



POWER FINANCE CORPORATION LIMITED'S

Q-2- FY 18-19

CONFERENCE CALL

2ND NOVEMBER, 2018



MANAGEMENT: TEAM OF POWER FINANCE CORPORATION:-

- | | | |
|-----------------------|---|--------------------------------|
| - Mr. Rajeev Sharma | - | Chairman and Managing Director |
| - Mr. C. Gangopadhyay | - | Director (Project) |
| - Mr. N.B. Gupta | - | Director (Finance) |

MODERATOR: Ms. Shweta Daptardar – Prabhudas Lilladher Pvt. Ltd



Operator

Ladies and gentlemen, good day and welcome to the Power Finance Corporation Q2 FY19 Earnings Conference Call hosted by Prabhudas Lilladher Private Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. (Operator Instructions) Please note that this conference is being recorded.

I now hand the conference over to Ms. Shweta Daptardar from Prabhudas Lilladher Private Limited. Thank you and over to you ma'am.

Shweta Daptardar, Analyst

Yeah. Thank you Tanvi. On behalf of Prabhudas Lilladher, I welcome you all to the Q2 FY '19 earnings call of Power Finance Corporation. We have with us the Management represented by Mr. Rajeev Sharma, Chairman and Managing Director; Mr. C. Gangopadhyay, Director (Projects) and Mr. N.B. Gupta, Director (Finance).

I would now like to hand over the call to Mr. Sharma for opening remarks, after which we can open the floor for Q&A. Thank you, and over to you sir.

Management - Power Finance Corporation

Thank you very much for giving us this opportunity. Good evening, everyone. I welcome you all to this conference call. I call this conference call to share with you the recent developments in power sector, PFC's financial and operational performance in second quarter of FY 18-19 and business outlook going forward.

Firstly, I will share a few recent developments in the power sector. As you must be aware, Government of India had launched a pilot scheme for procurement of 2,500 megawatt power on mid-term basis. PFC Consulting Limited was the nodal agency for the program. Bids were received for 1,900 megawatts at a tariff of INR4.24 per unit without any escalation for next three years.

Recently under the scheme, PPAs were signed for 1900 megawatts with various states like Bihar, West Bengal, Telangana and Tamil Nadu. The successful bidders include:

- RKM Powergen - 550 megawatt,
- Jhabua Power - 100 megawatts,
- MB Power Madhya Pradesh - 175 megawatts,
- SKS Power Generation Chhattisgarh - 300 megawatts,
- Jindal India Thermal Power - 125 megawatts, IL&FS Tamil Nadu Power Company 550 megawatts, and
- JayPee Power Ventures 100 megawatts.



This will help in reviving stressed projects which were not operating due to lack of PPAs and also improve the viability of some projects under resolution.

PFCCCL on behalf of states will aggregate the power demand under the SHAKTI policy and will shortly come up with a scheme for medium term PPAs along with coal linkages.

On the power demand front, we are witnessing an increase in demand for power. The peak demand for first half year has grown by almost 8% from 1.64 lakh megawatt during April-September 2017 to about 1.77 lakh megawatt during April-September 2018. The energy requirement also witnessed 6% growth from 620 billion units in first half of 2017-18 to about 658 billion units in first half of FY 18-19. Going forward, we expect the power demand to increase at a similar pace considering the government's focus on Saubhagya and 24/7 power for all.

On the coal supply front, Ministry of Power is already reviewing the status with Ministry of Coal and Ministry of Railways. This year has already seen an increase of 10% in coal dispatches compared to last year. Considering the approaching winter season, we do not see any impact due to coal shortages. High level empowered committee under the chairmanship of Cabinet Secretary is likely to come out with recommendations shortly on various issues related to power sector.

Now I will share highlights on PFC's performance.

On business growth front, we have shown robust loan growth of more than 13% this quarter with gross loan assets at INR2,92,648 crores as against INR2,58,050 crores in Q2 of previous year.

On profitability front, our profit for half year FY 18-19 has shown a growth of 16% with profit at INR2,728 crores as against INR2,348 crores profit in H1 FY 17-18 based on Ind AS reporting. Our interest spreads and NIMs for the last two quarters had been steady at around 2.50% and 3.30% respectively. Going forward, we expect the interest spreads to be maintained at these levels.

This quarter we witnessed our highest ever disbursement in second quarter of the financial year with disbursement of INR17,505 crores in Q2 FY '19 thereby making our H1 disbursement stand at INR30,486 crores, which is an increase of about INR4,000 crores compared to previous years.

We continue to make efforts in refinancing commissioned projects and financing green field renewable projects.

I would like to inform you that there is no addition to stressed assets other than what we have indicated in last financial year. On the NPA or Stage III front, we saw one of the earlier stressed project with loan of INR960 crores slip into Stage III. At the same time, one state sector loan of about INR5,300 crores got upgraded due to completion of specified period with reversal of 4.6% net provision i.e. about INR250 crores. Our net NPAs for this quarter stand at 4.66%, which is similar to NPAs level of Q1 FY '19. I'm glad to inform you that our capital adequacy ratio has improved from previous quarter and is comfortable at 17.91% against the RBI requirement of 15% despite the additional provisioning that PFC has been doing due to Ind AS and RBI norms.

Let me now explain our loan asset book. We have a total loan asset portfolio of about INR2.93 lakh



crores, out of which government sector loans are INR2.41 lakh crores i.e. 82% and private sector loans are INR52,000 crores i.e. 18%. Regarding government loan book of INR2.41 lakh crores, government sector borrowers are continuing to serve their dues regularly. Therefore, we do not see any stress in respect of government sector borrowers. In case of private sector exposure of about INR52,000 crores, about INR22,000 crores private sector loans i.e. 8% of loan book are regular in servicing their dues and we see no stress. Therefore 90% of our total asset book is not having any kind of stress.

Out of the balance private loan assets of about 30,000 crores, that is 27 projects, as mentioned earlier:

- we expect minimal haircut in five loans aggregating to about INR5,000 crores.
- Against the balance private loan assets of about INR25,000 crores, 55% provisions have already been made.

Now, I will share the update on the other 22 stressed projects with you i.e. apart from the five projects that I mentioned earlier.

- Five projects with our exposure of INR8,254 crores are in advanced stage of resolution.
 - These projects are GMR Chhattisgarh, Jhabua Power, KSK Mahanadi, where discussions with H1 bidders are underway to close the deals.
 - Indiabulls Amravati and Essar Mahan where one-time settlement offer submitted by existing management are under finalization.

We therefore see likely resolution in these five projects where the total provision already made is approximately 48%.

- In RKM Powergen Unit I and II, with our exposure of INR5,155 crores, good news is that PPA for 550 megawatts under pilot PPA scheme is signed now. We are now awaiting consent to operate clearance from government of Chhattisgarh to complete the restructuring exercise post RP-4 rating. The provision already made for the project is 43%.
- In Indiabulls Nasik we have an exposure of INR3,001 crores. Talks with MAHAGENCO is still underway. Further, we have filed petition in NCLT under IBC in line with provision of RBI's 12th February circular. Next NCLT hearing is on 26th November 2018. The Company is also making efforts to revive the PPA with Maharashtra, which is under litigation. The provision already made for this project is 39%.
- Nine projects with our exposure of INR8,100 crores are being resolved through NCLT. The total provision already made in these nine projects is 74%.
- Also other projects where aggregate exposure of lenders was more than INR2,000 crores, PFC/lenders have filed petitions with NCLT under IBC except for GMR Chhattisgarh. However, the petitions have not been taken up further in view of the honourable Supreme Court's



order.

- Four projects with our exposure of INR298 crores are also being resolved through DRT or SARFAESI mechanism, and these projects already have 100% provisioning.
- Balance two projects with our exposure of INR250 crores are:
 - RS India – For this an OTS proposal has been submitted by promoter which is under consideration
 - Astonfield - project has been filed under NCLT recently.

The total provision already made for these two projects is 59%.

Therefore, the 22 projects, which are under various stages of resolution amounting to INR25,000 crores already have provision coverage of 55%. Based on the bids received for stressed assets so far we do not see any additional provisioning going forward. Further, the additional provisioning of INR1,400 crores done as a matter of prudence in line with RBI norms is likely to reverse upon RBI clarification. Even in the absence of RBI's clarification, INR1,400 crores will reverse over a period as indicated in our conference call during Q1.

We believe in terms of provisioning, our provision coverage is adequate to absorb losses on stressed assets which are under resolution. PFC has also been interacting with bidders for stressed assets. The feedback we got from the market is that some of the bidders who participated in expression of interest stage and finally did not submit the bid sighted that there were two primary reasons among others, which are, they were tying up with local partners for taking a commercial and technical call on these stressed projects and they were also unsure of the liabilities that might come up in an outside NCLT process. However, they are now quite keen to participate in NCLT process given that liability issue gets addressed and also they are now in advanced stage of tying up with local technical partners to take commercial call on power projects. We have also been in discussion with some state power utilities who have shown keen interest to participate in the bidding process for the stressed projects under NCLT.

We therefore believe that the interest in bidding for stressed projects might be higher in NCLT process. Hence even if Supreme Court on 14th November 2018 closes the window for resolution outside NCLT, the interest of bidders under NCLT may be higher if not the same. Further, the high level Empowered Committee constituted for stressed assets has already held discussions with the intend to expedite the resolution of sectoral issues impacting power project and report is expected to be finalized very shortly. It is also expected that issue of cancellation of PPAs and FSA's under NCLT will also be looked at for a possible solution to retain the value of the project under NCLT.

With the Government of India and all the stakeholders taking necessary steps and with likely uptick in power demand, we are optimistic that the stressed projects are likely to fetch better valuations going forward.

With regard to our foreign currency borrowings, our total foreign currency exposure is \$3.6 billion i.e. that is 11% of total borrowings. Out of \$3.6 billion, \$2 billion i.e. 56% is already hedged. Out of the balance open portion, \$700 million i.e. 20% will mature after almost 9 years to 10 years and as



per RBI guidelines upfront hedging is not mandatory. \$950 million i.e. 24% has average maturity of 2.5 years to 3 years and there is sufficient time to maturity for this open portion. We therefore do not see significant impact due to current volatility in the exchange rates.

I will now touch upon the issue of liquidity. In wake of the issues post the IL&FS default, some of the investors had raised concern regarding the liquidity in the market. I wanted to take this opportunity to assure you that we have adequate liquidity for our operations and business growth, which can also be seen from our disbursement numbers for this quarter and half year. We also have about INR10,000 crores in the form of undrawn CC or OD limits. The details with respect to liquidity has already been shared in our presentation.

Further, on our lending exposure to IL&FS Group, we have funded five SPVs with exposure of INR2,500 crores. However, we would like to inform you that these are wind projects, which have positive features like:

- They are all commissioned projects.
- These projects also have good PPAs.
- They have demonstrated plant load factors in the range of 30% to 50% in the first half of this financial year.
- Additionally, co-obligor structure is also in place which gives additional comfort.
- It is also understood that ORIX Corporation of Japan is likely to take over majority ownership in these projects.
- Further the trust and retention account for these projects have witnessed adequate cash flows.

Given all these positives, we do not see any risk in PFC funded IL&FS projects.

Now, let me share with you the business going forward. Our focus will continue to be on refinancing business to add more commissioned projects to our asset base. We have also sanctioned two Waste to Energy projects till date and we will continue looking for financing opportunities in this space. Already one more Waste to Energy project is under appraisal. Renewable business will continue to be our focus area. We will continue to make offers to mobilize higher amounts under 54 EC bonds going forward along with exploring other avenues for diversification. We are also exploring to raise foreign currency bonds and also planning to tap masala bonds to diversify our borrowings.

To conclude, we have made a smooth transition to Ind AS reporting system with our net profit growth for the half year reported at a growth rate of 16%. With total provisions reaching INR17,162 crores this quarter, we have adequately provided for our stressed assets and we do not see additional provisioning going forward. We therefore believe that the worst is behind us now in terms of provisioning for stressed assets. We are also likely to see reversal from additional provisioning on RBI norms upon receiving clarification from RBI and reversals on some stressed



assets. We also believe from the market feedback that resolution under NCLT is likely to see significant interest from the investor community, particularly with power sector issues being addressed at the highest level in the country, where we are expecting recommendations to come out shortly. With our continued focus on diversification on lending business, we intend to maintain our loan growth going forward.

Now we are open to questions.

Questions and Answers

Operator

Thank you. We will now begin the question-and-answer session. (Operator Instructions) The first question is from the line of Bunty Chawla from B&K Securities. Please go ahead.

Bunty Chawla, Analyst

Thank you for giving this opportunity. As you said you have funded IL&FS projects, so can you share how much loan outstanding we have on the IL&FS and as well as how much is to SPVs?

Management - Power Finance Corporation

Our exposure to IL&FS is INR2,500 crores. These are commissioned wind projects and all these are five SPVs and most important thing is that in the trust and retention account sufficient cash flow is there.

Bunty Chawla, Analyst

The exposure is to SPVs and nothing to HoldCo company as such sir?

Management - Power Finance Corporation

No sir. I'm naming the SPVs, Lalpur Wind Energy Private Limited, Khandke Wind Energy Private Limited, Ratedi Wind Power Limited, Etesian Urja Limited, Wind Urja India Private Limited and all these SPVs are having 100% PPA with the state power utility.

Bunty Chawla, Analyst

Okay sir. So these are currently standard assets and no stress as such.

Management - Power Finance Corporation

No, no issue at all, as on date.



Bunty Chawla, Analyst

Okay sir. And sir, as you said, one asset has slipped into NPA this quarter. So can you share the name and what was the reason behind that?

Management - Power Finance Corporation

Yeah, it is Haldia project. Earlier they didn't have PPAs, now they got PPAs from West Bengal Power Distribution Company for two units, which are commissioned. For third unit, they don't have PPA so they are not interested in commissioning. Now they are ready to supply power but they have to get coal. It was shown as stressed earlier and now has slipped into NPA because they could not start supplying power on time to West Bengal Power Distribution Company.

Bunty Chawla, Analyst

Okay sir. So why the private sector exposure has increased or can you share how much will be the exposure in wind and how much will be in generation and like that, if it is possible.

Management - Power Finance Corporation

Actually the renewable projects are being set up by the private sector only. So our share is increasing in renewables like we have refinanced about INR700 crores Mytra group project.

Bunty Chawla, Analyst

Okay.

Management - Power Finance Corporation

Similarly, others are government sector, but in private sector generally this Acme maybe there. Last time also private sector share was 18%, this time also it is 18% of our loan book.

Bunty Chawla, Analyst

Okay. No I was comparing with Y-o-Y on a 16% to 18% increase in there. Okay sir. And sir, recently you have raised the ECB, foreign currency loan, as you have said in the press release. So what will be the average cost for that currently including the hedging cost as such?

Management - Power Finance Corporation

See, we have raised ECB of \$250 million. The overall cost including hedging cost comes around 8.56%.



Bunty Chawla, Analyst

8.95%?

Management - Power Finance Corporation

8.56%. Compared to the domestic of 9%.

Management - Power Finance Corporation

8.56%.

Bunty Chawla, Analyst

Okay, 8.56%.

Bunty Chawla, Analyst

Okay. And sir lastly on the liquidity issue which has happened post 20th September. So what we are expecting, how much cost of funds has increased for us and how we are expecting it to be for the next two quarter sir?

Management - Power Finance Corporation

See, if you see our presentation, in comparison to last quarter our cost of borrowing has moved to only 8.09% from 8.08%, So the more or less the average cost of borrowing is the same.

Bunty Chawla, Analyst

Yes sir, but this has happened post September 20, so mostly the impact will be coming in the H2 FY '19 as compared to H1 FY '19. So what are our expectation, how much cost will increase?

Management - Power Finance Corporation

It's very difficult to assess for the next quarter.

Management - Power Finance Corporation

But this 8.08%, 8.09%, I am comparing with the first quarter only.

Bunty Chawla, Analyst

Okay, sir. Post this liquidity issue, if you have raised CP, term bonds, how much increase in cost in those.



Management - Power Finance Corporation

It is very difficult to assess what would be the right average cost as I have a lot of repayments at a very high cost, ranging from 9.5% to 10%.

Bunty Chawla, Analyst

Okay. Okay. Okay. Okay, sir. Thank you very much sir.

Management - Power Finance Corporation

Thank you. Thank you so much.

Operator

Thank you. The next question is from the line of Punit Srivastava from Daiwa Capital. Please go ahead.

Punit Srivastava, Analyst

Yeah, hi, good evening, sir. My first question is on the tax rate, if you see the tax rates have continued to be quite high. I mean, we understand that you get some advantage on the tax side lending long term and so effectively tax rate should be lower. But it remains high, in fact it's gone up higher Q-o-Q. Can you explain that, the reason for that? And also the DTL amount was also quite high. If you can just throw some light on that?

Management - Power Finance Corporation

See we are taking DTA, as well as DTL both. So ultimately my average tax is around 32% to 33% only. And that is on the figure which is appearing in my accounts.

Punit Srivastava, Analyst

Okay sir, but, that is the gross tax, but you get an advantage. Do you get any advantage in long term lending?

Management - Power Finance Corporation

See, we get some benefits on long-term lending but the impact is of a very minimum amount. We get benefit only for the additional amount only i.e. additional lending which we have done in this quarter.



Punit Srivastava, Analyst

Okay. Okay. Sir, so on a normalized basis, how much should we can assume the tax to be this year?

Management - Power Finance Corporation

Yeah, that is around 26% to 27% because we have started DTA and DTL that's why it is coming to 32%.

Punit Srivastava, Analyst

Right sir. And this DTLs, so these are like technically non-cash right.

Management - Power Finance Corporation

Yeah, I said cash is 26% around, rest is non-cash.

Punit Srivastava, Analyst

Right. And just one technical question This spread has been almost flat, but margins have improved. Is there any reason or anything to read into it?

Management - Power Finance Corporation

See, these are arithmetical figures and there is small variation only. The NIM has moved from 3.26 to 3.33 and spread has moved from 2.49 to 2.50. These are more or less the same.

Punit Srivastava, Analyst

Okay, fine. Okay, thanks. Thank you.

Operator

Thank you. The next question is from the line of Gaurav B from First Rand Bank. Please go ahead. Gaurav, from FirstRand Bank, please go ahead.

Gaurav Bhawania, Analyst

Good evening, sir. Sir, what will be your Stage II assets as on 30th September?

Management - Power Finance Corporation

Stage II definition as per Ind AS is only, if there's a default of more than 30 days that is categorized as Stage II. So, we have only INR3,000 crores in Stage II.



Gaurav Bhuwania, Analyst

And this does not include IL&FS assets?

Management - Power Finance Corporation

IL&FS they are the servicing assets, so that will be Stage I only.

Gaurav Bhuwania, Analyst

Okay. So any provision you have done on IL&FS exposure, nothing as on date?

Management - Power Finance Corporation

It is not required as it's a Standard Asset

Management - Power Finance Corporation

It's a Standard asset and as I told you that in TRA we have sufficient amount available.

Gaurav Bhuwania, Analyst

Okay, sir. I need one clarification, the reserves for the bad and doubtful debts you have, is it a part of capitalization?

Management - Power Finance Corporation

RBDD is a part of networth, that's what if you're asking.

Gaurav Bhuwania, Analyst

But do you take into account RBDD while calculating the capitalization ratios.

Management - Power Finance Corporation

Yes.

Management - Power Finance Corporation

Yeah, if its included net worth then obviously the calculation ratios will include this.

Gaurav Bhuwania, Analyst

Okay. Because if we take comfort of higher provisioning because of this reserves and if this is a part of capitalization and if you use this reserve for providing higher provisions going ahead, this will take



your capitalization also going ahead.

Management - Power Finance Corporation

See as per RBI guidance, there are Tier 1 and Tier 2. So whatever provisions which we make, it is part of Tier 2. And again there is a cap of 1.25% of the maximum. So we are taking this provisioning in Tier 2 capital and maximum provisioning allowed as part of Tier II is capped at 1.25% of loan book.

Gaurav Bhuwania, Analyst

So any incremental provisioning in this reserve is through P&L.

Management - Power Finance Corporation

Yeah.

Management - Power Finance Corporation

Provision is through P&L. Yeah, you're right.

Gaurav Bhuwania, Analyst

Okay, yeah. Thank you.

Operator

Thank you. The next question is from the line of M B Mahesh from Kotak Securities. Please go ahead.

M B Mahesh, Analyst

Good evening sir. Just wanted to clarify on a couple of things, you indicated that GMR Chhattisgarh, Jhabua Power, KSK Mahanadi, the buyers are still active and you've reached in the final stages of negotiation. When are you likely to close this and for Jindal Thermal and Essar Mahan wherein OTS has been accepted, when are you likely to complete that as well?

Management - Power Finance Corporation

GMR Chhattisgarh we have selected the H1 bidder and proposal has been sent to all the lenders for seeking approval of their boards. Similarly for Jhabua Power, we have already signed with one party for one-time settlement and INR100 crores bank guarantee has been given by the party. So remaining amount is to be given within three months. And this Jhabua Power also, we are seeking approval of different boards. So they are at various stages of resolution. Similarly, in Amravati and Essar Mahan, OTS proposals have been received, lenders have discussed and again, there were



certain issues in Amravati, but now all issues have been resolved. Now we will be doing the swiss challenge for this. And similarly in case of Essar Mahan, though we are not the lead, ICICI Bank is the lead, but I understand all issues are resolved and they are in the process of finalizing.

Management - Power Finance Corporation

See in all these cases the negotiations are largely over, there is no further additional negotiation in these cases. However, there is an approval process for each of these institutions and banks, so that approval process is currently going on. And as soon as all approvals are in place, we should be able to bring the documents and then take it forward further.

M B Mahesh, Analyst

Sir, you mentioned KSK Mahanadi as well in the call.

Management - Power Finance Corporation

KSK Mahanadi, there was a negotiation and finally the lenders community has not accepted it totally. So therefore it is right now already filed for NCLT and it will have its logical end there.

Management - Power Finance Corporation

Around 20 to 21 lenders had agreed and remaining 5,- 6 could not give their consent that's why it could not be closed. So now it depends, maybe we may go to the NCLT. Already it is filed there.

M B Mahesh, Analyst

So, just one thing, on GMR Chhattisgarh, as well as for let's say even in the case of Amravati or in any of these cases, do you require 100% approval from lenders?

Management - Power Finance Corporation

Yes. 100%.

Management - Power Finance Corporation

You see everyone will have to agree and sign the financial document, so if anyone is not agreeing, it will not end and it will not conclude.

Management - Power Finance Corporation

And in this cases that you have mentioned out here, barring for KSK Mahanadi, how confident are you that 100% of the lenders will approve in this case?



Management - Power Finance Corporation

In case of KSK Mahanadi, 100% consents have not been received. Our sense is that it is heading towards NCLT and perhaps it will get resolved under NCLT.

M B Mahesh, Analyst

No, I'm saying for the rest of the cases, which is GMR, Jhabua Power, Essar.

Management - Power Finance Corporation

In the rest of the cases, the difference is that the negotiation process is largely over and so, the consensus making within the lender has almost been arrived. Therefore, now it's a process of taking approvals from each of the management. So therefore, we are quite confident that approval process will end shortly and then we'll be able to end up with the financing agreement.

M B Mahesh, Analyst

Sure. And one last question from my side, you said, ORIX' Corporation is likely to take over the power assets of IF&LS, which includes even the thermal side as well?

Management - Power Finance Corporation

No, we are not a lender in thermal, we are a lender in only five SPVs of wind. But there also they are inviting Expression of Interest and there are very good parties I am told.

Management - Power Finance Corporation

We are not directly connected because we have never lent to the holding company. We have lent to the SPV and our security interest is entirely different. Therefore, whether ORIX takes additional stake or not will not impact our interest on the cash flows.

M B Mahesh, Analyst

Okay. Okay. Okay, sir. Done. Thanks a lot.

Operator

Thank you. The next question is from the line of Abhishek Saraf from Deutsche Bank. Please go ahead.

Abhishek Saraf, Analyst

Yeah, hi. Thanks for taking my questions sir. So just on this Haldia project which slipped this



quarter. So you said that earlier they were not getting commissioned and getting approval for commissioning of two units. Now that they have got commissioned, so do you expect that probably the slippages can reverse sometime in near future?

Management - Power Finance Corporation

They are supposed to start supplying power to West Bengal Power Distribution Company. They have got PPAs for two units only. So once they start supplying power, I think it should get brighter I can say that.

Management - Power Finance Corporation

By end of this financial year, they should be generating revenues and also start servicing the debt as per the program. They got slightly delayed, because of the coal issue, because they could not procure enough coal for starting the units. Now, that issue has been more or less sorted out and they are going to start their generation.

Abhishek Saraf, Analyst

Okay. Okay, and sir, I think you mentioned INR5,300 crore worth of loan to state entities which were reversed this quarter, right.

Management - Power Finance Corporation

Yes.

Abhishek Saraf, Analyst

And which ones were these sir?

Management - Power Finance Corporation

It's Malwa project of 2 x 600 megawatt in Madhya Pradesh, Madhya Pradesh Power GENCO.

Abhishek Saraf, Analyst

Okay, fair enough, sir. And sir, one last thing on IL&FS. So in all our exposure, IL&FS are secure, right. They are secured assets against the cash flows.

Management - Power Finance Corporation

Yes, we have sufficient money in our TRA account, these are five SPVs and we don't have to do



anything with the holding company.

Abhishek Saraf, Analyst

Okay sir. Thanks a lot.

Management - Power Finance Corporation

Thanks.

Operator

Thank you. The next question is from the line of Pranav Rajni from B&K Securities. Please go ahead.

Unidentified Participant

Yeah, hi sir. Just to get a quick update from your side. So since our share is increasing in the renewables. So, can you please tell what is the monitoring period for a project to start and how long does it take to commence operations?

Management - Power Finance Corporation

See generally it takes about six months to nine months for completion of the project i.e. implementation. And we give around six months to one year of moratorium depending on the situation. And thereafter the debt servicing will begin.

Unidentified Participant

So, supposedly if it takes one year for operations to commence, so after how long do you expect it to generate the cash flows?

Management - Power Finance Corporation

You see, immediately after commissioning the cash flows will start. The only thing is that the moratorium is given so that a certain amount of debt servicing capability is built up into the TRA. So, we generally offer about six months of moratorium, or in certain cases up to one year of moratorium. Thereafter the repayment begins and anyway interest is serviced all along. For interest there is no moratorium.

Unidentified Participant

All right. Thank you so much sir.



Operator

Thank you. The next question is from the line of Parthav Johnson from NVS Brokerage. Please go ahead.

Parthav Johnson, Analyst

Hello, sir. I must say first of all, the way you explained was excellent, it was really amazing. Sir, I just have question regarding the 22 stressed projects. Can you just walk me through again on all these projects because I just got a couple of them and I had skipped a couple of them while you were just going through the projects.

Management - Power Finance Corporation

Okay. Out of this five projects with our exposure of INR8,254 crores are in advanced stages of resolution. These projects are GMR Chhattisgarh, Jhabua Power, KSK Mahanadi where discussions with H1 bidders are underway to close the deals. Indiabulls Amravati and Essar Mahan where one-settlement offer submitted by existing management are under finalization.

Parthav Johnson, Analyst

Okay.

Management - Power Finance Corporation

In RKM Powergen Stage I and II with our exposure of INR5,155 crores. Good news is that 550 megawatt PPA under pilot scheme is signed.

Parthav Johnson, Analyst

Of the government right. Of the new pilot scheme of the government?

Management - Power Finance Corporation

Pilot scheme of PTC and Power Finance Corporation Limited.

Parthav Johnson, Analyst

Okay, okay.

Management - Power Finance Corporation

Similarly, in Indiabulls Nashik we have an exposure of INR3,000 crores and discussions with Mahagenco still underway. Nine projects with our exposure of INR8,100 crores are being resolved through NCLT.



Parthav Johnson, Analyst

Which INR8,100 crores?

Management - Power Finance Corporation

INR 8,100 crore projects.

Parthav Johnson, Analyst

So, in Nashik, Indiabulls you have around INR3,000 crores, then?

Management - Power Finance Corporation

This nine projects with an exposure of INR8,100 crores -

Parthav Johnson, Analyst

Okay, okay, okay, got it. They're all in the NCLT right now.

Management - Power Finance Corporation

East Coast Energy, Ind-Barath Madras, Ind Barath Utkal, Lanco Amarkantak, Shree Maheshwar, Konaseema Gas, KVK Nilachal, Jal Power, Krishna, Godavari and Astonfield.

Parthav Johnson, Analyst

Okay, got it, got it sir, got it. Okay, and so, how do you perceive the power going forward as in you just say that, you will be pushing more towards renewable energy. So can you just walk us through what will be the kind of demand the country is seeing and what kind of progress the country is seeing pertaining to the renewable energy?

Management - Power Finance Corporation

Actually if you see, during last two to three months, the demand of power in the power exchange, has gone as high as INR17 - INR18 during peak time.

Parthav Johnson, Analyst

Yes, correct.

Management - Power Finance Corporation

After completion of Saubhagya scheme by December end, roughly 28,000 megawatts additional demand will be created in the system.



Parthav Johnson, Analyst

Correct.

Management - Power Finance Corporation

Moreover, we have to be little more realistic, elections are round the corner. So most of the states are trying to pump 24/7 power. If it's in rural areas, so they require more power that's why some of the developers came back to me and told me that, why did you help us to sign PPAs, even we are making good money without signing PPAs, INR8 per unit - INR9 per unit.

Parthav Johnson, Analyst

Okay. Correct, correct.

Management - Power Finance Corporation

Moreover because of pressure from climate change and environmentalist experts some old plants like Badarpur has been closed for good now.

Parthav Johnson, Analyst

Okay.

Management - Power Finance Corporation

Similarly, we have identified some sub-critical plants in the country being run inefficiently by State Gencos.

Parthav Johnson, Analyst

Correct.

Management - Power Finance Corporation

They will also be closed. It's a question of time. Further new projects, new PPAs will come into the system. So there is no shortage of PPAs and demand is increasing with the implementation of these flagship schemes I told you Saubhagya, IPDS, R-APDRP. Further as system is being improved, more power is being pushed into the system. Quality and reliability of power is better so there are less number of interruptions. If your system is good, it can absorb more power, can supply more power to more people.

Parthav Johnson, Analyst

Correct sir, correct. And if I am not mistaken you even said that the NIMs margin would be



something you would try to maintain these kind of NIM margins going forward right sir?

Management - Power Finance Corporation

Yeah, yeah. If you see quarter-on-quarter we are almost maintaining.

Parthav Johnson, Analyst

Yeah, yeah, it's right now 3.33 around and it was 3.26 prior to this in Q1. Okay, that's it from my side. And best of luck sir. Thank you so much.

Parthav Johnson, Analyst

Thank you so much.

Operator

Thank you. The next question is from the line of KO Rasher from Reliance Nippon Life Insurance. Please go ahead.

Unidentified Participant

Yeah. Thank you for the opportunity. I actually had a book keeping question regarding the accounting of derivatives that we are doing in the P&L. So is this entirely non-cash in nature and how is it accounted for because I see it in the income side as well and the expense side as well. So if you could throw some light on that.

Management - Power Finance Corporation

As per new accounting system, we have to carry out MTM on all the hedging transactions. So whatever hedging we have taken, we have to work out MTM. So that is the amount which will be reflected on the income side. But side by side on foreign exchange variation also we have to show the expenditure. So they are on both side, if you see the income side, which is the MTM of hedging transactions and the expenditure side, which is a loss on variation on the foreign exchange. Ultimately, you have to see the netting figure. Since there is a requirement of law, we have to show separately, but ultimately the netting figure is important.

Unidentified Participant

Okay, understood. So this would be basically non-cash in nature right?



Management - Power Finance Corporation

Yeah

Unidentified Participant

And the incremental cost that we are incurring due to the currency impact would be still incurred under the finance cost side.

Management - Power Finance Corporation

Yes, definitely, it's finance cost. Incremental.

Unidentified Participant

Okay. And sir my second question is regarding the reversal that you spoke about the Madhya Pradesh project. So that was accounted under Stage III asset.

Management - Power Finance Corporation

Now, it is in Stage I. These are the assets which we made NPA two years back in 2017. But after completion of the specified period as per RBI guidelines, the 5% of provisioning which it was carrying earlier has been now reversed after completion of specified year.

Unidentified Participant

Okay sir, understood. Thank you so much.

Operator

Thank you. The next question is from the line of Abhishek Saraf from Deutsche Bank. Please go ahead.

Abhishek Saraf, Analyst

Yeah, thanks for the opportunity again. So just one small thing on the composition of disbursement, so if I see on Slide 13, the loan composition in terms of generation, transco and distribution is like more skewed towards generation at 70% while distribution is 15%. But on an incremental basis, if I see sir, the distribution for this quarter was around 43% of the overall disbursement. And while genco was 32% and transco was 14%. Is there anything means, we are trying to consciously alter the mix. If it is and why it is so, or is it happening right now just because depending on the demand right now?



Management - Power Finance Corporation

See in generation side, our main disbursements are renewable. And you know the size of the renewable, so that what we were having earlier 60%, 70% on generation side, that figure will not be there nowadays. We have been disbursing on distribution side and substantial amount has been disbursed from distribution that is around 43%.

Management - Power Finance Corporation

Actually because of these flagship scheme, the state have to upgrade and strengthen their sub-transmission and distribution system to absorb power in the rural areas as well as urban areas if they have to provide 24/7 power for all. So apart from getting money under these flagship scheme, they are also taking loans to strengthen their system. That's why our share in transmission as well as distribution is increasing. And large coal based generation projects are not being conceived now where earlier large chunk of money used to go. These renewable projects are smaller in size and they don't have so much of capital expenditures according to the size because, if you have to compare them with thermal projects, size has to be too high, too massive, which is not there.

Abhishek Saraf, Analyst

Sure. Okay, sir. Thanks a lot.

Management - Power Finance Corporation

Thank you.

Operator

Thank you. The next question is from the line of Amit Rane from Quantum Securities. Please go ahead.

Amit Rane, Analyst

Hello, yeah, thank you for the opportunity sir. I just want to know how many accounts are likely be referred to NCLT, if that stay goes off the Supreme Court?

Management - Power Finance Corporation

Nine projects are already with NCLT. Six projects are likely to go to NCLT after this Supreme Court order if we are not able to resolve them outside NCLT, because different boards of the lenders are trying to resolve and take a view. If we fail to resolve them, then we will go to NCLT.



Amit Rane, Analyst

And sir how much is the amount of this six projects?

Management - Power Finance Corporation

Roughly INR15,500 crores.

Amit Rane, Analyst

And our provision coverage on that?

Management - Power Finance Corporation

Around 52% - 55% provision we have already done in most of the cases and in NCLT cases, it is more.

Amit Rane, Analyst

Right. And sir, last question, on this provisions that we have over and above the RBI requirement some INR15 billion can you throw some more light when are we likely to hear from RBI?

Management - Power Finance Corporation

We have already requested RBI, but as a matter of prudence, we have taken whichever is higher. So, we have provided on higher side, in case we get any clarification, we'll revert that amount. The amount is around INR1,400 crores.

Amit Rane, Analyst

Okay.

Operator

Thank you. That was the last question of this session due to time constraint. We'll hand it over back to Ms. Shweta Daptardar for closing comments.

Shweta Daptardar, Analyst

On behalf of Prabhudas Lilladher we thank the Management of Power Finance Corporation. Thank you all.



Management - Power Finance Corporation

Thank you very much, ma'am. Thank you so much.

Operator

Thank you. On behalf of Prabhudas Lilladher Private Limited, we conclude this conference. Thank you for joining us and you may now disconnect your lines.
