



## “Power Finance Corporation Limited Conference Call”

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**Moderator**

Good evening everybody. On behalf of Power Finance Corporation Limited, we invite you all for the investor conference. Let me take the privilege to introduce Mr. Satnam Singh – Chairman & Managing Director, Mr. R. Nagarajan - Director Finance & Financial Operations, Mr. M.K. Goel - Director ID&A, Mr. Devender Singh - Director, and Mr. Rajeev Sharma - Director Projects. We will have a quick presentation now and followed by Q&A, thank you.

**Mr. Satnam Singh**

Good afternoon everyone before the presentation I will make few statements, which will set the tone for questions perhaps. Well, Indian power sector is currently facing three challenges, it is not that these are new; they were there earlier that they are now.

First one is capacity addition; the next one is the T&D losses and the equipment supplies. So, we at PFC have been thinking as to where all can we make the contribution so that the country is able to face these challenges. So, I am going to share with you what we have done in all these three areas in the current year first half and then the numbers will be shared with you in the presentation.

As far as the first challenge, capacity addition program is concerned, the players are of course doing their bit. There is a signal in line with what is envisaged in the 11<sup>th</sup> and 12<sup>th</sup> plan that private sector participation has to go up from present level to about 30%, 35% in the 11<sup>th</sup> plan in the incremental capacity addition it is always you know, you cannot have and share in the already done projects and in the 12<sup>th</sup> plan it is 63%.

Now, we are happy to share with you that this trend is getting reflected in our sanctions. The sanctions in the first half of current financial year to the private sector is 27% of the total sanctions, whatever we have done is against 6%, 7%, which we used to do earlier, so there is a clear indication. It is more significant because in the case of private sector, we take only 20% for a single borrower and 35% for group of companies' exposure, whereas in the case of state utilities we take exposure up to 70% to 80%. So, this percentage shift is achieved, even though the exposure limits are much lower, which indicates that the shift is much more positive than what is reflected in the numbers.

The other area of concern in the power sector has been the distribution losses and that area you know that distribution losses are at national level stand at about 30% by end of 2007-08. Government of India has taken a very big initiative in the form of restructured APDRP scheme to tackle this or to face this challenge. PFC had been appointed as the nodal agency last year to implement that scheme of Government of India. We have commenced implementation of the scheme from January onwards this year and we have so far sanctioned roughly about 4200 crore and disbursed about 700 crore. This scheme covers all towns in India, which would be having about 30,000 population as per census 2001. The total number of towns in the country, which meet this criteria is of 1420 and we have already sanctioned part A projects, which is for 1128 towns, which means almost about 80% have already been covered in the first phase in about 9 months time and the work is progressing on these towns with respect to establishment of baseline data about distribution losses. The other challenge is the constraints in supply of power



equipments or supply of raw materials that is coal and of course gas. We at PFC have come out with a policy to extend financial assistance to power equipment manufacturers as well as coal mining projects, all the policies were in place and we have already received some proposals in this regard, which are under consideration and we will be sanctioning first project maybe in a month or two months from now, which is under evaluation. In the capacity addition area, we had introduced a new product for facilitating capacity addition. You see, India Power Fund was not taken up because tax breaks for venture capital funds in the power sector were withdrawn, since then we have been thinking of creating a consortium of like minded people so that equity investment could take place based on our expertise.

But till that time, we have thought of introducing equity product, not actually equity but it is loan product for investment in equity, I will just take half a minute to explain that. See, what we observed was that commissioned projects are less risky than the projects under construction and given today's data, majority of the generating companies are making returns prescribed by the regulator and if they want to expand, they have to wait for few years. Till the time this return accumulates for them to expand or they have to go in for strategic investors or they have to go for IPO, which for a construction of the project as you all know, may not get appropriate valuation. So, in this area we thought that for the commissioned projects, we would securitize the return on equity of the commissioned project over a period of say 10-15 years and calculate NPV and offer a certain percentage in this project as equity. We have done 20% with a provision that the money made available by PFC will be invested as equity in the new project in a phased manner. Now, this we feel will have impact on facilitating capacity addition, but the developers can actually realize better valuation because they do not have to look for the strategic investor or the IPO right at the time of construction. They can wait till the commissioning of the project to get the right kind of valuation, so this is good for the developer.

Now, I will tell you what this means to company like us. Since this money will be lent not on first charge basis because it is the return, which is being securitized, it will be second charge on the assets, in some cases we may get the first charge also. Our existing lending will be coming down over a period of time, Say take a period of five years. We lent 100 crores to some one in five years after commissioning he will be returning say about 30% of that, it is of 15 years loan. So if we securitize during this period the return and pass it on, which is on the basis of, we know very well, the project how it is doing, know the developers, the capacity of the developers to implement the project so that it is not a construction project. We will be getting at least about 2% higher than the normal interest rate. So, normal interest rate you can see our margins spread is 2.5 or so and an additional 2% means it is 4.5%. Going forward depending upon how much of this product can become part of our asset book; we had calculated roughly, it is 10%. Because of this our spread will go up by 15 basis points or so, so we thought that contribution in this area would not only facilitate capacity addition but also help us to increase our spread, which is of course in the interest of the equity stake holders.

Another area is power exchange, we have shared with you we are equity partners in two exchanges Power Exchange of India and National Power Exchange with 7% and 16.67% equity stake, but what I would like to mention today is that we have introduced financial products for



Power Exchange of India, which will help and have their business and therefore our equity valuations go up plus it will also help us to earn return on the money we lend for power trading. Apart from this, given the fact that CERC has already approved week-ahead and month-ahead products, this will further facilitate power trading. On the Ultra Mega Power Projects, we have identified so far 14 projects, 4 of them as you know that have successfully been transferred to the selective bidders, last one being in the last quarter Talaiya to Reliance Power. Three of the UMPPs are at an advance stage of issuance of RFQs i.e. Cheyyur in Tamil Nadu, Bedabahal in Orissa, and Akaltara in Chhattisgarh. These projects, we have got coal allocation, required water linkage and also land acquisition processes is at an advance stage, but minor hiccups are there in environment clearance. For part at the Cheyyur project and land acquisition some activities are pending for Orissa and Chhattisgarh. Once we achieve these, we hope that RFQs for these three UMPPs would be issued in current financial year, may be in the month from now or two months from now depending upon how much progress is achieved. We were also given two additional mega transmission projects for which we have already set up SPV, as you know, that earlier we had got ultra transmission line called East-North Interconnection Company Limited, there the valuation process is over and we are likely to issue the LOI to the selected bidder in about 15 days time depending upon the convenience of the agencies and as you know Sterlite is the selected bidder there and what is more important here is that the quotes received from three agencies, the difference is pretty high, it is almost the selected bidder is getting the ultra transmission line at almost half of the price of the highest bidder, I mean the quote is almost half of the highest bidder.

We also thought of expanding ourselves in terms of creating subsidiaries, you know that we have been doing consortium lending; we have a Power Lender's Club, where in there are Indian banks, LIC and Hudco. We have done quite a lot of business, we are lead financiers in about 35-40 projects and we have been syndicating loans based on our appraisals through this Power Lender's Club. We have decided to carve out this group as a separate company from 1<sup>st</sup> April 2010 and another area where we thought it important to carve out a separate subsidiary is renewable energy, we have already done 600 crores of sanctions in the current financial year in this area and about 60 crore is the amount disbursed. This area also is going to receive greater focus going forward, so therefore, we have thought of carving it out as a separate company. You know this helps our people because our Executive Directors can become Chief Executive Officers of these new companies and develop themselves into independent leaders, which will ultimately help the development of Indian power sector.

During this year, we have got two awards, one was India Pride Award instituted by Dainik Bhaskar given by Hon'ble Home Minister Shri P. Chidambaram in non-banking financial services category, it is called Non-Banking Financial Services Gold Award and also we got another award from Dr. Manmohan Singh, that is MoU Excellence Award of course which related to 2007-08 and for 08-09 we might hopefully get another award next year. Now, a bit on the data, of course, details will be there in the presentation. I will make very few statements about that. So, our sanctions increased by 20% in the current year first half ,as compared to last year first half, but as I have been saying to the analysts that current year sanctions are not an issue, the outstanding sanctions is what we will work on. If you look at outstanding sanctions



they grew by 30% from 1,06,000 crore to 1,38,000 crore, loan assets which is a basis for increase in our income grew by 19% from 57,800 crore to 68,000 crore and as a result of that our net profitability increased by 91% in the first half from Rs. 626 crore to 1193 crore. So, 19% growth in asset book and 54% increased in Profit After Tax and as a result EPS also increased by 91% from Rs.10.90 to Rs.20.79. Part of this is because our lending rates, which is of course weighted average of various sectors increased by 39 basis points whereas the cost only increased by about 9 basis points. Cost, of course first half increased by 15 basis points, whereas for the quarter it has increased only by 9 basis points. Even though our loan book has grown at the speed, but we have been able to maintain asset quality, our net non-performing assets as on 30<sup>th</sup> September stood at 0.01%. Return on net worth as a result of that has gone up by about 7% of course which is reflected in the EPS, I think with these numbers I will request Mr. Gupta to make the presentation.

**Mr. Gupta**

Good evening everyone, we shall be presenting the results of quarter end half year ended 30<sup>th</sup> September 2009. But before we move into the financials let us look into some of the important aspects about the company. PFC continues to maintain highest domestic ratings for our short-term and long-term domestic borrowings programs. As far as our international ratings are concerned, we are maintaining ratings at par with India's sovereign ratings. We continue to maintain healthy asset quality with our NPAs at almost negligible levels. PFC is viewed as one of the most successfully managed public enterprises with its performance being consistently rated as excellent by Government of India.

Over the years, since its incorporation in 1986, PFC has achieved several milestones such as being declared Mini Ratna in 1998, going public in the year 2007 being upgraded to Navratna status in the same year and launching of PFC Consulting Limited in 2008. On the same lines in this half year too, our key milestones are that we have already transferred Tilaiya Ultra Mega Power Project to Reliance Power in Q1.

We have already successfully launched our R-APDRP scheme. PFC has also featured in the list of top 500 global financial brands 2009 and also PFC has featured in Forbes global 2000 ranking. PFC focus has exclusively on financing the power sector, PFC is mainly engaged in providing traditional loans and other loan-funds based products to power utilities. Over the years PFC has leveraged its knowledge and expertise in the power sector by diversifying its product offerings. Our main product offerings include rupee term loan, foreign currency loans and short-term loans, which comprises around 99% of the entire loan portfolio. As we all know that PFC also has 100% owned subsidiary PFC Consulting Limited, which provide all sorts of financial as well as other consultancy services to its clients such as financial management of resources, providing solutions for improving efficiency and among many others. As a part of our business strategies, our endeavor has always been to grow continuously in existing business. We have been constantly interacting with our clients to ascertain their product needs and demands and depending upon that in line with that which sir has already explained in detail, we have come out with two main products in Q2, one is providing term loan toward promoters equity against security of commissioned projects for government sector power utilities and the other one is to



provide short-term financial assistance to buyers to purchase power through Power Exchange India Limited in which PFC also has a stake.

Through our facilitation group, we continuously look out for opportunities in areas of power and providing forward and backward linkage to the power sector, as far as renewable energies and consortium lending is concerned. We have already decided to carve them out into two different subsidiaries from 1<sup>st</sup> April 2010 onwards. We are a team of very highly efficient and professional workforce, PFC is a very lean organization in terms of its employee's strength as of 30<sup>th</sup> September 2009, PFC's employees' strength was around 326. PFC also has a very low turnover ratio, which is reflected, that almost 38% PFC's staff has been with us for more than 15 years.

Now, we will look at operational performance of the company for the half year ended 30<sup>th</sup> September 2009. The main highlights about the financials are, our net profit has grown by 91% from Rs.626 crore to 1193 crores, our comparable PAT, which is after ironing out the differences arising out of extraordinary items has increased by 54% from Rs.686 crores to 1052 crores. Operating profit to average assets, as a percentage has also increased by 50 bps. Our return on average assets has increased by 119 bps. Interest spread has increased by 39 bps from 2.14% to 2.53%. Total income has also seen a jump of around 29%.

Our net income i.e. interest income has also shown a healthy growth of 35% from Rs.1056 crore to 1420 crores in this half year. Like we said that our net NPA's are at low level of 0.01% of net loan assets. Sanction has shown a growth of 20% from around Rs. 29,000 crores to Rs. 34,800 crores. Loan assets have also witnessed a jump of 19% from Rs.57,800 crores to Rs.68,600 crores. Similarly, net worth has also shown a substantial jump of 29% from 9,270 crores to 11,920 crores. However, if we look at the comparable profit by eliminating the differences which are arising out of extraordinary items like income tax refund, interests, our profit moderates down from Rs. 686 crores to Rs.1052 crores in the first half, which is a rise of around 54%. On quarter-on-quarter basis, it has risen from 349 crores to 544 crores, which is a jump of around 56%. If we look into our P&L account, our interest income has grown by around 29% from Rs. 2900 crores to Rs. 3800 crores. For the quarter it has shown a jump of around 25%. Similarly, our interest expenses have also grown by 25% for the half year, for the quarter the figure is around 21%. Net interest income for our half year has increased by 35% for the quarter it has increased by 33%. If you could see that our other income has risen substantially from 32 crores in the last year to 86 crores. It is mainly on account of interest which we have earned on income tax refunds, which is to the tune of around 20 crores.

We have also earned fee on APDRP, which is around 20 crores and we have also earned fee on Tilaiya UMPP, which is around Rs. 15 crore. So, other income rises mainly due to these three factors. Operating costs are pretty much on the same lines. Provisions are negligible and Profit before Tax and extra ordinary items have shown a growth of 41% for the half year and 45% for the quarter. If we look these P&L figures as a percentage of our average assets, then our net interest income has grown by around 17 bps from 1.82% to 1.99% for a quarter, NII has increased by around 9 bps. Other income has also seen a growth of 7 bps for the half year and a similar increase seen in the quarter. Operating expenses have got reduced by 1 basis point.



Operating profits for the half year has increased but only 24 bps and for the quarter it has increased by 16 bps. Similarly, PAT as a percentage of average assets has shown an increase of 59 bps for the half year and 33 bps for the quarter. If we have to look into our balance sheet then our share holder funds stands at around 17% of the entire balance sheet size, which is around Rs. 74,000 crores. Substantial part of our resource comes through borrowings, which just stands at around Rs. 56,500 crores, which is around 76% of the entire liability side. Rest of the proportion comes from interest subsidy funds and current liabilities and provisions and the R-APDRP fund. R-APDRP disbursement has just started, so there is some fund, which is waiting to be disbursed in R-APDRP fund from GoI. All this comprises around 16% to 17% of the entire balance sheet on the liability side.

On the asset side, around 92% of the assets are being contributed by the earning portion of loan assets, which just stands at around Rs. 68,600 crores, rest of the figures is due to investment in fixed assets and current assets, which just stands at around 7% for the half year. And thus increase in loan asset is by 19% on half year basis. We are looking into the key indicators like sanctions has grown by 20% for the half year, 17% for the quarter, disbursement is less by 10% for the half year and 11% for the quarter, loan assets have seen a jump of 19% for the half year and a similar jump is seen in the quarter. Yield-on assets has increased by 54 bps on half to half year basis. On quarter to quarter basis, it has increased by 46 bps.

Cost of funds has increased only by 15-basis point and for a quarter it has increased only by meager 9-basis point. Interest rate has seen a jump from 2.14% to more than 2.5% which is a jump of 39 bps and for the quarter it has increased by 37 bps. NII has increased by 38 bps from 3.82% to 4.2% on half year basis. For the quarter it has increased by around 40 bps. Return on average networth for the half year has increased from 16% to 20.23%. For the quarter, it has increased from 16.86% to 22.32%. Our debt equity ratio stands at 4.82 for the quarter and the leverages stands at around 6.28. Healthy capital adequacy ratio of 17.76 as against 16.38% in the last half year, EPS has almost doubled from Rs. 10.90 to Rs.20.79. Similarly book value stands over Rs. 100 for the half year. Looking at the disbursement composition, generation forms a largest share in the entire proportion. It stands at around 78% as against 72% in the last half year.

The disbursement in T&D sector stands at around same levels around 8 to 10%. From this quarter onwards, we have also started disbursement in RAPDRP scheme which stands around Rs. 374 crores for the half year. For the quarter generation proportion is around 77% and T&D contribution is around 5%. Rest comes from other than RAPDRP scheme which is around 18%. Bifurcating disbursement borrower wise, larger share comes from the state sector, however it has got reduced from 70% to 61% on half year basis but this has actually gone into central and joint sector which is reflected by the fact that disbursements in central and joint sector in H1 FY09 was around 28% which has now increased to 35%. Private sector has also seen a jump in their share which has increased from 2% to 5% for the half year. Similarly on the sanction side generation forms a major pie of the entire sanction. Sanction which stands at around 75% for the half year T&D scheme stands around 15%, RAPDRP scheme forms 6% and others form around 4% of the entire sanction.



On quarter-to-quarter basis generation forms around 86%, T&D scheme forms around 5% and RAPDRP and others form around 9 to 10%. On the borrower side the contribution from the state sector has increased from 32% to 39%. Share of central and joint sector which was 68% in H1 FY09 it is now around 35% for this half year. A substantial increase has been witnessed in the private sector contribution which was almost negligible in the last half; it has now increased to 26% for this half year. Our cumulative sanction till 30<sup>th</sup> September, 2009 is sent at around Rs. 260,000 crores.

Similarly on the loan asset side, generation again forms highest percentage around 78% in H1 FY09 and 83% in this current half year. T&D schemes are almost at the same level around 16 to 17% and that is being contributed by other. Borrower wise the state sector has a substantial contribution of 70%, rest is being followed by central and joint sector which is a combined proportion of around 24 to 25% and private sector contributes around 6% in our entire loan assets. In spite of a growth in our loan assets we are continuing to maintain almost non-existent NPAs which are sent at around 0.02% of gross loan assets and around 0.01% of net loan assets. Our borrowing profile essentially comes from bonds, which comprises around 74% in H1 FY10, again 71% in first half of the last fiscal. Within this domestic borrowings are around, it forms a major portion and rest is being contributed by a foreign bond. Term loans, which is to the tune of around 13,800 crores stands at around 25% of the entire outstanding borrowings. Rest is being contributed through short term loans, which stands at around 2%. If we bifurcate our borrowing profile on currency basis then we have substantial borrowings in rupees which stands at around 97% and rest of the borrowings are in foreign currencies which is around 3%. If we look into the complete resource profile share holders funds form around 18% and again the major chunk comes from the bond rupee term loans and short term loans which forms around 80% of the entire resource profile.

Now we will have a look at some of the major projects which are being sanctioned in this first half. First one is in Yermarus Thermal Power Station, Karnataka which is a 2x800 megawatt facility where PFC has sanctioned around Rs.7000 crores. Then there is Nabinagar Thermal Power Plant which is a 1000 megawatt in Bihar where PFC has sanctioned around Rs. 3700 crore. Apart from this our substantial sanctions have been in Pragati Power around Rs. 3600 crores in Palatana CCGT Tripura around Rs. 2200 crores in Srikakulam Thermal Power Plant around Rs. 1640 crores and Palatana Bongaigaon TRS Line which is a transmission entity is around Rs. 1400 crores. Now we will have a look into our share holding pattern as on 30<sup>th</sup> September, 2009. Government of India continues to hold little less than 90% of our entire paid up equity share capital. FIIs hold around 4%. Domestic institutional investors which comprises mutual funds, body's corporate, Indian FII and banks they also form a little over 4% of the entire paid up equity share capital. If we look into our top 10 share holders apart from government, is mainly contributed by life insurance companies and FIIs. That is it, thank you and the house is now open for Q&A session. You may put forward your queries to the desk.

**Satnam Singh**

Other bidders are Lanco and Reliance. See on the lines of ultra mega power projects, Government of India also thought that wherever there is a need of large scale transmission of power we can introduce the same concept in transmission lines and that is why we were given



that first transmission line. We followed the similar approach in that. The RFQ/RFP and then the selected the prospective bidders were evaluated and that is how the pricing has come in the range of Rs. 119 crores per year as against Rs. 168 crores quoted by Lanco and 200 plus quoted by Reliance.

**Participant** Do you mean to say that you would sort become a Nodal agency even for the transmission sector?

**Satnam Singh** Well, we are not the only ones doing this job.

**Participant** Sir right now lot of Indian Power generating companies are scouting for raw material supplies like coal and gas and many other sources, how PFC is encashing this opportunity?

**Satnam Singh** Well I think I did mention in my opening remarks that we see an opportunity in coal mining projects as well as power equipment manufacturing projects which are in the area of facility, which facilitate the development of power projects. So it is in this area, since we see an opportunity therefore we have already introduced this product and we have received some proposals which are under examination, may be first such project would be sanctioned in a period of one to two months from now.

**Participant** And what about overseas mines expedition?

**Satnam Singh** Well at the moment our mandate is not to extend financial assistance outside India as directed by ministry of power but if there is, I mean it is a opinion, we have not thought about it that if there is an Indian company which is prepared to take the credit risk and the Indian company is reliable I think there is an opportunity in that area too and going forward we may look at that one. As of now we are not doing that.

**Mr. Choksi** I am Mr. Choksi from Network PMS. See, three months down the line interest rates are expected to firm up. What are your plans to borrow for the next six months and if interest rates go up you can increase the lending rates also in the time to come or is there any squeeze on net spreads expected in the next six months?

**Satnam Singh** Well, as far as the quantum of resource mobilization is concerned in the current year first half we have raised already about Rs. 7200 crores and our yearly plan is to raise about Rs. 21,000-22,000 crores depending upon the requirement. So in the balance six months we will be raising about Rs. 15,000 crores. As a part of this, it has been because of the interest reset clause so we are compensated for any increase in the borrowing cost in two ways, when we sanction we do not fix the rate of interest. We say today's rate of interest is this. However, lending rate will be charged based on the date of disbursement and on the date of disbursement we have the flexibility to increase or decrease the rate of interest depending upon market situation and after the disbursement we are compensated through the interest reset clause which is reset in every three years.



- Participant** Sir, first question is on the non-bank borrowing if you did in the second quarter and especially from the market, what would have been the average duration?
- Satnam Singh** Well, duration of borrowings is dependent on what the offer by the market is and what our requirement is so it is a dynamic process. But yes, in the second quarter we launched bond issue with, oh you are saying non-bank?
- Participant** Non-bank borrowings from the market basically.
- Satnam Singh** Bonds you mean?
- Participant** Yes.
- Satnam Singh** Yeah, bonds we had launched one for five years, another for ten years. But there as you know that our average duration, average maturity of assets and average maturity of borrowings we are able to match that. There is no issue in that area.
- Participant** Okay sir, on today's RBI guidelines on infrastructure NBFCs you know which risk weight age will be linked to the rating, now do you think you will be positively benefiting from this or you already have a lower
- Satnam Singh** Of course you know that we are AAA rated and this if risk weight is decided based on rating which is what the decision I think is, our capital adequacy figures will further go up and banks will be inclined more to lend to us.
- Participant** So if banks have to lend you today, I mean are they charging 100% or are they charging 20%?
- Satnam Singh** Today 100% but going forward it will be 20%, so we have looked at our overall borrowings; the capital adequacy may still become comfortable to 22% or so.
- Participant** Okay thanks.
- Satnam Singh** Good going.
- Participant** Sir, initially you mentioned that you are helping power equipment suppliers set up capacity so what is the kind of players that you are helping in this respect, I mean is it called BTG manufactures?
- Satnam Singh** No, our idea is to extend financial assistance to all power equipment manufacturers which facilitate either power generation or power transmission, so we are not putting a restriction on that.
- Participant** But can you mention some of the names that you have been helping out?



- Satnam Singh** No, it is not a question of helping out. We have not sanctioned any loan as yet but you know that Power Equipment Manufacturing, L&T, Mitsubishi, Reliance with Shanghai JSW, Toshiba, and these companies are in the process of setting up their ventures. They will all become eligible plus the existing transformer or conductor manufacturers all are eligible so whoever is in the need of expansion and wanting assistance from us we will provide supports which is in the overall interest of Indian power sector.
- Participant** Thank you sir.
- Participant** Sir, would you be classified as infrastructure NBFC as put out by RBI today or are you considered in a special category where you are a government sector NBFC and really my question is will you get the benefit.
- R. Nagrajan** No, as of now you know that we are classified as PSU NBFC but of course I have not seen the details. He is asking whether we will get classified as infrastructure NBFC.
- Participant** Basically my question was that this also applies to PSU NBFC, you know that is the clarity I wanted.
- Satnam Singh** No, we will have to look at the details you know. Right now we are only reading from what is print material but we will have to check with Reserve Bank of India on that.
- Question** Sir, second question was pertaining to your spread, I think you have been guiding in the past that you are looking at spread at 2% or thereabout and may be slightly more of 2% you know in the previous conference call and meeting, and I think it is may be one or two quarters and which you think what is now that you have been consistently maintaining higher spread so would you want to revise up your guidance and say that you know we will be how potential and you know this is a normalized level and you know 2.75% credit something that you would tend to achieve over a longer term.
- Satnam Singh** I do not know whether you attended last analyst meet when we shared that for the first quarter spread is 2.66%. I did make a statement that this spread is high and it offers us an opportunity to reduce the lending rates and we did do that by 25 basis points after that and that is how you can see that our spread is marginally lower cumulatively in the first half as compared to the first quarter but what one has to see is the similar situation exists today. You see it is a kind of a give and take. If the market starts going up as one of the analysts was mentioning then we have an opportunity to increase the lending rate but otherwise we are comfortable at the spread and we will be able to maintain this one. With the product which I mentioned if that gains momentum very quickly may be you will see that spread is going up. So there will be a specific reason. It will not be because of lending per se but it will be because of different type of financing.



**Participant** Sir in your opening remarks you referred to 30% T&D losses. And PFC being chosen as a nodal agency to contain and as well as extend the benefit of reach of power to the untapped areas in our country. Would you throw some more light on that?

**Satnam Singh** See, Indian Power Sector, whenever at least we have talked to investors both in India and abroad has been questioning that, well, is it sustainable if the distribution losses are so high it becomes easy and we did say that yes not in the long run, in the short run, yes. And keeping this in mind government of India took this initiative and the scheme is of 52,000 crores scheme and according to government's structure all towns above 30,000 population as per Census 2001 are to be covered which I shared with you the number is 1420. The scheme has two parts, Part A, Part B. Part A being establishment of baseline data with the help of state of the art IT technology and Part B implementation of the projects to bring down the losses from present level to below 15% level. Now, there are details of the schemes like where states have got more than 30% then they have to not only bring down project area losses to below 15% but overall state losses should also come down by 3% per year and where it is existing level is below 30% then overall has to come down by 1.5% per year. Then only there will be eligibility. The incentive is that the project sanctioned for implementation of the scheme 50% of that loan amount, initially entire money will be given as loan, 50% of the loan amount will get converted into grant provided the loss reduction to the extent it takes place from the levels which are just specified to below 15% or if it is 20% then proportionate and if it is sustained for a period of five years, then only 50% of the loan amount would be converted into grant on 10% - 10% basis for five years. So the idea, the message across is well you can borrow Rs. 100 but Rs. 50 you do not have to return if you meet the criteria specified and also sustain it for a period of five years. Now, that is a good sign for the power sector. Any even if we hope that all utilities would be able to do that but even if majority of the utilities do that it is helping us two ways. One, it is creating a better power sector going forward, two that of our existing lending because any reduction in the distribution losses leads to increased revenue for the utilities. Our existing assets, the asset quality will further improve. It is good even at this point of time as the non-performing assets clearly indicate but it will further improve because all our borrowers will be in a better position as far as cash-flow is concerned.

**Participant** Sir, you see a five-year timeframe good enough for 90% achieving our target in this area?

**Satnam Singh** Well the Part A project, the time limit I think is about 18 months and thereafter three years or so and since it is sustenance over five years you can take is about 18 months plus seven years but it will happen in phases.

**Participant** Thank you.

**Amit Nisar** Amit Nisar from AC Choksi. Just wanted to know how many projects in ultra mega transmission line are expected in 11<sup>th</sup> and 12<sup>th</sup> five-year plan?

**Satnam Singh** Look as of now we as I mentioned we have done one for which LOA will be given to the selected bidders shortly and we have been given two more. Other than that we have not been



allotted any transmission line project but since Devendra Singh is here, would you like to say how many will be taken?

**Amit Nisar** Sir you say that PFC and REC can finance this project. What will be the differentiating factor or there could be a overlapping of interest in financing this project?

**Satnam Singh** No, no it is not financing of these projects. It is that they have been given this task of conducting this process of selecting the bidder who will implement that project. After that these projects are open to funding by PFC or REC depending upon which developer goes to whom and what is the exposure level for that particular group.

**Amit Nisar** Okay. Thank you.

**Participant** Just a micro question, why was the tax rate for the quarter down to around 17-odd percent?

**Satnam Singh** What is it?

**Participant** This is just a micro question. Tax rate for the quarter was down to around 16-17%, so any specific reasons for that?

**Satnam Singh** No, no tax rate was not, actual tax rate is about 27% or so. The rest is because of the refund I mean the tax rate cannot come down. Given that we are entitled to 20% benefit as Section 4(a) company our tax rate is in that range. Any other question or shall we close it? Thank you very much. Thank you.