

TAX FREE BONDS OF IRFC – FEBRUARY 2010

Indian Railway Finance Corporation Ltd., the market borrowing arm of the Ministry of Railways, recently concluded issue of tax-free bonds. IRFC was the only company permitted by the Government to issue such bonds. The company was in the market from 15th February to 26th February 2010 to raise Rs. 1,000 crore, but ended up retaining oversubscription, and aggregated total mop up of Rs. 1,920 crore. Notably, the amount raised included Rs. 643 crore through issuance of 7-year bonds. This is the first time for an Indian corporate to issue tax free bonds of 7-year tenor through private placement. This innovative methodology was aimed at keeping the average tenor of IRFC's borrowing during 2009-10 at an acceptably high level. Besides mobilizing Rs. 350 crore through 5-year bonds, the basket also included Rs. 927 crore raised through 10-year bonds. The bonds were priced at 6.00% semi-annual for 5-years, 6.30% for 7-years and 6.70% for 10-years tenors. Market sources feel that the pricing was very tight. Company officials indicated that encouraged by success of the bond issue, they would target similar mix of tenors in their future issuances also.