"Power Finance Corporation Limited Q3 FY15 Conference Call"

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MANAGEMENT: **Mr. M. K. GOEL – CHAIRMAN AND MANAGING DIRECTOR, POWER FINANCE CORPORATION**

MODERATOR: **MR. KUNAL SHAH – ASSOCIATE DIRECTOR, EDELWEISS SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Power Finance Corporation Limited Q3FY15 Earnings Conference Call hosted by Edelweiss Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to you Mr. Kunal Shah of Edelweiss. Thank you and over to you Mr. Shah.

Kunal Shah: Thank you. This is Kunal Shah from Edelweiss. So we have with us Mr. M K Goel – Chairman and Managing Director, Mr. Nagarajan – Director (Finance) and Mr. A K Agarwal – Director (Project) from Power Finance Corporation to discuss their Q3 FY15 earnings and to give you their perspective on the developments in the power sector. So over to you sir.

M K Goel: Good afternoon everyone. First let me talk about our Financial Performance during Q3 FY15 followed by the discussions on the power sector developments. In line with our track record this quarter also we have shown sound asset growth with healthy margins. We have not added any new NPA during this quarter and our gross NPA ratio stands below 1% i.e. 0.96% of the loan assets. Our loan assets have shown a robust growth of 16% to approximately Rs. 2,05,000 crores from Rs. 1,77,500 crores during the same period last year. We believe we are maintaining a healthy asset growth on a huge asset base of Rs. 1,77,500 crores and also given the sector is facing various challenges. We were also been able to maintain interest spread at a healthy level of 3.47% and NIM of 5.03% for the quarter – Q3 FY15. Accordingly our net interest income for the quarter has increased by 17% to Rs. 2545 crores from Rs. 2168 crores during Q3 FY15. During Q3 FY15 we have raised approximately Rs. 15,500 crores at a marginal rate of 8.32% which includes $250 mn ECB. Given our sound asset growth and the healthy margins our profit during 9 months FY15 has increased by 10% to Rs. 4399 crores from Rs. 4006 crores. However, the comparable profit without any extraordinary items has increased by 14% to Rs. 5099 crores from Rs. 4470 crores. Our profit during Q3 FY15 of Rs. 1542 crores remained almost at the same level as the previous period, which was Rs. 1534 crores. The reason why our profit looks muted this quarter are majorly on two accounts, that is on provisioning on restructured assets and exchange loss. During Q3 of FY15 we made a provision on the restructured book of Rs. 17551 crores which amounts to Rs. 146 crores. This item was not there last year during Q3 FY14. This quarter we also saw a net exchange loss of Rs. 150 crores against net exchange loss of Rs. 47 crores only during the previous period. If this extraordinary items including the restructured asset provisioning and the exchange loss is excluded the comparable profit during Q3 FY15 has increased by 13% to Rs. 1848 crores from Rs. 1628 crores. Last two quarters we have seen provisioning on our restructured book due to RBI directions on restructuring along with certain concessions which we already explained to you during the last quarter. As per RBI directions PFC was allowed to follow its own prudential norms related to restructuring till 31st March, 2015 for generation assets. Here I would like to clarify that there is restructured book of Rs. 17,551 crores as per our own internal prudential norms which are more stringent than the RBI norms and our internal norms says that any change in the repayment date due to delay or shift in the project COD is also considered as a restructured asset even though COD delay is within this RBI prescribed limit which allows minimum of 2 years and maximum of 4 years. Hence, we are following a more conservative definition of restructured assets and making provision for the same. However, if we go strictly by the RBI norms only about Rs. 2700 crores are financially restructured assets i.e. the assets where repayments have started and even if we add the assets with the COD shift beyond RBI's limit of 2+1+1 year the total restructured assets would be around Rs. 3800 crores. So this Rs. 17,551 crores restructured book is only because we on our own have put a structured guidelines and we have made the provisions.

On the asset quality front we have not added any new NPA during Q3 FY15. Our gross NPA stands at Rs. 1979 crores which is 0.96% of the loan assets and net NPA stands at Rs. 1544 crores which is 0.75% of the loan assets. As regard to the business performance, we sanction loans worth Rs. 27,800 crores approximately during Q3 FY15. Cumulatively we have sanctioned Rs. 60,261 crores during 9-months FY15 against a target of Rs. 55,000 crores. This means that we have over achieved about 110% of the target. The sanctions during Q3 of FY15 have increased by 13% to Rs. 27,813 crores from Rs. 24,629 crores. Sanction during 9 months of FY15 has increased by 16% to Rs. 60,261 crores from Rs. 52,054 crores.

As regards to disbursement for Q3 FY15 we have disbursed Rs. 10,197 crores. Cumulatively we have disbursed Rs. 26,840 crores during 9 months FY15 against a target of Rs. 44,000 crores which means 61% of the targets have already been achieved till Q3 of FY15. Corresponding 9 months FY14 we have disbursed Rs. 30,227 crores which was also 64% of the target in that year. We are there and hopeful of achieving our targets. Further, we have outstanding loan sanctions of Rs. 1.7 lakh crores which is worth 3.6 times the disbursement during FY14. So this indicates our strong business pipeline going forward.

New initiatives like IPDS, 24*7 power for all, thrust on renewables and UMPPs put on fast track will provide further business opportunities. Further with several initiatives of government underway there is likely to be positive environment for further business growth which I will explain in a few moments later.

As far as resource mobilization is concerned we have raised Rs. 15,417 crores during Q3 of FY15 at marginal cost of 8.32%. During 9 months FY15 the marginal cost was 8.98% for an amount of Rs. 36,608 crores. The borrowing during Q3 FY15 includes ECB loan of $250 mn in the form of syndicated loan which has been widely participated by foreign banks and FI. Our capital adequacy ratio is comfortable at 21.05% with tier 1 capital of 17.57% against the RBI requirement of 15% and 10% tier 1 capital respectively. Now let me talk about the major developments in the sector. As you may be aware we had in our last conference call in October 2014 after which the sector has seen some major developments. If you recall in my remark last time I was optimistic that the new government would take measures to address fundamental issue to power sector including fuel issues under this discom's weak financial health. The government commitments to the power sector is evident given that the government continues to see synergy in having coal, power and renewable ministries together to effectively deal with the interrelated competing issues that during the last cabinet expansion has also not seen any change in the structure of the single minister in-charge of all the three ministries. Coal ordinance has come within one month of the cancellation of coal blocks. Government has recently released an e-book which is available on the website of Power Ministry and which indicates the targets and the initiatives going forward for the power sector, which means the government is committed and importantly allowing itself to be judged against this target because this e-auction is in the public domain at the website of Ministry of Power. News reports are also suggesting that the government is expected to announce some more measures for the power sector in their forth coming union budget.

Now coming to the initiatives of the government, on the ground the one major initiative as you all are aware is the e-Auction of the coal blocks. The uncertainty created by the cancellation of the coal blocks came to an end by government passing an ordinance. More importantly, the progress on this front has been noticeable that the e-Auction is in line with timelines stipulated, tariff is not likely to increase. If at all there will be tariff revision then it will be reduction in the tariff due to reverse bidding - As it stands for six coal blocks 54 bids have been received and there is a cap on the bidding price which is equivalent to Coal India Price and by the way of reverse bidding, if revision has to be there it will be a downward revision, not a tariff hike. Other reason why this initiative will work is the coal bearing states will receive over Rs. 7 lakh crores from e-Auction of coal blocks over a period of 20 to 25 years. Coal allocation to government sector is also on the track and the allottees to be announced by the end of February 2015.

Other initiatives by government to address the coal issue are that Coal India is committed to an ambitious target of doubling the coal production from about existing 500 mn tons to 1 billion ton by 2019-2020, which means an annual growth of 18% is being envisaged in each of the next four years. And this will be achieved through various measures which include Rs. 5000 crores which have been earmarked for completion of ongoing three critical rail projects (Jhark, Odisha & Chattisgarh) for better evacuation of the coal production and which will increase the output by 60 MT during 2017-18 and 200 MT by 2021-2022. In addition to this Coal India will purchase additional 250 additional rakes to evacuate more coal and funds have been earmarked for investment in the technology, equipment modernization and efficiency measures. Coal India to take up 126 new projects in the 12th Plan for an ultimate capacity of 434 MT, which means tripling the coal exploration in next two years. The coal linkage rationalization is also being envisaged which is likely to result in saving on the transportation costs of the coal by Rs. 6000 crores by linking the coal mine to the power plants which is nearest to the coal mines. With a swapping of the coal mine between the Gujarat and the NTPC saving of Rs. 300 crores have already been achieved and the automatic transfer of coal linkages from the old plants which are more than 25-year-old to new plants which uses efficient super-critical technology and uses the left coal which means on the same quantity of coal we can generate more electricity. We have already started seeing the results, like Coal India has seen an all time high of 14.1% increase in the coal production in October-November 2014 against 1% in October-November 2013. And 8.4% coal production growth in June to November 2014 over June to November 2013 similar period during last year. The government is therefore aggressively addressing one of the critical power sector issues i.e. coal supply, which will provide much needed relief to the power sector players. Government is also committed to renewable power, for long term energy security of India. An ambitious target has been set up for an addition of 100 GW of solar power and 60 GW of wind energy by 2022 which requires an investment of Rs. 10 lakh crores.

A world class renewable energy summit, i.e., RE Invest is scheduled during this month which will showcase India's potential, ease of doing business and attract such quantum of capital. To evacuate this renewable energy the green energy corridors are being actively taken up to provide high capacity transmission systems to evacuate this renewable power because this is a seasonal power and it requires a separate dedicated transmission link to evacuate the power. And discussions are underway with the World Bank to provide funding and the execution is contemplated to be done through Power Grid. Green

Energy Corridor will support renewable capacity addition planned for 12^{th} plan. It is estimated a Capex requirement for these corridors is in the order of Rs. 42,500 crores.

As far as the revival of gas based plants is concerned government is aware of the situation and considering various measures on this front including pooling of the gas prices and so on. Now let me share with you some positive developments in the distribution sector which is another critical area of concern.

In a record 5-months timeline, two new schemes aimed at distribution reforms have been formulated, got approved and are being implemented by Government which are:Integrated power development scheme (IPDS) for urban areas and Deendayal Upadhyaya Gram Jyoti Yojana (DDUGYY) for rural areas. Both these schemes together envisaged an investment of Rs. 75,000 crores. 60% of this Rs. 75,000 crores will come as a grant from the Government of India which can be increased up to 75% upon achievement of the milestones by the state discoms and both these schemes are likely to be completed in the next 2.5 to 3 years, which means an investment of Rs. 75,000 crores is envisaged for the projects to be implemented in the next three years in the distribution sector which is expected to bring desired reforms in the distribution sector. The IPDS scheme's objective is to strengthen the sub-transmission & distribution and to achieve 100% metering in semi-urban and urban areas with a scheme outlay of Rs. 32,612 crores. The another scheme that Deendayal Upadhyaya Gram Jyoti Yojana its objective is segregation of feeders with rural agriculture and rural domestic feeders and the strengthening of the sub-transmission distribution in rural areas and the scheme has an outlay of Rs. 43,003 crores. Already ongoing scheme R-APDRP which is another important central sector scheme of Government of India is progressing well, with a objective to reduce AT&C losses below 15%. R-APDRP is now subsumed in IPDS with an outlay of Rs. 44,011 crores and budgetary support of Rs. 22,727 crores, almost entire sanctions against eligible projects under Part A and B have been sanctioned and Rs. 39,252 crores have been sanctioned of which Rs. 7,866 crores (approx.) have already been disbursed to the utilities. Roughly 769 towns have already been declared go-live out of 1412 towns under part A of IT implementation and 491 go-live towns have shown the AT&C loss reduction by an average of 7% to 8%, only by taking the administrative measures. In addition to this government has finalized a loss reduction trajectory for bringing down the AT&C losses at a national level from current level of 25% to 15% by 2021-2022 by state specific measures best suited to their states which can be feeder segregation, establish adequate power evacuation system by reducing gaps in sub transmission & distribution, achieving 100% consumer metering and so on and so forth.

A comprehensive state specific action plan for 24*7 power for all homes is being prepared in partnership with states encompassing generation, transmission and distribution. Initiative aims to supply of quality power to the existing consumers by March 2017 and to all unconnected consumers by 2018-2019. MOUs with Andhra and Rajasthan are already signed. Plants for Delhi are already complete and ready for implementation. The consultants are likely to be appointed shortly for preparation of the state-specific documents for providing 24*7 power for all. Regular tariff increase by the states is a positive development in the sector after the APTEL directive in November 2011 to take suo moto action by SERCs if states do not file a tariff petitions. All states have issued tariff order in FY12-13 ranging from 18% to 19% and Tamil Nadu increased tariff by 37% in FY13-14 also 26 states have issued tariff order and similarly in 2014-15, 21 states have issued tariff orders in 2015-16 which is yet to come, Bihar has already filed a tariff petition. So we see that the tariff revision has become a regular feature for the states unlike the earlier period when the tariff revision used to be very irregular and a very intermittent feature. In addition to this the amendment of Electricity Act 2003 is also on the card. Government is actively considering amendments which are likely to be effective after its approval, in fact cabinet has already approved these amendments. These include promoting competition in the distribution sector, there is separation of carriage and content to ensure grid stability and security. Huge penalties are envisaged for not adhering to the grid standards and maintaining spinning reserve for peak load shortages and grid stability to promote renewable energy. In addition to renewable purchase obligation proposals are to introduce renewable power generation obligation for the developer so as to mandatorily set up certain quantum of the generating capacity through renewable energy resources. Rationalization of tariff, provision for providing the suo motu tariff revision by SERCs, recovery of revenue without any cash gap, operationalization of open access and strengthening of regulatory commissions to improve the accountability and the transparency of SERCs. So in the nutshell we can see that all round efforts are being made in the sector and results of some of which are already visible on the ground like coal block allocation and some are in the planning stage. So given that, the Government is geared up to the challenges of the sector with a host of initiatives which I have just mentioned, I see the power sector revival going forward. So with this I conclude my remarks here and we are now open to the questions.

Moderator: Thank you very much sir. Ladies & gentlemen we will now begin with the question and answer session. First question is from the line of Bajrang Bafna from Sunidhi Securities. Please go ahead.

Bajrang Bafna: Sir, just trying to understand one thing that the new

RBI guidelines which have come up regarding this 5 25 rule we have indicated that we will be abiding by these guidelines from 1st April, 2015. So what is the use of giving the internal assumptions and providing Rs. 17,000 crore for worth of restructuring and if we apply the RBI guidelines the number is – you have indicated close to Rs. 3000 crores. So if you could provide some clarity on that front.

R. Nagarajan: First of all just talk about the restructuring of the assets and/or RBI guidelines on 5:25. As far as we are concerned we have clarified earlier also that we are following our own prudential norms for the purpose of all the restructuring assets. We are not following the RBI guidelines of 23rd January, 2014. So as per our norms what we have done there is no distinction between a project which is postponed because of the cash flow problem or because of the DCCO problem. So that is what CMD has explained that, Out of the Rs. 17,000 crores (approx.) of restructured assets around Rs. 2500 crore assets because of the fact the borrower has a cash flow problem and they have come to us for the restructuring then we have done the restructuring. Balance are on Rs. 14,500 crores or Rs. 15,000 crores is because of the fact there is a postponement in the DCCO. As per the guidelines it is 2 years +1 year in case there is a problem beyond the control of the borrower and fourth year in case there is a legal dispute. To clarify, in case of this postponement in the DCCO, we are providing for this as restructured assets because our norms were approved in 2007 and RBI norms came recently, we cannot tweak our norms and then say it is not restructured. So we are going with a conservative approach for the restructuring, so this has been classified into two – one where the restructuring is done because of the cash flow problem, and two - where there is a postponement in DCCO because of delay in the commissioning, that also we are treating as a restructuring. On that as per the RBI norms what they say in case of restructure also you are to provide as on 31st March, 2015 at 2.75% on the loan outstanding. What we have done from September is that because of the fact it cannot put all the burden on 31st March we have started this exercise from September 2014 onwards, where we have provided 50% of the 2.75% as on 30th September. I think we provided around Rs. 215 crores at that particular point of time. This quarter we have provided one-fourth of 2.75% up to 31st March on the asset outstanding at around Rs. 146 crores and total Rs. 362 crores we have provided up to 31st December, 2014 on the restructured assets. The next question of your is of the 25:5 policy what you are doing. See 25:5 policy we have got a policy statement called operational policy statement when the company was started in 1986. This was discussed with the World Bank and ADB who were funding at a particular point of time. At that time we got a repayment to roll off 20 years, 15 years for thermal and hydropower project. Today what we have done was that policy, we have modified in line with the RBI guidelines where they talked about the repayment can be structured for 80% in case of before commissioning and 85% of the economic life was adjusted in case of after commissioning. So what we have done today was we have aligned in line with the RBI guidelines in our policy so that this can be used for all the projects overall coming to us, existing feature also we can do 22-24 years in line with the CERC guidelines for economic life for others in line with the RBI guidelines.

Bajrang Bafna: So post 1st April, 2015 you will continue to follow your internal guidelines or you will stop following the internal guidelines?

R. Nagarajan: See we have already clarified to all the investors time and again that for all loan sanctions from 1/4/2015 whether it is a state sector or a private sector we will follow the RBI guideline in total.

Bajrang Bafna: But this Rs. 17,000 crores which is existing as on date that will continue even after 2015?

R. Nagarajan: Yes, that will be continued. We clarified and will be classified as our prudential norm if they are existing today. For this also we have requested the RBI to confirm this. We are in dialog with the RBI. RBI has told they are examining this.

Balram Garg: Okay, so that clarity will emerge at a later date.

R. Nagarajan: Yes.

Moderator: Our next question is from the line of Devam Modi from Equirus Securities. Please go ahead.

Devam Modi: Sir firstly wanted to understand the commissioning pipeline that we have in rupees, million, and megawatt for remaining FY15 and FY16 for central, state, joint and private sector. I mean if you can just classify private as one and the others.

R. Nagarajan: I will give you on the basis of outstanding assets. Central sector as on date commissioned is Rs. 45,425 crores and private sector Rs. 6637 crores and totally it is Rs. 52,062 crores and the percentage of total generation will be 34%, as a percentage of total loan assets it is 26%. For it to be commissioned in coming 2014-15 around Rs. 38,520 crores, 2015-16 Rs. 36,211 crores and 2016-17 Rs. 8618 crores. You want in megawatts?

Devam Modi: This is the amount of portfolio which is still to be commissioned, right?

R. Nagarajan: Yes, I talked in rupees only, rupees crores.

Devam Modi: And that was for center or private?

R. Nagarajan: It was for 2014-15, central sector Rs. 27,913 crores – for 2015-16 Rs. 27,535 crores, 2016-17 Rs. 5057 crores. For private sector 2014-15 Rs. 10,607 crores, 2015-16 Rs. 8,676 crores, 2016-17 Rs. 3560 crores. These are all in rupees.

Devam Modi: Can you please mention it in megawatts now?

Management: Central which is already commissioned is 22,963 MW is the total, it is already commissioned in the central sector and private sector already commissioned is 8008 MW, which makes a total of 30,971 MW already commissioned and which is yet to be commissioned as far as the central sector is concerned and 2014-15 is 5,921 MW and 2015-16 9,650 MW and 2016-17 3,330 MW and balance 3,720 MW is beyond FY2016-17. As far as the private sector is concerned the megawatt which is yet to be commissioned during FY14-15 is 12,311 MW, 2015-16 9975 MW and 2016-17 3770 MW and beyond 2016-17 1043 MW. If you add both central and the private sector total figure which comes for the megawatt yet to be commissioned is 18,232 MW in 2014-15, 19,625 in 2015-16 and roughly 7000 MW in 2016-17 and total is 4763 in beyond 2016-17.

Devam Modi: And so just one question on this, so for example in FY15 the total capacity to be commissioned comes to 18,000. Now mostly this won’t be met. So if this is not met then will this add to our restructuring or this is already a part of our current restructuring?

Management: We will come back to you. You just send an email to Mr. Arora. We will give you a clarification as we have to go through the books and then come back to you because we have to see whether it has completed 2 years or 2+1 or 2+1+1 and under which category does it fall and how it is there. There may be a likelihood that a substantial portion may get commissioned by March 2015 as well. So that we have to see and then only we will be able to figure out.

Devam Modi: And sir what are the projects in the asset repayments and liability repayments in 2015-16?

Management: For 2014-15 received principal Rs. 3298 crores, 2015-16 Rs. 16419 crores, 2016-17 Rs. 18214 crores. Borrowing repayment Rs. 8771 crores up to March, Rs. 23714 crores 2015-16 and 2016-17 total to Rs. 22,337 crores. Overall liquidity gap after exercising the put & call option. Total receipts up to March 2015 is Rs. 11236 crores, payments Rs. 12,280 crores including expenditure, tax, dividends everything and then in 2015-16 Rs. 40,304 crores receipts, payments Rs. 37527 crores, 2016-17 Rs. 40,051 crores, receipts Rs. 34,847 crores payments.

Devam Modi: Sir, finally what is the interest rate that we are currently charging on transition loans and the state and central loans?

Management: 12.25 with a government guarantee.

Devam Modi: So, is it for all government guarantee loans whether it is transition or not?

Management: As a financial institution, we have to fund projects which are backed by physical assets like a transmission system or a generation system or a distribution. In the case any loans cannot offer any security or collateral, we are treating it as an unsecured loan even though they are backed by a guarantee.

Moderator: Next question is from the line of Jay Mantra from Bank of America. Please go ahead.

Jay Mantra: My question is on fresh restructuring during the quarter, so on net-net basis we have seen some Rs. 1800-1900 crore increase in the restructured book as per your definition. So I just wanted to understand what is the fresh gross restructuring during the quarter?

R. Nagarajan: Actually MB Power Ltd. we have done our restructuring. Plus in Lanco Power we have disbursed some money that has also become additional restructuring, total Rs. 1600 crores.

Jay Mantra: And then there is some increase in the disbursement to Lanco, right, so that gives you around Rs. 1900 crores? So Rs. 1600 crores is fresh and then comes Rs. 300-odd crores to Lanco which gives you the figure of Rs. 1900 crores.-

R. Nagarajan: I will clarify you the full amount. See MB Power is Rs. 693 crores, GMR Chhattisgarh Rs. 504 crores, Lanco Amarkantak Power Rs. 408 crores, total Rs. 1605 crores.

Jay Mantra: And sir secondly your yield on loans, you are seeing an increasing trend, your yield on asset is rising from let us say 2-3 quarters from 12.25, now indeed it has gone to 12.51. So just wanted to understand I mean actually the risk is rising or how is that you are getting such a high yield on an average basis? How confident are you that you are not adding too much of risk here? Any color on that?

R. Nagarajan: From the time we have introduced the 3-year reset in 2004, most of our assets are repriced once in three years only. Around 2% of assets are having somewhere 10-year reset or around that. What is happening is suppose all the assets are repriced this financial year, so all these would have been the loan which would have been disbursed in 2011-12. So in those days if you see the 2010 policy of Reserve Bank of India on the base rate. The Base rate was introduced by Reserve Bank of India from 1st July, 2010. So from that time all the bank loans were all 8%. Subsequently they are going on increasing their rate, so it was gone up to around 10.25% or 10.5%. So in those periods we also charged very high rate of interest. But repricing is coming and then in between suppose we are raising disbursement made in 2011-12. 2012-13 we increased the rate, so far we are ready to increase the rate on the term loan substantially. When it is repriced then repricing is on this year than if it is at higher rate then we will be charging a higher rate of interest from them. So that is why you are feeling that the repricing of the interest is on a higher side compared to banks and institutions. May be for a period of time it may go down because if the earlier 3-year period is on high interest rate cycle, if next year there is a steep fall then automatically the yields will start growing on. It is not that your question is are you having high risky assets? The reply is no because you divide a portfolio sector into two state sector and private sector. And again the state sector are all the others to go their both central, state, together is around 85-86%, balance only in private sector. So private sector also we have disclosed what is the problematic account, what is the restructured account, where is the restructuring done. Because of DCCO what is done, because of cash flow problem, so I do not think because of risk the rate of interest has gone up. It is because of the reset under particular point of time at which the loan was disbursed. That is the reason for the increase in the yield on assets actually.

Jay Mantra: And sir just lastly on this Rs. 1600 crores of fresh restructuring have we provided 5% in one go, I mean have we provided fully -

R. Nagarajan: No, we have provided 2.75% – 75% of that as on 31st December.

Jay Mantra: Okay. But then you have to provide fully 5%, right?

R. Nagarajan: That is by March 2018.

Jay Mantra: Even for the incremental also?

R. Nagarajan: Incremental I told you clearly in the earlier question, we will start that only from 1st April, 2015 loans which are restructured, sanctioned, disbursed, I will follow at 5%.

Moderator: Our next question is from the line of Vibha Batra from ICRA Limited. Please go ahead.

Vibha Batra: My question is if you could just give us some sense on assets that are coming for repricing this year and now it looks like that we are in a declining interest rate scenario and large part of your borrowings would be at fixed rate because you are large bond issuer. So what is your strategy on maintaining interest rates in this scenario?

R. Nagarajan: Rs. 8367 crores is the reset of assets and reset of liabilities is Rs. 20467 crores up to March 2015. 2015-16 reset of assets Rs. 74,474 crores, reset of liabilities Rs. 6,285 crores.

Vibha Batra: So basically on this analysis if interest rates were to be soft

R. Nagarajan: Vibha first you take the number. Reset of assets up to March 2015 Rs. 8367 crores, reset of liabilities Rs. 20,467 crores. Again 2015-16 repricing of assets and liabilities Rs. 66,827 crores and repricing of liabilities Rs. 44,684 crores.

Vibha Batra: So if there is a competition, and right now competition is low, but assuming that in some IPPs which are better credit profile and when they come for repricing, could there be onset of PFC losing the better customers and being waste with the state culprits with the state utility loans which are average and where the lending is based on the comfort of state government guarantee. Do you think that is a possible threat?

R. Nagarajan: See first of all let us talk about the competition in the power sector as on date per se. See PFC as you are very well aware that the net worth is around Rs. 30,000 crores. So on a single project we can take an exposure around Rs. 7500 crores and in the group we can go up to around Rs. 12000 crores. So taking all the banks and inclusion according to the sector we are very-very eager to fund this sector. Only 4 to 6 banks are there as State Bank of India, PNB, Bank of Baroda, Canara Bank, so if you leave these people, the other people who can lend to these projects are all very small lenders. They can then only pay Rs. 100 crores, Rs. 200 crores. So with a lot of importance being given to super critical technology and then huge power projects, so most of the projects will be requiring a funding of around Rs. 5000 to Rs. 10000 crores, it is better for all the borrowers by paying additional 25 bps to come to PFC and REC because the time taken for each disbursement if we have got 20 lenders around 60-75 days. If we have got only 6 lenders it is around 15-30 days. So what we are trying to say is that by having few lenders even somebody is charging more, you are able to complete the project in time. The compliance of the things and then follow-up and then various statutory formalities and getting the clearance will be faster. So there is no competition per se for PFC even from the private sector and as far as the government sector because as you are clearly aware government sector nobody wants to fund, that is because every bank is having bonds of the distribution company. So we do not think any problem is there in the competition at least for one or two years. Assuming if some good borrower wants to repay then we are also happy to allow them to the repay because we are depending on the balance tenure of the loan, we are also getting a premium if the balance tenure of the loans are all 10 years I think we are charging them 2.5% of the amount they are refunding. Suppose they paid Rs. 1000 crores, I think we are charging them RS. 25 crores. So it will compensate for question on the fixed state bonds you are all raising, so what will happen. So we are adequately compensated by 2.5% so for a 10-year bond I will get the money and then reinvest the money and they get back whatever price I am paying for the bonds.

Vibha Batra: But sir within IPPs are you differentiating based on the credit profile on the interest rates.

R. Nagarajan: Yes, you are clearly aware we have a got a rating mechanism of IR1, 2, 3, 4, 5 and IR1 to IR5 we are also increasing their rate of interest depending on the credibility of the borrower. And our exposure also depending on the better quality means we are giving more exposure and lower quality, we are taking lower exposure. So that is also taken care of in our rating mechanism.

Vibha Batra: So do you think that the spread that you have that is good enough to basically push back competition at least from the taking over of good projects or do you think -

R. Nagarajan: I do not think huge competitions will come at least for another 2 years.

Vibha Batra: But you know with the stocks of IDFC's & IFCL being there and most of them looking more at completed projects and all, of course in IDFC's there are issues as of now but that is a potential threat for your business.

Management: At least till 2 years I do not think anything will happen because people are queuing up for taking funding from PFC and we have never found any sort of competition that we have been facing. As such we ourselves have to be selective and choosy in extending funding to these IPPs.

Vibha Batra: And what would be your rejection rate, I mean if some project comes to you?

R. Nagarajan: Vibha I can do this, you send me, we will check and then come back to you. We do not have data immediately.

Vibha Batra: One data related question, out of this generation pie of about the sanction Rs. 37,700 odd crores how much would be renewables and how much would be the conventional?

R. Nagarajan: Renewable will be around 3%.

Moderator: Next question is from the line of Amey Sathe from JM Financial. Please go ahead.

Amey Sathe: I have two questions. One is on the disbursement side, in this quarter what is the transition financing.

R. Nagarajan: Yes, whatever others are there, some we have funded Telangana and Andhra Pradesh because of the bifurcation of the states they got certain problems so they wanted funding immediately from us. So we have funded AP around Rs. 1000 crores and then Telangana we have given some Rs. 500 crores. So that is why there is a little bit of transitional funding we have given to this.

Amey Sathe: And sir how much do you intend to disburse on the transition when I say now or next say one year or two years?

R. Nagarajan: Actually there is no target for us that we have to do. It is depending on the requirement of the borrower and also the security what we are getting plus what is the yield we are getting we may fund. It is not that I got a target of I will fund Rs. 10,000 crores till March 2015 and another Rs. 10,000 crores by June 2015. Depending on the requirements from the clients we will do that disbursement.

Amey Sathe: And in your presentation you have also sanctioned around Rs. 3000 crores to the BSES Rajdhani Power Limited Delhi for regulatory assets, so how are you confident that this company will be able to recover those regulatory assets?

R. Nagarajan: See as per the order given by the regulator, as per the policy they are to give the trajectory for liquidation of the regulatory assets which was given by the regulator in the order of 2014, so on the basis only we have sanctioned the loan terms. It is subject to strenuous condition like comfort letter, guarantees, and all that, so unless that comes we will not be able to disburse. It is only a sanction, so we have not disbursed these loans even as on date actually.

Amey Sathe: And sir last question, once we start applying 5:25 rules do you expect any change in our restructured loan portfolio?

R. Nagarajan: The policy has been approved only today then even I do at 5:25 of these loans, because I am following our own prudential norms I do not think that restructuring in private sector will undergo a change.

Amey Sathe: Okay, so you do not expect any of these loans to move out to any other financial institution?

R. Nagarajan: No, I will not do that because it is as per my norm, I cannot tweak the norm to suit that. I should not provide any restructuring provisioning. That does not look nice. Market will say that you are camouflaging and then ever-greening the book. So we are thinking even if I do 25 years for these restructured assets they will continue to make the provisioning in this case.

Amey Sathe: Okay, and you do not expect any movement also?

R. Nagarajan: What is the meaning of the word movement?

Amey Sathe: Reduction in loan book.

R. Nagarajan: That we will not do.

Moderator: Next question is from the line of Alpesh Mehta from Motilal Oswal. Please go ahead.

Alpesh Mehta: On the restructured book again you mentioned that roughly Rs. 17,500 crores of our book is restructured but as per RBI definition I missed that number.

Management: Rs. 2700 crores.

Alpesh Mehta: And this is including DCCO as well?

Management: Excluding. If you have to include then another Rs. 1100 crores.

Alpesh Mehta: And out of this Rs. 17,500 crores how much is towards private sector?

Management: All are private sector.

Alpesh Mehta: Entire Rs. 17500 crores is towards private sector. So nothing related state Genco?

Management: State we are not treating as a restructured asset.

Alpesh Mehta: And as far as hedging of the foreign currency liability is concerned what is the status there now?

Management: Only 13%.

Alpesh Mehta: And during the quarter that we raised is it fully hedged or it is still not hedged?

R. Nagarajan: See the problem was once the RBI has cut the rate actually the forwards should have moved down but if you see in the last four months, 5-year or 3-year currency forwards have moved up. So we are waiting for an opportune time to hedge these transactions.

Alpesh Mehta: Okay. And sir the last question about Ratnagiri, basically Dabhol Power Plant, what is the status there? Any development there?

R. Nagarajan: As on 31st December there is NPA. What we were told earlier we have taken up the issue to the Reserve Bank of India, on the basis of the Reserve bank direction, we called a meeting to settle the issue. So they have decided that whatever money comes in the account to the extent payable along with all lenders as on 31st March, 2014 they will clear the dues of PFC to the extent. So once that money comes then accordingly the NPA portion may go down. So whatever money comes, Rs. 50 crores we will reduce to the NPA level by Rs. 50 crores.

Alpesh Mehta: And as of date we have, the major two projects is Maheshwar and Ratnagiri Power, right?

R. Nagarajan: One is Ratnagiri of Rs. 732 crores and second is Maheshwar of Rs. 700 crores.

Moderator: Next question is from the line of Manish Shukla from Deutsche Bank. Please go ahead.

Manish Shukla: First question is on margins, as you rightly said you do not expect much of a lending competition at least for the next 2 years. In that context how long do you think you will be able to sustain the 5% odd margins that you are making right now?

R. Nagarajan: In the last three to four quarters we have maintained around 4.75. I can tell, may be it may not go down up to 31st March below 4.75. Beyond that I do not want to comment on that.

Manish Shukla: Okay, so (+4.7), is that a good number to expect at least over the next 12 to 18 months?

R. Nagarajan: 4.75 as on March is okay because as you see as and when the situation improves, budget comes, RBI cuts the rates then we can discuss in the annual conference call.

M.K. Goel: And we will see the market also, how the market is reacting to all those changes. And we are aligned with the market as well.

Manish Shukla: As you said about Rs. 17,000 crores of your private sector exposure is restructured would it be then fair to assume that the risk of NPA from your private book is much less now, whatever are the problem cases are more or less restructured now? Is that a fair assumption?

R. Nagarajan: Yes, it is restructured but it is not that NPA will not take place we cannot give assurance. We will see the progress, the equity bringing ability of the promoters, the ability of all the lenders to lend in time. It is not only PFC's reach. We are done, we are the lead. So we have done the sanction, we have done the restructuring. Others also should come and do the things. So we cannot assume and say no NPA will be there. At least we cannot say to you NPA will not be there, NPA will be there. So it is for you to decide, you have to take a call.

Manish Shukla: So under your internal norms after how much time of restructuring can it slip to NPAL? So typically banks give a moratorium of 2 years. So what are your internal norms, the restructuring norms that you follow?

R. Nagarajan: We are talking about NPA. See even if we have done restructuring, they have to service the interest. Other thing is they have to pay the principal in time. Suppose they are not doing both, so after 180 days it will automatically become NPA.

Manish Shukla: 180 days after restructuring?

Management: Suppose we have done restructuring and that should be serviced from April and then suppose they do not service after October, so automatically it will become NPA. We will say IDC can be booked, yes. So IDC also should have sufficient sanction pending disbursement then only they can do the adjustment also.

M.K. Goel: NPA is governed on separate prudential norms.

Manish Shukla: And starting 1st April also you will not report any restructuring in the state book?

R. Nagarajan: No, no that is why we have clarified to you clearly. All the loans sanctioned, documented, disburses, restructured from 1st April, 2015 will be reported whether as a state sector or a private sector.

R. Nagarajan: As per RBI norms.

Manish Shukla: Okay and as per RBI norms as of today do you have any restructuring in your state exposure?

R. Nagarajan: Because we are not following RBI norms for up to 31st March, 2015 we are following our norms then – to clarify it is not treated as a restructured book in the case of state – because the appraisal was done with the intention as per the prudential norms of PFC it is not treated as a restructured book that is why we are not asked last time.

Manish Shukla: And last question sir, the NBFCs are required to move to 90-day NPA norm, are you exempted from that?

R. Nagarajan: See we have taken up the issue to the Reserve Bank of India, because RBI when they have given clarification on all prudential norms they said you have to fall totally in line with the RBI prudential norm by 31st March, 2016. So we are told that we will also move to that number. We have sent a letter to Reserve Bank of India in the first week of January 2015, so we are waiting for the response from them. We are confident we will get a favorable response.

Moderator: Next question is from the line of Jinal Sheth from Multi Act. Please go ahead.

Jinal Sheth: Could you share with me the restructured plus the rescheduled amount?

R. Nagarajan: I think Rs. 17,551 crores.

Moderator: Next question is a follow-up question from the line Bajrang Bafna from Sunidhi Securities. Please go ahead.

Bajrang Bafna: What is the status of this OFS? Any timeline for that?

R. Nagarajan: We cannot give any comments on that.

Bajrang Bafna: Off late what is the broad guidance in terms of the growth of the power sector because we see most of the private players have stuck with their old projects and we are not seeing any investment revival at least from the private players, though there are some signs from the SEBs like Telangana and all they have gone and putting up the power plants. So for our growth what is the broad guidance that you put for next couple of years, 2-3 years?

R. Nagarajan: We have got an outstanding book of around Rs. 1,70,000 crores. So that will carry on my business for 3 years assuming I do a disbursement of Rs. 50,000 crores from next year onwards. So it will carry on for three years. Next thing you were talking about the growth in the power sector. As CMD has explained to you three sectors, renewables 1 lakh MW in solar, 60,000 MW in wind energy and then even in the 12^{th} plan they are projecting a capacity addition of around 1 lakh MW.

Management: Rs. 75,000 crores investment in distribution sector.

R. Nagarajan: All these things will definitely help PFC to grow in the sector.

Bajrang Bafna: So broadly we can assume 15% to 20% growth for the next 2-3 years.

R. Nagarajan: Unless you can take a call on this, we cannot talk about because we are to sign a MoU with the Government of India by March so at first we will unleash number for disbursement. So it is for you to take a call on the disbursement for 2015-16.

Bajrang Bafna: And sir one more request from our side is that, you recall 2-3 years back when every analyst was asking that you should disclose the restructuring book at that time we were not adhering and we were not disclosing. Now we want you to follow the RBI norms. Then you started following your norms and the number has gone up significant to let us say Rs. 17,000 crores which is a hopping number to digest from the analyst community. And every analyst puts discount to that number. Somebody will go by 25% discount, somebody will say 50% will turn into NPA and then resultant adjusted book value is significantly different and varies from analyst to analyst. So we just request that if you can come on the level playing field with banks because anyway we are going to follow the RBI norms from next year onwards so it will be prudent we put it on the similar footing and follow the similar norms which will help us to give you the better multiple valuation from that perspective. Because this provisioning is ultimately resulting into lower ROEs for our company. So that is just a request if you can think of -

R. Nagarajan: See all the request of analysts is being incorporated in whatever needs we are putting on the investor side and the provisioning also we are taking care. If you see from 3 years back today we have not gone earlier down the standard assets. We told RBI standard asset provisioning we will do by 2015 but we have provided on 31^{st} March, 2014. Second restructuring we have not done now we have provided for. Some of the peer companies from the same group they are not providing anything on this level. We have provided 75% of the 2.75% and thirdly you should also know that whatever you are saying compared with the banks, RBI seeing the nature of the business of PFC they have understood the issue, PFC will have to follow entirely the RBI norms for restructuring or provisioning everything. So that is why RBI also allowed us to gradually move towards the full prudential norm by 31^{st} March, 2016, which we have fairly disclosed to all the people in our notes on account in all our conference call, we have disclosed. So we are slowly moving towards 31st March, 2016, where we will provide all the things and all the things will be done as per the RBI prudential norms except where they are given exemption like restructured book they are saying by March 2018 only you have to provide for 5%.

Moderator: Next question is from the line of Nilan Jain from Jeffries. Please go ahead.

Nilan Jain: Quickly to reiterate once again this restructuring. So right now the book is Rs. 17,551 crores according to your norms. RBI norms it is about Rs. 2700 crores, right. So assuming there are no further disbursements to any restructured accounts or there are no more restructuring. On March 31st are you going to report Rs. 17,551 crores or Rs. 2700 crores?

R. Nagarajan: We will still continue to do Rs. 17,551 crores. We will not change. We have not changed even for September to December, so why we will change from December to March?

Nilan Jain: Because you said that you want to follow RBI norms, so that is why my question.

R. Nagarajan: I think you missed the word. I told clearly – loans, sanctions, executions, disburse, restructured from 01/04/2015. So it means any loan I sanction after 01/04/2015 whether as a private sector or as a state sector then I will do the documentation, then I will do the disbursement, then I will do the restructuring if at all they require, may be in 2019.

Nilan Jain: And sir second question, can you clarify what is your position in terms of exposure because there is also an exposure norm that both REC and PEC have to -

R. Nagarajan: See these are exposure norms. RBI has given us exemption for state sector, central sector up to 31st March, 2016, we can follow our own norms. In private sector we are already following this from day 1 onwards.

Nilan Jain: If you can clarify what is the highest exposure that you have as any one of the states?

R. Nagarajan: I think Rajasthan we have got highest exposure.

Nilan Jain: And would that be crossing 50%?

R. Nagarajan: Around 80-85% of the total exposure.

Moderator: Ladies and gentlemen that was the last question. I would now like to hand over the conference over to Kunal Shah. Thank you and over to you Kunal.

Kunal Shah: Thank you sir for your time and thank you all the participants for participating on the call and sir all the best for the future quarters. Thank you.

Moderator: Thank you sir. Thank you members of the management. On behalf of Edelweiss Securities Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.

Note: This document has been edited to improve readability and relevance.