

Conference Call Transcript

Power Finance Corporation

Q1FY13 Results

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Corporate Participants

Mr. Satnam Singh

Chairman & Managing Director

Questions and Answers

Moderator: Ladies and gentlemen good day and welcome to the Power Finance Corporation Limited Q1FY13 earnings conference call hosted by Edelweiss Securities Limited. As a remainder for the duration of the conference, all participant lines are in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, you may signal for an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I will now like to hand the conference over to Mr. Kunal Shah of Edelweiss. Thank you and over to you sir.

Kunal Shah: Thank you. Good afternoon all of you. This is Kunal Shah from Edelweiss Securities. We have with us Mr. Satnam Singh – Chairman and Managing Director from Power Finance Corporation to discuss their Q1FY13 earnings and also to give their perspective on some of the latest developments in the power sector. Sir congratulations for the great set of numbers and you can take it ahead from here.

Satnam Singh: Good afternoon everyone. I am sure most of you have seen our results, but for this conference, I thought I will structure the discussion in three phases. First one is financial, second one is other developments at Power Finance Corporation and third is sectoral developments which have implications for our corporation; first of all, the business growth. Our disbursements during the quarter increased by 29% from ₹ 6099 crores to ₹ 7884 crores. As a result of that our loan assets increased by 29% from ₹ 1,04,050 crores to ₹ 1,34,742 crores. Our total income increased by 35% from ₹ 2,924 crores to 3,945 crores. Our net interest income increased by 41% from ₹ 990 crores to ₹ 1,394 crores. As a result of all this, our profits after tax increased by 42% from ₹ 686 crores to ₹ 972 crores. The spread and the NIM increased by 35 basis points and 34 basis points from 2.28% to 2.63% and 3.85% to 4.19% respectively. Those of you who have heard me in the earlier conference call, I had very clearly stated that our spread earlier was lower only because RBI was increasing interest rates every now and then and the moment RBI puts a full stop to that kind of increase in interest rate, our spread will come back to the normal level and that has come true. So, going forward also the Reserve Bank of India keeps interest rates stable, we are likely to maintain our spreads in this range.

Our capital adequacy ratio as of March end we have shown at 16.29%, but as of 30th June it is 18.55%, primarily because the Reserve Bank of India has reduced the risk weight for already commissioned projects and with satisfactory operation for one year from 100% to 50%, because of this new circular of Reserve Bank of India, our capital adequacy ratio has gone up by 1.88%.

During the quarter there has not been any addition to non-performing assets. Our gross NPAs have marginally come down from 1.04% to 1.02% primarily because of increase in the loan assets and also the net NPA has come down from 0.93% to 0.91%.

Now on to, the changes which have taken place in Power Finance Corporation, first of all we have in yesterday's Board meeting decided to fund the energy security projects outside India and I am sure most of you know it. Videocon has acquired gas fields in Mozambique, Brazil and Indonesia where in State Bank of India and IDBI Bank have financed that projects. We have also joined them and agreed to finance ₹ 2,200 crores. Similarly GVK which has acquired coal mines in Australia and is currently doing development of these coal mines, the lead bank being ICICI we have joined them and agreed to extend financial assistance to the tune of \$155 million. Of course, this is linked to the Reserve Bank of India's approval for enabling us to lend in foreign currency to foreign companies. Our prime motto for extending financial assistance to such companies is that they are going to bring the output from these projects to India which will help the fuel supply for Indian power projects.

During first quarter, we have borrowed a syndicated loan of 250 million US dollar, agreement for which has been signed and we are likely to draw the money shortly. So far, we have raised up to first quarter about ₹ 8,600 crores, through bonds and roll over of FCNR, plus few days back we have launched another issue, however we got ₹ 4,100 crores in the domestic market. So in all, about ₹ 14,000 crores of fund has already been raised. Apart from that, the Ministry of Finance has agreed to give us tax-free bonds of ₹ 5,000 crores and we will raise this tax-free bond the moment notification is issued by Ministry of Finance. So with that almost 50% of yearly target we would have achieved as far as resource mobilization is concerned.

As far as applicability of prudential norms of Reserve Bank of India are concerned we have already submitted the roadmap to the Reserve Bank of India. I am sure you know it that they have exempted us up to March 13, with a provision that PFC has to comply with the norms for central and state sectors companies by March 2016. But we have expressed to Reserve Bank of India that it is not appropriate to do it this way, but we have sought exemption with the help of Ministry of Power up to 12th plan end and thereafter we have said that these need to be reviewed.

RBI has also come out with another circular wherein they want IFCs to provide for capital adequacy even for undrawn commitments to the extent of about 50%. When we took up the matter with them, they said that these can be resolved by issuing sanction on year to year basis. But for power projects where financial closure is a condition for any lender to extend money for its financial assistance, this is not doable. Even though we have got the exemption up to March 13, we have once again taken up the matter with Reserve Bank of India that the finance companies extending funding to power projects be exempted from providing additional capital for undrawn commitments. Let us see how they respond to that.

Apart from that we have floated expression of interest to form JV for our consulting wing. JV with a international company having experience in the thermal segment, and the last date for receiving bids is 31st August. We will share with you as and when the bids are received. We have also launched

power equities fund, not launched actually we have decided with whom we will first partner for this Power Equity Fund. Yesterday, the Board has approved the name of Tata Capital. In fact there were four companies which were in the consultation. Tata Capital, Religare, Reliance and Edelweiss. So we have decided to go to Tata Capital first. If we are not able to agree to the detail terms and condition, may be we look at Religare later.

Of the two of our additional subsidiaries, PFC Capital Advisory Services and PFC Green Energy Ltd, PFCCAS has already started earning profit, last year it earned ₹ 5-Lakhs, in the first quarter it is around ₹ 15-Lakhs and PFC Green Energy Limited has applied for NBFC status and we are likely to get in a months' time. But in this area, we did a business of ₹ 1563 crores which we will transfer to this subsidiary as and when we get the NBFC status.

Now on the ultra mega power projects; 16 were identified as we all know, four have been awarded successfully, for two of them, Odisha and Chhattisgarh we have issued the RFQ long time back. For Odisha RFQ has been evaluated and we are awaiting the new documents, modified documents for RFP from Ministry of Power. Chhattisgarh is still in no go area. We are not able to conduct technical studies because of the local agitation. The next UMPP, which is at an advanced stage is Cheyyur which is imported coal based and we are ready for issuing the RfQ, however the RfQ for this UMPP can be issued only on the basis of new documents which are awaited from Ministry of Power. Site for two new additional UMPPs in Odisha has been identified and the progress is being made. In Jharkhand, we have identified second UMPP site and we have also created a SPV for that under the name Deoghar Mega Power Limited, site for this UMPP is Hussainabad and we are creating possibility of allocation of coal mine.

Similarly, independent transmission projects, 4 have already been awarded, we are working on 5th ITP which is Uttarakhand Transmission Company; RfQ is likely to be issued shortly.

Restructured APDRP scheme is at an advanced stage of implementation. So far 9 states are integrated, data center, with the pilot town and system is being tested. 201 towns out of 1400 towns have been integrated and we have got the data for 95 towns in four states, with this kind of preparatory IT system being in place they have been able to reduce aggregate technical and commercial losses on an average by about 6.5%.

And lastly the Financial health of DISCOMs, I am sure you know that restructuring package for Discom is being worked by Ministry of Finance, Ministry of Power and it is being put up to cabinet. This restructuring package is for the short term lending by banks to the distribution company and Ministry of Power also asked us to extend some similar help to six state DISCOMs. Of course, our lending to this DISCOMs was very small ₹ 5,820 crores long term loans and ₹ 1,890 crores short term loan. We have not agreed to restructure any of these loans, but because these DISCOMs has got cash gap even after the financial restructuring plans being implemented by banks, we have agreed to extent support to them and that is in the range of ₹ 1,000 crores to ₹ 5,000 crores for 6 states, that is Punjab, Haryana, UP, Rajasthan, Tamil Nadu and AP

and we are offering a maximum moratorium period up to three years and maximum repayment period up to 7 years. Money will be sanctioned with security of state government guarantee and so far we have not disbursed any money against this but we have concluded the discussions with all the 6 states. That is all about the developments at Power Finance Corporation.

Now apart from the developments in the discoms, other development in the power sector is about coal and FSA issue. I am sure some of you must have seen what had been the decision of CIL board the day before yesterday. They have agreed to a penalty of 1.5% to 40% on a graded basis. It actually means that since the penalty below 65% goes up substantially, between 60-65% it is 5%, between 50 and 60% it is 10-12% and below 50% it is 40%. So penalty being too high, below 65% one can safely presume that coal India will make sure that at least 65% of the requirement of coal is supplied and if that happens there is no possibility of any default to lenders. We have of course analyzed the project funded by us both coal based as well as gas based against the overall capacities which we have funded for IPP is about 50,600 MW and state sector and central sector is about 40,000 MW. I am happy to share with you that state and central sector projects will be able to get coal supply from coal India. IPP if they have any problem according to us we have analyzed and seen that there may be some issues with Wardha power where the mines are in no go area and ESSAR Power where forest clearance for captive mining has to be obtained. In these two projects our disbursement is only about ₹ 1,400 crores and we don't see any major issues other than these projects. Similarly, in our gas based projects we have supported capacity in the private sector projects 4,700 MW and state sector about 7,000 MW. We don't see a problem except for Konaseema Gas which is already became a NPA our disbursement is about ₹ 406 crores. Rest of the projects have no issue and state and central sector projects in any case, I have already shared with you, those will be able to get gas supplies, in consultation with Government of India.

Some of you may be interested in knowing what are going to be our targets for this financial year. Our sanction target is about ₹ 46,000 crores. Our disbursement target is about ₹ 43,000 crores and our resource mobilization target is about ₹ 40,500 crores, that is all I thought I would share with you. On the basis of our net worth size which currently is about ₹ 20,000 and odd crores, we have become the largest NBFC in the country . I think we are moving in the right direction, with all your support and encouragement. Thank you very much.

Moderator: Participants, we will begin the question and answer session. We will take our first question from the line of Mr. Ajitesh Nair from UBS Securities. Please go ahead.

Ajitesh Nair: Sir I have two questions, one is on the asset yield which have moved up pretty sharply during this quarter. What might be the reason for that?

Satnam Singh: Well, as you know that in the last quarter our disbursements were over ₹ 15,000 crores at the current rate and the income of all that ₹ 15,000 crores came in full in the first quarter. Also the reset, whatever was quarterly reset that happened at a higher rate. So both these things put

together has resulted in increase.

Ajitesh Nair: But sir reset, have you changed your benchmark rates?

Satnam Singh: No. we have not changed our benchmark rates, but as you know that earlier rates were lower because there has not been any reduction in the rates so far in the last few months.

Ajitesh Nair: The second question is on your provisioning coverage. Just a thought, that we had a very strong operating profit growth this quarter which is expected to continue. Is there any thought that you would like to bump up the provisioning coverage?

Satnam Singh: No, actually we are in consultation with Reserve Bank of India. Once that road map on the norms is approved, after that we will decide. We have in fact proposed, that over certain period, even though we have adequate reserve for doubtful debt (I have been sharing investors for quite sometime), we will make some additional provisions, once the discussions with RBI is complete.

Ajitesh Nair: This is during this year, the discussion?

Satnam Singh: No, upto March 13 we have got exemption, so whatever additional norms will be there they will be applicable from 13-14 and that time, whatever is the agreement with Reserve Bank we will do on that basis. In any case the total provision they expect us to make is only 0.25%, that is not much for us.

Ajitesh Nair: Absolutely sir. My question is more towards, given the cycle that we are in and given we already have gross NPA of 1% already. Our provisioning coverage is only 10%. We are making very strong revenue. Is there any thought of using this profits to improve the balance sheet strength.

Satnam Singh: No we have not taken that call as yet, but these 1% NPAs, I am sure you know that one of the companies we have already restructured which is now making the payment on the due date is likely to come back as a standard assets in the fourth quarter of this year. Once Konaseema starts getting gas, the decision is likely in next 2-3 months, then that will also no longer be our NPA. Other two, one being Om Shakti project which is a small one, and other is Shree Maheshwar where we have already given some kind of timeframe to the promoters to arrange the balance equity. Once that is done, at least 3-4 units of that project can also be tweaked in. So we are not really under any stress from that angle, but yes this has become NPA for the time being and we are looking at them to resolve the issues.

Moderator: Our next question is from the line of Krishna Kumar from Sundaram Mutual Fund. Please go ahead.

Krishna Kumar: Sir you told about the gas sector and the projects that we have funded. We do hear that lot of projects in Andhra Pradesh are based on gas. So do we have exposure to some of these projects like Lanco's Kondapalli power projects, GVKs Gautami Power Projects, or the Reliance Power Samalkot projects and how do we intend to move ahead on these projects?

Satnam Singh: The three projects which you have mentioned, yes we have exposure to Lanco Kondapalli, but it is fully paid. For GVK gas project and Samalkot we have sanctioned but the promoters are not prepared to take the loan because we have asked for bank guarantee in case they are not able to arrange the gas before the commissioning. So this term it is not acceptable to them. So we have not disbursed to these two projects. The only project in Andhra where we have gas issue is Konaseema and that has already become NPA because they are not getting full gas and the government is considering all these and most likely these power project get gas in about 2-3 months time.

Krishna Kumar: And sir in terms of lending into the energy security projects you mentioned about Videocon and the coal mine of GVK, so as the oil and gas is concerned do we kind of intend to build up the expertise to assess these projects. So how we go about lending in this space and what kind of targets one should look at over the next 3 years, how big it can oil and gas sector can be as a portfolio for us?

Satnam Singh: Well, it is difficult to say at this point of time, how big the portfolio would be, but what I can share with you is that we have decided to make headway in that area because our thinking is that is it very important for India and initially we have taken very little exposure out of the total exposure and we have relied primarily on the evaluation done by the lead banker. The idea of making small investment initially but making a head way in that area is to actually develop expertise in-house. Next similar project if we get then we will ask our own team members, technical team members to be part of the evaluation and have better understanding of such project so that we can develop such kind of business as a big business going forward.

Krishna Kumar: And sir, the first quarter, could you just give some idea of the sanction, so just to get an idea, what kind of project sanctions happened?

Satnam Singh: The first quarter we have had some ₹ 11,182 crores.

Krishna Kumar: So this is essentially in thermal or what area sir?

Satnam Singh: You mean the projects?

Krishna Kumar: Yes.

Satnam Singh: The projects are Nagapattinam Power & Infra, Odisha, Baglihar Hydroelectric Stage-II in Jammu & Kashmir, Indiabulls Realtech Phase-II project in Maharashtra, Solar Thermal project of KVK, that is Lanco, 100 MW solar thermal project of Diwakar Solar. Another one is 600 MW Jinbhuvish Power Generation in Maharashtra, Durgapur 250 MW in West Bengal. Mostly, in the coal area except two in solar and one hydro.

Moderator: Our next question is from the line of Parag Jariwal from Macquarie Capital. Please go ahead.

Parag Jariwal: I just want to know out of the disbursement you have done during the quarter what proportion accounts for working capital or a short term loan, less than one year?

Satnam Singh: Out of the total disbursement of ₹ 7884 crores, working capital

is only about ₹ 75 crores.

Parag Jariwal: And as a percentage of overall book what is the working capital loan?

Satnam Singh: It is about ₹ 4000 crores out of 1,35,000 crores. So that is 3%.

Parag Jariwal: And sir what is the restructuring book outstanding as of date? I mean some increase in tenure or even reset of interest rate, because your counterpart has quite a substantial amount as a restructured asset. So what is your quantum for this?

Satnam Singh: We are not; we haven't gone for any restructuring in any of the cases.

Parag Jariwal: Not even tenure and not even for the interest rate?

Satnam Singh: No, for interest we never restructure. For the tenure actually in the case of state sector since we have got exemption, in some cases there is a shift in the commissioning schedule maybe by 2 months, 3 months, 4 months, which is not considered as restructuring. So because of that the repayment may also may get shifted by few months, so that is not classified as restructuring.

Parag Jariwal: Any number to that?

Satnam Singh: No, no number, it is a small number and doesn't happen quite often. I cannot give you any number at this point of time.

Moderator: Our next question is from the line of Manish Ostwal from KR Choksey. Please go ahead.

Manish Ostwal: Sir, only one clarification on the Reserve Bank of India reduce risk weight on power project which are already started, so just wanted to know whether it has allowed all infra financing company or it is specific to power finance corporation?

Satnam Singh: No, it is allowed to all IFCs. It is a standard circular by Reserve Bank of India.

Manish Ostwal: And secondly during the year what were the total asset and liability re-prices?

Satnam Singh: The reset which have been done in Q1 is about ₹ 18,000 crores.

Manish Ostwal: On asset side?

Satnam Singh: Yes.

Manish Ostwal: And on liability side?

Satnam Singh: On liability side we don't have the figure readily for the first quarter, but if you can email we will give it to you?

Manish Ostwal: And secondly what is the currently asset liability duration sir?

Satnam Singh: 6.15 years and 5.82 years

Manish Ostwal: And lastly on the Forex borrowing side, what is out of the total borrowing outstanding how much is hedged?

Satnam Singh: Actually it is like this, whatever we have followed earlier as per that we have kept 88% open. So as I have explained it earlier that of our total borrowing, foreign currency borrowing is only about 5% and redemptions for the earlier borrowings is starting from 2014. So because of that we have kept higher percentage as open. We have very recently borrowed 250 million three year syndicated loan and we have changed our policy that in the first year, we will hedge about 15%. So since we have not drawn that money as yet, that is only I am telling you the future policy in this regard.

Manish Ostwal: And this overseas loan extend to overseas asset , specifically coal assets, so whether those assets are similar asset provisioning and risk weight-age or it will have different because it is not a power project as such.

Satnam Singh: As of now I cannot say clearly whether the same circular will be applicable to coal mine or not but we will find out. But the new projects where we have just sanctioned, the disbursement will take place after some time. So it is not a cause of worry at all but we will find out.

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

Devang Modi: Sir I wanted to understand that what percentage of our private sector state and central projects are under execution and what percentage is already operational?

Satnam Singh: If you can send us email, we can provide you the data. We have that data but right now it is not readily available with me.

Devang Modi: Sir just wanted to understand this particular theme playing out over the last couple of quarters, we are continuously seeing a gross spread expansion and is probably due to a reluctance of the rest of the industry to finance power projects, which is waiting for somebody like PFC get into field in terms of being able to finance and cherry pick the project it wants. Is that sort of a theme playing out right now and that is what is leading to an expansion of yield?

Satnam Singh: Not really because we have a huge order book which mean outstanding sanction and for new sanction disbursement cannot take place so quickly and we are disbursing only based on what we have sanctioned earlier. There is nothing like that others are not lending and we are lending. That can happen only in short term loans and short term loans we are not lending in a big way. First quarter disbursement is only about ₹ 75 crores.

Devang Modi: Sir what were the repayments that we received over FY12 and Q1FY13?

Satnam Singh: If you want to know the absolute figure we will let you know. Kindly send us an email we will let you know. We don't have the repayment figures readily available. But I can tell you our recovery rate for 11-12 was 99.20% .

Devang Modi: Sir if you could just mention what is the exposure we have to KVK Energy group and Videocon group?

Satnam Singh: Videocon earlier we have sanctioned for 2 of their power projects and now we have sanctioned for their gas field ₹ 2,200 crores. But for the power projects they have not drawn any money so far.

Devang Modi: Okay and the gas field they would have drawn down some money?

Satnam Singh: No we had just sanctioned yesterday, nothing, nil disbursement to Videocon as of now.

Devang Modi: And then KVK Energy?

Satnam Singh: Are you talking about KSK or KVK?

Devang Modi: KVK sir. KSK we are aware it is a listed.

Satnam Singh: Can you tell me project?

Devang Modi: KVK Group basically has two or three different projects, I think KVK Nilachal and then there is a solar project and all those things. So just wanted to know what are the sanction amount and what is the disbursement provided over there?

Satnam Singh: KVK we have sanctioned ₹ 1600 crores.

Devang Modi: And sir disburse?

Satnam Singh: I don't have figures readily available at the moment.

Moderator: Thank you. Our next question is from the line of Nischint Chawathe from Kotak. Please go ahead.

Nischint Chawathe: Sir just trying to look at the capital adequacy ratio. The capital adequacy ratio has increased from 16.3 to 18.55. I was just wondering if you have calculated the capital adequacy ratio in the previous format which is basically assigning 100% risk weight to all projects then what would the number look like?

Satnam Singh: 16.67%.

Nischint Chawathe: In that case if I do the math backwards can I broadly say that approximately 25% of our overall loan book has projects which are already commissioned?

Satnam Singh: Little less than 25%, in terms of disbursement. Actually it is difficult to say that way because commissioned project also starts making repayment. So the outstanding loan actually starts coming down quickly. But otherwise it is about ₹ 34,000 crores, but straight away we cannot come to the conclusion that it is 25%, because capacity is supported with ₹ 34,000 would have been higher, because some repayment should have taken place.

Nischint Chawathe: The other is a question which pertains to the transition loans that you announced yesterday, you said that you will look at giving somewhere close to around ₹ 17,000 crores of transition loans, it is 5 or 6 states. Just wanting to really understand how does this rate with the restructuring packages that the states are looking at.

Satnam Singh: It is like this, that the Government of India is looking at the

restructuring of the money lent by banks which is not project specific. Now each state has worked out a restructuring package. Some portion is going to the state governments, some portion is going to the banks and there were still some gap and this gap is also to be filled up if the states have to ensure that all repayments are made on time and it is for this purpose that Ministry of Power asked us to provide additional support. We have responded that all our lendings are project specific. So there is no question of restructuring of that loan. Our short term loan to Discoms is very minimal only ₹ 1800 crores. But then we cannot also leave these DISCOMs in the lurch and say that if you have problems we are not going to provide any support because it is not in our long term interest. So that is why we have thought of providing this special norm to them to overcome the project cash gap problem. So that figure for all these it is ranging from ₹ 1000 crores to ₹ 5000 crores and we are allowing them terms of up to 3 years as moratorium and up to 7 years as tenor for repayment. Now within this period we feel that the initiatives which are currently under implantation by tariff revision and restructured APDRP scheme and others would result in additional revenues to the state DISCOMs and they will have no problem.

Nischint Chawathe: And sir preconditions for these loans were similar to that, what the central government will put in?

Satnam Singh: We have put up a precondition of state government guarantee and asset loan.

Nischint Chawathe: And I think some of the preconditions that we have discussed in the past were about disclosure of accounts on a periodic basis and all that. Do all the things stand or kind of...

Satnam Singh: Even those will be there, those conditionalities will be there.

Moderator: Our next question from the line of Ganesh Ram from Spark Capital. Please go ahead.

Ganesh Ram: This is Ganesh Ram. I have couple of questions. One is you were mentioning about the Coal India board meeting, I was wondering what your expectation is of the mode of implementation of the coal pooling which was undecided in the meeting, have you had a chance to discuss it with SEBs. They will be able to pay for costlier power. Almost all PPAs need to be changed. What is your sense on that?

Satnam Singh: Lots of capacity that has come up, was on the basis of the assurance by the government that coal will be provided and Coal India was supposed to provide that. Afterwards, this Coal India was not able to provide that coal as per the linkage, it is not the developer who is at fault. If because of Coal India not being able to provide the linkage-based coal then the Coal India has been asked by the central government to import and fulfill that request. If once Coal India imports it will ask for an extra price and that price is used for pooling of coal which is to be charged from the state distribution companies. We have not had any discussions directly, but if the central government decides that way, I don't think anybody has any say in that.

Ganesh Ram: But do you see a high chance of coal pooling becoming a reality anytime in the next Coal India meeting scheduled soon. In the next may be in the month or so?

Satnam Singh: Of course we have to check with them. Developers definitely expect that to happen.

Ganesh Ram: My second question is have you put up some kind of thought of buying loans from banks on operating projects, given that you have an arbitrage of 50% capital adequacy, 50% risk weight, vis-à-vis them and it also reduces your risk profile in some form. So is that some kind of growth strategy you have in mind?

Satnam Singh: The circular is very recent and we have just first calculated the impact on our capital adequacy. Well, your suggestion we will have a look at that whether there is any possibility of doing some business there.

Ganesh Ram: Lastly, have you had a chance to discuss with credit rating agency on this or they are looking more at CAR because all along they will be looking at leverage more than capital adequacy for NBFCs and most basically infra NBFCs, given the AAA you have. Are they now willing to look at capital adequacy ratio rather than leverage?

Satnam Singh: Both indicates the same thing, whether you call it leverage, or you call it capital adequacy, I don't think credit rating agencies have to change their outlook whether it is leverage or capital adequacy.

Ganesh Ram: But leverage assumes 100% risk, because they look at what debt-equity and if you have 50% risk weight then your CAR will look much better and you can leverage that much more and improve your ROE. I am just coming from that angle.

Satnam Singh: No for an institution where the risk weight for certain specified asset is lower, leverage will work out accordingly, not based on 100% risk weight.

Moderator: Thank you. Our next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani: How much of your asset got repriced this quarter, because there has been a significant increase in the yield on loans.

Satnam Singh: ₹ 17,900 crores.

Amit Premchandani: And sir do you think this kind of margin is sustainable or do you think it was just one-off.

Satnam Singh: Earlier also I have shared this with investors that our margins came under stress only because RBI was increasing the interest rate every now and then and we had matched our asset reset and liability reset on yearly basis. So since the liability was getting re-priced every now and then, we were not able to get compensation in the asset resetting. Now that the RBI has halted the interest rate increase our margins and spread has comeback to normal level and we hope that this sustainable.

Amit Premchandani: Sir over the next three quarter how much of the assets will get re-priced?

Satnam Singh: It is about ₹ 20,000 crores.

Amit Premchandani: And it will be at a higher level from the current lending rate that they are?

Satnam Singh: That will depend upon what are the interest rates on those dates. As on date it is higher, if the Reserve Bank tomorrow decreases the interest rates and then we are also to modify our interest rate on that account, it will be marginally lower, but otherwise it going to be higher.

Amit Premchandani: And sir, have you reduced your rates over the last six months, after RBI had reduce it?

Satnam Singh: No.

Moderator: Our next question is from the line of Rahul Jain from Goldman Sachs. Please go ahead.

Rahul Jain: Just a couple of questions, first of all on this SEB, how much would have been our lending to SEBs in this quarter and what would be the likely quantum for lending to the SEBs which will be the part of the restructuring or transitional SEBs?

Satnam Singh: That kind of specific question we can only reply if you send us a mail. But overall how much was to the SEBs, that I can say. It is about ₹ 7,700 crores. And I think you are asking for the 6 states, isn't it?

Rahul Jain: No, the first part was how much was the lending in this quarter to SEBs, put together.

Satnam Singh: That I have answered. You are referring to these 6 states right?

Rahul Jain: For the 6 states that you have talked about.

Satnam Singh: Kindly send us the email, we will reply.

Rahul Jain: Second thing sir, you talked about this GVK foreign currency loan, just wanted to understand this is the fresh lending to GVK and foreign currency or this is sort of a buyout from any bank or ICICI Bank?

Satnam Singh: Actually the lead banker they have underwritten the whole loan and they are down selling it. So it's not a buyout of that kind, but it is being down sold.

Rahul Jain: How much have we bought, 200 million order right if I have heard it correctly.

Satnam Singh: \$135 million. They have not got that yet, but yesterday we have sanctioned, then they will comply with the conditionalities then may be we will discuss.

Rahul Jain: And sir just one more thing. How much of our loan book or power projects that we have exposure to are coming up for COD or the repayment that are kicking in the next 12 months, out of these 11.5% of total book that we

have got?

Satnam Singh: Capacity is not there at the moment. Kindly send us email we will let you know.

Moderator: Our next question is from the line of Umang Shah from Motilal Oswal Securities. Please ahead.

Umang Shah: Most of my questions have been answered. Just one question, could you throw some more light on the RBI circular that you are referring to for IFCs wherein RBI has asked you to provide more up to 50% on the undrawn limits, could you just throw some more light on that?

Satnam Singh: See, when we sanction loan for any power project it is sanctioned for the entire period of construction. We won't sanction loan on year-to-year basis. Next year we are going to construct 10%, we take 10% loan, following year 20%, take 20% loan. So it is one-time sanction to be utilized over a period of next 3-4 year. What RBI is saying as per this circular is that whatever is committed and not drawn on that, it is expected that the IFC will provide for capital in advance, as and when they draw money in any case that becomes a loan asset and we have to have corresponding capital. But till they have not drawn, also, the Reserve Bank circular says that IFC should have 50% of the capital required. Now, which would mean that an institution like ours whose outstanding sanctions are huge, about ₹ 1,60,000 crores, we may have to provide a very huge capital and that will make the whole sector unviable because higher capital would mean higher cost and therefore higher lending rates. So that is what we have highlighted to the Reserve Bank of India it is not doable in power sector.

Moderator: Our next question is from the line of Kajal Gandhi from ICICI Direct. Please go ahead.

Kajal Gandhi: Just wanted to know what are the reasons for the yield being so high in this quarter?

Satnam Singh: The yield is higher because ₹ 17,900 crores assets have been reset and also ₹ 15,000 odd crores we have disbursed in the last quarter where in full income of lending at higher rate has come in the first quarter.

Kajal Gandhi: And what will be the sustainable NIM that will be there?

Satnam Singh: This is the sustainable level provided RBI does not tinker with interest rates every now and then.

Kajal Gandhi: So we are around 4%.

Satnam Singh: Yes.

Moderator: Our next question from the line of Mithun Soni from GEECEE Investments. Please go ahead.

Mithun Soni: Sir mentioned that our total book what we have about ₹ 34,000 crores is the project which is already commissioned am I right?

Satnam Singh: Yes.

Mithun Soni: And ₹ 39,000 crores worth of projects will get commissioned during FY13?

Satnam Singh: That is right. But this ₹ 39,000 crores actually the financial figure does not indicate the corresponding capacity, because as and the projects gets commissioned the repayment starts. So 34 and 39 cannot be correlated, and also it all depends upon the composition. How much is lend to private or state sector? That will also change the capacity composition. But what is important is the capacity. How much of the capacity, with these financial figures we cannot come to a conclusion.

Mithun Soni: I agree sir. And sir so what would be the sort of projects which will get commissioned in FY13, will you be able to give any figure?

Satnam Singh: Rough percentage I can give you. Out of ₹ 39,000 crores coal based are about ₹ 33,000 and gas based ₹ 4400, hydro ₹ 972, renewable ₹ 662 crores.

Mithun Soni: And sir what is the figure you are looking at in FY14, for the projects which are likely to commission, the total in terms of value?

Satnam Singh: As of now it is in ₹ 17,600.

Mithun Soni: For FY14?

Satnam Singh: Yes, but what happens is that the projects which are close to commissioning their disbursement would take place and that will also get added.

Mithun Soni: And sir on the liability side what is the sort of repricing in terms of amount and in terms of rates that you are expecting this year?

Satnam Singh: In terms of amount reset liabilities, I think it is about ₹ 24,700 crores.

Mithun Soni: So out of the total loan book the total borrowing ₹ 24,700 will get re-priced and what is the sort of the cost increase of the rate at which it is likely to get reset?

Satnam Singh: Cost increase I cannot tell you. But total our floating rate liability, ₹ 24,700 is coming for repricing but total floating liabilities are about ₹ 29,000 crores and they are at separate interest rate. Some ₹ 9000 odd crores at base rate, ₹1800 crores is PLR based, ₹ 2,500 is general reset, ₹ 8,600 crores with one year reset bonds and ₹ 1,200 crores with three year reset bond and ₹ 4,207 crores foreign currency loan.

Moderator: Thank you. Our next question is from the line of Nitin Arora from Nirmal Bang. Please go ahead.

Nitin Arora: Sir if we can get a sense like suppose Ministry of Power has approved 88 GW to get commissioned now in the 12th plan. So I do understand that you are saying that you don't have the data readily available right now, but can you tentative idea that of this 88 GW which will get commissioned in this 12th plan, can you tell us how much would be our share in terms of coal and gas and hydro?

Satnam Singh: Coal, gas, and hydro I will not be able to tell but at least 20% of that in terms of value that we target to achieve.

Nitin Arora: Sir any sort of that 20% you are saying in terms of value, any sort of delay or any sort of because of this coal and gas issues, any particular projects you can tell us which are facing and you told us one Konaseema is there but that was NPA but new fresh capacities that are coming up?

Satnam Singh: Fresh capacities Samalkot of Reliance. We will not be able to tell you those projects which haven't come to us for financing. Samalkot came to us for financing we have sanctioned with the bank guarantee which is not acceptable to them. There is likely to be delay in gas availability. Rest of the projects haven't come to us so I will not be able to share. As far as coal is concerned, since the Coal India has already taken a decision about the pricing in yesterday's board meeting, I don't think in future, coal problem is going to be there in a big way, up to 65% at least all the projects are going to get if not more.

Nitin Arora: Sir my follow up question would be you talked about this restructuring of the loans, not restructuring I would say that you will lend ₹ 3000 to ₹ 5000 crores to these SEBs, 6 state you were saying. My point is on this is that what is the current theme right now as we are just seeing that you know 50% of the hit would taken by the state and then the total SEB loan would be taken up by the banking people. So what is your sense would be the ultimate, the percentage share of each people hit. I do understand that we have a very less exposure to the SEBs.

Satnam Singh: Only when the cabinet approves that proposal it will be appropriate to comment. Till then it is all in the draft state so I don't think I should comment on that?

Nitin Arora: But suppose if we have this about ₹ 5,000 crores of loans into the SEBs, if government asks to restructure that, so as you have said that if the central asks the coal pool pricing they need to do it, so is it the same way I can assume that the centre asks to do it, then we also have to do it?

Satnam Singh: No we are not part of that.

Moderator: Thank you. Our next question is from the line of Atul Kumar from Quantum AMC. Please go ahead.

Atul Kumar: Asset slipping to NPAs apart from what we have seen most of that happening last year like Konaseema and Shree Maheshwar so near term do you see any other assets which could slip to an NPA?

Satnam Singh: Not at all. As of now there is no such indication.

Atul Kumar: In your opening remarks, you talked about the SEB restructuring and later on in one of the questions you have also said special loans to SEBs, so are they two different or you are talking about the same thing when you said those things.

Satnam Singh: SEB restructuring, DISCOM loan restructuring I said is being done by Ministry of Power, Ministry of Finance along with banks. The support

what we are providing is separate structure, transitional loans, special loan kind of thing, to help them overcome the cash gap so both are different.

Atul Kumar: So on the restructuring side you will not be participating what you will be doing is only the loans which you will be giving?

Satnam Singh: That is absolutely right.

Atul Kumar: And on this special loans, so like we have in the case of restructuring that additional provisions, etc., have to be made, so anything on that side which you will also be required to meet when you give those special loans or it would be like any other kind of a normal loan?

Satnam Singh: This is a fresh loan, there is no question of any provisioning.

Moderator: Thank you. Our next question is from the line of Manisha Porwal from Taurus Mutual Fund. Please go ahead.

Manisha Porwal: From the previous question I just wanted to know in this case of transition loans to SEBs, how much more such loans can we see in the coming quarters, because I think these SEBs would continue to have such stress periods for a time which could be a little longer, so much of a support can PFC be giving them?

Satnam Singh: This is not a periodic exercise, this is a one-time exercise banks are doing and whatever balance gap is there that PFCs and RECs are going to fill. So after that there is nothing.

Moderator: Thank you. Our next question is from the line of Omkar Kulkarni from CRISIL. Please go ahead.

Omkar Kulkarni: I just wanted to know the total quantum for which transition loan that you mention is around ₹ 17,000 crores is that fair?

Satnam Singh: Yes.

Omkar Kulkarni: What will be the interest rate that will be charging on this? There will be a special interest or it will be same to as our existing loans?

Satnam Singh: Normal interest rates.

Omkar Kulkarni: And disbursement of these loans will be happening over a period or it will be a onetime kind of loan?

Satnam Singh: Based on the requirement of the state DISCOMS.

Omkar Kulkarni: And sir one thing on the FOREX loans what will be the loans that will be coming for repayment in FY14?

Satnam Singh: How much you mean?

Omkar Kulkarni: Would the quantum, in rupees crores, or dollars.

Satnam Singh: About ₹ 250 crores.

Omkar Kulkarni: And sir finally on your disbursement side, the disbursement to transmission and distribution sector it is showing a drop on Y-on-Y basis, so is there something to it or is it just because there were no disbursements scheduled during the quarter?

Satnam Singh: To the transmission it is about in the Q1 it is about ₹ 286 crores, it is only about 4% and to distribution is ₹ 336 crores it is about 4%, and all our disbursements are linked to the disbursement schedule.

Moderator: Thank you. Our next question is from the line of Mangesh Kulkarni from Almondz Global. Please go ahead.

Mangesh Kulkarni: I just wanted to know about this transition finance. What will be the RECs contribution in this?

Satnam Singh: Similar.

Mangesh Kulkarni: And breakup of this foreign currency loan of ₹ 6259 crores?

Satnam Singh: What kind of breakup do you want?

Mangesh Kulkarni: In currencies.

Satnam Singh: Outstanding dollar is \$540 million, €24 million and JPY is 41,643.

Moderator: Thank you. Our next question is from the line of Jenny Shah from Avendus Securities. Please go ahead.

Jenny Shah: Just wanted some color on the status of restructuring packages that been being worked out for the SEBs, there have been some news reports that it is being considered by its Finance Ministry right now, but what I want to understand is have the state governments granted their approval because clearly that is going to be the key?

Satnam Singh: Well we are not involved into the exercise, because our loan doesn't form that part of that at all, but in that exercise I guess only where the state governments have agreed to the restructuring pattern, those proposals have been put up to the cabinet.

Moderator: Thank you. Our next question from the line of Pankaj Agarwal from Ambit Capital. Please go ahead.

Pankaj Agarwal: If I look at the quantum of short term loan by this DISCOMS it is close to more than one-lakh crores. So just wanted to understand where they are using this short term loans, I mean what is the usage of this short term loan?

Satnam Singh: I don't think I can comment on that, but I guess these were used for filling up the cash gap.

Pankaj Agarwal: My question was that if their cash flows are not enough to run the operations, so even if we have given them long term loans, project specific loans, I mean if they don't have any cash flows, how would you ensure that they will pay you a long term loans as well.

Satnam Singh: That is why we have entered into a tripartite agreement with every State Electricity Utility where in the first revenue is earmarked to a separate account. We don't take money out of that, but in case anybody defers we have the right to invoke that account and this is monitored on a monthly basis.

Moderator: Thank you. Our next question from line of Kamlesh Kotak from Asian Markets Please go ahead.

Kamlesh Kotak: Sir some more color on this you said the special finance which is being sanctioned for the SEBs, has it been already part of our sanctions for this quarter?

Satnam Singh: No.

Kamlesh Kotak: It will come yet in the ensuing quarter, right?

Satnam Singh: Only yesterday we took the proposal to the board.

Kamlesh Kotak: Sir, even then if I look at our sanctions there is a sharp dip in the sanctions, year-on-year. So is there something in terms of the demand deteriorating or we are now stringent particular on the SEB side which is showing quite a big dip.

Satnam Singh: No, it is because of the shift which is happening from state sector to private sector in terms of incremental capacity addition. As you know in 11th plan private sector contribution was about one third and in the 12th plan it is envisaged to the almost 60%. So in the case of private sector we have to follow the RBI's prudential norms of lending and the loan amount which we can lend is much lower than what you can lend to central or state sector projects. That is why even if you do same number of projects, our lending will be lower in the case of the private sector. Going forward since private sector incremental percentage will be lower, that is why our sanctions may come down a little bit.

Kamlesh Kotak: So this could be the trend even for the coming quarter sir, some moderation in sanctions?

Satnam Singh: No.

Kamlesh Kotak: Overall, because overall number also has been down.

Satnam Singh: For the quarter I cannot say but over the year that could be the trend.

Kamlesh Kotak: And sir what happens to the sanctions to APDRP is it because if there is no sanction during the quarter, is it because the 12th plan will have a fresh perspective on the same.

Satnam Singh: There is no sanction in the first quarter because, we have already done majority of the sanctions and only about ₹ 1,000 crores were left, which we have sanctioned in the second quarter, so which is almost over.

Kamlesh Kotak: And sir coming to the recovery side I was just back calculating over the last year, last quarter we have been observing the recovery has been slightly lagging just to put in perspective in FY12, our loan book has grown by 30%, our recovery has been dipped by 25%. So is there any stress that is now building up on the repayment side or how do you read it?

Satnam Singh: No, there is no stress on the repayment side as of now, unless all these measures which the government is taking don't fructify later on, but going forward, we don't see that, because the decisions are already being taken at all levels.

Kamlesh Kotak: But sir the numbers show that there has been a sharp decline in the quarterly recovery rate as well as the yearly recovery rate.

Satnam Singh: What happens is that at times one of the utilities is not able to pay on time. That is why the recovery rate looks very different. But our experience for the past many years has been that there is minor delay and then they pay.

Kamlesh Kotak: So you don't see any kind of concern on that front right?

Satnam Singh: No.

Kamlesh Kotak: And in one of the proposals sir as we understand about the restructuring there is a two year moratorium kind of a situation so will that have any impact on our recovery cycle?

Satnam Singh: No, moratorium will help in the recovery rather than having a negative impact, if anybody whether the restructuring package or additional loan which we are giving where we are allowing up to three years moratorium it does not have impact on the interest recovery, because principal payment is being given some extra time. So therefore more cash flow will be there in that year.

Kamlesh Kotak: Which are the key states where our sanctions and disbursements has been the highest in terms of the SEBs exposure that we are talking?

Satnam Singh: Of the loan book I have readily available. Of the disbursement in the first quarter you mean?

Kamlesh Kotak: Yes.

Satnam Singh: Maharashtra, Rajasthan, Madhya Pradesh little bit, West Bengal, Chhattisgarh, UP little bit, others are private sector project.

Kamlesh Kotak: And sir lastly just to understand as you mentioned that the sanctions are project specific, so typically a disbursement of a particular project would be a over a period of 3-4 year tenor?

Satnam Singh: Yes, coal based station is about 4 years.

Kamlesh Kotak: And the repayment will start 1 or 2 years moratorium, post the commissioning?

Satnam Singh: 6 months post commissioning, the first repayment also at best be 9 months moratorium.

Moderator: Thank you. Our next question is from the line of Abhishek Muraraka from ICICI Sec. Please go ahead.

Abhishek Muraraka: Just a couple of quick questions, firstly on your FOREX loans, what will be the residual majority of the FOREX?

Satnam Singh: A little less than 4 years.

Abhishek Muraraka: So it would have come down, because I think couple of quarters back or last quarter it was about 4.5 years.

Satnam Singh: Yes.

Abhishek Muraraka: And secondly sir I just wanted a clarification. You said that you formed a new policy that you will be hedging 15%, was that 15 or 50?

Satnam Singh: 15% in the first year.

Abhishek Muraraka: And sir lastly it is sort of a repetition but you were indicating that in FY13, around 39,000 MW.

Satnam Singh: Not MW, it is crores.

Abhishek Muraraka: And the breakup you gave was also in crores, that is what is coming up for commissioning.

Satnam Singh: Yes

Moderator: Thank you. Our next question is from the line of Rahul Agarwal from VEC Investments. Please go ahead.

Rahul Agarwal: I just have one question. If I am correct in my understanding you said 6 state DISCOMs wherein we have ₹ 5800 crores of long term loans and ₹ 1890 crores of short term loans, this is not project specific right?

Satnam Singh: These are project specific.

Rahul Agarwal: So any repricing to be done for these?

Satnam Singh: No, here we are saying that we are not going to restructure these loans and we want our receipts on due dates.

Rahul Agarwal: So no change in these loans right?

Satnam Singh: No change.

Rahul Agarwal: So basically this is the same 6 states wherein we are giving transitional loans right?

Satnam Singh: These figures are for all states and separately we have not worked out for those 6 states. The total lending - long term loans of about ₹ 5800 and short term loans of about ₹ 1890 crores for all states put together. For 6 states it will be lower.

Moderator: Thank you. Our next question is from the line of Devang Modi from Equirus Sec. Please go ahead.

Devang Modi: Is there any special interest rate that will be providing the SEBs on this transition loans?

Satnam Singh: No special rate, normal rate.

Devang Modi: Normal market rate will be applied over here?

Satnam Singh: Yes.

Moderator: That was the last question. I would now like to hand the conference over to Mr. Kunal Shah for closing comments.

Kunal Shah: Sir thanks a lot for your time and for all the clarifications. Sir just one thing on this reset of ₹ 17,900 crores, so it happened in first quarter or it was up to August.

Satnam Singh: First quarter.

Kunal Shah: And what was the benefit in terms of quantum from this reset; what percentage points, how many basis it got reset upwards?

Satnam Singh: About ₹ 40 crores.

Kunal Shah: So hardly like 20-25 bps upward revision.

Satnam Singh: But ₹ 15,000 crores disbursement in the last quarter for which full revenue is received in the first quarter and ₹ 17,900 crores of resets for which additional income of ₹ 40 crores was received.

Kunal Shah: And you mentioned ₹ 17,000 crores will be due for repricing in the next three quarters on the asset side and ₹ 24,000 of liabilities.

Satnam Singh: Second quarter is very limited, third and fourth quarter about ₹ 7,000 and ₹ 9,000 crores.

Kunal Shah: Okay, sir thanks a lot for your time and thanks all the participants for participating in the call. Have a pleasant evening. Thank you.

Moderator: Thank you sir. On behalf of Edelweiss Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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