



**POWER FINANCE CORPORATION LIMITED'S**  
**Q-3- FY 18-19**  
**CONFERENCE CALL**  
**11<sup>TH</sup> FEBRUARY, 2019**



**MANAGEMENT: TEAM OF POWER FINANCE CORPORATION:-**

- Mr. Rajeev Sharma      - Chairman and Managing Director
- Mr. C. Gangopadhyay - Director (Project)
- Mr. N.B. Gupta         - Director (Finance)
- Mr. P.K.Singh         - Director (Commercial)

**MODERATOR: MR. PRITESH BUMB – PRABHUDAS LILLADHER PVT. LTD**



**Operator:**

Ladies and gentlemen, good day and welcome to the Power Finance Corporation limited Q3 FY19 earnings conference call hosted by Prabhudas Lilladher Pvt. Ltd.

As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded.

I now hand the conference over to Mr. Pritesh Bumb from Prabhudas Lilladher. Thank you and over to you sir.

**Mr. Pritesh Bumb – Prabhudas Lilladher Pvt. Ltd.**

Thank you, Rio.

Hi, good afternoon to everyone we would like to welcome the management of Power Finance Corporation Ltd. We have with us the CMD, Mr. Rajeev Sharma and other senior management members on the call. The management will take us through the key highlights of the results and then we will move to Q&A.

Thank you and over to you, sir.

**Management - Power Finance Corporation**

Thank you very much, good afternoon everyone. I welcome you all to this conference call.

I called this conference call to share with you PFC's financial and operational performance in 3<sup>rd</sup> quarter of FY 18-19 and the progress on the acquisition deal and way forward.

Firstly, I will share highlights on PFC's performance, I am happy to share that we have shown significant jump of 71% in profit from Rs. 1,217 crores to Rs. 2,076 crores on a year on year basis. Even our profit for 9 months of FY 18-19 has shown a significant jump of 35% from Rs. 3,565 crores to Rs. 4,804 crores.

Our interest spread increased by 18 bps to 2.68% from 2.50% last quarter. Our net interest margin increased by 9 bps to 3.42% from 3.33% last quarter.



I am glad to inform you that our capital adequacy ratio has increased by more than 1% to about 19% from previous quarter against RBI requirement of 15%, it may also be noted that our Tier I capital stands at about 16% against RBI requirement of 10%.

Let me now explain our loan asset book. We have a total loan asset portfolio of about Rs. 2.98 lakh crores out of which,

- Government sector borrowers which comprise 82% of our loan book are continuing to serve their dues regularly.
- Therefore we do not see any stress in the respect of Government sector borrowers.
  
- In case of private sector exposure of about Rs. 51,700 crores –
  - About Rs. 28,200 crores private sector loans are NPAs or stage III assets,
  - Against these 27 projects 52% provision has already been made.

As informed in our last conference call that the stressed cycle is behind us, I am glad to share that we have not added any new NPA or stage III assets this quarter. Accordingly, our net NPAs have improved in this quarter.

As was shared with you earlier GVK Ratle Project with loan of Rs. 811 crores has been resolved and the borrower is servicing regularly, therefore the account is likely to upgrade in Q4 of this financial year.

Now I will share with you the progress on some of the major stressed projects.

- In 3 projects with aggregate exposure of Rs. 1,500 crores; we expect one-time settlement offers with 100% principal recovery, where 15% provision has already been made
  - a) For DANS Energy and SHIGA Energy - we are in advanced stages of discussions and are likely to close the process shortly.
  - b) Essar transmission project, OTS proposal has been received and lenders are obtaining approvals on the same.
  
- 2 projects with our exposure of Rs. 2,845 crores are in advanced stage of resolution and are expected to be closed in this financial year. These projects are:



- a) Rattan India Amravati - In this project OTS proposal was accepted by lenders and LOI has been issued to Rattan India on 5<sup>th</sup> February 2019. We expect to close this deal within this financial year. We believe that sufficient provision is already made on this account and we also expect some reversals.
  - b) GMR Chhattisgarh - In this project, 82% of lenders have already approved change in management proposal. We are going ahead with the resolution as other lenders have agreed and are in the process of getting approval. I would like to inform that there is sufficient provision on this account.
- There have been positive developments in three projects which I would like to share here with you.
- a) Rattan India Nasik - PPA for 507 megawatt about 38% of the capacity was under litigation earlier and now MERC approval has been obtained. This will help in increasing the sustainable debt.
  - b) Ind-Barath, Utkal - We have received an expression of interest from 6 companies. All 6 bidders were qualified and RFP has been finalized. We will shortly float the RFP. The provision already made for this project is 48%.
  - c) Essar Mahan - We received onetime settlement offer from the existing management. Lenders have now received another non-binding offer significantly higher than OTS offered by existing promoter. Lenders are examining the proposal. Bidder sees a significant synergy with respect to its operations. The provision already made for this project is 53% which is sufficient.
- In two projects with aggregate exposure of Rs. 4,064 crores I would like to share some updates,
- a) Jhabhua Power - Successful bidder was unable to comply with conditions and lenders cancelled the LOA. Lenders have now decided to do re-bidding. The provision already made for this project is 36% which according to us is sufficient.
  - b) KSK Mahanadi - Lenders decided to approach NCLT. Talks are on with UP distribution companies on PPA front, which will help in higher scheduling of



power. We expect similar recovery of about 47% as was being envisaged under the bidding process.

- In RKM powergen (phase 1 and 2) with our exposure of Rs. 5155 crores, out of total capacity of 1440 megawatt,
  - PPA for 350 megawatt is already operational with UP DISCOMS
  - PPA for 550 megawatts under pilot PPA scheme will be operationalized shortly.
  - PPA for 393 megawatts with Chhattisgarh State - issue is being resolved under Chhattisgarh State Electricity Regulatory Commission.

With this the project will have PPA for 90% capacity, which is expected to improve the valuation of the project.

As we have stated earlier also, we believe that in terms of provisioning, our provision coverage is adequate to absorb losses on a stressed asset, which are under resolution.

As you are aware 3 of our projects were successful in obtaining PPAs under pilot PPA scheme. Now government has decided to launch pilot PPA phase II for which PFC Consulting Limited is the nodal agency again. This scheme will help in alleviating stressed projects greatly.

With the Government of India and all the stakeholders taking the necessary steps and with likely uptick in power demand we are optimistic that the stressed projects are likely to fetch better valuations going forward.

Now I will give you an update on the status of transaction for acquisition of GOI's stake in REC.

- We have already received approval from Securities Exchange Board of India with respect to related party transaction.
- We have also received an approval from Competition Commission of India.
- We expect an approval from RBI shortly.
- The deal is to be refunded by a mix of funds from internal resources and /or debt from the market.
- The price for the transaction is yet to be finalized and shall be governed by SEBI guidelines.



Let me assure you we are taking all steps to ensure that our capital ratios are within the permissible regulatory requirements.

Further I also would like to clarify certain issues with respect to the acquisition deal.

- On credit ratings front, I would like to clarify that after the announcement of the acquisition deal i.e. PFC acquiring REC, few rating agencies have kept PFC's rating under watch. We have interacted with the rating agencies and they have indicated that there is no data available on the specifics of the deal and its impact, hence they have kept the rating under watch. As and when the deal specifics are available along with the PFC's analysis of its impacts and the roadmap to manage the same, the rating agencies would review and come out with ratings action.
- I would like to highlight here that if you see PFC's capital adequacy ratio, based on our efforts, we have improved the capital adequacy by almost 1.2% in the last 2 quarters with current capital at almost 19%. You can also see that along with PFC, REC has also improved their capital adequacy ratio this quarter by about 70 bps.
- We are optimistic given the measures we are taking; we would keep our capital levels as per the prescribed limits under the regulatory framework.
- On borrowing front there are critical media reports on our borrowings. In this context, I would like to clarify that PFC has not tapped the bond market in the last few months as the bond market was volatile with coupons at a premium primarily due to the low confidence in the NBFC's post IL&FS episode and also due to the announcement of the acquisition deal of PFC and REC by Government in December 2018.

In this regard, let me inform you that PFC has been raising funds from different sources like bonds, term loans from banks and looks at the cheapest source at the raising time. Last quarter we have raised more than Rs. 25,000 crore from the market at a very competitive cost and also disbursed more than Rs. 14,000 crore in the last quarter. Our 9 months disbursement is also more than Rs. 45,000 crores against roughly Rs. 37,000 crores last year.



We, therefore, do not see any issue in our borrowing program for meeting our business requirements; we also have ECB market as another alternative source for borrowings.

Now we are open for questions.

### **Questions and Answers**

- Sure. Thank you very much, we will now begin the question and answer session. The first question is from the line of Srijan Sinha from Future Generali India Life Insurance. Please go ahead.
- **Mr. Srijan Sinha – Future Generali India Life Insurance**
- Thank you, sir, for taking my question. So my question is with respect to your capital adequacy, I am sure you would have done some calculations on your capital adequacy post acquisition of REC stake. What would your capital adequacy look like specifically tier 1 capital adequacy?
- **Management - Power Finance Corporation Ltd:**
- As we mentioned that right now we have a capital adequacy of around 16% for tier 1. As pricing has not been finalized for PFC-REC deal, I can't tell you the figures right now. But let me assure you that after this deal, our capital adequacy particularly tier 1 will be definitely much more than the regulatory requirements of 10%.
- **Mr. Srijan Sinha – Future Generali India Life Insurance**
- You don't see any requirement to raise tier 1 equity capital?
- **Management - Power Finance Corporation Ltd:**
- No, not immediately.
- **Mr. Srijan Sinha – Future Generali India Life Insurance**
- Okay. I mean assuming that the deal happens at the current market price which is about Rs. 120 rupees for REC, have you done some scenario based on this & the bare minimum capital adequacy that you would get.



- **Management - Power Finance Corporation Ltd:**
- See we have analyzed all the scenario and let me assure you that our capital adequacy will be definitely much than the regulatory requirements.
- **Mr. Srijan Sinha – Future Generali India Life Insurance**
- Okay, if you could help me with the regulatory requirements. Is it that any amount that you pay over and above 10% of your net worth gets deducted from your net worth while calculating capital adequacy, is that true?
- **Management - Power Finance Corporation Ltd:**
- Yes, that's right
- **Mr. Srijan Sinha – Future Generali India Life Insurance**
- So in that case, my calculations tells that you will be very close to 11-11 ½ %. Is that something we should be looking at?
- **Management - Power Finance Corporation Ltd:**
- As I mentioned that we need only 10% tier I capital. Definitely, we will be much above the 10% limit , to take care of my current & business requirement.
- **Mr. Srijan Sinha – Future Generali India Life Insurance**
- Sir, my second question is with respect to Rattan India Amravati. What kind of haircut are we looking against the one time settlement offer that we have received.
- **Management - Power Finance Corporation Ltd:**
- Actually 64% of the principal we will be recovering.
- **Mr. Srijan Sinha – Future Generali India Life Insurance**
- Okay, 36% haircut. And sir one final question is on what are your plans subsequent to acquiring the REC stake, do you plan to integrate the businesses and merge them into a single consolidated entity or would you want them to run separately.





- **Management - Power Finance Corporation Ltd:**
- Initially it will be acquisition and later it will be merged but it will take time.
- **Mr. Seejan Sinha – Future Generali India Life Insurance**
- Which means over foreseeable future i.e. over next 12-18 months you don't see them merging.
- **Management - Power Finance Corporation Ltd:**
- See now for merger we have to go through different process. Further, when we initiate the actions, it will be done with the consultation of Ministry of Power and DIPAM.
- **Mr. Seejan Sinha – Future Generali India Life Insurance**
- Okay, thanks a lot, thank you for this.
- **Management - Power Finance Corporation Ltd:**
- Thank you, thank you very much.
- **Operator:**
- Thank you. The next question is from the line of Harish Gopani from Gopani Securities Investment Pvt. Ltd. Please go ahead.
- **Mr. Harish Gopani – Gopani Securities Investment Pvt. Ltd.**
- Hi, thank you for the opportunity, PFC is a Navratan Company so what will be the dividend distribution this year .
- **Management - Power Finance Corporation Ltd:**
- See right now, we have not taken any decisions and whenever the Board decides we will inform you. I can't make any comment because it is Board's prerogative to decide the dividend.



- **Mr. Harish Gopani – Gopani Securities Investment Pvt. Ltd.**
- But it is compulsory to declare 30% of its profits as a Navratan Company.
- **Management - Power Finance Corporation Ltd:**
- That's the DIPAM guidelines but we will discuss all the positive negative of everything and then we will come out with that.
- **Mr. Harish Gopani – Gopani Securities Investment Pvt. Ltd.**
- Okay, thanks.
- **Operator:**
- Thank you, the next question is from Ankit Choudhary from Equirus Securities, please go ahead.
- **Mr. Ankit Choudhary – Equirus Securities**
- The first question is regarding this accounting treatment in the P&L with respect to this net gain on fair value changes in derivatives. This figure has been quite volatile in Q1, Q2 and again Q3 both on the income as well on the expense side. So if you could just help me with regard to the accounting as to how we take this thing into calculation.
- **Management - Power Finance Corporation Ltd:**
- See to arrive at the fair value of derivatives, we take the valuation done of the counter parties. But you see, what has happened in comparison to September, the USD rate has come down. It was around 72 in the month of September which has come down to around 69 in December. So, we have exchange rate gain when we compare with Sept'18. However, the net of exchange rate gain & MTM on derivatives during Q3 is almost nil as compared to around Rs. 260 cr in Q2.



- **Mr. Ankit Choudhary – Equirus Securities**
- So first if I talk about the derivatives in Q2 there was no loss in that so ultimately there was a gain of 388 crores in Q2, where as in Q3 there was no gain there was a loss of approximately 361 crores. So I am not talking about the transaction exchange loss, I'm just talking about the fair value change in derivatives .
- **Management - Power Finance Corporation Ltd:**
- Yeah, we carry out the fair value only on these transactions. This is done by our bankers and whatever figures are arrived at, we provide that in our accounts
- **Mr. Ankit Choudhary – Equirus Securities**
- Okay, so these derivatives that we are doing, they are hedges against the foreign borrowing?
- **Management - Power Finance Corporation Ltd:**
- Hedging are done against the foreign currency borrowings made by PFC. Any change in fair value of such hedges i.e. MTM and translation loss/gain on foreign currency liabilities is being shown separately in P&L account in line with IND-AS.
- **Mr. Ankit Choudhary – Equirus Securities**
- So, sir, trying to understand which derivative instruments are these, where we are making its MTMs.
- **Management - Power Finance Corporation Ltd:**
- Against underlying liabilities.
- **Mr. Ankit Choudhary – Equirus Securities**
- And what would be the outstanding on these right now, the underlying liabilities.
- **Management - Power Finance Corporation Ltd:**
- You want for hedge transactions?



- **Mr. Ankit Choudhary – Equirus Securities**
- for derivatives
  
- **Management - Power Finance Corporation Ltd:**
- 1800 million.
- **Mr. Ankit Choudhary – Equirus Securities**
- USD
- **Management - Power Finance Corporation Ltd:**
- Yeah.
- **Mr. Ankit Choudhary - Equirus Securities**
- Okay and lastly on this, so out of the total private sector loan, what percentage of loans are currently servicing on the regular basis.
- **Management - Power Finance Corporation Ltd:**
- Out of total loan assets , 82% Government sector and about 8% Private Sector are regularly paying
- **Mr. Ankit Choudhary – Equirus Securities**
- So total 90% is regular in paying.
- **Management - Power Finance Corporation Ltd:**
- Yes.
- **Mr. Ankit Choudhary – Equirus Securities**
- Just one thing during the quarter, we have seen a reversal of provision on stage I & II assets, so just trying to understand that is it due to the changes in assumption or some asset which has moved from Stage 2 to Stage 1 which has led to the write-off of provision.



- **Management - Power Finance Corporation Ltd:**

- See in 2016-17, we classified one Chhattisgarh government project in NPA. So this came out from NPA category in 2017-18 and was moved into Restructuring category. Now after completion of one year, this has come out from restructuring category also. So that's why the provision has been reversed.

- **Mr. Ankit Choudhary – Equirus Securities**

- Okay, and what was the quantum, sir, on this account?

- **Management - Power Finance Corporation Ltd:**

- I think the outstanding amount was around Rs. 6300 crores and the provision was for Rs. 260 crores.

- **Mr. Ankit Choudhary – Equirus Securities**

- 260, okay, thanks a lot, sir.

- **Management - Power Finance Corporation Ltd:**

- Thank you very much.

- **Operator:**

- Thank you, the next question is from Mr. Gaurav Gavani from FirstRand Bank, please go ahead.

- **Mr. Gaurav Gavani – FirstRand Bank**

- Hi, sir, so my question would be on the stage 2 assets, on the slide you have shown a combined figure of stage 1 and stage 2 assets. So how much would be the stage 2 assets, and what kind of assets are there?



- **Management - Power Finance Corporation Ltd:**
- We classify assets in stage 2 if the delay in payments is for more than 30 days.
- **Mr. Gaurav Gavani – FirstRand Bank**
- So how much are the stage 2 assets?
- **Management - Power Finance Corporation Ltd:**
- It is around Rs. 7000 crores, but they have cleared their dues. They were in stage 2 as at the end of December month as there was a delay of more than 30 days. That's why, this 7000 cr. was categorized as Stage 2.
- **Mr. Gaurav Gavani – FirstRand Bank**
- So this is the private sector or the state government borrowers?
- **Management - Power Finance Corporation Ltd:**
- Around 65% is state and 35% is private.
- **Mr. Gaurav Gavani – FirstRand Bank**
- And, sir, any likelihood going ahead we can see some of these private stage 2 borrowers migrating to stage 3 assets.
- **Management - Power Finance Corporation Ltd:**
- No. But they have all paid in the month of January.
- **Mr. Gaurav Gavani – FirstRand Bank**
- I understand that there was a delay of 30 days, so going ahead there might be delays. So any likelihood that any of the assets would migrate to stage 3.
- **Management - Power Finance Corporation Ltd:**
- See, it mainly depends on when they get the money from the Discoms. Sometimes, there is delay in getting money, that's why there is delay in repayment of PFC. But we



don't emphasize that there is going to be any stress on these projects or delay in payment. We don't feel that there is going to be any stress on the repayments.

- **Mr. Gaurav Gavani – FirstRand Bank**

- And, sir, as you mentioned earlier there was a reversal of provisions during Quarter 3, so any more reversal of provisions going ahead.

- **Management - Power Finance Corporation Ltd:**

- As CMD has already mentioned one asset which we....

- **Mr. Gaurav Gavani – FirstRand Bank**

- I understand, sorry to interrupt, I understand reversal during Quarter 3, but on future reversals.

- **Management - Power Finance Corporation Ltd:**

- I am talking about Q4 only. We have already settled and that borrower is regularly making a payment. We are expecting that reversal will take place in Q4.

- **Mr. Gaurav Gavani – FirstRand Bank**

- And how much quantum, sir.

- **Management - Power Finance Corporation Ltd:**

- It may be around 600 crores.

- **Mr. Gaurav Gavani – FirstRand Bank**

- And about the 7 to 8% of your standard private sector borrowers, who would have the largest exposures?

- **Management - Power Finance Corporation Ltd:**

- It will be this 2 X600 MW, M.B. Power.



- **Mr. Gaurav Gavani – FirstRand Bank:**
- And how much?
- **Management - Power Finance Corporation Ltd:**
- M.B. Power exposure may be around 2,500...how much? We will let you know (Rs. 1300 crs).
- **Mr. Gaurav Gavani – FirstRand Bank:**
- Okay sure. Thank you sir. That's it from my side.
- **Management - Power Finance Corporation Ltd:**
- Thank you so much.
- **Operator:**
- Thank you. The next question is from Luv Sharma from Lombard Odier Asset Management. Please go ahead.
- **Mr. Luv Sharma - Lombard Odier Asset Management:**
- Hello. Thanks for the time. I just wanted to check something regarding the REC acquisition. Basically to understand correctly the clause for their USD bonds. Can you update, if there is any progress in terms of what the company will be trying to do if there is a potential requirement to buy back those bonds?
- **Management - Power Finance Corporation Ltd:**
- Can you please repeat the question?
- **Mr. Luv Sharma - Lombard Odier Asset Management:**
- It's basically regarding the RECs, the US Dollar Bonds. So post the acquisition by Power Finance, there should be a change of control provision on those bonds which should be triggered. And so, from the company's point of view, is that something which you are concerned about? Is there a plan to buyback those bonds?





- **Management - Power Finance Corporation Ltd:**
- We will settle, but that process is already on. They have appointed the bankers. The process is being regularly monitored by DIPAM.
- **Management - Power Finance Corporation Ltd:**
- They are in the process of getting the consent from all the bond holders.
- **Mr. Luv Sharma - Lombard Odier Asset Management:**
- Okay. So my understanding is that the bonds should be repurchased, essentially?
- **Management - Power Finance Corporation Ltd:**
- Not necessarily. That REC will decide. But they are working on taking a consent from all the bond holders.
- **Mr. Luv Sharma - Lombard Odier Asset Management:**
- Okay, fair enough. Thank you sir.
- **Management - Power Finance Corporation Ltd:**
- Thank you so much.
- **Operator:**
- Thank you. The next question is from the line of Punit Srivastava from Daiwa Capital. Please go ahead.
- **Mr. Punit Srivastava – Daiwa Capital:**
- Hello sir. My first question is on the acquisition. Post acquisition, how do you basically see the competitive dynamics in lending to the Power Sector change, because, on a combined basis, you'll be a much larger entity. Can you highlight the positives on that?
- **Management - Power Finance Corporation Ltd:**
- Positives would be that we can jointly resolve the stressed assets. Because, now the decision making process is very long. Now if REC and PFC go along, we can take quick decisions. And there is abundant business available in the sector. REC is a leader in transmission and distribution funding, and we are leaders in generation funding. So we



can learn from each other. So, PFC can increase its share in transmission and distribution funding, and REC can increase its share in generation funding. So there will be total synergy. So we will be jointly making efforts in the states where we were not able to fetch additional business.

– **Mr. Punit Srivastava – Daiwa Capital:**

– Okay sir. And just one question on the tax front. The tax rate has come down substantially this quarter. Is it because of these write back, these fair value gains. What has derived the tax rates down this quarter?

– **Management - Power Finance Corporation Ltd:**

– We are just checking. See, the average rate of tax is coming to around 27%, I think which is the case in all the quarters. We make a provision of around 27% only.

– **Mr. Punit Srivastava – Daiwa Capital:**

– So in the full year, do you expect it to be around that level?

– **Management - Power Finance Corporation Ltd:**

– Yeah, around 27% only. Because the level is 30% and then we get some benefits like reserve for doubtful debts, etc. So ultimately the net effective tax rate is around 27% only.

– **Mr. Punit Srivastava – Daiwa Capital:**

– Okay. Sorry, one more question on the cost of funds side. It seems like cost of funds has done well, it has come down marginally during the quarter. Any reasons for this sir? Because of the redemptions or something, which have driven the cost of funds lower?

– **Management - Power Finance Corporation Ltd:**

– See, during this quarter itself, we have repaid around Rs. 18,000 crores which carry an average rate of interest of 8.50%. And our borrowing is at much cheaper rates. So, combined together, the cost of funds has come down.

– **Mr. Punit Srivastava – Daiwa Capital:**

– Right. And sir, any guidance for the spread or margins for this or next year?



- **Management - Power Finance Corporation Ltd:**
- Spread has improved to 2.68%.
- **Management - Power Finance Corporation Ltd:**
- In the last 2 quarters, you see that our spreads are going up, as we mentioned in our earlier con-call also. We feel that we should be positioned to maintain a spread of around 2.50 – 2.60%.
- **Mr. Punit Srivastava – Daiwa Capital:**
- Thank you.
- **Management - Power Finance Corporation Ltd:**
- Thank you very much.
- **Operator:**
- Thank you. The next question is from Ishank Kumar from UBS Securities. Please go ahead.
- **Mr. Ishank Kumar – UBS Securities:**
- Hello. The first question is, is there any interest income reversal in the interest income this quarter?
- **Management - Power Finance Corporation Ltd:**
- No reversal this quarter.
- **Mr. Ishank Kumar – UBS Securities:**
- Okay. And secondly, if you can share the numbers of SMA loans. What is the quantum of SMA loans right now?
- **Management - Power Finance Corporation Ltd:**
- See, now we are working on the IND-AS Account. As I mentioned earlier, if there is any delay of more than 30 days, it is categorized as stage 2.



- **Mr. Ishank Kumar – UBS Securities:**
- That is Rs. 7,000 crores?
- **Management - Power Finance Corporation Ltd:**
- Yes.
- **Mr. Ishank Kumar – UBS Securities:**
- Okay. So there is this risk that some SEBs are delaying payment to suppliers. Are we seeing some increase in stage 2 loans in some SEBs because of this?
- **Management - Power Finance Corporation Ltd:**
- State Power Utilities?
- **Mr. Ishank Kumar – UBS Securities:**
- Yeah.
- **Management - Power Finance Corporation Ltd:**
- See, there is some delay in getting payment. But, none of the accounts have ever become NPAs so far. I can't say, but yes, there may be some delay. But otherwise, they are regular in making payments.
- **Mr. Ishank Kumar – UBS Securities:**
- Okay sir. And lastly, on this REC Foreign Currency Bonds, there is an article in the Financial Express today which says that the government may stay as promoter of REC, and PFC will buy government stake, but will not become promoter of REC. So, can you clarify this? Can this solve the problem of this active government control of REC?
- **Management - Power Finance Corporation Ltd:**
- These are only press clippings. We too are not aware of this. We don't know from where they got this news.



- **Management - Power Finance Corporation Ltd:**
- We are aware of the cabinet decisions that acquisition of REC with management control. Now you can very well understand what it means – management control. So, we can't comment more on these press reports.
- **Mr. Ishank Kumar – UBS Securities:**
- Okay. Sir, if there is a management control, then you think that that clause that foreign bond holders can put the bond that will be triggered, right?
- **Management - Power Finance Corporation Ltd:**
- That's why I mentioned that REC is already in process , either they have to take consent of those bond holders, or they may have to pay it. So they are in process of taking consent from the bond holders. And once that is done, only then the transaction will take place.
- **Mr. Ishank Kumar – UBS Securities:**
- Okay sir. That's it from my side.
- **Management - Power Finance Corporation Ltd:**
- Thank you so much.
- **Operator:**
- Thank you. The next question is from Amit Singh from B&K Securities. Please go ahead.
- **Mr. Amit Singh – BNK Securities:**
- Thank you sir for this opportunity. I missed the initial part. On slide 15 where you have mentioned about 6 projects of around Rs. 3,500 crores, which are outside NCLT discussions, of which one is GMR Chattisgarh. What are the other 5 projects?
- **Management - Power Finance Corporation Ltd:**
- Dans Energy, Shiga Energy, Essar Transmission, Ratan India Amravati and GMR Chattisgarh.



- **Mr. Amit Singh – BNK Securities:**
- Sorry sir, but can you repeat it?
- **Management - Power Finance Corporation Ltd:**
- Dans Energy, Shiga Energy Pvt Ltd., Essar Power Transmission, GMR Chattisgarh, India Power Corporation Haldia.
- **Mr. Amit Singh – B&K Securities:**
- Okay. And sir we have also mentioned about one more project just below that thing, where we have around Rs. 811 crores of exposure. What is that project?
- **Management - Power Finance Corporation Ltd:**
- GVK Ratle. It was a hydro project in J&K.
- **Mr. Amit Singh – BNK Securities:**
- Okay.
- **Management - Power Finance Corporation Ltd:**
- This is the same project where we mentioned that we are expecting reversals in the next quarter.
- **Mr. Amit Singh – BNK Securities:**
- Okay. And sir, on the previous slide, slide 14, where we have mentioned about 10 projects where the application has been filed but you are not admitted. So of these, two projects are Lanco Amarkantak and Indiabulls Amravati. Can you specify what are the other 8 projects?
- **Management - Power Finance Corporation Ltd:**
- RKM Powergen, we are settling. This RKM Powergen got 550 megawatts additional PPA under 2,500 megawatts pilot scheme. So we filed NCLT application, but it was not admitted.
- **Mr. Amit Singh – BNK Securities:**
- And sir, there are other 7 projects as well.



– **Management - Power Finance Corporation Ltd:**

– KSK Mahanadi, Indiabulls Nashik, Lanco Amarkantak, Indiabulls Amravati, Shree Maheshwar Hydel, Essar Power, Jhabua, KVK Nilachal and Jal Power.

– **Mr. Amit Singh – BNK Securities:**

– And sir lastly, we have also mentioned about 2 projects where the liquidation is filed with the NCLT, but yet it's not admitted. The Rs. 1,635 crore worth of project. Which are those two projects sir?

– **Management - Power Finance Corporation Ltd:**

– East Coast and Ind-Barath Madras.

– **Mr. Amit Singh – BNK Securities:**

– Okay sir, thank you so much.

– **Management - Power Finance Corporation Ltd:**

– Thank you so much.

– **Operator:**

– Thank you. The next question is from the line of Kunal Shah from Edelweiss. Please go ahead.

– **Mr. Kunal Shah – Edelweiss:**

– Yeah. Can you please highlight in terms of the moment in the GNPL, the additions and the upgradations which have been there during the quarter?

– **Management - Power Finance Corporation Ltd:**

– No new NPA has been added.

– **Mr. Kunal Shah – Edelweiss:**

– Sir, nothing has got upgraded and nothing has got added. There was a reversal in the provisioning coverage on upgradation. So just wanted to check if in the...



- **Management - Power Finance Corporation Ltd:**
- See, Gross NPA has come down from 9.67% to 9.47%. This is only on account of some repayments which have happened in these accounts. Otherwise no addition.
- **Mr. Kunal Shah – Edelweiss:**
- But there is nothing in terms of upgrades and slippages? Okay. Apart from whatever is there in stage 3, the balance assets which are there in the private sector, say Rs. 23,000 odd crores, in the current situation, have you seen stress or any emerging stress in any of them. For 28,000 there is lot of clarity in terms of where they are in various stages of resolution and the provisioning. But what do we think about the balance 23,000? Is there any risk which is emerging in any of this?
- **Management - Power Finance Corporation Ltd:**
- We don't see any problem.
- **Mr. Kunal Shah – Edelweiss:**
- Okay. And thirdly, post this acquisition of REC, maybe now that both will be under one management, do we see any risk in terms of the gaps/caps which would be there, w.r.t. the exposure or maybe a particular entity level exposure either by banks or maybe in terms of the debt market and all? And on the borrowing side, there could be some constraint because now it will be a very big entity and overall funding requirement will still be higher. Are there any risks on that front?
- **Management - Power Finance Corporation Ltd:**
- We don't expect any risk on these aspects. Of course, they have their individual and group limits. But still, I think we have lot of cushion and we don't expect any problem regarding that issue.
- **Mr. Kunal Shah – Edelweiss:**
- Okay.
- **Management - Power Finance Corporation Ltd:**
- And more and more banks are coming out of PCA. So, choice is also increasing.
- **Management - Power Finance Corporation Ltd:**





- If you see the history of PFC and RFC, they never used to borrow from the banks. Our share was very small in that borrowing from the banks, which has slightly now improved. But still, we have lot of cushions.
- **Mr. Kunal Shah – Edelweiss:**
- But otherwise, even in the debt market, when we look at... Till now it was two different entities and maybe the limits would have been available with the subscriber to the bonds and debentures. But now, with it being one single entity, don't we see that maybe the capacity to borrow from also the debt market could be lower?
- **Management - Power Finance Corporation Ltd:**
- See, we can't make any comment on the exposure of individuals, institutions, etc. But if the situation comes, we have other avenues also. Like, this time we have borrowed from Ministry of Finance also. So we have different avenues that we are looking into, and we'll continue to borrow.
- **Management - Power Finance Corporation Ltd:**
- They have borrowed from LIC. Both the companies are getting handsome amount from 54 EC Capital Gain tax bonds also.
- **Mr. Kunal Shah – Edelweiss:**
- Okay, thanks a lot.
- **Management - Power Finance Corporation Ltd:**
- Thank you so much.
- **Operator:**
- Thank you. The next question is from Shirin Saraba from Deutsche Bank. Please go ahead.
- **Mr. Shirin Saraba – Deutsche Bank:**
- Good afternoon everyone! Thank you so much for this opportunity. I have couple of questions. I appreciate your comments on Power Finance accessing various sources of funding, outside of the bond market. But, can you just confirm, when it comes to financing the REC deal, is it safe to assume that the entire amount will be borrowed by Power Finance from various sources, or there will be certain share which you can maybe tell us which ones, that you will use from internal resources which you already have? This



is the first question. The second question is, what needs to happen and when, that you can announce the amount of the purchase? How much will you pay for RECL? And finally, there was a question on the change of control asked by RECL, but when will RECL announce that consent from bond holders?

– **Management - Power Finance Corporation Ltd:**

– Okay. This deal will be funded by our internal resources, and taking debt from the market. This was your first question. And amount to be paid for the deal is not yet clear. There is a high level committee under the Finance Minister of the country in which there are two other ministers - our Power Minister as well as Mr. Gadkari (Road & Transport Minister). That committee will decide in accordance with the SEBI guidelines. REC has already appointed valuers and PFC has also appointed its valuers. So, finally when the decision will be taken in accordance with SEBI guidelines by that high level committee, we will come to know the exact pricing of the deal. Regarding change of control, already REC has appointed bankers and legal consultants. They are already working on this change of control. They are in an advance stage of this proposal. Once we come to know, only then the deal will be closed.

– **Mr. Shirin Saraba – Deutsche Bank:**

– Okay, I understand. In terms of the funding of transactions, you said the debt part would be internal resources. So, how much of internal resources does Power Finance already cater to this deal?

– **Management - Power Finance Corporation Ltd:**

– We can't specifically give you the figures right now as we have been getting the money back from our borrowers. So part of that would be used for the funding of this transaction. And any differential amount, we'll borrow. But I can't give you the exact figures.

– **Mr. Shirin Saraba – Deutsche Bank:**

– I understand. Okay, thank you so much.

– **Management - Power Finance Corporation Ltd:**

– Thank you very much.



- **Operator:**
  
- Thank you. The next question is from the line of Nilanjan Karfa from Jefferies. Please go ahead.
  
- **Mr. Nilanjan Karfa – Jefferies & Company:**
  
- Hi sir, just one question. Post this acquisition of REC, will PFC be accorded a promoter? Will it or will it not be considered as a promoter?
  
- **Management - Power Finance Corporation Ltd:**
  
- I think the decision of the Cabinet Committee on Economic Affairs in December clearly brings it out that it is acquisition of GOI shares in REC by PFC, along with management control. What does it mean?
  
- **Mr. Nilanjan Karfa – Jefferies & Company:**
  
- I don't know sir. There are so many speculations and there was a question.
  
- **Management - Power Finance Corporation Ltd:**
  
- We don't have any doubt on that.
  
- **Management - Power Finance Corporation Ltd:**
  
- The press can keep on writing, but we are clear in this.
  
- **Mr. Nilanjan Karfa – Jefferies & Company:**
  
- Sir, you will be accorded the promoter status, right? Is that what you're saying?
  
- **Management - Power Finance Corporation Ltd:**
  
- I think so.
  
- **Management - Power Finance Corporation Ltd:**
  
- In the case of PFC, the cabinet is very clear on long term management control. If you remember, there was a case of ONGC and HPCL, where this promoter clause for management control was not there, still the government had given the indication that ONGC should be considered as the promoter. But in our case, from the beginning it's very clear, right?



- **Mr. Nilanjan Karfa – Jefferies & Company:**
- Great sir! Thank you so much. Very clear. Thank you.
- **Operator:**
- Thank you. The next question is from the line of Sankalp Jain from SBI Mutual Funds. Please go ahead.
- **Mr. Sankalp Jain – SBI Mutual Funds:**
- Sir, is there a clarification of the PFI status of REC?
- **Management - Power Finance Corporation Ltd:**
- They will continue to be PFI. Already RBI has been informed about this by DIPAM.
- **Mr. Sankalp Jain – SBI Mutual Funds:**
- Specifically for REC, sir?
- **Management - Power Finance Corporation Ltd:**
- Both will remain PFI.
- **Mr. Sankalp Jain – SBI Mutual Funds:**
- Okay. Thank you.
- **Operator:**
- Thank you. The next question is from Eric Liu from Well Fargo Securities. Please go ahead.
- **Mr. Eric Liu – Wells Fargo Securities:**
- Hello, can you hear me!
- **Management - Power Finance Corporation Ltd:**
- Yeah.
- **Mr. Eric Liu – Wells Fargo Securities:**



- I'm sorry, but my phone had been dropped sometime in the middle. So I'm not sure whether you have answered this question. My question is on the Power Finance

acquisition, but more on the credit rating side. So far you mentioned you will fund the deal part, both internal capital and debt. But will you consider to raise equity from the stock market, because right now to my understanding, whatever internal source of funding you use or debt, doesn't make any difference. They will also reduce your capital ratio. Another thing is, I was just wondering, when you mentioned that the tier 1 capital will be maintained according to the RBI's guideline. But, how about the total capital ratio? You mentioned you also tried to raise the tier 2 capital, right?

- **Management - Power Finance Corporation Ltd:**

- See, we are not expecting any further fund raising through equity in the short term. I said, immediately we are not turning any infusion. If the situation arises later on, then we'll decide at that time only. But as I mentioned, we are expecting sufficient cushion in our capital tier 1, to take care of our business growth. So when a situation arises, we'll raise the equity, but not immediately.

- **Mr. Eric Liu – Wells Fargo Securities:**

- Okay. But if that is the case, will the rating agency also consider debt or you use the internal source of capital, right? How do you define it?

- **Management - Power Finance Corporation Ltd:**

- We have mentioned that we have been getting our funds from our borrowers. So part of that money will be used for this acquisition. Along with that, we'll raise the money from the debt market, not equity, to fund this.

- **Mr. Eric Liu – Wells Fargo Securities:**

- My concern is that, the rating agency expect a fully ..... I mean, they focus their capitalization ratio for the Power Finance, it will hit the bandwidth trigger. But, in my previous question I mentioned that, if you use the internal source of capital to fund, it makes no difference compared to you raising from the debt market, because it makes the same impact on your capital adequacy reduction level.

- **Management - Power Finance Corporation Ltd:**

- See, we are not very clear that if we raise from the debt market, how will it impact my capital adequacy? Because the rule of capital adequacy is very clear as far as the RBI guidelines are concerned. If I make an investment more than 10% of my net worth, that



is to be deducted from my net worth tier 1. And after working out all these ratios, we feel that it will be above the regulatory requirements i.e. 10% and will take care of my

business growth also. So, I don't think that raising of any funds is going to have any impact on my capital adequacy.

– **Mr. Eric Liu – Wells Fargo Securities:**

– Okay. So my last question is, do you have an estimate post acquisition of the total capital ratio?

– **Management - Power Finance Corporation Ltd:**

– Exact number we can't tell. But, we will be comfortable after acquisition and for our business, capital adequacy will be adequate.

– **Mr. Eric Liu – Wells Fargo Securities:**

– Okay, thank you.

– **Operator:**

– Thank you. Next question is from Dhruv Muchhal from Motilal Oswal Securities. Please go ahead.

– **Mr. Dhruv Muchhal – Motilal Oswal Securities:**

– Sir, my questions are answered. Thanks a lot.

– **Management - Power Finance Corporation Ltd:**

– Thank you.

– **Operator:**

– The next question is from Manoj Jain from UBS Securities. Please go ahead. Mr. Jain, you may go ahead with your question. There seems to be no response from the line of Manoj Jain. We'll move to the next question, which is from Meghna Luthra from Daiwa Capital.

– **Ms. Meghna Luthra – Daiwa Capital:**

– Thank you. Sir, just one question regarding the IL&FS exposure. What will be the status of our exposure?



– **Management - Power Finance Corporation Ltd:**

- Actually, IL&FS appointed the agency to assess the solvency of these SPVs. And I'm happy to inform you that all our projects which we have funded, have been found solvent. And we are being repaid regularly. There are no issues at all. Even in TRA account of wind projects, Rs. 175 crores is lying with us. Just to give you an idea, we have funded two transmission projects. One is Indo Nepal Line, which is a joint venture of IL&FS and Power Grid. Another one is Palatana Transmission Lines, which is again a joint venture of ONGC, Power Grid and IL&FS. We are being regularly paid because the two transmission lines, one is exporting power to Nepal and the other to Bhumbladesh. All other assets are wind projects, which are having PPAs and we are being regularly paid. There is enough revenue available in TRA for making payments to us.

– **Ms. Meghna Luthra – Daiwa Capital:**

- Okay. So do we have an Escrow mechanism or are they regular payments?

– **Management - Power Finance Corporation Ltd:**

- TRA account is managed by us. So all revenues come to TRA account, from where we get the payments.

– **Ms. Meghna Luthra – Daiwa Capital:**

- Okay, that's it. Thank you.

– **Management - Power Finance Corporation Ltd:**

- Thank you so much.

– **Operator:**

- Thank you very much. Due to time constraints, we'll take that as the last question. I would now like to hand the conference back to the management team for closing comments.

– **Management - Power Finance Corporation Ltd:**

- Thank you very much. Hope we could answer the questions to the satisfaction of our investors. Thank you very much for giving us this opportunity again.



- **Operator:**
  
- Thank you very much. On behalf of Prabhudas Lilladher, that concludes the conference. Thank you for joining us Ladies and Gentlemen. You may now disconnect your lines.
  
- **Management - Power Finance Corporation Ltd:**
  
- Thank you very much.

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