



Power Finance Corporation Ltd.
A Govt. of India Undertaking

“Power Finance Corporation Limited”

January 17, 2011



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**MODERATORS: MR. ABHISHEK AGARWAL
MR. SATNAM SINGH**



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Moderator: Ladies and gentlemen, good day and welcome to the post Q3 earning's call with the management of the Power Finance Corporation hosted by Motilal Oswal Securities Limited. As a reminder for the duration of this presentation, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of the opening remarks. Should you need assistance during this conference call please signal an operator by pressing “*” and then “0” on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Abhishek Agarwal of Motilal Oswal Securities Limited. Thank you and over to you Mr. Agarwal.

Abhishek Agarwal: On behalf of Motilal Oswal, I welcome you all to the Q3 FY'11 earnings call for Power Finance Corporation. We have with us Mr. Satnam Singh, CMD of Power Finance Corporation. I would now like to hand over the call to Mr. Singh, who will first brief us about the results and post that we can have a Q&A session. Over to you Mr. Singh.

Satnam Singh: Thank you Abhishek. Welcome everyone. Let me start the third quarter results with the loan assets figure, which has risen from 72,400 Crores to 92,100 Crores, which is 27% higher. As you know last year our asset base grew by 24% YOY. On a higher base our growth this year in the first nine months has been 27% and this growth 27% is an indicator of how our profits are going to grow in this year as well as in the following years.

The disbursements for the quarter are higher by 20% and for first nine months they are higher by 45%. The growth in the disbursement as well as in the assets is likely to continue because we have outstanding sanctions of 1,70,800 Crores, which are 36% higher than the previous year. For the nine months, the sanctions have risen by 57% from 38,900 Crores to 61,000 Crores. For the quarter sanctions are utmost



normally higher though from 4,000 Crores to 17,800 Crores, which is 319% higher. As a result of our asset growth and disbursement growth, the total income has grown up by 27% for the quarter from 2,030 Crores with 2,581 Crores and for first nine months it has gone up from 5,900 Crores to 7,500 Crores which is 26% higher.

The net interest income has gone up by 24% from 746 to 926 for the quarter and for nine months from 2,100 Crores to 2,680 Crores, which is also 24% higher. As a result of increasing total income and net interest income the profit after tax has gone up from 564 Crores to 659 Crores that is 17% higher for the quarter and the first nine months from 1,756 Crores to 2,000 Crores, which is 15% higher. The comparable PAT that is after adjustment of extraordinary items, which are two in number primarily the translation loss on foreign currency as well as the modulation fee because of the treatment difference has gone up by 23% from 537 Crores 660 Crores and for nine months from 1,575 Crores to 1,933 Crores. We have been able to maintain our asset quality, the net non-performing assets are nil, whereas gross non-performing assets have come down from 0.02% to 0.01%.

Now on to what is going to happen going forward, you see we have got the approval for infrastructure bonds worth about 5,300 Crores, which we are going to raise in the next quarter, we have also gone in for external commercial borrowings. US\$ 240 million we have already raised, US\$ 260 million we are going to raise in this quarter. We have also got refinancing from IIFCL for 1000 Crores. We may go in for contractual bond issues if there is any issue on capital adequacy. Let me share here with you that the capital adequacy stands at 17.31% against 17.63%. The earning per share is up from Rs.20 to Rs.23.37 and the book value from 108.50 to 124.78 and the return on average networth is slightly lower at 20.06% compared to 20.15% even though



for the quarter it is higher by 31-basis points, 18.50% has gone up to 18.81%.

For enhancing our business going forward as I have shared may be with some of the investors earlier we have signed an MOU with Nuclear Power Corporation and the discussion on first two projects wherein they may require a debt of about 10,000 Crores is on. As and when they get new projects we will also be approaching them for the new projects.

We have talked about the creation of subsidiaries. We have already got the approval of the board for creating subsidiary for consortium lending. Today the board approved subsidiary for renewable energy also. I am also happy to share with you that now we have full five independent directors on our board and we would not need ministry's approval for such decisions and therefore there is a possibility that we may move faster than what we were moving earlier. The decision to create two subsidiaries has already been taken. We have also floated the documents, the tender for appointing consultants for the banking business initiatives. The last date is 19th thereafter we will take about three to six months to finalize the consultant and maybe another one or two months to give an opinion.

The other schemes, which are primarily driven by Government of India, which we are implementing as Nodal Agency are Restructured APDRP Scheme, Ultra Mega Power Projects and ITPs, which are Ultra Transmission Lines. We are moving as per the schedule. There is a considerable progress in the R-APDRP scheme. As of December, we have cumulatively sanctioned 20,500 Crores under R-APDRP and disbursed about cumulatively 2,645 Crores; however, the quarterly sanctions and disbursements were 4,338 and 161 respectively.



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The scheme was to be implemented in two parts, Part A and Part B. Part A projects all the projects have already been sanctioned. As far as part B is concerned we shall be receiving sanction of almost all the projects by this financial year-end. The result of this scheme will start coming visibly maybe a year from now. As far as the Ultra Mega Power Projects are concerned I am sure you know it that Chattisgarh and Orissa UMPPs there the coal mines are in the Nodal area in Chattisgarh or in Orissa part and government has created a group of ministers to look into this aspect as and when the decision on this is taken we will go ahead as far as these two UMPPs are concerned. However, as far as other UMPPs are concerned we are making considerable progress and there is a possibility of issuance of RFQ for Tamil Nadu UMPP, which is Cheyyur, and also Andhra Pradesh UMPP, second UMPP in Andhra, which is located at Nainpalli in the next financial year. There is a possibility of site getting finalized for two UMPPs that is Jharkand and Orissa in the last quarter of this financial year.

As far as transmission lines are concerned we were working on two transmission lines Jabalpur Transmission Company and Bhopal Dhule Transmission Company. For Jabalpur we have opened the non-financial bids in December and financial bids have been opened today. We shall be awarding the contracts shortly. For the Bhopal Dhule Transmission Company, non-financial bids have been opened last week and the evaluation is under process. So that is as far as the ultra transmissions, big transmission lines are concerned.

On the consulting front so far we have got 37 clients in 20 states, 69 are our total assignments valued in 162 Crores. In hand assignments value being 113 Crores. From consulting we have earned profit after tax of 6.4 Crores in the first nine months and we are likely to earn per year 18+ Crores. If both the ITPs get awarded that is transmission lines



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that I shared with you, then another 30 Crores will be our target to the profit of PFC consulting. This is also planning to form joint venture and may be we will go in for IPO of consulting in the next two years' time. I am sure you know it you have read about it. We have got many awards in this year too, first of all the MOU Excellence Award, best performance for the financial year 2008-09; we have got it from the Prime Minister of India. It was seventh in the row reflecting consistent performance. We also got India Power Award in the category of integrated development of power and associated sector. The third time we got KMPG Award in the category of Most Admired Central Entity in Power Sector.

Lastly I would like to share with you that for keeping in mind our growth rate, we have a plan to come out with further public offer, which was intended earlier. Actually before the financial year-end; however, given the present status because we have not got the approval of the cabinet as yet it may be in the first quarter of financial year 2011-12. The intention is to raise 20% of the pre-issue paid up capital, which would include fresh equity of 15% and disinvestment of 5%. The value of course will depend upon what the pricing is done by the Power minister. The paid up capital after the issue will go up from 1,147 Crores to 1,320 Crores and the Government of India's holding will come down to 73.72%. We are in the process of appointing Book Running Lead Managers and we will also later on appoint legal counsels and advertising agencies. So that is all about the results and the development I have to say. Thank you.

Moderator: Thank you very much. Ladies and gentlemen we will now begin with the question and answer session to ask a question at this time. The first question is from the line of Kunal Shah of Edelweiss. Please go ahead.

Kunal Shah: Sir two or three question. Firstly with respect to growth definitely on the deferment side we have see know very strong track sheet of 45%



just want to get the sense on the overall competition, which is coming from some of the PSB banks and are we seeing any say pressure on the growth going forward, saying the rates which they are offering and what our rates are as of now, so some sense on that?

Satnam Singh: Well our weighted average yield for the first nine months of this financial year has been 11.18% and our cost of funds have been 8.42%, which has led the spread to 2.76%, which is 11 basis points higher than last year first nine months, so as you all know competition is there but then if you look at our numbers in detail you will find that the spread could have been higher, that got our disbursement to central sector utility, so we do not see the much pressure on the spread and going forward as I just explained as to various options we have for reducing our cost, such as Infrastructure bonds 5300 Crores, ECB of 260 million equivalent dollars yen denominated, these are refinancing of 1000 Crores from IIFCL and next year of course we will have FPO money available with us. We do not see any pressure on this effect going forward.

Kunal Shah: Sir, what has been the particular reason for cost of funds to come of say from 8.45 to 8.35 in this quarter? I think the most of the borrowings have come through say the bonds and I think the wholesale rates have been going up so is there a change in tenure or something?

Satnam Singh: You know that in the September we raised the ECB of 240 million equivalent dollars, that full impact came in the third quarter.

Kunal Shah: So what is the overall cost of the ECB?

Satnam Singh: Overall cost all ECBs put together, for this one it is about 2%. The one, which we raised in September, was about 2%.

Kunal Shah: It is unhedged yet?



Satnam Singh: It is unhedged. We do not hedge it because it is a long period available.

Kunal Shah: This is for how many years- tenure?

Satnam Singh: Maximum it is five years. Actually average being five years and the one which we are going to raise that is also booked for repayment in fourth and sixth year, so average being five years, so as you know that in January five years is a good period for taking care of all the economic issues.

Kunal Shah: And Sir, one last question pertaining to the health of state utilities. We have just gone through the report which are published by PFC. We have got some sense from the State Utility Boards that in FY'10 may be the loss have further aggravated from the numbers which were reported, so what is the outlook over there? Are we seeing the spread? How are the repayment and the security over most of our lending particularly to like four to five state utilities wherein the loss amount has been quite huge? So how are we placed in this environment?

Satnam Singh: Well. I have already shared with you that the gross non-performing assets have come down from 0.02 to 0.01 and the net NPAs are nil, but yes, last levels in the state sector is an area of concern, one of the major reason is that the subsidy, which was to be released by the respective state governments to the distribution companies upfront has not been released. So one major reason is that, we and ministry and there is a separate committee lead director as directed by Prime Minister's office under the chairmanship of ex-CAG Mr. Shunglu are looking at it wherein we will be submitting the report by sometime around May in which we are trying to ensure that the accounts of the various distribution companies are brought up to date by deploying external agencies, CAs, KPMG, Deloitte, etc., and also I have shared this many times in the last one to one and a half years but we are in the process of implementing Restructured APDRP Scheme, which is a



huge scheme, which is actually 50,000 Crores scheme, now expected to finish in about 27,000 to 30,000 Crores a scheme. Here for establishing baseline data under Part A, the government has agreed to give as per the scheme 10,000 Crores grants now relatively working to about 7000 Crores after covering all the kinds, etc., and Part B, is beginning the implementation process & the result of the implementation of the scheme will be in terms of loss of reduction. Revenue of the distribution companies would come to be visible from one year down the line; however, one point I would like to make is I feel the investors should ask that are they following Basel II norm in case of distribution companies, because if we want to be stricter to the distribution companies as it is our exposure to the distribution companies for a minimal compared to certain (ph) companies and transmission companies, so is the distribution companies I think, were only about 4%-5% of the overall measure. They are getting money at lower rates from the banker, as per our information, so as investors it would not be conquered whether they are going for Basel II norms and why they are lending money to the distribution companies, because if they continue that howsoever hard we may try it cannot be made worth of things.

Kunal Shah: Sir, about the state guarantees, in our case how much of that is the state government guarantees and how much would be by way of ESCROW?

Satnam Singh: All our loans are supported by ESCROW for the state governments, state utilities and for private sectors through TRA. As far as the guarantees are concerned state utilities are not coming for giving the guarantees for future loans. However, it is from the already lent money -- as of December 31 are supported by State Government.

Kunal Shah: How much, sorry Sir?

Satnam Singh: 16%.



Moderator: This is the operator. May we request that you return to the question queue for followup questions? There are several participants waiting for their turn. Thank you. Our next question is from the line of Jai Prakash Toshniwal of Taurus AMC. Please go ahead.

J. P. Toshniwal: Sir, my question is regarding the power sector. Recently we have seen the coal prices going up and the power prices are coming down. In this scenario what is your views on the loans, which you have given to the private sector players, which are actually going slow on their projects?

Satnam Singh: Well as far as coal price increase is concerned, most of the projects so far what has happened there is a price escalation formula. So price increase most developers are going to get competition. As far as reduction in the power cost is concerned, I think you are referring to the merchant power. Now there our approach has been that we work out the viability. Earlier we used to adopt Rs.3 as the basis for working out the viability and now we adopt Rs.3.50 having seen that the prices of several projects of other stations have also gone up, but the reason for merchant power pricing coming down is not lack of demand. This is actually the other instance that the distribution companies are not able to recover the full amount, so therefore they are brought into higher load shedding compared to what they used to do earlier. So that is why it is appearing that the tariff is coming down. Actually there is no such thing, because in a short end market it cannot happen like that.

J. P. Toshniwal: My second question is there is lot of pessimism on the power sector per say in terms of prices or in terms of projects going up. So in this scenario how would you see your disbursement going forward?

Satnam Singh: Well I don't see any pessimism because our outstanding sanction stands at Rs 170,821. Disbursements in the first nine months are 45% higher against 23% year on year last year. Loan Assets by 27% in the



first nine months against 24% year on year last year, so where is pessimism in this?

J. P. Toshniwal: Yes, I get your point. Thank you.

Moderator: Thank you, Mr. Toshniwal. Our next question is from the line of Nischit Chawate of Kotak. Please go ahead.

Nischit Chawate: Just wanted to check if you could give us some sense on your ALM position and how the assets and liabilities would be reprising over the next few quarter and I was just trying to get a sense on how the interest rate could impact the spreads?

Satnam Singh: First thing is that the interest rates going forward as you know are increasing and that was in October. Now let me share with you the average maturity of assets is 6.21 as of December and 5.55 as far as liabilities are concerned. The reset part if you give me a few minutes... reset in the assets in 10-11 balance period is 4,729 Crores and liabilities will be about 20,000 Crores.

Nischit Chawate: I was just trying to understand that 20,000 Crores of liabilities will be reprised as compared to 4,729 Crores of assets and over what period is this?

Satnam Singh: This is for January and March.

Nischit Chawate: And you expect that 20,000 Crores of liabilities will be reset at a higher rate because of the way the interest rates have moved up?

Satnam Singh: That is something higher rates, could be lower rates also.

Nischit Chawate: You have raised the lending rates for the benchmark rates in the recent past what is the plan on that?

Satnam Singh: Can you repeat the question, please?



- Nischit Chawate:** You have raised the lending rates or the benchmark lending rates in the recent past do you plan to do that in the recent future?
- Satnam Singh:** Well, look last increase we have done was in September and it is our usual practice, we keep reviewing our borrowing costs and what is happening in the market and recent base rates at any point in time if market raises this for all the borrowers.
- Nischit Chawate:** And just one small observation, during the quarter almost 25% of the overall borrowing, is in the short-term bucket. Anything just like correction of an ALM position or is this kind of?
- Satnam Singh:** There is no such thing. We have not bought any short-term loans in the last three months.
- Nischit Chawate:** Okay, Sir may be I will just get back on the final number after the call. Thanks.
- Moderator:** Thank you. Our next question is from the line of Vikesh Gandhi of DSP Merrill Lynch. Please go ahead.
- Vikesh Gandhi:** You just mentioned about your FY'11 balance part, how much assets liabilities are you reprising. Would you have anything on FY'12? How much of your assets will get reprised?
- Satnam Singh:** Assets reset may be in the range of 28,000 Crores whereas liabilities will be 4,500 Crores.
- Vikesh Gandhi:** FY12?
- Satnam Singh:** Yes.
- Vikesh Gandhi:** How much of your loans now would be on fixed rate?



- Satnam Singh:** Fixed rate loans are 10% and floating rate are 90% out of which 76% with two-year reset and 9% with 10-year reset, balance with different kind of tenures and floating rate is only 0.33%.
- Vikesh Gandhi:** Fine thank you Sir.
- Moderator:** Thank you, Mr. Gandhi. Our next question is from the line of Shrey Loonker of Reliance Mutual Fund. Please go ahead.
- Shrey Loonker:** Sir if you could just give us the sense what will be the yield differential between when you lend to T&D project, and a generation project on a like-to-like basis?
- Satnam Singh:** I think there is no difference. This only varies if the project is put up to a different category of the developers but not by virtue of generation transmission, we have the same rate for generation transmission distribution.
- Shrey Loonker:** Sure. Sir then why is it so that the banks are really doing predatory pricing only in the T&D space and not in the generation space?
- Satnam Singh:** That you ask the banks, not me.
- Shrey Loonker:** Okay, but you are not seeing banks doing predatory pricing in the generation space?
- Satnam Singh:** Well because probably again you have to check with them, but probably it is because of the asset liability mismatch, because generation projects we lend for a very long tenure, 15 years first construction period first six months for thermal stations and for hydro 15 years plus construction period, plus six months so in our case it works out to 18 years for thermal and 24 years for hydro. So that kind of tenure lending banks may not be able to do so that is why they may not be considering that area.



- Shrey Loonker:** Sure. Secondly during the call you mentioned that the merchant power places have come off largely because the recoveries of the SEBs have been lower and as a result the consequential demands from SEBs have been lower. Do you see the situation correcting anytime soon and how does this difficult recovery environment for the SEBs, what kind of risks can it be for us in anyway if you could just help us to understand that better please?
- Satnam Singh:** Not a risk in that sense because all the assets are supported by ESCROW arrangement, but yes if it persists for a long then maybe in the long run it is a risk, but I have already shared with you that over the long run we are implementing the restructured APDRP scheme which ends at bringing down the distribution losses to below 15% which is definitely add to the revenue of the distribution companies.
- Shrey Loonker:** Sure okay that is all Sir. Thank you very much.
- Moderator:** Thank you, Mr. Loonker. Our next question is from the line of Anand Laddha of HDFC Mutual Fund. Please go ahead.
- Anand Laddha:** What is the total foreign exchange loan that we currently have and what is the cost on the same?
- Satnam Singh:** Foreign currency loan is 5% of the total borrowing, 3800 Crores and 76,400 Crores and what is the costing for overall cost it is about 5.03%.
- Anand Laddha:** After including the hedging cost it is 5.03%?
- Satnam Singh:** Not hedging cost, actually weighted average cost I am sorry it is 3.40%.
- Anand Laddha:** It is not including a hedging cost?



Satnam Singh: No, wherever hedging is actually done that cost is taken into account and where hedging is not done obviously it is without hedging cost.

Anand Laddha: What version of this would be with hedging, how much will be hedged?

Satnam Singh: Percentage is about 89% is unhedged and 11% is hedged.

Anand Laddha: Thank you Sir.

Moderator: Thank you, Mr. Laddha. Our next question is from the line of Ganesh Jayaraman of Spark Capital. Please go ahead.

Ganesh Jayaraman: Could you just tell me about your banking foray, I am reading some reports that your clients to have a tie-ups with IFCI could you just give us some details on that and second is what kind of pricing are you expecting for your infra bonds issues?

Satnam Singh: Well as far as banking is concerned I said in my opening remarks that we are in the process of appointing consultants, the last date for receiving the cheque is January 19, 2011, where after we will appoint the consultant and we expect the report of the consultant in three to six months' time based on which we will take a call as to what we are going to do and as far as IFCI is concerned it is only in the papers like you have read, I have also read, we have not had any interaction with IFCI and as far as our infra bonds are concerned you know how the pricing of infra bonds is done, it is G-Sec rate which is currently hovering around 8%-8.1%.

Ganesh Jayaraman: Fine Sir. Thank you.

Moderator: Thank you, Mr. Jayaraman. Our next question is from the line of Jatindra Agarwal of RBS. Please go ahead.



Jatindra Agarwal: Just one clarification in terms of there was some comments suggesting that the cumulative losses of all these SEBs is at something like Rs.2.6 trillion. Could you give a broad sense that who is actually holding these investments?

Satnam Singh: Well I would not be able to comment on that but as far as this figure is concerned I think this figure is not correct. It cannot be of that kind. I do not know which year; you have not mentioned the year. We have got data up to 2008-2009. The losses of all SEBs put together they stand at about 20,900 Crores. If we take into account that all the subsidies, which are required to be given by the respective governments; however, without subsidy 100% subsidy is not being given by the state government, the loss levels stand at about 32,000 Crores, which means subsidiary of 12,000 Crores approximately is not being paid, subsidy is being paid to the extent of 60%-62% or so, but by any standard the loss levels cannot be 2.6 trillion whatever figure you have said. I think there is something wrong with the assumption, who has given this figure?

Jatindra Agarwal: There are some press comments actually.

Satnam Singh: I have seen only some agency called Mercado (ph), which has given report we have analyzed those figures they have gone by current price and they have not provided for any sort of any change in going forward, whereas prices definitely keep rising which means the tariffs for the power projects will keep rising so if that is taken into account the loss level cannot be in that range.

Jatindra Agarwal: If I am not wrong I think this was quoted by Mr. Malay Dey in Business Standard, so that this is the cumulative amount of loss of all SEBs?



Satnam Singh: Unless the details of that amount and basis of saying that it would be difficult for me to comment on that.

Jatindra Agarwal: Perfect. Just one clarification Sir, some of these state utility finances which are fundable with state accounts there would be floating from state government by their guaranteed short-term paper; does PFC as a principle actually invest in anything short-term which are paper bagged rather than project bagged or something?

Satnam Singh: No we do not invest in short-term papers as well as even if they come out with bond issue we do not invest.

Jatindra Agarwal: Perfect that was useful. Thank you Sir.

Moderator: Thank you. Our next question is a followup from the line of Shrey Loonker of Reliance Mutual Fund. Please go ahead.

Shrey Loonker: The nine-month yield on asset is at 11.18% whereas Q3 stands up at 11.08%, you explain how your cost of fund have collapsed in Q3 vis-à-vis in nine months, can you explain how is it for the yield of assets as well?

Satnam Singh: Well it all depends on the composition of the disbursement, in fact the yields can come down only as I mentioned that the lending rates have gone up we have increased it in September and in spite of that you are saying that in Q3 yield is lower but that the reason is that disbursements at low lending rate have taken place in the third quarter, which is primarily to be central sector, above 2000 Crores, 1300 odd Crores were disbursed to the central sector wherein the lending rates is much lower than the state sector.

Shrey Loonker: What would be the tenure of the central government lending Sir, if you could share with us?



- Satnam Singh:** The tenure has been same.
- Shrey Loonker:** Secondly Sir, on the SEB losses which you are mentioning until 2009 of 32,000 Crores what would be the cash loss for the comparative year?
- Satnam Singh:** No, you see we have got the latest data of 2008-2009 only; 2009-2010 data is still under compilation we do not have that data.
- Shrey Loonker:** I am referring to 2008-2009 only Sir.
- Satnam Singh:** In 2008-2009 cash losses of SEB.
- Shrey Loonker:** You mentioned 32,000 Crores is the loss if you exclude the 12,000 Crores of SEB which has not been paid, but if you could just quantify the cash losses of SEB?
- Satnam Singh:** I do not have those readily available you can send the e-mail to Mr. Sridhar.
- Shrey Loonker:** Sure I will do that Sir. Thank you very much.
- Moderator:** Thank you, Mr. Loonker. Our next question is from the line of Manoj Jhethwa of Modern Shares. Please go ahead.
- Manoj Jhethwa:** Sir my one big worrisome factor is about the UMPP. Government has given a mandate to add around 40,000 megawatt over a period of this plan, so we have so far granted only four UMPP so far and after that almost around say one year we have not asked for any bid from the other players because I think one might be there, then why is there so much delay on the part of the PFC being Nodal agency for the UMPP projects on behalf of the government of India Sir?
- Satnam Singh:** Well there is no delay on the part of Power Finance Corporation as you know that we have already issued the RFPs for two Ultra Mega Power



Projects about I think eight to nine months back and we have to defer it based on the information received from Ministry, which in term was based on the No-Go issue raised by the Ministry of Environment and this issue has been discussed at the highest level that is Prime Minister's office level and now a group of ministers have been constituted to take a call on this. So there is no delay but yes because of No-Go area which are earlier not envisaged the deferment has taken place to some extent, otherwise we are working on 16 UMPP which will add up to 64,000 megawatt. As you know that already about a 16,000 megawatt of these should have been awarded in this financial year but for the No-Go area issue, but to my mind it is a positive movement, but once this issue is decided then for all future projects it will be awarded.

Manoj Jhethwa:

Sir basically as far as the power sector is concerned which is because without that we cannot expect a growth of around 9%-9.5% and Ministry of Power is raising the questions on the ground of the environmental issues, so how do you tackle these particular issues for the mining of the coal or setting up a new power plants, so how do you address this particular issue. The biggest question of the setting up a power plant for the mining areas, for the coal, it is about the land, and what impact of it is going to have on the finances of the Power Finance Corporation, say they are lending part and the advances part of the UMPP?

Satnam Singh:

Well look this decision as you know is to be taken by either Ministry of Environment or Ministry of Power, Ministry of Power says that to bring to their notice that there is an urgency to do this and because of this kind of time spent so many projects are held up and that is what the ministry has done and the entire nation is very well aware that if this issue is not resolved quickly then it will have an impact on the GDP of the company. We do not have to directly take a decision in this



area; we can only share that with the relevant assumptions as to what is the impact on our sector.

Manoj Jhethwa: Sir another couple of questions. How is the PFC independent of taking the decision while sanctioning the loans to the private sector power players apart from the lending into private sector bank, whether they have to call back on the relevant ministries for getting the sanction of loans or whether boards are independently working as vis-à-vis to your relevant ministries and so on?

Satnam Singh: Board has got the entire power for sanctioning projects; we do not have to seek approval of Ministry of Power for sanctioning loans.

Manoj Jhethwa: I just want to ask you about the risk management system. After the Q2 results there were many adverse developments which have taken place where the lending is concerned, is there any compromise that takes place while sanctioning the loans in the general domain either say in the power or anything, lending it to power sector whether independence or integrity there is some compromise in lending it to the power sector?

Satnam Singh: Can you repeat your question?

Manoj Jhethwa: Sir, I just want to know about the risk management system, which takes place before sanctioning the loans to the private power producers or generation companies?

Satnam Singh: We have got a robust appraisal system, earlier it used to be only at project appraisal now it is integrated rating system wherein we not only value it or appraise the promoters who are putting up the power projects but also value the project as per se and arrive at our integrated rating. There are about 20-30 factors, which are used for evaluating promoters and similarly 20-30 factors for evaluating project appraisals and various ways and marks are assigned based on which rates and



marks averages arrive and that becomes the basis of the lending rates fixation of the lending rate as well as the exposure limit.

Manoj Jhethwa: Sir going forward if you compare China with India during the Eleventh Five Year Plan we have planned for around 78,000 megawatt to be added and in the midterm review we scale it down to 63,000 megawatt and actually we have added only 29,000 megawatt so are we looking on power claims or the assessment levels, which are taking place for the Five Year Plans or we are too optimistic about adding the things than what is that takes place where the execution level or the ground level for the power sector as it is concerned because whatever this 78,000 megawatt which we have planned for the Eleventh Five Year Plan the same is being added in China within one year , so how do you address this particular having been a Nodal agency on behalf of the government sir.

Satnam Singh: I do not think, I am obliged to comment on these kind of things, but since you have asked the question, I will you give more personal view that compared like the system in that country and system in our country, need of that country, need of our country are different, what has to be seen is what we have achieved in the current Five Year Plan or are likely to achieve in the current Five Year Plan will be equivalent to the last 15 years that itself should give you a comfort level that compared to past our performance has improved 300%, so yes we can never match with that of the developed countries or China, because their systems are different, our systems are different.

Manoj Jhethwa: So far, awarding UMPPs to the future player is there any condition attached that they have to source the equipment from the Indian manufacturers like turbines, boilers or any other balance of land power, if there is condition attached, because of one article appeared on February 11, 2010 in DNA that there is a ban on foreign players



sourcing of things from foreign players, how do you see this particular things sir while awarding the UMPP contracts?

Satnam Singh: It is like this for all supercritical equipments Indian governments view is that the contract will be given to those or the contracts will be awarded that is happening in the case of NTPC that they had to start manufacturing in the country, when we started this process the orders were going to international companies and if all orders go to international companies then there will be an issue of supply of spare, so it is in that contract that this viewpoint is being considered by the government.

Manoj Jhethwa: Sir, but my cost plays a major role?

Moderator: Mr. Jhethwa, I am sorry to interrupt that there are other participants in the questions queue.

Manoj Jhethwa: Thanks.

Moderator: Thank you. Our next question is from the line of Prakash Sharma of CLSA India. Please go ahead.

Prakash Sharma: I have a few quick questions; one on your ECB, is it fair to assume that most of it is "yen" denominator or if you could give some break up of what is the denomination of the ECB?

Satnam Singh: Till the last issue which was yen denominated \$240 million almost entire borrowing was only dollars. Last issue 240 million has been yen and this issue 260 million what we have planned is going to be yen, denominated after this it may be the percentage may be 50-50 or so.

Prakash Sharma: Yen is not held cross-held against any other that is pure yen borrowing?



Satnam Singh: Yes, our system is that we do not have at the time of borrowing and we keep a watch on the movement of the currencies.

Prakash Sharma: Sir, would you have any target on what proportion of total borrowings would you reach through external commercial borrowing sources by March 2011 and March 2012?

Satnam Singh: By March 2011, I have already given you the figures that we are going to raise an additional 260 million, we already have got about 840 million of borrowing add 260 it will make 1100 million and next year we are entitled to raise about \$500 million. We will see depending on there markets conditionality whether we can raise \$500 million less or more.

Prakash Sharma: On your reprising data that you had shared for fiscal 2012 just want to reconfirm you have mentioned 28,000 Crores of assets to be reprised and about 4500 Crores of liabilities to be reprised in fiscal 2012. Sir in case of asset reprising if they were to reprise at the current rate, your lending rate, will there be a downward revision on those assets or if you could give us a sense, because I believe they will be like FY'09 related lending three year reset if we assume which is largest part of floating basis, will there be a downward or an upward or where would you think that trend would be?

Satnam Singh: It is not appropriate to say that at this point of time, because I need to know, what will be the rates in the next year, since I do not know that rate now, how can I say that it will be downward or high.

Prakash Sharma: At the current level if you have any sense, suppose the rates remain stable for the market?

Satnam Singh: There will not be much difference at this point of time; however, if the rates go up going forward then we will definitely be gaining it.



Prakash Sharma: Sure sir and my last question is on this data on your sanction which is given on slide no. 12, documents executed and disbursement commenced is about 76,686 Crores of this element which probably I would sense has the most visibility. Is there any issue in terms of new government moves on being reasonably strict on the environmental norms or any other factor in that context, where you have issues with this element of the total sanction book?

Satnam Singh: I do not think so.

Prakash Sharma: Thank you sir, thank you very much.

Moderator: Thank you. The next question is from the Deepti Chawan from Asit C Mehta. Please go ahead.

Deepti Chawan: Basically wanted to understand what is the accounting difference with respect to that Nodal agency fee, which you basically adjust in your profits?

Satnam Singh: Earlier the provision was that the entire Nodal agency fees would be given at the time of sanction itself, which is 1% of the sanctioned amount; however, later on Ministry and ourselves have thought off with a view to make sure that this scheme is to be implemented in the right spirit, it has been divided into three parts 0.4 at the time of sanction, 0.3 at the time of disbursement and 0.3 at the time of completion.

Deepti Chawan: What do we adjust over here?

Satnam Singh: Earlier we were saying that the entire income would come at the time of sanction and we provided for it.

Deepti Chawan: Thank you.



- Moderator:** Thank you. Our next question is from Ramanatk V from Birla Sun Life Insurance. Please go ahead.
- Ramanatk V:** Sir, I just wanted to understand this AG&SP scheme that you have got 570 Crores that particular scheme has been discontinued right?
- Satnam Singh:** That ended after the tenth plan.
- Ramanatk V:** So, this is just balance amount that is there, which you have?
- Satnam Singh:** The government gave us subsidy up to the end of the project and we have been passing on that subsidy to the respective borrowers as and when interest became due, and whatever balance is left that is what remains with us on which we pay some interest and is separately accounted for.
- Ramanatk V:** Sir, I just wanted a small clarification, if I look at the thing that you have in the resource profile that you have given in the page 15 of presentation, it shows that the interest subsidy is 571 Crores whereas if I look at the notes to account that you have in the section 2.2 of your release to the exchanges there the amount of 663 Crores, so what is the difference? Why is there a difference of around 90 Crores?
- Satnam Singh:** That may be timing difference, because this is as of December and that may be an earlier period.
- Ramanatk V:** Fine sir. Thanks.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand over the conference back to Mr. Abhishek Agarwal for closing comments.
- Abhishek Agarwal:** Thanks a lot Sir. Just before we conclude, can we have target and disbursement for FY'12? How the spreads would behave going forward?



Satnam Singh: I do not think I am supposed to give you guidance, but yes, since the disbursement target has been proposed of course we have to yet to decide and discuss with the task force which finally decides, but it will be certainly higher than this financial year target of 29,500 Crores. What it will be because the discussions have not taken place as yet, it will be wrong on my part to say that next year target will be this much. On the spread I have already told you I am not supposed to give guidance. But generally we will be able to maintain given such that we have got some alternatives of raising resources at low cost and FPO money will be available in the next year. So I think spread levels will be maintained.

Abhishek Agarwal: Okay sir, thanks a lot.

Satnam Singh: Thank you.

Abhishek Agarwal: Thanks all the participants for joining us on the call. Thank you.

Moderator: Thank you very much. On behalf of Motilal Oswal Securities Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.