



“Power Finance Corporation Limited's Q1 FY18
Earnings Conference Call”

August 17, 2017



MANAGEMENT:

TEAM OF POWER FINANCE CORPORATION LIMITED:-

- **MR. RAJEEV SHARMA** - **CHAIRMAN AND MANAGING DIRECTOR,**
- **MR. D. RAVI** - **DIRECTOR (COMMERCIAL),**
- **MR. C. GANGOPADHYAY** - **DIRECTOR (PROJECTS),**
- **MR. N.B. GUPTA** - **EXECUTIVE DIRECTOR (FINANCE)**

MODERATOR: MR. KUNAL SHAH – EDELWEISS SECURITIES LIMITED



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Kunal Shah:

Good day everyone. This is Kunal Shah from Edelweiss Securities. Today, we have with us Mr. Rajeev Sharma, Chairman and Managing Director; Mr. D. Ravi, Director (Commercial); Mr. Gangopadhyay, Director (Projects) and Mr. Gupta, Executive Director (Finance) from Power Finance Corporation to discuss their first quarter FY18 earnings. Over to you, sir.

Rajeev Sharma:

Good morning everyone. I welcome you all to this conference call on our financial results for the quarter ended 30th June 2017.

As far as business highlights of Q1 of this year versus last year are concerned, loan sanctions saw an increase by 47% to Rs. 50,922 crores from Rs. 34,613 crores. Disbursements saw increase of 66% to Rs. 12,849 crores from Rs. 7,754 crores. Renewable disbursements saw sharp increase to 1,200 crores from 236 crores. Net loan assets increased by 10% to Rs. 2,47,139 crores from Rs. 2,24,970 crores. We therefore saw a robust business growth.

However, due to competitive pressures leading to reduction in interest rates given by the prevailing lower interest rates in the market, our margins got impacted. As a result of this, our profit for the quarter is Rs. 1,429 crores versus 1,713 crores. Interest spreads and net interest margins for the Q1 FY18 are 2.76% and 4.44% respectively. As the substantial loan book has already been re-priced, we anticipate to maintain spread around current levels.

As regards asset quality, as you are aware that PFC realigned to RBI restructuring norms in Q4 FY17 except for transmission distribution, hydro projects in Himalayan region, for which exemption was available to PFC till 31st March 2017. PFC is now following RBI restructuring norms for all types of projects. During Q1 FY18, PFC made provisions of Rs. 392 crores on loan assets, out of which Rs. 251 crores was on account of NPAs, Rs. 95 crores on account of standard restructuring and Rs. 46 crores on account of standard asset provisioning.



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As regards NPAs, Essar Power Transmission Company Limited has been declared as NPA due to delay in commissioning and cost overrun amounting to Rs. 382 crores with 38 crores provision. Due to delay in commissioning beyond 4 years, 2 R&M loans of J&K State Power Development Corporation amounting to Rs. 2 crores became NPA, even though the borrower is servicing the loan regularly since January 2010. Around Rs. 210 crores provisioning has been made in existing NPAs.

With this, the NPA ratios for the year are: - gross NPA with RBI impact 12.46%, without RBI impact 3.07% (improved from 3.34% Q1 last year). Similarly, net NPAs with RBI impact 10.48% and without RBI impact of RBI alignment 1.81% (improved from 2.66% Q1 last year).

As indicated in our earlier investor conference, reversal process of Government Sector NPAs has started, with all MP Genco loans amounting to ~Rs. 11,000 crores upgraded on 15th July 2017, i.e. in Q2. Another Rs. 7,000 crores is likely to be upgraded in Q3. Therefore out of total NPAs of 31,500 crores, Rs. 18,000 crores will be upgraded by Q3.

As regards restructured loans of Rs. 36,505 crores in Q1 with respect to Government sector projects, there is no addition to restructured accounts in Q1. In fact, one loan account of about Rs. 1,500 crores has been upgraded to standard. However, the restructured book marginally increased on account of ongoing disbursements in the existing restructured loan accounts.

The current status of restructured accounts with respect to government borrowers is out of Rs. 36,505 crores, 62% or Rs. 22,511 crores already commissioned and will reverse in FY 18-19. 26% or Rs. 9,530 crores expected to be commissioned in FY 17-18. 12% or Rs. 4,465 crores expected to be commissioned after FY 17-18. We would like to reiterate that we do not see any stress in government sector NPAs and restructured accounts and these loans are being serviced regularly.

As regards restructured accounts, with respect to private sector, restructured book in Q1 reduced from Rs. 19,446 crores to 18,090 crores as one account of NCC power of Rs. 2,400 crores upgraded to standard. Shiga Energy got added with loan amount of Rs. 522 crores.



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The current status of Rs. 18,090 crores restructured book with respect to private borrowers is 31% or Rs. 5,576 crores has already got commissioned, out of which Rs. 4,371 crores will be reversed in FY 17-18 and Rs. 1,205 crores in FY 18-19. 64% or Rs. 11,584 crores have scheduled COD in FY 17-18.

Couple of points I would like to highlight on commissioning status of generation. Our total gross loan assets are Rs. 2.53 lac crores, out of which generation assets are Rs. 1.86 lac crores. Out of these 1.86 lac crores, government owned projects are 80% of which 75% are already commissioned. And private sector generation projects are roughly 20%, of which 55% (excluding NPAs) are already commissioned. Therefore 70% of generation assets are already commissioned.

Only 30% of our portfolio is yet to get commissioned. Of which, ~57% is likely to get commissioned in FY17-18. Therefore we may conclude that 70% already commissioned and 16% are likely to get COD in FY 17-18. Hence 87% of generation portfolio is either commissioned or likely to get commissioned by end of FY 17-18.

As regards resource mobilization, we raised about Rs. 13,680 crores during Q1 at marginal cost of 7%. Further I am happy to inform you that PFC got the permission to raise capital gain tax bonds under section 54EC and we have launched the capital gains bond issue in July 2017 itself. We are in the process of tapping international markets to diversify our borrowing portfolio. Our capital adequacy ratio is comfortable at 19.54% against RBI requirement of 15% with Tier 1 capital of 16.50% against RBI requirement of 10%.

Thank you very much. Now we can have questions and answers session.

Moderator:

Thank you very much. We will now begin with the question and answer session. The first question is from the line of Bajrang Bafna. Please go ahead.

Bajrang Bafna:

This is Bajrang Bafna from Sunidhi Securities. Sir, could you just broadly explain this MP Genco exposure which goes upgraded during the quarter around 11,000 crores. If you could provide more details, in what status it was and whether we were recognizing interest income on this exposure in Q1 or till Q1 or not or whether it will be recognized going forward And any other upgrades either from the NPA account or the restructured account which are expected going forward if you could share those details sir?



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- N B Gupta:** In fact that interest income we were accounting on the basis of cash basis only because this is NPA and we can recognize the income only on cash basis and these are the total group exposure. And this has been upgraded in July.
- Bajrang Bafna:** Sir this was the part of NPA or this was the part of restructured book?
- N B Gupta:** This was the part of NPA. So this whole 11,000 will be upgraded in the Q2.
- Bajrang Bafna:** So sir, they made the interest payment or they made the complete repayment of this 11,000 crores?
- N B Gupta:** No. There is no question of repayment of 11,000 crores. These were NPA, they were servicing all the principal and interest in time. So after that one year of that commissioning, it can be upgraded. So this will get upgraded in the Q2.
- Bajrang Bafna:** Okay, got it sir. Interest income was getting recognized because they were already paying the interest?
- N B Gupta:** Cash basis was being recognized earlier also. It will be on accrual basis from Q2 onwards.
- Bajrang Bafna:** Okay, got it sir. And details of other upgrades expected going forward sir? Any other upgrades that we can expect in this quarter or maybe next coming 1 or 2 quarters?
- Rajeev Sharma:** Marwa, a project of Chhattisgarh Rs. 6,869 crores. It will get upgraded in Q3.
- Bajrang Bafna:** Sir, this is a part of NPA again?
- Rajeev Sharma:** Yeah. Because of those RBI norms, these government sector projects because of technical reasons we have to declare the NPA.
- Bajrang Bafna:** And are we recognizing interest income on cash basis on this currently?
- Rajeev Sharma:** Yes.
- Bajrang Bafna:** So they are paying, they are regular even today?
- Rajeev Sharma:** Yes.



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- Bajrang Bafna:** Okay. So there is not P&L impact but as far as NPA is concerned they will come down by 11,000 crores in this quarter and 6,869 crores in Q3?
- N B Gupta:** There is a slightly difference on accrual and cash basis. So what was accrued on 30th June has not been accounted for.
- Bajrang Bafna:** Okay. So there will be some impact on NIM also in that case?
- N B Gupta:** Yes.
- Bajrang Bafna:** In Q2?
- N B Gupta:** Yes.
- Bajrang Bafna:** Got it. Any other account sir, apart from this Marwa?
- N B Gupta:** Immediately this two accounts will be upgraded & as mentioned earlier, out of 31,000 NPAs as at 30th June, ~18,000 will be upgraded, i.e. more than 50%.
- Moderator:** Thank you. The next question is from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.
- Anand Laddha:** Sir I missed on the part on increase in gross NPA this quarter? Can you please explain it again what has led to the increase in gross NPA this quarter?
- Rajeev Sharma:** Gross NPA with RBI impact is 12.46% and without impact of RBI realignment 3.07%. It improved from 3.34% last Q1 and net NPA with RBI impact 10.48% and without impact of RBI realignment 1.81%. It improved from 2.66% in Q1 last year.
- Anand Laddha:** And sir then some private sector exposure which turned into NPA this quarter. You were explaining something on Essar Transmission, if you can again explain?
- Rajeev Sharma:** It is a transmission company, Essar Power Transmission Company that has been declared as NPA due to delay in commissioning and cost overrun, amounting to Rs. 382 crores. So we have made a provision of 38 crores.
- Anand Laddha:** Okay. Sir that is the only account which has turned NPA this quarter.



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- Rajeev Sharma:** A small one, 2 crores R&M loan to J&K State Power Development Corporation.
- Anand Laddha:** Sir, there are no cases wherein private sector despite it has been NPA, we could have given some extra loan to them for restructuring of operation. I am talking about Maheshwar project sir.
- Rajeev Sharma:** Yes. We are trying to revive this project and according to the norms, whatever provisioning is to be done we are making that.
- Anand Laddha:** Sir any new loan to the Maheshwar will be in the NPA category only sir?
- Rajeev Sharma:** Yes. It will be classified as NPA & we have to make provision of 50%.
- Anand Laddha:** So this quarter have we given any new loan to Maheshwar project sir?
- Rajeev Sharma:** 360 crores.
- Anand Laddha:** We have given to them?
- Rajeev Sharma:** We have given to Madhya Pradesh Government for R&R.
- Anand Laddha:** Okay. So this will be part of the gross NPA only?
- Rajeev Sharma:** Yeah. You are absolutely right.
- Anand Laddha:** And on this how much provision we could have made sir?
- Rajeev Sharma:** 180 crores.
- Anand Laddha:** That is the reason our provision this quarter is little bit higher. Sir, for this quarter we made provision of Rs. 112 crores in the P&L, right?
- N B Gupta:** The loan asset provisioning is of 392 crores. Out of 392, 210 on the existing assets only.
- Anand Laddha:** This 210 existing NPA, this includes the 180 crores on the Maheshwar exposure?



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- Rajeev Sharma:** Yes.
- Anand Laddha:** Sir you also indicated that there has been a repricing of the loan book this quarter has happened and therefore the spread should remain stable. If you can give some indication what sort of repricing has happened and on what proportion of the loan book this has happened?
- Rajeev Sharma:** Because of basically Uday and competitive pressure in the market, we had to reprice our assets of state power utilities, state Gencos, state Transcos and Discoms. But it has already been done substantially. So there is no proposal now for further repricing.
- Anand Laddha:** Sir, how much we have done sir, like it has been reduced by 100 basis points overrun and 50 basis point, if you can give some indication?
- N B Gupta:** Around 60% of loan book.
- Anand Laddha:** 60% of the loan book has seen interest reduction by 100 basis points.
- Rajeev Sharma:** It depends. It varies from account to account.
- Anand Laddha:** And sir, if you can give some color on your incremental lending yield sir? If you are giving new loan to any SEB Genco, what could be the incremental yield on that sir?
- Rajeev Sharma:** I told you actually disbursement there was a growth of 66% this quarter and the loan sanctions also 47% increase.
- N B Gupta:** See, our marginal borrowing is around 7% and if you take the general average lending rate, it is coming around 10.25 to 10.50.
- Anand Laddha:** Okay. So we are still maintaining the spread upward of 300 basis points.
- N B Gupta:** Yes. On a marginal basis, marginal cost.
- Moderator:** Thank you. The next question is from the line of Punit Srivastava from Daiwa Capital. Please go ahead.



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Punit Srivastava: Of course sir, you discussed about these margins and you said that the spreads and margins should be stable this quarter, but sir in a longer term how you are seeing this spread movement two years down the line? If you can give some guidance on that and also what kind of aggression you are seeing from the banks currently in terms of trying to acquire the current projects which have already got commissioned?

Rajeev Sharma: Actually impact on our margins won't be there because through capital gain tax bonds we will be getting cheaper funds at 5.25% because this year we have been given this mandate to raise capital gain tax funds also apart from REC and NHAI. And commissioned assets we are also refinancing. Very recently, you must have seen we have refinanced a project of NTPC and UP joint venture and we have disbursed 3,700 crores in that. So these are not all the banks, we are also refinancing some good projects, which are already commissioned or likely to be commissioned soon. So we will be able to maintain our margins in near future.

Punit Srivastava: Okay. That is great. And sir one more question on this, if I can ask on this CAG report, a copy of that is also lying on the CAG side. So they have provided I think the entire comprehensive report and one of the accounts if you notice, they have mentioned some of accounts like KSK, Mahanadi and all, where they have said that some projects might be unviable because of the tariff rates and all. So is there anything you can comment on those things because they have mentioned like 1 or 2 projects are...

Rajeev Sharma: I would also like to reply very comprehensively on this. Of course, the report raised certain issues with respect to appraisal process for both promoter and projects being followed. We had replied in detail to CAG regarding the processes as well as due diligence being followed. I would like to inform you that the PFC's comprehensive promoter appraisal policy was developed by CRISIL and promoter's experience is accessed through laid out criteria with respect to the equity funding potential, we assess it based on past operations, future projections and also the track record of funds raised and projects implemented by the promoters. You may also appreciate that CAG report has not highlighted any financial irregularity in the projects financed by PFC. With respect to the RBI norms, we have very specifically stated the method in which the RBI norms were adopted both in the notes to our annual accounts and also the investor conferences. I would like to reiterate that our appraisal system is robust and follows highest standard in the market. Our appraisal process is taken as the benchmark by other lenders in the power sector.



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As far as stressed assets are concerned, we are focusing on improving our asset quality by increased focus on revival of stressed assets. We are exploring the possibility of takeover of stressed assets by state utility. We are also putting efforts to revive a project by change in management. In this regard, we are in talk with all stakeholders. We have also created a stressed asset revival group to analyze various options like 5/25, SDR, S4A, IBC and other restructuring to devise project wise strategy for revising stressed asset. Does it answer your question?

Punit Srivastava: Yes sir, of course to some extent. So sir basically what I am asking is that, in some of the projects, I don't know if it is possible to discuss like they have mentioned about KSK, Mahanadi about viability, so is there anything where that project has reached or are we facing any problems?

Rajeev Sharma: We are in discussion with 2-3 developers. They are interested in taking over this project. I cannot name the parties, but they are very good parties and lenders are in advanced stage of discussion with these developers.

Moderator: Thank you. The next question is from the line of Dhaval Gada from Sundaram Mutual Fund. Please go ahead.

Dhaval Gada: Sir I missed one part of your comment regarding generation and you were explaining how much is government and how much is private and within that, how much is operational. If you could just repeat that, it would be very helpful sir?

Rajeev Sharma: Definitely, I will be very happy to repeat it. Our total gross loan assets book is 2.53 lac crores. Out of which, generation assets is 1.86 lac crores. And its breakup is government owned projects 80%, of which 75% are already commissioned and private sector is 20%, of which 55% (excluding NPAs) are already commissioned. Therefore 70% of generation assets are already commissioned and only 30% of our portfolio is yet to get commissioned, of which 57% likely to get is commissioned in 2017-2018 itself. Therefore 70% already commissioned and 16% likely to be commissioned in 2017-2018. Hence 86% of generation portfolio is either commissioned or likely to get commissioned by end of 2017-2018.



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- Dhaval Gada:** And sir within this 20% of private and within that 55% is commissioned, how much of this commissioned project is actually, there is either no PPA or there is stalled, so if you could give that part, commissioned but no PPA was called?
- Rajeev Sharma:** Out of this, GMR Chhattisgarh project is there which does not have PPA. But for this we have already done SDR and we are in consultation with 2-3 states for taking over this project. We are discussing with the state power utilities because project is already commissioned, it is generating also. So we are looking for a new developer and we have 18 months' time.
- Dhaval Gada:** And any other project where it is commissioned but stalled or not having PPA?
- Rajeev Sharma:** Nashik of Indiabulls, that PPA is sub judice in Supreme Court. They had PPA with Maharashtra Distribution Company, but it is disputed So it is sub-judicial in Supreme Court.
- Dhaval Gada:** This is Indiabulls Nashik-1, is it?
- Rajeev Sharma:** Yeah.
- Dhaval Gada:** Any other project sir?
- Rajeev Sharma:** Right now, I do not remember any because others are under execution. So they are partly being dispatched.
- Dhaval Gada:** And sir within this what would be the exposure to, so of the 45% which is under construction right now, in your assessment what would be the quantum of projects which would be, could potentially be little more under stress where there is either no PPA or some other issues there in this under construction of 20% private sector exposure?
- Rajeev Sharma:** KSK Mahanadi, but they have PPA. They have PPA & third unit is likely to be commissioned very soon and in RKM Power, but they also have PPA with UP. Their first project they are generating and supplying power to UP. Then Lanco Amarkantak is there, 90% project is complete and 10% is to be completed.



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- Dhaval Gada:** Right. Any other major ones sir?
- Rajeev Sharma:** These are the major ones I think. Ind Barath Utkal first unit is commissioned and second is likely to be commissioned. They have PPA for this first unit with TANGEDCO.
- Moderator:** Thank you. The next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.
- Nischint Chawathe:** Sir, just one question on my side and this is with respect to growth. If you could give some guidance as to how do you see growth going forward and what would be the key drivers? Thank you.
- Rajeev Sharma:** Key drivers would be definitely enhanced growth in renewable funding, refinancing, transmission and distribution. As I explained in the beginning, there was 47% growth in our sanctions in Q1. And similarly in disbursement, there was a growth of 66% and particularly during Q1, renewable disbursements show a sharp rise of 1,200 crores from the last year we disbursed only 236 crores. This year we disbursed 1,200 crores. So growth of almost 6 times and we expect more now because we will be refinancing some renewable projects and we will be financing new projects also in renewable and our share is increasing in transmission and distribution.
- Nischint Chawathe:** So most of the sanctions that you would have done are largely refinancing is what we can broadly assume?
- Rajeev Sharma:** It is almost 5%-10%. But it is increasing now, because very recently we refinanced one NTPC and UP joint venture, Meja project 2 x 660 MW near Allahabad. We took over the project from 17 banks.
- Moderator:** Thank you. The next question is from the line of G Vivek from GS Investments. Please go ahead.



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G Vivek:

My worry was about the private sector power projects and what will become of them. For example, Lanco is going into liquidation. What will happen to our exposure? IDFC has already classified Essar Power as NPA and what is the status for us in that particular exposure. And S Kumars, what will happen to that project, Ind-Barath, RKM, so lot of concerns on that and secondly was about the power consumption going to increase or solar is going to compete against thermal. And what about the PPAs which are not being honored by the state government sir?

Rajeev Sharma:

You have asked many questions in one question. So first of all Essar Mahan is already NPA for us. But good news from the project is that second unit is also getting commissioned and they had PPA with Bihar, tori project which they are likely to get revived for this Essar Mahan project. Both the units will be supplying power. So project is likely to get commissioned both the units. First unit is already supplying power to Essar Steel and getting payment also. So this is regarding Essar. You were talking about Lanco Amarkantak, two units have already PPA. They are generating, one unit as PPA with Haryana, and another unit as PPA with Madhya Pradesh. Their tariff is very competitive, it is just like almost pithead base type project and Lanco Amarkantak 3 and 4 units they are almost 90% complete. 10% is yet to be completed. So we are working on that and whatever will be the alternative available in the present scenario provided by the Reserve Bank of India, we will also follow that. We are a government company. Similarly Ind-Barath, you were talking about for 1st Unit, they have PPA with TANGEDCO. Similarly, for RKM Power Gen, they are generating, & supplying power to UP. First phase of the project is having PPA with them and RKM is again having a very competitive tariff. And 1st Unit of second phase is also commissioned but they are yet to get working capital tied up. So different projects are facing different type of problems, but in consultation with banks and other stakeholders, we are trying to resolve them sitting across the table and escalating it to the highest level to ministry, to minister of power and regarding you are worried about reopening of PPAs. I am told ministry of power is going to issue an advisory very soon to all state power utilities that they should not reopen any PPA because it is a legal document. So this is under consideration in the ministry of power that is what I have been informed.

G Vivek:

And what about sir, Lanco Odisha, Lanco Vidarbha?



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- Rajeev Sharma:** We are not there. In both the projects, we are not there, REC is there.
- G Vivek:** And sir what would be the outcome of this NCLT proceeding sir and are there buyers for these sort of stressed power assets, like in steel we are seeing lot of buyers. Are there buyers interested in power projects or standard power projects sir, ARC?
- Rajeev Sharma:** This process is yet to start. We are also keeping our fingers crossed because at least one project should get matured and we will all come to know how this process proceeds and whether buyers are there in the market or not? At this stage, it will be premature to tell anything because even I don't know.
- G Vivek:** What about sir S Kumars and gas based power projects, any exposure we are having and what is the status of that?
- Rajeev Sharma:** We are having, but they are already NPAs & we are trying to revive that project and we are in consultation with Madhya Pradesh government, we are trying to complete R&R work.
- G Vivek:** It is now under our control only, right sir, that old promoters are for S Kumars now?
- Rajeev Sharma:** Yes sir.
- Moderator:** Thank you. The next question is from the line of Praful Kumar from MSD Partners. Please go ahead.
- Praful Kumar:** Sir just wanted to understand, you said that you have aligned the NPA norms for the generation sectors. Now for the rest of the book if you have to do that exercise, can you just give some ballpark number how the NPA ratios will move?
- Rajeev Sharma:** We have aligned, earlier we were following for restructuring the norms approved by ministry of power. From 2016-2017 onwards, we have aligned our restructuring norms with RBI. For transmission distribution and hydro projects in Himalayan region, we were exempted till March 17. But we have aligned ourselves for all projects, whether private sector or government sector with RBI norms now.



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- Praful Kumar:** And in terms of NPA recognition as well, it is now aligned to a 90 day...
- Rajeev Sharma:** Yes, currently its 4 months however at 31.03.18 it will be 90 days.
- Moderator:** Thank you. The next question is from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.
- Anand Laddha:** Sir you were indicating some of the stressed power projects. I think you indicated about Essar, Tori also. So that project is under construction. So is there anything happening on that project sir?
- Rajeev Sharma:** Sir in Tori, we have not disbursed a single pie till date and that sanction has also expired already. I was explaining that for Essar Mahan project we are helping this Essar people to get PPA which was signed in 2010 with Bihar Discom to transfer that PPA from Tori project to Essar Mahan project, so that both the units can generate in Essar Mahan. One unit is generating today and they are supplying power to Essar steel. Second unit is also getting commissioned this month, and then they can supply power to Bihar on the basis of that Tori PPA.
- Anand Laddha:** And sir you also indicated, there was also some news that power ministry is working with lenders to takeover some of the stressed power projects. If you can give some color anything in that, which type of projects are being considered and anything happening on those side?
- Rajeev Sharma:** Frankly, I do not have anything to report, but yes, 2-3 meetings have been taken at secretary level, at additional secretary level and minister of power level but we are still deliberating on various options and minister had also meeting with all the bankers also. But frankly till date no concrete solution has been advised because every project has a unique solution. It has to be project wise. But in PFC, for your kind information we have set up one stressed asset revival unit and it will deliberate on the alternatives and issues, resolutions through discussion with various stakeholder and we will deliberate on each and every project and will decide what is the optimal strategy to revise that project .



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- Anand Laddha:** And sir lastly, we also have some exposure to the Athena Group and anything happening on those projects sir?
- Rajeev Sharma:** No, East Coast yes. East Coast, it is a project 2 x 660 MW in Andhra Pradesh. It is stalled for almost 1.5 year. We were trying to handover it to Andhra Pradesh and we were in consultation with Karnataka government also. So we are trying to explore the possibilities, our first priority is that we handover it to a state Genco. If it doesn't happen, then whatever options are available in the market according to the RBI we will opt for those options.
- Anand Laddha:** And sir same group has also one more project which is Athena Jharkhand. Anything happening on that project sir?
- Rajeev Sharma:** We are not there.
- Moderator:** Thank you. The next question is from the line of Dhaval Gada from Sundaram Mutual Fund. Please go ahead.
- Dhaval Gada:** Sir, I just had couple of more sort of clarification. One was sir this, we also have expanded to Moser Baer Anuppur. So is it NPA? What is the progress there sir?
- Rajeev Sharma:** I am happy to inform you, good you asked this question. It is a good project. They have PPA for both the units and there was some accident in second unit. but now it is generating and it has got substantial PPA for both the units.
- Dhaval Gada:** Okay. So no concerns on that?
- Rajeev Sharma:** I don't see any stress in this project.
- Dhaval Gada:** Okay. And sir one more, so that Amravati one sir, any update, I think there are present there as well. So what is the sort of view there?
- Rajeev Sharma:** Maharashtra is taking power.



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- Dhaval Gada:** Indiabulls..
- Rajeev Sharma:** But is being operated at 25%-30% plant load factor and they are paying back to us.
- Dhaval Gada:** Okay. There is a possibility of little stress over there?
- Rajeev Sharma:** Yes. Some stress is there but we are working parallely on that also.
- Dhaval Gada:** And sir just one more, on this Essar, last time I think you mentioned that we had exposure to Mahan one, is that correct, which you are supplying to the steel plant?
- Rajeev Sharma:** Yeah. We have exposure but it is NPA already.
- Dhaval Gada:** And sir just lastly, in terms of the disbursement in the others category, what is the kind of projects that we are looking at and what kind of yields are we getting on these exposures, if you could just highlight a little bit?
- Rajeev Sharma:** Like I told you, we financed this NTPC UP joint venture, last week we made a disbursement of 3,700 crores. We have taken over from 17 banks, it is a 2 x 660 MW project in UP.
- Dhaval Gada:** And what would be the yield that you would have made on this one?
- Rajeev Sharma:** Maybe around 9%.
- Dhaval Gada:** Okay. I was just trying to understand sir in the initial comment you mentioned that incremental yields are about 10.2 to 10.5. So I was just wondering, which of these projects which are sort of because NTPC and all would be as you said around 9% level, so which are the offset which are helping you gain such kind of yields?
- Rajeev Sharma:** My marginal cost of raising fund is around 7%.
- Dhaval Gada:** Correct sir, absolutely.



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- Rajeev Sharma:** Because our major funding is to the state power utilities. It is in the range from 10% to 10.5% and I am raising at around 7%. So definitely my spread is around 3%, on marginal basis.
- Dhaval Gada:** And just lastly this state thing comes in distribution, right? I was just looking at the 12,800 odd crores disbursement that we did this quarter, 6000 came from others and within that, you mentioned some of these NTPC related projects which are running about 9.5%, so I was just trying to understand where is the other side of the benefit coming?
- Rajeev Sharma:** NTPC disbursement we made this quarter.
- Dhaval Gada:** This second quarter, okay. And sir this 6,000 in 1Q that we made, which was the largest sort of transaction we did here? In others 6,049 crores, which was the largest transaction we would have done here, sir?
- Rajeev Sharma:** It may be actually short term loan and medium term loan maybe, UP and Madhya Pradesh. It is 1,350 crores to UPPCL, then Andhra Pradesh Power Development Corporation 600 crores, 500 crores to TANGEDCO.
- Dhaval Gada:** And these are all between 10% to 10.5% yield as you said?
- Rajeev Sharma:** Yes.
- Moderator:** Thank you. The next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.
- Amit Premchandani:** Sir what is the status of Indiabulls Nashik project that you would have funded, it is still performing or classified...?
- Rajeev Sharma:** It is commissioned. But it's PPA sub judice in Supreme Court. So we are working on this project to distress it. We are in consultation with state government also.



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- Amit Premchandani:** And what is the classification of this project as of now?
- Rajeev Sharma:** As of now, it is standard restructured.
- Amit Premchandani:** Okay. And your exposure would be around 3,000 crores in this project?
- Rajeev Sharma:** Yes.
- Amit Premchandani:** And in terms of your generation exposure, what percentage of this exposure that you classify have generation like 1,85,000 crores would be actually pure IDC booked as loan and basically interest accumulation getting reflected as a loan? So sir whenever a project has not yet done DCCO, all the interest gets booked as loan, right?
- N B Gupta:** We don't have a separate classification of this. This is a part of project cost. We have been funding the IDC also.
- Amit Premchandani:** So just trying to understand since the projects are getting delayed by say 3-4 years in many cases, the capital structure of that project may get damaged because of the booking of IDCs. So the project may turn out to be unviable or although per se it would have been viable, and so banks...
- Rajeev Sharma:** No. As I explained, I will repeat. My gross loan asset book is 2.53 lac crores. Out of which, generation assets are 1.86 lac crores. And government owned projects are 80%. Out of which, 75% are already commissioned and they all have 100% PPA with listed Discoms and private sector is 20%, of which 55% (excluding NPAs) are already commissioned. So therefore 70% of my generation assets are already commissioned.
- Amit Premchandani:** Sir my question was, I understand that it is commissioned. But say if it was supposed to get commissioned in 2013 and average commission has happened in 2015, there are two years of interest lying in that capital cost of the project which may turn that project into normally unviable from an interest servicing point of view. I am trying to understand how much of this 1,85,000 has an interest capitalization element?
- Rajeev Sharma:** For government sector projects, it is balance sheet funding. So even if it gets delayed we continue to get our repayments. They have cost plus tariff because CERC tariff is there. So there is no issue, in particularly government sector projects. In private sector in some cases yes, it may be there but they also have PPAs.



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- C. Gangopadhyay:** In the private sector projects, if we have sanctioned the cost overrun, appraisal process, the cost overrun takes into account the viability of the project. Meaning that, if a project is not viable, then the cost overrun is not sanctioned at all. So therefore the IDC moved as a part of the original project cost and also the cost overrun is already factored in the viability study.
- Amit Premchandani:** And sir of the project which will come out of NPA over the next two quarters because they are getting commissioned, do we have a interest reset clause after commissioning in these projects?
- C. Gangopadhyay:** You see, the interest reset clause is there, the interest reset that we are offering, a 3-year reset in general, that clause will be there and all the disbursements will be reset on the interest reset date. That is there in our standard terms and conditions for all these projects.
- Amit Premchandani:** So as soon as they get commissioned, the interest gets revised downwards or it is within after 3-year period?
- C. Gangopadhyay:** It is not linked to the downward or upward movement of the interest as such. There is an interest reset date. All the disbursements will be reset on a certain date and then every 3 years the interest reset will be done. Whether the interest rate will be actually lowered, that will depend on so many things including the rating etc. that cannot be like predicted upfront.
- N B Gupta:** Second, it is not linked to commissioning or construction. The reset is there for even construction project also. After every 3 years, it is reset.
- Moderator:** Thank you. The next question is from the line of Puneet Maheshwari from Fair Connect. Please go ahead.
- Prabha:** Hi. Prabha this side. My question is on private sector exposures. You said that especially on this 1,86,000 exposure that is towards generation, out of that 20% which works out to be 37,200 crores that is towards IPPs. You have given the breakup in terms of commissioned and not yet commissioned. But would it be possible to give a further breakup on the basis of viability, so there are our commissioned projects which don't have PPA or PPA are under dispute, and there may be some under construction projects which don't also have PPA. So a bit more color on that and also what part of this 37,200 crores is already NPA or restructured so that one has a sense on what would be your eventual loss as we stand today?



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Rajeev Sharma: 20% of 1.86 lac crores is private, of which 55 % (excluding NPAs) are already commissioned.

Prabha: But say in this 37,200 crores, how much of these are NPAs, how much are standard restructured and how much are standard?

Rajeev Sharma: The ones which don't have PPAs are Ind-Barath Power Madras which is already NPA.

Prabha: Sir, it will be helpful if you can give the value for these three?

N B Gupta: We will revert back to you.

Prabha: I will drop in an e-mail. And your sense on what would be the eventual loss because some of the power projects you may have to take haircuts because the power cost because of the capitalization of the interest may have gone significantly higher and specifically if you don't have a long term PPA you are at a disadvantageous position. So what would be the eventual loss, you think from all of the private sector and how much provisions have you made so far against these?

C. Gangopadhyay: See, we cannot really predict those numbers for losses because as you know many of the projects are in the process of restructuring as per the RBI norms or NCLT process etc. How much will be the eventual loss that will come out only after the resolution process is completed and therefore time has not come to predict how much loss we are going to incur. However, we are actively in dialogue with the various stakeholders like states etc. for taking over of projects like, in case of GMR Chhattisgarh we are in dialogue with NLC and Tamil Nadu they are likely to takeover, for some project also we are in dialogue. And therefore we are trying to see that how best this can be resolved within NCLT or outside NCLT. So that will be a little more time before we can conclude that in which direction the things are going. The efforts are on from all the stakeholders including the ministry to resolve all these projects. So we cannot make the provisions on the basis of predicted losses at this point of time.



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- Prabha:** Just sir I think that is very helpful but where I am coming from that the expected loss estimate on the power project range from anywhere between 70%-80% to 10% and PFC has very strong expertise in evaluating power sector projects and being a part of power ministry, you have a say in lot of things. So if an intelligent number and a well analyzed number comes from PFC, that would be much more credible otherwise everybody will be just calculating on what they can get from public sources. If you can give that set of analysis in your presentation, it could be very helpful.
- Rajeev Sharma:** Okay. Please send the e-mail we will revert you.
- Moderator:** Thank you. The next question is from the line of Nitin Gandhi from KIFL Trade Capital. Please go ahead.
- Nitin Gandhi:** Sir continuing one of the earlier participant's questions where you reflect for private players, one of the name mentioned was KSK. So I just wanted to know their classification, their quantum of exposure and what is your view about that?
- Rajeev Sharma:** KSK, two units are already commissioned. They are generating. They have PPA. Third unit is likely to be commissioned by the end of this month. And it is a restructured standard asset. And our exposure is about 2,900 crores and we are in advanced stage of negotiation with some good developers who are interested to takeover this project. I can't disclose the names but good parties are there. Both the units have PPAs already. They are generating and supplying power.
- Nitin Gandhi:** I think the exposure was 3,600 out of which 600 x 2 are operational. Third unit may be another 600? And your exposure is 2,900 crores is for the entire 3,600?
- Rajeev Sharma:** Yes.
- Nitin Gandhi:** So can you throw some color on how you proposed this advanced stage of developer who will take over, so whether you will be continuing with non commissioned unit or they will continue with entire things?



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- Rajeev Sharma:** Deliberations are on whether unit 5th and 6th will be completed or not because in this environment when demand of power is not there, it will not be prudent to commission those 5th and 6th units. So there was a discussion in the ministry also that we should take up with RBI that it will not be advisable to declare the whole project, NPA if four units are commissioned, they are generating, they have got PPAs and it is not a prudent decision to commission unit 5 and 6 if demand is not there in the sector.
- Nitin Gandhi:** So right now the third is going live, right sir? Fourth?
- Rajeev Sharma:** Yes, third within this month and fourth within next 6-9 months.
- Nitin Gandhi:** And you will be having this each unit wise separate out of 2,900 crores exposure or you have...
- Rajeev Sharma:** No. Total project
- Moderator:** Thank you. The next question is from the line of Sneha Ganatra from Subhkam Ventures. Please go ahead.
- Sneha Ganatra:** Sir you mentioned about 18,000 crores would be getting an upgrade, so where do you see your gross NPA to be settling by FY18 and could you share anything for FY19, any updates, both on the power as well as the government sector project?
- N B Gupta:** The actual position is very difficult to say what is the position on 31st March 2018. But what we have informed you is that actual 18,000 is going to be reversed in this financial year.
- Sneha Ganatra:** Okay. Anything on the 2019, next year?
- Rajeev Sharma:** It will be difficult to say what will be the position on 31st March 2019.
- Moderator:** Thank you. The next question is from the line of Vinod Chari from Dolat Capital. Please go ahead.
- Vinod Chari:** You mentioned you have an exposure of 1.86 lac crores. What would be the exposure in megawatt terms?



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- Rajeev Sharma:** 89,790 MW.
- Vinod Chari:** And sir of this, you mentioned 20% would be standard assets right?
- Rajeev Sharma:** No, 20% is private.
- Vinod Chari:** Okay. And what would be the standard assets in megawatt terms?
- Rajeev Sharma:** We will revert back.
- Vinod Chari:** Okay. And sir what is the overall standard assets in the system as of now? I mean if you take PFC Banks and other funding agencies as well.
- N B Gupta:** See, we have total NPA of 31,000 crores out of book size of 2.53 lac crores.
- Vinod Chari:** But would that be a like-to-like correspondence in terms of megawatt terms also or?
- N B Gupta:** The information is right now not available.
- C. Gangopadhyay:** The entire thing may not be in the generation. So the physical unit will be megawatt only for the generation project but we have T&D projects also which are not defined in terms of MW.
- Vinod Chari:** No. I thought when you say 2.53 lac crores, 1.86 was generation I thought the rest would be transmission and distribution.
- C. Gangopadhyay:** In that, of course one can calculate.
- Vinod Chari:** See, I wanted to know out of the 89,000 MW that you have funded, how much is standard and what is the overall standard assets in the system? The second question I had is on renewables, you mentioned in the beginning that your renewables disbursement was 1,200 crores. What is the average PPA for these projects?
- Rajeev Sharma:** It varies from project to project, depends whether it is in solar power and it has been bid through NTPC or state.



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- Vinod Chari:** But it would be helpful if you could give us a range in which the tariff falls?
- Rajeev Sharma:** All PPAs are viable PPAs. Before sanctioning any projects, we consider it very diligently and intelligently.
- Vinod Chari:** Sure sir. I understand that. But is there any range in terms of the tariff?
- C. Gangopadhyay:** Range is from about Rs. 6 to Rs. 3, Rs. 3.60 like that. In some of the cases, it also has got additional support of viability cap funding. So the PPAs vary. It is actually continuously falling as in now
- Rajeev Sharma:** In wind, somewhere generation based incentive are also there, earlier projects.
- Vinod Chari:** No, I am talking about the new projects, the ones we would have funded in the last quarter, those?
- Rajeev Sharma:** They may be in the range of Rs. 4 plus we can say, 4.5-4.65.
- Vinod Chari:** Sir what is your view of this tariffs? I mean are we again heading UMPP the kind of tariff, solar and wind developers are quoting?
- Rajeev Sharma:** I cannot comment. Market will decide.
- Vinod Chari:** But you will be doing due diligence from your side, right?
- Rajeev Sharma:** No. We have not received any such proposal, where the tariff Rs. 2.44. So we have not yet received that proposal. So I cannot comment.
- Vinod Chari:** And sir what about this news we keep hearing that tariffs which had come at Rs. 3, Rs. 3.5, Rs. 4, states are now renegotiating those tariffs and trying to bring them lower.
- Rajeev Sharma:** These are bilateral agreements but ministry of power is fully aware and taking stock of the situation. I think they are going to issue some advisory to the states that they should not reopen the PPA.



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- Vinod Chari:** But what happens in that case. If there is a state advisory, they are asking the developer to go back and rework the tariff, would the credit rating of that particular project go down, would you increase your cost of funds for that project?
- Rajeev Sharma:** Fortunately, none of our projects which we have funded is under negotiation.
- Moderator:** Thank you. The next question is from the line of Saurabh Kumar. He is an individual investor. Please go ahead.
- Saurabh Kumar:** First of all sir, I see that most of the questions that have been answered relates to NPAs and NPA as fraction is very well versed with the analyst but common investors like me have no idea about it. I would be very grateful to you from the behalf of all shareholders that you put up a presentation, a multimedia presentation or a graphic presentation explaining how this NPA cycle and again from NPA to standard cycle goes. It would be very helpful for small investors like us.
- Rajeev Sharma:** Sure.
- Saurabh Kumar:** And the second question was, recently say around 2-3 months back, there was some news that REC and PFC would be merged together because essentially they give loans to companies in the same sector. So is there any proceeding like...
- Rajeev Sharma:** I am not the competent person to answer that question. Ministry of Power, Government of India has to take a view on this. I cannot comment.
- Moderator:** Thank you sir. We will move to our next question which is from the line of G Vivek from GS Investments. Please go ahead.
- G Vivek:** So India is currently in an unprecedented situation over the last 70 years. There seems to be no power shortage. In states like UP, most of the people are getting power for 24 hours and still the power offtake is out of languishing behind. So basically I wanted to know about the growth in the power consumption in India if you can throw some light on that, for example AC sales is increasing very briskly. Many reasons, there was no power earlier but now lot of power is there. In that respect and industrial activity respect, what is your view on increasing power consumption in India sir?



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Rajeev Sharma:

Per capita consumption in India is less than 1,100 units still. It is in comparison to the international standards is quite low. In China, it is more than 3,000 units. And moreover more and more people are getting access to power through Deendhayaal Upadhyay, Gram Jyothi Yojana, R-APDRP, integrated power development, scheme of Government of India. Government of India also is coming out with a new scheme, 100% electrification of all households in the country because more and more rural areas will get electrified. So definitely demand of power will increase and the quality of life is also improving. So definitely more power consumption, more home appliances. So in the coming days, the future is very bright and if you say somebody says that there is no demand in the system, there is suppressed demand because state power recently do not want to pump more power in the rural areas because their losses increase. But in UP also, now they are metering all 100% consumers. Even in rural areas, so they will be able to do energy accounting and if they supply 24 hours, 24/7 to rural areas, they will be able to collect it also because if they supply quality and reliable power, consumers are ready to pay like they are paying for mobile.

G Vivek:

Second thing was about this basically getting land in today's time is very difficult. Similar to cement plants, now in power plants also getting land after this new land acquisition has been passed. So getting a hold of land becomes very difficult for any new power sector coming up. In terms of that, the whole power plants must be having lot of buyers, so the clearances and land acquisition is very difficult in today's time sir. So although standard power or plants also quite viable for ARC, for example Adhunik Power will taken over by Edelweiss, I think so, the first one which was taken over. So what is your take on that point of view sir, for the existing project?

Rajeev Sharma:

Sir when the proposal comes to us and we appraise it, it is a pre-disbursement condition. Until land will not be there, we will not disburse a single pie. So we take into consideration all these basic inputs for generating power. This should be properly tied up before we sanction any loan. All statutory clearances, water availability, fuel availability, land acquisition, all and we are not bothered about whether it is being acquired or not. It is the concern of the developer, but I can clarify that we generally don't disburse a single pie until unless fuel is there, water is there, land is there and PPA is there.

C. Gangopadhyay:

In fact, none of the projects in our portfolio is having any major land issue today. So therefore the land acquisition act is really not coming on our way for sanction disbursement and other activities and all those things.



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- G Vivek:** It is not like that. So I mean that because today if starting, last 5 years I believe there is not much investment when the new power plant coming up. Old power plants with land acquisition and with clearances and PPA, some PPA and without PPA also, they are quite viable. They will find buyers. So the power consumption is going to increase in India slowly.
- Rajeev Sharma:** I fully agree with you.
- C. Gangopadhyay:** All these existing small projects will have a much better growth in future due to the fact that acquiring incremental amount of land in this country will become stiffer and stiffer in days to come.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Kunal Shah for closing comments.
- Kunal Shah:** Thank you the management of Power Finance Corporation for spending the time and elaborating on say the future developments expected. And all the participants once again thank you for participating on the call. Thank you.
- Rajeev Sharma:** Thank you very much, Mr. Kunal for giving us this opportunity. Thank you so much.
- Moderator:** Thank you. On behalf of Edelweiss Securities Limited that concludes this conference.