gross Budgetary Support given by Ministry of Finance), and, as such, it is not possible to set a realistic completion period at the beginning. In the absence of assured funding, neither the delay in funding nor cost/time overrun can be properly assessed."

49. When the Committee queried about the viability of the SPV Projects, the Chairman, Railway Board, deposed in evidence:

"All these projects have to be viable projects to get funding whether it is IRFC or through SPV model, because, if a project is not bankable, no outsider is going to put money. SPV also has a very large portion through debt which is taken from various financial institutions. So, unless the rate of return is adequate to service the debt, it is not possible to have those projects. And these projects of coal connectivity and port connectivity have worked well so far. And IRFC also has been a successful model as far as this thing is concerned."

50. Asked to state the actual revenue earned from the SPV projects already commissioned, the Chairman, Railway Board, responded:

"…We have figures of 2013-14, available with us. Out of the projects which have been commissioned Railways have earned a revenue of Rs. 6525 crore and the other partners have earned a revenue of Rs. 949 crore."

IX. Joint Ventures with State Governments

51. The Committee were informed that Joint Ventures with the State Governments were proposed to be set up with a view to taking up projects important from the view point of the State Government. The States of Odisha, Rajasthan, Punjab, Haryana, Gujarat, Maharashtra, Kerala, Karnataka, Chhattisgarh, Telangana and Madhya Pradesh have agreed, in principle, for formation of such JVs. The JVs may enjoy revenue streams from tariff and commercial exploitation of assets. The Cabinet Note was stated to be under Inter-Ministerial consultations.

52. Elaborating the advantage and progress of the Joint Ventures with the State Governments the Chairman, Railway Board, submitted in evidence:

> "The advantage of this is that if we enter into Joint Venture with a State, that joint venture itself will decide which projects to be taken up or which projects not to be taken up. They may decide to take up along with bankable projects some other projects where rate of return is not that much but then that will be the decision of Joint Venture as to how to go about it. Joint Venture will basically service the debt component through the revenue that it gets from the tariff of the line which they are going to construct. The status is that we have already moved a Cabinet Note for this which is under Inter-Ministerial consultation. Then we will formally move it for Cabinet's approval."

53. The Chairman, Railway Board further stated:

> "...States came up with a formula that they will share 50 per cent of the cost and give land free of cost. Then those projects became viable and we have undertaken those projects. So, States are coming with the offers so that their areas may be developed and ultimately the growth is there. After all, whether it is Railway's money or State's money, it is for the growth of the people and the growth of the area."

X. Tax Free Bonds

54. The Committee were informed that raising funds through Tax free bonds was one of the major sources of resource mobilization by IRFC. During 2012-13 and 2013-14, the Company

raised Rs. 6916 crore and Rs. 8828 crore, respectively. During the year 2014-15, the Company did not have any access to Tax free bonds.

55. The Committee were further apprised that during 2015-16, the Ministry of Railways had sought allocation of tax free bonds to the tune of Rs.17,500 crore which would have helped IRFC to reduce its cost of incremental borrowings, and, in turn, the cost to MOR. However, the Ministry of Finance authorized IRFC to raise a sum of Rs.6,000 crore under notification issued in July, 2015 and a further sum of Rs.3,500 crore through a notification issued in February, 2016.

56. Asked to state the alternate source of mobilizing the remaining amount during 2015-16, the Ministry submitted that the shortfall in the targets was made up by borrowing from other sources like issuance of taxable bonds, Rupee Term loans from Banks and issuance of commercial papers.

57. Elaborating the issue, the Financial Commissioner, Railway Board, submitted in evidence:

"...the total borrowing was supposed to be Rs. 17000 plus crore in the last year. Out of this, we pressed for lower rate funding and the Government of India initially gave us Rs. 6000 crore of tax free bond which has now been enhanced and we could finally get in March Rs. 9500 crore for full year. As the MD, IRFC, has stated, there was over subscription of that. This is a cheap fund we got whose rate is between 7.2 and 7.8 per cent which is definitely cheaper than what we got otherwise by IRFC."

58. Asked to state the requirement of tax free bonds during 2016-17 and measures taken to raise the same, the Financial Commissioner deposed:

> "With regard to 2016-17 we have a very tall order for borrowing. Therefore, other than normal bonds which are floated by the IRFC we have requested the Finance Ministry to give us at least Rs. 10000 crore, if not more, for the tax free bonds. We are yet to hear from them."

59. When the Committee queried about the proposed action on the part of the Company in case the Finance Ministry did not give the required amount of Rs. 10,000 crore for raising tax free bonds during 2016-17, the Financial Commissioner responded:

> "...the other alternative is the rupee denominated bonds which we expect to move forward which was to be done last year. But this year we will take that forward. These bonds are free from the currency risks and, therefore, the world market is willing to invest and they are eager to invest. We are only waiting for the right time when we get the best rate for that and, therefore, our cost of capital should be the minimum. This is another alternative."

60. Referring to reports that IRFC tax free bonds were sold almost four times higher than planned but the retail portion was not fully subscribed, the Committee desired to be apprised of the reasons therefor. In response, the Financial Commissioner submitted:

> "This additional amount we got was because other organizations who were given tax free bonds over the year could not do their bit. But unfortunately, for the retail

segment, you will understand that we do our investments by December. So, March was too late. So, this was to happen."

61. The MD, IRFC, supplemented as follows:

"The last tax free bond issue we did was for Rs.3500 crore. We allotted Rs. 3500 crore and we were permitted private placement for 30 per cent. So, for Rs. 1000 crore, we did a private placement and Rs.2500 crore was for public issue. In the public issue, condition was that 60 per cent should go for retail, that is, application size less than Rs. 10 lakh. The retail issue was almost completely subscribed. It was just Rs. 100 crore short. The other baskets were subscribed eight or ten times. So, the issue was that whole was oversubscribed. As you rightly said, we got over Rs. 9000 crore, we kept the issue open for three to four days. Otherwise, we would not have been able to complete it in this financial year. That is the condition. So, we refunded the rest of the money."

62. The Committee were then informed that in the Financial Year 2015-16, a new source of funding namely Extra Budgetary Resources-Institutional Finance (EBR-IF) has been introduced to finance Railway projects for throughput enhancement, which were not receiving adequate funding due to resource constraints. The funding of Railway projects through LIC is a part of such institutional finance at a cost of 30 basis points over the Benchmark 10 years Government of India Yield. In 2015, a MOU had been signed between LIC and Indian Railways according to which LIC is to invest Rs. 1.5 lakh crore during five years time.

63. In the above context, when the Committee desired to know the actual amount so far received from LIC, the Financial Commissioner stated that a sum of Rs. 9271 crore had been received after 31 March, 2016. Asked to state the benefits that would accrue to IRFC from the LIC loan, the Financial Commissioner, Railway Board, submitted:

> "LIC loan structure is like this. We will be having moratorium for five years. The interest liability will be G-Sec, that is the Government security rate plus 30 Basis Points which comes to about 7.9 per cent. The maturity will be after 30 years. For the first five years, there will be no interest. The interest itself gets capitalized. We start paying from the 11th year onwards and I am talking about the principal part. Since it is a back end loan, we are investing this loan on capacity augmentation projects. We expect that from the fifth year onwards, the trains will start running on these tracks and on electrification projects and then the additional throughput which comes, automatically will pay for themselves. The projects start earning on their own. This is the concept basically."

64. In response to another specific query regarding the procedure adopted by IRFC to deal with the unclaimed debentures, the MD, IRFC, apprised the Committee as under:

> "The unclaimed debentures amount is to be kept with us for seven years after the debenture matures. We take out notices in the newspapers saying that this is the name of the individual, this is the amount that is available, please

claim your money. If at the end of seven years we do not get any response we have to transfer this money to the Investor Education Protection Fund. This is mandated by law. This is run by the Ministry of Corporate Affairs. After that, I cannot refund the money. Within seven years, I make efforts. Also when the money becomes due every year, I put it up on my website that these are the unclaimed debentures and please get in touch with us."

XI. Issues of Concern for IRFC

65. The Ministry submitted that, over the years, IRFC had been executing its role as an efficient funding vehicle of the Railways. However, the following issues needed to be addressed:

(i) Increase in GBS to the Railways.

(ii) Amendment in the definition of Infrastructure to include Rolling Stock Asset as Infrastructure in the Master List of Infrastructure sub-sectors issued by the Ministry of Finance.

(iii) Exemption from minimum dividend payout as prescribed by MOF and link the minimum dividend payout to 20% of the PAT instead of "20% of PAT or paid up equity whichever is higher".

(iv) Allocations of Tax Free Bonds by the Ministry of Finance commensurate with IRFC's annual borrowing target which will help bring down the cost of borrowing to MOR.

(v) Allocation of 54EC Capital Gain Bonds to IRFC.

(vi) Exemption of IRFC leases from the applicability of the proposed GST in the same way as the lease agreements executed between MOR and IRFC have been exempted from levy of service tax.

(vii) Abolition of lower withholding tax rate of 5% to Rupee Offshore Bonds which will provide a low cost window for fund mobilization by IRFC.

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PART-II

OBSERVATIONS / RECOMMENDATIONS

1. The Committee note that the Plan expenditure of the Indian Railways during each Financial Year is financed through three sources, namely Gross Budgetary Support (GBS), Internal Generation of Revenue and Extra Budgetary Resources (EBR). In view of the inadequacy of the budgetary support and shortfalls in internal resource generation, the priority of the Indian Railways was to focus on raising Extra Budgetary Resources and accordingly, the Indian Railway Finance Corporation (IRFC) was set up in December, 1986 as a Public Limited Company under the Companies Act to raise market borrowings with a view to augmenting finances for investment in Indian Railways. The Committee are pleased to observe that the overall performance of IRFC since its inception in achieving the mandate conferred on it has been impressive. For example, IRFC's cumulative funding to the Indian Railways is set to cross Rs. 1.50 lakh crore mark in the Financial Year 2015-16 and the Company has been given the target of raising Rs. 40,985 crore in 2016-17 alone. As of date, the Indian Railways have Rs. 1.42 lakh crore of assets which have been leased by IRFC. What is more encouraging is the fact that IRFC has consistently achieved and excelled the Annual targets laid down in the Memorandum of Understanding (MOU)

with the Ministry of Railways. Moreover, the Company has been rated "Excellent" on 16 occasions during the last 18 years. <u>While lauding the past performance of IRFC, the Committee trust that the Company would continue its commendable work in raising the much needed funds in future also for leveraging investments in Railway infrastructure. The Ministry of Railways (Railway Board) on their part, as the administrative Ministry, should ensure full support and patronage to the company so that it is enabled to consistently help Railways in replenishing and augmenting their rolling stocks for earning more revenue.</u>

2. The Committee appreciate that for nearly three decades IRFC has been able to achieve the two-fold mandate of meeting the Annual borrowing targets as well as to borrow at the lowest possible cost. As a result, the Company enjoys AAA ratings for domestic borrowings and a Sovereign equivalent rating for overseas borrowings, which, in turn, has enabled it to raise large quantum of funds from both domestic and international markets at competitive rates. In fact, the financial market views IRFC as a very solid entity for one major reason that it is owned by the Government of India and the Company's client is only the Government of India. In this context, the Committee find that during the last ten years, the weighted average cost of borrowings of IRFC has remained consistently lower *vis-à-vis* the 10-year AAA Benchmark

Rates. Similarly though the cost of Incremental Borrowing of IRFC *vis-à-vis* cost of borrowing of the Government of India has been lower during the years 2012-13 to 2014-15, the actual cost to the Ministry of Railways was higher than the cost of borrowings by the Government of India during this period due to 50 basis points spread charged by IRFC over its weighted average cost of incremental borrowings. In other words, the cost of borrowings by IRFC during the above said two years was higher as compared to the Government of India borrowings because the company had no or little access to low cost borrowing sources like Tax free bonds and External Commercial borrowings. <u>In view of the significance of the incremental funding requirements of the Railways from low cost borrowing sources, the Committee would like the Railway Board to embark upon requisite measures, including taking up the matter with the Finance Ministry, so that IRFC gets adequate access to low cost borrowing means and continually maintain its competitiveness.</u>

3. The Committee note that during the year 2014-15, IRFC was able to raise Rs. 11,228 crore which was comparatively lesser then the previous two fiscals. But it is heartening to observe that during 2015-16, the Company has been able to raise a record amount of Rs. 24,964 crore for the first time. During the Financial Year 2016-17, IRFC has been given a target of raising

Rs.40985 crore and the IRFC has exuded confidence that they would achieve the target. <u>The Committee take note of this and urge the Railway Board to ensure IRFC's seamless access to the borrowing sources so that the Company is able to achieve higher Annual targets and cater to the needs of Indian Railways to a greater extent.</u>

4. The Committee note with appreciation that IRFC has been raising funds regularly through External Commercial Borrowings (ECBs) from diverse markets, instruments and investor base. Till date, the Company has raised USD 2,766.40 Million, JPY 60.37 Billion and Euro 19.53 Million through ECBs. Further, the overseas issuances by IRFC have received overwhelming response from the international investors due to the highest possible credit rating at par with the Sovereign and risk free business model. The ECBs are contracted for longer tenures of 5 to 15 years which help the Company to monitor the exchange rate risk vigorously over the life of the loans. <u>While commending the efforts made by IRFC in raising funds through ECBs, the Committee recommend that the proactive policy adopted for managing the currency risk associated with ECBs be further strengthened so as to ensure formation and monitoring of risk management strategies and keeping the effective Rupee cost of ECBs well below the cost of domestic borrowings.</u>

5. As regards risk management strategies for domestic borrowings, the Committee find that IRFC has adopted a conservative approach for deploying its surplus funds available only in bank deposits of scheduled commercial Banks as Fixed Deposit not exceeding one year. Interest Rate risk is mitigated by matching the interest rate profile and tenure of assets and liabilities. Further, a predominant portion of borrowings from the domestic market is through issuance of bonds at fixed rate. As a result of such measures, there has been no Non-performing Asset (NPA) in the Books of IRFC. The Committee feel that these are steps in the right direction in mitigating the risks associated with domestic borrowings and they desire that such strategies for risk management be persisted with so that the Company raises more funds, with minimum risk, from the domestic market for investment in Indian Railways.

6. The Committee are concerned to find that the Indian Railways had made a payment of Rs. 12,629.49 crore to IRFC during the period from 2011 to 2014 from the GBS received from the Government of India, in violation of their own accounting policy, besides making the borrowings from IRFC more expensive. The Railway Board, has submitted before the Committee in evidence that the aberration has been corrected and the Railways are not doing it any further. The Committee would like to impress upon the Railway Board to guard against such lapses so as

to maintain fiscal discipline and the competitiveness of the cost of IRFC borrowings.

7. Raising funds through Tax free bonds is one of the major sources of resource mobilization by IRFC. In this context, the Committee find that while during the years 2012-13 and 2013-14, the Company raised Rs. 6916 crore and Rs. 8828 crore, respectively, during 2014-15 it did not have any access to Tax free bonds. During 2015-16, the Company was allowed to raise Rs. 9500 crore as Tax free bonds against a proposal of Rs. 17,500 crore. For the year 2016-17, the Railway Board have requested the Finance Ministry to permit IRFC to raise Tax free bonds worth at least Rs. 10,000 crore and the response of the Finance Ministry is awaited. In view of the fact that IRFC has been given a tall target of raising more than Rs. 40,000 crore during 2016-17, the Committee urge the Railway Board to vigorously pursue the matter with the Finance Ministry for allowing IRFC to raise the proposed amount of Tax free bonds during 2016-17 so that the Company's cost of incremental borrowings is reduced and, in turn, the Ministry of Railways is benefited.

8. The Committee note that IRFC Tax free bonds were sold eight to ten times more than what was planned during 2015-16; however, the retail portion was not fully subscribed as the Railways normally do their investment in December. As IRFC has been performing better than

other organizations who are given tax free bonds, the Committee are of the considered opinion that the Railways have to improve the timing of their investment planning so that the retail issues of IRFC's Tax free bonds are also fully subscribed which would further strengthen the proposals for raising Tax free bonds by the Company during 2016-17.

9. The Committee note that the unclaimed debenture amount is kept with IRFC for seven years after the debenture matures. The Company makes efforts within those seven years, through advertisements in newspapers, to refund the money to the individuals concerned. If at the end of the seven years, no response is received, then the unclaimed money is transferred to the Investor Education Protection Fund, as mandated by law. The Committee recommend that apart from giving advertisements through newspapers, the Company should take recourse to other means like the Electronic Media, Ombudsman, etc. to make the persons concerned aware of their money due, so that they are able to claim it within a period of seven years of the maturity of the debentures.

10. The Committee note that w.e.f. the Financial Year 2015-16, a new source of funding, namely, Extra Budgetary Resources-Institutional Finance (EBR-IF) has been introduced to finance Railway Projects. As a part of such Institutional Finance, an MOU has been signed

between the Life Insurance Corporation (LIC) and Indian Railways under which the LIC is to invest Rs. 1.5 lakh crore in the Railways during five years' time. Under the Agreement, for the first five years, IRFC will not pay any interest and, thereafter, the interest liability will be the Government security rate plus 30 Basis Points which comes to about 7.9 per cent. The Committee find that the biggest advantage with this Agreement with LIC is that it is a back end loan and the Railways will invest this loan on capacity augmentation projects which will start earning on their own after completion. The Committee commend the system evolved since 2015-16 for raising funds through Institutional Finance and stress that more such innovative measures be taken to raise the advantageous back end loans from other Government entities/PSUs so that IRFC is able to finance and invest in more capacity augmentation projects.

11. The Committee note that about 97 to 98 percent of the funds raised by IRFC are utilized for acquiring rolling stock assets like wagons, coaches and locomotives which constitute a vital component of the Annual Capital Expenditure of the Railways. Around 70 percent of the rolling stocks of the Railways are acquired through IRFC funding. The Committee appreciate that the Company has so far financed around 4,045 electric locomotives, 3,753 diesel locomotives, 1,94,700 wagons, 42,878 coaches and 85 track machines and cranes. As noted earlier, today, the

Indian Railways have Rs. 1.42 lakh crore worth of assets which have been leased by IRFC to them. In view of the fact that rolling stocks give immediate return at such an impressive rate that can finance the debt requirement of the Railways, as submitted by the Railway Board, the Committee would like the Ministry of Railways to continue to acquire large numbers of rolling stocks through IRFC funding by extending all the required support to the Company to raise adequate funds for the purpose.

12. The Committee observe that against the rolling stock assets financed by IRFC out of the market borrowings and leased to the Railways, lease charges are paid by the Ministry of Railways to IRFC at the rates laid down in the Lease Agreement. Such lease charges enable the Company to recover the principal amount along with interest/finance cost during the Primary Lease period of 15 years and only nominal lease charges are payable by the Railways during the Secondary Lease Period. The Committee also note that the lease period coincides with the average economic life of the assets, i.e. 30 years. Assets leased during 1987-88 are the first bunch of assets set to complete the entire lease period of 30 years in the Financial Year 2017-18, and then these will be transferred to the Railways for a token amount of one rupee as IRFC has already recovered its money and repaid the loans. In this context, the Committee desire that the Ministry of

Railways should resort to advanced and prudent planning with a view to gainfully utilizing the valuable assets created with crores of rupees once they are transferred to the Railways in the 2017-18 fiscal, after the expiry of their economic life of 30 years.

13. The Committee are pleased to note that out of the seven projects undertaken by the Rail Vikas Nigam Limited (RVNL) through funding assistance to the tune of Rs. 2,896 crore by IRFC, six projects have already been completed with a Rate of Return (RoR) percentage ranging between 8.39 and 26.43; the seventh project is targeted to be completed by March, 2018. The Committee trust that the seventh project would be completed by the target date. The Committee further desire that more projects undertaken by RVNL should be funded by IRFC in view of the commendable performance of RVNL and the RoR that the projects have yielded.

14. The Committee note that IRFC has provided funds to the tune of Rs. 2078.49 crore for 90 Doubling and 32 Electrification Projects being executed departmentally by the Railways since 2011-12. As on 31 March, 2016, out of the 90 Doubling Projects, 63 projects have been completed, 19 projects have been partly completed and 8 projects are in progress. Similarly, out of the 32 Electrification projects, 22 projects have been completed and 10 projects are under execution. As IRFC is not

involved in the actual execution of projects and its role has been confined to provide finance only, the role and responsibility of the Zonal Railways assume greater significance. The Committee, therefore, exhort the Railway Board to impress upon the Zonal Railways concerned to complete the remaining Doubling and Electrification Projects, which are financially more viable, within a definite time frame so that the Railways could earn more revenue.

15. The Committee note that IRFC has been lending funds on a smaller scale towards the Special Purpose Vehicle (SPV) route which has been adopted by the Railways successfully for port and mine connectivity projects. In this context, the Committee find that out of the 13 projects undertaken on the SPV route so far, five projects have been completed and commissioned; 'in principle' approval has been given for one project; and the remaining seven projects are under implementation. Though adopting SPV models will not have any impact on IRFC, as submitted to the Committee, completion of such projects will certainly impact the Railways as a whole and their Zonal arms in particular in view of various distinct advantages of the SPV route. The Committee, therefore, impress upon the Railway Board to expedite the completion of the remaining projects for the benefit of all the stakeholders.

16. The Committee are not convinced with the contention of the Railway Board that it is not possible to set a realistic completion period of the projects at the beginning and in the absence of assured funding for the SPV projects, neither the delay in funding nor cost/time overrun can be properly assessed. The Railway Board has categorically submitted before the Committee that the basic advantage of the SPV model is assured funding. Needless to say, these two diametrically opposite views ought to be reconciled. The Committee are also of the firm opinion that measures to avoid time and cost overrun are critical for any project, more so for the SPV projects, through which the Railways have already earned Rs. 6525 crore as of 2013-14.

17. The Committee appreciate that a Cabinet Note has been mooted for setting up of Joint Ventures with eleven State Governments which have agreed, in principle, for formation of such JVs. The Cabinet Note is under Inter-Ministerial consultations. As the JVs may enjoy revenue streams from tariff and commercial exploitation of assets besides enabling development of the States concerned, the Committee are of the considered view that the proposed JVs should be drawn to their logical conclusion once the Cabinet approval is obtained.

18. The Committee are pleased to note that over the years, IRFC has been executing its role as an efficient

funding vehicle of the Indian Railways. However, the Committee are given to understand that the Company needs some concessions/relaxations like exemption from minimum dividend payout, allocation of Tax free bonds and Capital Gain bonds, exemption of IRFC leases from the applicability of the proposed GST, abolition of lower withholding tax rate of 5 percent to Rupee Offshore Bonds etc. <u>While reserving their comments for exemption to IRFC from minimum dividend payout to an appropriate occasion, the Committee desire that the Railway Board should take up the other issues at the appropriate fora so as to enable IRFC to become more vibrant and contribute substantially towards Railways infrastructure and project development.</u>

New Delhi:	BHARTRUHARI MAHTAB
08 August, 2016	CHAIRPERSON
17 Shravana, 1938 (SAKA)	RAILWAY CONVENTION COMMITTEE

APPENDIX-I

RAILWAY CONVENTION COMMITTEE (2014)

MINUTES OF THE 2nd SITTING OF THE COMMITTEE HELD ON Thursday 21th May, 2015

The Committee sat from 1500 hrs. to 1700 hrs. in Room No.-62, First Floor, Parliament House , New Delhi.

PRESENT

SHRI BHARTRUHARI MAHTAB - Chairperson

Members

Lok Sabha

1. SHRI SANGANNA AMARAPPA KARADI
2. SHRI JANAK RAM
3. SHRI BHARAT SINGH
4. SHRI RAHUL RAMESH SHEWALE
5. SHRI K ASHOK KUMAR

Rajya Sabha

1. SHRI AVINASH RAI KHANNA
2. SHRI DEREK O' BRIEN
3. DR. VIJAYLAXMI SADHO
4. SHRI ARVIND KUMAR SINGH
5. SHRI T K RANGARAJAN

Secretariat

1. Smt. Abha Singh Yaduvanshi - Joint Secretary

Representatives of the Ministry of Railways

S.No	S/Shri	Designation
1.	A . K. Mittal	Chairman, Railway Board
2.	Rajalakshmi Ravikumar	Financial Commissioner, Railways
3.	V.K Gupta	Member, Engineering
4.	Hemant Kumar	Member , Mechanical
5.	Navin Tandon	Member , Electrical
6.	Ajay Shukla(L/A)	Member , Traffic
7.	H.K Kala	Addl. Member (Planning)
8.	S Subramhanyan	Addl. Member (Budget)
9.	S. Vijayaraghavan	Addl. Member (Finance)
10.	Girish Pillai	Adviser (Infrastructure)
11.	P.V. Vaidialingam	Adviser (Finance)
12.	Rajiv Datt	Managing Director (IRFC)

2 At the outset, the Hon'ble Chairperson, on behalf of the Committee, welcomed the representatives of the Ministry of Railways (Railway Board) to the sitting of the Committee convened for taking evidence on the subject "Role of IRFC and use of SPV methodology in financing development needs of Indian Railways".

3. The Chairperson drew the attention of the witnesses to Directions 55 and 58 of Directions by the Speaker regarding Confidentiality of proceedings of the Committee. Thereafter, the Managing Director, IRFC, gave a power point presentation and briefed the committee about the functioning of IRFC.

4. The Members raised various issues like the strategy/policies adopted by IRFC to finance acquisition of rolling stock assets and development needs of Indian Railways, regulations contemplated to secure debt servicing in future and arrangement of supplementary requisitions of funds other than budgetary support for big Railway Projects, constraints faced by IRFC in borrowing money from open market and the measures taken to cope with the same, the extent of success in implementation of SPV methodology for expediting the pending projects ,etc.

5. Thereafter, officials of the Ministry of Railways responded to the queries. The Committee desired that replies to the points on which information was not readily available may be furnished to the Secretariat within 15 days.

A verbatim record of the proceedings has been kept.

The Committee then adjourned.

RAILWAY CONVENTION COMMITTEE (2014)

MINUTES OF THE THIRTEENTH SITTING OF THE COMMITTEE

The Committee sat on Monday, the 04th April, 2016, from 1500 hrs. to 1630 hrs. in Room No.-53, Parliament House, New Delhi.

PRESENT

Shri Bhartruhari Mahtab - Chairperson

Members

Lok Sabha

2. Shri Sanganna Amarappa Karadi
3. Smt. Anupriya Patel
4. Shri Nana Patole
5. Shri Janak Ram
6. Shri Rahul Ramesh Shewale
7. Shri Bharat Singh

Rajya Sabha

8. Shri. Avinash Rai Khanna
9. Dr. Vijaylaxmi Sadho
10. Shri Arvind Kumar Singh
11. Shri T. K. Rangarajan

Secretariat

1. Sh. K. Vijayakrishnan - Additional Secretary
2. Sh. M. K. Madhusudhan - Director
3. Sh. D. R. Mohanty - Additional Director

Witnesses

Representatives of the Ministry of Railways (Railway Board)

1.	Sh. A. K. Mital	-	Chairman,Railway Board
2.	Sh. S. Mookerjee	-	Financial Commissioner
3.	Sh. V. K. Gupta	-	Member (Engineering)
4.	Sh. Shahzad Shah	-	Additional Member (Budget)
5.	Sh. Girish Pillai	-	Adviser (Infra)
6.	Sh. P.V. Vaidialingam	-	Adviser (Finance)
7.	Sh. S.C. Agnihotri	-	Chairman and Managing Director (RVNL)
8.	Sh. Rajiv Datt	-	Managing Director (IRFC)

2. At the outset, the Chairperson welcomed the Members and the representatives of the Ministry of Railways (Railway Board) to the sitting of the Committee, convened to take evidence of the representatives of the Ministry of Railways (Railway Board) on the subject "Role of IRFC and use of SPV methodology in financial development needs of Indian Railways". Impressing upon the witnesses to keep the proceedings of the Committee "Confidential", the Chairperson asked the Chairman, Railway Board, to update the Committee on further developments on the subject matter since the last briefing meeting held on 21st May, 2015 highlighting inter-alia the resources mobilized by the IRFC, quantum of Rolling Stock assets financed till 31 December, 2015, performance in Joint Ventured SPV methodology and other matters relating to the subject matter.

3. The Chairman, Railway Board, accordingly briefed the Committee on various developments that took place subsequent to the last meeting *inter-alia* highlighting the achievements made by IRFC since its inception, latest status of Rolling Stocks funding, diversification to doubling and electrification of tracks, SPVs of IRFC with different Zonal Railways and RVNL, issues relating to cost of borrowing and competitiveness as compared to other Finance companies in the market, etc. The Committee were also apprised of the leasing mechanism, setting of lease rentals, mechanism for deciding average life of any Rolling Stock Asset, IRFC's futuristic vision statements and other innovative measures to make IRFC more effective, etc. The Chairman, Railway Board, Managing Director, IRFC and other representatives of the Ministry also responded to various queries raised by the

Members. As some queries required detailed and statistical reply, the Chairperson asked the Chairman, Railway Board, to furnish written reply on the same, within a period of 10 to 15 days. The Chairman, Railway Board, assured to comply.

4. The Chairperson thanked the witnesses for appearing before the Committee and for furnishing the available information that the Committee desired in connection with the examination of the subject.

The witnesses then withdrew.

A verbatim copy of the proceedings was kept on record.

The Committee then adjourned.

APPENDIX-III

RAILWAY CONVENTION COMMITTEE (2014)

MINUTES OF THE EIGHTEENTH SITTING OF THE COMMITTEE

The Committee sat on Monday, the 08th August, 2016, from 1000 hrs. to 1045 hrs. in Room No.-133A, (Chairperson's Chamber), First Floor, Parliament House Annexe, New Delhi.

PRESENT

Shri Bhartruhari Mahtab - Chairperson

MEMBERS

Lok Sabha

2. Shri Sanganna Amarapappa Karadi
3. Shri K. Ashok Kumar
4. Shri Kamalbhan Singh Marabi
5. Shri Nana Patole
6. Shri K.C. Venugopal

Rajya Sabha

7. Shri Derek 'O' Brien
8. Shri T. K. Rangarajan
9. Shri Abdul Waheb

Secretariat

1. Sh. K. Vijayakrishnan - Additional Secretary
2. Sh. S.C. Chaudhary - Joint Secretary
3. Sh. M. K. Madhusudhan - Director
4. Sh. D. R. Mohanty - Additional Director

2. At the outset, the Chairperson welcomed the Members to the sitting and apprised them that the meeting convened to consider and adopt two Draft Reports had been fixed at 1000 hrs. to facilitate the Members' timely presence in Lok Sabha/Rajya Sabha. Giving an overview of the main Observations/Recommendations contained in both the Draft Reports, the Chairperson solicited the views/suggestions of the Members.

3. The Members accordingly expressed their views and suggestions. After some deliberations, the Committee adopted the following Draft Reports on:

(i) Role of IRFC and use of SPV methodology in financing development needs of Indian Railways.

(ii) Share of Railway traffic *vis-à-vis* road and air transport- An evaluation.

4. The Committee then authorized the Chairperson to finalize the Draft Reports in the light of consequential changes that might arise out of factual verifications and present the Reports to both the Houses.

5. Thereafter, the Committee selected the subject 'Proposed Merger of Railway Finances with General Finances - Feasibility, Issues and Challenges' for examination and report.

6. The Committee then decided to undertake an On-the-Spot Study Visit during the month of September, 2016 to get first-hand knowledge of the subjects under examination.

The Committee then adjourned.