POWER FINANCE CORPORATION LIMITED's

Q-1- FY 19-20

CONFERENCE CALL

14TH AUGUST, 2019

MANAGEMENT: TEAM OF POWER FINANCE CORPORATION:-

- **Mr. Rajeev Sharma - Chairman and Managing Director**
- **Mr. N.B. Gupta - Director (Finance)**
- **Mr. P.K.Singh - Director (Commercial)**
- **Mr. R.S.Dhillon - Director (Project)**

MODERATOR: MS. SHWETA DAPTARDAR – PRABHUDAS LILLADHER PVT. LTD

Operator
Ladies and gentlemen, good day. And welcome to the Power Finance Corporation Limited Q1 FY '20 Earnings Conference Call, hosted by Prabhudas Lilladher Private Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. (Operator Instructions) Please note that this conference is being recorded. I now hand the conference over to Ms. Shweta Daptardar from Prabhudas Lilladher Private Limited. Thank you, and over to you ma'am.

Shweta Daptardar, Analyst
Thank you, Lizzann. On behalf of Prabhudas Lilladher, I welcome you all to the Q1 FY '20 earnings call of Power Finance Corporation. We have with us the Management represented by Mr. Rajeev Sharma, Chairman and Managing Director; Mr. N.B. Gupta, Director-Finance; Mr. P.K.Singh, Director-Commercial; Mr. R.S. Dhillon, Director-Projects. I would now like to hand over the call to the management for opening remarks, post which we can open the floor for Q&A. Over to you, sir.

Rajeev Sharma, Chairman & Managing Director
Thank you very much. Good afternoon, everyone. I welcome you all to this conference call. We have arranged this conference call to share with you PFC's performance in first quarter of FY '19-'20.

➢ First of all, in view of the various news on the liquidity position of NBFCs, I would like to share that:

- PFC is having a comfortable liquidity position. With PFC's high credit worthiness and strong fundamentals, we have faced no difficulty in accessing funds from both domestic and foreign markets.

- During the quarter, PFC raised around INR31,700 crore:

  - INR22,700 crore was raised from domestic market at a competitive rate through a mix of bonds, commercial papers and term loans from banks.

  - Further, PFC's 54EC capital bonds portfolio has tripled from Q1'19. 54EC bonds are low-cost funding source available to PFC at a coupon of 5.75%. In the coming years, we expect an increase in the 54EC bonds portfolio.

  - On the foreign currency front –

    - INR9,000 crore has been raised during the quarter.

    - Further in Q1'20 PFC came out with its largest international bond issue of USD1 billion. The issue was oversubscribed 5 times by the investors. The phenomenal response shows investor confidence in PFC and the power sector.

    - In addition, USD300 million have been raised through syndicated loans.

- Also, I would like to inform that PFC's outstanding foreign currency exposure as on 30th June, 2019 is USD5.1 billion. Currently, 49% of total foreign currency portfolio is hedged for exchange risk. Moreover, 77% exchange risk hedging has already been done on FCL portfolio with residual maturity of up to eight years. For FCL portfolio with the residual maturity of more than eight years, there is sufficient time to maturity for hedging the open portion. Thus, with a well-hedged portfolio, we do not see significant impact due to current volatility in exchange rates.

- Now, I would like to talk about the quality of assets.

  - Firstly, I'm happy to share that resolution has been reached in GMR Chhattisgarh loan of INR 928 crore. The agreement for change in management via stake sale has been signed with Adani Power. Lenders would have to take a haircut of around 50%. PFC already has 51% provisioning available against this project. Therefore, no additional provisioning is required.

  - Further, during the quarter, one project, Suzlon Energy with loan of INR 900 crore has slipped to Stage III category i.e. NPA. We are already pursuing resolution and 50% provisioning has already been made on the loan.

  - Let me now come to the RBI's 7th June guidelines for resolution of stressed assets by banks and NBFC(s). We believe that this would help in quicker resolution of stressed assets. These guidelines are currently applicable on loans where banking industry exposure is INR1,500 crore and more. Currently, PFC has 30 stressed assets with exposure of INR30,400 crores.

  - Now, I would share a brief status on resolution of these 30 projects.

    - Out of the 30 projects, in five projects of INR12,100 crore, Inter-Creditor Agreement has been signed or likely to be signed under the RBI stressed asset guidelines. 46% provisioning has already been made for these projects.

      I would like to give an update on some major projects covered above. In Indiabulls Amravati, which is a commissioned project with 100% PPA and FSA, Inter-Creditor agreement has been signed between the lenders. Further, the lenders have in principally agreed to the OTS proposal of the borrower. Now lenders are initiating swiss challenge process. 50% provisioning is available against the project, which we feel is sufficient.

      In Essar Power, which is a commissioned project, the restructuring proposal of the borrower is being evaluated by the lenders. 53% provisioning is available for this loan.

    - There are 12 projects on which the RBI guidelines are not applicable. Out of this, GMR Chhattisgarh has already been resolved. In balance 11 projects with aggregate exposure of INR29,00 crores, various resolution options are being explored. 30% provisioning has been made against these loans.

In four projects, with exposure of INR 298 crores, resolution is being pursued through DRT or SARFAESI. These projects have been fully provided for.

In Essar Power Transmission, which is a commissioned project, the borrowers restructuring proposal is under discussion of the lenders.

In the balance six projects, lenders are exploring options like OTS with borrowers, change of management etc.

- Balance 13 projects, with the exposure of INR14,400 crores are being resolved through NCLT. 61% provisioning is available on them.

Against, these 30 stressed projects, 52% provisioning is available, which we believe is adequate.

➢ Moving to the financial performance-:

- PFC's profit for the first quarter of FY '20 stands at INR1,383 crore, which is similar to the Q1'19 level. However, I would like to mention that in the current quarter, we have made a provisioning of INR220 crores compared to INR 4 crores in Q1'19. Also, as you are aware PFC has invested INR14,500 crores in REC and return on this will be in the form of dividend and accounted for on receipt. Thus this will reflect in PFC's profit in the coming quarters.

- On our financial indicators.

    - I am glad to share that as we had indicated earlier, our yield continues to be in a stable range. The yield for Q1'20 is 10.61% over 10.57% in Q1'19. Regarding cost of funds, we have been continuously aiming to achieve efficiencies in cost. Despite the challenging environment, we have achieved 18 bps reduction in the cost over Q1'19. The cost of funds for Q1'20 is 7.90% as against 8.08% in Q1'19.

    - Further, the spread also continues to be maintained. The spread for Q1'20 is 2.71% and for Q1'19 was 2.49%.

Overall the quarter one has seen a stable financial performance.

➢ Now I would like to share some update on PFC-REC merger:

- PFC's Director Commercial has been appointed as Nominee Director in REC's Board. Further, PFC is in consultation with the Ministry of Power regarding the merger process. On the merger front, I would like to assure you that post-merger, PFC will continue to be a government owned-company and be a strategic partner in various GOI initiatives in power sector.

➢ Lastly in coming quarters:
- we see our yield and cost to be in a stable range.

- Our focus would continue to be on debt refinancing and renewable business and quicker resolution of the stressed assets.
- We expect additional business opportunity in view of upgradation required in power plants to meet Ministry of Environment and Forests norms.

And now, we are open for questions.

Questions and Answers

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) The first question is from the line of Kunal Shah from Edelweiss Broking. Please go ahead.

Prakhar Agarwal, Analyst

Yeah. Hi, sir. This is Prakhar from Edelweiss. So essentially three-four questions. One is on your cost of funds. So during this quarter, when I look on a quarter basis, we have seen some rise in your cost of funds. So what explains this rise and where do you think that this will settle down going forward?

Management - Power Finance Corporation Ltd:

See, the cost of fund has gone up from 7.68% to 7.90%, if I compare with the last quarter. You know that with various issues involving NBFC in the financial sector, the sentiments are weak for NBFC(s) and we are also facing these issues. But in spite of that my marginal cost of this quarter has come down to 7.51%. But there were repayment also of lower cost loans , that is why the overall cost has gone up from 7.68% to 7.90%. But if we will look into the marginal cost, it is 7.57%[1] for this quarter.

Prakhar Agarwal, Analyst

7.57%[1]. Yeah. And in terms of when you look at your normalized level of spreads, where do you think that this spread will settle at. Especially when you consider entire interest rate scene that we are in and probably as you highlighted, because most of our interaction with various entities suggest that PFC, REC is a better lot in terms of NBFCs and they are not facing so much of pressure. But what you highlight is something wherein, we also see some sort of pressure percolating. So where do we see this spreads eventually panning-out today?

Management - Power Finance Corporation Ltd:

If you see last financial year, we had a spread of 2.67%, which has gone up to 2.71% this quarter. As we mentioned earlier also, we expect that our spread will remain in the tune of say 2.6% to 2.7%. So I think we are within the range.

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[1] The marginal cost has been inadvertently stated as 7.57%,it is 7.51% for the quarter.

Prakhar Agarwal, Analyst

Sure. And sir, in terms of asset quality, just a broad number. So, when I look at your gross Stage III assets, there is a net addition of around INR900 odd crores, which essentially comprise of Suzlon, which was highlighted earlier. Now, you've also highlighted one resolution coming through in GMR Chhattisgarh. So are there any other further slippages that is there in the numbers or probably, this upgrade is still to reflect in Q1 numbers.

Management - Power Finance Corporation Ltd:

See, for GMR resolution, the impact will be shown in the next quarters. As the resolution has taken place in the month of July only, it will be reflected in the next quarters. Besides this loan, we don't see any stress in any other assets.

Prakhar Agarwal, Analyst

Sir, what is our ECL assumptions for the new loans that we are making in? What are the ECL assumptions that we are working with as of now?

Management - Power Finance Corporation Ltd:

Overall, we have already made a provision of 52%.

Prakhar Agarwal, Analyst

Sir, so for new incremental loans that we are working with, ECL assumptions are similar to loans with 52% provisioning, is that what we are seeing?

Management - Power Finance Corporation Ltd:

See, this is for the stressed assets. If you see my other assets i.e. Stage I and Stage II, the average of my provision is coming to 0.31%.

Prakhar Agarwal, Analyst

Okay. And sir, lastly you have highlighted that you are in discussion with the merger with REC. When do you think that this will eventually happen? And second, in terms of benefits probably, how you see your cost and revenue impact, if at all post this merger?

Management - Power Finance Corporation Ltd:

The process of merger is on, the Ministry of Power is regularly monitoring it. Consultant was appointed and has submitted its report. We have made a presentation also to Secretary Power, yesterday morning and we will be making a presentation to Minister of Power now. So government is very keen. But timeline will be very difficult to tell. Consultant has given a one year time horizon, but I think, Ministry wants to condense this process and wants to expedite the process of merger.

And advantages, as you know, there is total synergy. REC is our subsidiary now, subsidiary or parent should not work in the same field. So merger is inevitable. And moreover, REC's 23 offices are located almost in every state. We will get the advantage of that in business along with advantage of common lending policies, common borrowing policies, common approach on resolution of the stressed assets. So there will be many advantages.

Prakhar Agarwal, Analyst

Sir, when you look at REC, so we have seen some step-up in their funding costs. Do you think that post our merger that this disadvantage will continue for REC in terms of higher funding cost or probably you see some benefits in there as well?

Management - Power Finance Corporation Ltd:

Actually subsidiary can never have rating higher than its parent. So definitely if it continued for longer, it will be at a disadvantageous position. So merger should happen as fast as possible.

Prakhar Agarwal, Analyst

Okay. Sure sir. Any other question, I'll come back in the queue.

Management - Power Finance Corporation Ltd:

Thank you, thank you.

Operator

Thank you. The next question is from the line of Jai Prakash from HSBC. Please go ahead.

Jai Prakash, Analyst

Hi, sir. Thank you for taking the question. I was just looking at the interest spread on earning assets and NIM on earning assets. Where the spread has increased in this particular quarter, I see a reduction in NIM. Any particular reasons for this?

Management - Power Finance Corporation Ltd:

We have made investment in REC of INR14,500 crores, so that is why my net interest income has come down because of the interest burden on that INR14,500 crores. As net interest income has come down, therefore it has impact on my interest margin also.

Jai Prakash, Analyst

Okay. Sure. So this particular investment, will only earn dividend and no interest, actually? How is that?

Management - Power Finance Corporation Ltd:

We will get the dividend only. Because once they will declare the dividend in a particular quarter, you will see the impact of it.

Jai Prakash, Analyst

Okay. Thank you, sir.

Operator

Thank you. We'll move onto the next question. That is from the line of Nilanjan Karfa from Jefferies. Please go ahead.

Nilanjan Karfa, Analyst

Hi, sir. Three questions. So first of all, it looks like for the year gone by the average aggregate Discom losses could be in the range of, let's say, between INR20,000 crores to INR25,000 crores. Any indication of how much loss funding through short-term loans, PFC is doing? And if you can also kind of tell us what will be the aggregate between PFC and REC of that loss funding that both of you are doing? That's the first question.

Management - Power Finance Corporation Ltd:

We have been funding these distribution companies for last 34 years.

Nilanjan Karfa, Analyst

Absolutely.

Management - Power Finance Corporation Ltd:

And you may be aware about UDAY. There is a provision in the office memorandum issued for UDAY that not more than 25% of the last year's revenue, we can extend funding to the distribution companies. So both companies REC and PFC, both are sanctioning within those limits. We cannot go beyond 25% and it is being regularly monitored by Ministry of Power also. Moreover, Ministry of Power has started further discussions on improvements in UDAY, i.e. how to tighten the screws on distribution companies. So that cash losses can be reduced and they can become financially viable. Moreover, government is also working on the new scheme on how to incentivize states to reduce the aggregate technical and commercial losses. The new scheme should leverage the disbursements and should link the disbursements with the reform parameters. So you may be knowing that various initiatives are being taken by Ministry of Power like opening of letter of credit, so that all the generators get their payments for the power being supplied by them on time. Moreover as you were saying that discoms losses have increased, as we are governed by 25% limit of UDAY scheme, so we can't fund beyond that.

Nilanjan Karfa, Analyst

Right, right. That's helpful sir. And sir, from the answer you said, just wanted to come to that LC policy. Roughly how much LC's have been issued. Because we have also heard - say for example in the state of Uttar Pradesh I'm not sure where else this has been implemented. But they have found out new loopholes or a possibility that if they use the plants in the state itself, they don't need to provide an LC. Just wanted to also get a sense from you, sir. How is this new LC guarantees is...

Management - Power Finance Corporation Ltd:

PFC is not monitoring the LC opening. But as far as I have come to know from the Ministry in various meetings, I am told that except J&K, in almost all the states LCs have been opened. As you are saying that type of LC, whether it is for one week or two week, I'm not aware about that. I was also told by someone from the market. Ministry is very confident and Ministry is saying that we are very happy that this instruction has been implemented by almost all the states. J&K because they are facing particular problem, the issue of LC were not insisted upon. So they were given, I think 15 days or 20 days time. But in other states, it has been reported that it has been opened .Once the process has started as you are saying that LC will be for a shorter period, I think, with time, they will evolve the system. And it is important for bringing discipline in the distribution companies, so that they pay to the IPPs on time. Because otherwise, it creates stress for us also indirectly. If they don't pay to the IPPs, IPP don't pay to us.

Nilanjan Karfa, Analyst

Sure sir. Sir, two more questions. The third one will be on the merger and see there is a fear that post-merger , the GOI ownership will fall below 50%. So just wanted to hear from you, because you said you are confident that the company will remain as one of the Navratna, any thoughts how this can be managed?

Management - Power Finance Corporation Ltd:

The process of already of merger has started. On the instructions of Ministry of Power, we appointed a consultant. Consultant has given its report, outlining the rationale and synergies for Merger and it has given a roadmap. However, Ministry of Power wants that this roadmap should be condensed.

So, yesterday morning we made a presentation before Secretary Power. He is very keen that the Merger should be closed within six months. So it should be expedited. The synergies which have been outlined, by the consultants are being discussed with the Ministry of Power. And as you are saying that to continue to be a government company, that government has to ensure. We have clearly brought out in our presentation that we would like to continue to be a government company. So, now this is the duty of the government as to how they can continue the merged entity as a government company. Different alternatives have been discussed and the best alternative will be implemented, I can say that.

Nilanjan Karfa, Analyst

Okay. And sir, lastly which quarter should we assume the dividends from REC to come through for the current fiscal year?

Management - Power Finance Corporation Ltd:

We have to discuss with REC.

Management - Power Finance Corporation Ltd:

See, very difficult to say in which quarter. But generally if you see in the past, generally they declare in the quarter three or quarter four.

Nilanjan Karfa, Analyst

Okay, all right. That's very helpful. Sir. Thank you.

Management - Power Finance Corporation Ltd:

Thank you so much.

Operator

Thank you. We'll move onto the next question that is from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora, Analyst

Sir, thanks for the opportunity. Sir, I would like to understand on the new segments where we are funding like lift irrigation, smart cities, e-vehicle recharge and/or even the transmission and distribution lines. Sir, what kind of security structure do we have there? Is it only the government guarantee or do we also get some charge on the underlying assets that have been created?

Management - Power Finance Corporation Ltd:

It's an asset based funding, like in lift irrigation, we have charge on the assets and the State Government guarantee both. Similarly in the Smart Grid, it is like any electrical infrastructure, the smart grid is not something new, it like underground cabling, some smart meters, all those. So always we have charge on the assets, as well as Escrow is always there, in asset-based funding. In distribution company, we may not be getting the State Government guarantee, but we have these two things as comforts.

Rohan Mandora, Analyst

Got it. And sir, these assets are essentially owned by the State Government?

Management - Power Finance Corporation Ltd:

Yes, sir.

Rohan Mandora, Analyst

These are not owned by the private entity.

Management - Power Finance Corporation Ltd:

No.

Rohan Mandora, Analyst

Okay. So, sir, like in our history, have you seen any cases wherein we have been able to like, obviously, in state governments that have been in defaults, invoke the charges and then make a recovery. Is there a possibility that this can happen?

Management - Power Finance Corporation Ltd:

Sir, I started my career in 1985. So, since that time onwards, everybody is saying that the state utilities are under stress, they will not be able to pay back. But, fortunately, till-date, there is not a single NPA in any of the state utility. Yes, sometimes we face problem in the repayment, but it comes before it becomes NPA. They also appreciate our problems. We appreciate their problems. So till-date, we are getting our payments back from all the state utilities.

Rohan Mandora, Analyst

Sure, sir. Got it. Thanks a lot.

Management - Power Finance Corporation Ltd:

Thank you very much.

Operator

Thank you. The next question is from the line of Mohit Surana from CLSA. Please go ahead.

Prakhar Sharma, Analyst

Hi. Good afternoon, sir. This is Prakhar. Just three questions. One, sir, on the issue around this Andhra Pradesh and the entire solar power-related issues that have been raised. What would be PFC's exposure in these areas, and maybe if you can comment on REC as well. And what is the risk that you see from your exposures? That's question number one.

Management - Power Finance Corporation Ltd:

We have an exposure of INR2,455 crores, Mytrah[2]. But we are getting paid. We are up to-date till date. And from Andhra for our government utilities loans, we have been paid last week itself by Andhra utility. So we don't have any outstanding as on date. No critical dues I can say.

Prakhar Sharma, Analyst

Okay. Secondly, sir, if REC and PFC become one single entity, won't there be single party exposure limits that will get triggered across. People who are key lenders to you individually, but as one single entity that could be an overhang, which probably, will require change in lenders regulations as well or, like, insurance company, etc. So could you please clarify on that part?

Management - Power Finance Corporation Ltd:

Today the Group exposure is already there. If it’s a merger, yes, definitely there is an issue in borrowings. But we'll be taking that up with all the regulators to enhance that limit and we are trying to find out other opportunities also for raising of funds like public issue of the bonds.

Prakhar Sharma, Analyst

Thank you.

Prakhar Sharma, Analyst

Okay. And thirdly, sir, in the remark to the previous question you mentioned that in the last 30 odd years, the SEBs haven't really defaulted even if there have been delays. Don't you think that warrants for a much lower interest rate on the loans that are given to these entities, given that practically the asset quality risk for lenders is zero?

Management - Power Finance Corporation Ltd:

It's not zero. Actually, we rate them according to the risk. So you may be aware that Ministry of Power has given this responsibility to PFC to rate all the distribution companies and we get it done through CARE and ICRA Half of the states are with CARE and half of the states are with ICRA . Every year, for last six years, regularly we are getting this rating done and this rating is followed not only by REC, PFC alone, but other banks also use this rating and it is risk related. Our interest rates are decided by the rating of the utility.

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[2] It has been inadvertently stated that PFC’s exposure in AP of Rs.2,455 cr. is to Mytrah only. It is to clarify that PFC’s total renewable exposure in Andhra Pradesh is around Rs. 2,500 cr.

Management - Power Finance Corporation Ltd:

Yes. It is important to mention that our interest rate to these government utilities are lower than the private sector loans. I can make this statement.

Prakhar Sharma, Analyst

Sir, may I ask the blended yield you make on the loans to SEB's?

Management - Power Finance Corporation Ltd:

Our yield is 10.63% every quarter. That is the average yield. But if you see separately for government utilities it is from 10% to 11%.

Management - Power Finance Corporation Ltd:

As CMD mentioned that it depends on the rating of the entities, but ultimately the rates varies from 10% to 11.5%.

Prakhar Sharma, Analyst

Okay, sir. And sir, just last thing on the private exposures, wherever the account is either stressed or there is a probability of an ICA, etc., do you recognize the interest on accrual basis or on cash basis, because I know, you are now in IND-AS. So it warrants based on the behavioral expectation of the repayment. So can you clarify on the accounting part, please?

Management - Power Finance Corporation Ltd:

Yes. Still we are accounting on cash basis only.

Prakhar Sharma, Analyst

Okay. Thank you, sir.

Management - Power Finance Corporation Ltd:

Thank you very much.

Operator

Thank you. The next question is from the line of Ishank Kumar from UBS Securities. Please go ahead.

Ishank Kumar, Analyst

Yeah. Hi, sir. Can you hear me?

Management - Power Finance Corporation Ltd:

Yeah.

Ishank Kumar, Analyst

Yes. Sir, first on the resolution side, given the delay in resolution in most of the project except one or two, do we expect more provisioning here? Do we expect there is some decline in value of the project that will trigger more provisioning from PFC side?

Management - Power Finance Corporation Ltd:

I think we have already provided for, our average provisioning is 52%. In the project which we resolved i.e. GMR Chattisgarh, haircut was around 50% and there was a provisioning of 51% in this project already. So we don't require to provide for anymore further. Similarly other projects also, I can't predict here at this juncture, but it is already in the range of 50%. So already 52% average provisioning is there. We don't expect that any more provisioning is required, once the resolution happens.

Management - Power Finance Corporation Ltd:

See, 52% is the average provisioning and in some other projects we are not expecting any haircut. We expect that whatever the loan we have given, the outstanding will come back to us. So 52% average is sufficient.

Ishank Kumar, Analyst

Okay. And in this quarter we have seen one slippage of Suzlon, but, like, are we expecting any further stress.

Management - Power Finance Corporation Ltd:

No, no. No any other project is there, no.

Ishank Kumar, Analyst

Okay. Okay. And so on the yield on asset side, we saw around 5-basis point to 6-basis point decline this quarter, we had like revised our interest rate from, I think, 28 February. So is this decline on Q-on-Q basis is because of our cut in interest rates?

Management - Power Finance Corporation Ltd:

It's not exactly cut in the interest rate, because as you know, that we have a reset policy after every three years.

Ishank Kumar, Analyst

Right.

Management - Power Finance Corporation Ltd:

So some of the loan which was carrying a higher rate of interest had been repaid by the borrowers. Otherwise, there is no cut on the rate of interest.

Ishank Kumar, Analyst

Okay. Okay. So then on the yield on asset side should we factor in some further decline like in this financial year?

Management - Power Finance Corporation Ltd:

No. We will be able to maintain.

Management - Power Finance Corporation Ltd:

As CMD has already mentioned in the speech, that we feel that it will remain in the same range only.

Ishita Gupta, Analyst

Okay. And sir, lastly on the competitive intensity side, because system is in surplus now and some PSU banks are coming out of PCAs also. So are you like expecting some increase in competition from PSU bank side or you are still not seeing anything there?

Management - Power Finance Corporation Ltd:

Banks are not at all keen to touch power sector. Even the largest bank SBI, they are keen to go out of the sector. Moreover, power sector as you must have seen that almost all the willing households in the country have been electrified. Demand of power is increasing, and more and more sub-transmission distribution, upgradation, and strengthening is required in a state power utility to absorb more power in urban, as well as rural areas, aspirations of people are increasing. Earlier they were having one or two power points. But now they are purchasing home appliances also. So they require more power in their houses.

So, supply of power has to be ensured and more importantly all the states in the country have signed 24x7 power for all. It's a standard document signed by the Ministry of Power with all the state governments, and from April 2019 onwards they were supposed to supply 24x7 power to all the consumers. And it has a roadmap. Somewhere if they require to strengthen their sub-transmission distribution system, they'll take loan from us. If they require additional transformation capacity, they will take loan from us. If they have to ensure reliable and quality power supply to the consumers and they want to automate (i.e.to make their system automatic distribution system), they want to set up smart grid, and they will come to us. So there is a lot of opportunities. In new areas like elective vehicles, charging stations, like, irrigation – in lift irrigation, the electromechanical part of that we have funded. So new areas we are exploring for our business.

Ishita Gupta, Analyst

Okay and thanks a lot for your answers.

Management - Power Finance Corporation Ltd:

Thank you. Thank you.

Operator

Thank you. The next question is from the line of Chirag Shah from Dalal & Broacha. Please go ahead.

Chirag Shah, Analyst

Yeah. Hi. Thank you for taking my question. Sir, my question is what will be our dividend policy for this year and maybe for the coming years?

Management - Power Finance Corporation Ltd:

Policy will be the same. Last year, we were exempted by DIPAM because we acquired REC. But the same policy continues to be in place and we are supposed to follow that dividend policy of Government of India.

Chirag Shah, Analyst

Okay. So this year, probably, we are looking ….

Management - Power Finance Corporation Ltd:

It has to be 30% of the profit or 5% of the net worth whichever is higher.

Chirag Shah, Analyst

Correct sir. So this year, so we will revert to the dividend payouts, correct?

Management - Power Finance Corporation Ltd:

Yeah, yeah, definitely.

Chirag Shah, Analyst

Okay, sir. Thank you.

Management - Power Finance Corporation Ltd:

We can't afford that, not to pay.

Chirag Shah, Analyst

Okay. And sir, this formula applies on the consolidated business, correct?

Management - Power Finance Corporation Ltd:

No, no, REC will give dividend to us.

Chirag Shah, Analyst

Okay.

Management - Power Finance Corporation Ltd:

REC is our subsidiary.

Management - Power Finance Corporation Ltd:

So, both are separate legal entity. Both will declare separately and individually that rule will be applied.

Chirag Shah, Analyst

Okay. So, that rule will be applied for us on the standalone numbers, is that?

Management - Power Finance Corporation Ltd:

Yes.

Chirag Shah, Analyst

Okay, sir. Okay. Thank you.

Management - Power Finance Corporation Ltd:

Thank you very much.

Operator

Thank you. The next question is from the line of Kushan Parikh from HSBC. Please go ahead. Kushan, your line is in the talk mode. Please go ahead.

Kushan Parikh, Analyst

Hello. Can you hear me?

Management - Power Finance Corporation Ltd:

Yeah.

Kushan Parikh, Analyst

Yeah. So over the last few years, we've seen a lot of stress on the thermal power sector. It seems to be behind us. Do you foresee any similar risk on the renewable side?

Management - Power Finance Corporation Ltd:

Sir, till date we have not seen any stress except in one project. A small project in Gujarat, which was flooded, it was a solar project, very small 10 megawatt – it was Astonfield. But in other project -- because majority of projects, which we have been funding in solar or wind have been developed via SECI or NTPC PPAs . So we are quite comfortable and we are timely getting the payments.

Kushan Parikh, Analyst

Thanks. But in the recent light of events where the bidding has been very competitive and with rates coming down, do you see sufficient cover for yourself and any risks at all?

Management - Power Finance Corporation Ltd:

Sir, you maybe knowing we are a dominant player in the power sector and we have a very robust system of appraisal of projects. We don't go by the tariff, aggressive tariff, we go by the numbers, DSCR, Debt Service Coverage Ratio. If the project can pay back to us, only then we will take it to our board. So very robust mechanisms of project appraisal and entity appraisal, goes into the preparation of the agenda, which goes to the Board. So we take very, very conscious decision. We don't see that it's a very aggressive tariff or higher tariff. But if we get our numbers, which are required for a viable project, we will fund that.

Kushan Parikh, Analyst

Okay. What would be your average or marginal cost of lending to the renewable projects?

Management - Power Finance Corporation Ltd:

I think it varies from 10% to 11.5%.

Kushan Parikh, Analyst

Okay. That's great. That's all from my side. Thank you so much.

Operator

Thank you. The next question is from the line of Puneet Srivastava from Daiwa Capital. Please go ahead.

Puneet Srivastava, Analyst

Yeah. Hi. Good afternoon. So my first question is regarding this cost of fund -- marginal cost of fund you mentioned about -- there were some redemptions and all. But I just needed to check, was there any subordinated bond? I mean the PFC raised the subordinated bonds as well. I think especially in Q4, because the Tier II went up. So is that also impacting the cost of fund in first quarter?

Management - Power Finance Corporation Ltd:

Yes. We had raised around INR5,000 crores in Q4 and the average cost was around 9% for that, but that's very small amount. So it doesn't make much impact on the overall cost. My total borrowings is INR280,000 and INR5,000 is a small amount in comparison to that .

Puneet Srivastava, Analyst

Okay. And can you sir please give total exposure of renewable energy loans to AP.

Management - Power Finance Corporation Ltd:

AP, it is INR2,455 crores to Mytrah, but they are paying back to us.[3]

Puneet Srivastava, Analyst

Right. And sir, regarding this total government, I mean state government guaranteed loans, can we have the figures like total amount outstanding - whether a state government guarantee or maybe central if there?

Management - Power Finance Corporation Ltd:

Approximately INR65,000 crores out of our loan book of INR3,16,000 crore. Around 20%.

Puneet Srivastava, Analyst

Okay. So in the annual report, basically you mentioned there are government guarantee loans and there are this unsecured loans. So how do you treat these unsecured loans, I think, which are like around INR50,000 crore shown in the Annual Report.

Management - Power Finance Corporation Ltd:

See, generally we give secured loans only, but it may happen that sometimes it takes time to create securities. So in between it remains unsecured. So most probably that figures, I don't know from where you are quoting, is only because of timing lag that it is shown as unsecured. But ultimately, we will be converting that into secured only.

Kushan Parikh, Analyst

Okay. Got it.

Management - Power Finance Corporation Ltd:

For non-creation of securities, we charge additional interest. If suppose we have given time to a developer to create security, we charge additional interest on that.

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[3] It has been inadvertently stated that PFC's exposure in AP of Rs.2,455 cr. is to Mytrah only. It is to clarify that PFC's total renewable exposure in Andhra Pradesh is around Rs. 2,500 cr.

Kushan Parikh, Analyst

Okay. And sir, do you have this RWA figure like how much of the loan book is 20%, risk weighted? How much is 100%, because we find difficulty in calculating this RWA.

Management - Power Finance Corporation Ltd:

The risk weight, is roughly 62%.

Management - Power Finance Corporation Ltd:

Average risk weight is 62%.

Management - Power Finance Corporation Ltd:

62%. The state government guarantees are INR63,244 crore, that is 19.38% and commissioned projects are INR1,16,891 crores, that is 35.83%.

Management - Power Finance Corporation Ltd:

See total risk weight of around 62%, because as you may be aware, for state guaranteed loan, there is 20%, for commissioned there is 50%. As the CMD mentioned that out of total INR3,16, 000, 20% is around government guaranteed loans and 50% is commissioned assets. So overall the average is 62%.

Kushan Parikh, Analyst

Okay, sir. And sorry, just one question. You told that your incremental cost of fund for PFC was 7.57%[1], would you have the same figure for REC for Q1?

Management - Power Finance Corporation Ltd:

See, right now we don't have any figures for REC.

Management - Power Finance Corporation Ltd:

We don't have that at this time.

Kushan Parikh, Analyst

Okay. And sir, on the Opex side, of course, those are very small figures, but they are pretty volatile figures like quarter-to-quarter. Is there anything like why they were quite low this time. So is this like, are they going to be normalized numbers or any cost-to-income normalized figure you think should be going ahead?

Management - Power Finance Corporation Ltd:

Can you specifically mention, which figure are you talking about?

Kushan Parikh, Analyst

Sir, these are small -- I'll just tell you. Basically, this firstly for the CSR is volatile and then if you see the benefit expenses, employee benefit expenses and all these smaller, smaller, there like they are very volatile.

Management - Power Finance Corporation Ltd:

This is very small in comparison to my total expenses.

Kushan Parikh, Analyst

Right sir.

Management - Power Finance Corporation Ltd:

CSR is on actual basis. This is what, we have spent in this particular quarter. Earlier we used to account for on accrual or on the total liability basis, but after this Ind-As, we have to account for on the actual basis only. So this may vary any time because that actual expenditure varies from quarter-to-quarter and all these employee benefit is very small amount if compared to total figures.

Kushan Parikh, Analyst

Yeah. Sure. And just sir sorry, one question more, on this provisioning side, you of course have given average provisioning of all the stressed loans, but are there projects where the provisions are low? What is the minimum provision you are holding in the stressed projects? And what is the maximum, maybe if you can give some indication?

Management - Power Finance Corporation Ltd:

Maximum is 100% in some projects. And so, accordingly to the average provisioning is 52%. But in some projects it is 40%, in some project is 60%. Depends.

Kushan Parikh, Analyst

Right sir. And just, on this question, if you are seeing there is a CPSE fund launched by the government and there have been some selling also happening from the stake from government to CPSE fund. And then we see government holding in PFC declining over a period of time in this fiscal year, because they need to meet the divestment targets. So in that context, do you expect government holding to keep coming down this fiscal year in PFC?

Management - Power Finance Corporation Ltd:

See, one ETF has already happened in the month of July. So the government holding at present in PFC is around 56%, but we have already taken-up with the Ministry and we don't expect further disinvestment by the government in PFC.

Kushan Parikh, Analyst

Okay, sir. Okay. Thanks a lot.

Management - Power Finance Corporation Ltd:

Thank you very much.

Operator

Thank you. The next question is from the line of Nishid Shah from Ambika Fincap. Please go ahead.

Nishid Shah, Analyst

Yeah. Firstly, my question was on the dividend, that you've got the exemption and you didn't pay the dividend last year. But you see, you could have paid a nominal dividend to continue your track record. You see what has happened is that you lost a fantastic record of dividend. So I mean you could have paid even a nominal dividend and continued your very impressive dividend track record.

Management - Power Finance Corporation Ltd:

We will restore that impressive record this year.

Nishid Shah, Analyst

But, what prevents you from giving an interim dividend right now.

Management - Power Finance Corporation Ltd:

We will declare it at the right time.

Management - Power Finance Corporation Ltd:

See, the issue which you will truly appreciate is that REC has become subsidiary to PFC, okay. And we get the dividend credit also. If suppose I think, I get a dividend from REC, so the tax that they pay on that dividend, I get a credit of that amount. So that's simply we are waiting, REC to first declare dividend and immediately we'll declare our so as to get the benefit of tax.

Nishid Shah, Analyst

And my second question is -- so on the loan growth, how much loan growth do we expect in the current year?

Management - Power Finance Corporation Ltd:

13% was last year, we will continue to maintain the same.

Nishid Shah, Analyst

And going forward, how do you see your asset quality, because last quarter you had written back INR500 crore. This quarter you have provided INR250 crores, can you give a color on how you expect the next nine months to pan out?

Management - Power Finance Corporation Ltd:

As on date, we don't expect any more projects slipping into NPA during this year.

Management - Power Finance Corporation Ltd:

So, there is only one project Suzlon -- which has slipped into stress in this quarter. Otherwise, we have increased the provisioning in one of the assets. This way the figure, 220 has come.

Operator

Sorry to interrupt Mr. Shah.

Nishid Shah, Analyst

Yeah.

Operator

Sir, may we request that you return to the question queue, there are participants waiting for their turn.

Nishid Shah, Analyst

Okay, I'll do that.

Operator

Thank you. The next question is from the line of Ishita from Fidelity. Please go ahead.

Ishita Gupta, Analyst

Thank you, sir. (Technical Difficulty)

Operator

Sorry to interrupt, Ishita. We are not able to hear you.

Ishita Gupta, Analyst

Sorry. Am I audible?

Operator

Ishita, you are sounding very soft.

Ishita Gupta, Analyst

Hello, am I audible now?

Operator

A little better, please proceed.

Ishita Gupta, Analyst

Yeah. Thank you for taking the question. Hello?

Management - Power Finance Corporation Ltd:

Yeah, please tell.

Ishita Gupta, Analyst

Yes, so, as you just mentioned that you increased provision on one of the loan. So I just wanted some color on the provision -- increased provision. So it's basically because of internal perspective or the resolutions which we are expecting or it's because of any external economy perspective. I just wanted some color on the increased provisioning, basically just help on that.

Management - Power Finance Corporation Ltd:

It's a gas-based project, Konaseema in the state of Andhra Pradesh, and it is NPA for quite some time. So we have made 100% provision in this. It is unviable because gas is not available.

Ishita Gupta, Analyst

Okay. Sir, it's a backdated provisioning, instead of forward looking.

Management - Power Finance Corporation Ltd:

Yeah.

Ishita Gupta, Analyst

We could expect it to go down in future that way then.

Management - Power Finance Corporation Ltd:

Yeah.

Ishita Gupta, Analyst

Okay. Thank you, sir.

Management - Power Finance Corporation Ltd:

Thank you very much.

Operator

Thank you. Ladies and gentlemen, due to time constraints, that was our last question. I now hand the conference over to the management for their closing comments.

Management - Power Finance Corporation Ltd:

Thank you very much for giving us this opportunity. Thank you. Thank you so much.

Operator

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

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