

Indian Railway Finance Corporation Ltd.

Green Bond Framework

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Introduction

Indian Railway Finance Corporation Ltd. (IRFC) is the dedicated financing arm of the Indian Railway under the Ministry of Railways (MoR), Government of India and mobilizes funds on behalf of Indian Railways from domestic as well as overseas capital markets. The funds are utilized to support the procurement of new rolling stock assets, which are locomotives, passenger coaches and wagons and also building up infrastructure, constituting a significant part of Indian Railways annual capital expenditure¹.

The Company has been able to diversify its borrowing portfolio each year through the issue of both taxable and tax-free bonds, term loan from banks / financial institutions besides off shore borrowings, at competitive market rate.

The Indian Railways have a huge role to play in combating climate change wherein it aims to enhance the share of the railways in the overall land based freight transport from the present 36% in the FY 2016-17 to 45% by the year 2030.² IRFC is helping MoR meet its targets by successfully funding a significant part of the Plan Fund requirements of MoR at competitive rates.

Rationale

IRFC sees the issuance of Green Bonds as an ideal tool to finance the transition towards sustainable transport infrastructure development. This Green Bond Framework has been created to facilitate transparency, disclosure, integrity and quality of IRFC Green Bond issues. IRFC aims to broaden its investor base by attracting investors that seek to target their investments towards Eligible Green Projects (defined in the “use of proceeds” section below).

Framework overview

The Green Bond Framework is established in accordance with the Climate Bonds Standard version 2.1 (for more details visit https://www.climatebonds.net/standards/standard_download) and also adheres to the Green Bond Principles, 2017 issued by the International Capital Markets Association (ICMA).

This Green Bond Framework (framework) broadly lays down IRFC’s mechanism of fund raising from Green Bonds and to use the proceeds of those issuance(s) to invest in low carbon transport in a manner that is consistent with IRFC’s sustainable values.

Use of proceeds

Green Bond proceeds will be used to finance Eligible Green Projects (as defined below) or refinance Eligible Green Projects.

¹ <http://irfc.co.in/company-profile/>

² Indian Railways Environmental Sustainability Annual Report 2016-17

For the purpose of this section:

The “**Eligible Green Projects**” will broadly cover the following, subject to availability of sector-specific technical criteria under Climate Bonds Standard:

Dedicated freight railway lines

- All infrastructure, infrastructure upgrades and freight rolling stock (locomotives, carriages, wagons, trucks, flats, EMUs, container, cranes, trollies of all kinds and other items of rolling stock components) for electrified freight lines
- All infrastructure, infrastructure upgrades and freight rolling stock for non-electrified projects meeting the universal freight threshold³

Note: Infrastructure and rolling stock for dedicated freight railway lines that are built with the over-riding objective of transporting fossil fuels will be excluded

Public Passenger Transport

- All infrastructure, infrastructure upgrades and rolling stock for electrified rail
- All infrastructure, infrastructure upgrades and rolling stock for non-electrified projects meeting the universal passenger threshold⁴

Selection process

An internal team of qualified individuals at IRFC (the “Green Bond Working Group”) will review and approve, as appropriate, each proposed project as per the Eligible Green Projects category and criteria listed in the section “use of proceeds” above.

Once the funding is approved, IRFC will help MoR raise portion of the resources necessary for meeting the capital infrastructure investment in the Indian Railways. This is done through a Standard Lease Agreement signed with MoR.

Lease rentals in respect of assets acquired during the year is fixed as part of this agreement and the lease period is typically 30 years, comprising an initial primary period of 15 years followed by a secondary lease period of 15 years wherein full recovery of principal and interest is effected during the primary lease period itself. As a lessor, IRFC retains legal title to the assets leased under the terms of the Standard Lease

³ As per the Climate Bonds Standard, the universal freight (per t-km) threshold is defined as 27-25 gCO₂ for the years 2015-2020. As per publicly available information, the CO₂ emissions per net-tonne-km for diesel locomotive in India is 9.51 grams (Source: Carbon emissions from Indian Railways, an estimation of transportation of goods during 2010-11) which is lower than the universal freight threshold defined by the Climate Bonds Standard and would therefore qualify

⁴ As per the Climate Bonds Standard, the universal passenger (per p-km) is defined as 87-75 gCO₂ for years 2015-2020. As per publicly available information, the CO₂ emissions per p-km for rail in India is 11.5 grams (Source: <http://wri-india.org/blog/indian-railways-joins-national-carbon-cutting-programme>) which is lower than this universal passenger per p-km threshold defined by the Climate Bonds Standard and would therefore qualify

Agreement with MoR.

Post issuance, an independent third party verifier will provide assurance that the nominated projects are in alignment with the Green Bond Framework for the inaugural Green Bond issue. In respect of subsequent issuance of green bonds or changes to the initial list of projects, similar assessment and approval process would be carried out by IRFC.

Management of proceeds

Proceeds raised by IRFC will be exclusively and immediately used to finance and/or refinance the Eligible Green Projects defined above. At the end of each calendar year, the net proceeds of the issuance will be reduced by the amounts invested in Eligible Green Projects in such annual period.

For the management of proceeds from its green bond issuance, IRFC has put in place an internal control system which ensures an efficient management of accounts. This system is facilitated by a professional firm of Chartered Accountants engaged as Retainer of Accounts. Thereafter, the same is audited periodically by the Internal Auditors.

The company has also implemented an Accounts Manual and Internal Audit Manual which helps in segregation and monitoring of proceeds. Further, there is also a policy for temporary placement of funds with the Banks in order to strengthen its cash management system.

Pending the full allocation to Eligible Green Projects, balance of issuance proceeds will be invested or allocated, as appropriate, in fixed deposits with commercial banks.

Reporting

Annually, and until the maturity of the IRFC Green Bonds issued, IRFC will provide to the investors on its website (<http://irfc.co.in/>) or within its Annual Report:

- I. Annual updates to investors including investment descriptions and the amounts allocated to the Eligible Green Projects
- II. Relevant impact metrics related to the Eligible Green Projects; for example, expected avoided greenhouse gas emissions, number of rolling stock financed etc.

Assurance

IRFC Green Bond framework will be published on its website (<http://irfc.co.in/>). IRFC's Green Bond Framework will be reviewed by independent third party viewer and certified by Climate Bonds Initiative for the Green Bond issue(s).

IRFC will also get post issuance reviewed by an independent third party reviewer, on the basis of which certification will be obtained from the Climate Bonds Initiative to assure that the use of proceeds allocation,

ongoing eligibility of the projects and assets, adequacy and output of the Issuer's internal control and systems and use of funds not yet allocated are as per the framework established. Post issuance Certification will be completed within one year from the date of issue of bonds.