"Power Finance Corporation Limited Q4 FY-'16 Earnings Conference Call"

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**MODERATOR:** **MR. ADITYA SHARMA – IIFL CAPITAL LIMITED**

**Moderator:** Ladies and Gentlemen, Good Day, and Welcome to Power Finance Corporation Q4 FY-'16 Earnings Conference Call hosted by IIFL Capital Limited. As a reminder, all participant lines will be in the listen-only mode, there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aditya Sharma from IIFL Capital Limited. Thank you and over to you sir.

**Aditya Sharma:** Hi! Good Evening, Everyone. We are pleased to host the Conference Call for Power Finance Corporation this quarter. We have with us today, Mr. M.K. Goel -- Chairman and Managing Director; Mr. R. Nagarajan – Director, Finance; Mr. A.K. Agarwal – Director, Projects and Mr. D. Ravi – Director, Commercial to take us through the results. They will open with an overview about their Financial Performance and some Remarks about the Power sector and we shall then open the floor for Q&A. Over to you sir.

**M.K. Goel:** Good Afternoon, Everyone. I am M.K. Goel -- CMD Power Finance Corporation. I have with me my colleagues, Mr. R. Nagarajan – Director, Finance, Mr. A.K. Agarwal – Director, Projects and D. Ravi – Director, Commercial.

I Welcome You All To This Conference Call on Our Annual results FY-2016.

First, I will talk about our Financial Performance during Q4 and FY-2016 and then I will talk about the sectoral developments. Despite sectoral challenges and stress in the sector, we have shown sound asset growth with healthy margins during FY-2016. Our loan assets have shown healthy growth of 9% to Rs.2,37,500 crores (approx.) from Rs.2,17,000 crores (approx.) We are maintaining this asset growth on a huge asset base of Rs.2,17,000 crores and despite the sectoral challenges coupled with prepayments of Rs.4,500 crores received during the year on account of UDAY bonds. We are also able to maintain interest spread at a healthy level of 3.42% and NIM of 4.94% for the year FY-2016.

As regards Other Financials, during FY-2016 total income has increased by 11% to Rs.27,564 crores from Rs.24,908 crores. Net interest income increased by 13% to Rs.11,168 crores from Rs.9,872 crores. Profit has increased by 3% to Rs.6,113 crores from Rs.5,959 crores. During 2016 financial year, we raised approximately Rs.64,000 crores at a marginal cost of 7.85% which has reduced our average cost of funds to 8.62% from 8.99%. Our profit in FY-2016 is muted and during Q4 FY-2016 profit decreased by 19% to Rs.1,260 crores from Rs.1,561 crores in the corresponding quarter of last year. The reason why our profit for FY-2016 is muted and has dipped in Q4 is due to higher provisions on account of NPAs and increase in the restructured assets. During FY-2016 the total provisions made are Rs.1,610 crores, of which during Q4 of FY-2016 itself, the total provisions made are Rs.537 crores.

As regards NPAs, six new NPAs have been added during FY 2015-16. During FY-2016 the gross NPAs stands at Rs.7,519 crores which is 3.15% of our loan assets; the net NPAs stands at Rs.6,061 crores which is 2.55% of our loan assets. Out of total NPAs, three loans which constitute 25% of our NPAs are commissioned and having issues of gas availability, tariff related issue and the two loans which constitute 36% of NPAs are to be commissioned in the balance period of 2016 itself and remaining 39% of NPAs are under construction and some NPAs are in need of fund infusion from the promoters. I am optimistic in a couple of years existing NPAs may get an upgrade upon resolution of policy issue by Government of India initiatives and equity tie-up.

As regards the restructured assets, as on March 2016 are Rs.32,260 crores, out of which Rs.17,900 crores (i.e. 56% of the total restructured assets) are already commissioned, of which Rs.11,550 crores are likely to be upgraded to standard in the current year 2016-'17 and balance likely to be upgraded to standard asset in FY-2017-'18 and Rs.12,400 crores are expected to be commissioned in current year 2016-'17, of which one project of Rs.1,045 crores already commissioned in FY-2016-'17 and only one project is likely to be slipped. Rs.1,900 crores worth of the restructured assets are expected to be commissioned in 2017-'18. There are only two private sector accounts where restructuring was done after COD, which amounts to only Rs.1,243 crores which is 4% of the restructured book.

As regards Business Performance, we have sanctioned Rs.65,000 crores during FY-2016 against target of Rs.55,000 crores and sanction in Q4 has increased by 70% to Rs.22,400 crores from Rs.13,150 crores, sanction in FY-2016 increased by 7% to Rs.65,000 crores from Rs.60,800 crores. As far the disbursement is concerned, we have disbursed Rs.46,600 crores during FY-'16 against the target of Rs.44,440 crores and corresponding year last year that is in FY-'15 we have disbursed Rs.44,690 crores. The outstanding loan sanctions are at Rs.1.37 lakh crores which is 3 times of the disbursements made during FY-2016, this indicates our strong business pipeline going forward.

The GOI initiatives like IPDS, 24X7 Power for all, thrust on Hydro and Renewable and UMPP put on fast track, will provide the further business opportunities. Further with several initiatives of government are underway there is likely to be positive environment for further business growth which I will explain in a few moments.

As far as the resource mobilization is concerned, as I have already told you, we have raised about Rs.64,000 crores during FY-'16 at a marginal cost of 7.85%. Our capital adequacy ratio is comfortable at 20.27% with Tier-I capital of 17.07% against RBI requirement of 15% and 10% Tier-I capital respectively.

As far as the other business developments are concerned, as you are aware, the scheme for turnaround of Discoms was notified in November 2015 under the name of UDAY, which aims at reduction of AT&C losses to 15% by 2018-'19; reduction in gap between ARR and ACS to zero by 2018-'19 and almost all Discoms are expected to be profitable by 2017-'18, remaining 3-4 which are expected to be turned around by 2018-'19.

As per the progress of UDAY is concerned, 10 states have already signed an MOU which is likely to result in aggregate savings of Rs. 1 lakh crore to these states. In addition 8 states and 1 UT have in principle agreed to join UDAY and 12 states and 5 UTs are yet to join UDAY. During FY-'15-'16 bonds worth Rs.1.1 lakh crores have been raised under UDAY, this comprises of Rs.99,500 crores of non-SLR bonds and the Discom bonds with the state government guarantee worth Rs.11,500 crores.

As far as the impact of UDAY on PFC is concerned, the total PFC Discom loans covered under the UDAY are of Rs.49,800 crores, of which Rs.24,600 crores worth pertain to States where MOUs have already been signed and Rs.6,800 crores loans worth pertain to where states/UT that have already agreed in principle and Rs.18,400 crores pertain to states/UTs which are yet to join UDAY.

As you are aware, as per the UDAY, PFC loans are to be converted into non-SLR bonds or state government guaranteed discom bonds and such bonds are to be offered to markets including pension and insurance companies, balance if any will be taken over by the bank in proportion of their current lending to Discoms, therefore all PFC loans to the extent of UDAY implementation will be prepaid.

UDAY MoU with 10 states covers Rs.24,600 crores of PFC loan amount, of which during FY-2016 Rs.4,500 crores was prepaid by UP, Punjab and Chhattisgarh. During FY-2016 Discom prepayments will be subject to UDAY implementation. Discoms turn around under UDAY will have a positive impact on overall power sector improving the asset quality of PFC in long-term. 72% of PFC loan assets are to the generation sector, with the Discom financial health improving the stress on the generation sector is expected to be reduced significantly. However, PFC in anticipation of prepayments under UDAY has identified new business avenues and segments and modified its product offerings to capture more market share so as to maintain its business growth going forward which include increased focus on Renewable funding. As per the estimates in next 5-years, Power sector needs Rs.20 lakh crores of investment, of which Rs.8 lakh crores of investment is required only in the Renewable. The Renewable capacity is expected to reach 175 GW by 2022 as per the GOI's mission. PFC has already supported 2,250 MW of Renewable capacity and about 1,500 MW worth Renewable business proposals are in hand. We are offering attractive terms for debt refinancing/commissioned projects, etc., however, due to UDAY, PFC may see lower loan growth in the near short-term.

As regard RBI credit concentration norms are concerned, the RBI on 22nd April 2016 has issued direction to follow its credit concentration norm in case of government sector borrowers also except where the loans are guaranteed by the governments. We have already approached RBI for exemption and requested Ministry of Power to take up with MoF and RBI given the critical role of PFC in the development of power sector. We are optimistic that we may get a favorable dispensation. As of now we are funding government sector beyond RBI limits only if it is backed by the government guarantee and where we are facing the exposure issues.

Now, let me talk to you about the Sectoral Developments: As you are aware, government is taking several measures to address fundamental issues of the power sector including fuel issue and Discoms weak financial health. I would like to share with you the positive development in the sector and the progress on the various GOI Schemes for Power sector. During last 2-years, significant capacity addition has taken place of the order of 46,500 MW which is $1/5^{th}$ of the conventional power capacity and we have a lowest ever energy deficit of 2.1% in the FY-2015-'16.

The coal scenario has improved significantly; the coal production growth for the last 2-years has shown average growth of 7.7% which comprises of 8.6% growth in FY-'16 and 6.9% growth in FY-2015. This has led to a decline on the dependence on the imported coal which has made a saving of Rs.24,000 crores in FY-2016. Post cancellation of coal block by Supreme Court e-auction has been completed for 31 coal blocks and allotment done for 43 coal blocks.

There is a huge push to the Renewable target by 2022 with 100 GW of Solar and 60 GW of Wind Energy. Solar project worth 20,900 MW have already been tendered and Green Energy corridor to the extent of Rs.38,000 crores envisage for transmission of Renewable Energy. 33 Solar parks in 20 states are envisaged. Several amendments are proposed in the tariff policy to push the Renewable which includes Solar Renewable Power obligations to be 8% by March 2022. In addition to Power Renewable purchase obligation, there are renewable generation obligations on new thermal and lignite plants. No interstate transmission charges or losses to be levied for Solar and Wind Power.

Another novel scheme for ensuring the access of electricity to all is "24X7 Power for All by 2019" the uninterrupted power supply 24X7 is a comprehensive program encompasses overall development of power sector including reforms at all India level. This envisages building generation, transmission, distribution capacities, operational efficiency and reform measures. 21 states have already signed the PFA documents with a planned investment of Rs.8.5 lakh crores 6 states and 6 UTs have finalized their PFA documents and 3 states are finalizing these plans. The amendment in the Tariff Policy 2016 giving a push to (i) PFAs by state governments / regulator to ensure power for all, micro grids to connect remote areas (ii) Tariff Policy also covers the efficiency concerns to expand existing power plants, install smart metering enabling "time of day" and net metering, creation of transmission lines, etc., To safeguard the environment tariff policy envisages RPO of 8% by 2022, (RGO) Renewable Generation Obligations, Hydro projects through long-term PPAs and with exemption from competitive bidding till 2022. Ease of doing business allows pass through for any change in domestic duties, levies cess and taxes in competitively bid project, clarity on tariff setting authority in multi-state sale etc.,

E-Bidding and E-Reverse Auction Portal has already been launched last month under the name "DEEP" that is Discovery of Efficient Electricity Price, which promotes uniformity and transparency in power procurement by Discoms, promote competition in electricity sector, ensure seamless flow of power from sellers to buyers, lead to overall reduction in the cost of procurement significantly benefiting the consumers. Guidelines for short term procurement of power and already notified by Ministry of Power, Government of India. From April 1, 2016 it is mandatory for all procurers to procure short-term power by using this E-Bidding portal and this E-Bidding portal is planned to be extended for medium term and long term bidding also over a period of time.

On Distribution Reform front, (IPDS), Integrated Power Development Scheme, where R-APDRP is subsumed, envisages an outlay of Rs.65,424 crores of which project worth Rs.56,295 crores have already been sanctioned, this is a scheme for sanctioning of power distribution sector in urban areas. Under IPDS, project worth Rs.24,838 crores for 3486 towns for 29 states/UT have already been sanctioned in about a year which covers almost all the urban eligible towns under IPDS. Under R-APDRP out of total 1408 towns, 1222 towns have already achieved Go Live. 16 states have reported Go Live of their 100% towns. 857 out of total 1094 Go Live towns have reported AT&C loss reduction up to 25%.

UDAY Scheme: Already I have stated it is a comprehensive scheme for turning around the Discoms and is being implemented aggressively. For the rural, as you may be aware that the Deen Dayal Upadhyaya Gram Jyoti Scheme is under implementation where some around 18,500 villages roughly are to be electrified and around more than 7,100 villages have already been electrified and all these villages are planned to be electrified by March 2018.

So given that government is geared up to the challenges of the power sector with host of initiatives that I have just enumerated, I am optimistic that the worst is behind for the Power sector and PFC and I see the power sector revival going forward. Thank you.

Now we can have Question-Answer Session.

**Moderator**: Thank you. We will now begin the Question-and-Answer Session. The first question is from the line of Kunal Shah from Edelweiss Securities. Please go ahead.

**Kunal Shah**: Firstly, in terms of the GNPLs and the reschedulement which we published, any color in terms of how many assets have slipped into NPL which have given this kind of rise in the GNPL number?

**M.K. Goel:** There are 6 new NPAs have been added during the FY-2016 which comprises total amount of Rs.5,000 crores approximately.

**Kunal Shah:** When we look at the last quarter also, there was a SR…?

**M.K. Goel:** Yes, last quarter there was three NPAs amounting Rs.2,748 crores.

**Kunal Shah:** So these were already there in the restructured, reschedulement or these are like the new accounts which are there?

**M.K. Goel:** Yes they all were under the restructured.

**Kunal Shah:** Because when I look at the RR number between the March and December it is somewhere around 21,000 last time it was 21,900, this time it is 31,500, so there are further additions which have happened even after the slippage from RR of this?

**M.K. Goel:** Yes, I think we have mentioned, there are additional restructured assets.

**Kunal Shah:** So today when you look at 21,500 in RR, 7,500 is say under the NPL, so almost say Rs.29,000-odd crores out of Rs.38,000 crores private sector is under stress. So what is the watch list maybe if you can give out of this RR also what are the expectations as to how much would slip into NPL or say in the balance…?

**M.K. Goel:** Under this RRR restructured assets, the assets worth Rs.18,000 crores which comprises of the 56% of the total restructured assets of Rs.32,260 crores, assets worth Rs.11,550 crores will be upgraded to standard in the current year itself already because they are already commissioned and 2-years are going to be over, so they automatically will be upgraded to the standard assets and balance will be upgraded in the 2017-'18, so out of total Rs.32,000 crores, Rs.18,000 crores will be upgraded partly this year and partly next year and in addition the assets worth Rs.12,400 crores are expected to be commissioned in 2016-'17, so post commissioning they are expected to be upgraded to standard either in the '16-'17 itself or '17-'18, roughly 18,000 is already commissioned 12500 shall be commissioned now in '16-'17. So these restructured assets are concerned majority of them it means 56% and more than 90% will be automatically upgraded because they are either commissioned or at the verge of commissioning. So these are temporary phenomena.

**Kunal Shah:** Rs.4,500-5,000 crores could still be there which will…?

**M.K. Goel:** Rs.1,900 crores which is expected to be commissioned in '17-'18, and there are only two private sector accounts where restructuring was done after COD which amounts to only Rs.1,243 crores.

**Kunal Shah:** What has been the reason for say reversing the conservative stand on the standard asset provisioning which we have taken both on the regular standard assets?

**R. Nagarajan:** It is for the purpose of the provisioning norm in line totally with the RBI,

**Kunal Shah:** Last time we actually did much more conservative provisioning which was anyways better and again by the end of this fiscal we have reversed it?

**M.K. Goel:** That is okay but we wanted to be strictly compliance with this. We will do it in the next year, at that time we will make this provisioning.

**R. Nagarajan:** This year we will make 4.25% and also make it 0.35% as on 31st March 2017 and '18 we will comply with that 5% on 0.40%.

**Kunal Shah:** What has happened to the outstanding sanctions maybe those numbers are slightly lower by Rs.20,000 crores?

**R. Nagarajan:** Rs.1,36,000 crores.

**Kunal Shah:** Last time it was Rs.1,56,000 crores. So when I look at the documents not executed particularly on the Generation side which was Rs.48,000 crores, that is altogether come down to Rs.28,000 crores quarter-on-quarter, so what has been the reason for this entirely going out of the outstanding sanctions?

**M.K. Goel:** Some of the borrowers go for cancellation or where the 2-years are lapsed, so we do the appraisal and sanctioning for 2-years only, so in those cases where they are not going to come for reappraisal so we already cancelled the loan of these borrowers, that is why it has come down from Rs.1,56,000 to Rs.1,36,000 crores.

**Kunal Shah:** In terms of UDAY bonds, so Rs.4,500 crores is done but what are the expectations in terms of when the balance would be done – it would be based by the end of this quarter or now everything would happen by the end of this fiscal only?

**M.K. Goel:** We do not know, frankly speaking by the end of this quarter, it depends on how much bonds are being issued by the state governments, it basically depends on that when they are taking action and they will take the permission from the RBI and when they do, after that it will be done. We do not expect that in the current quarter any significant repayments under the UDAY loan repayments.

**Kunal Shah:** So Punjab and **U.**P. wherein we have 9,200-odd, out of that 50% is entirely something ...?

**R. Nagarajan:** Kunal, it is not the fact that 50% straightaway my loan will be paid, as per the scheme they are to see where they have got highest interest rate, on that basis they will liquidate 50% before 31st March. So that is why they would have seen from their books which are all the costliest, they would have prepaid, if a loan was costlier also, they would have paid. That is why you cannot say that 50% of PFC loan is paid or not, it is in the books of the SEBs what is the loan outstanding, that basis they will pay, costliest 50% will be paid. That is why you cannot match the numbers and say sir your outstanding is this much and 50% is not coming. It is based on the cost of the loan outstanding in the books of the distribution company.

**Kunal Shah:** So maybe whatever disclosures you had given last time in terms of Rs.32,000 crores of the transitional finance to various states, so it is not necessary maybe as to exactly say 50% of…?

**R. Nagarajan:** **Yes, it is not necessary** they would have prepaid 50%.

**Kunal Shah:** In terms of other income, where is this coming from, almost like Rs.120-odd crores in this particular quarter?

**R. Nagarajan:** I think one is the dividend we have got from Coal India will be there, some interest income is there on the investment, Rs.90 crores is dividend, then profit on sale of bonds around Rs.9 crores, interest on IT refund is Rs.9 crores, nodal agency fees under IPDS is Rs.34 crores.

**Moderator:** Thank you. The next question is from the line of Nilang Mehta from HSBC Global Asset Management. Please go ahead.

**Nilang Mehta**: I just needed some clarification regarding the news articles which were floating around a few months ago regarding the use of proceeds of UDAY bonds for both your company and REC where the news was stating that you guys were looking to invest in the Tier-2, Tier-3 bonds of public sector banks. Can you clarify on that sir what kind of investments…?

**R. Nagarajan:** There is no question that whatever money is received by us it will be deployed in the Tier-I or Tier-II bonds of the banks. So there is no linkage between the UDAY bonds prepayment by them and the investment in the Tier-I, Tier-II bonds of banks.

**Nilang Mehta:** So are you independently looking to invest in Tier-II bonds of the banks?

**R. Nagarajan:** As on date, no.

**Nilang Mehta:** But we have seen some stock exchange notices or stock exchange disclosures which shows that the banks have come out and said that REC and PFC both have invested in bonds of Tier-1?

**R. Nagarajan:** As on 31st March we have done in two banks, this is already disclosed in the stock exchange also; Rs.1,000 crores we have put in Dena Bank, and then Rs.800 crores in Andhra Bank

**Nilang Mehta:** What is the rationale for that sir because I do not think that is a mandate of the REC, PFC or specifically PFC to …?

**R. Nagarajan:** There is a new investment opportunity to improve the asset base, that is all.

**Nilang Mehta:** At one end we are saying we have opportunity in the Power sector to lend?

**R. Nagarajan:** But you have to see in a particular financial year, we are not saying that last year we had opportunity or this year, we are talking about 31st March….

**Nilang Mehta:** No sir, I think this is a very wrong corporate governance practice which is being put in place where it is not the mandate of the company to invest in these unless it is for treasury needs it is a different thing, but long-term buying Tier-II, Tier-III bonds is not something which Power Finance should be doing, so I would like to put this on record to tell you that is not something as investors we appreciate.

**R. Nagarajan:** Okay.

**Nilang Mehta:** The other question what is the business plan going forward considering total rs.49,000 crores is what you said are the bonds loans which are going to get replaced with UDAY bonds over a period of time, that means high yielding loans will get replaced with low yielding bonds for you guys or you will get cash predominantly, so how are you planning to deploy this cash?

**M.K. Goel:** One thing is that it is not expected that the entire Rs.49,000 crores of balance Rs.45,000 crores is going to be repaid in one go during the current year itself, even last year we were expecting that 50% will be coming of the Rs.49,000 crores will be prepaid by March 2016 against that the actual receipt is only Rs.4,500 crores. So we are yet to see how much actual repayment is being done by the states on account of UDAY bonds. Nonetheless we have already made a contingency plan and as I have already told you we are putting greater emphasis on the Renewables and greater push on the Renewables, we have revamped our debt refinancing scheme, we have reviewed our terms for the debt refinancing and we are looking at all other avenue. Another thing when this Discoms after this UDAY Scheme they will be stress free, there will be much more opportunities in the existing generation sector also where currently we are not in a position to fund because the stress in the distribution. Discoms is leading to the stress in the Genco, so there will be more case one bids coming around and the power sale will be there, then more requirement of the power, new capacity would be coming, those projects which are standard they will come on stream, and as I have told you this 21 states have already signed Power for all documents which envisages investment of Rs.8.5 lakh crores. So even if a small fraction comes to us, that will be sufficient to make good the whatever repayments are received against the UDAY bonds. So we do not foresee any challenge. Same thing was being expected by you guys when the UDAY Scheme was launched because of which you people have been always evaluating the PFC stock, but at the end of the day against this, actual receipt is only Rs.4,500 crores against the Rs 49,000 crores.

**Nilang Mehta:** If UDAY has to be a success which the power minister has been talking about, then UDAY bonds eventually will get converted. So…?

**M.K. Goel:** For that eventuality, we already have our contingency plan which I have told you and we do not expect that it will impact adversely on this. We will make good by having additional avenues and other funding.

**Nilang Mehta**: So are you giving some guidance on net interest margins for this year considering whatever estimates you have in terms of what gets converted and how you are…

**R. Nagarajan:** No, we cannot talk about the guidance for future and we never gave guidance also and whatever numbers are there, numbers are there. So over a period of time it will indicate in the quarterly results, that is all.

**Moderator**: Thank you. The next question is from the line of Suresh Ganapati from Macquarie. Please go ahead.

**Suresh Ganapati**: Just one clarification; on this total Rs.32,000 crores of restructured assets, how much will be private sector and how much will be the state electricity boards?

**M.K. Goel:** Roughly Rs.11,000 crores is the state and Rs.21,000 crores is private.

**Suresh Ganapati**: Entire NPAs of Rs.7,500 crores are private sector?

**R. Nagarajan:** Private sector, only thing is Ratnagiri is a government company around Rs.700 crores is there, balance and all private sector.

**Suresh Ganapati**: No, no, so that Rs.700 crores Ratnagiri is a part of Rs.11,500 crores or is it a part of …?

**R. Nagarajan:** No-no, it is part of the NPA of Rs.7,500 crores.

**Moderator**: Thank you. The next question is from the line of S.K. Jain, he is an individual investor. Please go ahead.

**S.K. Jain**: Currently, the total NPAs of the PFC are Rs.7,500 crores. So after the UDAY implementation would there be any kind of impact, they will come down after the completion of this restructuring?

**R. Nagarajan:** In the case of UDAY Scheme, what you are asking is after the UDAY will the NPA levels will go down. Because of the fact like our CMD has already explained, once the discom become viable they will call for more PPA, so they will be able to service the use of the commissioned project where they got PPA, but in our case some of the NPAs are all like Ratnagiri or Konaseema because of the gas problem. In some other cases and all, the commissioned projects are not there. So we cannot say that when so they come or will the NPA be reduced to 1,000. Maybe over a period of time the NPA will go down as and when the project are commissioned and they sign a PPA

**Moderator**: Thank you. The next question is from the line of Prakash Sharma from CLSA. Please go ahead.

**Prakash Sharma**: Just a couple of clarifications I needed; firstly, on the numbers that you talked about on this UDAY Bond Scheme just wanted to verify those numbers, so you mentioned that about Rs.49,800 crores of your loans are covered under the scheme and of that Rs.24,000 crores have been signed under the MoUs, is that correct, of that about Rs.4,500 crores has been repaid in the form of cash. Is there a separate number of bonds on the book as on March 2016 which will…?

**R. Nagarajan**: First of all, please understand Clause #7.3 of the Scheme, clearly says that, PFC, REC will not take any bonds. So we will not take any bonds, so that is why no outstanding bonds are there in the books.

**Prakash Sharma**: In terms of restructured loans especially within the private sector, I wanted to get some sense on one, is there any NPA which sort of is an overlap between the way you classify restructured loans and you…?

**R. Nagarajan**: No overlapping.

**Prakash Sharma**: In terms of the private sector projects which will get commissioned during the next 12-24-months, what sort of visibility would you have today about them not really slipping into NPA after commissioning, so will they be able to service the debt based on PPAs and FSAs they have, can you give some qualitative assessment on that?

**R. Nagarajan**: We cannot comment on that future.

**Prakash Sharma**: Just on the asset quality side, could you just clarify on the NPL of Rs.7,500 crores, the sector wise breakup, Coal and any other Hydro segment, just some broad details if you can share on the NPA book? Can you share the amount by value of loans?

**R. Nagarajan:** You ask next question, we will come back to you on that.

**Moderator**: Thank you. The next question is from the line of **(Anand Rata)** from HDFC Mutual Fund. Please go ahead.

**Anand**: Just on this gross NPA, the slippages happened this quarter, just wanted to understand these are largely private sector exposures. Any reason for them to get NPA, is it that they do not have PPA or FSA or the brands are not viable, that is why it become NPA?

**R. Nagarajan**: One of the accounts has become NPA because of the fact they got certain transmission lines problem are there in the local area and the projects have completed four years from the original DCCO. So the banks are not prepared to fund the cost overrun funding. So that is why their account has become NPA. They got a PPA for one unit already with them, that is why the account has become NPA. Maybe if they are commissioned as CMD told in ’16-17. The other account is one Hydro Power project is a technical NPA, banks have taken the money like they have done in the case of Ratnagiri Power. Nine banks account is performing assets, PFC account is NPA because our dues are not paid by them from the TRA, the banks have January dues and our dues are October is not paid. So it is technically NPA, actually to have been performing as is in our books. The third account is the project in a difficult state. So there are some local implementation problems are there. So they are not able to implement and then do the repayment of our due that is why it has become NPA.

**Anand**: The third question which is about implementation, in that case implementation, interest cost would be capitalized, actually there is no real payment of interest happening there, the cash flow what is there.

**M.K. Goel:** In our case we are also asking them to make the payment because if the implementation is not happening, if I go on debiting the IDC, after 10-years I will have only project cost, there will not be any project, that is why we are insisting for the payment of the dues, they have not paid, otherwise we will be going on debiting the interest, after 5-years we will have only Rs.5,000 crores will be there, no project …

**M.K. Goel:** Entire disbursement is against IDC, no other purpose.

**Anand**: You just indicated that with the UDAY Scheme, I think the financial performance of the SEB will improve. Is there any case for SEB once the bonds are issued probably as the financial improves, they can come to our PFC and say probably reduce our rate of interest for existing loan which are on the generation side also.

**M.K. Goel:** Rate of interest is governed primarily by the market rates and how they are getting from the market and it depends the cost of raising funds by the lending institutions. So primarily it is governed by that and then accordingly we will see to it, of course, their rating improves, so we can offer them attractive rate of interest, that is not an issue, that would certainly be there, but in that case there will be surety for the repayments and asset quality as well.

**Anand**: Next year what sort of loans are coming for repricing wherein …?

**R. Nagarajan:** Just I am giving the answer to Mr. Prakash Sharma question, regarding the numbers of the NPA; Hydro 4 loan Rs.2698 crores, Gas-based power plant 2 loans Rs.1335 crores, Biomass 3 loans Rs.59 crores and Thermal 5 loans Rs.3428 crores.

**Anand**: Next year what sort of loans are coming for repricing for us?

**R. Nagarajan:** The total repricing amount next year is 55025 cr.

**Moderator**: Thank you. The next question is from the line of Saurabh Chugh from JP Morgan. Please go ahead.

**Saurabh Chugh**: I have three questions: One is on the loan sanction slide #17. So you do the transitional finance loan which do revenue gap funding, you have a revenue gap funding to Tamil Nadu generation for Rs.3,000 crores. I am just wondering if this SEB has a revenue gap what is the sort of security you get against?

**M.K. Goel:** State government guarantee.

**Saurabh Chugh**: The interest rates will be something like 12-12.5% on this?

**R. Nagarajan:** Around 11.75-12%.

**Saurabh Chugh**: Second is on the restructuring book in the state sector, what is this related to, again generation asset share or…?

**R. Nagarajan:** Generation asset post commissioning.

**Saurabh Chugh**: So the entire restructuring in the state sector is essentially generation assets post commissioning which once they cross the 2-year will hopefully get upgraded, is that…?

**R. Nagarajan:** Yes.

**Saurabh Chugh**: So this Rs.10,000 crores is essentially which has just missed the DCCO date, that is it?

**R. Nagarajan:** After the DCCO.

**Saurabh Chugh**: On this Renewable thing which you are saying will be an offset. From what I understand is Renewable tend to be very small ticket loans, they cannot be these Rs.2,000-3,000 crores loans which you normally do. So just having an offset of this magnitude close to about 50,000 crores gets repriced under UDAY, do you realistically think that this Renewable becomes an opportunity to offset this?

**M.K. Goel:** Yes, as I told you, as per the planning commission document Rs.20 lakh crores investment is likely to come in the next 5-years, of which Rs.8 lakh crores is only in the Renewable energy sector, this is the magnitude of the investment which is coming in the Renewable energy sector and you may be aware that so much of push is being given. Size of the project you are right, but with the number of projects they are coming and gestation period is small, they will be fast rolling out and with the quick appraisal process we are pretty sure that we will be able to make up.

**Saurabh Chugh**: But as a company like you are more geared to doing these large ticket loans like…?

**M.K. Goel:** We are geared up to align ourselves with the requirement of the sector and requirement of the environment in which we are working, it is not like that. When there were long gestation thermal project were there, we were doing that, but not we are fully geared up to deal this situation which is currently today, because there are no larger sitting projects today which are coming up. In addition to this, as I told you, power for all 21 states have already signed, the PFA document where Rs.8.5 lakh crores investment is planned. So certain portion of this investment we are going to tap and this investment is building the generation, transmission, distribution capacities which are the large ticket projects.

**Saurabh Chugh**: On UDAY again, Rs.50,000 crores loans, once they get repriced, the last 25% will be a very low yield instrument on your balance sheet, so…?

**M.K. Goel:** For the last 25% there are two options – one is that either the low price, 0.1% above the bank base rate or these are the state government guarantees SLR bonds which are to be issued by the Discoms and once they are issued, once the Discoms get this money, this money will be repaid to us by the Discoms. Subscription of bonds nowhere PFC, RECs are expected to subscribe to these bonds or nor they are expected to reprice their loans at a base rate plus 0.1%.

**Saurabh Chugh**: So the last 25%, once these states issue these bonds to you…?

**M.K. Goel:** Not the states, Discoms will issue the bond which are duly backed by state government guarantee and against this when these Discoms will get the money they will repay us.

**Saurabh Chugh**: So the last 25% will be there with you or no, that will also go off on your…?

**M.K. Goel:** Nothing will remain with us, entire outstanding debt will be cleared.

**Moderator**: Thank you. The next question is from the line of Rajiv Agrawal from Sterling capital. Please go ahead.

**Rajiv Agrawal**: I want to know what is the loan size in the Renewable segment?

**M.K. Goel:** 2250 MW of Renewable Energy we have already supported and 1500 MW worth of Renewable business proposals are in hand.

**Rajiv Agrawal**: What will be the quantum amount?

**M.K. Goel:** Rs.5,000 crores has already been disbursed and sanctions of Rs.7,500 crores are the scheme sanctions on the Renewable which are already been done and roughly like 1500 MW worth proposal means that would have amount of around roughly Rs.5,000 crores of future sanctions, for which the business proposals are already in hand.

**Rajiv Agrawal**: How much disbursement growth could we expect in the coming year?

**R. Nagarajan:** Normally, actually we tell the disbursement project because there is a MoU we have to sign with the Government of India, that MoU has not been signed so far, so it will be signed by 30th June, then only we will be able to tell the current year number, last year and all we used to give the number before 31st March because we used to sign the MoU with the government by 31st March, we have not signed the MoU so far, so we will not be able to give the disbursement number till the time we sign with the Government of India.

**M.K. Goel:** In addition to this, we have outstanding loan sanctions of Rs.1.37 lakh crores. So there is a strong pipeline already sanctioned projects are there, against which we can safely convert this into disbursement.

**Rajiv Agrawal**: Regarding restructured book, you have stated some projects will be commissioned in the next two years. So provisions regarding that will be reversed in the next two years?

**R. Nagarajan:** The condition is two years or commissioning date whichever is later.

**M.K. Goel:** After that Provisioning will be reversed.

**Moderator**: Thank you. The next question is from the line of Ramnath Venkateswaran from LIC Nomura. Please go ahead.

**R Venkateswaran**: Two-three questions from my side: One is in terms of given the fact that there are so much of stress, are you encouraging people to basically get out of some projects which are not viable where it can be sold off to somebody who is better, so are forcing companies and …?

**R. Nagarajan:** As on date, no.

**M.K. Goel:** This is for the developers to take a business decision by them.

**R Venkateswaran**: But you are a significant stakeholder. As yet you are not doing anything on that front?

**M.K. Goel:** There is a state government participation can be involved in some of the stress projects so that it enhances their credibility of those projects. So again, it is subject to acceptability by those states as well as developers. It is bilateral between the developers and the new entity who is going to take over.

**R Venkateswaran**: Because you know the space very well, so you could…?

**M.K. Goel:** That is fine, but the business decision to be taken by them. So depending on all their pros and cons, they take decisions and once they come to us then we evaluate their proposal and take decisions accordingly.

**Moderator**: Thank you. The next question is from the line of Akhilesh Gupta from Reliance Nippon. Please go ahead.

**Akhilesh Gupta**: I would like to know what is the roadmap for issuance of bond program for this year?

**R. Nagarajan:** It is a continuous process we will do in this financial year, we have already done some bond issuance.

**Moderator**: Thank you. The next question is from the line of Mr. Shivakumar from Unifi Capital. Please go ahead.

**Shivakumar**: Sir, I just wanted to understand how the UDAY program will plan out? You are saying that PFC would not have bonds sitting on the balance sheet. So you are saying that the onus of converting the bonds into cash would lie with the Discoms?

**M.K. Goel:** Yes.

**R. Nagarajan:** Please see Clause 7.3, it is clearly mentioned, wherever it is there, it will be given to pension fund, superannuation, all these people, in case they are not able to get again it will be given to the bands who have got exposed to Discom on the basis of proportion of credit exposure to the Discom, so 7.3 clearly says, both PFC and REC will not pay any bond.

**Shivakumar**: If I refer to the Slide #17, last year there were some sanctions to some of the Discoms which have not showed any inclination to sign for the UDAY Scheme. So, would you continue to support non-UDAY Scheme to the states Discoms, is there any in-house policy that you would only support the states which sign up for UDAY Scheme?

**M.K. Goel:** As far as the funding or revenue gap funding, etc., is concerned, after September 2015, banks and FIIs cannot make the loss funding or the revenue gap funding for any losses after March 2015, that will be done only by the state governments. As far as the CAPEX funding is there, PFC, REC shall be doing it. Though these efforts are on as I have told you 10 states have already signed and 8 states have already in principle agreed, so out of 29, 18 states have already done, balance 11-12 states they are in the process and they are expected to join the UDAY Scheme. Because this is such a beneficial scheme and we have received the proposal from the state where they do not have an outstanding debt, they want to join the UDAY Scheme just for the operational parameters. So it is such an attractive scheme that everybody wants to join. Since this UDAY Scheme was launched only in November 2015, in 6-7-months 18 states have already come on board, balance are expected to be on board in the next 6-months or so. But as I have told you, loss funding cannot be done beyond September 2015 and for the CAPEX funding, there is no bar.

**Shivakumar**: So that holds for all the states whether they signed or not you are saying, the loss funding and the revenue gap funding?

**M.K. Goel:** Yes.

**Moderator**: Thank you. We will take the last question from the line of Piyush Shukla from Guggenheim Partners. Please go ahead.

**Piyush Shukla**: I actually wanted to have clarity on since that you said that you will be getting the entire amount in cash the Rs.49,800 crores from the UDAY Scheme, I just wanted to have a sense on do you expect to use this funds into more profitable business compared to the Discoms that you already had or you have a view that it will be invested in less profitable businesses going forward? I can understand you cannot give me an exact number as to what would be the interest rate but some sense as to the profitability.

**M.K. Goel:** It will be used for our business expansion as we are doing for all our funding, it will be a source of funding and this will be deployed in all our business avenues for any projects.

**Piyush Shukla**: No, I actually wanted to clarity as you said that you are planning to invest in Renewable Projects and some of the other avenues that you discussed. So do you expect those to be slightly higher profitable than the Discoms business or how do you take it that way?

**M.K. Goel:** This is a total business opportunity and Renewable is again coming from the states only and the private developers, so it is all business avenue and business proposition.

**R. Nagarajan:** To clarify to you, any money is coming I cannot plan that tomorrow I will put in Rs.1,000 crores in Renewable because depending on the progress of the project, the money will be disbursed, whether there is a Generation project or Thermal or a Hydro Power project. So whatever money comes will be used in the business for the purpose of any disbursement irrespective of whether it is Renewable or Non-Renewable. So we do not segregate constant growth for Renewable, Rs.2,000 crores for Hydro like this. So today the claims are there for the purpose of making payment to Hydro Power development and we will make the payment there. So, there is no hard and fast rule, I keep the money for the purpose of this.

**Moderator**: Thank you. As that was the last question, I would now like to hand the conference over to Mr. Aditya Sharma.

**Aditya Sharma**: We thank the management for giving us the opportunity of hosting the call and all the participants for logging on to it. Thanks, everyone. Have a Good Evening.

**Moderator**: Thank you. On behalf of IIFL Capital Limited, we conclude this conference. Thank you for joining us and you may now disconnect your lines.