

Transcript

Conference Call of Power Finance Corporation Limited

Event Duration : **1 hr 23 mins 08 secs**

Introduction

Moderator:

On behalf of Power Finance Corporation Limited, wishing one and all a very good afternoon. It is an honor for me to welcome you to this investor's conference where we will be announcing our Q4 results for the financial year 2009. Power Finance Corporation Limited as we are all aware is a listed Navratna Public Sector Enterprise of the Government of India listed on both the National and the Bombay stock exchange. With a vision and mission to be the leading institution in financing, in Power and Financial sectors that will enable availability of required quality power at minimum cost to consumers, Power Finance Corporation Limited provides a large range of financial products and services for various power projects in generation, transmission, distribution sector as well as for renovation and modernization of existing power projects. Before we begin, permit me to introduce to you our distinguished dignitaries on the dais. To begin with, we have Mr. Satnam Singh, Chairman and Managing Director, Power Finance Corporation Limited; to his right we have Mr. M.K. Goel, Director, ID&A Power Finance Corporation Limited; to his extreme right we have Mr. Rajeev Sharma, Director Projects, Power Finance Corporation Limited and to his left we have Mr. Devender Singh, Joint Secretary, Ministry of Power and Government nominee Director on the Power Finance Corporation Board. Mr. Satnam Singh will give us the performance high lights of the company which will be followed by a presentation following which the floor will then be thrown open for the question and answer session. I now hand over the mike to Mr. Satnam Singh and I request you to kindly turn your cells to "switch off" or "silent mode" please.

Satnam Singh:

Good evening everyone and thank you for the overwhelming response. Of course you all know what has been the financial market environment in the last financial year, but to put it in the right perspective, I thought that since you know that any company's performance is dependent on the environment in which it operates. So, I thought I will mention of the few aspects of the

environment in the financial market in which we have operated in the last financial year.

1. First of course, we were partly affected by the global melt down and slow down. 2. The financial liquidity for a certain period of the financial year became a big issue. 3. The regulator took certain initiatives which restrained borrowing by Indian companies in the International Markets. Not all were affected but we were affected because we being NBFC were restrained from raising money in the International Market. Later on these restraints were withdrawn, but by then the cost of raising resources in the International Market had gone up so much that it was not possible for a company like ours, even though we have the best possible rating – the Sovereign rating in the International Markets to raise resources from International Markets. So the environment was pure dependence on the domestic market. Also, in the domestic market, the inverted curve was operating. Short term money was costlier than longer tenure money. Besides, the Reserve Bank of India which is a regulatory body for NBFCs had put a clear cut guideline for us that as far as private sector is concerned, we cannot exceed the exposure norms what is applicable for other NBFCs and Banks. So, as a result of all this the interest rates as you know hardened and the equity market being dull there were some difficulty in raising resources for the power sector.

Before I come to the numbers as to what we did in this environment, I would like to share with you the good things which happened for your company in the last financial year. First of all we were given an award by KPMG infrastructure group, the award was given by Dr. Montek Singh Ahluwalia. The award was named as “Most Admired Enabler - Power”. The other award which we got was from...it was an India Power Award for our association in the DRUM Project which as you know is our training program which US Aid and PFC are making headway. PFC and US Aid put together had trained roughly about 25,000 people, above 25,000 people in the last 3 to 4 years during which this program has been in operation. We also got award from Dalal Street for highest profit per employee. Apart from this our Company's name figured in the Global Financial Brands – first NBFC in the world to figure in the global financial brands also very recently in the Forbes, first 2,000 list. So, these are good things which we have come across in the last financial year.

Now coming to the numbers, of course many of you would have seen those numbers on TV or must have seen the presentation which has already been uploaded on our website. If you remember our disbursement growth in the previous years that is '07 – '08 over '06 – '07 was 15% year on year. Last year '08 – '09 over '07 – '08 we achieved 30%. Our loan assets grew by 25% against 17% previous year, year on year basis. Gross non performing assets, we were able to bring down from 0.03% to 0.02% with a higher loan book of 64,000 crores plus. Our NIM and Spread were increased, NIM on a year on year basis; quarter wise numbers we will come to a little later, may be in the presentation you will see. Year on year NIM was increased by 10 basis points from 3.74% to 3.84% and the Spread by 13 basis points from 2.08% to 2.21%. As a result of this our profit after tax increased by 12% from Rs.1207 crores to Rs.1355 crores. Here I would like to mention that in spite of the fact that government has given some kind of dispensation for amortizing foreign exchange loss in the coming 3 years, we have not done so, we have followed our original policy of booking the entire foreign exchange loss in the same year in which it happens and we have booked this year about Rs. 253 crores and these figures of 12% increase are after booking this loss of Rs. 253 crores. If we do not take that into account, the growth in profit after tax is about 20%. Return on net worth which you should be happy about increased by 40 basis points to 14.82% and if we do not take into account this notional exchange loss, then the return on net worth has gone up to 16.42%.

Many times we have discussed whether sanctions year on year are relevant or outstanding sanctions against which disbursement is going to take place is relevant. Last time when we sanctioned 69,000 crores last financial year and coming quarters the figures were not corresponding to that kind of figure of 70,000 crores; many analysts asked me, why is it, are you seeing a slow down? My answer to them was two things. 1. The 69,000 crores happened because we had sanctioned, we have issued sanction letters worth 18,000 crores on 31st March. So, if you take that out, if you had deliberately carried this to 1st April, then this year's sanctions would have been 57,000 crores plus 18,000 crores and earlier years' sanctions would have been about 51,000 crores and you would have found that the growth is 50% in sanctions. So, as analysts I would suggest that you do not look at...not that you do not look at, you consider, you look at year on year sanctions, but what is more relevant for the purpose of imagining what is the growth rate possible for a company like ours is the

cumulative outstanding sanctions and that figure as of day is 1,20,000 crores. Even if you assume similar levels of sanctions going forward, another 60,000, crores would get added. So 1,80,000 crores and against that disbursement over next 3 to 4 years, you can guess what kind of disbursement we are going to have going forward.

We would also like to share with you that we are a MOU signing company with the Ministry of Power, Government of India and in the last financial year we have exceeded all the parameters in the “Excellent Category” in the last financial year and therefore we are going to get “Excellent” rating from Ministry of Power and also maybe we will get some kind of award from Department of Public Enterprises. Some of the other key highlights of last year...people ask me the question, how come you were able to disburse 21,000 crores, did you not face any difficulty in raising resources? Yes we did face, but however, our lenders had full confidence in us. Last year we raised roughly about 21,500 crores of money for disbursement and more importantly, we did an issue of 4,100 crores in August – September which was the largest ever bond issue done by any Indian Corporate whether Private or Public. Of course we did face problems because of liquidity and inverted curve being reverse in the sense that short term money being costlier than long term money. Therefore you might have seen that our percentage of bonds, considerably went up in the first 9 months and lot of analysts did ask me “Oh you feel that only bonds is the alternative? There is no other alternative and structure to use with banks have dried up?” I said “No, the timing is not appropriate”. Therefore since the timing is appropriate for bond issue, we have gone for bond issues and when the timing will be appropriate for structured deals with banks, we will go for structured deals and that is what we have done. In the last quarter of the financial year '08 – '09 we have been having structured deals and we have not come out with any bond issue.

The other important aspect, we being Nodal Agency for Ultra Mega Power Projects, there were apprehensions that the bidders of Ultra Mega Power Projects may not come forward because of the global constraints. But we proved all these apprehensions wrong. We awarded the Tilaiya UMPP through Reliance Power and there was a very good response. We received 5 bids for Tilaiya Project. We have given them certain time as per guidelines for them to take over the company and we are working on that.

Apart from this, the work is also on in the other states of Chhattisgarh, Orissa and Tamil Nadu where RfPs for the

UMPPs are likely to be issued in the next 3 to 4 months time. The discussions are also on for second Ultra Mega Power Project in Andhra, in Gujarat and two more in Orissa.

Given the issue which most analyst know that aggregate, technical and commercial losses being very high in the Indian Power Sector and therefore raising a question about sustainability of Indian Power Sectors in the long-run, Government of India is wary of this issue and therefore took a very big initiative of introducing re-structured APDRP scheme which is primarily aimed at bringing down the AT&C losses from the present level to below 15% for all towns where the population is above 30,000. We have been made the Nodal Agency for this scheme. We are going to get fees for providing this service and the scheme size is 52,000 crores out of which about 32,000 crores is going to be grant. It is a very, very attractive scheme for distribution utilities. But at the same time, it is also performance based that no utility can draw money; convert the loan into grant unless the performance parameters mentioned in this scheme are achieved. So, initially the entire money will be given as loan, later on 50% of the loan will be converted into grant based on sustained reduction. Not only reduction in the AT&C losses, but also sustenance of these losses over a period of 5 years on 10%:10% basis.

As you know that we have always been facilitating the overall development of Indian Power Sector, keeping this objective in mind, we have decided to invest in the equity, not in a big way, but in a small way for 2 power exchanges – that is Power Exchange of India as well as the Power Exchange promoted by TCS and NTPC. In Power Exchange of India our investment is to the extent of 7% and in the other Exchange it is 16.67%.

Renewable energy has been another area of focus for us. We have sanctioned 500 crores last year and disbursed about 178 crores which is 5 times of disbursement in the previous year. After I had taken over charge, I have share with you, that...you might have read in the papers also that we had re-structured the organization by creating new business units with a view to capture additional business so that we are able to maintain the growth rate. One such business unit was facilitation group which is actually backward integration which means financing coal mines, gas pipelines, power equipment manufacturing etc. The other business unit which I have already mentioned was focus on Renewable Energy, the third one was Consortium Lending, fourth one was Equity Funding and of course fifth

one was APDRP but APDRP got into...it was merged into PFC business per se because of certain operational issues.

Now what I would like to share with you is that we have made considerable progress in all these areas of business and in the financial year '09 – '10 as far as Consortium Lending is concerned, we have made an assessment, you see we have a Power Lender's Club in which there are 18 banks, LIC and HUDCO. We have assessed, we have talked to the members of the Power Lender's Club as to their potential to syndicate the loans for power projects and according to that assessment, roughly about 20,000 crores worth of syndication is possible. As far as the facilitation group, backward integration is concerned, we are in the process of development of the products and we are in touch with new companies which are entering into this business and hopefully, maybe by second quarter, we will be able to start actually sanctioning the loans for this new area. As far as Renewable Energy is concerned, we are supporting Renewable Energy in a big way and there is a possibility of large sanctions as compared to the last year in the current financial year.

Lastly, we have been able to maintain our productivity as you would have seen by the Award by Dalal Street, our profitability per employee has been 4 crores and the business which means sanctions per employee has been 180 crores. Our employee work force is highly motivated and we intend to maintain these productivity levels going forward and as you know the Pay Commission has already come out with a notification for our employees. That I think will add another factor for our employees to be further motivated and also you know that the name of the game today for employees is Public Sector employment; Private Sectors having lost some kind of benefit. Therefore we are very sure that going forward we will be able to live up to your expectations. Thank you very much.

Moderator:

Now we will have the presentation and then the question and answer.

Presentation Session

Management:

Good afternoon everybody. I will be taking you through a short presentation which will encapsulate the quarterly as well as our annual numbers. Well, we have been in the business for more than 20 years now and we have been funding projects in all areas, be it generation, transmission and distribution. We also are funding to all the entities operating in sectors such as Central Sector Utilities, State

Sector Utilities, Private Sector Utilities and as of now we are the key agency for implementation of the various government plans and policies which include the Ultra Mega Power Project Plan, the Re-structured Accelerated Power Development Reform Program, the Drum Program and the DDM Program. We have achieved higher level of visibility in the International arena today with recognitions such as getting into the list of top 500 financial brands as well as Forbes Global 2000 ranking. It was in the year 2006 that we achieved the Annual Disbursements mark of 10,000 crore rupees and it is in the year 2009 that we have already crossed 21,000 crores annual disbursement mark. In the year 2009, we have also awarded the...we have issued the letter of intent for Tilaiya UMPP to Reliance Power. Our focus is essentially on providing funding and that too due to Indian Power Sector. 99% of our core business consists of providing products such as rupee term loans, foreign currency loans, short-term loans, to the various project utilities. We are also providing consulting services to the Indian Power Sector in the form of Financial Management of resources, Risk Assessment, Solutions for improving efficiency. Developing Human Resource Plans, Project feasibility studies, basically encompassing all the areas be it structuring their organizations, be it improving their performance, be it risk assessment, be it project feasibility studies. Our business strategy would be to focus on areas such as Renewable Energy, Consortium Lending. We have also formed specific groups – facilitation groups for funding projects in the area of power equipment and fuel linkages, while we will strive to continue to grow in our existing business.

Our team is supported by a total strength of 316 people which primarily consists of 200 executives and 116 non-executives. Out of this 200 executives, we carry diverse professional background and almost 40% of the executives have experience greater than 15 years. Our disbursement per employee today stands at 66 crores and profit after tax per employee stands at 4.3 crores for which we also got a recent award.

Here we are presenting a comparison of how we have fared during the last five years in terms of sanctions that is the projects which we have approved for funding as well as disbursements. You can see that in the financial year '05 we sanctioned projects worth almost 18,500 crore rupees and in the year just ended, we have closed with 57,000 crore rupees. In terms of disbursements what we funded during the financial year '05 which was almost 5 years back was 9,400 crore rupees, whereas today we have ended the year with a little over 21,000 crore rupees. On

the sanction side we have achieved a 5-year CAGR growth rate of 28% on the disbursement side we are maintaining the growth rate of 19%. If you try to compare what we did during the 10th 5-year plan and where we stand after completion of the first 2 years of the 11th 5-year plan, we sanctioned almost 100,000 crore rupees of projects during the 10th 5-year plan and after completion of just 2 years of the 11th 5-year plan we are already through with over 120,000 crores of rupees of sanctions.

In terms of disbursements we did a business of 51,000 crore rupees during the 10th 5-year plan and during the first two years of this plan we have already accomplished 37,000 crore rupees. Our loan assets increased from around 29,000 crore rupees 5 years back to 64,400 crore rupees achieving a growth rate of 21% over a 5-year period. Our net worth has increased from 6,000 crore rupees to 9,600 crore rupees today. This includes almost 1,000 crores of funding coming in the form of IPO in the year 2006 – '07. Our total income has almost doubled from financial year '05 to the last ended year, from 3,000 crore levels to 6500 crore rupee levels. We have registered a 5-year CAGR growth rate of 12% in terms of total income. Our PAT has been increasing consistently from 984 crore rupee levels 5 years back to 1355 crores that we ended up with during the last year. We have been consistently paying dividends in the range of 35%, 36% over the last 5 years and the figure for financial year '09 relates only to the interim dividend. The final dividend is yet awaited.

Now the highlights for the year: Our net profit for the year has increased from 1207 crores to 1355 crores and that is an increase of 15%, but in terms of comparable PAT, if we look at certain adjustments that will follow during the course of the presentation, it has actually increased by 20%. Our total income has increased from 5,000 crores a year back to 6,500 crores, that's an increase of 31% whereas our net interest income has increased from 1,800 crores to 2,200 crores, that's an increase of 25%. Our gross NPAs have further decreased from 0.03% a year ago to 0.02% as on 31st March 2009. Our disbursements for the year stood at 21,054 crore rupees. Our net worth has increased by 11% on a year on year basis. Now as far as the current year was concerned, the year gone by was concerned, we had reported a PAT of 1355 crore rupees but if you look at a few adjustments which essentially relate to prior period taxation as well as MTM on foreign exchange borrowings, we arrive at a figure of comparable PAT of 1470 crores for the year '09 and the corresponding figure for the year '08 stood at 1223 crores that makes it an

increase of 20%. The same comparison if done on a quarterly basis for the quarter 4, we had a reported PAT of 391 crores, but if we have to make these adjustments, the comparison comes to 412 crores as against 333 crores, that's again an increase of 24%. Our interest income during the year stood at 6,396 crores as compared to a little less than 5,000 crores a year ago that's almost an increase of 30%. Our other income included 66 crores out of which almost 17 crores was received as fee for the purpose of providing services under the re-structured APDRP program. Our profit after tax for the quarter stood at 391 crores as against 295 crores for the same period a year ago.

This is the RoA tree which shows the performance during the last year as well as the quarter on quarter performance. Our operating profit for the year has increased from 3.54% to 3.62%, that's an increase of 8 basis points and if you look at the same figure for the quarter 4, that's an increase of almost 23 basis points on an annualized basis. In terms of the final return on assets, that's the profit after tax. The increase for the period of Q4 has been in the range of 16 basis points. Our RoA for the year '08-'09 stood at 2.21%.

In terms of our Balance sheet our share holders' funds amount to 10,300 crores as on 31st March '09. Our borrowings stood at 52,000 crores as compared to 40,000 crores a year ago. Current liabilities constitute 3434 crores out of which almost 1400 crores is interest accrued but not due as well as another 1500 crores is the provision for taxation so that's almost 2900 crores which is mainly attributable to this 3434 crores. In terms of loan assets we stand at 64,500 crores which generates our top line. We also have investments in the form of 34 crores which includes equity shares in PTC in Power Exchange and other bonds. Our total assets have increased from 54,700 crores to 68,000 crores and our loan assets have registered an increase of 25% on a year on year basis.

The key highlights for the year as well as the quarter, our yield for the year has increased from 10.11% to 10.92%. Our cost of funds had also gone up from 8.03% to 8.71%. But our Spread has gone up from 2.08% to 2.21% that's an increase of 13 basis points. Our NIM has also gone up by 10 basis points to 3.84%. Our leverage as on 31st March '09 stood at 6.72. Our capital adequacy as on 31st March 2009 stood at 15.31% as compared to 17.20 a year ago.

In terms of quarterly indicators, our yield for the quarter stood at 11.2%. Our cost of funds for the quarter 8.78%. Our interest Spread for the quarter increased from 2.10% to 2.42% that's an increase of 32 basis points for the quarter. Our net interest margin has gone up from 3.77% to 4.04%, that's again an increase of 27 basis points.

Here we are presenting a comparison of how sanctions have fared for the last 8 quarters and disbursements have fared for the last 8 quarters. In terms of sanctions, you can see that more or less during the last quarters we have been maintaining the sanctions in the range of 14,000 to 15,000 crores, whereas normally, there stands volatility in sanctions since we are essentially a project driven organization. In terms of disbursements we were faring in the range of 3200 to 3300 crores during the last year, during the year '07-'08 whereas in the year '08-'09 we have reached the level of 4700 to 5000 crores of disbursements every quarter. Disbursements for the quarter 4 '09 stood at 6954 crores.

Now sequential comparison of our key indicators; the line in red indicates the yield. It has gone up from 9.88% to 11.2% for the quarter 4 just ended. Our Spread today stand at 2.42% as against 1.93% which was for the quarter 1 of FY07-08. Our NIMs have increased from 3.67% to 4.04% during the last 8 quarters. More or less we have seen that our spreads have been trailing in the range of 2 to 2.1 or 2.2%. In terms of disbursements split into sector and scheme wise, our disbursements for the year stood at 21,054 crores out of which 76% had been in the generation side, 6% in transmission side amounting to 1296 crores and another 2% in RAPDRP program that is 325 crores. In terms of borrower category, we have disbursed almost 70% of the loans to the state sector, 15% to central sector, and 12% to joint sector as well as 3% to private sector. As far as quarterly numbers are concerned, our quarterly disbursement stood at 6954 crores out of which almost 5500 crores went into generation that is 79%, 348 crores went into transmission which is 5%. In terms of borrower mix, almost 66% disbursements went into State Sector, 24% went into Central Sector, 7% went into Joint Sector and 3% went into Private Sector.

Our cumulative disbursements as on 31st March '09 stand at 113,000 crore rupees. In terms of sanctions, we sanctioned 44,600 crore rupees to Generation Projects, 5800 crore rupees to Transmission Projects, 1500 crore rupees to Distribution Projects. In terms of borrower category almost 52% funding went to State Sector, 32% went to Central Sector, 14% went to Private Sector.

For the quarter our sanctions stood at 14255 crores out of which 69% was into Generation, 11% was in Transmission, 14% was under the Re-structured APDRP program and 6% was under miscellaneous/others category. In terms of borrowers, 67% of the sanctions in the quarter 4 went into state sector and 33% went into private sector. Our cumulative sanctions as on 31st march '09 stood at 2,33,978 crores. In terms of loan assets, we have an gross outstanding of almost 64,421 crores out of which 81% is outstanding in generation projects, 10% is outstanding in transmission, 5% is outstanding in distribution and 4% under others category. In terms of borrower mix, almost 72% of our loans are outstanding from State Sector borrowers, 14% to Central Sector borrowers, 7% to Joint Sector, and 7% from Private Sector. Our gross NPAs as on 31st March '09 stood at 13 crore rupees and we have a very low level of gross NPAs in terms of percentage at 0.02%. In terms of our borrowing profile, the money we had borrowed from the market as on 31st March '09, the position stood at 70% of our borrowing stand in the form of bonds, which is 36,882 crores, term loans from banks and financial institutions to the extent of 26%, short term borrowings of 1400 crores. 95% of our borrowings outstanding are in the form of rupee loans. In terms of resource profile, 16% of our funds deployed have come from equity share holders' funds and almost 80% are in the form of borrowings from various financial institutions and money markets. The various major projects sanctioned in the last year, under the Hydel category, the Tipaimukh Hydel Project was sanctioned in the state of Manipur which is a 1500-mega watt project. The loan amount sanctioned to the project stood at 4,772 crores. Bellary Thermal Power Station Project which is a 500-mega watt project in the state of Karnataka, amount sanctioned 1806 crores. Omkareshwar Hydro project which was a debt financing deal with NHDCL which stood at 1350 crores. In terms of our share holding, pattern as of now we are primarily a government held company with 89.78% of our shares being held by the President of India. The FII share holding stood at 4.01%, Indian Financial Institutions and Banks hold another 1.92%. With this we come to the close of this presentation and now the session is open for queries.

Question and Answer Session

Speaker 1:

Sir recently there was a press article that once again we have missed the power... the new output to be added target. Now very clearly you are in the thick of the action because you provide finance to all the three major segments of power. Can you share with us as to where we

seem to be missing this target? Whether it is the State Sector or the Joint Sector or the Public Sector and what can be done to improve this situation?

Satnam Singh:

Well it is alright to say that some press note is there about missing the target. Missing the target comes at the end of the plan, not now. What is important for you to know is, that against the target of roughly about 80,000 plus, mega watt plan to be commissioned in the 11th Plan the entire capacity has been awarded which means...which is also known as the zero date for construction in the first two years itself. In fact 16% of the capacity has already been commissioned which was not the case in the earlier plans. Earlier plans this process of award of the capacity to be commissioned in a plant used to continue up to the mid of the plan, leaving thereby very little time for completion of the construction. I am not saying that everything what we plan is going to happen, but I will share with you certain factors; one that this is already awarded leaving an adequate time for construction. This will be average time required for construction depending on the size of the projects is about 36 to 42 months and in this case since almost all capacity required has already been awarded more than 36 months is available. So the probability of slipping existed in the last plan also. Probability of slipping in long gestation projects always is there till actually they happen. The other part is that some units or some projects which were planned to be commissioned in the 12th Plan have already committed to pre-pone the commissioning to the 11th Plan itself. The first two Ultra Mega Power Projects, TATAs as well as Reliance; TATAs for Mundra; Reliance for Sasan have committed through the process of amendment of the PPA. When we say amendment of PPA it has financial implications if they don't commission the project by time, so they have committed, TATAs have committed that at least 2 units which is a pre-ponement of 17 months and in the case of Reliance it is a pre-ponement of 3 years. At least 2 units of each of these projects would come in the 11th Plan itself which adds up to 2920 mega watts. So even if there is some slippage on the planned capacity addition to a major extent it will get offset by pre-ponement of that kind, otherwise, there is adequate balance time available for expediting even if there is any delay at the moment which has taken place. So, we do not expect that actual capacity addition would be widely different from what it has been planned.

Speaker 1:

Sir one more question, of this roughly 80,000 that we are talking, what could be the share that we would get in terms of being part of the financing arrangement? Not

necessarily the full but may be a consortium partner or what?

Satnam Singh:

Well as you know that other than Mundra Project of TATAs we are there in almost all projects. So, there is no question of our not being able to capture all the capacity addition program of the Government of India unless there is any exposure issue which comes up on the way; otherwise we are open to funding all such capacity. There is no project particularly large-sized, large-ticket projects which can get financial closure without our assistance. Our net worth size as you know, is three times of most banks, leaving top 4 or 5 State Bank, ICICI, PNB, Bank of Baroda etc. And Power projects being capital intensive, they need to approach institutions like us.

Speaker 2:

What is the reason for our skew loan borrowers are mostly a State Unit? That's not the generation profile, so what is the main reason why our borrowers are mostly State Units?

Management:

Well I am sure you know that till 90s the Power Projects were the domain of State Power Sector and some licensees and some Central Sector Projects, all in the State Center or Joint Sector. Only in the early 90s Power Sector was opened for Private Sector and that time though there was a lot of enthusiasm for getting the sanctions and allocation of the Power Projects later on Private Sector realized that it is not an easy job, and therefore some delay took place. Only in sort of 2004, 2005 onwards, that there is renewed interest by the Private Sector, but for them to make a considerable difference they would require and that too this difference is taking place in the sanctions. But for them to make a difference in terms of percentage as compared to the overall power market, they would require considerable time, at least 3 to 4 years. But to share with you the percentage what is planned to be incremental, I am not talking of the total, incremental participation by Private Sector is 9% in the 10th Plan, it is to be increased to 21% in the 11th Plan and 63% in 12th Plan. So, really we will start seeing the difference in the percentages only in the 12th Plan. In 11th Plan even if incrementally 21% is taken up by Private Sector, overall basis it will not make much difference in terms of percentages, though absolute number would look attractive. And that is why if the players are in the State / Central / Joint Sector, our lending will be skewed towards that.

Speaker 3:

Sir, I have two questions; one is, you have de-merged your consultancy business from this year right?

- Satnam Singh:** That's right.
- Speaker 3:** And you have not shown the other operating income in this year's financials so just wanted to know what is the other income coming from that source?
- Satnam Singh:** Well last year our other income from lease, UMPPs, Consultancy, Income Tax refund etc was 71 crores, this year it is 66 crores. And as far as PFC consulting is concerned, profit after tax is about 10 crores against an income of 21, 22 crores.
- Speaker 3:** Okay and sir secondly you said our APDRP sanction and disbursement have already happened, what kind of opportunity do you see from fee-based income as well as disbursement of loans from that particular scheme for the current year FY '10?
- Satnam Singh:** We have already received a fee-based income of 25 crores. It is a 52,000 crore scheme and our fee income is going to be about 1% of the loans sanctioned.
- Speaker 3:** Right, and in terms of disbursement of loans how do you see this year shaping up sir, for APDRP particularly?
- Satnam Singh:** I think in the Analyst meet I am not supposed to give any guidance. If you still want, we will just give you the MOU target of disbursement is about 23,000 crores and out of that APDRP is about 1900 crores.
- Speaker 3:** Okay sir thank you.
- Speaker 4:** What is the progress of Reliance Power?
- Satnam Singh:** Well, Reliance Power, the Sasan Project we have sanctioned 1770 crores and for their Krishnapatnam Project the proposal is under consideration, we are in fact co-lead with IDBI for arranging entire debt for Krishnapatnam Project. As far as progress is concerned, as of now I can only share with you that financial closure is expected in this month. But this question you should be asking Reliance Power and not me!
- Speaker 4:** As a lender you must be knowing...
- Satnam Singh:** Yes, I cannot tell you how it is progressing officially; I can share with you what is our information but performance if you want to know, you should ask Reliance Power.
- Speaker 4:** Thank you sir.

Speaker 5:

When you make any lendings to Power Projects what are some of the key variables you look at before you agree to sanction loans and secondly what is your internal targets in terms of equity or project IRRs for which you will probably sanction a loan?

Satnam Singh:

Well, I am happy that some people are asking basic questions also. We have our dual appraisal system. We analyze the promoters with a view to make an assessment as to whether they have the capability to contribute equity to the extent it is required for the power projects and also ability to execute the kind of project they are taking up, that's in the promoter's analysis we see. But as far as project analysis is concerned we see the benchmark cost, we see IRR of not less than...our norm is IRR not less than 12%. We got to see whether the project has all clearances in place or if not then what is the stage at which these clearances are; whether it is environment clearance or a coal linkage or defense clearance or whatever clearances are required; if forest clearance is involved, even forest clearance. Apart from that we also see what is the stage of the agreements with respect to sale of power, with respect to purchase of fuel, where does it stand; also who is going to operate the Power Plant, whether the promoter himself has the capability to operate the plant or is he going to go through established reputed O&M contractor? In addition the technology, which technology the project is going to use, and whether the equipment is being procured from a domestic supplier or an international supplier? What are going to be the efficiency parameters at which these equipment will operate? Like for example we are currently looking at super critical technology where thermal efficiency is higher by 7% to 8% as compared to 500 megawatt power projects and like wise. This is a small list, but there is a very long list.

Speaker 5:

Are you differentiating amongst projects which are using Chinese equipment for example or using any other equipment?

Satnam Singh:

Yes of course, when we look at technology and the supplier we do look at who is supplying and what is going to be financial parameters. If your question is whether Chinese equipment is acceptable or not, then my answer to that is Government of India has asked Central Electricity Authority to conduct a study and they have already submitted a report for unit size up to 600 megawatt that the performance of up to 600 megawatt is comparable to any other product in the world and as far as unit size above 600 megawatt is concerned their team has very recently

returned from China, and they are very, very happy about it, though they have officially not yet submitted the report.

Speaker 6: Your target for disbursements of 23,000 crores seems quite modest compared to 21,000 you did in FY09 and also given that you did about 70,000 crores of sanctions in FY08 which you I believe most of which will come through in FY10, FY 11, can you just explain this?

Satnam Singh: We want the analyst to apply their mind. I have also shared with you that we have outstanding sanctions of 1,20,000 crores which depending upon the stage at which the individual projects are, disbursement against that would be sought and new sanctions maybe of the order of 60,000 crores and all put together how much disbursement would take place is for the analyst to guess. But what I shared with you is the MOU target entered into with Government of India which stands at 23,000 crores. Actually how much we will achieve, I have not said so, so you got to see what kind of confidence you have in us based on our past performance and our attitude towards achievements.

Speaker 6: What kind of re-payments is expected in FY10?

Satnam Singh: Re-payments? Well, re-payments of the order of about 8,000 crores. Re-payment from borrowers you mean?

Speaker 6: Yeah.

Management: Yeah, 7,000 to 8,000 crores.

Speaker 7: Sir, follow up on the question about modest disbursement which you have tabulated in the MOU, is it because you think the liquidity problems which you faced last year will continue this year or in FY10, that's why the modest targets?

Satnam Singh: In my opening remarks I had shared with you that liquidity issue was there up to December '08 when banks were wary of lending to NBFCs like us. But after that there has not been any liquidity issue with us and we are not facing any problem in resource mobilization. The target is MOU target, what will be the actual achievement I have not said, so...

Speaker 7: Do you foresee a liquidity problem in the coming months in the current year sir?

Satnam Singh: No, I just said so, we are not facing any liquidity problem as of now, future nobody can say, you have to tell me.

- Speaker 7:** And sir, one more clarification about the numbers sir, you mentioned in your speech that you had booked foreign exchange losses of 253 crores, while in the comparable slide which was there, exchange losses were only 160 crores.
- Management:** That is post tax effect.
- Satnam Singh:** That is post tax, what I mentioned was gross.
- Speaker 8:** Sir any progress on the Nuclear Power front?
- Satnam Singh:** As you know that Nuclear Power Projects are currently being put by Nuclear Power Corporation which is a cash rich company and since their expansion plans were not very big earlier, because of restrictions they did not want to borrow any money from the market or financial institutions. Now with 1, 2, 3 deals having been put in place, their expansion plans are increasing sort of multifold according to our information and we are already in touch with them and as I have said earlier in many of the forums that we are open to funding Nuclear Power Projects, we are exploring the possibility. As soon as the project is ripe for funding, we will be taking up those projects.
- Speaker 8:** Sir, would it be correct to assume that whatever MOU you have does not include anything on the nuclear front?
- Satnam Singh:** Next one year since we have no idea as to whether they will be able to submit a project relating to that, we have not put that into account. There will be many other things. Some of the developers might not have right now generated conversation with us, like Solar for example, the policy is open, there are people who are thinking and it does not require too much time for preparing a project of that kind or for that matter any Renewable Project. So there will always be new projects coming up where quick disbursement is possible.
- Speaker 8:** One small question sir, the re-structured APDS for which you are the nodal agency, where you will be getting 1% fee income, the scheme will be valid for how many years sir?
- Satnam Singh:** It is for the 11th Plan. You can put it as 3 years. Yes Kunal?
- Kunal:** Sir, out of the sanctions of 57,000 I think we have sanctioned some corporate level loans to NTPC of 10,000 crores.

- Satnam Singh:** That's right.
- Kunal:** What would be the expected draw down? Is it included in the 23,000 crores of disbursement target which is there?
- Satnam Singh:** It is not only NTPC, all sanctions have been considered based on the schedule of disbursement which we asked for from all the developers and all are included in the 23,000 crores disbursement plan.
- Kunal:** Sir, generally the Corporate Level loans, how are the draw downs? Maybe in project levels we see it over the 5 years...
- Satnam Singh:** It is called a corporate loan because NTPC is an AAA company, but this loan is against certain specified projects so based on the progress in those respective projects the draw downs schedules are drawn.
- Kunal:** Okay, and sir one more question on your Spreads, undoubtedly the best Spreads of 2.4% but seeing the liability structure maybe like 85% or 90% of your liability is fixed and we are seeing the cost of funds coming down significantly quarter on quarter from 9.3% to 8.8%, so is there any significant repayment or may be like you would have repaid some high cost debt and replaced it with some low cost debt?
- Satnam Singh:** That is a normal practice we do, wherever there is a provision in the borrowing that the borrowing is linked to the PLR or some other structure where in line with the market the cost comes down that in any case comes down. But where there is no provision, there also as and when market changes dramatically either upward or...upward of course we don't look at, downward, then we do raise that issue with the respective institutions for possibility of cost reduction and if not agreed to and if alternative sources offer us low cost funds, we do re-pay.
- Kunal:** Sir, would there be a lag impact and we can see these Spreads again settling back to 2.2 odd percentage over next 2 or 3 quarters?
- Satnam Singh:** Say it again, I couldn't hear it properly.
- Kunal:** Maybe the Spreads of 2.4% maybe there is a lag effect because we are not seeing any decline in your yields, it is remaining at 11.2% while cost of funds are declining significantly by 50 basis points. So may be that lag effect may come over the next 2 quarters or so?

- Satnam Singh:** I am not wanting to give any indication of the Spreads in future, but I would only share that we will maintain as we have been saying 2% plus Spread and last quarter there has been a bit of aberration actually because the interest reset quantum of loan and the income was quite substantial in the last quarter which is getting reflected into the Spread. If you want to know the absolute figures, it is 53 crores. It is not an every quarter feature, so you should go by the yearly Spread of 2.2% or so.
- Kunal:** Okay and sir what would be the fee income booked on the Tilaiya project awarded in this quarter?
- Satnam Singh:** 15 crores.
- Kunal:** Okay thank you sir.
- Speaker 9:** Just one question on your private equity business, can you give us the status update and what is happening on that side of the business?
- Satnam Singh:** I am sure you know that venture capital funds in the Power and Telecom sector do not get any tax break and therefore last year we had to dispense with the idea of setting up an India Power Fund and as an alternative to that we had thought of making an equity consortium on the lines of Power Lender's Club. You know that in Power Lender's Club we have 18 banks, LIC and HUDCO and we look at the power projects from the lending perspective besides how much exposure can we take and the balance because terms and conditions are already agreed to with the Power Lender's Club members we offer it to the Power Lender's Club. On similar lines we are thinking of creating a consortium. We had written to both National and International players wanting to invest in equity in Indian Power projects. There was some response. LIC was quite positive. Of course as you know that after that all this turmoil started and so International players not coming forward so much and even domestic institutions are thinking twice, so that is why it is taking a bit longer time to formulate that consortium and the standardized terms and conditions. However, we have thought of developing a product which we might be introducing sometime in 3 to 4 months from now.
- Speaker 9:** There were talks that some plans that PFC itself could take equity exposure in some of these projects, has there been any progress on that?
- Satnam Singh:** Can you repeat that question please? What talks?

Speaker 9: Plans in terms of PFC taking direct exposure exactly and part of the same consortium where you would have other investors also coming in, PFC would also be a part of equity investor in those projects, any thoughts on that? Could it be that exactly is it the same type of a structure which you were saying will come in the next 3 or 4 months?

Management: Yes, I am talking of that only. You see if we want our consortium members to make investment in equity, we have got to standardize the terms and conditions first because they would like to know what is in it for them, so unless that is finalized, it is not possible to create a consortium. So it can be done independently. We can design our terms and conditions and then tell the consortium and then somebody will come forward and say no, this is not acceptable to me. So it is a chicken and egg kind of a thing that we have drafted, we are talking to them and once those things are finalized, then only headway can take place.

Speaker 9: Okay thank you sir.

Speaker 10: Sir, a couple of questions actually. Any specific reason why your disbursement and sanctions are skewed more towards generations and not transmission space?

Satnam Singh: Well it is not that they are skewed. Yes, figures if you see yes, but because transmission, there is another major company Power Grid which is doing the major job of inter state transmission system. In generation similar structure does not exist. Of course NTPC is there, but even the focus, higher focus was there on generation but going forward, as I have shared with you that distribution, this initiative of 52,000 crores has been taken by Government of India, going forward this kind of skewness will not be there because more and more projects will be sanctioned in the distribution area.

Speaker 10: Sir, just a follow up on that as well. Even the state structure is supposed to do a large amount of CAPEX in transmission space and most of the utilities in state sector are having some financial constraints as well. Are you seeing any signs of slow down in that particular space and that is why you are not moving into it aggressively?

Satnam Singh: You see we had done one exercise in the beginning of last financial year that whatever power projects we have sanctioned in the state sector whether do they have corresponding transmission lines coming up at the time of commissioning of those projects funded by us and the

result was, yes. All the utilities had planned transmission lines in such a way that they will be able to off take the power from commissioned generating stations. So there is no issue on that.

Speaker 10: Sir, two more questions actually, one, is there any specific limit on how much exposure can you have to a particular corporate group? I am asking particularly in the case of Reliance Power since they now have got 3 UMPPs is there any particular specific limitation on that?

Satnam Singh: I shared with you in my opening remarks itself. Reserve Bank of India has very categorically told us that as far as private sector is concerned we are supposed to follow the standard norms for all institutions which are issued by Reserve Bank of India which are funding infra structure sectors. So limit is 20% of the net worth per project that means per single borrower and 35% for the group.

Speaker 10: Have you sanctioned any Merchant Power Plant so far?

Satnam Singh: Not really, but some of the Power Projects already funded by us, have got some Merchant Power additional available which is resulting into considerable money making by them. For example, Jindal's Bilari Project, we had done a re-financing, it was earlier funded by ICICI, 5 years back we funded it and that project has an option, a part of the power could be sold on Merchant basis. They are making a log of money.

Speaker 10: Is there an upper limit to that Merchant Capacity which you normally consider while approving a sanction?

Satnam Singh: No, our decision to fund any project is not based on this. It is based on the viability of the project. Now viability has many features – tariff. Supposing if somebody puts up a Merchant Power Plant at Rs.9, I am certainly not going to fund it having known that, that is the kind of tariff at which it cannot. But let's say somebody puts up a Merchant Power Plant at Re.1, there is no credit risk there so one can always fund it. Also, if a useless developer puts up a Merchant Power Plant, I am not going to look at it. But, yes a company like TATA Power puts up a Merchant Power Plant or for that matter those who have already got the experience in Power Sector put up Merchant Power Plants; certainly they will come under consideration by Power Finance Corporation.

Speaker 11: Sir, how many UMPPs are we likely to allocate in FY10?

- Satnam Singh:** I said it in the opening remarks that RfQs for 3 UMPPs would be issued in next 3 to 4 months that is Chhattisgarh, Orissa and Tamil Nadu. That is the first milestone after that we have to achieve progress and then only we can indicate. If you go by standard then all these 3 if started roughly around July, August should be awarded by the financial year end.
- Speaker 11:** And sir is Reliance Power eligible to bid in this UMPPs henceforth?
- Satnam Singh:** Yes, based on the present guidelines they are eligible to bid.
- Speaker 11:** Thanks sir.
- Speaker 12:** How much of your loan book is under floating rate and in the fixed rate as of now?
- Satnam Singh:** Fixed rate and Floating rate – loan book? I think it is about 17% fixed and 83% floating, but out of that 14% year with 10 year re-set and 65% with 3 year re-set.
- Speaker 12:** And on the borrowing side?
- Satnam Singh:** On the borrowing side, 15% floating, 85% fixed.
- Speaker 12:** Thank you sir, and if you could just highlight how much of your loan book would re-priced in the next year end and if possible at what rate?
- Satnam Singh:** Re-pricing I think would be I think about 7,000 to 8,000 crores. But as you know the interest differential in the next financial years may not be there because in the next year what will come for re-pricing is '06, '07 disbursements. So, '06, '07 lending rates and '09, '10 lending rates as of now are comparable range with marginal difference. So it is not going to be a substantial income in the next financial year.
- Speaker 12:** Sir, on the foreign exchange side how much of exposure is there in the borrowings?
- Satnam Singh:** Out of a total outstanding of about 520 million equivalent dollars, about 245, 246 million is outstanding. I mean it is un hedged. Out of a total outstanding of equivalent dollars of 520 million approximately, 246 million is un hedged. It is on this 246 million that we have booked the loss of Rs. 253 crores and only about 70 million is coming up for redemption in July and August approximately. Out of that 180 million is coming up for redemption in 2017. So if at all any actual loss booking takes place, of course we have

already booked it at 51.45 as of 31st March. It has already come down to 49 point something, so there is already a gain as of now. So, we will see what happens on 30th June and then July, August when the actual redemption takes place.

Speaker 1: Any risk management factor in mind for keeping it as up to certain level or something as it has already 230 crores, so is there any thing you have thought about if that loss goes ahead of 300, 400 crores, then you might think to hedge it or anything in mind for that?

Satnam Singh: You see no absolute figure should be used for this kind of inferences because what one has to see is whether the average loan rate, the borrowing cost for this foreign currency borrowing is at what rate? Whether even after this kind of loss if it is comparable to the alternative borrowing cost and I can share with you that it is comparable, it is around 8 point something percent, even after booking such a high loss and you know very well that this was an aberration. No currency fluctuates at this rate as rupee has depreciated in about 6 months' time like this. So, it is an aberration, it will get corrected, the signals are already there so we are not so much worried about that part.

Speaker 12: Thank you sir.

Speaker 13: Sir you mentioned about APDRP scheme that 50% of the loans would be converted into grants if the performance is satisfactory. What does that translate into? Does that mean that there would be an interest waver or any relaxation on principle re-payments?

Satnam Singh: Conversion of loan into grant actually means loan waver itself; loan is not to be re-paid.

Speaker 13: So would the Company actually be compensated by the Government for that?

Satnam Singh: Of course! We cannot provide grant, otherwise I would have said we are going to provide grant! Grant portion will come from Government of India that is why I said, out of 52,000 crores, 32,000 crores is grant. But initially since it will be given as loan, we are going to earn interest till it is converted into grant. Grant we cannot offer, you will not leave us.

Speaker 14: Sir this quarter your employee cost is considerably low what is the reason for this?

- Satnam Singh:** Is it low? I think it is reasonable.
- Speaker 14:** Compared to previous quarter of last year...
- Satnam Singh:** It can only be on account of the provision in a particular...Q4 we made a provision of 19 crores, Q1 it was 3 crores, Q2 1.98 crores, Q3 1.99 crores like that. But the variation is because of our de-merger of Consultancy business to PFC Consulting and those employees who were earlier booked on the rolls of Power Finance Corporation, a portion of that since those people had been sent on deputation to PFCCL that is being booked directly into the consultancy business.
- Speaker 14:** Okay and sir, have you heard anything about this ICAI notification on DTL provisions?
- Satnam Singh:** I think I have mentioned long time back that in April 2007 we had received the letter from ICAI saying that based on representation of Power Finance Corporation; we have decided to amend the article 22 so that PFC does not have to create deferred tax liability. Now it is a premier organization of the country, CA institute, 2 years have passed and they have not taken that final decision as yet but according to our information, it is at an advanced stage and the formal decision can come any day.
- Speaker 15:** Sir a question from my side, one question is, how much of the loan book is still bagged by Escrow mechanics, and second is how much of the loan book is still guaranteed by the State Government?
- Satnam Singh:** Escrow requirement is a pre-condition. For States Escrow requirement is a pre-condition and for Private Sector as you know it is TRA which is a substitute. As far as loans backed by State Government guarantee are concerned, that's your second question I suppose, it is about 30%. 25%, actually because going forward States are restraining themselves from giving guarantee and power sector has been reformed, credit risk having gone down, this kind of requirement is not there. We are funding based on the charge on assets, so the overall percentage is coming down.
- Speaker 15:** And sir in this last quarter, Q4, do you remember what are the incremental Spread?
- Satnam Singh:** In Q4 it was 2.42.
- Speaker 15:** Sir, I believe that was the outstanding Spread.

- Satnam Singh:** It is not an outstanding Spread. I have also shared with you that a large quantum of loans came for re-set and that figure was 53 crores which has led to this kind of Spread. Therefore I also said that you should go by yearly Spread rather than quarterly Spread. In Analysts parlance it is an aberration. Because we are not going to get 53 crores of interest fee income going forward, so don't be surprised.
- Speaker 15:** So that means in Q4 the incremental Spreads were more in the region of around 2% or something, it was not very high?
- Satnam Singh:** Yearly Spread may be the basis.
- Speaker 15:** Okay thank you.
- Satnam Singh:** Anything else, anybody else?
- Speaker 16:** Sir, coming back to the disbursement, the 23,000 crore target is that an excellent rating target or is it a base target?
- Satnam Singh:** Excellent category.
- Speaker 16:** Okay thank you.
- Satnam Singh:** Nobody has talked about brain power coming to Public Sector! You were very worried about attrition rate, now you are no longer worried about attrition rate I suppose! Good if there are no further questions we can call it a day? Thank you very much.