

Management Discussion

Puneet Chaturvedi - Analyst, PhillipCapital (India) Private Limited

Hi, thank you. Good morning everyone and welcome to the earnings conference call of Indian Railway Finance Corporation Limited for the second quarter and half-year ended September 2026. We are privileged to have with us today the senior management team of IRFC represented by Shri Manoj Kumar Dubey, Chairman and Managing Director and CEO; Dr. Ranjay Choudhary, Director of Finance; and Ms. Deepa Kotnis, Executive Director Finance and Chief Financial Officer, along with other distinguished members of the senior management team. With this, I would like to invite Shri Manoj Kumar Dubey to share his remarks on the company's financial and operational performance for the quarter and half-year ended September 26th, followed by the management's outlook on the business going forward. Over to you, sir.

Manoj Kumar Dubey - Chairman, Managing Director, and Chief Executive Officer, Indian Railway Finance Corporation

Good morning, Puneet, and good morning, friends who are attending this con call. So as CEO, this is one of the heartening mornings for me. When numbers of the companies are beating the guidance and as well as the expectations of the streets, the job of CEO becomes easier. So today is one of the easier days for me after a lot of difficult times and difficult days to reach these numbers. As I was talking in the morning with one of the TVs, numbers are not manufactured, they are earned. So IRFC, on embarking on its 2.0 journey, that is diversification journey. If you look at the last six quarters of the company, out of six, five quarters the profit after tax has grown in double digits, except the Q4 of last FY, where provisions were made for new businesses, where 1% for greenfield and 0.4% for brownfield provisions are to be made as per RBI norms. So it's a very satisfying day talking in the con call that consistently for the last six quarters in our diversification mode, this company is growing. And as I always say that when you talk about all the ratios, every ratio emanates from profit after tax. If a company is not making healthy profit, healthy growth in profit, none of the ratios will show positive trends. So if I give a picture that in the last six quarters, five quarters, the company's profit after tax has grown in double digit, you can see at the numbers that all the ratios and everything will be having a positive trend, including net interest margin. Apart from the good numbers, that is for H1, more than 20% rise in revenue and more than 10% rise in PAT, I would like to also talk about and share my other views to the shareholders at large, where in the past when we embarked on the journey of diversification, few questions were really coming to the mind of the investors that for the first time we are going on diversification apart from single client model, what is the team that we are having for appraisal? So I want to inform all of you that in last one year the number of employees in IRFC has grown almost double. So you can think of the kind of manpower required that we have added. And, you know, in my company, I always say the way we cherry-pick the assets, we cherry-pick the talents. So every talent that we have added to our system, they are all best in class that we could get in the country. Top of it, I also want to share a very unique model that I follow as CEO here. That is the model of mentoring and mentorship. To put a record, my Chief Risk Officer is a veteran from the NBFC business. He has been Director-Finance of REC, and after that he is here as Chief Risk Officer and he is also donning the hat of mentoring all the young minds, making them very, very alert about the kind of compliances that is required. We have got our advisor chief; she was our Director of Finance earlier and she comes from the stable of PFC, working there for 30 years. She brings all the knowledge that is required for borrowing side and she is not only mentoring, she is giving very active advices to the company on those lines also. My Chief

Compliance Officer is a veteran from the industry coming from the PNB side. We have got our advisor, one more advisor from REC side who has retired, and they are advising us on the appraisal side. So we have created the grid of mentors who are shaping, guiding the young minds who are doing the appraisal, borrowing, everything. So this is something that I wanted to share and let my investors be assured that the kind of team that IRFC has created now is one of the most robust that one can think of. The other thing I wanted to share with you that with the training of the railways, we are very, very particular about oversight and compliances. So whatever RBI wanted us to do, whatever CNAJ wanted us to do, whatever internal auditing wanted to be done -- in fact, I forgot to mention you that our head of internal auditor auditing is a veteran from government with the -- all the experience of more than 35 years. So we have put all the compliance things right in the place, and we are trying to be best in the class in the country, in relation to any of the bank or NBFC system. We have got the positive feedback from RBI as well as CNAG, where consecutive third time nil comment has come. So oversight, compliances, ERP all go hand in hand with robust results. And top it off, top of it, we also have to look for a long pipeline. And while doing the con call, I'll be talking about the exciting time that we are going to have with all the announcements from the railways also. And apart from that, the good business that we are doing in non-railway entities in the railway ecosystem where we are garnering higher margins. So taking two together, we'll be talking about the exciting time going ahead and maintaining and sustaining the growth that we have done in the six quarters -- trailing six quarters including this particular one. So with this, I invite you all to have a discussion. Thank you.

Questions & Answers

Operator

Thank you so much, sir. Ladies and gentlemen, we will now begin with the question and answer session. [Operator Instructions] Our first question comes from the line of Sucrit D. Patil Eyesight Fintrade Private Limited. Please go ahead.

Sucrit Patil - Analyst, Eyesight Fintrade Private Limited

I have two questions. The first question to Mr. Dubey is, beyond the regular outlook, just want to understand what are the top two to three execution priorities you are focusing on in the next few quarters? And alongside that, what do you see as the biggest risk in terms of railway capex, asset growth opportunities, or funding? And how are you preparing to manage them while strengthening IRFC's role in the finance space? That's my first question. I'll ask the second question after this. Thank you.

Manoj Kumar Dubey - Chairman, Managing Director, and Chief Executive Officer, Indian Railway Finance Corporation

So you so you talked about risk of the railway funding or what? I didn't get that. Can you repeat again, the second part of your first question.

Sucrit Patil - Analyst, Eyesight Fintrade Private Limited

I just want to understand the key strategic actions you are focusing on, such as maybe expanding the asset base, diversifying the finance opportunities. Along those lines, can you give some guidance?

Manoj Kumar Dubey - Chairman, Managing Director, and Chief Executive Officer, Indian Railway Finance Corporation

No, I got your question. So yes, immediate. First part of the question was, what are our immediate disbursement targets? So yes, last year, when we started diversifying, all INR35,000 crores that we disbursed, that were non-IR disbursement. This trend will continue for this FY. Next H2, you'll find that we'll be lending to metro. We'll be lending to port. We'll be lending to renewable energy. We'll be lending to thermal power, gencos who are having links with the railways. We'll be lending to maybe a few road linkages also. These are all in pipeline, almost ready to be disbursed in Q3 or early Q4. And to answer your question in a very clear manner, the guidance that we're given that in FY27 also, we'll be surpassing our disbursement that we did last FY, and that guidance remains intact. Now, the second part of the question that was more exciting because this funding that we're doing right now it is -- that will be finishing. It won't be continuing for long, because ticket size is not more than INR20,000 crores or INR10,000 crores, like this. But the second part that you mentioned about railways, if you're following our Honorable Minister Railways and also the Honorable Prime Minister, what he announced, there is a sanction of dedicated freight corridor from Dhankoni in eastern part to Surat in western part. This costs around, this 2,000 kilometer plus, this costs around more than 3 lakh crores. There are seven high-speed rail corridors that are already sanctioned and very actively being pursued, because country is moving towards a bigger city kind of thing. Railways has also announced eight freight lines, where they will be going on joint venture model or PPP model. So, overall, the pie that comes out to be more than 20 lakh crores. Now, once we have our hand on these pies, these are going to continue for next minimum 10 years. And precisely the first half of this FY, we are actively engaging with all the stakeholders within the railway, as well as the bilateral, because you see the pie is so big that IRFC alone also won't be able to fund all everything. So, what is happening is that we are kind of being the sole financing arm of Indian Railways, are acting as aggregators. We are only talking to -- my team is only talking to World Bank, to other multilaterals, as well as domestic players. And we believe that by end of this FY, this whole model will be in place and the way you follow the government because our disbursement is completely aligned to the aspirations of Government of India. So, if you believe that yes, Government of India is going to have the dedicated rail corridors, if you believe that Government of India is going to have these high-speed rail corridors, if you believe that the government is really going to have four laning of the tracks, then you believe that our hands are completely full with the kind of business coming in next 10 years. So, that is what I'm talking to you. Maybe in Q3, when we come out to you, we'll be giving you clear numbers, and the guidance is what model is going to be followed. But right now, what is available in the public domain, I'm only repeating that, that we are completely in sync with the Ministry -- both Ministry of Railways, Ministry of Finance, as well as other multilateral, bilaterals, trying to get a solution where IRFC will have the first right on the pie. And that pie, I can give you a flavor, that pie will be going forward, maybe from FY28 onwards for next decade, minimum INR50,000 crore every year coming from the Indian Railway stable. But also to mention you, now that we have started diversification, we are not going to stop funding to non-railway entities in the railway ecosystem. So, you will see hand by hand, looking at us funding the metro, looking at us to funding government ports, looking at us to fund the renewable requirement of the Indian Railways. So, now that we have started our journey, maybe FY28 onwards for non-stop 10 years, you'll find that this kind of disbursement, maybe in tune of INR50,000 crore plus minus will be continuous growth for Indian Railways Finance Corporation.

Sucrit Patil - Analyst, Eyesight Fintrade Private Limited

Thank you. My second question to Mrs. Deepa Kotnis is, from a financial point of view, what key risks or challenges do you anticipate in the coming quarters? And what specific measures are being taken to manage net interest margins, borrowing costs, asset quality, and balance sheet strength, especially in an environment of changing interest rates and large funding needs? Thank you.

Manoj Kumar Dubey - Chairman, Managing Director, and Chief Executive Officer, Indian Railway Finance Corporation

So, your questions are akin to asking questions for her that she will take over as CEO of the company on the lighter vein.

Deepa Kotnis - Executive Director-Finance and Chief Financial Officer, Indian Railway Finance Corporation

Thank you, Mr. Patil, for your question. IRFC has already got a very diverse borrowing portfolio. We are very actively looking at reducing our WACC by increasing the share of 54 EC bonds and also ECB, so that borrowing costs, we already are least cost amongst other NBFCs, and we hope to continue the same thing. We hope to continue in the same way because we are like, at the moment we are 6.55% is our WACC compared to other NBFCs, which is much higher, so 50 bps lower, so we hope to continue the same way.

Sucrit Patil - Analyst, Eyesight Fintrade Private Limited

Thank you and best wishes.

Deepa Kotnis - Executive Director-Finance and Chief Financial Officer, Indian Railway Finance Corporation

I mean you can ask me again, because I think I noted down borrowing cost and NIM, the question went a little fast, so you can repeat perhaps.

Sucrit Patil - Analyst, Eyesight Fintrade Private Limited

No, if you have any guidance on that, please share. Otherwise, my questions are being answered.

Deepa Kotnis - Executive Director-Finance and Chief Financial Officer, Indian Railway Finance Corporation

Okay, fine.

Manoj Kumar Dubey - Chairman, Managing Director, and Chief Executive Officer, Indian Railway Finance Corporation

Good, good.

Operator

Thank you. [Operator Instructions] Next question come from the line of Priyam Shah with Trinetra Asset Managers, please go ahead.

Priyam Shah - Analyst, Trinetra Asset Managers

I just wanted to understand what is our internal 3-4-year target in terms of AUM growth and how aggressive we will be in terms of disbursements? Because I think the 5 lakh crore AUM target for this was supposed to be for this year, but I think we've missed it once or twice. So, I just wanted to understand the internal vision and our growth targets.

Manoj Kumar Dubey - Chairman, Managing Director, and Chief Executive Officer, Indian Railway Finance Corporation

So, as I mentioned to you, we stand by the target of reaching near about 5 lakh crore, maybe more than that, maybe 1,000 or 2,000 missing on that is fully intact. If you look at our journey of IRFC 2.0, we started at 4.60 lakh crore. I mean, 4,60,000 crore on the beginning of FY26. We ended up the year at 4.85 lakh crore. So, that upward journey was there. And this year also taking into account of whatever payment capital recovery that we're getting from the railways, we are completely comfortable, hopeful. We know what assets we are going to disburse in next H2. So, I can assure you that the way we have beaten the guidance for our revenue, the way we have beaten the guidance for our PAT in not one quarter, but consistent two quarters at H1, rest we assure that asset management also will be reaching near 5 lakh crore, maybe crossing it by end of -- maybe by the end of Q3 only you'll get the flavor that we are almost there. But end of the year, for sure, the way we did last year, because bulk of our disbursements are done in H2, we have already things in place to disburse. Now, I'm again repeating very clearly for all the investors, we are not chasing growth of AUM just for it. There is a reason behind that. You see, all my assets in the management nearly 90% plus today also stands with the railways, where the NIM is only 1.3% or in absolute terms, 35% margin on cost plus. You look at the beautiful and sweet spot for this company, whatever non-IR business that we are garnering, here the margin is minimum two times and at times it is three times or 3.5 times also. So, what will happen that even if my AUM growth is not very robust, it won't be growing in double digits, that's fine. But my PAT will always be growing near to double digits for the fact that whatever assets we are replacing was of 35 bps, whatever assets I'm adding is more than 100 bps. So, the yield will be nearly three times of what we were doing with the Indian railways. So, understand very carefully that even if I'm maintaining the AUM size of 5 lakh crore, you rest be assured that my PAT will be growing nearly to 10%, not for a year or two. But if we continue with this mode and the way we have forecasted that by 2030, our mix will be 60% pure railways and 40% will be diversification, rest be assured that till 2030, there is no look back, PAT of this company will be keep growing year to year on those lines. So, I hope I have answered your question.

Priyam Shah - Analyst, Trinetra Asset Managers

Sure, sir. Thank you.

Operator

Thank you. [Operator Instructions] Our next question comes from the line of Manish Agarwal with Phillipcapital . Please go ahead.

Manish Agarwal - Analyst, PhillipCapital (India) Private Limited

Yeah. Hi, good morning, sir. And congratulations. I just want to understand, how is our loan price in the non-railway businesses, like how frequently are the interest rates revised there? The context was, you know, in the rising interest rate scenario, how fast can we pass on if there is an incremental increase in the cost of fund? That's one.

Manoj Kumar Dubey - Chairman, Managing Director, and Chief Executive Officer, Indian Railway Finance Corporation

Manish, you have asked a very nice question because nobody was talking about these things. You are very right. There is a repo enhancement by 25 bps. And not only that, I must add that also for you and other people who are listening to us or will be reading my -- our con call later on, because most of the people read the con call later on. So, there is increasing toner also by two back-to-back

toner increases at 25 bps. And we are one of the aggressive consumers of yen. But I tell you the numbers. In terms of yen consumption last year, we did nearly two billion worth of dollars. So, we started with 1.8% with toner increase. Also, we are landing somewhere at 2.25%. The things which are passed on cost-first model, there is good -- so it's a win-win scenario for both because nobody gets a loan less than 3% in the country. Even where we are taking it on our books, when we are doing a very conservative hedging, my cost of hedging has not crossed 6.3%. They are hedging at 5.9 also. They are hedging at 6% also. And the latest that we did due to the turmoil of Hormuz also, it is 6.3%. So, you see, our overhead cost is nearly 15 paisa only. So, we don't add much to the cost of borrowing that we get. So, on yen side, I want to confirm to you that despite the fact that toner has gone 50 bps ahead in only three, four months, maybe one more revision comes. We are extremely comfortable with those kind of rates that yen is offering to us. Now, coming to domestic market and answer to your question, there is a reset of three months. There is a reset of one month. There is also a reset of one year. So, it acts both ways. It at times helps us also, at times helps the borrower also. But let's be assured that it doesn't impact negatively to us much for the fact that our total borrowing portfolio, as my CFO mentioned, is varied. We are not only having the term loan from the bank only, it is only around 25% of my total mix. So, overall, we always have this question of 20, 30 bps of any kind of such happenings. But the beauty is on the both sides, when we were funding the Indian Railways, all these [Technical Issues] the Indian Railways, so we remain insulated either for positive or negative. My margin of 35% only was there. It was on the lighter vein and not very exciting business that you know that your profit is fixed, whatever happens in the world, it doesn't affect your profit as a company. Now, when we have started diversification, we have taken into account all this fluctuation that can take place. And you know, in every scenario, what strategy we have followed is that we must make at least a margin of 90 paisa, 85 paisa minimum. And my ALM team is very, very particular. They are monitoring it on a real-time basis, maybe on a weekly basis, reporting to the top management. So, not much of impact, as I told you. Yes, we also have the flexibility of switching away from the term loans when they are getting costlier to other instruments. And if RTL becomes cheaper, we have the flexibility to go back to them and use that also. That is what the borrowing team does in a very smart manner. As my CFO mentioned to you, we are maintaining a country-best WACC, weighted average cost of capital, that is 6.55% that we did last year. This year also, we hope to maintain that despite the hardening of the rates. So, if we are able to garner 30 or 40 bps cheaper resources than the peers, you can know, you can understand what wonders it can do to us in terms of ensuring our margins, as well as competing for IRFC for the best-class assets and winning it. And precisely that is the foundation from where IRFC is doing consistently excellent results in terms of PAT for the last six quarters. And I believe, leading the management team here, that this success story will continue in a similar manner as you have seen in the last six quarters. Thank you.

Manish Agarwal - Analyst, PhillipCapital (India) Private Limited

That was helpful, sir. One more question I had was on prepayment rates. So, two of your competitions, I won't say competition, maybe government lenders, have been facing prepayment pressure in the last one and a half year. Is there any kind of prepayment pressure for us visible right now? Yes, sir, I'm there. Am I audible?

Operator

Yes, yes, you're audible.

Manish Agarwal - Analyst, PhillipCapital (India) Private Limited

So, my question was on the prepayment rates. So, some of the government lenders were facing prepayment pressure in the last one year. Is there any prepayment risk for us in our business, especially in the non-railway business?

Operator

Ladies and gentlemen, we have management with us now. Thank you, team, and over to you.

Manish Agarwal - Analyst, PhillipCapital (India) Private Limited

Sir, were you able to listen to my question?

Manoj Kumar Dubey - Chairman, Managing Director, and Chief Executive Officer, Indian Railway Finance Corporation

Yes, please go ahead.

Manish Agarwal - Analyst, PhillipCapital (India) Private Limited

Yeah. So, my question was on the prepayment risk. So, some of the state lenders are facing prepayment risk like RSC, PFC of the world. Are you also looking at any pressure on the prepayments?

Manoj Kumar Dubey - Chairman, Managing Director, and Chief Executive Officer, Indian Railway Finance Corporation

This is the only pressure that I'm not having. I'm having all the other pressures with me. But thank you for asking this question and making me feel good about it. So, I am perhaps the only NBFC in the country who is not having this pressure. And there is a reason behind this. The reason is, you know, my unique selling point, wherever I have gone for the last two years, I have given three comforts to my borrowers. Number one, there is no prepayment penalty. Listen to it very carefully. I have given first proposition to all my prospective borrowers that, listen, we are not putting any prepayment penalty, while others, you know better than me that what kind of penalty is being put on that. Number one. Number two, we are saying that there is no floor price. If the benchmark is having a decrease, I'll pass on the benefit to you. If the benchmark is going up, I will pass on the risk to you. So, these two things have really gone up well with my customers, my borrowers, and they have got tremendous confidence and rapport with us. And answer to the question, why we are not finding the pressure of prepayment for the fact that we are cheapest in the market? We sell ourselves like this. If we are cheapest in the market, why somebody will prepay my loan? And, you know, I was mourning over thinking about it. The basic thing that we're taught in the management school is that leveraging the business is always a profitable business. So obviously, everybody would not like to put all their equity in the business. And when you want to leverage, if you are getting a best in class kind of lending rates, why somebody will prepay? So, on the lighter vein, asking your questions, I get the feedback that for the last two years, we are disruptors in the market. But we call, we say that we are positive disruptors in the market for the fact that we are a government company. And if we are bringing in our efficiency of low overhead cost, small team, taking bigger responsibilities and serving the government entities, it is always good to pass on the money on a win-win scenario where I'm making a handsome profit and I'm passing on the loan at a very cheaper rate. So, in fact, if you see my last year portfolio, the other prepayment majority, we are refinancing it. So, that's a business proposition for us. Now, we are proving in the country that if anybody wishes to have a lower rate, proving to us that they are best in class assets, their ratings are A, then we are looking

for them and we are arranging a cheaper loan. As my CFO mentioned, we are having the lowest WACC, perhaps in the country. I hope I've answered you.

Manish Agarwal - Analyst, PhillipCapital (India) Private Limited

Yes, sir. Thank you very much. That was helpful, sir.

Operator

Thank you. Our next question comes from the line of Sunil Kumar, an Individual Investor. Please go ahead.

Sunil Kumar - Analyst, Individual Investor

Hi, thanks for giving me the opportunity to ask a question. And I was following the company and the performance on quarterly basis and it felt good. Every time I saw the results and the kind of improvement in the margin and everything happened. I'm a bit concerned as what happened in the last two years in terms of stock price and the way it has moved in the last two years due to either OFS or anything else. So, what are your suggestions to government or even for shareholders to understand how we can have better value in near future or even longer term in terms of share price and dividend distribution?

Manoj Kumar Dubey - Chairman, Managing Director, and Chief Executive Officer, Indian Railway Finance Corporation

[Foreign Speech]

Sunil Kumar - Analyst, Individual Investor

[Foreign Speech]

Manoj Kumar Dubey - Chairman, Managing Director, and Chief Executive Officer, Indian Railway Finance Corporation

[Foreign Speech] It is your company, you are a shareholder [Foreign Speech]

Sunil Kumar - Analyst, Individual Investor

[Foreign Speech]

Manoj Kumar Dubey - Chairman, Managing Director, and Chief Executive Officer, Indian Railway Finance Corporation

[Foreign Speech] This is a government company. [Foreign Speech].

Sunil Kumar - Analyst, Individual Investor

Thank you, sir. [Foreign Speech] I want to hear a long-term projection. What is going to be in the next 10 years or 20 years kind of? So that if there is a chance to build a wealth, I can be there.

Manoj Kumar Dubey - Chairman, Managing Director, and Chief Executive Officer, Indian Railway Finance Corporation

I think we have given enough flavor to you. Rest, I request and advise you that you keep following us. We keep communicating very proactively. And we are very transparent in sharing what all we are doing. And what Railways is doing also. You kindly follow what Railways is doing also.

Sunil Kumar - Analyst, Individual Investor

Thank you.

Manoj Kumar Dubey - Chairman, Managing Director, and Chief Executive Officer, Indian Railway Finance Corporation

Thank you.

Operator

Thank you so much. so much. [Operator Instructions] Thank you. As there are no further questions from the participants, I now hand the conference over to the management for the closing remarks. Thank you, and over to you, team.

Manoj Kumar Dubey - Chairman, Managing Director, and Chief Executive Officer, Indian Railway Finance Corporation

Thanks, Puneet. I think I have spoken enough with all clarity. So nothing more to add. Just to sum up the way we are giving out the numbers, that we have come out in this FY for H1. We very seriously believe that this growth strategy will continue, and the numbers that you have shown in H1 will be kind of a replica of what is going to be in H2. Our AUM, yes, we are all geared up that we will be doing better than what we did last year. And all ratios that people follow, we believe that the way ROCE of this company in this H1 to H1 has grown in double digit nearly 14%. So, even ROTA has also grown near 5%. So, we believe that return on equity is also positive. So, all ratios, as I always say that if you follow the profit numbers, PAT numbers, every ratio comes out of that. So, we believe that the diversification story that IRFC has started on will continue in a positive manner. And when we meet after Q3 results, we come out with the same number or even better number. Thank you so much.

Operator

[Operator Closing Remarks]