

Power Finance Corporation
Q1FY10 Results

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Corporate Participants

Mr. R. Nagarajan
Ed – Finance

Mr. Sridhar
General Manager

Questions and Answers

Moderato: Ladies and gentlemen good evening and welcome to the Power Finance Corporation Q1FY10 earnings conference call hosted by Edelweiss Securities. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. Now, I would like to hand over the conference to Mr. Kunal Shah from Edelweiss Securities. Thank you and over to you sir.

Kunal Shah: Yes thank you Melissa and good afternoon all of you. This is Kunal Shah calling from Edelweiss. We have with us Mr. Nagarajan, ED, Finance, Power Finance, to discuss the company's 1st Quarter FY10 earnings. Congratulations sir for a good set of numbers. And sir we can start off with the call now sir.

R. Nagarajan: Okay just I will tell the key highlights of the 1st Quarter. First of all let me welcome all investors and analysts for this 1st Quarter results review.

The net interest income increased 36% from INR 514 crores to INR 700 crores. Net NPA was at a low level of 0.01% of net loan assets. Sanctions increased by 24% from INR 15,110 crores to INR 18,782 crores. I want to clarify that in the paper it was given as 12% as they have not taken the figure of all APDRP sanctions, which we have included; that is why there is a difference in the figure given in the paper's percentage and what we are giving. Loan assets increased by 21% from INR 54,703 crores to INR 56,205 crores. Net worth increased by 26% from INR 8,949 crores to INR 11,314 crores. Net profit increased by 87% from INR 296 crores to INR 555 crores. Comparable PAT increased by 38% from INR 368 crores to INR 508 crores. Here the variation is because of the fact that last year we had removed all the extraordinary items, extraordinary foreign exchange loss, in the same manner, we also removed the exchange gain, and then showing you the comparable PAT of this INR 368 to 508 crores that is why we are showing an increase of 38%. Operating profit as average assets has increased by 40 basis points from 3.57% to 3.98%. Return on average assets increased by 111 bps from 2.10 to 3.21. Interest spread increased by 49 basis points from 2.17 to 2.66. Total income increased by 31% from INR 1,442 crores to INR 1,893 crores.

Disbursements were around INR 4,345 crores against INR 4,743 crores; the reason for the fall was that on June 28, 2008, one big ticket disbursement of INR 1,350 crore was made on a single day. We cannot get the same bonanza every year. If you remove that, the increase is around 20-25%.

Moderator Ladies and gentlemen we will now begin with the question and answer session. Anyone who wishes to ask a question may press * and 1 on

their touchtone telephone. If you decide you wish to remove yourself from the questioning queue you may press * and 2. Participants are requested to use handsets while asking a question. The first question is from the line of Kamlesh Kotak from Asian Market Securities. Please go ahead.

Kamlesh Kotak: I wanted to have your view on the year end pipeline because last time Mr. Satnam Singh had said that they would be slightly conservative. So what is the guidance now with the changing scenario and how the funding plan of the company is going to be for the year ahead sir?

R. Nagarajan: As you are aware, we have signed a MoU agreement with the Government of India so there we have given a disbursement of around INR 23,000 crores of this around INR 2000 crores will come from our APDRP and balance INR 21,000 crore will be our core disbursement. As CMD has told in just concluded interview in NDTV, we expect 20% growth in our loan books compared to March 2009 in March 2010 actually.

Kamlesh Kotak: And how funding plans would be sir?

R. Nagarajan: Around INR 2,600 crores we have borrowed in the 1st quarter. We also got a sanction from RBI for USD 300 mn ECB proposal to be raised within 30th September, 2008; depending on market conditions we may raise ECB also. Balance will be raised from the domestic market in the form of bonds, debentures and loans. So the borrowing plan is around 20-21K crores depending on my level of disbursement.

Kamlesh Kotak: Okay. And sir what is the trend in interest rates now as the pipeline suggests is there any firming up of rates or are they stabilizing?

R. Nagarajan: In May we have done a bond issue at 6.93 %, so now the rates have gone up to 7.30 and it has now stabilized around 7.10. Today also I think I was seeing in the market with the building off 6.90 to 7.25 they got RP debt of around INR 1,500 to 2,000 crores. So moving forward the rates will hover at this same level between 7 and 7.25 per year paper. Yesterday it was mentioned in the paper that 10 year yields will be moving around 25 basis points, up or down. So even if we go for a 10-year bond it would be around 8.60 and if you go for a 5 year around 8%. If we go for a 3 year bond it will be around 7.10%, but we are not borrowing everything in a particular structure. Depending on the ALM we are mixing 3-year, 5-year, and 10-year so we will be able to optimise the cost and reduce the overall cost of borrowing.

Kamlesh Kotak: Okay. And sir what would be the trend on lending side I mean the rates are now stabilizing or there is some...?

R. Nagarajan: No we have to wait for the monetary policy on 28th as told by our CMD in the just concluded NDTV interview. One question was, is there scope for reduction of interest rates, he has told that if there is scope we will examine it.

Kamlesh Kotak: And sir, lastly what is your take on APDRP Part A and Part B. When is Part B is going to...?

R. Nagarajan : Part A only will be this year. Part A we had it was around INR

1,900 crores that will be done by 31st March, 2010. So one thing you should understand is in the first part there is no margin for PFC, all sanctions will get a 1% commission on the sanction amount. So that only is the income, whatever amount we are disbursing we have recovered and paid to the Government of India in case they are not able to fulfill the conditions stipulated for APDRP Part I. Because this is an amount receivable and payable—receivable from SEBs and payable to the Government of India. So we only get income in the form of fees at 1% there is no margin involved in this parcel.

Kamlesh Kotak: Right, but sir then what will be the total funding including PFC and REC together or entirely it is coming from PFC, the nodal agency being ...?

R. Nagarajan: Part A will come only from PFC.

Kamlesh Kotak: Okay right so this is the total target for the year INR 2,00 crores, right?

R. Nagarajan: Yes.

Kamlesh Kotak: Right sir okay, thank you very much.

Moderator: Thank you Mr. Kotak. The next question is from the line of Amit Ganatra from Religare AMC. Please go ahead.

Amit Ganatra: Yes your operating cost on quarter-on-quarter basis has gone down significantly, any specific reason?

R. Nagarajan: Please repeat the question.

Amit Ganatra: The operating cost has gone down from 280 Million to 180 Million from 4th Quarter to 1st Quarter?

R. Nagarajan: 4th Quarter of last year right? 4th Quarter of 2008 or 2009?

Amit Ganatra: Yes 2009. 4th Quarter 2009 as compared to 4th Quarter ...?

R. Nagarajan: Interest cost?

Amit Ganatra: No operating cost, no if I exclude the interest expense the other operating expense.

R. Nagarajan: You are talking of expenditure as on interest expense?

Amit Ganatra: Excluding interest expenses.... employee cost and the other operating expense, the total of employee cost and other operating expenditure?

R. Nagarajan: In the 1st Quarter of 2009 it is INR 17 crores and in the 1st Quarter of it is INR 18 crores.

Amit Ganatra: No. I am talking about if you compare it to 4th Quarter of 2009.

R. Nagarajan: Q4 of 2008/2009?

Amit Ganatra: Yes. Sir it is INR 28 crores basically I have the number, it is INR 28 crores in 4th Quarter and in this 1st Quarter it has gone down to INR 18 crores so.

R. Nagarajan: Sir with that number we will come back to you. We will go to other question, meanwhile I will come back to you with it.

Amit Ganatra: And what is your tier I capital?

R. Nagarajan: They all are tier I capital. We do not have tier II capital, all are tier I.

Amit Ganatra: Whatever is the capital adequacy, it is all tier I?

R. Nagarajan: It is around 17.51 in the 1st Quarter.

Amit Ganatra: Okay, thank you.

Moderator: Thank you Mr. Ganatra. The next question is from the line of Sunil Kumar from Birla Sun Life Insurance. Please go ahead.

Sunil Kumar: Yes sir on APDRP scheme you said that INR 1,900 crore you will be disbursing in this financial year. Is that right?

Mr. Sridhar: Yes in this financial year. I am Sridhar, General Manager. In this financial year the APDRP sanction will be around INR 1,900 crores.

Sunil Kumar: Okay. And next year obviously this amount will be significantly higher?

Mr. Sridhar: Yes it should be, because in Part A it is supposed to be expended INR 10,000 crores in the next three years so the figure can go up.

Sunil Kumar: Okay. And 1% of that amount you are saying that it will be accruing as in fee income?

Mr. Sridhar: Yes, we earn a fee income of 1% on the sanction amount.

Sunil Kumar: Okay. But apart from that how much on the fee income side do you think can we accrue in this financial year?

Mr. Sridhar: Now the consultancy is being handled by a separate subsidiary, so in the PFC books the fee income will be only on the transfer of the Tilaiya UMPP project which will be around INR 15 crores in PFC books.

Sunil Kumar: But in this quarter the fee income has come from mainly?

Mr. Sridhar: We have the management agency, guarantee fee and upfront fees on loans; so the fee income basically has come from that front, which we consider as part of our interest income and then using it for spread purpose calculation also.

Sunil Kumar: Okay. My question is on spreads. Spreads how much do you think you will be able to sustain for the entire year? I mean this kind of improvement in the 1st Quarter I am sure it must have come from re-pricing of some of the advances?

Mr. Sridhar: If you see we are able to maintain our yield on the assets at a very good level and at the same time we are able to put down the cost of our borrowing so this has given us a good spread this time. Going forward, we will say that we will be able to maintain a spread of 2% plus.

Sunil Kumar: Okay right sir thank you.

Moderator: Thank you Mr. Kumar. The next question is from the line of Harish Awasthi from Tata Securities. Please go ahead.

Harish Awasthi: Sir just wanted to know what was the transmission capex from SEB side for FY09 if you could please tell me?

Mr. Sridhar: I have only the disbursement what we done towards the SEB. I do not have readily the figure of what are the capex from the SEB side.

Harish Awasthi: Okay. Sir can you please give me the disbursal for transmission to SEBs?

Mr. Sridhar: Total figure **Harish Awasthi:** Yes the total figure I also have. I just wanted to know what was the transmission towards SEBs?

Mr. Sridhar: Whatever transmission disbursement goes only to SEBs.

Harish Awasthi: Only to SEBs right?

Mr. Sridhar: Yes.

Harish Awasthi: And sir can you please give me some indication whatever is the capex by SEBs, most of that is funded by PFC right?

Mr. Sridhar: Yes SEB we fund. They have the opportunity to go anywhere, to LIC or other capital market or other borrowers also. But seeing the loan book most of the capital expenditure of SEBs comes to us and we fund that.

Harish Awasthi: Okay sir, thank you sir. Thanks a lot.

Mr. Sridhar: The next question is from the line of Siddharth Teli from ICICI Securities. Please go ahead.

Siddharth Teli: Hi sir. Regarding the deferred tax liability, wanted to know why is there a comment from auditors over here? Basically no other company under 36(1)(viii) has had a problem like this. So when you reverse, just you could throw some light on this and you know what is the status like?

Mr. Sridhar: I think no other company has provided the detail also so the problem did not arise ...

Siddharth Teli: Correct, we have only special reserves that is fine.

Mr. Sridhar: In our case, we have created a liability based on advice of the institute and we have written to them and discussed with them saying that this liability is created on special reserve which is not reversible so there is no need for creating such a DTL. The institute has considered our request and then has advised that in case the special reserve is not reversible and is of permanent feature we need not provide for that. Our board has also taken a decision that the amount will not be reversed. Once that has been done and decision has been taken we have reversed the DTL. However, our auditors are having a view that because the expert committee has given the advice that it should be created, they are continuing with the comment. But we got a letter from the Accounting Standard Board of Institute saying that if it is a permanent feature we need not provide, based on that we have reversed the DTL.

Siddharth Teli: Okay. So basically the stance of the expert advisory committee remains that you should not have reversed it?

Mr. Sridhar: I will say new advice has not come from Expert Advisory

Committee, but from the Accounting Standard Board which has said that if the special reserve is permanent in nature and it is not to be reversed. Income tax has said that if it is to be reversed then we have to pay tax on that. If it is proved that it is not reversible then we need not provide for DTL. Our board has taken a decision that we will not be reversing the special reserve so the question of providing DTL does not arise.

Siddharth Teli: Okay sir. And the other is, you said sir on the APDRP the fee that you earn of 1% is it upon sanction or on disbursement?

Mr. Sridhar: On sanction.

Siddharth Teli: So it is already a part of it, right, your numbers INR 1,900 crores?

Mr. Sridhar: Yes.

Siddharth Teli: And which line do you include this in, is this in fee income or....?

Mr. Sridhar: No it is coming as the other income.

Siddharth Teli: It is a part of other income. Okay thanks.

Moderator: Thank you Mr. Teli. The next question is from the line of Sumit Agarwal from Enam Securities. Please go ahead.

Sumit Agarwal: Yes hello sir. Can you please give me the foreign currency borrowing details as to up to what extent it is hedged and what is the rupee level at which we have hedged it?

Mr. Sridhar: As on 30th June we have a foreign currency liability of around USD 515 mn equivalent amount out of which 55% is hedged and 45% is open. It is hedged through either derivative or through foreign currency lending, 55% is fully covered and 45% is open.

Sumit Agarwal: Okay. And this has been at a rupee level of sir, because if I remember in March, I mean earlier, it was at INR 49.82, right now it is hedged at what levels?

Mr. Sridhar: As of 30th June closing level was INR 47.81, I will let you know the amount but it is around INR 47.81.

Sumit Agarwal: Okay fine.

Mr. Sridhar: I correct the figure, it was 48.32.

Sumit Agarwal: Okay. And now one more thing. Sir, if you can just give me the breakup in terms of loan book in terms of floating and fixed?

Mr. Sridhar: Assets or liabilities?

Sumit Agarwal: Both sir.

Mr. Sridhar: On the asset side we have around 83% as floating rate asset, and 17% of the loans are fixed rate assets. On the liabilities, we have around 81% as fixed rate liabilities and 19% as floating rate liabilities?

Sumit Agarwal: Okay.

Mr. Sridhar: And asset side is 85% and 15%, 85% floating rate assets and 15% fixed rate assets.

Sumit Agarwal: This is on the asset side sir?

Mr. Sridhar: I will repeat the figure, the asset side it is, floating rate asset is 85%, fixed rate asset is 15%. On the liability side, floating rate liability is 19% and fixed rate liability is 81%.

Sumit Agarwal: Sure sir. Okay thanks a lot sir.

Moderator: Thank you Mr. Agarwal. The next question is from the line of Pankaj Sharma from UBS. Please go ahead.

Pankaj Sharma: Just a quick question. Out of this INR 21,000 crores of disbursement you are targeting in FY10, how much of it will be going into transmission and distribution and how much would be in generation? And second, how much you expect for SEBs and how much is for private?

R. Nagrajan: We are open to funding whether it is SEB or private whosoever puts up the proposal to us. Again we are willing to fund any type of scheme whether it is generation, transmission, or distribution, it depends upon whatever proposals we get. So it is very difficult to predetermine. There is no pre-determined allocation to any particular scheme or any particular borrower. However, if you see the loan book, around 18% is towards transmission and distribution so far and around 82% has gone to the generation side. Similarly, sector wise if you see around 7% has gone to the private sector, balance has gone to the state sector, central sector, and joint sector. So it is difficult to predetermine, but there may not be a very big change in the composition of the schemes and the composition of the borrower.

Pankaj Sharma: Sir because, why I asked this question because usually like the private sector participation is increasing in all the sectors and especially generation. Do you see that trend affecting the disbursement to private sector or do you think that is going to be similar at 93% to public and 7% private?

Mr. Sridhar: If you see the capital addition target for the 11th Plan out of the 78000 megawatt it is only 15000 odd is the private sector. So it is definitely increasing as compared to previous 5 Year Plan, but if you look for very great change in our loan book side, it may not be there.

Pankaj Sharma: Sure sir, thank you sir. Thanks very much.

Moderator: Thank you Mr. Sharma. The next question is from the line of Hiren Dasani from Goldman Sachs Asset Management. Please go ahead.

Hiren Dasani: Sir just wanted to understand what is the typical rate at which you lend for the generation projects nowadays?

Mr. Sridhar: It is around 11.5%.

Hiren Dasani: And is that the rate which a good quality private sector borrower ...?

Mr. Sridhar: I will say the majority goes about in that rate but I will not be able to specifically tell whether it is for a particular borrower; the rate will be

different for every borrower depending on the credit rating.

Hiren Dasani: No I am not saying for any particular borrower, with you naming the borrower, I am saying a good quality private sector...?

Mr. Sridhar: This is between 11.5 and 13.5.

Hiren Dasani: If that is the case then why are these state generation companies coming to you to borrow from you compared to if they go to the banks would not they get anything cheaper than that?

Mr. Sridhar: That question actually is to be put to SEBs, but to answer from our side, we have a unique scheme of having very long term lending. No bank is able to match our type of lending. Generation project normally has a life of around 25 years if you look at our lending period, for thermal generation we have around 15 years plus moratorium which is going to 18 years or 19 years. If you go for a hydro project it is construction period plus 15 years that means it goes more than 20 years that type of period banks will not be able to give because of the ALM position.

Hiren Dasani: So what you are lending is like 4 years moratorium plus 15 years repayment...?

Mr. Sridhar: Construction period plus 15 years that means if a thermal generation has construction period of, maybe, around 3 to 4 years but in hydel generation it will be more than that maybe 6 to 7 years.

Hiren Dasani: So but most of these assets are on a floating basis right, which is on 3 year ...?

Mr. Sridhar: Yes it is a 3 year reset.

Hiren Dasani: And what would be your average duration of your liability spend?

Mr. Sridhar: We do not calculate the duration; our average maturity period of liability is 3.98 years.

Hiren Dasani: So you have slightly negative spread, I mean your liability maturities are somewhat higher than you assets maturity.

Mr. Sridhar: I am saying that my assets maturity is 5.74 years and my liability maturity is, average maturity is 3.98 years.

Hiren Dasani: And in the 11th Plan the private sector participation is not much, but one keeps hearing about you know this various companies coming out with huge plans in the power sector side, so do you think that over the next 2 to 3 years the pattern of sanctions for you can change quite dramatically.

Mr. Sridhar: I would not like to use the word dramatically but there will definitely be a change in the composition, in the sanction and disbursement.

Hiren Dasani: So in other words I mean you are participating in all this private sector generation projects reserves?

Mr. Sridhar: Private sector projects keep coming to us and we have been funding them. So I will not say that all the private sector projects are coming to

us, but private sector projects are coming to us and we are funding them.

Hiren Dasani: Okay. And just one more question on the fees side you said some syndication related fees and all you treat it as part of spread calculation, can you just clarify on that?

Mr. Sridhar: Apart from interest income, when loan agreement is being made the upfront fees and the other fees we get from the borrower, we keep part of our interest income and use the part for calculation.

Hiren Dasani: But typically it is not that supposed to be reported under the fee income line or other income line?

Mr. Sridhar: The fee income relating to say consultancy services, we take it as a fee income which is not relating to the loan sanctions and then which are all coming in the regular course of borrowing and lending (particularly lending) that we take it as a part of the interest income itself.

Hiren Dasani: On an average what percentage of your disbursement you get as commitment fee or I mean basically ...?

Mr. Sridhar: It depends upon the sanction itself. Up to INR 100 crores we do not charge any commitment fee, beyond that it is only 0.25% commitment fee based on the undisbursed amount. Other fee income includes the arranger fees, syndication fees like that.

Hiren Dasani: Sir do you include only the commitment fee or arrangement fee, syndication fee ...?

Mr. Sridhar: Everything.

Hiren Dasani: Everything you include in the interest income only.

Mr. Sridhar: Yes.

Hiren Dasani: And in this quarter would you be able to say what would be that quantum, roughly?

Mr. Sridhar: It will be hardly around less than 1%.

Hiren Dasani: Of the interest income?

Mr. Sridhar: Yeah of the interest income, less than 1%.

Hiren Dasani: Okay and is that the normal range, I mean is it always ...?

Mr. Sridhar: Around that only.

Hiren Dasani: Okay thanks a lot.

Moderator: Thank you Mr. Dasani. The next question is from the line of Rohit Shimpi from SBI. Please go ahead.

Rohit Shimpi: Hello good afternoon sir my question is on the loans which would be coming up for re-pricing in the current year. What would be the quantum?

Mr. Sridhar: We are not discussing about that amount. But you will see it only from the interest income we earned.

Rohit Shimpi: No I mean would it be loosely correct to say that since the reset period is 3-5 years that I mean typically 1/3rd, 1/4th of the loan book could be re-priced in current year or is that an incorrect assumption?

Mr. Sridhar: It is not a good assumption, because the 3 years every year certain amount keeps on coming from restructuring.

Rohit Shimpi: Okay fine thank you.

Moderator: Thank you Mr. Shimpi. The next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani: The question is on the liability side, the floating part of the liability. What is the general reset?

Mr. Sridhar: It is not of a particular pattern. Some loans depend on PLR base, some loans are based on 1 year reset, it is not forming a pattern.

Amit Premchandani: Is there any average which is available?

Mr. Sridhar: No.

Amit Premchandani: Okay sir thank you. Another question sir what is the amount of leverage that you are comfortable with the debt-equity ratio?

Mr. Sridhar: The leverage is at 6.2 times.

Amit Premchandani: And debt-equity is 4.85.

Mr. Sridhar: We have capital adequacy at 17.5% also. But if the leverage goes beyond 8 or so then we may have a re-look into that but there is a long way to go.

Amit Premchandani: Okay sir that is it from my side, thank you.

Moderator: Thank you Mr. Premchandani. The next question is from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.

Anand Laddha: Hi sir, sir just wanted to know, you just mentioned the incremental for generation you are charging 11.5% to 13.5% depending on the project. So is it fair to say incremental spread is about 3%?

Mr. Sridhar: Would you repeat the last sentence?

Mr. Sridhar: No I would not like to comment that way, because the spread is a function of both interest income and the cost. And secondly the interest income is from all projects not necessarily from generation projects. So I would like to comment that this time the spread is around 2.66% but we will be comfortable in maintaining the spread around 2% plus.

Anand Laddha: So I just mentioned incremental spread. So whatever incremental we are disclosing our spread is around 3%?

Mr. Sridhar: I will not like to comment on incremental spread or anything but I will say that the overall spread we would like to maintain 2% plus.

Anand Laddha: Fine sir.

Mr. Sridhar: And then second, our interest rate is 11.5% to 12.5%, earlier I told 13.5% it is not so, it is 11.5% to 12.5%.

Anand Laddha: And the cost of funds is 8.6%.

Mr. Sridhar: Yes.

Anand Laddha: Okay fine sir thank you sir.

Moderator: Thank you Mr. Laddha. The next question is from the line of Rahul Jain from Alchemy Shares. Please go ahead.

Rahul Jain: Sir I have couple of questions, first of all, how much fee income you would have earned during this quarter, would you be able to disclose that?

Mr. Sridhar: This quarter we earned a fee income of around INR 20 crores which form part of our spread analysis also. We have not earned any other fee income as all other fee incomes are going to subsidiary.

Rahul Jain: Okay. And sir on this APDRP, what fee income do you earn for disbursements about to INR 10,000 crores?

Mr. Sridhar: As I told you we are earning a fee income of 1% on the amount sanctioned in the R-APDRP.

Rahul Jain: So is it on the entire INR 50,000 odd crores?

Mr. Sridhar: No it is on Part A we are earning 1% of the, Part A i.e. on 10,000 Crores.

Rahul Jain: Yeah and Part B?

Mr. Sridhar: Yes we have 1% on sanction amount Part B also.

Rahul Jain: Okay so on both the things you earn 1%?

Mr. Sridhar: Yes.

Rahul Jain: Alright. And I mean the coverage ratio is flat I mean basically stable quarter-on-quarter basis so does it mean that there is no provisioning towards loan losses during the quarter?

Mr. Sridhar: Yes there is no provisioning; again our NPA level is same. There is no increase or decrease in the NPA level, so the level is same.

Rahul Jain: Okay. So would you maintain the same level going forward also?

Mr. Sridhar: We hope so, we want to.

Rahul Jain: And sir, what kind of a yield do you earn on transmission and distribution disbursal? Is it possible to share that?

Mr. Sridhar: It depends upon the borrower. It depends upon the rating which they get so our lending rate will be around 11.5%.

Rahul Jain: On transmission and distribution also?

Mr. Sridhar: Yes.

Rahul Jain: Okay and sir just one or two more things. In the resource profile you have given that R-APDRP fund from Government of India of around INR 46 odd crores. So this is the amount that you have received in plan A which you would have sanctioned?

Mr. Sridhar: Yes Part A.

Rahul Jain: Okay. And what is this interest subsidy funds, can you just explain I mean if it is possible?

Mr. Sridhar: In the 9th and 10th Plan there was an Accelerated Generation & Supply Program which was launched by the Government of India. We were the agency for passing on the subsidy to the borrowers. That is the subsidy amount.

Rahul Jain: Okay fine.

Mr. Sridhar: This is the subsidy.

Rahul Jain: Okay fine. I think that is it from my side, thank you so much sir.

Moderator: Thank you Mr. Jain. The next question is from the line of Nischint C from Kotak Institutional Equity. Please go ahead.

Nischint C: Yes hi, if I heard this right, did you say that you have a disbursement target of INR 20,000 crores for the full year?

Mr. Sridhar: INR 23,000 crores.

Nischint C: INR 23,000 crores and that includes INR 2,000 crores of APDRP is it?

Mr. Sridhar: Yes.

Nischint C: Okay. And in terms of loan yields I mean if I see consistently the loan yields have been going up over the last 2 to 3 quarters. Just want to get a sense, I mean when it was the last time that you had revised lending rates?

Mr. Sridhar: We have actually revised a lending rate in May. We have brought down the lending rate by half a percent.

Nischint C: Okay. And that will be for incremental loans and reset, etc.?

Mr. Sridhar: Yes.

Nischint C: Okay. So when do you really start seeing the impact, I mean expect to start seeing the impact of that?

Mr. Sridhar: Any new disbursement takes new rate.

Nischint C: Okay.

Mr. Sridhar: Prospective disbursement from the date of change of the interest rate, takes new rate.

Nischint C: Okay. And just one small question on this one small item which we found in the balance sheet, there was some amount of fund on account of APDRP which is kind of shown in the balance sheet. I wanted to understand is something like an advance which is given by the government to you or I mean the item is too small to...?

Mr. Sridhar: We have to be reimbursed of the disbursement which we made against the APDRP so that much amount has come, which we are yet to be disbursed.

Nischint C: Okay fine, okay thank you very much.

Moderator: Thank you. The next question is from the line of Sashikiran Rao of

Standard Chartered Capital Markets. Please go ahead.

Sashikiran Rao: Your transmission sanctions have gone up substantially year-on-year. Is it because you have been sanctioning for any of the power grid projects or is entirely from some state?

Mr. Sridhar: In the recent period we have not sanctioned anything to power grid, but we have been, we are increasing our share in transmission projects, so from SEB side we have received a proposal so we have sanctioned.

Sashikiran Rao: Okay. So the increase is entirely from on the SEB side?

Mr. Sridhar: Yes SEB side.

Sashikiran Rao: Okay sir, thank you that answers my question.

Moderator: Thank you Mr. Rao. The next question is a follow-up question from the line of Amit Ganatra from Religare AMC. Please go ahead.

Amit Ganatra: Yes sir, all my other questions are answered. Just one earlier question that I had asked that what is the reason for operating cost going down as compared to 4th Quarter?

Mr. Sridhar: By the end of the 2008-09, we have formed a separate consultancy company, subsidiary,

Amit Ganatra: Yes I am listening.

Mr. Sridhar: Certain expenditure which has been booked as a consultancy expenses, now it does not come in this year, because it is going into subsidiary account.

Amit Ganatra: Okay. And you do not disclose those subsidiary accounts on a quarterly basis?

Mr. Sridhar: In the consolidation, we will disclose but this is only Q1 result so it is the PFC result.

Amit Ganatra: Okay. So when the full year...?

Mr. Sridhar: On consolidation, we will get the subsidiary expenses also, and income also in the account.

Amit Ganatra: Okay.

Mr. Sridhar: That is the difference.

Amit Ganatra: Okay. Thank you.

Moderator: Thank you Mr. Ganatra. The next question is from the line of Sandeep Chopra from Global Investment. Please go ahead.

Sandeep Chopra: Yes, hi sir, just a small question. How much amount did we borrow during the quarter and at what rate?

Mr. Sridhar: Wait a minute, please.

Sandeep Chopra: Yes.

Mr. Sridhar: We have borrowed about INR 2,500 crores and at an average cost of around 6.8%.

Sandeep Chopra: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Ishank Kumar from Religare Capital. Please go ahead.

Ishank Kumar: Yes sir, just one question. Have you raised any short term, very short term borrowing, which is like from commercial paper in this quarter?

Mr. Sridhar: It is always, whether short term or long term it is always a part of our borrowing, depending upon the ALM requirement. We borrow for 3 months, 6 months like that also, if ALM requirement is there.

Ishank Kumar: Okay sir. Sir your current liability in this quarter has increased by around INR 1,000 crores ... so can you tell me what is the reason behind that?

Mr. Sridhar: Wait a minute please. It is because of accrued expenses but not due.

Ishank Kumar: Okay sir, thank you sir.

Moderator: Thank you Mr. Kumar. The next question is from the line of Lalitabh Srivastava from Dalal & Brocha. Please go ahead.

Lalitabh Srivastava: Yeah thanks, my question has been answered.

Moderator: Thank you Mr. Srivastava. The next question is from the line of Rahul Jain from Alchemy Shares. Please go ahead.

Rahul Jain: Sir just a follow-up question on this transmission sanctions and transmission projects. During the quarter you have sanctioned around USD 42 odd billion worth of projects. And if you look at borrower wise in central sector you have sanctioned around USD 37 odd billion. You mentioned that mainly it has gone to State Electricity Boards if I am not wrong, so just wanted to understand this?

Mr. Sridhar: Right now I do not have details before me. If you can send an email request I will give a reply to you.

Rahul Jain: I will do that sir. And sir just one last thing. is it possible to share the incremental cost of funds on term loans? I mean whatever the amount you have mobilized from banks?

Mr. Sridhar: I already told the INR 2,500 crores is not from banks alone. The total fund mobilized is INR 2500 crores in this quarter at the average cost of 6.8%.

Rahul Jain: Yes so term loan would not be available. I mean the breakup would not be available?

Mr. Sridhar: And, just one minute, term loan alone you want.

Rahul Jain: Yes.

Mr. Sridhar: It is around INR 1,500 crores.

Rahul Jain: Okay, at an average...?

Mr. Sridhar: And average cost is 6.5%.

Rahul Jain: Okay fine, thank you so much sir.

Moderator: Thank you Mr. Jain. The next question is from the line of Darshana Joshi from Sahara Mutual Fund. Please go ahead.

Darshana Joshi: Yes good afternoon sir, just a small clarification, you said that some of the spreads may come down to 2%, so is it safe to assume that net interest margins will also come down to on 3.5%?

Mr. Sridhar: I have not commented that the spreads will come down to 2%. What I am trying to say is that, we have maintained spread of 2.6, we have got a spread up 2.66% in this quarter. It is because we are able to reduce our cost of borrowing also. So going down the line, I will not like to say that we will always be maintaining 2.66%.....2% plus this side or that side taking the market situation into account.

Darshana Joshi: Yes. So, can I assume that net interest margins would be more than 3.5%?

Mr. Sridhar: I would not like to guess the figure.

Darshana Joshi: Okay, thanks.

Moderator: Thank you. The next question is from the line of Jigar Chawla from Enam Holdings. Please go ahead.

Jigar Chawla: Yes just wanted to check the figure on disbursement, you have done 21000 Crores last year, FY2009 and you are indicating that you plan to 23000 Crores this year including 2000 Crores from APDRP which would indicate about flat disbursements, year-over-year, ex-APDRP?

Mr. Sridhar: We have a commitment to Government of India that we will be disbursing INR 23,000 crores including APDRP. But that does not preclude that we have to achieve better than that. And we have been achieving better than the commitments which we have given to the Government to India. So this year we will be doing better than the commitment.

Jigar Chawla: Okay thanks, I just want to

Moderator: Thank you Mr. Chawla. The next question is from the line of Punit Jain from Karma Capital. Please go ahead.

Punit Jain: Sir you have mentioned about your lending rate at 11.5% currently, is that even after your 50 bps that you mentioned that rates have been reduced?

Mr. Sridhar: Yes.

Punit Jain: So, the impact of that on your incremental lending on your current book, when would that be flowing?

Mr. Sridhar: Any disbursement from the rate of change in interest rates, takes a new rate. So I have told that we have changed interest rate in mid May so any disbursement made after mid May has already taken at the renew rate.

Punit Jain: And the existing one would be whenever it would come on re-pricing?

Mr. Sridhar: Yes.

Punit Jain: But if you compare it to a year ago rate, how would that be like after that 50 bps reduction a year ago rate would have been higher or lower, if you compare year-on-year?

Mr. Sridhar: Year-on-year, exact rate I am not able to compare, but I have given, I think we have given you the indication to our yield in our presentation.

Punit Jain: So that would mean that you would be able to maintain your yield of this quarter at about 11.3%?

Mr. Sridhar: See, the yield is the average factor, so that can go up or down, the current lending rate I told it is around 11.5%. So the yield will depend upon volume of business and to whom it is going because the rates are different for different customers.

Punit Jain: Right, fine that is it, thank you.

Moderator: Thank you Mr. Jain. The next question is from the line of Pankaj Sharma from UBS. Please go ahead.

Pankaj Sharma: Yes sir, just a follow-up question. I know it is a little too early to ask about the disbursement in FY11 and FY12. But do you have any number in mind or how you would like to grow your disbursement in these years over and above your INR 23,000 crores disbursement in FY10?

Mr. Sridhar: In the five year plan we have, we hope to disburse around INR 128000 crores.

Pankaj Sharma: 128000?

Mr. Sridhar: INR 128000 crores.

Pankaj Sharma: Okay.

Mr. Sridhar: We have already grown at around 25% year-on-year basis in disbursements, so in the coming month also we will be aiming to achieve that level.

Pankaj Sharma: Okay sir, thank you sir.

Moderator: Thank you Mr. Sharma. The next question is from the line of Bharat Gorasiya from Prabhudas Lilladher. Please go ahead.

Bharat Gorasiya: Sir one small question, in the year Q4FY2009 yields on asset is 11.2 whereas Q1FY2010 the yield is 11.3. So on one side you are saying you have cut your yield on advances, why would this discrepancy be because...?

Mr. Sridhar: As I told you that interest rate cut is on the particular rate which is going on the date of disbursement. The yield is an average factor of the portfolio. So, the cut was affected in the mid May.

Bharat Gorasiya: No sir that, that point is well taken but what I am saying is, it should stabilize there is a increase in the yield that is what I just could not...?

Mr. Sridhar: we have increased interest rates in the Q3 and Q4 of last year.

Bharat Gorasiya: Sir this sir I am talking quarter-on-quarter, not year on year.

Mr. Sridhar: I am only saying that Q3-Q4 well actually we have raised interest rates, those loans which are going in the portfolio will contribute at higher rate only.

Bharat Gorasiya: Okay, I got your point sir.

Mr. Sridhar: Okay.

Bharat Gorasiya: Yeah thanks a lot.

Moderator: Thank you Mr. Gorasiya. The next question is from the line of Tushar Jain from Sumitomo Mitsui AMC. Please go ahead.

Tushar Jain: Sir just couple of questions that I wanted to confirm, you said that you have cut your yields for the lending rates by 50 basis points in mid May, right?

Mr. Sridhar: Yes.

Tushar Jain: And you would revise your views on a quarterly basis or it is monthly phenomena. How often do you revise these rates?

Mr. Sridhar: There is no fixed period for that one, as and when we feel that market requires a different rate, we will be changing the rates up or down.

Tushar Jain: Okay, but there is nothing like you say a tenure of the meeting, you might not revise the rates but you would revisit those numbers on a frequency.

Mr. Sridhar: It is on periodically.

Tushar Jain: That is periodically, quarterly?

Mr. Sridhar: Even more frequently.

Tushar Jain: More frequently okay. Another thing sir, is about the borrowing cost you said that the borrowing cost since the start of the quarter has increased as of now?

Mr. Sridhar: We were able to reduce the borrowing cost in Q1, but the indications are that the borrowing cost may increase.

Tushar Jain: No, my only point was that incremental borrowing, if you go today to the market, the rate that you would be charged would be higher than it was charged 3 months back is that right?

Mr. Sridhar: Yes.

Tushar Jain: And going forward do you see interest rates hardening further?

Mr. Sridhar: There is a lot of speculation on that. If the pickup in the credit market is good, if the government borrowing is going to be like that, and if the monsoon is also not performing well, yes, interest rates may harden. But if we have good growth and FII inflows are there, liquidity will be maintained and interest rates maybe not that much be hardening.

Tushar Jain: But they would harden a bit, still?

Mr. Sridhar: That is a million dollar question; we are also watching the market.

Tushar Jain: Okay, no because there is so much of talk going about this spread so the whole idea on a longer term on an averages basis goes that you have reduced your lending rates, cut your lending rates and your incremental borrowing cost are going up, from net-net you have spreads of 2.66 then it obviously has to come down, you might be able to maintain it about 2 but you might see some decline coming in there, right?

Mr. Sridhar: I would not like to comment on that. That is guess work.

Tushar Jain: Yes, but on a general that is probably the sense that it gives?

Mr. Sridhar: You are best judge to conclude that one.

Tushar Jain: Okay, thank you very much sir. Thanks a lot.

Moderator: Thank you Mr. Jain. The next question is from the line of Lakshmi Ahuja from Marwari Finance Limited. Please go ahead.

Mr. Sridhar: Our ED Mr. Nagarajan has joined so he will be taking the question.

Lakshmi Ahuja: Good evening sir. Sir your entire capital adequacy is by way of Tier I capital so is there any possibility that capital raising further could happened by way of Tier II capital?

R. Nagarajan: As on date the capital adequacy of 17.51 I do not think any requirement of capital is required at least for a one more year.

Lakshmi Ahuja: Okay for another year you do not see Tier II capital happening?

R. Nagarajan: Yes, but in relation to that, it would have changed last year. RBI has permitted all NBFCs to raise perpetual bonds also, so we can think of a perpetual debt issue instead of going directly for the IPO route.

Lakshmi Ahuja: Okay sir. Sir and my next question was on the deferred tax inability is there any possibility that you would be required to create DTL still there is DTL thing is.....

R. Nagarajan: Why? In this DTL we had to create only on depreciation or leased income or the exchange loss or exchange gain only, depending on, it will become DTA or DTL, at least not on the special reserves, at least.

Lakshmi Ahuja: Okay, thank you sir. That is it.

Moderator: Thank you Ms. Ahuja. The next question is from the line of Kamlesh Kotak from Asian Market Securities. Please go ahead.

Kamlesh Kotak: Sir just, sir one take I want from you, what is status on new UMPP, some more UMPP coming up and the existing are also are still pending so how you see that panning out?

R. Nagarajan: As of Talaiya is concerned, it maybe transferred within this financial year. And other UMPP status is Tamil Nadu, Chattisgarh, and Orissa. RFQ maybe done in second half i.e., second half of 2009/2010. Others are still in the process at different stages on which we cannot give commitment.

Kamlesh Kotak: Okay, but can we expect any one besides Talaiya to go

finalizing stage by end of this year?

R. Nagarajan: We cannot give commitment, if it happens okay it is the bonanza but, we cannot say that it will be done by 31st March.

Kamlesh Kotak: Okay sir. And in there any divestment plan like REC also has given an application for equity dilution to raise their funds and strengthen their equity.

R. Nagarajan: We can think of the route out of perpetual bonds as permitting by RBI last year, and it will improve my capital adequacy ratio without affecting my shareholder's funds. We can think of instead of straight away going for your FPO actually.

Kamlesh Kotak: Okay sir, fine thank you sir.

Moderator: Thank you Mr. Kotak. The next question is from the line of Manish Ostwal from Darashaw & Company. Please go ahead.

Manish Ostwal: Good evening sir, out of the total loan how much is floating and fixed sir?

Mr. Sridhar: On the asset side 85% floating and 15% fixed.

Manish Ostwal: Okay on as liability side?

Mr. Sridhar: 81 is fixed and 19 is floating.

Manish Ostwal: What is the average duration of asset sir?

Mr. Sridhar: Assets 5.74 years, liability 3.98 years, no duration, average maturity of assets and liabilities.

Manish Ostwal: Okay. And sir what is your outlook on the margin?

Mr. Sridhar: Margin as we are told from 2007 onwards we will maintain 200 bps with 5% to 10% variation.

Manish Ostwal: Okay sir, thank you.

Moderator: Thank you Mr. Ostwal. The next question is from the line of Sita Raman from DNA. Please go ahead.

Sita Raman: You have said you would be raising about INR 21,000 crores this year?

R. Nagarajan: Yes.

Sita Raman: So could you just explain what route you will taking, what avenues you will be taking to raise that INR 21000 crores?

R. Nagarajan: As against the 21000 we have already raised around INR 2700 crores as of June 2009. Balance, we have to raise around INR 18000 crores, we got a sanction of ECB of 300 million from RBI that up to September 30th. If the market condition improves and we are able to get a competitive rate compared to the domestic market we can think of ECB. But if you see normal bonds which we are doing already plus normal loans which are structuring with the banks and institution will come to arise from these routes only as on date.

Sita Raman: Okay. And sir just, Part A of APDRP it is INR 10000 crores, right?

R. Nagarajan: Part A of the, R-APDRP is INR 10000 crores so you should understand it is not a funding to PFC, it is funding directly given to the SEBs we have a pass through status. There is no additional money added by PFC while lending, it is money received from government that is passed on to them. I am getting only a fee of 1% of the amount sanctioned. So if they sanction INR 1000 crores I will get INR 10 crores as fees, so this is margin in this business.

Sita Raman: So this INR 10000 crores is spread over the next 3 years, is it?

R. Nagarajan: No, it will be around 2000 this year, maybe after 2 years' time, maybe by 2012, it may go up to INR 10000 crores.

Sita Raman: Okay. Thanks a lot sir.

Moderator: Thank you Mr. Raman. The next question is from the line of Lakshmi Manohar from Capital Market. Please go ahead.

Lakshmi Manohar: My questions are answered.

Moderator: Thank you. The next question is from the line of Jayesh Gandhi from Morgan Stanley. Please go ahead?

Jayesh Gandhi: Sir we have seen our margins expand in the recent two quarters, what is the outlook, do we have, do we sustain these margins or in the future do you expect to pass on some of the benefits that you are getting from lower interest rate particularly on the short end to the borrowers?

R. Nagarajan: Today morning, if you had seen the interview, our CMD said there is a scope for reduction in interest rates, so one. Second question is we are maintaining from 2007 from the time of IPO, we always committed only we will be able to maintain the margin of 200 basis point. If we get better, it is the bonanza; but we will try to maintain 200 basis points in future also, plus / minus 5% or 10%.

Jayesh Gandhi: Right so would you say that in the next couple of quarter we will see actually lending yields for you come down by 25 to 50 basis points?

R. Nagarajan: Overall average may not go down drastically but if I reduce the rate by about 25 bps for that it will only affect the future loans not the past ones whatever I have given. It may not go down drastically as the overall yield will not go down drastically if I reduce 25 bps, it may go down by only 10 basis point for that overall.

Jayesh Gandhi: No, I am trying to understand will you achieve or come to your normalized 2% to 2.5% rate of margin, will it be by reduction of this or you expect the intersects to rise, I mean your borrowing cost to rise?

R. Nagarajan: First of all, borrowing cost has already been explained by my friend Sridhar, as far as we are concerned in 1st Quarter we have borrowed at a very competitive rate and the yields have not moved up so much. We have borrowed around one bond issue at 6.90 even the same bond is being traded at the 7.10, say 20 basis points in spite of the fact there are so many stock tremors after the budget. It has gone up by only 10 bps, again it has come back to 7.1, even our 10-year paper is trading around 8.52-8.70 only last to two

months, even there most popular 5-year paper also being traded at 8% to 8.15% only. So my view is that it may not grow because if India has to achieve a 9% growth and to reduce the fiscal deficit through tax collection, the government cannot afford to allow interest rates to go up substantially. So they may go up by maybe 25 to 50 basis point maximum, if at all they go up. So anyhow we are able to pass on Y-o-Y debt cost to the borrower and we can reduce the rate also. Wherever possible we are maintaining the same margin of 200 basis point.

Jayesh Gandhi: Thank you sir, thank you for the clarification.

Moderator: Thank you Mr. Gandhi. The next follow-up question is from the line of Kamlesh Kotak from Asian Market Securities. Please go ahead.

Kamlesh Kotak: Sir just one clarification, I want to know how much of the assets in numbers would go for re-pricing in this year?

R. Nagarajan: What?

Kamlesh Kotak: Asset re-pricing for this year?

R. Nagarajan: And that number, we will not be able to disclose that.

Kamlesh Kotak: Roughly percentage wise if I could get some sense of it sir?

R. Nagarajan: About 8% to 10%.

Kamlesh Kotak: 8% to 10% of the total, right sir?

R. Nagarajan: Okay.

Kamlesh Kotak: Thank you.

Moderator: Thank you Mr. Kotak. The next follow-up question is from the line of Bharat Gorasiya from Prabhudas Lilladher. Please go ahead.

Bharat Gorasiya: Yes sir, just one data point sir what is the outstanding sanctions as of today, the cumulative is 2 Lakh 50 thousand...?

R. Nagarajan: Around INR 133,000 crores.

Bharat Gorasiya: INR 133,000 crores, okay thanks a lot sir.

Moderator: Thank you Mr. Gorasiya. The next follow-up question is from the line of Jayesh Gandhi from Morgan Stanley. Please go ahead.

Jayesh Gandhi: Yeah, sir one more follow-up question, sir to what extent would we be able to expand our balance sheet before we have to raise equity again?

R. Nagarajan: Board has said when the capital adequacy ratio is around the 13% to 13.5%, we should think of raising the capital.

Jayesh Gandhi: Okay. And that will allow you to expand the balance sheet size by what 40% to 50% from current level?

R. Nagarajan: No, you cannot because in order of say 5% to 4.5% means you cannot expand by 150%, maybe another INR 20000 to 30000 crores that it may be going....

Jayesh Gandhi: Okay. So would it fair for me to assume that by the end of this fiscal we will be looking to raise equity?

R. Nagarajan: This fiscal, as I said earlier also this may not be required, because our asset will not go that much also, by the end of this fiscal.

Jayesh Gandhi: Okay fair enough. And so and also the government stake is also high so you are most likely to do issue in the domestic market, would that be most logical sequence of events for you?

R. Nagarajan: As I have already said we can increase capital adequacy not necessarily by going for an equity issue. We can think of going for a perpetual bond issue as permitted by RBI, which will also enable us to increase capital adequacy and improve our RONW. We can explore that, before going for a FPO.

Jayesh Gandhi: Okay, thank you sir.

Moderator: Thank you Mr. Gandhi. The next question is from the line of Elizabeth John from Keynote. Please go ahead.

Elizabeth John: Just one quick question on your NPA's I mean they are pretty down I mean you have maintained that and the more of the loan book is toward the State Government so because of that the escrow account is there, but if going forward we have like more of private sector contribution which is coming, will there be any pressure on your NPAs that you see or do you think that there is some kind of arrangement in that private sector as well?

R. Nagarajan: In case of a private sector, we also have a TRA mechanism which is Trust & Retention Account where a banker is appointed as the TRA agent. All the funds till COD, is routed through this account and after COD all the cash flows from SEB or others are routed through this account. Because of this TRA account, which we are having in the power sector, I do not think NPAs accounts will rise.

Elizabeth John: Okay, great thanks.

Moderator: Thank you Ms. John. As there are no further questions I would like to hand the floor back to Mr. Kunal Shah for closing comments. Please go ahead sir.

Kunal Shah: Yes, thank you sir for taking your time out and all the best for future quarters. And thank you all participants for participating in the call, have a pleasant evening, thank you.

R. Nagarajan: Thank you Kunal Shah and all of the analysts who asked questions and as told by our CMD and they will try to maintain the growth rate and also the good numbers in future.

Kunal Shah: Thank you sir.

R. Nagarajan: Thank you.

Moderator: Thank you gentlemen of the management, thank you Mr. Shah. Ladies and gentlemen that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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