



Indian Railway Finance Corporation: IPO

Why in News

The **Initial Public Offering (IPO)** of **Indian Railway Finance Corporation (IRFC)** got 65% subscription on the first day of bidding.

- Earlier, [Indian Railway Catering and Tourism Corporation Ltd. held an IPO](#) on the National Stock Exchange in 2019.

Key Points

▪ First Issue:

- It is the **first IPO in the calendar year 2021** and the **first public issue by a railway non-banking financial company**.

▪ Amount Raised:

- Through the initial public offer, **the Centre, the promoter of IRFC, will offload 13.6% stake in the company**.
- At the higher price band of Rs 26 per share, **the government would raise Rs 3,243 crore** and the company will have a market cap of Rs 23,845 crore.

▪ Objective:

- IRFC will use the IPO proceeds from the fresh issue to **boost its capital base and general corporate purposes**.

▪ Other Government Interventions to Enhance Railway's Efficiency:

- [Development of freight corridors](#)
- **High-speed railway**
- **Elevated corridors**

Indian Railway Finance Corporation

▪ About:

- A **subsidiary of the Indian Railways**, it is the **dedicated market borrowing arm** of the Indian Railways.

▪ Established:

- It was **incorporated in 1986**.

▪ Finance Model:

- It follows a **financial leasing model** to finance the acquisition of rolling stock assets, which includes locomotives, coaches, wagons, trucks, flats, electric multiple units, containers, cranes, trollies, etc.

- **Finance Leasing Model:**

- Deriving revenues through the leasing model typically **involves three parties: the seller, the buyer (lessee) and the financier (lessor)**.
- In exchange for payment, **ownership of an item** (usually equipment) is **transferred from the seller to the lessor**.
- The **lessee then contracts with the lessor for the use of the item in exchange for a periodic fee**.
- The seller may or may not retake ownership of the item once the leasing contract has ended.

▪ **Contribution:**

- It plays a **significant role in supporting the capacity enhancement of the Indian Railways** by financing the majority proportion of their annual plan outlay which gives a long term business visibility, the brokerage feels.

▪ **Other Functions:**

- It is also into **leasing railway infrastructure assets and national projects of the Government of India (project assets)** and **lending to other entities** under the Ministry of Railways (MoR).

Initial Public Offering (IPO)

▪ **About:**

- IPO is the **selling of securities to the public in the primary market**.
 - **Primary market deals with new securities** being issued for the first time. It is also known as the **new issues market**.
 - It is different from the **secondary market** where **existing securities are bought and sold**. It is also known as the stock market or **stock exchange**.
- It is **when an unlisted company makes either a fresh issue of securities or an offer for sale** of its existing securities or both for the first time to the public.
 - **Unlisted companies** are companies that are not listed on the stock exchange.
- It is generally **used by new and medium-sized firms that are looking for funds to grow and expand their business**.

▪ **Benefits:**

- The funds raised by IPO allows the company **to invest in new capital equipment and infrastructure**.
- An IPO paves way for **listing and trading of the issuer's securities on the Stock exchange market**.
- The IPO also allows the company to **attract top talent** because it **can offer stock options to its employees**. This enables the company **to pay its executives fairly low wages initially**. And later, in return, the employees as promised can cash out with the IPO.

Source: IE