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Conference	89127416
Company	Power Finance Corporation
Date:	July 22, 2010

Operator:

Thank you for standing by and welcome to the Q1 FY11 earnings conference call for Power Finance Corporation hosted by HDFC Securities.

At this time, all the participants are in a listen-only mode. There will be a presentation followed by a question and answer session at which time if you wish to ask a question, please press *1 on your telephone. Please be advised this conference is being recorded today.

I would like to hand the conference over to Mr. Rahul Jain. Over to you, sir.

Mr. Rahul Jain:

Thanks Mamta.

Hi! Today, we have with us Mr. Satnam Singh, the Chairman and Managing Director of Power Finance Corporation to discuss the company's Q1 results. I would like to now hand over the floor to Mr. Singh for his initial comments and then we can have a Q&A session. Over to you sir.

Mr. Satnam Singh:

Thank you Rahul. Good evening everyone, who is listening to my voice.

Let me start with the Q1 results. The loan assets at the beginning of financial year was about 79,000 crores. Against that by the end of quarter we have increased it to 85,597 crores. However, if we compared this with the Q1 last year, 2010, against 66,000 crores of asset book we have increased it to 85,597 crores which is 29% higher than last year first quarter. This has happened because our disbursements, comparative disbursements are 87% higher. The disbursements in the first quarter were 8100 crores against 4300 crores last year first quarter. As a result of increase in loan assets by 29% our total income has gone up by 28% primarily because our average yield has come down from 11.30% to 11.03%. The net interest income has gone up by 23% from 700 crores to 858 crores. The profit after tax has gone up by 18% from 555 crores to 652 crores.

However, if we make adjustment for extraordinary items like income tax refund or foreign currency translation loss, then the net increase in the comparable profit after tax is 23% i.e. from 508 crores to 626 crores. As far as cost of funds is concerned, it has come down by 36 basis points; 8.64% has come down to 8.28%, this is the weighted average cost of borrowing until the end of last year first quarter and this year first quarter. As a result of decrease in yield by 27 basis points and reduction in cost of funds by 36 basis points, our spread has gone up from 2.66% to 2.75% i.e. 9 basis points. The net interest margin is lower by 16 basis points, from 4.26% to 4.09%, i.e. precisely because our leveraging has improved. The other issue which I would like to highlight is that our outstanding sanctions in the beginning of last year, at the end of last year first quarter were 133,000 crores, against that at the end of first quarter of 2011, our outstanding sanctions are 142,000 crores. This increase is indicator of the growth which is going to happen going forward.

As a result of all this, our return on average net worth has gone up from 20.08% to 20.50%, i.e. 42 basis points higher. Similarly, the return on average assets has come down actually from 3.21% to 2.97%. The earning per share has gone up from Rs. 19.34 to Rs. 22.73. Book value has gone up from Rs. 98.57 to Rs. 113.57, which is 15% higher. EPS has gone up by 18%, it is higher by 18%. The capital adequacy ratio stands at 17.38% as compared to 17.51% in the corresponding period last year. As far as capital adequacy is concerned, I would like to share here with you is that our actual requirement because we are exempted from following the prudential norms being a government owned PSU of Reserve Bank of India for NBFCs, and our norms are after discussion with our Ministry of Power, the norm for capital adequacy as of now is 10%. However, Reserve Bank of India has very recently come out with a new category under NBFC, i.e. NBFC Infrastructure Finance Company. The requirement of the criteria for the NBFC IFC category is that 75% of the loan book, the lending should be to the infrastructure sector, which we comply with and therefore we will get classified into NBFC IFC category. The advantage would be that given the very large need of the power sector, our exposure which is currently at 20% of the net worth will be higher by 5% for single company and the group exposure will also be higher by 5% from 35%, which will become 40%. As a result of this 5% higher exposure, there is a possibility of doing additional business, because all borrowers may not be able to take advantage of this, only large borrowers will be able to take advantage of that, but if all borrowers reach that level which may not be immediately but after a while, then it is possible to do additional business of roughly about 20,000 crores to 40,000 crores.

With these projections and the actual data, I hand over to Rahul.

Operator:

Just a minute sir. Mr. Rahul you can go ahead.

Mr. Rahul Jain:

Yes, now we can have question and answers from the participants, sir.

Operator:

Certainly sir.

At this time, if you wish to ask a question, please press *1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press hash or the pound key.

First in line, we have a question from Mr. Kunal Shah from Edelweiss. You can go ahead.

Mr. Kunal Shah:

Yes, sir, congratulations. Great set of numbers. Sir, just with respect to the disbursement, I think this quarter it is almost like 8000 crores and seeing the run rate normally it picks up in Q2, Q3 and Q4, so definitely I think the target would have reached. But are we seeing it mainly on account of may be like these other two last two years and may be like for the next two years, we may see slightly higher kind of a disbursement growth for all the power finances. Is it . . .

Mr. Satnam Singh:

Well, I have also shared with you that the total disbursement at the end of the quarter is 142,000 crores. Now, invariably these outstanding sanctions are to be disbursed over a period of next two to four years or so depending upon the progress made by the various developers who have taken up the project. The 87% growth rate in the first quarter is a fairly good indicator of the kind of progress which is taking place. So, it will be difficult to say that going forward this will get further accelerated or not. We can certainly say that since we have received 87% in the first quarter, the overall figure of 23% growth rate which we achieved last year on a year on year basis, we will definitely achieve that.

Mr. Kunal Shah:

Okay. And sir, there is one more interesting slide on outstanding sanctions which is broken up into documents executed and disbursement commenced and may be like documents executed but disbursement not commenced. Okay, so, how we can really look into this particular slide in order to understand how the disbursement would take place going forward. May be out of this 141,000, 68,000 is document executed and disbursement commenced. So, do we see like 68,000 would get disbursed over may be like next 12 to 18 months or so, means, how is it like?

Mr. Satnam Singh:

No, what it means is that here there is no issue as far as disbursement is concerned, except compliance of three disbursement conditions. But then out of this some loans may be where the projects have advanced. Other loans may be where the documents have been executed just may be one month back or two months back or three months back. So, the older executed documents, there will be acceleration in the disbursement, but the newly executed document may as far as advance is concerned, it will happen very quickly, but as far as phasing is concerned, it will go as per the normal standard that is 10 to 15% in the first year, then about 30 to 35% and then third year it is peak about 45% and the balance in the fourth year. So, it will be very difficult to draw inference from this breakup. This has been given to you, only to give you an indication that let us say for the next column that documents executed but disbursement not yet commenced. Now, based on this also disbursement can subject to compliance of pre disbursement condition, the disbursement can begin very quickly and it is this 44,900 crores documents not yet executed, which may take some time. In the state sector, normally six months are required, but then we have to see the date of sanction first and in the private sector it is much earlier, document execution part. So, straight conclusion cannot be drawn but if we see that last year at the same time the outstanding sanctions were 133,000 and this time it is 142,000 and already one year of the earlier loans executed at that point of time is over, there is a possibility of acceleration in the disbursement.

Mr. Kunal Shah:

And sir, the sanction which have gone up quarter on quarter, sir is this mainly on account of like higher lending to private sector. Is there any like, the disbursements to the private sector in this quarter has been higher at say 20% as against like less than 5% over the last two years?

Mr. Satnam Singh:

No, it is like this. I think when I shared the yearly results at that time I did mention that the sanctions to the private sector in the last year the share is about 24% to 25%. Now, sanctions last year would not result into disbursement immediately, but going forward the share in the disbursements to the private sector will also go up, may not be very different in terms of percentage, but certainly in terms of absolute value, it will be higher.

Mr. Kunal Shah:

And sir, one last question with respect to this nodal agency, I think the settlement has been arrived at I think so from the node, okay. So, now it is like I did not get the amount which is there of 49 crores in the adjustments which have been given for comparable PAT and this 66 crores which is given in notes to accounts.

Mr. Satnam Singh:

What do you want to know in this?

Mr. Kunal Shah:

No, I think, see for the quarter, I think any way like for the quarter amount would have been booked under normal. I think it wouldn't have been shown in this comparable PAT when we are arriving at the comparable PAT.

Mr. Satnam Singh:

No, because the season came after 30th June, it is getting reflected here for the quarter also.

Mr. Kunal Shah:

Okay. Because I was just looking at last year number and that was coming much lower than 49, even so pre tax, so I thought, okay. So, this quarter numbers are also adjusted over here?

Mr. Satnam Singh:

Yes. This quarter, last two years and this quarter, all are getting reflected here.

Mr. Kunal Shah:

Okay, sir. Yes, thank you.

Operator:

Thank you Mr. Kunal.

Participants are requested to restrict to two questions at a time. Next question comes from Mr. Ramnath V. from Birla Sunlife Insurance. You can go ahead.

Mr. Ramnath V.:

Yes, sir, thanks for taking my call. Sir, I just wanted to get a sense, your disbursement growth this year has been fairly strong in the first quarter. So, do you see the loan growth for the entire year to be fairly higher at around 35% or do you think it will be at a slightly lower pace?

Mr. Satnam Singh:

It is difficult to say what percentage we will achieve. What I can say is that it will be certainly higher than year on year growth rate which we achieved last year that is 24%. Current quarter and loan asset growth rate has been 29% because of 87% growth rate in the disbursement. So, going forward also, I am sure we will be able to maintain higher percentage than 24%, but how much will it be that will depend upon the progress of disbursement and the development of the power projects.

Mr. Ramnath V.:

Sure. Sir, and a couple of points. One in your opening remarks, you said that the group exposure norms will actually be 40% for an IFC. My understanding was it is 50%, am I right in that or is it 40%, sir?

Mr. Satnam Singh:

No, it is 40%, 10% additional for investment, that will make it 50%, that investment is in equity.

Mr. Ramnath V.:

Okay, 10% is the overall . . .

Mr. Satnam Singh:

Lending exposure will be 40%.

Mr. Ramnath V.:

Okay. So, the overall exposure would be capped at 50%?

Mr. Satnam Singh:

That is right.

Mr. Ramnath V.:

Sir, and one small observation that I have got is that when I look at the BSE exchange data, on the interest income and interest expense, and I look at your thing which is given in the presentation, there is some difference in the interest expense and interest income. What exactly is this difference, why does that come? I do not have . . .

Mr. Satnam Singh:

I am not aware what BSE has quoted there, but they should have gone by our presentation only, but I can share with you what is the figure. Net interest income has gone up from 700 crores to 858 crores, that is 23% higher.

Mr. Ramnath V.:

Sir, that is what I am saying. In your . . .

Mr. Satnam Singh:

PAT from 555 crores it has gone to 652 crores, 18% higher.

Mr. Ramnath V.:

Sure. Sir, I am not having a problem with PAT numbers, I am saying that when I look at the interest income and interest expense line, what is given in your presentation is slightly different from what is given in the BSE website.

Mr. Satnam Singh:

I suggest you send an email to Mr. Sridhar, he will reply to you, because I do not have the other figure, so I will not be able to explain the difference.

Mr. Ramnath V.:

Sure, sir. Thank you so much.

Operator:

Thank you Mr. Ramnath. Next question comes from Mr. Anand Ladah from HDFC Mutual Fund. You can go ahead.

Mr. Anand Ladah:

Hello.

Mr. Satnam Singh:

Hello.

Mr. Anand Ladah**:**

Sir, good set of numbers.

Mr. Satnam Singh:

Thank you.

Mr. Anand Ladah:

Sir, over the last four to five quarters, your spread has been gradually increasing. So, is it fair to say, I mean, 2.75 or 2.8 should be a sustainable spread what we represent currently or is there a scope for further improvement on this?

Mr. Satnam Singh:

Well, spread as you know is a function of the composition of loan disbursements and differential in the lending and borrowing cost. Now, in this quarter and previous quarters, we have been able to reduce costs so that the overall cost has come down by 36 basis points, but it is very difficult to say that each time we move forward, we will be able to reduce the cost or not, depends on the market, how market responds. But I can only assure you, which I have maintained when I gave press conference and talked to investors earlier, that we should be able to maintain a spread of 2.5% or so.

Mr. Anand Ladah:

Okay. Sir, actually since you said you are likely to get categorized as IFC, so you can borrow up to 50% of your net worth from ECBs. Would that help you to reduce your borrowing cost further?

Mr. Satnam Singh:

Well, in the international markets because as far as IFC status is concerned, they are also putting a restriction that it is to be fully hedged on the first day itself they are borrowing. If that kind of restriction is there, then perhaps we will not gain much. However, we have made a request to them to exempt us from this requirement. So, all depends on what view is taken by them.

Mr. Anand Ladah:

Sure, sir. Sir, earlier in the last analyst meet you mentioned that you will be starting with something like promoters capital also, a concept when you will fund the promoter capital also at a higher interest rate. Any disbursement on that account happened this quarter or anything can happen next year. Is there something in the pipeline for the next quarter?

Mr. Satnam Singh:

There is no disbursement which has happened but we have sanctioned one loan. Actually this, we could not make a headway in that because there was a problem in the exposure norms, the restriction put by Reserve Bank of India for which the clearance was given to us in February or March. After that we are now in touch with various state sector borrows, because that product is only introduced for state sector as yet. We are in touch with them, there is a proposal from Andhra, there is a proposal from Punjab. Only once the sanction takes place, I will be able to tell you whether any further disbursement is possible. There is a proposal from Sikkim too. So, these three to four proposals are there, roughly adding up to 1200 or 1500 crores, but after the evaluation only we will be able to say that is how much, because in this case disbursement also will be in phases, it will not be one time because we have linked it to the investment in the equity of new or expansion projects. You cannot expect a substantial disbursement in this.

Mr. Anand Ladah:

Right sir. Thank you sir. That is all from my side.

Mr. Satnam Singh:

Okay.

Operator:

Thank you Mr. Anand. Next question comes from Mr. Ashman Kumar from J.M. Financial. You can go ahead sir.

Mr. Ashman Kumar:

Good evening sir.

Mr. Satnam Singh:

Good evening.

Mr. Ashman Kumar:

Sir, if you could in fact such a encouraging status, how will it impact your cost of funds. Do you expect it to go down and consequently what is your reach thereon?

Mr. Satnam Singh:

Well, I do not think it will have any direct impact on the cost of borrowing, but yes if foreign currency borrowing hedging portion is exempted by Reserve Bank of India, though in the original notification they have said that NBFC IFC has to hedge the foreign currency borrowing on the first day itself. If they do not exempt us, then I guess there will be no impact, but if they do exempt us from full hedging on day one, then because our foreign currency borrowing can go up, there is a possibility of reducing the cost further. I mean there of course it also comes with increase in the cost if our hedging is not at appropriate time. So, I do not think cost will have generally any impact because even if that is exempted this will be a very small percentage of our total borrowing. Our borrowing will continue to be on the rating of the company perspective.

Mr. Ashman Kumar:

So, the IFC, your capital adequacy ratio is in the higher side. Sir, what is the comfortable leverage? What is the maximum leverage which you will go up to?

Mr. Satnam Singh:

Well we had taken a call against the requirement of 10%, if we reach 12.5 or 13%, which means a leveraging of about 7 or 7.5, that will be comfortable, that is when we will start looking at infusion of further capital. However, once this IFC status is given to us, then the actual requirement will be 15%. Therefore, we would have already touched that point where we need to raise the capital quickly.

Mr. Ashman Kumar:

Okay. And sir, how do you plan to infuse the new capital, once if you get there, the IFC status, if you take it?

Mr. Satnam Singh:

Yes, we are not chalked out as to which route we will follow.

Mr. Ashman Kumar:

But what are the probable ones?

Mr. Satnam Singh:

You know very well that possible routes are FPO and QIB. There are other routes but those are not doable. Rights issues is also another option, but since the government is major share holders, rights issue would mean government also infusing similar capital, but that to my mind is not feasible at this stage.

Mr. Ashman Kumar:

Okay. And sir, how do we see the yields going forward? Will you be able to maintain at 11 to 11.5 or likely to be come down because it is an increasing competition in the market?

Mr. Satnam Singh:

Well, competition was there, competition will be there. It is not the competition which has an impact on the yields because given the fact that our order book is 142,000 crores, I can safely presume that we are fairly competitive. But yield would get affected depending upon what is the rate view taken by Reserve Bank of India at the macro level. So, if the rates go up, then yields will also go up because our cost of borrowing would go up. If the rates come down, the yields will come down and . . . . no that is different. But then I can point out here is that this increase or decrease in the cost in the financial market does not affect us in a big way, why because our system our disbursement is such that we do not fix rate of interest at the time of sanction. We charge rate of interest only on the date of disbursement and this rate charged on the date of disbursement takes into account the borrowing cost for that period. So, therefore we will not be affected by any increase or decrease in the rates in the financial markets. As far as old disbursements are concerned, this I have mentioned about fresh disbursement, but as far as old disbursements are concerned, there is a provision for reset to the extent of about in the case of, there is a provision for three year reset for almost about 71% of the loan book. So, there is no problem if the rates go up or down. So far, whenever reset date has come, we have generally gained overall for the last three to four years, from the time we have introduced three-year reset, there has been a substantial gain to us.

Mr. Ashman Kumar:

Okay, then thank you.

Operator:

Thank you sir. Next question comes from Mr. Rajiv Verma from DSP Merrill Lynch. You can go ahead.

Mr. Rajiv Verma:

Good evening sir. Again good set of numbers. Just want to ask you two things. One is have you already applied for the IFC status that you are mentioning about?

Mr. Satnam Singh:

Yes. We have.

Mr. Rajiv Verma:

Okay. And secondly on your ALM can you give us an idea of how much of your assets would be repricing this year and what percentage of liabilities would be repricing?

Mr. Satnam Singh:

Just a minute.

Mr. Rajiv Verma:

Sure. And sir the, sorry, meanwhile can I just ask you, you know on your disbursements in your presentation, you have got a corporate called others, about 2400 crores. Principally, what would that be?

Mr. Satnam Singh:

Others is under which figure are you referring. Others is short term loans and other products I think more or else. Which slide you are talking about?

Mr. Rajiv Verma:

That is on slide 9 actually, 2478, so is it basically short-term loans for your generation side only, is it.

Mr. Satnam Singh:

Yes, that is right. Well it can be other companies also. It is, most of it is short term loan, the distribution, generation, and transfer.

Mr. Rajiv Verma:

I see, okay.

Mr. Satnam Singh:

As far as reset is concerned, in the financial year 2011, loan assets reset, the figure would be roughly about 25,000 crores.

Mr. Rajiv Verma:

Right.

Mr. Satnam Singh:

Anything else?

Mr. Rajiv Verma:

And for the liability, sir, would you have a corresponding number?

Mr. Satnam Singh:

For the liability corresponding number, well it is like this. Our floating rate liabilities, out of the total liabilities are about 31% that is about Rs. 22,491 crs. Now, the composition of these floating rate liabilities is not common. Some are six months reset, some are one year reset, and some are three years reset.

Mr. Rajiv Verma:

Okay, all right sir. That is fine sir. Thank you very much.

Operator:

Thank you Mr. Rajiv. Next question comes from Mr. Praful Kumar from Principal Fund. You can go ahead sir.

Mr. Praful Kumar:

Thank you for taking the question sir. Can you just give breakup of your other income among the how much is UMPP, how much is lease income and other income?

Mr. Satnam Singh:

Just a minute. The other income breakup, nodal agency fee is 43 crores, lease income is 9 crores, and other miscellaneous income is 13 crores, total is 65 crores.

Mr. Praful Kumar:

Okay. What is the outlook for the full year sir, because last year something under APDRP you know was of the tune of 45 crores. So, overall outlook for this particular line item for the year?

Mr. Satnam Singh:

Now that the decision has been taken by Ministry of Power and Ministry of Finance has to decide on the basis of APDRP fee, depending upon the progress we make, we will be setting and booking this fee which is a major part of the other income.

Mr. Praful Kumar:

All right sir, all the best. thank you.

Operator:

Thank you sir. Next question comes from Mr. Ganesh Ram from Spark Capital. You can go ahead sir.

Mr. Ganesh Ram:

Thank you. Sir, could you tell me what proportion of your electricity board exposure has no escrow facility sir?

Mr. Satnam Singh:

There is a precondition for lending to state sector, that tripartite escrow agreement has to be there.

Mr. Ganesh Ram:

Sure. Sir, all the state electricity board escrow also have a state government guarantee?

Mr. Satnam Singh:

No. It is about 18% of the loan book which has a backup of statement government guarantee. On the escrow issue, let me tell you that wherever the power is looked after by the respective state governments themselves, there we do not have escrow because it is lending directly to the power department for example. Goa Power Department or Meghalaya or some other, wherever electricity board is not there. So, I have answered your question that wherever state electricity board is there, there we have escrow, but wherever it is looked after by power department, there we do not have escrow.

Mr. Ganesh Ram:

Sure. My second question is on the risk weights which you will have on your state government guaranteed projects. Now the capital adequacy which you said if you get IFC will be 15%, but the capital adequacy will also change given that the risk weights will become 20% for guaranteed projects. So, given that also would you still think there is a need for a capital raise in the next 12 months?

Mr. Satnam Singh:

No, this 20% risk weight where the asset is backed by state government guarantee is applicable even today to us, and that has been taken into account in working out the 17.38%.

Mr. Ganesh Ram:

Okay, fine. My last question is on you know, the bank borrowings that you are having, which are I am not referring to bonds subscribed by banks, but the direct borrowings, does it got affected or the rates gone up because of the base rate?

Mr. Satnam Singh:

Not really.

Mr. Ganesh Ram:

How much proportion of your current borrowings will be direct bank borrowings, sir.

Mr. Satnam Singh:

22% of the total borrowings is term loans.

Mr. Ganesh Ram:

Do not you think, you know given that most banks base rates is currently almost equal to your current borrowing rate and that rate can grow up that can present a challenge when the resets are due going forward?

Mr. Satnam Singh:

No, I do not think any rate increase in our case would affect in a big way because of our system of charging interest rates. We do not charge interest rates, we do not fix rate of interest on the date of sanction. The interest is charged based on the date of disbursement and the rate charged on the date of disbursement takes into account the borrowing cost for that period. So, as far as fresh disbursement is concerned, we will not get affected. As far as reset is concerned, we have a provision for reset every three years, about 71% of the book has a reset provision, and so far whenever we have reset, we have not lost money, marginal here and there, but overall we have gained quite a lot.

Mr. Ganesh Ram:

Okay. Fine, sir, that is it from me. Thank you.

Operator:

Thank you sir. Participants are requested to restrict to two questions at a time. Next question comes from Mr. Amit Ganathra from Religare Asset Management. You can go ahead.

Mr. Amit Ganathra:

My questions have been answered. Thank you.

Operator:

Thank you Mr. Amit. Next question comes from Mr. Nayan Mehta from 21st Century Shares. You can go ahead.

Mr. Nayan Mehta:

Congratulations on a good set of numbers for this quarter. My question, some of the questions have been answered. I just wanted to know, what is the average tenure of the loans of your loan book and also for the borrowings? Just to understand the you know timeframe of both those.

Mr. Satnam Singh:

Average maturity of the assets is about 5.93 and average maturity of the liabilities is 5.34.

Mr. Nayan Mehta:

5.34, yes. And would it be possible to get a sector-wise breakup of your loan book. I understand bulk of it would be the power sector, but in case of you have anything to share on that?

Mr. Satnam Singh:

No, that thing is on power sector. What do you mean sector wise?

Mr. Nayan Mehta:

Now going forward would you be I mean next question is that would you be, once you get the power, and we have seen project status, would you be mentioning it to other areas besides power?

Mr. Satnam Singh:

No, we are especially created for power sector. We will continue to be in this year because there is tremendous scope in the power sector as of now.

Mr. Nayan Mehta:

Yes. Just to get your sense of the movement in the power sector in the sense, do you see any delay in certain power projects where you had an exposure or may be you are aware where you are some of the projects are in the pipeline for you?

Mr. Satnam Singh:

Well the 87% growth rate in disbursement is a indicator that progress is well above the mark and we have an outstanding loan book of 142,000 crores. So, I do not think there is any reverse. In isolation here and there one or two projects may be getting affected, but in general this growth rate of 87% is actually an indicator that progress is taking place.

Mr. Nayan Mehta:

Can we assume safely in that case whether the remaining three quarters would have a similar kind of a growth?

Mr. Satnam Singh:

Well, that is for you to judge, but yes given the fact that we have a very high order book of 142,000 crores, we expect that we would be able to maintain the growth momentum. What percentage will it be, it is difficult to say.

Mr. Nayan Mehta:

And, would you, can give some kind of guidance on the profitability for the current year, is it possible.

Mr. Satnam Singh:

Am I suppose to give guidance? I do not think I am supposed to give any guidance, but certainly the asset growth last year, 24% year on year, will earn the total income in the current financial year. So, that kind of growth rate you can safely presume will take place.

Mr. Nayan Mehta:

Thank you sir. Wish you all the best.

Operator:

Thank you sir. Next question comes from Mr. Arun Jain from Shubkam Capital. You can go ahead.

Mr. Arun Jain:

Hello.

Mr. Satnam Singh:

Yes.

Mr. Arun Jain:

Hi, sir. Sir, I have a small clarification from your capital adequacy. Now you have applied for infrastructure finance company. So, right now you are eligible for 10% of capital adequacy ratio and now you will be eligible for 15% of capital adequacy ratio for which the IFC status. So, could you please quantify that like 5% of your capital will be blocked. Now already your cost of fund is not so high. So, could you please quantify which kind of losses or which kind of negative use, I understand there is a lot of benefit like ECB and everything. So, do you see any kind of negative from this side?

Mr. Satnam Singh:

No, 15% itself, if you look at it from this angle, can be classified as negative because otherwise with 17.38% capital adequacy, we would not have come to the market at this point of time. And always earlier there was a possibility of going below 15% say up to 13% or 12.5%, but now definitely we have to have higher than 15% which would mean that the possibility of still higher return on net worth will not be there because if the requirement, of course it is not negative because for everyone it will be 15%. So, when compared to the peers, it does not happen, but if you compare with loan company status and IFC status, then there the leveraging possible was 7% to 8%. Here the leveraging even if we go 7% to 8% capital adequacy required will be still higher. So, in that sense, even achieving that return on net worth, higher level of beyond 23% to 24% may not be possible.

Mr. Arun Jain:

Okay, that is what I wanted to understand, sir. thank you.

Operator:

Thank you Mr. Arun. Next question comes from Mr. Punith Srivastav from Daiwa Securities. You can go ahead.

Mr. Punith Srivastav:

Good evening sir.

Mr. Satnam Singh:

Good evening.

Mr. Punith Srivastav:

Sir, one question on the liability side. If you see the cost of fund, actually it has seen a marginal decline in Q1, you know overall cost of fund compared to the Q4.

Mr. Satnam Singh:

Not marginal decline, it is 36 basis points. By any standard, is it marginal?

Mr. Punith Srivastav:

No, I am saying this, the cost of fund, if you see in the first quarter was 8.28.

Mr. Satnam Singh:

That is right.

Mr. Punith Srivastav:

Yes, compared to I think in Q4 what I have is 8.32. So, there has been a marginal decline in the cost of fund. Sir, I am just wondering what could be the reason for this. Is it because you have seen some high amount of high cost borrowing maturing in the first quarter or because you have been able to raise incremental the funds at a lower cost?

Mr. Satnam Singh:

No, full impact of borrowing in the previous quarter at lower cost has come in this quarter.

Mr. Punith Srivastav:

Right, okay.

Mr. Satnam Singh:

Higher impact. Say for example what we have borrowed let us say on 1st March at a lower cost than the weighted average cost. The previous quarter will show only one month impact, but if this borrowing is let us say two years or three years, full impact will come in the first quarter. So, that is, ECB is the one example, 300 million dollars we raised at about a level plus about 200 basis points, that impact, full impact has come in the current quarter and that impact will continue in the second and third quarter too.

Mr. Punith Srivastav:

Okay, sir. And sir in terms of your incremental cost of fund in first quarter, any number which would be there like how much was the incremental cost of fund in the first quarter?

Mr. Satnam Singh:

We raised about 7370 crores and the marginal cost of borrowing was 7.87% p.a.

Mr. Punith Srivastav:

Okay, sir. And sir this last question on the spread, because this is actually related to the cost of fund. I mean sir it has moved earlier I think when we were talking, I think PFC and you were also telling that you will be actually targeting for at least 2% interest spread and now I think we are more comfortable talking about 2.5%, you know. So, going ahead do you see, can we actually go with this 2.5% spread going ahead?

Mr. Satnam Singh:

Well given the present circumstances, yes, but if the market takes different turns, then may be it will have marginal impact, but certainly it cannot have drastic or very large impact in the immediate future.

Mr. Punith Srivastav:

Right, sir. Okay. Thanks a lot.

Operator:

Thank you sir. Next we have a follow on question from Mr. Anand Ladah from HDFC Mutual Fund. You can go ahead.

Mr. Anand Ladah:

Hello.

Mr. Satnam Singh:

Yes.

Mr. Anand Ladah:

Sir, I mean in terms of asset you say 25,000 crores first set are going to pricing this year.

Mr. Satnam Singh:

That is right.

Mr. Anand Ladah:

Sir, I mean, in terms of pricing would there be any benefit, I mean this loan could have been given at lower price earlier. So, would there be any benefit because of repricing or will it be repriced at a higher price?

Mr. Satnam Singh:

No, it will be difficult to say at this point of time because the applicable rate, the reset rate will be known at that point of time. However, I can share with you that it was lent at about average rate is at 11.72%.

Mr. Anand Ladah:

Okay. Is it possible, is there any possibility that even this can be repriced at lower price also. If suppose my current lending rate is 11% or at the time of reset our current lending is 11%, so is it fair to assume that this will get repriced at 11%?

Mr. Satnam Singh:

Yes, of course, because reset means that only, whatever is the current applicable rate. But you see one cannot say that the average because one has to see also the composition of this 25,000. Whether under which category are they coming. Individually whether the rate is lower or higher, that is what is to be seen, not the weighted average.

Mr. Anand Ladah:

Right, sir. Sir, one last question sir. I mean, sir you just mentioned that on the in front you see you will have to maintain a capital adequacy of 15%, right?

Mr. Satnam Singh:

Yes.

Mr. Anand Ladah:

Sir, I believe this is what 15% is what tier I or it is combined tier I plus tier II?

Mr. Satnam Singh:

I think it is tier I - 10% and tier II - 5%.

Mr. Anand Ladah:

So, which means sir, we can leverage a little more, we can leverage virtually up to 7 to 8 times comfortably?

Mr. Satnam Singh:

Yes of course.

Mr. Anand Ladah:

Right, sir. So, that is from my side, sir. Thank you sir.

Mr. Satnam Singh:

Okay.

Operator:

Thank you sir. Next question comes from Ms. Neha Davey from ING Invest Management. You can go ahead.

Ms. Neha Davey:

Hello sir.

Mr. Satnam Singh:

Yes.

Ms. Neha Davey:

It is mentioned, currently the company has around 2800 crores of foreign currency borrowings. What percentage of it will be hedged? Can you just tell us what will be hedged, what is un-hedged?

Mr. Satnam Singh:

Out of this, 18% is hedged. Actually, what we have borrowed in March which is 300 million dollars to State Bank of India, actually that is a five-year loan and there is no need to hedge it at this point of time. Earlier things have been hedged. So, 18% is hedged, balance is open because redemption is at a very distant time. Senior Notes (USPP) what we did is US$ 180 million, that redemption is in 2017, and this one what we have raised 300 million dollars that redemption is after five years, 2015. So, there is enough time for us to watch.

Ms. Neha Davey:

Okay. And sir, one more question. Has the company applied to the centre or heard from the centre on whether the company is allowed to raise infra bonds from the retail investors?

Mr. Satnam Singh:

Well, as far as strict notification is concerned, we cannot sort of approach, we cannot get money through infrastructure bonds because we are classified as non-deposit taking NBFC and if we do that then our status would go. But however we have sought exemption under the NBFC IFC status. Once that happens, then probably we will be able to raise money against this bond also, infrastructure bond also.

Ms. Neha Davey:

Okay, thanks a lot, sir.

Operator:

Thank you madam. Last question comes from Ms. Deepti Chauhan from Asset Mehta. You can go ahead.

Ms. Deepti Chauhan:

Sir, I just have one question on the exposure norms which you have got. I just need a clarification. Right now the lending norms enable you to take exposure up to 100% in case of government entities. Whereas in case of private companies exposure is limited to15%. I was just wanting to know PFC and REC boards have got exemption from the RBI to comply with their own prudential norms. So, just want a clarity, what exactly is different from what is applicable to the other NBFCs.

Mr. Satnam Singh:

Well, I do not think you should be asking about other organizations from me, but I can tell you what is applicable to us. The norms for the state and central sector, which are finalized in consultation with Ministry of Power, are applicable up to March 2012, that is the time Reserve Bank of India has allowed us to. That means the exemption from the normal norm, is available up to March 2012, and at that time it will not suddenly, there is no decision that after that private sector norms will be applicable to state and central sector. However, RBI has asked us to submit a roadmap so as to let them know by which time we will be able to implement the private sector norms. Based on the road map submitted by various organizations included PFC, RBI will take a call whether further exemption is to be continued or they have to implement from a particular date. That is what the position is as of now, but as far as REC is concerned, I guess you can talk to them.

Ms. Deepti Chauhan:

So, if I correctly understand, does that mean that there could be a certain change as far as this 100% of the exposure is concerned in case of the state entities, either that could be brought down or more exemption could be given to you.

Mr. Satnam Singh:

See, as of now, this exposure limit is decided by PFC in consultation with ministry. Up to 2012, we have no plan to reduce it.

Ms. Deepti Chauhan:

Okay, right. So, after 2012, it would depend upon what is the roadmap which would be laid down and then the percentage will be decided accordingly.

Mr. Satnam Singh:

That is right.

Ms. Deepti Chauhan:

Thanks a lot sir.

Operator:

Thank you madam. At this time, I would like to hand the floor back to Mr. Satnam Singh for final remarks. Over to you, sir.

Mr. Satnam Singh:

Well thank you investors for participating in the conference call. I am happy that some inquisitive questions were raised by the investors and I think we have adequately addressed them. If in the process of addressing questions some gaps are left, we request all of you to send us the email and it will be responded to. Thank you very much.

Mr. Rahul Jain:

Sir, on behalf of HDFC securities, I would like to thank you and the management for taking out the time to discuss the results.

Mr. Satnam Singh:

Welcome.

Mr. Rahul Jain:

Thank you so much sir. Wish you all the best.

Mr. Satnam Singh:

Thank you.

Operator:

Thank you sir. That does conclude our conference for today. Thank you for participating on Reliance Conferencing Bridge. You may all disconnect now.