Power Finance Corporation Ltd.
A Govt. of India Undertaking

"Power Finance Corporation Limited Q2 FY15 Conference Call"

October 31, 2014

Power Finance Corporation Ltd.
(A Govt. of India Undertaking)

IIFL

CHORUS CALL®

MANAGEMENT: **MR. M. K. GOEL – CHAIRMAN AND MANAGING DIRECTOR, POWER FINANCE CORPORATION**

MODERATOR: **MR. ABHISHEK MURARKA – ASSOCIATE VICE PRESIDENT, IIFL CAPITAL**

Operator: Ladies and gentlemen, good day and welcome to the Power Finance Corporation Limited Q2 FY15 Earnings Conference Call hosted by IIFL Capital Limited. As a reminder, all participants' 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, 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. Abhishek Murarka of IIFL Capital. Thank you and over to you, sir.

Abhishek Murarka: Good afternoon, everyone. Thank you for joining the call. We have with us the top management of Power Finance Corporation represented by Mr. M. K. Goel - Chairman and Managing Director and Mr. R. Nagarajan - Director (Finance). We shall have an opening remark by the management, after which we shall open the floor for Q&A. I invite Mr. Goel to begin the call. Over to you, sir.

M. K. Goel: Good afternoon, everyone. First, I will talk about our financial performance during Q2 FY15 and then I will talk about the sector development. In line with our track record, this quarter also we have shown sound profitability driven by good asset growth and healthy margins. We have not added any new NPAs with the NPAs ratio standing below 1%. During H1 FY15, our net profit has increased by 16% to Rs. 2,857 crores from Rs. 2,472 crores. During Q2 FY15, our net profit has grown by 11% to Rs. 1,409 crores from Rs. 1,274 crores.

The profitability for this quarter has been affected to the extent that we have made provisioning on restructured asset as per RBI directions. As per RBI, provisioning at the rate of 2.75% p.a. for FY14-15 was required to be made on the entire restructured assets portfolio. Accordingly, Rs. 215 crores of provision was made for H1 FY15 at the rate of 1.375% on restructured book of Rs. 15,660 crores. If the extraordinary items including the restructured asset provisioning is excluded, the comparable profit during Q2 FY15 has increased by 16% to Rs. 1,715 crores from Rs. 1,473 crores.

Loan asset has shown a robust growth of 16% to almost Rs. 2,00,000 crores (approx.) from Rs. 1,72,000 crores (approx.).

We are able to maintain interest spread at a healthy level of 3.48% and NIM of 4.98% for Q2 FY15. Accordingly, our net interest income for the quarter has increased by 18% to Rs. 2,492 crores from Rs. 2,119 crores.

On asset quality front, we have not added any new NPAs this quarter. Gross NPAs stand at Rs. 1,977 crores which stands at 0.99% of the loan assets and the net NPAs stand at Rs. 1,543 crores which is 0.77% of the loan assets.

This quarter, we made NPA provision of Rs. 70 crores for Maheshwar project and Rs. 5 crores for Empee Power, which is a small project.

As far as the restructured book is concerned, as per RBI directions, PFC has been offered certain relaxations on provisioning with respect to restructured assets. RBI allowed PFC to follow its own existing restructuring norms till 31st March 2017 for transmission, distribution, R&M, Life Extension and Himalayan Hydro Projects. With respect to new generation project loans, restructured with effect from 1st April 2015, they will attract RBI provisioning norms.

With respect to outstanding restructured generation project loans as on 31st March 2015, RBI provisioning norms starting with 2.75% will be applied gradually in phased manner upto 31st March 2018.

Based on the above concessions of RBI, the restructured book for PFC has been reclassified which works out to Rs. 15,660 crores as on 30th September 2014 on which provisioning was made for H1 FY15 during this quarter at the rate of 2.75% p.a..

So, our restructured assets during Q2 FY15 amounts to Rs. 4,610 crores and during Q1 FY15, it was Rs. 2,300 crores and cumulative till 31st March 2014, the restructured asset stands at Rs. 8,750 crores, thus totaling Rs. 15,660 crores assets.

During Q2 FY15, loans restructured and considered for provisioning as per RBI norms amount to Rs. 4,610 crores which relates to four projects, namely, RKM Powergen - Rs. 1,048 crores, KSK Mahanadi – Rs. 1,685 crores, Lanco Amarkantak – Rs. 1,313 crores and East Coast Energy – Rs. 563 crores.

As far as the business performance is concerned, we have sanctioned loans worth Rs. 23,000 crores approximately during Q2 FY15. Cumulatively, we have sanctioned Rs. 33,000 crores (approx) during H1 FY2015 against the target of Rs. 55,000 crores, i.e. 60% of the target has already been achieved. Sanction during Q2 FY15 has increased by 88% to Rs. 22,673 crores from Rs. 12,050 crores and sanctions during H1 FY15 has increased by 19% to Rs. 32,748 crores from Rs. 27,425 crores.

As regards disbursements for Q2 FY15, we have disbursed Rs. 8,361 crores. Cumulatively, we have disbursed Rs. 16,650 crores during H1 FY15 against the target of Rs. 44,000 crores which is 38% of the target achieved. Correspondingly, during H1 FY14 we had disbursed Rs. 18,012 crores which was also 38% of the target during that year. Therefore, we are hopeful of achieving our target.

Further, we have outstanding loan sanctions of Rs. 1.65 lakh crores, which is 3.5 times of the disbursement during FY14. This indicates our strong business pipeline going forward.

Further with the ordinance on coal allocation and other initiatives of the government, there is likely to be positive environment for further business growth.

As far as resource mobilization is concerned, we have raised about Rs. 12,583 crores during Q2 FY15 at marginal cost of 9.22%. During H1 FY15, the marginal cost was 9.01% for an amount of Rs. 21,190 crores. We will be shortly drawing ECB loan of US $250 million in the form of syndicated loan which has been widely participated by the foreign banks and FIs.

Our capital adequacy ratio is comfortable at 21.1% with tier 1 capital of 17.51% against the RBI requirement of 15% and 10% tier 1 capital respectively.

After having shared our financial performance, now I will talk about the developments in the sector and its implications to PFC.

As you may be aware, we had our last conference call in August 2014 after which the sector has seen some major developments. If you recall, in my remarks last time, I was optimistic that the new government would take measures to address fundamental issues of the power sector including coal and gas supply issues.

As you may be aware, government has stepped up energy reforms by taking up several initiatives in the recent past which include de-regulation of diesel prices, price increase of gas from $4.2 to $5.6 per unit after almost a gap of three years which is likely to increase the gas availability without making the power too expensive. Ordinance on the coal front last week is a landmark step in the right direction to address the long pending coal issue. Additionally, coal and gas pool pricing is also under active consideration to give relief to the stranded power projects.

I am therefore optimistic on power sectors given that government is taking up several initiatives to address sectoral issues. I would now like to address the specific sector issues and impact on PFC.

First the issue of cancellation of coal block and the ordinance and its impact on PFC. As you are aware, the uncertainty created by the cancellation of coal blocks came to an end last week by government passing an ordinance. The main features of the ordinance addressing cancelled coal block issues are that the government is to directly allot coal mines to state and central PSUs and government is to facilitate e-auction of cancelled coal blocks to end user private players.

Other positives of the ordinance , I believe are that the ordinance is a much awaited positive move by the government to give a fillip to reforms in the coal sector. It is the first step towards liberalization of the coal sector whereby commercial mining is being enabled through a specific provision. It is therefore likely to promote competition in the coal sector.

Government's intent is to expedite e-auction quickly is also evident from the fact that the committee has already been set up for compensation envisage under the ordinance and the report is to be submitted by 10th November 2014. E-auction process is expected to be completed in the period of three to four months.

Government is therefore aggressively addressing one of the critical power sector issue that is coal supply which will provide much needed relief to the power sector players.

Thus, the ordinance from the government last week is a great relief to PFC because it removed uncertainty; government utilities will be getting direct allocation and government is committed to quickly complete e-auction with respect to private players.

As far as the PFC projects impacted due to cancellation of coal blocks are concerned, there are total 16 projects with an exposure of Rs. 36,237 crores which were affected as on 30th September 2014.

Out of these 16 projects, 12 projects belonged to the government sector with an exposure of roughly Rs. 32,000 crores. As per the ordinance, state and central sector utilities will get direct allocation and do not have to go through the process of e-auction. Hence, we do not see any issue with the projects belonging to the government sector.

Further, there is an additional comfort for the government sector projects which is that PFC funding to the state and central sector is essentially balance sheet funding and out of Rs. 32,000 crores of government exposure, Rs. 11,556 crores have tapering linkage additionally.

And for the balance 4 projects which are belonging to the private sector, all the 4 projects are yet to be commissioned. Hence, there is no immediate impact. Out of 4 affected projects, 2 projects are having a tapering linkage in place, which is expected to be converted into a long-term linkage in case of any issue and these projects are RKM Powergen having total exposure Rs. 2,595 crores. Another is KSK Mahanadi where the exposure is Rs. 1,685 crores, however, for this 50% of tapering linkage is already available, hence only 50% of exposure is being considered affected, that is Rs. 842 crores.

The other two projects that do not have tapering linkage and are affected are Essar Power MP with an exposure of Rs. 975 crores which is shortly to be commissioned and for which we are taking up with the government for providing alternative fuel arrangements as this project is likely to be commissioned shortly. Another project is Jas Infra with a small exposure of Rs. 224 crores which is yet to be commissioned.

Therefore, the exposure impacted is about Rs. 2,000 crores which is about 1% of our loan asset. This include Essar Power MP – Rs. 975 crores, JS Infra – Rs. 224 crores and KSK Mahanadi – Rs. 842 crores which is 50% of the total exposure. However, these projects may also resort to the bidding at e-auction and if they win, then even this Rs. 2,000 crores exposure will be out of the problem.

Other initiatives by the government to address coal issue are coal pool pricing which is on the cards to give relief to the stranded projects. CIL has also committed to an ambitious target of 1 billion tonne by 2019 at a growth rate of 18% CAGR in next four years. And CIL is to take up 126 new projects in XII Plan for an ultimate capacity of 434 million tonnes.

Government is also exploring to improve efficiency and productivity through technological upgradation and better evacuation. CIL is intending to purchase 250 additional rakes to evacuate more coal. Government also to ensure completion of 3 ongoing critical rail projects which will increase output by 60 million tonnes by 2017-18 and 200 million tonnes by 2021-22.

Coal linkage rationalization is likely to result in saving on the transportation costs (linking the power plants to the nearest coal mines). Automatic transfer of coal linkage of old plants which are more than 25 year old to the new plant because new plant are having super critical technology to effectively use coal and third party sampling of coal are other initiatives.

As far as the revival of gas based power plants is concerned, government has hiked natural gas price to $5.6 per unit from $4.2 per unit. Increase in gas price is expected to increase the availability of the gas and at the same time, it is not likely to make power too expensive.

It is also understood that the gas pool pricing is being considered and power companies to cap fixed cost at Rs. 1.30 paise per unit and subsidy to be provided to cap the power cost at the rate of Rs. 5.5 per unit and the waiver on taxes on gas by state and centre etc.

As far as PFC-funded gas-based power projects are concerned, our total outstanding exposure to gas-based project is about Rs. 5,245 crores which is 2.6% of the loan book as on 30th September 2014. Of the total exposure of Rs. 5,245 crores to gas-based power projects, private sector constitutes only about Rs. 1,091 crores that is 0.5% to the loan assets, which pertains to three projects.

One project is Konaseema which is already NPA with Rs. 418 crores exposure. The other project is a captive project, Vadinar Power, with an exposure of Rs. 661 crores which is using oil reject of the refinery as fuel for captive consumption. Hence, there is no fuel issue on this project.

Government sector gas based project constitutes about Rs. 4,154 crores which is 2.1% of loan asset pertaining to 10 projects. Apart from Ratnagiri Projects which has been declared as NPA, we do not see any issue on other government sector gas-based projects as they are not linked to KG Basin and gas supply is already tied up with agencies like GAIL, ONGC, local fields where we do not see any problem. Additionally, government sector gas projects have the comfort of balance sheet funding.

Now, let me share with you some positive developments in the distribution sector which is another critical area of concern. This integrated power development scheme is a new scheme being proposed to address the distribution sector issues by Government of India with an objective to strengthen the transmission, distribution and metering in semi-urban and urban areas having a total outlay of Rs. 32,600 crores with funding in 75:25 where 75% from the budget and

25% from the utilities having an implementation during the 12th and 13th plan and with the ultimate objective to improve the collection efficiency and reduction of losses.

Another important scheme is Deendayal Upadhyaya Gram Jyoti Yojana Scheme, being proposed to address the distribution sector issues by Government of India with the objective of feeder segregation and strengthening of sub-transmission and distribution in rural areas. An investment of Rs. 43,000 crores is envisaged and it is to be implemented during the 12th plan period with the objective to provide 8 hours of quality power to agriculture consumers and 24 hours electricity to households. This scheme will also reduce AT&C losses.

Additionally, the new government has finalized a loss reduction trajectory for bringing down the AT&C loss at a national level from current existing level of 25% to a level of 15% by 2021-22 through various state specific measures best suited to their states including the feeder segregation scheme exclusively for agriculture load in rural areas, establishing adequate power evacuation systems by reducing gaps in sub transmission and distribution and achieving 100% consumer metering.

The regular tariff increase by the states is a positive to the sector. After APTEL's directive in November 2011 for suo moto action by SERCs if the states do not file the tariff petitions, all the states have issued tariff orders during FY2012-13. During FY2013-14, 26 out of 29 states have issued tariff orders, where the state of Andhra Pradesh has increased by 23%, Haryana by 13% etc. During FY14-15, already 19 states have issued tariff orders with a hike upto 24%. In addition, 5 states have filed tariff petition seeking hike upto 27%.

R-APDRP is an important scheme which was undergoing implementation during 11th and 12th plan which is aimed at reducing AT&C losses below 15% in identified 1,400 odd towns where PFC is a nodal agency. Almost entire sanction against the eligible projects in the Part A and Part B have been sanctioned i.e. Rs. 39,230 crores, of which Rs. 7,740 crores have already been disbursed.

680 towns under Part A of the projects have already been declared go-live out of the total 1,412 towns and 489 go-live towns have already shown AT&C loss reduction by an average of 7 to 8% only through administrative measures.

So, given that the government is geared up to the challenges of the power sector with a host of initiatives which I have enumerated just now, I am optimistic that the worst is behind us and I see the power sector revival going forward. Thank you so much for patient listening. We are now open to the questions. Thank you.

Operator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from Kunal Shah of Edelweiss. Please go ahead.

Kunal Shah: Sir, firstly in terms of this entire restructured book, last time we were highlighting maybe this 2.75% provisioning it would be required only on, say, Rs. 3000 odd crores where there are cash flow issues, so maybe this time maybe there is an indication from the RBI that we need to make it on, say, this entire Rs. 15,600 crores, so we had made half of it in the first half and in the second half we will make another Rs. 215 crores?

Management: From 2003, PFC is following own prudential norms which are approved by our Ministry of Power. So, we are following the norms strictly and we are also subject to government audit. Since, in our norms, there is no distinction between restructuring due to cash flow problem or DCCO delay, so we made provision for all the assets where we postponed our repayment either because of cash flow problem and also DCCO delay.

We have provided @ 1.375% on the outstanding book as on 30.09.2014, such that we will cover for both June and September'14. In the third quarter and fourth quarter, we will provide @ one-fourth of 2.75%, so that by 31st March 2015, we will have provisions @ 2.75%. Again, in FY 2016, FY 2017 and FY 2018, we will provide 0.75% additionally every year.

Kunal Shah: What was the restructuring amount? You mentioned Rs. 4,300 crores during the quarter. And in last quarter it was Rs. 2,800 crores?

Management: In Q2 FY15, it was Rs. 4,610 crores and in Q1 FY15, it was Rs. 2,299 crores.

Kunal Shah: Which were the accounts?

Management: The break-up of Rs. 4,610 crores is KSK Mahanadi – Rs. 1,685 crores, RKM Powergen – Rs. 1,048 crores, Lanco Amarkantak – Rs. 1,313 crores and East Coast Energy – Rs. 563 crores.

Kunal Shah: Within the disbursements, a large proportion is coming from others, so is this from transitional finance?

Management: In Q2 FY 2014-15, transitional finance disbursements is Rs. 1,518 crores comprising of UP - Rs. 893 crores, Dakshin Haryana – Rs. 100 crores, Ajmer Vidyut Vitran Nigam – Rs. 200 crores, Jaipur Vidyut Vitran Nigam – Rs. 75 crores, Jodhpur Vidyut Vitran Nigam – Rs. 250 crores. In H1 FY 2014-15, it is Rs. 1,943 crores.

Kunal Shah: And in terms of sanctions, we are seeing a good build up maybe almost like, say, Rs. 22,000 crores of sanction, so this is mainly, say, what we are seeing in terms of say the policy which is getting sorted out in the, say, the improved sentiments at the ground level and anything to read into it, maybe, like in terms of a guidance do we see this build up continuing as far as sanctions are concerned? Rs. 10,000 crores, we had done it in the first quarter, so is it like running ahead maybe because of the improved sentiments?

Management: Yes, certainly due to improve sentiments, we are confident of achieving our target and rate of approving sanctions is increasing. As of now, we have already done sanctions of Rs. 32,748 crores till H1 FY 2014-15.

Kunal Shah: Thanks.

Operator: Thank you. Our next question is from Vikesh Gandhi of Bank of America. Please go ahead.

Vikesh Gandhi: Yes. Hi. Good afternoon, sir. Just had one question. In terms of loan growth what are we looking at like for fiscal 2015? And other thing is just wanted to get some guidance around your margins.

Management: Vikesh, Rs. 44,000 crores is the disbursement target. So, after taking into account whatever repayment has to come, the asset would see a growth of 15 to 20%.

Vikesh Gandhi: Sir, just one qualitative comment if you can give, we have not seen on ground too much of action from the banks in terms of, you know, infra bonds whatever little they have raised, but do you see this meaningfully picking up from the banking side and obviously, you know, somewhere maybe not right now, but probably 12 months down the line, you know, having some kind of extra competition from the banking systems on this?

Management: See, the first thing is banks can raise only bonds with minimum maturity 7 years. So, for any bond issues which we are launching for maturity period less than 7 years, we don't have any problem from the banking system. So, the issue will come only for the bonds raised beyond 7 years. Except for ICICI Bank, who had done a deal, no bank has come forward. They may try to raise in the last quarter of this financial year but I don't think that it will have big impact on us because the rates have come down to around 8.85% to 8.9%. So, I don't think we will have big competition at least in this financial year.

Vikesh Gandhi: Perfect, sir. Thank you so much. All the best.

Management: Thank you.

Operator: Thank you. Our next question is from Amey Sathe of JM Financial. Please go ahead.

Amey Sathe: Hello. Sir, can I get a breakup of contingencies?

Management: Provision for contingencies is Rs. 284 crores and is comprised of reversal of Contingent provision against the standard asset – Rs. 28 crores, Contingent provision against restructured assets – Rs. 215 crores, provision for NPA - Rs. 76 crores and provision for other assets – Rs. 20 crores.

Amey Sathe: About the loan that you had restructured for KSK Mahanadi, is it the same Chhatisgarh project?

Management: Yes.

Amey Sathe: What is the sanction amount?

Management: The loan is against a sanction of Rs. 3,541 crores.

Amey Sathe: Okay, sir. Thanks. That's it from my side.

Operator: Thank you. Our next question is from Mr. Abhishek Murarka of IIFL. Please go ahead.

Abhishek Murarka: Okay. Sir, can you just tell us what is the restructuring pipeline for next couple of quarters? And if there is any, you know, if there is any particular projects which could come up for restructuring?

Management: See, whatever possible cleaning up, we have done already.

Abhishek Murarka: So nothing on the brink or nothing which is due to which you think can slip into this?

Management: In fact, on the other hand, we expect some of our asset can come out of this.

Abhishek Murarka: Right. And, sir, can you share what amount of assets and liabilities are coming up for re-pricing for the next half and next year?

Management: Assets coming up for re-pricing in remaining period of FY 2014-15 is Rs. 23,386 crores and liabilities is Rs. 28,054 crores. We expect to get additional income of Rs. 33 crores from reset of assets. We expect to benefit, when the rates are going down.

Abhishek Murarka: Right. Sir, the other thing I wanted to ask was in terms of your NIMs. They are consistently trending at around 5 and in the past we've given a guidance that they should over the longer-term come down to 4, so what is your outlook for the next half and probably next year? Do you see some pressures over there?

Management: There has not been any pressure because of the fact that the rates are going down and our re-pricing of assets has already taken place in October'14; and only one re-pricing is due in FY 2014-15 in January'14. When the rates are going down, we should have a benefit because liabilities are re-priced on a daily basis as and when the banks are changing the rate. Further, there is no trigger in the market for us to reduce our lending rate because no bank has reduced yet. So, there is not too many problems in NIMs up to March'14.

Abhishek Murarka: Sir, lastly are any of the foreign currency loans coming up for maturity and whether they are fully hedged?

Management: Foreign currency loan repayments in the remaining period of FY 2014-15 is about $523 million.

Abhishek Murarka: Is this hedged or are we carrying some translation risk?

Management: Some percentage is not hedged.

Abhishek Murarka: Okay. Thank you, sir.

Management: Thank you.

Operator: Thank you. Anyone who has a question may press * and 1. Our next question is from Amey Sathe of JM Financials. Please go ahead.

Amey Sathe: Sir, what will be the quantum of outstanding transitional finance?

Management: Around approximately Rs. 22,000 crores.

Amey Sathe: Sir, what is the target because when you started transition financing, the intended target was around Rs. 19,000 crores? Now, we already touched 22,000 crores, so…

Management: See, some of the states like Jharkhand were not participating earlier. So once the FRP is done, then we will be able to do something on that front because they come under the second structure. Some of the banks have not funded the FRP states like Tamil Nadu and Uttar Pradesh but we want to ensure they revive in *toto* because if you do part funding, then again they are going to default. So, we funded UP when Allahabad Bank refused and we have recently funded Tamil Nadu when UCO Bank refused to do. 100% funding was required be done in the first year, 75% in the second year and 50% in the third year. It means, the assumption was that over a period of time they will improve and then they will achieve targets. If there is a shortage in funding, again, they will go back to the older position. So, that is why we fund wherever the banks have refused to fund because of their exposure problems.

Amey Sathe: Okay. And are these discoms following the conditions which have been actually approved?

Management: Yes. If you see the performance, most are following the condition of tariff increases. See, Tamil Nadu has increased the tariff in 2012. Again, last year they had a small tariff increase of about Rs. 1,000 crores. Now, the regulator has done suo moto increase of around 21% which is about Rs. 5,000 - 6,000 crores in the full financial year. Another state where we have lot of problem was UP. UP also increased their tariff last week. Again, Punjab has increased the tariff. So it shows that though they have not hiked the tariffs very substantially, at least they have taken efforts to increase tariffs on a yearly basis. Tariff hikes were done by 29 states in FY 2012-13, 26 states have done against 29 states in FY 2013-14 and now, 19 states have done in FY 2014-15. At least it’s a very good beginning that they are trying to adjust the ACS and ACR gap progressively. So that’s why you can say that there has been some improvement in the distribution sector.

In addition to this, subsidies are being paid upfront on a quarterly basis in majority of the states. So, while earlier it used to be long overdue, now the subsidies are also being paid by the government to the utilities regularly.

Amey Sathe: Okay. Thanks a lot, sir. Thanks.

Operator: Thank you. Our next question is from Prakhar Sharma of CLSA. Please go ahead.

Prakhar Sharma: Good evening, sir. Sir, just a few clarifications on the restructured book that you stated is Rs. 15,500 crores. Based on the borrower mix, could you give us a clarity on how much is private and how much is others?

Management: We are talking only about private sector; we are not talking about other sectors as we had already disclosed in the notes on accounts. In state sector, we don't treat as restructuring because mostly it is balance sheet funding and as far our norms are concerned, it is not required.

Prakhar Sharma: Sir, is it correct and when you say you've included the DCCO part also here and as a bank regulation there is always a leeway of 2 to 4 years depending on the reason for delay, are you still including those sort of loans in this Rs. 15,000 crores?

Management: Loans have been included wherever there is a postponement, even if due to DCCO delay.

Prakhar Sharma: When we say obviously now it is not apple to apple versus banks, but given that Rs. 32,000 crores is your total private sector book, is it correct to say that almost 50% is restructured?

Management: Yes, it's a fact.

Prakhar Sharma: And it includes obviously just the delay part also? So can you give that? Earlier you used to give this quick breakdown, sir, between DCCO and promoter problem, can you break this down between this again the 15,000-crore number that you've restructured what is the DCCO part?

Management: One minute. We will come back to you and then I will tell you.

Prakhar Sharma: No problem. Thank you, sir. That's about it.

Operator: Thank you. Our next question is from Ashutosh Datar of IIFL. Please go ahead.

Ashutosh Datar: Yes. I just had a question on the financial state of the SEBs post the financial restructuring package, has the profitability improved or things are still worsening?

Management: Yes, things are not worsening at least. If they are not reporting upto the standard, at least not worsening. Like I talked about Tamil Nadu & UP, at least because they increased the tariffs, at least to that extent, the losses will be getting reduced over a period of time.

Ashutosh Datar: So they would still be making substantial cash losses, sir, or?

Management: Yes. They will likely breakeven only in 2017 or 2018. So, we cannot rectify the problem of 60 years in 6 months period. So, it will take at least three to four years for them to come out of the problem and then achieve breakeven. UP may be making cash profits only by 2022 or 2023.

About 97% of subsidy amounts i.e. Rs. 46, 518 crores have already been released which was booked in FY 2011-12 and FY 2012-13 for these FRP participating states. These states have already revised the tariff in the last three years and there has been approximately 7% increase in the power procurement by discoms. They are regularly purchasing, so things are improving. Of course, not to the desired extent, but things are on the improvement trajectory.

Ashutosh Datar: Okay, sir. Thanks.

Operator: Thank you. Our next question is from Manish Shukla of Deutsche Bank. Please go ahead.

Manish Shukla: Yes. Good afternoon and thank you for the opportunity. First question is what is the current yield on transition finance loans?

Management: 12.5% with the government guarantee backing.

Manish Shukla: So you don’t see this at the risk because, I mean, 12.5% loan for a government guaranteed loan yield looks extremely high when AAA in the market can borrow at 10.5% and yield is at 8.3%. This yield looks exceptionally high.

Management: Banks are not prepared to give money to the sector at all. Discoms want the money at least to settle all the dues payable to all the developers, employee salary, future generation plants etc. So, for them, the availability of funds is more important than the cost. Secondly, most of the banks are charging 13.5% on all the restructured loans at 3 years moratorium plus 7 years maturity with the government guarantee. So, we are still cheaper actually. First, they have to prepay bank loans, then may come to us for prepayment. We will charge them substantial premium, say upto 2.5% if they want to prepay.

Manish Shukla: You know, just the fact that a state entity is borrowing at 12.5% with guarantee, don’t you believe that it is risky and that the loan may not be repaid. Maybe, that is the reason banks are not giving them the loans?

Management: No. It’s not because of that. Banks have exposure limits based on sector, so they are constrained. In case of UP and Tamil Nadu, banks’ exposure to the state was high. So that’s why they were not funded.

As far as repayment is concerned, our NPAs are mostly from the private sector. So, we don’t see any risk of the government sector loans going bad.

Manish Shukla: Okay, sir. My next question is on, again, going back to restructuring. In the opening remarks you explained some of the exceptions given by RBI up till 2017, can you please explain again what all is exempted from restructuring?

Management: We have already explained in detail in the notes on accounts.

Manish Shukla: Okay. Thank you.

Operator: Thank you. Our next question is from Anand Laddha of HDFC. Please go ahead.

Anand Laddha: Hello, sir. Sir, you just mentioned that now coal pooling has also been considered as one of the options, so could you just highlight what the government thinking on, say, what can happen and which are the projects which are stranded that can be benefited?

Management: I think, it is in the discussion phase. Various options are being worked out and relative merits and demerits are being considered. It is too premature for us to comment at this stage because it's a policy issue of government. Government is very much concerned about the availability of coal and pooling with imported coal may be required. Government has already said that any project which is to be commissioned shall not be stalled for the want of coal and that it will be given the highest priority. So to that extent, they are working out various permutations and combinations.

Anand Laddha: Right. Sir, you also mentioned that RKM have got 100% linkage, is that correct, sir?

Management: RKM has a 50% linkage where FSA have been signed and in addition to this 30% tapering linkage is also available. KSK has 50% linkage.

Anand Laddha: Okay. And, sir, on this Maheshwar Project, so we've been hearing that the project would see some resolution for years now, so where it is stuck? Is it stuck with the state government or with the promoter or with the lender?

Management: Latest development is that last week, a high level committee has been constituted under the chairmanship of additional Chief Secretary, Government of Madhya Pradesh where Principal Secretary, Director (Finance) of PFC and other government officials are members. They have to submit the report in a month or so on how to revive this project. This has been constituted as a followup of the meeting which was held between Hon. Union Power Minister and the Chief Minister of Madhya Pradesh last month.

Anand Laddha: So is it fair to say that in the next six months, we can expect some resolution on this asset?

Management: We can't afford to lose this time, in six months, we should see some resolution.

Anand Laddha: Okay. Sir, on the transitional finance front, like PFC has participated where the banks were not able to participate, is it that REC has also equally participated along with PFC?

Management: You can check with REC.

Anand Laddha: Okay. What exactly is the exposure for RKM, sir?

Management: Rs. 3,643 crores.

Anand Laddha: Okay, sir. Thank you, sir. That's all from my side.

Operator: Thank you. Our next question is from Ramnath Venkateswaran of LIC Nomura Mutual Fund. Please go ahead.

Ramnath Venkateswaran: Hello. Yes. Good evening, sir. Sir, just wanted to ask this if you can provide some more colour on the meeting of various financial institutions and power sector players in Delhi. There was a committee which was formed and a report was supposed to be submitted by October end or November first week.

Management: It has to be submitted by November 7. It is under progress, so probably by first week or second week it will be submitted.

Ramnath Venkateswaran: What exactly is the plan like, what is the mandate of the committee?

Management: All the problems in this sector will be discussed and a report will be submitted to the Finance Minister.

Ramnath Venkateswaran: Okay. So November first week is the time when it will be submitted?

Management: By first week or second week latest.

Ramnath Venkateswaran: Okay. Can you give some broad idea, if not exactly the specifics but at least what are the options that you are considering?

Management: See, mainly the issues are those raised by APP, RBI regulations mainly on restructuring, refinancing, ECB guidelines, gas pricing pooling and ensuring all the plants get operational. Other issues are funding of the cost, coal issues etc.

Ramnath Venkateswaran: And, sir, there was also this discretion on this takeout finance like special SPV getting formed and stuff like that for the power sector, is it also under consideration and the scheme of things?

Management: That is separate exercise. In addition to this, another possibility is of creation of a fund through which the last mile equity and funding can be provided to the projects which are nearing completion. So, these are the various options which are being contemplated.

Ramnath Venkateswaran: And overall some clarity will emerge?

Management: Yes.

Ramnath Venkateswaran: Fair enough, sir. Thank you so much.

Operator: Thank you. Anyone who has a question may press * and 1. As there are no further questions from the participants, I now hand the floor back to Mr. Abhishek Murarka for closing comments.

Abhishek Murarka: Thanks everybody for joining the call. Thank you, Mr. Goel and Mr. Nagarajan for giving us this opportunity to host the call on your behalf and we look forward to this opportunity again next quarter. Thanks everyone and have a good day.

Management: Thank you.

Abhishek Murarka: Thank you, sir.

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

Note: This document has been edited to improve readability and relevance.