



“Power Finance Corporation Conference Call”

November 16, 2011



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Moderator

Ladies and gentlemen, good morning and welcome to the Power Finance Corporation conference call hosted by ICICI Securities Limited. As a reminder, for the duration of the conference, all participants' lines are in the listen-only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. Joining us on the call today are members of the senior management team at PFC. At this time I would like to hand the conference over to Mr. Abhishek Murarka of ICICI Securities Limited. Thank you and over to you Sir.

Abhishek Murarka

Thanks, Laveena. Good morning to everyone and thank you very much to Mr. Satnam Singh for doing the call. I think we can just go forward and start with some opening remarks sir, after that we can take some question and answers. Sir, can we just have some opening remarks?

Satnam Singh

Good morning to all. Thank you Abhishek I thought in my opening remarks I will address two major concerns which are there in the Indian Power market, I think that would be of interest to the investors; first one is losses incurred by distribution companies, and the other one is shortage of coal and increasing prices of coal.

Earlier, I had shared with some of the investors what are the major initiatives which Government of India has taken. Today, I will share with you the progress on individual initiatives. First of all, in July 11, Power Ministers' Conference was held, wherein 14 resolutions for improving the financial health of the discoms were unanimously passed. We as Power Finance Corporation have asked all the states to give us a time bound plan for implementation of these 14 resolutions. We have only received the implementation plan from three states; that is UP, Rajasthan and Madhya Pradesh. As a result of these resolutions, some of the states have already increased the tariffs; Himachal and Jharkhand increased tariffs in July; Delhi in August; Rajasthan and Gujarat in September; Maharashtra, Karnataka, Jammu and Kashmir in October and we expect Tamil Nadu to do so in the near future.

Ministry of Power and the Indian Banking Association along with Ministry of Finance and Reserve Bank of India are working on developing, what you call as common rating mechanism, which will be in place, three or four meetings have already been held, it appears that we should be able to finalize this mechanism by this month end, if not by this month end, then certainly first fortnight of December, which will be the uniform basis for lending to distribution companies by PFC, REC and all banks. Similarly short-term lending basis is also being discussed in consultation with the Ministry of Finance and Reserve Bank of India and the criteria for lending short-term is also likely to be finalized shortly.

As far as loss reduction is concerned, we are the nodal agency for implementation of restructured APDRP scheme, which is progressing well. The objective of the scheme is to bring down the losses

from current level to below 15%; 1400 towns are to be covered under the scheme, 300-and-odd towns already have losses below 15%. Under the scheme, first time in the history of Indian Power sector state-of-the-art IT technology is being used to integrate the towns based on the geographical induction and also the asset mapping. Under the scheme the target was to integrate towns based on the IT system, so far 64 towns have been integrated, and we expect that by this March 2012 about 500 towns will get integrated. What is the implication of integration is that the discoms will be in a position to take administrative actions for reduction of losses even if the system upgradation which is also essential for loss reduction doesn't take place. The other part, 'Part B' which is upgradation of the system under the scheme is also being implemented at a fast speed. We have sanctioned 'Part B' loans for almost all the towns. The states are in the process of awarding 'Part B' contract. The implementation of 'Part B' contracts would take two to three years' time.

The lack of availability of audited accounts was another major issue in the discom. Prime Minister Office had constituted a Committee under the chairmanship of Ex-CAG Mr. Shunglu and I am also Member of that Committee, we have been working on the regulatory issues, financial issues the system improvement and viability of the distribution sector for the last one year or so. We had involved Deloitte, KPMG and two more CA firms with a view to ensure that 2009-10 accounts of all the discoms are brought to current level. We are in the process of finalizing our report and hopefully it will be submitted by December end, after which the government will take a call on what is to be done with the recommendations of the Committee.

The Electricity Act provides for suo moto revision of tariff even if respective states have not filed ARR with the regulator. However, the regulator in the states have not exercised this power given to them under the Act. Ministry of Power through Appellate Tribunal has asked electricity regulators in these states a question as to why have they not done so, and has sought Appellate Tribunal to give a direction to the regulators to exercise the powers available under the Act.

There is another task force working on private participation in the distribution sector. The objective of the task process to recommend to the government which of the models, 100% privatization, public-private participation or franchisee or government per se as it is what it is presently available, which one is most suitable for the Distribution sector. I am also Member of this task force. We have already finalized the report, then the final discussion going to be held with Planning Commission today, after which the report will be submitted.

Investors had earlier shown concern that, okay, under R-APDRP 1400 towns being covered, loss reduction would take place but loss reduction is required to be done in other towns too. Two things have been thought about to reduce the losses in other towns; one that the scope for R-APDRP scheme is being extended from population size of 30,000 to 15,000 so that more and more towns will get covered, for special states from 10,000 to 5,000, and also for the other towns which are not covered under R-APDRP, government is contemplating, in fact, the scheme has been sent to the Cabinet for approval. National Electricity Fund which is a subsidy-based scheme ranging from 3 to

7% for taking up projects for loss reduction in the towns, which are not covered under restructured APDRP scheme. So, if you look at these initiatives and the progress which we have made in the implementation of these initiatives, to my mind, the issue of distribution losses has been addressed in great detail. Even otherwise as far as PFC is concerned, PFC is 65% of the book is to state sector and we have been lending to the state sectors for the last twenty five years or so. So far we had NPA only in the case of one organization called the Bihar Hydroelectric, that also we have recovered the full amount in the last quarter. So far we haven't had any non-performing assets and we have never written-off any debt as far as lending to state sector is concerned. This is primarily because we have a sound disbursement procedure, that is we do not give money to the state sector, we ask them to send bills directly to us and repay to their suppliers, and also we have security mechanism which is Tripartite Escrow Agreement, so that has helped us to maintain this kind of level of recovery as well as almost negligible level of non-performing assets.

Now, coming to the second issue of fuel supply and increasing prices. Finance Minister, in one of the programs in New York has declared that they have now done away with go and no-go area in the case of coal mines; however, a formal communication is expected from the Finance Ministry shortly. But this particular go/no-go issue in our case was relevant for Ultra Mega Power Projects and as some of you may know that we have already taken action in the case of Orissa UMPP, RfQ was issued and 20 bids were received against the RfQ, which are currently under evaluation, and we are likely to issue the RFP by November end. As far as Chhattisgarh is concerned we are awaiting clarity from Ministry of Environment on the issue of go/no go.

I have also personally taken up this issue with Coal India and the information about Coal availability is as follows: First, the projects commissioned before March 2009 according to Coal India will face no problem as far as Coal supply is concerned. For sanctions from 1st April, 2011 we have started sanctioning projects, based on modified conditionality with respect to fuel supply agreement as well as power purchase agreement, which means that unless a developer has both these agreements in place we will not be disbursing money, therefore the risk has been mitigated to that extent. But in the case of projects which have been sanctioned from March 2009 to 31st March 2011, we have taken up with Ministry of Power with the request that they should take it up with Ministry of Coal to ensure that government's commitment through the Letter of Award must be maintained under any circumstances. But from our side I would like to share with you that even in those projects the commissioning of majority of the projects, is still one, one and a half years away and majority of those projects are in the state sector.

Now I will come to what's going to happen going forward, that was the important developments of PFC. We are now entitled to this year, we are entitled to Tax-free Bonds of ` 5000 Crores, Infrastructure bonds of ` 6900 Crores, and we have already got the approvals of ECB of \$1 billion. Now we plan to raise all this money before March 2012 which will have a positive impact on our cost of borrowing, and of course it all depends upon the timing when we are able to raise this

money. We may be in a position to save from ` 30 to ` 40 Crores in the coming quarter if the money being raised under these three sources;

Ultra Mega Power Projects as I just explained, for Orissa, we had issued RfQ on 1st August, the valuation is in progress, 20 bidders have mutually responded when we asked for certain clarification, 18 bidders have given the clarifications which are under examination, and we are likely to issue RFP by November-end Chhattisgarh, we had extended the RfQ date up to 5th December, and close to that date we will have a relook at that as to what is to be done. We are ready to issue RfQ for Cheyyur UMPP, but a decision was taken that for Orissa and Chhattisgarh, we can go by the parent documents, whereas for any projects after these two UMPP, will have to be done on modified standard bid documents, which exercise currently is on with the guidance of Ministry of Power, and hopefully once that is completed we should be issuing the RfQ for Cheyyur UMPP too.

Similarly as far as independent transmission projects are concerned, we have already awarded three, as you know, we are in the process of awarding fourth IPP that is Nagapattinam/Cuddalore, 22 bidders have responded to the RfQ, 18 bidders have been shortlisted for RFP, and RFP we have issued on 20th September and we are likely to award this by March 2012. For the fifth IPP which has also been given to us we have established the SPV and we are likely to issue the RfQ shortly.

Restructured APDRP scheme, I have explained how the towns and how many towns will get integrated, but just to give you some figures of the money spent on the scheme. As at 30.09.2011 there were cumulative sanctions ` 25,526 Crores and cumulative disbursements ` 4552 Crores plus. Base line data which is a pre-requisite for integration of 1200 towns based on IT system, as at 30th September 2011, about 300 towns have established base line data and 48 towns have already been integrated.

We had sometime back signed MOU with Nuclear Power Corporation. We have sanctioned one loan to Nuclear Power Corporation, was about ` 8000 Crores for Kakrapur Atomic Power Station in Gujarat.

We have got certificate of commencement of business for both our subsidiaries, new subsidiaries in fact, PFC Green Energy as well as PFC Capital Advisory. And both have commenced business and we shall be showing the progress of business of these two subsidiaries in the coming months. The existing subsidiary, PFC Consulting, we have got 73 assignments so far, worth about ` 200 Crores, each year we have been increasing our income, almost doubling, we have about 17 assignments in hand worth about ` 123 Crores.

You must have read already in the papers, PFC has finally decided to form a private equity fund. The thought process has been like this. That we have specialization in power project financial, but we have no core competency in fund management, therefore we thought that we will select a partner who has core competence in fund management and both will join hands together to form a trust as well as a asset management company, this will be a private company, the joint venture partner will own 51%, we will own 49%, and both partners will contribute 5% of the fund which will be initially of the size of \$300 million approximately, ultimate size will be at least \$1 billion. We will be coming out with this tender shortly, may be by month end or in the beginning of December. After which the partner will be selected.

Banking initiative, we are still in the process of selecting the consultants. There were some issues about the eligibility criteria. We have sorted that out, and we shall be taking off once the consultant is there, we will make some progress in that area.

Now, on to the quarterly results, our loan assets have grown by 26%. Total income for the quarter that means Q2 with Q2 of previous year has gone up by 24%; Half Year-on-Half Year has gone up by 22%, which is in line with the loan asset growth. Net Interest Income has gone up by 20% for the Quarter-on-Quarter and for the half year 18%. Comparable PAT has gone up by 25% and for Half Year 20%. While our notional loss you all know that in September end, there is a 10% depreciation of Rupee, because of that as a gross notional loss for Q2 FY 12 is of the order of ` 520 Crores, net notional loss is of the order of about ` 400 Crores. If that adjustment is made our Profit after Tax for the quarter shows a dip of 40% and for the half year, a dip of 18%, but this is not an area of concern for us because we have no redemptions due up to March '12 and in June we have FCNR (B) for \$40 million of which \$ 20 million is hedged, so that's not an area of concern. Our Yield for the quarter has gone up from 11.21% to 11.29% whereas for the half year has gone up from 11.08% to 11.19%. Cost of funds from 8.60 %to 9.08% for the quarter and 8.45% to 8.93% for half year. As I explained those three sources; once they get added to our resource mobilization, there will be a positive impact on cost of funds. Spread has reduced from 2.61% to 2.21% for the quarter and for the half year from 2.63% to 2.26%. NIM, we have been able to maintain 4.10, it has gone down a little bit to 3.97% but if compared with previous quarter it is higher, and for the half year, it is 3.91% against 4.08%. Sanctions, though apparently they may look lower compared to last year, but because of the change in the structure, which is happening in the Indian Power sector, more and more projects coming from the private sector, we have reduced our target itself to about ` 45,000 Crores for the year against that so far we have done about ` 29,500 Crores. But outstanding sanctions, as I have been explaining each time, which is a basis of our growth rate, stand at ` 1,79,103 Crores which is a fairly good indicator of how our loan asset is going to grow in the coming years. Disbursements were negative in the first quarter compared to previous quarter (-) 23%, but I am happy to share with you that in the half year we are (+) 3% compared to last year's first half.

So, as a result of that our book value per share has gone up from ` 119 to ` 141, which is 18% higher and capital adequacy stands at 18.22%.

With these words I think I will close my remarks and I will open the session for any questions. Thank you.

Moderator

Thank you very much sir. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press '*' and '1' on their touchtone telephone. If you wish to remove yourself from the question queue you may press '*' and '2.' Participants are requested to use handsets while asking a question. Anyone who has a question may press '*' and '1.' Our first question is from the line of Ashutosh Dhruv from Asian Market Securities. Please go ahead.

Ashutosh Dhruv

Just wanted to understand sir, how you see the kind of asset profiling panning out in terms of the NPA concern which have been pronounced, one thing? And is there any change in terms of the provisioning that is being mandated by RBI in the way we are following as of now?

Satnam Singh

We have not made any change in the provisioning, because our stand with Reserve Bank of India is that we being a Section 4A company are already creating reserves for doubtful debt which cumulative figure as of September, stands at about over ` 1000 Crores, which is about 1% of the loan book and there is no question of creating any additional provision which is required for what they call as 'anticipated non-performing assets' and we have been lending to the state sector for the last 25 years, as I said in my opening remarks we had no NPA so far and a small NPA in respect of Bihar Hydro was because of interpretation of some kind of loan, we have recovered from them in the first quarter of this financial year, so we do not envisage that when we have a reserve of over ` 1000 Crores, there is any need to create any additional provisions.

Ashutosh Dhruv

And sir secondly, if suppose typically it's a power project which has to commission by three to four years and if it is getting delayed because of the environmental or the coal-related issues, how we are structuring our loan book, should we get the provisioning done in the interim or we get some kind of a leeway or some moratorium, how we account for the same?

Satnam Singh

The power projects almost all I would put it except maybe one or two at the country level are being put up as 'Special Purpose Vehicle' and Special Purpose Vehicle revenue generation starts only after the project is commissioned. Now to say that if the project is not commissioned, the SPV will be in a position to start the repayment of the loan, it is not possible. So, if for reasons beyond the control of the developer, the project commissioning is getting delayed, then I guess there is no alternative, but to postpone the repayment till the project gets commissioned.

Ashutosh Dhruv

Facing this kind of an issue and we have already started restructuring the kind of repayment tenure for them?

- Satnam Singh** No, in the case of state sector, this was our practice even earlier and there is no question of making now, because we saw project is put up by SPV and the commissioning is delayed you cannot expect the revenue to come up, and in any case if the repayment is deferred on that account the interest is being recovered by the institution.
- Ashutosh Dhruv** No, sir my question is more pertaining to the private sector projects?
- Satnam Singh** Private sector, such a thing has not happened as yet. One or two projects are coming close to that kind of situation, but we are not --.
- Moderator** Our next question is from the line of Rahul Vekaria from Axis Mutual Fund. Please go ahead sir.
- Rahul Vekaria** Check on one thing, I see the major credit which have sanctioned for H1 FY12, I see its towards Madhya Pradesh and AP around 8800-odd Crores and the growth that credit agencies have been saying so, these two states are also among the top five states contributing 70% to the losses for FY '10 so, just wanted to know what are the basis or what is the due diligence that we do when we provide sanctions to such projects?
- Satnam Singh** There is a standard procedure, because you see the question is that in Madhya Pradesh and Andhra the discoms are owned by the state government and the sanctions when we eventually give whether to discoms, in any case our exposure is very minimal, for the generating stations the sanctions are given based on the financial internal rate of return, which the project will make, if the project is implemented, which will have always a positive impact on the overall revenues of the state so, its that basis which is considered for sanctioning.
- Rahul Vekaria** In terms of interest recoveries and payments we are not seeing any stress or any, once in a particular coming restructure or are you feeling the need that going ahead that you might see any present provisions or further restructures advances?
- Satnam Singh** No, not at all. Though I am supposed to talk about only September end results, but I can share with you that 15th October was our due date, and we have received almost all our long-term dues, except Madhya Pradesh, which is paying in installments.
- Moderator** Our next question is from the line of Kunal Shah from Edelweiss, please go ahead.
- Kunal Shah** Sir, one thing with respect to the overall sanctions, clearly, I think in terms of R-APDRP that is almost like a zero sanction so, is there some reclassification which has happened over here because on the distribution side, we see it slightly on the higher side 2000 Crores and R-APDRP for Q2 it is showing zero so, whether actually it has been zero or there is some reclassification?

- Satnam Singh** No, there is no reclassification per se. Restructured APDRP scheme in the first half, sanctions is about ` 3700 Crore. So, how do you say that there is no sanction?
- Kunal Shah** No, in Q2 if you look at it, it's almost zero, zero.
- Satnam Singh** What happens at times is that if the projects are not ready for sanction or the steering committee is not held so, that's why it maybe showing a zero, but otherwise we are also coming close to the completion of all the sanctions in the R-APDRP. In Part A cumulatively we have done about ` 6000 crores and in Part B we are likely to finish in about ` 25,000-` 27,000 crores so, in all about ` 33,000 crores is to be done and we have already done I think from 2008-09 ` 25,000 crore upto September and after that also one more steering committee has been held in which we have done about ` 3000 to ` 4000 Crore.
- Kunal Shah** Okay and this is out of ` 33,000 Crore?
- Satnam Singh** Very little is left to be sanctioned because the states are not ready for this kind of sanction. Actually it is R-APDRP sanctions, we do very quickly, once the state comes up with the proposal.
- Kunal Shah** Okay and sir similarly if we look at sanctions for Q2, say distribution, it is almost ` 2000 Crores so, maximum in this figure and distribution has happened in second quarter and even if I compare it with FY '11 in distribution segment the sanctions were only 200-odd Crores so, is it mainly towards the project or it is towards the working capital loans for some of the distribution entity --?
- Satnam Singh** They are primarily for Maharashtra discom, which is upgrading the substation.
- Kunal Shah** Okay its not that maybe incrementally, the banks have been slight conservative so, more and more demand we are getting from sales.
- Satnam Singh** No, these are for projects, not for short-term.
- Kunal Shah** Okay, in overall disbursements also if you can give some say how much would have been was the working capital requirement or it's very miniscule in the first half, if you can just quantify that amount?
- Satnam Singh** In the first half we have disbursed ` 1540 crores .
- Kunal Shah** Outstanding?

- Satnam Singh** Outstanding as of September is only about ` 3000-and-odd Crores.
- Kunal Shah** Okay, 3000 towards working capital?
- Satnam Singh** That is based on something normally we lend it for a year and we say that after six months the interest needs to be paid and then only it will get renewed, maximum is one year. So, what we have sanctioned in the last year if something have come up for renewal that's the one we have done first we have not sanctioned.
- Kunal Shah** Okay and sir any restructuring proposal which we have received till date or we expect it to come over the next three to six months in this fiscal, any kind of restructuring in any of the projects?
- Satnam Singh** You mean in the state sector?
- Kunal Shah** Yeah.
- Satnam Singh** No restructuring, request has been received, I just mentioned that even October dues we have received total except for Madhya Pradesh which is paying in installments.
- Kunal Shah** Okay sir lastly on this Maheshwar project, if you can just give the current status in terms of how the payment has been coming and do we see it being classified as NPA loan we would use the entire moratorium from RBI till 31st of March, 2012?
- Satnam Singh** In Maheshwar there were two things; one was that up to March '12 RBI has given a special dispensation, the other was that the income from Maheshwar is to be treated on receipt basis. And as I have explained earlier some money we received in the second quarter, not full, but in the 'Lenders Meet' we have given an ultimatum to the developers that you have to arrange the balance equity now before any further action can be taken which is what is working on and hopefully, very shortly, we will give you a good news that the balance equity has been raised and therefore lenders are going to take further call on this.
- Kunal Shah** Okay so, we are still comfortable in terms of treating it as an NPA loss so?
- Satnam Singh** We have not treated it as NPA and we don't hope to do so by up to March '12 by which time we hope to resolve the issue.
- Moderator** Our next question is from the line of Shrey Loonkar from Reliance Mutual Fund, please go ahead.
- Shrey Loonkar** Just wanted to check if you could just help us understand, if we were to just look at the entire borrowing by the SEBs asset class and if you were to split that further down into long-term

borrowing and short-term borrowing what would be our and RECs market share in the long-term borrowing piece, if you can just give us a ballpark that should be good enough?

Satnam Singh

I can tell you about our exposure, but REC I think you can get from them and add. Our total exposure to the state sector, as of 30th September, is ` 70,900 Crores out of the asset book of ` 110,000 Crores. REC, you can check with them. Overall borrowing by the all states put together, I think about ` 3.11 lakh Crores that's a March 2010 figure. Current figures are really not available whereas I am giving you our current figure.

Shrey Loonkar

Correct, okay, that's helpful. Sir could you give us some sense in the time lines on the Maheshwar the way you have given an ultimatum to the developer, if you can just broadly understand the contours of this ultimatum?

Satnam Singh

On the basis of March '12 we have given initially about 45 days time and then another one month's time so let's see, because this is our typical situation where the developer has to arrange equity by involving another strategic investor, that's the own sister concerns, doesn't have capability to raise that kind of money, so a strategic investor would come in, they are looking at what is the project credential and what kind of agreement this developer is wanting to sign with the strategic investor, so, that I think is currently under progress and hopefully in next one month's time we should be giving you some good news.

Shrey Loonkar

And sir just in case if this ultimatum is not honored, then what happens?

Satnam Singh

The lenders have to take a call on whether they will invite another strategic investor, because project is ready for commissioning but for want of funds, which have to flow primarily in the form of equity funds, because at the moment the debt-equity ratio is 86:14, whereas normally it should be 70:30 or at best in a situation like this 20:80 so, the additional equity unless that commitment comes, vendors are not prepared to take further call on this so, since we have some time before the RBI dispensation end, we are pressurizing the developer to bring the strategic partner on his own. If he fails to do so, then we have to think about, either we will request Government of Madhya Pradesh to be the equity partner or maybe involve some other strategic partner among the other players in the domestic market.

Shrey Loonkar

Incremental fund requirement is required for Maheshwar?

Satnam Singh

Yes, both equity and debt are required.

Shrey Loonkar

If you can just broadly quantify?

Satnam Singh

About ` 1000 to ` 1200 Crores, about ` 700-odd Crores of equity and ` 400 to ` 500 Crores of debt.

- Shrey Loonkar** And sir once this ` 700 Crores of equity comes in, then we would be comfortable giving that, taking share in that incremental ` 400, 500 Crores debt, right?
- Satnam Singh** For making the project happen, ` 700 Crores equity funds, either we will take any additional exposure or we will call other lenders to participate in that project.
- Shrey Loonkar** Okay. Sir next question is, if you can just broadly give us similar status in Konaseema?
- Satnam Singh** Konaseema is not a similar situation. Konaseema, for sometimes, they have not got the gas, therefore they run into difficulties, but otherwise the project is fully commissioned, if the gas is available it is a viable project.
- Shrey Loonkar** But, as of now is it generating enough cash flow to service the debt?
- Satnam Singh** No, it is not. That's why I have told you that in the last quarter it has not got gas, and therefore they have not been able to generate, but there is no problem with the project's first phase, only gas supply is the issue there.
- Shrey Loonkar** Okay. And any outlook on the gas supply to them for say Q3 or Q4?
- Satnam Singh** Actually, it's not possible to give that. Hopefully gas issues, the government will be able to resolve and then gas supplies will be restored, first will be restored to the existing stations.
- Shrey Loonkar** Okay. And sir the last question if you could just give us a broad status of Shunglu Committee Report, we understand this can be late, if you could just broadly understand why so and broadly, your thoughts on that?
- Satnam Singh** Such questions you should ask Mr. Shunglu, but since I'm Member of the Committee there is nothing like delay, the question is, we are handling a tough issue of viability of the distribution sector. And we have involved big companies, Deloitte, KPMG, two more CA firms to facilitate this whole process. And all the work has been done, its only report being finalized now. So by month-end based on my discussion with Mr. Shunglu, we should be submitting the report.
- Moderator** Our next question is from the line of Kanika Thacker from Sunidhi Securities. Please go ahead.
- Kanika Thacker** Sir, my question pertains to out of your total loan book, the exposure to generation utilities is close to 84%. It will be helpful if you could give us the break up that what proportion of that loan book is operational currently and what is under construction?
- Satnam Singh** That data I may not have readily available. If you send e-mail to us, we will respond to that quickly.

Kanika Thacker

Okay. And sir my next question is, if you could help us out to understand how the escrow mechanism works? Because in case of discoms we can understand, but your maximum exposure is towards the generation utilities, so what proportion of your loan book is covered by the escrow mechanism, and if not, then what is the other security that is available to you, some sort of state guarantee and all, if you could help us to understand in that aspect?

Satnam Singh

Guarantee is a primary security, so let's not compare guarantee and the escrow. As of now of our loan book, 13% is covered through the state government guarantee. Balance is covered based on charge on assets, except for AAA-rated companies such as NTPC and others, where there is a negative lein, meaning they have to maintain certain ratios based on which we have lent the money to them. As far as state sector is concerned, almost all our loans are covered through escrow, except some states where government department is doing the power business and all the credentials are such that we do not ask for the escrow account,. How it works is, that every company has a collection account, whether it is a generating company or a transmission company or a distribution company. Now the borrower, the collection banker and us, we sign a tripartite agreement, wherein the borrower commits to the main collection banker, that it has the right to siphon off an amount of first revenue equivalent to the maximum due at that point of time to PFC for all loans borrowed by the borrower, and that is routed through a specified account, we do not take our repayments or interest payments from that account. So we only monitor that, that required amount is routed through that account. We expect our borrowers to pay their dues on due date to us. But in case the borrower does not, then by giving a notice to them, first we try and resolve, we go and talk to them that this was the due amount, you have not paid it, what's your position. If they fail to honor the payment, then we have the right to invoke this escrow account unconditionally, and the bank is expected to pay that loan. Your natural question would be that how we exercise this option. Yes, we have done so, twice, long time back, once against Andhra, another time against Madhya Pradesh and we got our money back.

Kanika Thacker

Okay. Sir just help us to understand one more thing because normally in case of discoms, the escrow mechanism is pretty robust and the transmission companies recovered their dues predominantly from the discoms and then eventually it gets transferred to you. So if there is some problem on the discoms front then the transmission companies might not even get their dues from the discoms. So ultimately even if you have a lein on the escrow, but that might fail if SEBs are in deep problems they are not paying to the transmission utilities which has been observed very recently where the NTPC's debtor days shoot up very fast. So any thought on that and if you can clarify on that front.

Satnam Singh

It is like this, discoms has the right to recover the amount from the ultimate consumer, but discoms the entitlement is only to the discoms' charges. The charges which it recovers on account of generating company and transmission company, it has no right to retain. So I don't think it is correct to say that discoms will not pay to generating company and transmission companies. If at all it can stop payments, it is only their own guaranteed portion. What they are recovering on behalf

of transmission company and generating company, how can they call that as their revenue and keep it? So I don't see any such situation happening. And I clarify myself, discoms have to recover generating company charges, transmission charges and its own charges. So it has to recover amount on three accounts. What belongs to it, it has right on that, but what is recovered on account of generating company or transmission company, it has no right.

Kanika Thacker

Okay. Sir, the things which we are trying to understand the short fall till date whatever losses that discoms were encountering, they were funding it through bank borrowings, but now most of the banks have stopped lending to discom that's what we are hearing from most bankers. So in such a scenario, if there is some short fall in terms of the transmission, the dues which are generating company wants from the discom, there might be some shortfall. So we are just bothering for that shortfall that is why the debtors have gone up for most transmission utilities. So, how that situation is going to be controlled? We also know that some of the SEBs have raised tariffs very recently but what is the solution because you are also a part of Shunglu Committee and there are some rumors that perhaps the SEB losses, there are some talk that might be transferred to the state balance sheet. So some thought on that front, what is the crystallize solution which you have seen so far or you feel that, that is a viable way to resolve this entire issue?

Satnam Singh

As far as recommendations of Shunglu Committee are concerned I will refrain myself from commenting as to what recommendations are going to come till the report is out. But to address your issue of revenue recovery, why is it that discoms are incurring losses, are primarily four reasons: Non-revision of tariff; non-payment of subsidy; high level of distribution losses; and nonpayment of fuel escalation on automatic basis. As you have rightly pointed out some of the states have already revised the tariffs. But the impact on the revenue will be felt in the coming months. But these transmission companies and generating companies and discoms other than Orissa and Delhi are owned by state government. The tariff revision, the non-payment of subsidy, all this is in the state domain. So wherever short fall is there, for example, Rajasthan government has already taken a cabinet decision to fill the gap, also providing support. So because of the restraint by Reserve Bank of India, the state governments are diverting funds from other sources and providing huge discounts for them to maintain the payment schedule. Of course in providing the support, there is always some delays that is why you have seen some kind of outstanding balances. So the states have to actually initiate action to clear their outstanding subsidies, government departments have to pay their outstanding dues so that discoms are able to maintain the payment schedules.

Kanika Thacker

And last one on the notional loss, which we have routed through P&L, this 520 Crores, is it a tax-deductible item?

Satnam Singh

It is, yes.

Moderator

Our next call is from the line of Umang Shah from Motilal Oswal. Please go ahead.

- Umang Shah** From the exposure point of view, just wanted to understand, what proportion of the projects that you are funding would be under construction and what would be already operational?
- Satnam Singh** Somebody has already asked this question. Actually don't have the ready data available. If you send an e-mail, we will respond to that.
- Umang Shah** Okay. All right. Not a problem, I will do that. And sir just in your initial remarks you mentioned something about the Bihar Hydro project wherein you mention that the recoveries have been done during the first quarter of the current fiscal, could just elaborate on that please?
- Satnam Singh** We have lent two loans to Bihar Hydro Corporation long time back, I think somewhere in the early 90s and because of the interpretation of Money Lenders Act in this case, they said that if the interest paid is higher than the principal then no principal is payable. Now this does not happen while lending by a financial institution. So they kept on insisting on that kind of issue for quite sometime and we took it up with the respective authorities and finally they cleared the outstanding loans to us in totality in the first quarter, some ` 14 Crores was paid to us, though we had made 100% provision earlier in our accounts, but we reversed that as well.
- Umang Shah** And also sir, could you also let us know what would be your exposure to the top five SEBs which are loss making, mainly Tami Nadu, Rajasthan, UP and all?
- Satnam Singh** I can tell you if you ask, Tamil Nadu our actual exposure is ` 5821 crores, Rajasthan ` 10,496 crores. Which other producers?
- Umang Shah** Sir, Tamil Nadu, Rajasthan, UP.
- Satnam Singh** UP has ` 7881 crores.
- Umang Shah** Punjab and Bihar?
- Satnam Singh** Punjab is only ` 356 crores, Bihar ` 196 crores.
- Umang Shah** All right. And sir also again from the exposure point of view, what would be your exposure to power projects, merchant power projects basically?
- Satnam Singh** Merchant power projects, we had 100% merchant power, we have done only for two small projects; one was the hydro project in Sikkim, another was very small, I think 20 MW project in Andhra. Rest of the projects we have funded where the merchant power was standard as per the guidelines of Government of India. And there also, we have funded only by establishing viability of merchant

power, earlier we used to do at ` 3, now we are doing at ` 3.50. Based on this tariff, its not becoming viable then we have not funded any of the projects.

Umang Shah Right. And sir, the amount involved for these two projects you mentioned which you have funded as 100% merchant power would be roughly how much?

Satnam Singh I think about ` 70 Crores.

Umang Shah Both put together?

Satnam Singh It's about ` 140 Crores.

Umang Shah And sir just one last question regarding the projects that we have in terms of like under construction or operational, what would be the average PLF on those projects?

Satnam Singh No, we will not have that information.

Moderator Our next question is from the line of Nilanjan Karfa from Brics Securities. Please go ahead.

Nilanjan Karfa Hi morning sir, very usual question for you, I just want to look at this Power sector ever since it was deregulated, you had this losses back in 2001 and it took two to three years to resolve it and the losses were kind of taken over by the state and in seven years time we are back to the same stage. Every committee specifies some set of acts, some recommendations for the state, for the people who are governing this to act. What is so sure that you are going to put forth in the Shunglu Committee that you believe that we are not going to revisit this issue again? Is there a fair understanding on that?

Satnam Singh I would refrain myself from giving any comment on the recommendation of the Shunglu Committee because that report is not yet out. But nevertheless, the main issues are known to everyone, that non-revision of tariff. If timely revision of tariff is not done, obviously, there will be mismatch of revenue and expenditure, apart from inefficiency you see. So inefficiency is only very small portion of the whole issue. Non-revision and delayed payment of subsidies and non-payment of subsidies and non-payment by government departments are the major things. Every state government, if they want to correct it, they can correct it without any act requirement or anything else of the kind.

Nilanjan Karfa So is there a discipline? I understand you will not be able to specify the exact that you are putting forward, but how can you discipline a government is my basic question? Whoever is heading the state regulatory authority or whoever is controlling that, is there a disciplinary action that you can specify, that looks highly unlikely.

Satnam Singh

I would not say that any such kind of disciplines can be implemented even that for anything. The state governments are open for the revision and realization, if the central government and the agencies, all the stakeholders involve, they make it clear that the state can go ahead only if these things are done. Like investors are putting pressure on the state government through the banks. They must do this, this, this, otherwise they are not ready to invest money. The equity investments in the power sector as you know has dried up for some time. And all the governments, the centre as well as the state governments are looking at that. So the change of the discipline cannot come just like that by one person telling the other person, it will come with the realization that if you want the investors to be investing in the power sector then we have to certainly do these things and that is what is happening. When the banks stop lending, so many states have already revised the tariffs, so many states have also paid the outstanding subsidies, though not fully. So things are happening.

Nilanjan Karfa

Okay. So if I have to read between your lines, do you see a PPP based system being the most likely way forward here on?

Satnam Singh

For generations it's anyway open, more and more private sectors are coming in. For transmission, government has taken initiatives to privatize through the ultra transmission projects, like we have been given 5 lines, REC have also been given some lines. For distribution, two states already privatized this, Orissa and Delhi. Some states have gone in for private franchisees for some of the towns. And this task force has recommended, actually the final report is yet to be submitted but this is on the thinking of either franchisee or public-private participation, and when this is implemented over a period of time, things will change.

Nilanjan Karfa

That's very helpful sir. Sir, the second question, I am not aware of the modified conditionality that is applicable post-April '11, can you just highlight what are the key changes from the earlier documentation?

Satnam Singh

PFC and REC were in any case following various conditionality's. But the banks our understanding is who are not following that, they were relying on only state government support on guarantee. Now, what we are doing is, we are discussing these conditionalities with the banks also; Ministry of Finance, Reserve Bank of India and Indian Banking Association. Once this agreement is through on the common parameters which will be seen before any money is lent, that will be a uniform basis and these conditionality's are nothing but a revision of tariff, the debt servicing record, the payment of subsidies, clearance by government departments, etc. All that which have impact on the financial health, the audited accounts.

Moderator

We will take our last question from Sanjeev Panda from Sharekhan. Please go ahead.

Sanjeev Panda

Sir, just all of us discussed regarding SEBs issues, but apart from that, where the power companies are primarily facing problem because of the fuel linkage issues, the CapEx side they got stuck our of your portfolio, could you throw some light how things are shaping in this perspective?

- Satnam Singh** Nobody else yet. You are talking of private sector no?
- Sanjeev Panda** Yes.
- Satnam Singh** No such proposal has...
- Sanjeev Panda** Sir any threat of that sort you can see or any possibility of that sort happening?
- Satnam Singh** Given the fact that some of the projects have been assigned coal mines and those projects have been put in earlier no-go area, now, over a period of time they are getting the clearances. Actually the time required for mining, wherever the captive mines are available, is very short. It is I think maximum time is required in clearances. The time required for mining is about 6 months time once the contract is in place. So even that much time is not left, then there is a question of a project getting delayed on that account, but not otherwise. So I guess it's not such a big issue, but yes where linkage has been committed and the agreement is not getting signed because of developer and Coal India not agreeing to the terms that can cause a problem, if government does not keep its commitment of supplying the required coal as per the linkages.
- Sanjeev Panda** And sir related to, there were some incidences where companies are going for imported coal and it seems that projects are almost on viability kind of possibility. So you see that kind of scenario building up also?
- Satnam Singh** No, it is like this, that where the project has been put based on the coal linkage, and because of non-supply the developer has to go in for imported coal, the government has to agree to a fuel escalation. Now, it is a different matter that decision in this regard has not been taken. Because the developer can always go back to the government and say that, "Look, you committed this coal to me and therefore I conceive this project. And now if I have to import at a higher price, then I need compensation for fuel escalations." So it's a question of time according to me when this issue would be resolved. But the developer is entitled to receive compensation if he has to import the coal because of not maintaining the commitment by the government.
- Moderator** At this time I would like to hand the conference over to Mr. Abhishek Murarka for his closing comments.
- Abhishek Murarka** Hi, I just like to thank all the participants for attending the call and especially to Mr. Singh for taking time out of the schedule, and for giving us a comprehensive update on the sector and on PFC. So thanks everybody and thank you Mr. Satnam Singh. Thanks a lot.
- Satnam Singh** Thank you. Welcome.

Moderator

On behalf of ICICI Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.