POWER FINANCE CORPORATION LIMITED

Q-3/9M- FY 20-21

CONFERENCE CALL

11TH FEBRUARY 2021

MANAGEMENT: TEAM OF POWER FINANCE CORPORATION:-

- **Mr. R.S.Dhillon** - **Chairman and Managing Director**
- **Mr. P.K. Singh** - **Director (Commercial & Additional Charge Projects)**
- **Ms.Parminder Chopra** - **Director (Finance)**

MODERATOR: Mr. PRITESH BUMB – PRABHUDAS LILLADHER PVT. LTD

Good day, ladies and gentlemen, and a very warm welcome to the Power Finance Corporation's Q3 FY '21 Post Results 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. (Operator Instructions)

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

Pritesh Bumb

Thanks, Ali. Good afternoon, everyone. We would like to welcome the management of Power Finance Corporation, represented by Mr. R.S. Dhillon, Chairman and Managing Director. He will be accompanied by the two directors. We will have a brief remark on the results by the CMD, and then move on to the question-and-answer session. Thank you, and over to you sir.

Ravinder Singh Dhillon

Good evening, everyone. I welcome you all to this conference call. Today, we have declared our results for third quarter and nine months ending December 2020. And we have arranged this call to share with you, PFC's performance for the period. I am glad that now the COVID situation is gradually receding, and the economy is reverting back to its pre-COVID levels.

On this note, I would like to start by sharing with you the power sector outlook. On the electricity generation front, I would like to highlight that after the COVID pandemic, the electricity generation has witnessed a growth trajectory consecutively for the last five months, and now is on the revival path.

Also, as our economic activity is increasing after COVID lockdown, the power demand is improving. In December, we had touched an all-time high of 189.6 gigawatt. The negative impact of the pandemic on power demand is slowly seeing a reversing trend. Further, considering improved microeconomic backdrop and sustained generation growth, Moody's has upgraded the outlook for Indian power sector to stable from negative. In view of the improving economic indicators, Moody envisaged a potential for improvement in power demand and a more stable picture for the sector. Also, the recent budget announced by Honorable Finance Minister brings series of supportive measures for the power sector.

The government has announced a reform-based, results-oriented scheme for power distribution sector with an envisaged outlay of around INR3 trillion over the five years. I believe that it would help in strengthening the distribution space and benefits the entire power sector value chain. Further, in sync with the government's objective for clean energy, the government has announced its plan to set up large solar power capacity alongside rail tracks and on land owned by railways. I feel that these measures would provide new lending avenues to PFC.

On the stressed asset front, too, government has proposed setting up of ARC and AMC to take over the existing stressed debt and manage it through an alternative investment fund. Further, government has also proposed for strengthening the NCLT framework. I feel that this would help in taking stress off from the lender's balance sheet and also enable faster resolution of stressed assets. I believe that revival in the power generation and power demand and various reform measures for the power sector are positive catalysts for not only pushing the growth of the Indian economy but, consequently, the power sector also.

Now I would like to share the key financial highlights for the quarter. So let me start by giving an update on PFC's stand-alone financial performance. I am happy to share that in quarter 3 '21, PFC had recorded highest ever quarterly profit of INR2,336 crores, a jump of 39% from quarter 3 '20. For nine months, also the profit saw 45% increase compared to the previous nine months FY '20.

Now sharing some of the key financial indicators. For quarter 3 '21, the yield is at 10.68%. If we look at previous quarters, the yield has continued to be in stable range. Also, we have been consistently focusing on reducing our cost of funds. This quarter also, the cost of funds is at 7.48%, a reduction of 27 basis points from quarter 3 '20. Driven by efficiencies in yield and cost of funds, the spread for the quarter 3 2020 is at 3.2% and NIM is at 3.63%.

Also, I would like to touch upon PFC's capital levels. In quarter three 2021, PFC's CRAR increased by 89 basis points from Q3 '20 to 20.21%. Also PFC's net worth reached at INR52,015 crores, crossing the INR50,000 crores mark for the first time.

Talking about the capital levels, I'm sure all of you would be waiting for the dividend announcement. On this, as you may all know, RBI at various forums has been stressing the need for maintaining adequate capital buffers for NBFCs.This ideology is also reflecting in the draft guidelines for dividend introduced by RBI and the discussion paper released by RBI on revised regulatory framework for NBFCs. In line with this, PFC is now focusing on capital acquisition and shoring up its capital level. In the above backdrop, PFC is in discussion with the government regarding dividend declaration. Further, we are also waiting for clarity on the implementation of the draft guidelines on dividend issued by RBI for NBFCs.

Now coming to consolidated financial performance. I would like to inform that consolidated PAT for Q3'21 is at INR3,963 crores, an increase of 17% from Q3 '20. Consolidated loan asset book registered a 13% growth as on 31st December 2020, as compared to previous period. Due to resolution of stressed assets in both PFC and REC, consolidated net NPA ratio is declining quarter-on-quarter and is currently at 2.12%.

Overall, I am glad that despite a challenging environment, PFC Group has delivered remarkable financial performance.

Coming to the update with regard to asset quality. Firstly, as we have indicated in previous call, I am happy to inform that R.K.M Powergen loan of INR5,105 crores, in which PFC is the lead, has been successfully resolved outside NCLT and has been moved out of stage 3, that is non-performing category. Sufficient provisioning was available against the project, and we do not see any major impact on our P&L. Further, as a prudent measure, 10% provisioning continues to be maintained against the loan asset. With this, our gross NPA levels have drastically come down to 5.85% during the quarter compared to 8.34% in nine months 2020. Further, our net NPA ratio is also at 2.30% compared to 3.94% in nine months 2020. This is in line with the rate indicated earlier.

Post the R.K.M resolution, a total of 24 projects are under stress. Out of these, currently 14 projects of INR16,185 crores are being resolved through NCLT and remaining seven projects of INR5,161 crores are being resolved outside NCLT. Keeping in view the general slowdown in resolution of projects, particularly those in NCLT, provisioning against stage 3 assets has been enhanced from 53% in nine months '20 to 61%.

Further, we would like to highlight that for one of our stage 1 borrowers, that is TANGEDCO, the rating has shifted from Category B to Category C. I would like to inform that PFC has adopted the rating issued by Ministry of Power, which is being done by a reputed external agency. Now owing to this change in rating, additional provisioning of around INR600 crores has been created against the borrowers. This is in line with the Ind AS guidelines for provisioning on ECL model. This has led to major increase in provisioning levels. This has also reflects the robustness of our ECL model in capturing the impacts of such events on the provisioning levels. I feel that with adequate provisioning buffer, our balance sheet is well protected to take care of future resolutions in the stressed assets.

Moving on to PFC borrowing portfolio. PFC has always been emphasizing on diversifying its borrowing market. In line with this objective, I am glad to share with you that in January 2021, PFC successfully raised funding from retail investors through public issue of taxable bonds. PFC saw a phenomenal response from the investors with issue being oversubscribed by 9x over the base size of INR500 crores. PFC mobilized INR4,429 crores under the issue for a tenor ranging from 3 to 15 years at a competitive cost ranging from 4.65% to 7.15%.

Also, this marked the many first for PFC. This was the first such issuance by a power sector PSU as well as the first public sector issue of taxable bonds by a PSU in the last decade.

Also, this was the first such successful floating rate tranche under the issue by a CPSU, wherein PFC was able to raise INR1,216 crores out of the total funds mobilized. I feel that this has opened up a new low-cost borrowing avenue for PFC, and we plan to consider such issuance in the future also if the market is favorable.

Continuing with our objective of diversifying of borrowings, I would like to highlight that PFC in January 2021 has successfully raised USD500 million through USD-denominated bonds under Reg S route with a fixed coupon of 3.35% and a maturity of more than 10 years. This this issue with a base size of USD300 million received an oversubscription of 5.1x. Such phenomenal response during this pandemic reflects confidence of global investors in PFC business as well as its credit portfolio and the growth story of PFC power sector. Further, as you may all recall that due to sudden depreciation of USD to INR rate, PFC's FY 19-20 profits were adversely impacted. Now this financial year, the USD to INR is moving in a favorable range, leading to positive impact on PFC's profit. However, considering the risk arising out of increasing foreign currency borrowing portfolio, we are continuing with our efforts on protecting our balance sheet from foreign currency fluctuations. According for Q3 '21, PFC's hedging ratio for exchange risk for portfolio with residual maturity of up to five years stands at 74%.

Before, I conclude I would like to share a status update on the Atmanirbhar DISCOM scheme. Under the Atmanirbhar DISCOM scheme, so far PFC has sanctioned INR65,793 crores under the scheme and has disbursed INR21,870 crores towards tranche 1. For PFC and its subsidiary, REC, combined together, sanctions stand at INR1,31,726 crores and disbursement stands at around INR46,074 crores. The pace of disbursement has slowed down momentarily, but we are expecting that it will pick up as disbursement for tranche 2 are in pipeline.

To conclude, I would like to say that this quarter has all been about delivering on the past promises, and I feel that despite a tough operating environment, PFC has been successful in holding its promises and delivering a robust performance.

So now we are open to questions.

(Question and Answer)

Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) First question is from the line of Kochar Gaurav from Mirae Asset. Please go ahead.

Q – Gaurav Kochar

Yes, good evening, sir. Thanks for taking my question. I have a few questions. Firstly, the disbursement saw a sharp decline this quarter, both on the generation as well as on the distribution front. On the distribution front, you explained that we have sanctioned, and probably, will do it in second tranche in coming quarters. But on the generation side, also, the disbursement slowed down. Any specific reason for this, sir?

A – PFC Management

Because of COVID, the implementations of projects have been delayed and mobilization at site with respect to the material has been slow. So that's why the project disbursement has come down to around 50% to 60% of the last year levels.

Q – Gaurav Kochar

Okay, okay. But this -- on the generation side in 2Q, we saw very good traction, so between 2Q and 3Q, what changed, sir?

A – PFC Management

Sir, earlier disbursement included disbursements under tranche 1 of Discom Package. Further, we had given moratorium, for six months, for which we sanctioned the equivalent amount of the loan. So that is coming as the sanctions.

Q – Gaurav Kochar

Okay. So yes

A – PFC Management

Yes. About the disbursements under the distribution category, so in Q2, we have started disbursing the loans under the Atmanirbhar scheme. Most of the loans have been disbursed in the Q2, whereas comparatively, there was a lesser disbursement under the Q3.

Q – Gaurav Kochar

Right, ma'am. And with respect to generation, in 2Q, the disbursement was around INR10,000 crores, which slowed down to INR1,700 crores in this particular quarter. So is it mainly, as sir also mentioned regarding the implementation of project getting delayed, was that the reason?

A – PFC Management

This is one of the reason and the other is under Q2 till 31st of August, we have booked the loans under the moratorium scheme. So accordingly, the same have been shown under the disbursements.

Q – Gaurav Kochar

Okay. Okay. Sure. And on provisions, we completed around INR1,300-odd crore provision in this quarter. All of this is used as additional PCR? Or we have made some standard asset provisioning over and above what we consider in our PCR?

A – PFC Management

See, it is basically based on ECL only. But as sir has already told that one of the stage 1 assets, that is, TANGEDCO, has been downgraded from Category B to Category C. So more than INR600 crores provisioning was on account of that only.

Q – Gaurav Kochar

Okay. But all of this is part of the PCR, 61% that we calculate?

A – PFC Management

Right, right. 61% is only for the NPA category, stage 3. But this particular asset is against the stage 1 category. TANGEDCO is still under stage 1 because we have been receiving all the dues in a timely manner. It is only that in the annual rating, which is being done by the Government of India Ministry of Power. The category of TANGEDCO has been downgraded from Category B to Category C. That is why, based on the expected credit loss metrics, additional provisioning has been done.

Q – Gaurav Kochar

Sure. Sure. So this INR600 crores do not form part of the NPA provisioning? This is expected.

A – PFC Management

Right, this is right.

Q – Gaurav Kochar

All right. Got it. And ma'am, regarding the 17 projects under NCLT and seven outside NCLT, with respect to resolution maybe in 4Q or next two quarters, anything that you see getting resolved or is closer to resolution in the next quarter or next two quarters?

A – PFC Management

So we have two of these projects under NCLT, Jhabua Power and South East U.P. So going forward, we think that during the next six to nine months, these should be resolved.

Q – Gaurav Kochar

Okay. Okay. Sure. And my last question was on yield. When is the next revision on yield that would be taken in our portfolio? And how much is it going to be in terms of the large division and this division? What is the delta that we are seeing on our yields?

A – PFC Management

See, yield till now has been constant in the range of 10.66% to 10.68%. But with a reduction in the cost of borrowing, we are working on the same. And maybe going forward, we would pass on some benefit to our customers.

A – PFC Management

We are working on that, and this, we are going to do in this quarter.

Q – Gaurav Kochar

Okay, revision will happen in this quarter is it?

A – PFC Management

Right.

Q – Gaurav Kochar

Okay. Sure. Thanks a lot sir, and all the very best.

Operator

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

A – Kunal Shah

Yes. Again, to touch upon on the provisioning side. So if we look at the provisioning outstanding from September to December, so September, it was INR16,700 crores, and now it is down to INR16,100-odd crores. So definitely, I think this R.K.M is moving out. But then it seems beyond the INR600-odd crores, there is extra provisioning also being done. So is it like entirely specific or we have increased some standard assets provisioning as well? Because that is also up from INR1,800 crores to INR3,100 crores. So what will be the exact the split of the entire provisioning net of the release from R.K.M?

A – PFC Management

See, as you know that we have done additional provisioning of around INR1,300 crores during this quarter and during this quarter only, on account of R.K.M, there has been reversal of around INR2,000 crores , which has been taken out from the provisioning. So that is why you are seeing a dip in the net figure from INR16,275 crores to INR16,088 crores.

A – Kunal Shah

Okay. So maybe on a net basis, that's coming down by INR700-odd crores?

A – PFC Management

Right, right, right. And there might be certain minor additional provisioning on the other accounts, but this is the major one.

A – Kunal Shah

Okay. And would it be fair to say that INR600 crores is towards that one account and the balance INR700 crores, which is there, that is, again, more of a specific or that is also towards stage 1 and stage 2? Because we are seeing the increasing provisioning towards stage 1 and stage 2. So is it like a standard, which has created within this INR1,300 crores?

A – PFC Management

First, under the expected credit loss model, we have been doing project specific provisioning. So there is no general buffer. So it's against specific assets that we are making provisions.

A – Kunal Shah

Okay. Okay. But there was nothing spread across the project, and there were no, say, one or two projects on which that additional provisioning would have been created?

A – PFC Management

Right, right, right. This was the major one, which we have already informed.

A – Kunal Shah

Okay. Sure. And again, in terms of touching upon the resolution part, so no doubt there were like few projects, which were in the advanced stage and you mentioned like Jhabua and South East U.P. will come through. But what is the expected timeline? Because I think last time also we had highlighted that maybe many of them are still much more in advanced stage, okay? So be it in terms of KSK and all. So how should we look at most of these projects getting at? So last time, what we highlighted in terms of the Lanco, KSK and all, so now what is the progress of that in some of these projects and even like IPC or Haldia, yes?

A – PFC Management

So as you are aware, because of COVID, the NCLT resolution and outside the NCLT resolution has been slowed down. So you were asking about Ind Bharat Utkal , in this regard, there was a bid by JSW, and that has been withdrawn and because of some material change, the next hearing is on 25th of February. And what other projects you were indicating?

A – PFC Management

Lanco, KSK.

A – PFC Management

Lanco also, there were two bids which we had received. And the bids are not upto our recovery, which we were anticipating, and we are thinking that what to do next. So CoC meeting will be held. And based on that, we will be deciding. KSK also is already under NCLT. Further, there were two other subsidiaries of KSK, which were to be merged with the resolution of this project. So that is not being done. So the joint resolution -- we thought that we'll go ahead with the joint resolution along with the other two subsidiaries also.

A – Kunal Shah

So does that mean that you highlighted like Jhabua and South East would happen over the next six, nine months, then should we assume that this might take some more time for getting resolved or maybe this should also -- we can expect it over the next couple of quarters or two, three quarters?

A – PFC Management

So that will depend on the NCLT process. We cannot put a time line on resolving the projects under NCLT.

A – Kunal Shah

Okay. Thanks a lot. Thank you.

(Operator Instructions)

Next question is from the line of Punit Srivastava from Daiwa Capital Markets. Please go ahead.

Q - Punit Srivastava

Yeah. Good Evening. Sir, so the first question was again on the provisioning side. Of course, you explained the INR6 billion going to one project. But I just needed to confirm, was there any rise in provisions for the state loans this quarter in terms of your ECL provisioning, general provisioning?

A – PFC Management

See, this is standard $ in state sector loan only. And this is the only loan where the major provisioning is happening. Otherwise, there might be smaller change in the other projects because we have many state sector projects. So this is the major one, which we have already informed you.

Q - Punit Srivastava

Okay. So there was no increase in terms of regulatory provisioning, right, during the quarter?

A – PFC Management

No.

Q - Punit Srivastava

Okay. And one question on the generation loans. They have declined. Of course, there was a slowdown in disbursements during the quarter. But nevertheless, the entire loan book has declined during the quarter, if you can just throw some light on that?

A – PFC Management

So two of our borrowers have prepaid us. This was because these were the generation projects, and they got the money under the Atmanirbhar program, and they had cash flow, so they prepaid us.

Q - Punit Srivastava

Was that in the state sector or in the private?

A – PFC Management

No, this was in the state sector. Majorly, it was in the state sector. One CPSU was there. And the other also in the state sector.

Q - Punit Srivastava

Okay. Got it. Sir, just one last question. On the margin side, of course, it's been holding up strong, and spreads are also strong. But historically, if we see the margins, the spread has gone down even to a low of 2% earlier. So in that context, sir, what kind of risk you are seeing to the spreads and margin going ahead?

A – PFC Management

We are diversifying our borrowing portfolio so that we can raise money at a lower cost, and whichever side, we see that our cost of borrowing is going to reduce like by raising from the corporate bond market, retail bond market etc., based on that we'll decide that how we would be going forward and see how we can reduce our cost of borrowing and maintain our spreads.

A – PFC Management

And in the longer time, we would like to rationalize our spread, and we would try to pass on the benefit of the lower cost of borrowings to our customers.

Q - Punit Srivastava

So sir, can we say, sir, in that context, do you expect the spreads to come down from these levels?

A – PFC Management

Yes. You know that our yield has been remaining constant for quite a long time, and whereas our cost of borrowing is reducing continuously.

A – PFC Management

We are thinking of going ahead, and we will see what benefit we can pass on to our borrowers.

Q - Punit Srivastava

Ok. Sir. Thank you.

A – PFC Management

Thank you.

Operator

The next question is from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.

Q - Anand Laddha

Hello, sir.

A – PFC Management

Hello.

Q - Anand Laddha

Sir, we have been making additional provision on the stage 3 asset. So now under NCLT, we have a coverage of 65%. Do you believe that this is enough provisioning? And incrementally, we don't need any more provisioning? Or do you still believe that if there is a delay, you will have to keep on making higher provisioning on the NCLT exposure because of the ECL increase?

A – PFC Management

So if you see in the past, we are recovering around 50% to 60% of our debt, whatever resolutions has taken place. So this provisioning should suffice in the coming times also.

A – PFC Management

As per our provisioning model twe have to work out the expected credit loss on each results i.e. on quarterly basis. So in case of any major development, be it positive, be it negative, we will review the expected credit loss of the specific project.

Q - Anand Laddha

And in the current quarter because we have provided INR600 crores on TANGEDCO, on what condition or what could be the requirement for us so that we can reverse this provision? Or this will continue to remain as a standard asset provisioning?

A – PFC Management

So this was based on the rating of TANGEDCO. So going forward, if their financial condition improves, automatically the this rating will improve, and this will get reversed.

Q - Anand Laddha

Okay. Sir, this quarter, we have a fee income of -- Was there any one-off in this fee element?

A – PFC Management

See, as sir has told you that there was a prepayment of certain loans, so the fee income includes the prepayment charges for the fee.

Q - Anand Laddha

And if you can quantify, what's the quantum of that?

A – PFC Management

See, right now, we don't have the figures upfront.

A – PFC Management

We would share that with you.

Q - Anand Laddha

Okay. Also, sir, in the P&L, there has been a mark-to-market loss on fair value changes in -- this quarter, INR76 crores. And in nine months, it's almost like INR500 crores. So this mark- to-market loss on -- or a fair value change, this -- on what part of the investment book, we are taking this?

A – PFC Management

Pardon? Can you repeat?

Q - Anand Laddha

We have a mark-to-market loss or we call a fair value change this quarter of INR76 crores. And in the nine months, this is almost like a INR500 crores per fair value change. So on which part of the investment book, we are taking this fair value change?

A – PFC Management

See, this mark-to-market is on the hedged loans.

Q - Anand Laddha

Okay. Perfect. Thanks for answering.

Operator

Thank You. The next question is from the line of Subrat Jhaveri from SBI Life. Please go ahead.

Q - Analyst

Hi. Thanks for taking my question. So this is on TANGEDCO. It is still paying on time, right? So in terms of DPD, it would be on time. There is not a single day of delay for TANGEDCO, right?

A – PFC Management

Yes.

Yeah, we have been getting the payment on time.

Q - Subrat Jhaveri

Okay. So it's just that your internal rating, there was a downgrade, which is why the provisions have increased?

A – PFC Management

So in ECL model, we have this probability of default and loss given default. So for rating, if it is downgraded, then the probability of default increases. So with that respect, that provisioning has been increased.

A – PFC Management

Yes, this is a standard thing, and the probability of default has been linked to the rating of the company.

Q - Subrat Jhaveri

Understood. Understood. And this is based on past financials, ECL model?

A – PFC Management

It's based on the ECL model.

Q - Subrat Jhaveri

No. I mean ECL model is completely based on past financials?

A – PFC Management

It's mostly based on the past performance. But going forward, also, we'll see that what is the general probability with respect to default happening.

A – PFC Management

Since it has been downgraded, so it also takes cares of what would be the future probability because the linking to rating is one part. And the past performance, that is a different part. So taken together, this particular thing comes up.

Q - Subrat Jhaveri

Okay. And my last question on government sector loans. So here, is there any loan which is more than 0 DPD, less than 90 DPD? From 1 to 90 DPD, are there any loans?

A – PFC Management

So in the government sector, as you might know, that there have been certain delays in -- there are always a little bit of overdues. But there has not been any single government sector project, which is under the stage 3.

Q - Subrat Jhaveri

Okay. No. So at one point of time, I think on the stage 2, it was quite a large amount, which was there. I think last quarter; you had disclosed that. And prior to that, in government sector, never there used to be any sort of delay. So has there been any movement in stage 2?

A – PFC Management

See, after the moratorium, a few of the states have delayed payment, but they all got cleared before it is 90 days overdue.

A – PFC Management

So our borrowers in the state sector are mostly state Gencos, so they are not covered under the liquidity package. But however, whatever cash flow they have, what they used to pay to the central generators, that cash flow is available now for the state Gencos. And slowly, with moratorium getting over and the COVID conditions coming better, so the stage 2 assets in the state sector would come down as they will get payments from the DISCOM, and they will be able to pay us.

Q - Subrat Jhaveri

Okay, okay. Thanks a lot.

A – PFC Management

Thank you.

Operator

Thank you. The next question is from the line of Shreepal Doshi from Equirus Securities. Please go ahead.

A – Shreepal Doshi

Hello sir. Good evening Sir, my first question was, sir, with respect to the two resolutions that we are expecting in the next 6 to 9 months, that is, Jhabua Power and South East U.P. Transmission. Sir, what is our coverage for these two projects? Because, for Jhabua Power, I remember that -- you had said that NTPC is a successful bidder there. So what's the update, sir, there?

A – PFC Management

So NTPC was the H1. But during discussions, they had reduced their offer, and we are in discussions with them and CoC is discussing the way forward for this. And for Jhabua, we have already made a provision of 56%. In South East also, the resolution is is under NCLT, and we have extended the date for its submission and the provisioning we have already made of 41%.

A – Shreepal Doshi

Okay. Okay. Sir, my second question was with respect to our exposure in TANGEDCO. So what would be our exposure there, like for which we created INR600 crores of provisioning?

A – PFC Management

Around INR30,000 crores.

A – Shreepal Doshi

Okay. INR30,000 crores. Okay. And sir, on our stage one and two, do we see any risk of any accounts slipping to NPA because of this COVID event?

A – PFC Management

So mostly, these are state sector projects in stage 2. From the past, what we have seen that some delay is there in payment, but ultimately, they make the payment, and we do not see any NPAs in this segment.

A – Shreepal Doshi

Okay. And sir, what is the additional provisioning that we have done over and above the NPA provisions that we have? Like -- I mean, what would be the COVID buffer sort of a number that we would have created?

A – PFC Management

See, as we have already told that it is against a specific asset. We have not created any COVID buffer. It is the expected credit loss that we have worked out for each project and based on that, the provisioning has been done under stage 1 and stage 2.

A – Shreepal Doshi

Okay. Okay. Got it. Got it. And ma'am, one last question was that what -- like have you restructured any of the accounts or do we have anything which would require restructuring, any account?

A – PFC Management

See, in this quarter 3, we have restructured the R.K.M. The resolution has successfully been implemented and we are in the process of restructuring another project. So maybe we expect it to resolve in this particular Q4 of this financial year. In India Power Haldia, resolution has been approved by PFC and REC.

A – Shreepal Doshi

Right, right, right. Okay. Thank you so much. Thank you so much.

Operator

The next question is from the line of Pranav Tendolkar from Rare Enterprises. Please go ahead.

A – Pranav Tendolkar

Hi. Thank you for the opportunity. Sir, what was our exposure to R.K.M?

A – PFC Management

INR5,015 crores.

A – Pranav Tendolkar

Okay. So that is the whole exposure that we have?

A – PFC Management

Right.

A – Pranav Tendolkar

Okay. So -- and what is our exposure to India Power Haldia?

A – PFC Management

INR959 crores.

A – Pranav Tendolkar

Okay, sir. Sir, in next year, including the projects that you mentioned, how many projects in your estimate could be resolved through various mechanisms like the NCLT and outside NCLT?

A – PFC Management

It will all depend on how the progress takes place. As we had indicated, there are 17 projects under NCLT resolution. And outside, it is 7 number of projects. And INR16,000 crores is under NCLT and INR5,000 crores outside NCLT.

A – PFC Management

Out of which, one we are expecting to resolve in this Q4.

A – Pranav Tendolkar

Correct. That you mentioned, that is the India Power?

A – Pranav Tendolkar

Correct. Sir, out of the standard private that is outstanding with us, that is, I think, INR37,000 crores and -- INR37,642 crores, are all projects operational?

So INR37,642 crores is standard, and I think INR21,300 crores is stage 3. So I'm saying that standard INR37,642 crores, how many of these are operational?

A – PFC Management

Some of them are under implementation, some of them, but majority of them are operational.

A – Pranav Tendolkar

Okay. So 70%-80% would be operational, roughly?

A – PFC Management

Yes.

A – Pranav Tendolkar

Okay, sir. Okay. So that is one. And my last question is, sir, so as you mentioned that you have sanctioned around the INR65,793 crores for Atmanirbhar scheme for DISCOMs and REC and you, total, have sanctioned INR1,31,000 crores. So what is the time line when this gets disbursed and it results in the reduction of receivables on Gencos?

A – PFC Management

So this was in two tranches; so tranche 1, mostly we have disbursed, and tranche 2 is based on the certain conditions. They have to submit an action plan for reducing their losses like ACS-ARR gap. So that has to be submitted by them. Other things are also there like installation of smart meters and payment of subsidy from the government and clearing of government dues. So only after these conditions are fulfilled, we will be able to disburse in the tranche 2. So within maybe next six months or so, we should be able to disburse a good amount in tranche 2 with respect to the utilities, which give us an action plan.

A – Pranav Tendolkar

Thanks. Right, right. So it is conditional, and it will be disbursed throughout next one year, probably?

A – PFC Management

Next six to nine months.

A – Pranav Tendolkar

Okay. Sir, also, these DISCOMs after COVID, has their core receivables improved? Like, are they now at least pricing it properly so not to create new receivables? Because this looks like a running problem. Every time government rescues, and then DISCOMs don't budge to their old ways. They will always revert back. So if you just consider core receivables that they are -- so are there any new receivables getting created even after the COVID demand has been regularized?

A – PFC Management

So if the receivables are put on PRAGATI portal, which is in the public domain, there has been a slight increase in the number of receivables.

A – Pranav Tendolkar

Correct, correct.

A – PFC Management

But eventually, with the dues getting cleared, so their receivables will eventually be reduced.

A – PFC Management

Also , when this tranche 2 disbursement will take place, this will help in reducing these receivables.

A – Pranav Tendolkar

Yes. So that was my exact point that even if you have disbursed around INR46,000 crores, the receivables have not reduced at all. In the PRAGATI portal itself, the receivables have not reduced at all in spite of you disbursing. So that was how my question coming from.

A – PFC Management

See, the tranche 1 what we have disbursed has reduced their payables to the Gencos and the IPP. So eventually, they'll be get against the subsidy dues and government electricity dues, which they are supposed to receive. So it will take time to dilute those receivables.

A – PFC Management

But you are correct in the sense that actually their collection efficiency has taken, as reported by DISCOMs, has reduced during the COVID time.

A – Pranav Tendolkar

So, that has not reverted back to normalcy?

A – PFC Management

It will take some more time. That's the general indication, but they are working on it. And these installations of smart meters and other initiatives of Government of India is in that direction only so that to improve on the collection efficiency and their billing efficiency.

A – Pranav Tendolkar

And that acceptance of that new technology, smart meters, et cetera, is good on DISCOM parts or is it like old only, they're not worried about that much?

A – PFC Management

So with the smart meters, before you buy the electricity, you have to pay for it. So it is advancing their payments. So that is obviously better for them.

A – Pranav Tendolkar

Are they implementing with good force or they're lackluster in the implementation of the so for example?

A – PFC Management

They are implementing. And under the new scheme, they will be on installing these smart prepaid meters.

A – Pranav Tendolkar

Okay, okay. Thanks a lot, sir.

Operator

Thank you. The next question is from the line of Mohit Bhansali from Bonanza Portfolio Limited.

A – Mohit Bhansali

Sir, in your initial remarks, you have mentioned that dividend, you are not able to pay because RBI draft guidelines and buffer and all, so just wanted to know, out of curiosity, that it's a hypothetical question that when you think that this deliberation and everything will be sorted out and you will be able to decide the dividends, how much can be paid?

A – PFC Management

So as you are aware that adequate capital buffer should be there and with this draft guidelines coming for dividend, we are in discussion with the government. Based on the discussions, we will see when we will be able to give this dividend.

A – Mohit Bhansali

Sir that is what I wanted, tentative time, some you can give that when clarity will come?

A – PFC Management

This quarter, maybe end of this quarter.

A – Mohit Bhansali

Okay, okay, sir. Thank you so much.

Operator

Thank you. The next question is from the line of Andrew Lundstrom from The WindAcre Partnership. Please go ahead.

A – **Andrew Lundstrom**

Hi. Thank you for taking the question. You discussed earlier passing on some benefits to your customers from the yield or the spread. And I wanted to ask if that is because of some competitive pressure that you expect or that you already see, why would you pass that benefit on?

A – PFC Management

So this is a normal thing. Based on our cost of borrowing, we decide the interest rates and the benefit of the lower cost of borrowing would be normally passed on to our customers. In November also, we had passed on this benefit.

Q - Andrew Lundstrom

Okay. Earlier you also mentioned that you had received bids for the Lanco resolution that were low. Can you talk a little bit more about that? What is the amount of that loan? And why don't you think the bids were at the level that you were hoping?

A – PFC Management

So in Lanco, we had received two resolutions from two parties. And the bids were around INR1 crore per megawatt. So what we think because two units here are operational i.e. two units of 300 megawatts, and two units of 660 megawatts is under construction. So we think that the value offered is not what we were thinking of getting. So going forward, the lenders are seeing what options are available to us to get better value for the project. Also, one of the options is that we may decide for taking over the project.

Q - Andrew Lundstrom

Okay. Are there any negative developments like this on any other loans .

A – PFC Management

So as we had also indicated, if we do not get a good value for Jhabua also, we will see what will be the way forward because that is also an operational asset, which is running at 55% PLF.

Q - Andrew Lundstrom

Very good. Thank you very much for the time.

Operator

Thank you. The next question is from the line of Nikhil Niyati from White Oak Please go ahead.

Q – Nikhil Niyati

Yes. Hello, sir. Sir, can you share exactly what happened in R.K.M Powergen? And what is the restructuring it has gone through?

A – PFC Management

So in R.K.M, we have done a restructuring, and 60% we have recovered in the project.

Q – Nikhil Niyati

Sir, we just wanted to understand what exactly has happened in the restructuring? I mean which party is going to run the project now? what do you mean when you say you have recovered, just to make money and the project has been bought out or what has happened?

A – PFC Management

It is with the existing management -- yes, existing promoters.

Q – Nikhil Niyati

And our money has been repaid?

A – PFC Management

No, it has not been repaid.

A – PFC Management

The loan has been restructured with the existing promoters only.

Q – Nikhil Niyati

So when you say resolved, it's basically just you have reached an arrangement with an existing promoter wherein you have given him, say, another modified cash flow schedule according to each CSP to repay the loan? And obviously --

A – PFC Management

This depends on the sustainable and an unsustainable debt.

Q – Nikhil Niyati

And what is the -- I mean, what is the current -- this is around 1,300 gigawatt plant, right?

A – PFC Management

No. It's 4 units of 360 megawatts.

Q – Nikhil Niyati

So this is completely operational now?

A – PFC Management

So three units are working and one unit we'll start operating within a certain time frame.

Q – Nikhil Niyati

And we are the sole lender over here?

A – PFC Management

No, no. We are not the sole lender. There are a number of lenders in this.

Q – Nikhil Niyati

So three units, which are operational, which will come to, let's say, around 1,000 megawatts, over 1,080 megawatts. So over there, how many -- how much total debt is there? And I mean, now how much debt has to be serviced? So our debt will -- when you say 60% recovered, our debt is INR3,000 crores which is there on these 3 units. There will be some other debt, which will also be there of the other lenders. So what is the total debt, which should be serviced by the 3 units?

A – PFC Management

Overall, the debt will be more than INR9,000 crores on the project.

Q – Nikhil Niyati

And so do we presume that these 3 will be able to recover that much of capital that will be servicing this INR9,000 crores of debt?

A – PFC Management

So INR9,000 crores, as we had indicated, that recovery is 60%. And going forward, we think that this will be based on the restructuring and sustainable debt getting RP4 rating. So obviously, they will be able to repay to us.

Q – Nikhil Niyati

Because if you say 60% of INR9,000 crores, then also it will mean around INR6 crores per megawatt needs to be repaid just on the debt front.

Operator

Nikhil, just hold on, it seems the line for the management got disconnected. Participants you are requested to stay connected while we reconnect the management. We have the lines of the management reconnected. Nikhil, you may want to repeat your question?

Q – Nikhil Niyati

Yes. So I was just on -- firstly on this, R.K.M., we are just wanting to understand that if you say 60% of the debt of total INR9,000 crores, then, too, it will mean that from 1,080 megawatts, INR5,400 crores of debt will have to be serviced. So yes, I think the management was highlighting some features related to the project, which would help this.

A – PFC Management

So based on the resolution plan, the sustainable debt was INR5,600 crores. You are correct with respect to that. So we think that at least this debt should be stable.

A – PFC Management

This being a pithead thing, the variable cost is very low. And it has long-term PPA with UP and Telangana. And in Atmanirbhar, they have also got some respite. So this is exactly what is our resolution plan is based on i.e. actual performance and PPAs, which we have.

Q – Nikhil Niyati

Okay. So the PPAs are there for almost 100% of the quantity?

A – PFC Management

Yes.

Q – Nikhil Niyati

Okay. If you can just highlight the top 5 projects of the outstanding loans to private sector, which is under this INR16,185 crores NCLT? Top 5 projects, if you can just highlight?

A – PFC Management

Largest would be KSK.

Q – Nikhil Niyati

You mean KSK Mahanadi, right? And that would be what amount, roughly around INR3,000-odd crores?

A – PFC Management

INR3,300 crores for KSK; then Lanco Amarkantak, INR2,376 crores; South East U.P. is INR2,263 crores; and Essar Power, INR1,345 crores; and in Bharat Utkal, INR1,368 crores. These are the top five.

Q – Nikhil Niyati

Okay. And as we understand, I think there is resolution talks ongoing for the whole Lanco Group, bunch of loans, which you mentioned, that INR1 crore per megawatt bid that you already received. And will you get other loans also apart from just the loans from the Lanco Group?

A – PFC Management

No. Lanco Group, this exposure only we have.

Yes. Lanco Group resolution is a different resolution process. This is a project-specific resolution process, which we are running through NCLT. This is for Lanco Amarkantak Power specific. Lanco Infra is another resolution which is going on, where we are not a lender.

Q – Nikhil Niyati

Understood. Sir, out of the 17 projects of INR16,185 crores, how much would be already commissioned and how much would be under commissioned status?

A – PFC Management

Jhabua is commissioned. KSK is, again, a partially commissioned project. Again, Lanco is up -- two units are commissioned.

Essar Power is commissioned. South East is partially commissioned. So these are the major projects.

Q – Nikhil Niyati

Okay. So basically, we can say that -- it is reasonable to assume that at least INR3 crores to INR4 crores per megawatt one should be able to expect with our PPAs in place?

A – PFC Management

That is our expectation. But as we are indicating, we are not getting this value.

Q – Nikhil Niyati

Okay. What we are seeing in the last 15 months is that your disbursements to the generation space, especially in the private sector, disbursements have slowed down a lot. So can we assume that going ahead, we'll be very, very selective on the private sector, and our focus will be in looking at more of the public sector side? Because our track record on the private sector is very challenged. I mean it has been probably because of the sector slowdown and all, but there has been a very large NPA over there.

A – PFC Management

No. On the contrary, our private sector exposure is actually increasing. Renewable portfolio is where the private sector investment is coming today and we are looking at a large number of refinancing proposals and also greenfield proposals. In coal-based generation, obviously, there are very few projects happening. So there is limited opportunity there.

A – PFC Management

And we are picking up good promoters for these renewable projects. Some of our major borrowers are Azure, then Ostro, Adani, ACME. So they have a very good experience in implementing renewable projects.

Q – Nikhil Niyati

And finally, sir, what would be the approximate yield that you would be getting in this private sector renewable projects?

A – PFC Management

So we give thrust to renewable projects, and the interest rates are varying from 9.9% up to 11% also.

Q – Nikhil Niyati

Okay, so thanks for that. That's it from my side.

Operator

Thank you. Due to time constraints, that was the last question. I now hand the conference over to the management for their closing comments.

A – PFC Management

Thank you very much for the interaction, and as you have seen, we have given good results and the highest quarterly profit. So the results have been good. And I hope the market also responds according to that.

Operator

Thank you very much. Ladies and gentlemen, on behalf of Prabhudas Lilladher, that concludes this conference call for today. Thank you for joining us, and you may now disconnect your lines.

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