



**POWER FINANCE CORPORATION LIMITED**

**Q-2/H1- FY 20-21**

**CONFERENCE CALL**

**12<sup>TH</sup> NOVEMBER 2020**



**MANAGEMENT: TEAM OF POWER FINANCE CORPORATION:-**

- Mr. R.S.Dhillon - Chairman and Managing Director
- Mr. P.K. Singh - Director (Commercial & Additional Charge Projects)
- Ms.Parminder Chopra - Director (Finance)

**MODERATOR: Mr. PRITESH BUMB – PRABHUDAS LILLADHER PVT. LTD**



**Operator** - Good day, ladies and gentlemen, and a very warm welcome to the Power Finance Corporation Limited's Q2 FY '21 Earnings Conference Call hosted by Prabhudas Lilladher. (Operator Instructions) Please note that this conference is being recorded. I now hand the conference over to Mr. Pritesh Bumb from Prabhudas Lilladher. Thank you, and over to you,

**Pritesh Bumb, Prabhudas Lilladher Pvt Ltd**

Thanks, Ali. Hello, Good afternoon, everyone. We would like to welcome the management of Power Finance Corporation for their post 2Q2 FY '21 results conference call. We have with us the Chairman and Managing Director, Mr. R.S. Dhillon; along with other Directors and management members. I would like to hand over the call to the management for the opening remarks, followed by Q&A. Thank you. And over to you, sir.

**Ravinder Singh Dhillon, Power Finance Corporation Limited - Chairman & MD**

Thank you very much. Good afternoon, everyone. I welcome you all to this conference call. I hope all of you are safe and well during this COVID-19 situation. Today, we have declared our results for second quarter and half year ending September 2020. We have arranged this call to share with you PFC's performance for the period. So let me start by giving an update on PFC's standalone financial performance. I am happy to share that we have been able to achieve a loan asset growth of 14% as on 30th September 2020 over the previous year H1 FY '20. This is in line with the guidance for the year provided earlier by us. In this regard, I would like to mention that due to ongoing COVID situation, our project-based disbursements have been impacted. However, due to Government of India introducing the liquidity package for Discoms, under which PFC and REC are covered, PFC has been able to maintain its growth.

With an asset base of INR 3,71,158 crores, PFC's standalone PAT has increased by 49% to INR 3,785 crores in H1 FY '21 as compared to previous year H1 FY '20. The key financial indicators continue to be stable with an upward trend. The yield continues to be stable for H1 FY '21 at 10.67%. On the other hand, in line with the reducing interest rate scenario, PFC cost of funds has been consistently reducing. In H1 FY '21, the cost of funds has come down by almost 22 basis points to 7.64% from 7.86% respectively in the corresponding period, that is H1 FY '20. Thus with the stable yield and reducing cost of funds, the spread has also increased by 30 basis points during the period in H1 FY '21 from the corresponding H1 FY '20.

Another important indicator that I would like to highlight is the CRAR, which has continued to improve and stands at 18.18% as on 30th September 2020. I believe that going forward, we would be able to maintain these financial ratios. Overall, despite several challenges during the period, PFC has been able to deliver a sustainable financial performance.

Now coming to consolidated financial performance, I would like to inform that consolidated PAT and interest income has grown by 45% and 17% respectively as on 30th September 2020 as compared to 30th September 2019. Consolidated CRAR has improved at 17.54% as on 30th September 2020 as compared to 17.35% as on 30th September 2019, reflecting comfortable capital levels to support future growth. Consolidated loan asset book has shown growth of 15% as on 30th September 2020 with those assets of INR 7,20,110 crores as compared to the previous period. Due to resolution of stressed assets in both PFC and REC, consolidated net NPA ratio continues to decline and has shown a reduction of 129 basis points from 3.89% in the previous year to 2.60% as on 30th September 2020.



Now I would like to share the status of resolution for some of PFC's stressed assets. As you are aware that as on 30th September 2020, a total of 25 projects are under stress. Also of these, currently 17 projects of INR 16,185 crores have been resolved through NCLT and the remaining 8 projects of INR 10,342 crores are being resolved outside NCLT. Our investors have requested for details of projects being processed under these 2 routes. So I would like to share the main projects where PFC has approached the NCLT. These are KSK Mahanadi Power Company Limited, Ind-Barath Energy Utkal Limited, Lanco Amarkantak Power Limited, South East U.P. Power Transmission Company Limited, Shree Maheshwar Hydel Power Project. The main projects which PFC is resolving outside the NCLT are R.K.M. Powergen Private Limited, India Power Corporation Haldia, Sinnar Thermal Power Limited. Together, these 8 projects comprise 75% of the total Stage 3 assets. The provisioning for these projects is being done on expected credit loss model and sufficient levels are being maintained. Currently, PFC has coverage of 56% for Stage 3 assets. We have shared more details like COD status and resolution status of these main projects in our presentation, which can be referred for further information. Out of the above projects, I would like to highlight that one of our largest exposures, R.K.M. Powergen, we are close to resolution outside the NCLT process. All lenders have agreed to a resolution plan except one bank. However, we are hopeful of a positive revert from the last bank also. In view of this, in the coming quarter, we should be able to implement the resolution plan for R.K.M. Powergen. The provisioning for this project is sufficient and we do not envisage any further impact on our balance sheet. Although due to COVID situation, the resolution process has slowed down a bit, but I can assure you that we are making all possible efforts to resolve them at the earliest.

With our persistent effort, we are slowly and steadily improving our NPA level. As of 30th September 2020, our NPAs are 3.12%. Moving on to the borrowing portfolio front. For FY '21, as per the approved borrowing program, INR 90,000 crore of fund mobilization is envisaged from domestic and international market. PFC is planning an increase in this amount in the next quarter. This has been necessitated due to the moratorium extended to the borrowers on approximately INR 20,000 crores dues in line with the RBI scheme and the lending under the liquidity discount scheme leading to enhanced fund requirement.

As you are aware that Government of India has enhanced the limit for existing INR 90,000 crores to INR 1.2 lakh crores towards clearance of the outstanding dues of the PSU Genco and Transco ICP and RE Generator as on 30<sup>th</sup> June 2020. Under the scheme, PFC has sanctioned more than INR 36,000 crores and disbursed more than INR 12,500 crores as on 30th September 2020.

We are happy to share that PFC has faced no difficulty in meeting its fund requirements. Due to strategic government and RBI interventions in the market leading to sufficient liquidity, PFC has been able to raise close to INR 60,000 crores from the domestic market during H1 FY '21 at competitive costs. Further considering the risk arising out of the increasing foreign currency borrowing portfolio, PFC is also actively focusing on hedging its foreign borrowing portfolio. If we see, PFC has already hedged 72% of exchange risk for portfolio with residual maturity of up to 5 years. Thus, we are consistently focusing on protecting our balance sheet from such foreign currency fluctuation.

Way forward. Now lastly moving to the way forward. As the COVID-19 is continuously evolving, a better understanding of its impact shall emerge as the situation pans out. However, at present, for our growth, we continue to focus on T&D and renewable business. We will be prioritizing lending under the DISCOM



credit package in line with Government of India's direction. Due to this, loan asset growth is expected to be at similar levels as previous year. Thank you. And now we are open to questions.

### **Questions and Answers**

(Operator Instructions) The first question is from the line of Manish Agarwalla from PhillipCapital.

**Manish Agarwalla, PhillipCapital (India) Pvt. Ltd.**

I have a couple of questions. I will take one by one. Can you throw some light about what kind of power demand do you see in India for the next 2 to 3 years? And also some light on the CapEx side, the public and the private sector put together. So I will come to the next when you answer this.

**Ravinder Singh Dhillon, Power Finance Corporation Limited - Chairman & MD**

So power demand during the COVID period has declined. But now we envisage that with the opening of economies and the industries, the power demand at present I think has come to the same level in September as last year. Also, going forward, the power demand, which usually increase around 5% to 6% every year, I think should be sustained with respect to the CapEx requirement. So now the projects which are coming up on the generation side are renewable energy and integrated renewable energy projects. and the associated transmission and distribution will also be here. So going forward there will be CapEx requirement in the power sector.

**Manish Agarwalla, PhillipCapital (India) Pvt. Ltd**

So do you have any number like how much should it be, what kind of CapEx the industry would see, both the T&D and generation put together?

**Ravinder Singh Dhillon, Power Finance Corporation Limited - Chairman & MD**

So generally, I think in renewable energy, the target of 1,75,000 MW is there for up till 2022 and the cost of these renewable projects is usually around INR 4 crores to INR 5 crores per megawatt. So this requirement will be there and the associated transmission and distribution has to be there. We have seen that in the long run, around 60% CapEx is there on the generation side and 40% is on the T&D side

**Manish Agarwalla, PhillipCapital (India) Pvt. Ltd**

Okay. My second question is about the Government of India's package for DISCOM. You mentioned that the PFC has sanctioned INR 20,000 crore under the scheme. By when do you see the entire disbursement under this T&D done? That's one. And how does these factors helps the entire power ecosystem of the country? Do you see the overdue(s) of the Gencos and private T&D players has come down significantly in the next 6 to 9 months?

**Ravinder Singh Dhillon, Power Finance Corporation Limited - Chairman & MD**

PFC and REC together have disbursed around INR 31,000 crore. So out of that, INR 14,000 crore is against the PFC. PFC and REC have together sanctioned INR 1.18 lakh crore and PFC itself has sanctioned INR 59,000 crores. So this is to be released in 2 tranches, tranche 1 and tranche 2. For tranche 2, there are certain reform-related conditions, which has to be fulfilled by the states and the DISCOMs. So going forward, I think under tranche 1, 50% should be disbursed by maybe December, January, and under the



tranche 2, it will be in the later months. With respect to how it is advantageous to the power sector, this package will help the CPSU and IPP to tide over the liquidity crisis as DISCOM shall be clearing their overpayment dues. So immediately, there will be a reduction in the overall stress in the sector. As for PFC, these loans are backed by state comment guarantee and will carry a lesser risk rate. State governments also will be the party to these schemes because the government department dues will be cleared for the DISCOMs and the subsidy will be paid regularly by the states. So these are the conditions for tranche 2. So basically, there will be advantage to the sector itself as the overdues will be cleared and the short terms of finances of the DISCOMs will improve.

**Manish Agarwalla, PhillipCapital (India) Pvt. Ltd**

So the third question is about your INR 265 billion worth of Stage 3 assets. Can you give breakup of those assets. Can you also give some color about, out of this, how much are the operational projects and how much are under construction? And between both, what's the provision you're carrying for under construction and operation?

**Ravinder Singh Dhillon, Power Finance Corporation Limited - Chairman & MD**

So your question was not very clear. Actually, there was...

**Manish Agarwalla, PhillipCapital (India) Pvt. Ltd**

Yes. So my question was about INR 265 billion worth of Stage 3 assets. So out of this, how much were towards under construction project? And how much are operational project? And what kind of provision you carry for both under construction and operational projects right now?

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

Numbers, we can share with you later. You are asking about the total outstanding of the government sector, right?

**Manish Agarwalla, PhillipCapital (India) Pvt. Ltd**

No, no. I'm asking about the Stage 3 NPA, INR 265 billion. Out of that, how much is towards under construction project?

**Ravinder Singh Dhillon, Power Finance Corporation Limited - Chairman & MD**

We have to dig out the figures, just give us some time.

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

So there are few projects which have partially been commissioned like KSK, Lanco and Ind Barath Utkal, R.K.M. Powergen and then India Power Haldia. All these projects are partly commissioned, out of which R.K.M. is, I think, is fully commissioned. So it's very difficult to say how much is -- because since all these projects have not been 100% commissioned. So as a percentage-wise, it would be difficult to say. But this data, I think, we have shared in our presentation also.

**Manish Agarwalla, PhillipCapital (India) Pvt. Ltd**



Okay. I can refer those in slides. Just one more clarification on this, outside NCLT resolution projects, will those be largely under construction projects? Because like we see the NCLT projects which are under resolution, either they are completed or partially completed.

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

Right. So if you see, again, on the presentation, outside NCLT resolution, we have said that R.K.M. Powergen is there, which is 100% commissioned project and is generating revenue. Apart from that, India Power Haldia, again, out of the 3 units, 2 units have been commissioned. Sinnar Thermal Power project is there. These are the 3 major projects. There are smaller projects and Sinnar is also commissioned. But since the PPA has not been carried out, so it has been an NPA.

**Manish Agarwalla, PhillipCapital (India) Pvt. Ltd.**

And this operational projects, sir, at what PLF are they running right now?

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

Which project?

**Manish Agarwalla, PhillipCapital (India) Pvt. Ltd.**

The operational projects under resolution, at what PLF level are they running right now?

**Ravinder Singh Dhillon, Power Finance Corporation Limited - Chairman & MD**

You will have to ask the PLF for individual projects.

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

It has to be project specific. There is no standard percentage which we can say. There have been impacts in COVID period for all the projects. But what we understand right now that the PLF is picking up for these projects. So if you want to know for a particular project, then we can always share data separately with you.

**Operator**

The next question is from the line of Subrat Dwivedi from SBI Life.

**Subrat Dwivedi, SBI Life Insurance Co Ltd.**

My first question is on INR 90,000 crore borrowing plan, which was shared earlier. So now how much it will be revised to for the full year? And out of that for the balance of the year, how much will be raised through bonds?

**Ravinder Singh Dhillon, Power Finance Corporation Limited - Chairman & MD**

So this was INR 90,000 crores earlier when the dues were up till end of March. Now the government has decided that this will cover dues up till end of June . so that has increased from INR 90,000 crores to INR 1.2 lakh crores. So our borrowing will also increase accordingly. Presently, mostly we are raising through domestic bonds only and if the exchange rate is favorable, then we will go in for foreign borrowing also.



**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

Till now, we have raised around INR 60,000 crore, total borrowing has been made as against INR 90,000 crore, what has been approved by the board till now.

**Subrat Dwivedi, SBI Life Insurance Co Ltd.**

So I am still not very clear about the number. INR 90,000 crores goes up to INR 1.2 lakh crores. So INR 60,000 crore you have already borrowed. Another INR 60,000 crore will be borrowed in second half. Is that understanding correct?

**Ravinder Singh Dhillon, Power Finance Corporation Limited - Chairman & MD**

So this is not one-to-one, we are not able to give you the one-to-one figure because normal disbursements are also taking place. So this is the overall figure, which our madam has indicated.

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

See, we are working out what will be our borrowing limit enhancement required for the current financial year. We'll be projecting our disbursement and based on that we will be working on it. Right now CMD sir has told you about the enhancement in the liquidity package. When this INR 90,000 crore program was chalked out, it was somewhere in February 2020. So there has been some adverse impact on the project-related disbursements. But due to the disbursement under the liquidity package scheme, we were able to maintain our disbursement level. So that we need to work out and maybe towards the end of this quarter, we will be able to do so.

**Subrat Dwivedi, SBI Life Insurance Co Ltd.**

And my second question was on -- just a clarification. So in tranche 1, what is the total amount sanction and to be disbursed?

**Ravinder Singh Dhillon, Power Finance Corporation Limited - Chairman & MD**

So we are doing it together only, tranche 1 and tranche 2 together we are sanctioning. Disbursement will take place for tranche 1 separately and tranche 2 separately. So PFC has sanctioned INR 59,000 crore till date. This is the total against both tranche 1 and tranche 2. And what we have disbursed is INR 14,000 crores, that is under tranche 1.

**Operator**

The next question is from the line of Hardik Shah from SBI Mutual Fund.

**Hardik Shah, SBI Mutual Fund**

Sir, I just wanted some more understanding on the moratorium book. So you mentioned INR 20,000 crores of loans were -- had opted for moratorium. So out of these, what is the restructuring that you expect? And overall book, how much restructuring do you expect?

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**



See, right now, moratorium has been given in line with the RBI guidance. As Sir has said that around INR 20,000 crores of the dues have opted for the moratorium. So we have allowed them the moratorium and going forward, as you know, that it has been shifted towards the end of the loan installments when the loan is maturing. This particular moratorium amount has been shifted in line with the RBI guidelines. So we are not expecting any restructuring in any of these loans.

**Hardik Shah, SBI Mutual Fund**

Any other loans or any expectation what percentage of portfolio might require restructuring?

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

Right now, there may be a few small, small projects, which may require. But as on date, till 30th of September, there is no such movement.

**Hardik Shah, SBI Mutual Fund**

Sir, what is the ALM profile of the company right now?

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

As on 30th of September, weighted average maturity of asset is 6.30 years and the weighted average of liabilities is 4.99. It has improved from 31st of March 2020 from 1.40 gap to 1.30 gap this year.

**Hardik Shah, SBI Mutual Fund**

Up to 1 year, what would be the mismatch?

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

Up to 1 year. You are asking for the liquidity mismatch?

**Hardik Shah, SBI Mutual Fund**

Yes, yes.

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

So up to 1 year cumulative mismatch is around 30%

**Operator**

The next question is from the line of Kunal Shah from ICICI Securities.

**Kunal Shah, ICICI Securities Limited**

Yes. Congratulations for a good set of numbers. So firstly, would it be fair to assume that this entire liquidity package would get disbursed in this particular system? So is there any first tranche that is expected by December? And second point also, would it be fair to assume that it will be done by March?

**Ravinder Singh Dhillon, Power Finance Corporation Limited - Chairman & MD**





So this, as I had mentioned earlier also, this is related to the reform related conditions. So this is up to the states, if they are able to meet the conditionality, then we will be able to disburse tranche 2 also. In 2 states, we have already received plans etc. and we are examining that. We hope that against that we will be able to disburse shortly. But for the remaining, they have yet to submit the plan and accordingly we will be able to disburse. So, tranche 1 will be, as I had indicated, we'll be able to disburse in December and maybe some portion of tranche 2 in this current year.

**Kunal Shah, ICICI Securities Limited**

Okay. And so besides this disbursement, I think this quarter also you are looking that there is generation disbursement also, there is (inaudible). So over and above the liquidity package, can we assume that maybe since the disbursement run rate in terms of the overall requirement in the power sector, that would also be ongoing and actual disbursement and the growth would be relatively on the higher side.

**Ravinder Singh Dhillon, Power Finance Corporation**

No. Because of COVID, overall, there has been a slowdown and the mobilization with respect to the manpower, with respect to the material at the site has been slow. So going forward, I think there will be a reduction in the project loan disbursement. But we'll definitely be reaching the last year levels because we have this Atmanirbhar program. And definitely we will be able to maintain the growth because of this Atmanirbhar Program. And let us see what is the way forward with respect to how the projects come up and how they are mobilized and how much disbursement requirement is there. So we have disbursement, whenever the work is completed, then only they are sending us the claims and we are disbursing. So that is when there is progress at the site, we will be disbursing.

**Kunal Shah, ICICI Securities Limited**

Okay. Sure. And lastly, in terms of dividends, so PFC has declared interim dividend of INR 6 per share. So now how are we looking at it in terms of any kind of interim dividend and what the visibility for, say, 30% dividend payout out, out of earnings that can we expect that to be quite (inaudible) for this fiscal as well?

**Ravinder Singh Dhillon, Power Finance Corporation Limited - Chairman & MD**

So PFC has been complying with the different norms of payment of dividend, that is 5% of the net worth or 30% of the profits, whichever is higher. But as we have seen in the last financial year, there was adverse impact during the end of the year and the U.S. dollar to INR rate touched almost INR 77 and then it closed at INR 75. So during the last month, there was a transitional loss, which we had to incur. So if the exchange rate stabilizes, we will see and what the board will deliberate on this dividend issue and we will take a decision accordingly and it will also depend on the external factors like exchange rate and the COVID impact and the company's performance with respect to that.

**Kunal Shah, ICICI Securities Limited**

Okay. So would it be like more interim or maybe it will be like final only?

**Ravinder Singh Dhillon, Power Finance Corporation Limited - Chairman & MD**

So normally we are giving based on the quarter 3 results. So going forward, we will like to stick to that. --



**Operator**

The next question is from the line of Kishan Gupta from CD Equisearch.

**Kishan Gupta, CD Equisearch Private Limited**

So I want to understand why your impairment has gone up crores to INR 650 crores this time?

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

See, PFC is following IND AS accounting system and we are doing the impairment allowance based on the expected credit loss. So as you are aware that there has been some delays in the NCLT process due to COVID. So as a precautionary measure, we have worked out and based on the expected credit loss in few of the assets, the impairment has gone up.

**Kishan Gupta, CD Equisearch Private Limited**

Okay. And how much extra provision you have made in this INR 953 crores? Is there a buffer also?

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

See, this is purely on the expected credit loss. So it would be very difficult to say there. Marginally, we have increased on the Stage 1 assets also, but major is towards stage 3 assets.

**Kishan Gupta, CD Equisearch Private Limited**

And what's the provision for the moratorium accounts?

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

Moratorium accounts fall into Stage 1 category only. Yes.

**Kishan Gupta, CD Equisearch Private Limited**

Okay. And what is the nature of this foreign currency loss of INR 420 crores this time?

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

I think while working out the foreign currency loss, you have to net off net translation loss plus that mark-to-market. So what you are referring to INR 428 crore is the negative mark-to-market against the hedged portfolio of PFC. So net impact is the negative Rs.224 cr. only.

**Kishan Gupta, CD Equisearch Private Limited**

So that is for your foreign exchange -- foreign currency exposures, loan exposures.

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

Right.

**Operator**

The next question is from the line of Punit Srivastava, Daiwa Capital Markets.



**Punit Srivastava, Daiwa Securities Co. Ltd**

So my first question is on the provisioning side, I think there was a question already. So the provisions on the Stage 2 loans have gone up, if I'm correct, by almost INR 5 billion. Can you explain that -- what has led to the INR 5 billion provisions on the Stage 1 and Stage 2? And secondly, the tax rates are down a lot. So if you can explain what has happened? And if I can put in one more question, the yields have been very fairly stable. But the subsidiary from the REC, the interest short up a lot by 50 basis points on that. So we can just throw some light if it is possible. That's it.

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

With regard to the provisioning of the Stage 2 you said, there are 2 accounts there that has been, even though they are Stage 3 accounts, but there has been stay from the Supreme Court for declaring them as a nonperforming loan. So that is amounting to INR 1,700 crores. And other than that, there has been -- you know that under the Stage 2, there has always been a movement in and out. So major amount is towards these loans only.

**Punit Srivastava, Daiwa Securities Co. Ltd.**

So then is it also because of the R.K.M.? R.K.M. is Stage 2 or 3?

No, PFC has already identified R.K.M. as under Stage 3.

**Punit Srivastava, Daiwa Securities Co. Ltd.**

Okay. And then on the tax rate and on the yield side?

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

On the yield side, you know that PFC has not changed its card rates for lending purposes.

**Operator**

Ladies and gentlemen, line for the management seems to have disconnected. Please hold while we reconnect them. We've the line for the management reconnected. Please go ahead, ma'am.

**Ravinder Singh Dhillon, Power Finance Corporation Limited - Chairman & MD**

So PFC has maintained its yield on assets around 10.6% to 10.7%. And the cost of borrowing has come down and the interest spread and NIM has increased. With respect to REC, we have also seen that there is a sudden increase. So I think that has to be verified from REC.

**Punit Srivastava, Daiwa Securities Co. Ltd.**

So you said about the card rates. Are you offering some discount on the card rates? And if you intend to remove those discounts over a period of time? Is that the reason?

**Ravinder Singh Dhillon, Power Finance Corporation Limited - Chairman & MD**

With respect to our...

**Punit Srivastava, Daiwa Securities Co. Ltd.**



Yes. Are you offering discount to the card rates as of now? And do you intend to remove those discounts over a period of time?

**Ravinder Singh Dhillon, Power Finance Corporation Limited - Chairman & MD**

No. For some projects we have given discounts and that will continue and the card rate itself, we have brought down, I think, from 1st of September.

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

From 1st of September, we have modified our card rates.

**Ravinder Singh Dhillon, Power Finance Corporation Limited - Chairman & MD**

We have reduced our card rates.

**Punit Srivastava, Daiwa Securities Co. Ltd.**

Okay, sir. And on the tax rate part is the last.

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

See, tax rate, if you know that, I think, in the first week of October 2019, there was a reduction in the corporate tax rate by the Central Government. So what happens with the reduction in the tax rate which was incorporated in our accounts ending 30th September, there has been re-measurement of deferred tax assets, which was a positive figure to the extent of around INR 800 crores. So that was majorly due to that there was a major impact on the tax rate. So it was last year, 30th September 2019, the total tax expense was INR 1,129 crore including INR 459 crore of deferred tax. Whereas, in the current financial year, on the increased income base, we have INR 1,000 crore of the current tax and due to increased provisioning, there has been negative impact on the deferred tax amounting to approximately INR 240 crores. So net tax expense is around INR 800 crores. So there is a difference of around INR 300 crore in the total tax component if you compare on half year on half year basis.

**Punit Srivastava, Daiwa Securities Co. Ltd.**

And going ahead, what should be the normalized tax rate? What we should assume to be the normalized tax rate? I understand there was some one-offs this time. But this year, let's say, next 2, 3 years, what kind of tax rate we should assume?

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

See, this is this particular quarter is more or less it is a normalized tax rate. If you see the current tax, this is on the basis of the normal rate only, but it is coming to around 18% to 20%. There is a reassessment, re-measurement of deferred tax asset or liability each quarter end, which depends on various parameters. Like if we have made higher provisioning, then the benefit under the tax will be, in the future, will accrue to PFC. But definitely, there will be a negative impact of the same. So this rate, deferred tax has to be worked out on quarterly basis only, but the average tax rate is going to be somewhere around 18% to 20% for PFC.



**Punit Srivastava, Daiwa Securities Co. Ltd.**

Sorry, how much you said? It was not clear

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

18% to 20%

**Operator**

The next question is from the line of Kayur Asher from PNB MetLife India.

**Kayur Asher, PNB MetLife India.**

Yes. I have a question on certain challenges that we are facing in disbursement under the liquidity scheme. So I understand you mentioned about reforms, but state government guarantees also I believe are precondition to disbursement. So is that acting in an order for us?

**Ravinder Singh Dhillon, Power Finance Corporation Limited - Chairman & MD**

So with this state government guarantee is the requirement for even tranche 1. So where we have received the government guarantee only, then we are disbursing tranche 1.

**Kayur Asher, PNB MetLife India.**

Right, sir. Because I understand we have a high number of sanctions, but the disbursements have not been at that level. And likewise, there have been rising receivables for many power producers as well. So I wanted to get a sense as to why there has been this challenge in disbursements.

**Ravinder Singh Dhillon, Power Finance Corporation Limited - Chairman & MD**

So for they have moved through their different states, discounts have moved to their finance department in respect to getting that state government guarantee. And in some states, we have asked for the budgetary provision also. So for that also, they have to approach finance department. So with respect to that and documentation also, they have to take certain approvals and documentation (inaudible) it is taking time.

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

And we have to sign the quadripartite agreement, the government or state government is also one of the parties. So that is why it is taking time.

**Ravinder Singh Dhillon, Power Finance Corporation Limited - Chairman & MD**

But I think in near future, we should be able to disburse a major portion to Tamil Nadu.

**Kayur Asher, PNB MetLife India.**

Right, sir. And sir, certain -- again, on the power services side, you have indicated about possibility of invoking a tripartite agreement given the delay. So do you envisage any possibility, any such possibilities on a large scale?



**Ravinder Singh Dhillon, Power Finance Corporation Limited - Chairman & MD**

Which tripartite agreement?

**Kayur Asher, PNB MetLife India.**

So for power producers, the tripartite agreement they have with the states and RBI because of delays in

**Ravinder Singh Dhillon, Power Finance Corporation Limited - Chairman & MD**

That is with respect to the CPSUs and in some of the states and NTPC renewable projects. So I don't think there are much dues with respect to that.

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

And with the liquidity infusion, most of the outstanding dues of the CPSU generating companies and transmission are getting liquidated.

**Kayur Asher, PNB MetLife India.**

And one last clarificatory accounting question. So you mentioned about certain states 2 assets, which are not classified as Stage 3 because of the dispensation. So what was the quantum?

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

The quantum was around INR 1,700 crore

**Kayur Asher, PNB MetLife India.**

So that is not being reflected under the INR 26,000 crore of NPA that we undertook?

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

Right. It is being reflected at the Stage 2

**Operator**

The next question is from the line of Aditya Mundra from Mytemple Capital.

**Aditya Mundra, Mytemple Capital**

Sir, what is the quantum of the Stage 2 assets in the private sector?

14% of the Stage 2 assets are categorized under the Stage 2.

**Aditya Mundra, Mytemple Capital**

Okay. And actually, the total quantum of Stage 2 would be? Because that, I believe, is not even combined Stage 1 and 2?

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

Yes. It is combined Stage 1 and Stage 2.

**Aditya Mundra, Mytemple Capital**



So out of INR 34,614 crore, 14% would be Stage 2?

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

Yes.

**Aditya Mundra, Mytemple Capital**

Am I correct? Okay.

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

Yes.

**Aditya Mundra, Mytemple Capital**

Okay. And any public sector loan, which is in Stage 2?

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

See, there are few i.e. 1 or 2 loans where the payments have been delayed. But you know that in the state sector generally it happens, there are certain delays, but after some time, we are able to get the payment. So right now, there are no longer under Stage 2, which was there as on 30th of September

**Aditya Mundra, Mytemple Capital**

Okay. And then the new sanctions, which have been given in this quarter, how much of that would be percentage of generation, distribution, and transmission?

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

Sanction?

**Aditya Mundra, Mytemple Capital**

Yes.

**Ravinder Singh Dhillon, Power Finance Corporation Limited - Chairman & MD**

So in half year, H1 of FY '21, so 47% is in generation and 7% in transmission, and distribution 45%.

**Aditya Mundra, Mytemple Capital**

Yes. Okay. And out of that 47%, renewable and thermal distribution & generation would be how much, the breakup of that?

**Ravinder Singh Dhillon, Power Finance Corporation Limited - Chairman & MD**

So we will get back with these numbers.

**Aditya Mundra, Mytemple Capital**

Okay. But even broadly, but it's more thermal, it's more biased towards thermal or renewable broadly or generation?



**Ravinder Singh Dhillon, Power Finance Corporation Limited - Chairman & MD**

No, thermal will be also there because we had refinanced the thermal project and major disbursement has gone in that and there are certain FGD projects under generation projects there for environmental guidelines. So during the major renewals, which we have sanctioned is to move our (inaudible) Adani Green, ACME, Alfanar. So these projects we have sanctioned, we will give you -- we will give you the figure. This must be around maybe INR 15,000 crores

**Aditya Mundra, Mytemple Capital**

Okay. And then is there any internal target -- sorry, you were saying something.

**Ravinder Singh Dhillon, Power Finance Corporation Limited - Chairman & MD**

Just a minute.

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

And out of the total sanctions, INR 26,000 crore is for renewables.

**Aditya Mundra, Mytemple Capital**

Okay. Sanctioned for H1 FY '21. And sir, any internal target that we have that going forward this much percentage of the book would be towards renewable? Is there any internal target for that within the next couple of years?

**Ravinder Singh Dhillon, Power Finance Corporation Limited - Chairman & MD**

We are focusing on renewable projects and in generation side, only now renewable projects are coming up. So going forward, major portion will be renewables only.

**Operator**

The next question is from the line of Andrew Lundstrom from The WindAcre Partnership.

**Andrew Lundstrom, The WindAcre Partnership LLC**

I wanted to ask about the relationship between PFC and REC. How has it been changing? And what synergies do you expect, as you note on Slide 4 of the presentation?

**Ravinder Singh Dhillon, Power Finance Corporation Limited - Chairman & MD**

So we have done the acquisition of REC in March 2019. And we have worked over this time for achieving the synergies. Actually, we have aligned our policies on various funds. And with respect to the new policies, we have this project-specific funding, the letter of undertaking and evolving bill payment facility to DISCOM. So we have collaborated with REC and taken out these new policies. And similarly, going forward, our interest rates are also same with respect to similar kind of projects and our teams are working together. With respect to the ratings also, rating methodology, for generation and transmission projects, we are accepting each other's rating and so that there is no duplication of rating exercise. And then state and private sectors borrow for projects, we are co-lending and aligning our terms and conditions. So we are making efforts with respect to that and also we are jointly trying to resolve the





stressed assets where we are the co-lender. So going forward, we should be able to harmonize these processes and should be able to achieve the economics of scale. So this is an ongoing thing and we plan to work on it further.

**Andrew Lundstrom, The WindAcre Partnership LLC**

Okay. What is the benefit of the economics of scale? Is there any quantum or estimate of what you can capture?

**Ravinder Singh Dhillon, Power Finance Corporation Limited - Chairman & MD**

So this is difficult to quantify as of now.

**Andrew Lundstrom, The WindAcre Partnership LLC**

Is the competitive environment any different with respect to REC or the banks?

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

See this REC, we are working along with them and in most of the cases, we are trying to basically align ourselves and do the funding of the power project in 50-50 sort of thing. Like in liquidity package, we have been sanctioning and disbursing 50%. In other than even liquidity schemes, we are trying to achieve a consensus rate for sharing of the business. So that way, we are trying to be with banks. Banks are majorly into the refinancing of the loans. But PFC & REC are predominantly in the initial stages and go for the project funding even under the construction stage also.

**Andrew Lundstrom, The WindAcre Partnership LLC**

Do you think your tax rate will ever go back to the corporate 25% at some point in the future?

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

It will all depend on the government policies. The corporate tax rate is announced by the government of India. Then we being an infrastructure financing company, we have been given certain exemption for the special reserves etc.. So our effective rate is working out to be around, as I earlier told, somewhere between 18% to 20%, depending on those benefits of the reserves. So saying that it is going to remain so, it will all depend on the Government of India policy.

**Operator**

Next question is from the line of Rohan Mandora from Equirus Securities

**Rohan Mandora, Equirus Securities Private Limited**

I just want to understand, in the Stage 2 private sector, 14% that you indicated, that includes the INR 1,700 crores of default packages. And also if you can indicate which are these 2 accounts? And what is the current status on those? Whether we're operational or not?

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**



See, due to Supreme Court orders, we are not supposed to disclose. But as we have already informed you that approximately INR 1,700 crore assets are there in the Stage 2, which are actually Stage 3 assets out of the total INR 2,300 crore, as you said.

**Rohan Mandora, Equirus Securities Private Limited**

Sure. And will these 2 be under construction projects or partly operational? Any color on that?

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

These are under construction projects.

**Rohan Mandora, Equirus Securities Private Limited**

Under construction projects, okay. And one more thing, in terms of the renewal project that you are sanctioning especially, currently in the question like who all other lenders are there as a competitor for you and are active in lending to renewable project?

**Ravinder Singh Dhillon, Power Finance Corporation Limited - Chairman & MD**

So we have already shared with you what projects we have recently sanctioned. The consortium members are REC is there and IREDA is there

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

SBI is actively participating.

**Ravinder Singh Dhillon, Power Finance Corporation Limited - Chairman & MD**

PFS, IIFCL.

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

So all these infrastructure, you know that renewable funding is now in the market. So banks are taking exposure. IREDA is there, PFS, IIFCL is there, apart from PFC, REC

**Ravinder Singh Dhillon, Power Finance Corporation Limited - Chairman & MD**

So for these projects, if the debt exposure is around INR 2,000 crores, then we are the sole lender. We try to take this whole lending. So up to that level, we will not have any consortium numbers. But if the project is larger than that, we may have to have some consortium member. But with respect to REC, as I was telling, we we are trying to share the sanctions and disbursements with them for a private sector project.

**Operator**

The next question is from the line of Anand Laddha from HDFC Mutual Fund.

**Anand A. Laddha, HDFC Asset Management Company Limited**

A couple of question from my side, sir. I just wanted to understand, what's the loan growth outlook for the full year, both in terms of disbursement, how much we are looking, what's our internal target and on the loan growth?



**Ravinder Singh Dhillon, Power Finance Corporation Limited - Chairman & MD**

So going forward, as I was indicating to you, the project side, funding will be I think lower compared to last year, but with Atmanirbhar thing coming in we will be able to maintain the last year level and maybe slightly more than that.

**Anand A. Laddha, HDFC Asset Management Company Limited**

So last year, we reported 10% loan growth. Sir, last year we had a 10% loan growth and in the current year due to the DISCOM liquidity package, do we expect loan growth to be around 15% to 20%?

**Ravinder Singh Dhillon, Power Finance Corporation Limited - Chairman & MD**

So we expect it to be around between maybe 12% to 15%.

**Anand A. Laddha, HDFC Asset Management Company Limited**

Okay. And sir, under the DISCOM liquidity package, how much has been sanctioned and disbursed so far? And how much we expect additional sanctioned disbursement by March 31?

**Ravinder Singh Dhillon, Power Finance Corporation Limited - Chairman & MD**

So as we have already indicated, PFC and REC together, we have sanctioned INR 1.18 lakh crore. And PFC contribution in that is INR 59,000 crores. And disbursement, we have done total PFC and REC together INR 31,000 crores, and PFC's contribution is INR 14,000 crores. So going forward, we think that tranche 1, we should be able to disburse entirely for the states by maybe December. And some portion, a substantial portion, maybe in tranche 2 also.

**Anand A. Laddha, HDFC Asset Management Company Limited**

Sir, of this INR 1.18 lakh crore was sanctioned, how much is the tranche 1, sir?

**Ravinder Singh Dhillon, Power Finance Corporation Limited - Chairman & MD**

50% will be tranche 1.

**Anand A. Laddha, HDFC Asset Management Company Limited**

Okay. And you said total so far both PFC and REC had disbursed INR 31,000 crore. Okay. Of that, half of that has been disbursed by you?

**Ravinder Singh Dhillon, Power Finance Corporation Limited - Chairman & MD**

No, in one state, REC has disbursed and we have not disbursed. So our contribution there is INR 14,000 crore. So it is not exactly half.

**Anand A. Laddha, HDFC Asset Management Company Limited**

Okay. And on this standstill account, INR 1,700 crore exposure, which is in standstill due to Supreme Court order, this account, is it only standstill or is it facing problem only because of the liquidity issue? Or there is some problem with this project?



**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

See, they are under litigation with the respective state government, that is the issue. So that is why the Supreme Court has given such orders.

**Anand A. Laddha, HDFC Asset Management Company Limited**

And there was one similar project with REC, which got upgraded this quarter, which was the NPA in the previous quarter. It was TRN Energy, I believe so. So is it the same exposure we are having, which we are facing the issue?

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

No, no, that's not the case. In case of PFC, TRN is a standard account.

**Operator**

Due to time constraints, we will take the last question from the line of Pranav Tendulkar from Rare Enterprises.

**Pranav Tendulkar, Rare Enterprises**

Sir, out of approximately INR 34,000 crore of Stage 1 and Stage 2 private, what is the situation as compared to and with respect to completed, in construction, and half commissioned project?

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

See, Stage 1 assets are standard assets.

**Ravinder Singh Dhillon, Power Finance Corporation Limited - Chairman & MD**

Private Stage 1 and Stage 2 is around INR 34,000 crore.

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

See, we can share the data with you separately in this regard

**Pranav Tendulkar, Rare Enterprises**

Okay. So out of that INR 34,614 crore of private sector, I believe you said Stage 2 is around INR 1,300 crore?

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

Pardon?

**Pranav Tendulkar, Rare Enterprises**

So out of private sector exposure, which is standard, Stage 1 and Stage 2 total is INR 34,614. Out of how much is Stage 2? I believe you mentioned the number, but I missed that number?

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

Around INR 2,300 crore of Stage 2 assets are there in the private sector.



**Pranav Tendulkar, Rare Enterprises**

Okay. Without standard?

**Parminder Chopra, Power Finance Corporation Limited – Director Finance**

Yes.

**Operator**

I now hand the conference over to the management for their closing comments.

**Ravinder Singh Dhillon, Power Finance Corporation Limited - Chairman & MD**

So we are very thankful for this interaction with all the investors. And looking forward that it is -- as we have indicated that we have posted good results and we expect, going forward, we'll continue to do that. And if there are any further queries, you can e-mail to us and then we will respond.

**Operator**

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

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