

Conference Call Transcript

Power Finance Corporation
Q3FY10 Results
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Corporate Participants

Mr. Satnam Singh
*Power Finance Corporation - Chairman & Managing
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Questions and Answers

Moderator: Ladies and gentlemen, good evening, and welcome to the Power Finance Corporation Q3 FY'10 Earnings Conference Call, hosted by Edelweiss Securities Limited. As a reminder, for the duration of the conference call, 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, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Kunal Shah from Edelweiss Securities Limited. Thank you and over to you Sir.

Kunal Shah: Thank you. Good evening all of you. This is Kunal Shah from Edelweiss Securities. We have with us Mr. Satnam Singh, Chairman and Managing Director from Power Finance Corporation to discuss their Q3 FY'10 Earnings. Over to you, Sir.

Satnam Singh: Thank you, Kunal and good evening everyone. I thought I would start with the general positives of the power sector, followed by recent developments within the company and then we will give business initiatives, which we have taken, and then go on to other developments within the company, before I share with you the numbers for this quarter and as a result of that what is our position for the first nine months of financial year 2010. So on the power sector positives, the first thing is the government has come out with a national solar scheme as per which the capacity under the solar project is going to be added 1000 MW by 2010 and 20000 MW by 2020. Now in solar projects, there used to be one issue that how would anybody buy this power, but then the structure is such that the entire solar power is going to be brought by NTPC, mixed with the unallocated power with NTPC, which is almost 18% of their projects capacity, whatever they have commissioned, so they will sell one unit solar power plus four units of unallocated power with which the average tariff will account in the range of Rs.5 to Rs.6, which is a very comfortable tariff at which this power can get sold. So the possibility of solar projects now happening has gone up and therefore our business opportunity has gone up. Similarly, the trading margins. CERC has already issued trading margins. They have increased it from 4 paise to 7 paise and long-term contracts have been exempted from these margins so that it facilitates the innovative products and contracts. So under this scenario, higher level of trading of power would take place. This would be in the overall interest of the power sector plus wherever we have invested as equity in the power exchanges as you know, National Power Exchange and the Power Exchange of India, it will also give a boost to our business in those areas. With the modification in the mega power policy, the procedures have been simplified to encourage indigenous power equipment manufacturing. So, this will also give a boost for people to take up power projects in a faster way because more number of power projects should get the

mega power policy benefits now as compared to the past. More the projects getting mega power policy benefits it is a good thing for evaluation of the power projects because the liability will be better as compared to the past. Now, on to the recent developments within the company, you see, one of the major issues of the Indian power sector was the high level of aggregate technical and commercial losses. I would from now onwards use the word distribution losses. This is a technical term for the same. Through the initiative of Government of India that has restructured APDRP stream requiring due diligence, we are very hopeful based on the progress, which we have made in the last one year itself. There were 1400 towns to be covered under this scheme having population above 30,000. We have already sanctioned Part A, that is, baseline data establishment projects by using the state of the art IT technology. 95% of the towns have already been sanctioned this loan and the scheme is progressing well. I would here like to share with you that what happened in this process is that original estimate was that on this Part A schemes we need to spend about INR 10,000 Crores, but with competitive bidding structure we had offered to the states there has been a 30% saving in the overall cost as per the indications available now. So the idea is that the whole structure of APDRP may get completed & going forward in less than the amount originally envisaged in the scheme that is INR 52,000 Crores or so. Another major initiative of Government of India was the Ultra Mega Power Projects and we have heard of a lot of apprehensions there that what will happen to the new Ultra Mega Power Projects. I am happy to share with you that considerable progress has been made. For, Chattisgarh Ultra Mega Power Project, we are ready to issue RFQ. We are awaiting approval of the standard bidding documents. Standard bidding documents were to be modified on account of our experiences in the past. So, once that is done, we are ready to issue this and most likely it will be issued in this quarter itself. Similarly, on Orissa Ultra Mega Power Project, the only thing left to be done before we could issue RFQ is Section 4 notification, which may take about 40-60 days time. Once that is done we will be ready to issue the RFQ for Orissa too, but this is a touch and go for the current financial year. It could be in the last week or 10 days of March, or it may shift to early April. In the Tamil Nadu Ultra Mega Power Project the only issue left is port clearance, where we have made advancement and there is a study to be done which might take about two to three months and thereafter once the environment committee clears it we are ready to issue RFQ for Tamil Nadu UMPP also. So what I am overall sharing with you is that in the next three to six months, we will be issuing RFQs for three UMPPs and from the date of issue of RFQ as you know it is a nine months process to award the Ultra Mega Power Project. So, all these three projects may get awarded in the financial year 2010-11, leading to a huge non-interest income for the company because we have these days charging INR 50 Crores for Ultra Mega Power Projects. So that is what will happen. On the independent transmission projects that is transmission projects being put up on the lines of Ultra Mega Power Project, we have already issued LOI for the first transmission project, that is East North Interconnection Limited and we are likely to transfer the SPV very shortly. We have been given two more interstate

transmission projects and RFOs for these will be issued in the beginning of the financial year 2010-11. Then the international market for resource mobilization, as you know that last about two years we did not tap the international market for resources because international markets did not offer competitive rates. Now the market has come around and we are planning to raise about USD 300 million in this fourth quarter of financial year 2010. We shall be appointing State Bank of India as the fund raising bank for us and we are going to raise it before March 2010. Coming to the new business areas last time I had shared with you that we have opened up a separate window for financing power equipment manufactures. I am happy to share with you that first solar PV panel manufacturer has been sanctioned a loan of INR 250 Crores in this quarter. We are also in the process of sanctioning loans for capital equipment manufacturers and there is a possibility. We are also in discussion with Nuclear Power Corporation based on their future capacity addition program as to the possibility of funding nuclear power projects. There are some proposals with us for funding captive coalmines, as part of the Ultra Mega Power Projects anyway we are extending financial assistance that is somebody wants to keep the captive coal as a separate company we are open to funding such projects also. As far as our business into the global area funding, I had shared with you that we will start with neighbouring countries first. GMR is putting up a hydro project in Nepal, which we are considering for sanction. Of course since this will be the first time we have to sort out the nitty-gritty's of sanction before we can actually take up this project. While in the case of Ultra Mega Power Projects and in the case of transmission projects we have played a key role in designing the standard documents. We have also got as a consultancy assignment to prepare guidelines and standard-bidding documents for tariff based bidding of power project in the global area and this of course is the main job of Ministry of Nonconventional Energy but we have got few assignments of the consultancy assignment. Other developments, which have taken place in the company, we have been given ISO 9001:2008 certification for the entire company. Earlier, we had extended for different divisions, now we have got it for the entire company. It is a reflection on our commitment to provide quality service. We have decided to participate as equity holder in Energy Efficiency Services Limited, a new company created by PFC, REC, NTPC and PGCL and we have the joint venture partnership with 25% stake and the role of this energy efficiency company would be to extend financial assistance to ESCOs, that is Energy Service Companies to provide consultancy and be a resource center for future. Given the scenario that incremental capacity revision in Eleventh Plan and Twelfth Plan by the private sector will be going up. It is 28% by private sector in Eleventh Plan and 63% by private sector in Twelfth Plan and also the fact that from January 2011 the state sector companies' power generating companies would also add to take on the new projects based on competitive bidding guidelines. We thought we will update the players in the state sectors as well as in the private sector on what is going to be the scenario in the future. We have already had a meet at Gangtok, wherein we have appraised the state power utilities as to what is going to be the future scenario and in what way are they going to prepare

themselves to meet the challenges of future, particularly the competitive bidding and we have offered our consultancy services to the state power utilities to equip them to be able to handle competition in future. Similarly, we will be organizing shortly an IPP meet, wherein we will appraise them of what is going to be the scenario and how PFC is going to assist them going forward depending upon the change in the scenario. And, lastly, I thought I must share with you the awards, which we have got. We have received MOU Excellence Award from Prime Minister for exceptional performance for the year 2007-2008. We received India Pride Award in the NBFC Gold category for excellence among PSUs and we have also received India Power Award for innovative financing category. With this, I will now come to the numbers for the quarter as well for the nine-month period. I will first speak about the quarter and correspondingly I will also speak about the nine-month period. The key factor for the increase in total income is asset growth. Our asset growth increased by 20% in Q3 as compared to corresponding quarter of the previous year from INR 60,000 Crores it has gone up to INR 72,000 Crores and of course here for nine-month period these figures remain the same. As a result, our total income increased by 18%. As you know the total income, our assets grew by 20%, total income grew by 18% means that there has been some reduction in the rate of interest, which has led to that kind of percentage increase. Otherwise, they should correspondingly increase and total income of course for the nine months has gone up by 25%. As a result of increase in total income, our profit after tax for the quarter increased from INR 339 Crores in FY'09 Q3 to INR 564 Crores, which is 66% higher and as a result for the first nine months it is INR 1,756 Crores against INR 965 Crores of previous year resulting in an 82% increase. This of course is partially because of an usual certain extraordinary items, but even if we take those out the comparable PAT profit after tax has gone up from INR 408 Crores to INR 542 Crores, which is 33% higher and for the cumulative nine months INR 1,168 Crores to INR 1,594 Crores which is 36% higher. The disbursements have grown in the third quarter by 52%, from INR 4,277 Crores to INR 6,493 Crores. As you know that when I was sharing the data for the first half year, there was some minus gap because previous year first half we had done very well, but then base figure having gone up our percentage increase was not there. It was actually minus in the first half, but overall having done 52% in Q3 higher than previous year, we are overall at 9% higher than previous year as of December 31, 2009. But the key factor is as you know the outstanding sanctions. The outstanding sanctions as in the quarter end and for the quarter stand at INR 1,25,000 Crores as compared to INR 1,16,000 Crores previous year. Now the sanctions for the year, for the quarter as well as for the year are comparatively lower for the quarter the figures are minus 69% (-69%) against INR 13,800 Crores this is 4247 Crores; for full nine months, it is against INR 43,000 Crores, INR 39,000 Crores as far as sanctions are concerned, but here also it is not a cause of worry. This is because our issue of roadmap went to increment the prudential norms, is a question which we are under discussion and pending that we have not issued those sanctions, we have not issued the sanctions that is worth about INR 11,000 Crores, INR 12,000 Crores to be precise and this issue

is likely to be resolved on February 3 after which we will be issuing these sanction letters and these figures will undergo dramatic changes minus will get converted into plus figures. Based on this, I will now share the yield cost spread and NIM data. Yield in Q3 because we had reduced the interest rates by 25 basis points even though nobody else wanted to give a direction to the market. Yield has gone down by 16 basis points though overall year basis as compared to the previous year yield is higher by 33 basis points. Cost of funds is a good indication in the third quarter has gone down by 70-basis points from 9.27% to 8.57% though overall cost is lower only by 24 basis points for the first nine months. As a result of this, yield and cost of funds our spread in the Q3 is higher by 54 basis points and overall yearly basis 56 basis points. NIM of course is a dependent factor, which is dependent on the capital adequacy, and there since our capital adequacy is higher even then our NIM is higher by 42 basis points to 3.75% to 4.17%. Nine months period it is 3.79% it has gone up by 41 basis points to 4.20%. And lastly, the return on average net worth has gone up for the quarter from 14.38% to 18.51% and for nine months period from 14.08% to 20.15%, and EPS as a result of that has gone up from INR 11.81 to INR 19.65, which is 66% higher and overall nine months period INR 11.21 to INR 20.41, which is 82% higher as compared to previous financial year nine months period. Capital adequacy remains pretty comfortable at 17.63% as of December 2009. This is all I thought I will share with you. On to Kunal for further action. Thank you.

Kunal Shah: Yes we can start of with question and answer session.

Moderator: Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question may press "*" and "1" on their touchtone telephone. If you wish to remove yourself from the question queue you may press "*" and "2". Participants are requested to use handsets, while asking a question. Anyone who has a question may press "*" and "1" at this time. The first question is from the line of Mr. Rajesh Kothari. Please go ahead, Sir.

Rajesh Kothari: Hello Sir, how are you? Rajesh Kothari here.

Satnam Singh: Hello Rajesh. Thanks.

Rajesh Kothari: Just two questions from my side, what kind of the loan sanctions and disbursement growth you are looking for full year FY'10 and full year FY'11?

Satnam Singh: FY'11, I may not be able to say at this point in time, but FY'10 currently we are at 20%. Hopefully, we will accelerate in the fourth quarter as the usual practice and maybe it will be anywhere between 20% and 25%.

Rajesh Kothari: Okay, and you know, you have mentioned in your presentation that it includes the other income because consultancy income and so on and so forth, so what is the total consultancy income which we have booked in nine months FY'10?

Satnam Singh: The consulting income, is I think INR 9 to 8 Crores, for other income, Just a minute, Other income for the first nine months is INR 99 Crores

is INR 15 Crores.

Rajesh Kothari: Consultancy income is INR 15 Crores.

Satnam Singh: Yes.

Rajesh Kothari: Okay and last time you were mentioning consultancy business is now in a 100% subsidiary, right?

Satnam Singh: Yes.

Rajesh Kothari: So that is also getting consolidated or that is different?

Satnam Singh: This income INR 15 Crores is of the subsidiary. This INR 15 Crore figure which I mentioned is of the subsidiary.

Rajesh Kothari: Sir, that is already - what I am trying to understand whether the results are consolidated results, or standalone results?

Satnam Singh: They are standalone. Consultancy we are giving additional information.

Rajesh Kothari: So that is INR 15 Crores apart from the normal PFC profit, correct?

Satnam Singh: That is right.

Rajesh Kothari: Okay and the last, you know, you were had claims of discussing about this transmission side of business APDRP scheme. Sir can you just tell us finally what is the total scope of PFC in terms of the fee base income?

Satnam Singh: Well this is under discussion with Ministry of Power as of now, but apparently it will be about 1% of the sanctioned amount which if we go back by present estimate is, INR 52,000 Crores will be the sanctions of 1% is INR 500 Crores or so, but as you know that in Part A, itself which will be sanctioned we have saved 30%. So, the fee based income also goes down accordingly. We cannot say, but it will be the absolute value but it will be in the range of 1% of the sanctioned amount.

Rajesh Kothari: Okay. Thank you.

Satnam Singh: Thank you, very much.

Moderator: Thank you, Mr. Kothari. The next question is from the line of Deepti Chauhan from Asit C. Mehta. Please go ahead.

Deepti Chauhan: Question one is Sir, just wanted to know how much is the proportion of loans, which are to be reset in FY'10 and so far how much have you done?

Satnam Singh: Just a minute, total amount which is going to be reset in 2009-2010 is of the order of about INR 9,500 Crores and what is left to be reset but January 15 is already over. So, INR 7269 Crores done up to first nine months and it will be about another INR 2300 Crores which would be done in this quarter.

Deepti Chauhan: What were the rates that these loans are actually disbursed

and what are the levels we will be getting it reprised, Sir?

Satnam Singh: Well as far as these figures readily I don't have it here, but average rate the net income will be 7.9 Crores, but the net income overall here is not much in this period, it is only about 8 Crores.

Deepti Chauhan: Okay, I am actually talking about the rates at which they are going to reset?

Satnam Singh: Current rate is about for the first nine months is about 11, new rate is about 11.75 and old rates being 11.49, so that is why the differential is only about INR 8 Crores.

Deepti Chauhan: Alright Sir. And last question is if you can just provide me with the maturity of the asset side and the liability side?

Satnam Singh: It is about 5.79 as far as assets are concerned, and it is 4.55 for liabilities.

Deepti Chauhan: Okay thanks a lot.

Moderator: Thank you. Participants who wish to ask a question, may press "*" and "1" on their touchtone phone. The next question is from the line of Mr. Jay Prakash from Taurus Mutual Funds. Please go ahead.

Jay Prakash: Good evening Sir. Congratulations on a good set of numbers. Sir on the last analyst meet you had mentioned you have launched one scheme for financing equity for like 2% higher in the normal interest rates, what is the status of the scheme now and how is it progressing?

Satnam Singh: During the Gangtok meet which was organized for the state sector for utilities everyone was interested in this product only, we got a very overvaluing response and we have written to all the power utilities and with some of the power utilities discussion is on and proposals are being formulated for sanction.

Jay Prakash: Okay are we doing it for private sector, private players also?

Satnam Singh: As of now the scheme is only for state power utility, but last time itself I had shared that based on our experience may be in a period of six months down the line, we will be doing it depending upon the board approval for private sector projects too.

Jay Prakash: Okay Sir, thank you.

Moderator: Thank you Mr. Prakash. The next question is a followup question from Deepti Chauhan from Asit C. Mehta. Please go ahead.

Deepti Chauhan: Sir just need a followup on the asset side you said that maturity is somewhere close to 5.79, just to understand that most of the loans which are given to you are given to generation projects which are kind of very long duration say 10 or 15 year plus. Just want to understand that what is that the maturity is so low for the asset side.

Satnam Singh: Very simple we have been into power lending business for last 23 years and earlier we used to have 12 years repayment period, and now for

thermal station it is 15 years plus construction period plus six months in hydel station, 20 years plus construction period plus six months, so roughly it is 18 years to 24 years, but loan repayment is amortized. The affected period is half, also the old loan are less with only very little balance period, so the average is coming to about 5.7.

Deepti Chauhan: Okay clear Sir, thanks.

Moderator: Thank you Madam. The next question is from the line of Neha Dave from ING. Please go ahead.

Neha Dave: Hello, good evening Sir. Sir you mentioned that around INR 12,000 Crores sanctions are pending because of the clarity on the prudential norm. Can you throw some more light on what is the issue on the prudential norm?

Satnam Singh: Well as of now, as far as private sector is concerned we are following the same norms as indicated by Reserve Bank of India (RBI); however, for the state sector since we were exempt earlier by RBI from following prudential norms, we had products formulated norms for this state sector in consultation with Ministry of Power and we had also informed actually the RBI that these are our norms and we were following that; however, very recently RBI said that you follow private sector norms for state sector also. We have explained to them that there is no prudential issue here, so you have to have to relook at it and our ministry, minister everybody has taken up with RBI as well as Ministry of Finance as to take a relook at this decision of RBI. This final meeting to resolve this issue will be held on February 3rd and we are quite hopeful that RBI will take care of our requirements.

Neha Dave: Okay fine. Thanks a lot.

Moderator: Thank you, Ms. Dave. The next question is from the line of Shrey Loonker from Reliance Mutual Fund. Please go ahead.

Shrey Loonker: Good evening Sir. Just wanted to get a sense next year what is the kind of borrowing program that we would like to run?

Satnam Singh: Well borrowing as you know that is the factor of how much disbursement we are going to have and what kind of repayments we are going to receive in the following year. This year our resource mobilization against 23,000 to original target of disbursement is about INR 21,000-22,000 Crores, but next year our disbursement target will definitely be at least 10% to 15% higher than current year. Accordingly, our resource mobilization going forward may be of the order of INR 24,000-25,000 Crores, but only then we will be able to share some data about this when the MOU targets for the following year are finalized. It is yet to be discussed with the Ministry so I am only giving the indicative figures of INR 24,000 Crores this year.

Shrey Loonker: Sir just wanted to understand one more thing, we rely heavily on bonds and I presume insurance company and pension companies are the biggest subscribers out there, what kind of exposure limits to this LICs or the pension companies have when they evaluate investing in PFC bonds?

Satnam Singh: It is a standard norm, which LIC is following for other

institutions, but we have already taken up with Ministry of Finance and Prime Minister's Office that this norm should be doubled. It is actually a 10% of the net of the investment amount of the LIC or there are couple of things there, bonds of the investing company, net of paid up capital, borrowing of the investing company that is the standard definition you can have a look at that, but we have requested that it should be made to change it to 20%. They are going to issue that very shortly. Shrey Loonker: What about the pension companies Sir?

Satnam Singh: Pension companies, I do not think there is any such norm.

Shrey Loonker: Any such norm and Sir, if you could just help to share on as basis as an either basis, if we can have the total amount of loans and total amount of borrowings that will perhaps get repriced which will come up for repayment or repricing next year, I think that will be data which will be available?

Satnam Singh: Next year repricing may be of the order of INR 17,000 Crores.

Shrey Loonker: That is on the asset side and perhaps on the liability?

Satnam Singh: Liability side well the floating liabilities are only about 23% which figure may be around INR 13,800 Crores.

Shrey Loonker: Sir, how do you really see the way you look at the balance sheet of yours, how do you see it rising in pressured environment and you know given we are in the rising pressured environment, what kind of guidance would you want to give on NIMS, on the spreads rather?

Satnam Singh: Well, I think I explained earlier also in many conference calls and investors' meet that our structure of lending is such that we are not affected by increase or decrease in the interest rates so much, why because we do not fix the rate of interest at the time of sanction, because sanction runs for three to four years at least for disbursement purposes. So what we say is that on the sanction amount the rate of interest will be charged on the basis of date of disbursement and our applicable rate on the date of disbursement takes care of the cost of borrowing at that point in time, so we are not affected by that.

Shrey Loonker: Sure. Okay, great Sir. That is all from me. Thank you very much.

Moderator: Thank you Mr. Loonker. For the benefit of those who may have joined late I wish to repeat, participants may ask questions to the management by pressing "*" and "1" on the touchtone phone. The next question is from the line of Mr. Arun Jain from Shukaam Capital. Please go ahead.

Arun Jain: Sir I missed one data point, you were mentioning to somebody else that your asset and liability duration and fixed floating ratio, can I have sir, once again that number?

Satnam Singh: Yes sure. Weighted average maturity of asset is 5.79 years and of the liabilities is 4.55 years.

Arun Jain: Fixed floating ratio, Sir?

Satnam Singh: On the asset fixed interest loans are about 13%, 87% are floating and of course we are including three year reset and 10-year reset in that figure only and 1% is real floating and as far as liabilities are concerned 23% floating, 77% fixed.

Arun Jain: Sir, we were listening to some of the construction companies' results they have missed some of their execution periods and there was some delay especially in power as well as other construction. Can we have some environment update from your side that what exactly is happening in execution side?

Satnam Singh: Well, if you go by overall capacity decision program of Government of India, which includes state sector and private sector against 78,700 originally planned, now the indications are that 62,000 will definitely be done and about 4000-5000 with best effect will be achieved. It means that in the first two-and-a-half years or so I think about 18,000 MW has already been commissioned and private sector, which is supposed to contribute about 28% in the current plan is doing reasonably well, it is only central sector projects where there is some delay like NTPC and NHPC and they are not our major borrowers anyway. So we are not affected.

Arun Jain: My third question pertains to some of your clients like SEBs, where in power they have some problem like they do not have a proper financial soundness or sometime their decisions are politically influenced. Can we have some update on that sir, because now how they are behaving?

Satnam Singh: Well, if you go to Ministry of Power's website you will see this data on payment by state utilities to the central power utilities, you will find that over last four-and-a-half to five years, there is 100% payment by all state power utilities to all central utilities whether it is PFC, REC, NTPC, NHPC, DVC, GRIDCO. Going forward, I have already shared with you the impact of the restructured APDRP scheme of which we had due diligence. The AT&C distribution losses are going to go down in a big way over next two to three years period which will add to the income of the utilities in a big way and therefore the possibility of their financials going down is very remote.

Arun Jain: Okay. Thanks a lot sir.

Moderator: Thank you Mr. Jain. Next question is from the line of Mr. Punit Shrivastav from Daiwa. Please go ahead Sir.

Punit Shrivastav: Good evening Sir. I am sorry I missed out on this prudential part to some extent, I just need clarification if the RBI basically is coming with the new stand at this point in time, is there any reason they have assigned for this?

Satnam Singh: No reasons per se, you see RBI as you see the approach is those who are exempted they want to control them and we have no problem because we shared with the Deputy Governor ourselves that look what is happening in Indian power sector is incrementally the capacity is going to be added more and more by private sector. 28% in the Eleventh Plan, 63% in the next plan and we are following the RBI norms for private sector, so there is not

going to be much issue because our sanction also if you see first half 26%-27% were to the private sector and nine month period that figure is in the similar range so private sector these RBI norms are not an issue with us. It is only the state sector where we have already lent quite a lot of money that RBI is saying why are you lending so much. We have taken the help of Government of India, Ministry of Power, Ministry of Finance, Prime Minister's Office, minister himself to say that if we apply those norms now then the overall capacity program of Government of India may come into providence. They will be taking any views, which is adverse. I will correct myself that the private sector sanctions in the first nine months are about 28%. It is in the that range only, though for the quarter it is 46% to the private sector, so as far as you are concerned, the investors are concerned to be 46% of their sanctions are not effected because of RBI norms. Going forward the figure will be higher and it is only the state sector temporarily which may get affected but outstanding sanctions we cannot do anything, majority of that being to be state sector which we have already done I do not think anybody can threat that no, no, no, you cancel those sanctions. Our growth rate even though RBI is raising these issues I am very sure that our growth rate will be able to sustain.

Punit Shrivastav: Right Sir, just Sir clarification, RBI is basically saying that to follow may be around 20-25% of network adhere, right for the SEB also?

Satnam Singh: But we have not agreed neither as ministry, nor Ministry of Finance, so it is only RBI and that meeting as I mentioned in the opening remarks is on February 3rd and I hope that is resolved.

Punit Shrivastav: Right sir, Okay sir thanks a lot.

Moderator: Thank you, Mr. Shrivastav. Next question is from the line of Mr. Arun Kumar from Brics Securities. Please go ahead.

Arun Kumar: Good evening sir. Sir, I have two questions one was on the sanction starting for Part B of APDRP when does it start and when it concludes and second question is that does it substantially change a portfolio in terms of towards distribution, your current portfolio for distribution is very small so does it substantially increase your portfolio for distribution?

Satnam Singh: Well as far as our APDRP sanctions are concerned Part A the time period allowed is 18 months for completion. But Part B, we are asking the utilities to prepare projects much in advance because we anyway know the data only the state-of-the-art IT technology is going to be used for establishing baseline so that there is no disagreement with respect to how much is the loss and how much is not accounted for, that is the reason for part A. Part B we are likely to sanction, start sanctioning in this quarter itself and there the period is about two to three years So, overall scheme is going to end in about four years' time. To answer your second question, yes it will change the portfolio of the loan assets. There would be more chances in the area of distribution, no doubt about that.

Arun Kumar: In terms of percentage indication what would that be?

Satnam Singh: Well, at this point in time I may not be able to say because that

depends upon how much sanctions would take place for generation and transmission etc., but it will be substantially higher than I can say from the existing percentage.

Arun Kumar: Thank you, Sir.

Moderator: Thank you Mr. Kumar. Our next question is a followup question from Mr. Jay Prakash of Taurus Mutual Funds. Please go ahead.

Jay Prakash: On the opening remark you said over the USD 300 foreign plan, could you just throw some more light on that?

Satnam Singh: What light do you want me to throw?

Jay Prakash: I mean by when it will be completed and what kind of rate should be those at this point in time?

Satnam Singh: Rate at the moment I cannot share with you, but for USD 300 million we are going to appoint this State Bank of India. We were going to give the mandate to them for raising it in this quarter itself.

Jay Prakash: Thank you.

Moderator: Thank you Mr. Prakash. Mr. Shah would you like to ask a few questions or add comments will participants join the question queue?

Kunal Shah: Yes, just wanted to know any change in the Forex borrowing liability?

Satnam Singh: It is about 3%, not in this quarter nothing much. We have redeemed the USD 100 million as you know in previous quarter. Now it is time at 2%.

Kunal Shah: No, with respect to how much is hedged and any change as compared to that of Q2 or it is the same?

Satnam Singh: After Q2 no redemption. My only interest payment and all that, so it is because asset book has gone up and liabilities have also correspondingly gone up the percentage is coming down. It is 2% of the overall liabilities now.

Kunal Shah: And this 23000, which you mentioned that was with respect to borrowings or with respects to disbursements?

Satnam Singh: It is our original disbursement target as per MOU INR 23000 Crores.

Kunal Shah: And now we are saying we would be able to do round about INR 21000 Crores?

Satnam Singh: No, there I said for doing INR 23000 Crores, I said that we will have to raise the resources of the order of INR 21000-22000. I have not said anything about how much disbursement.

Kunal Shah: Considering like we are at just in the end of the year, are we like hearing the target of we would mention confidence that we should be able to cross this?

Satnam Singh: I am very much confident that we will cross the target; do not

ask me how much, that I will not like to say.

Kunal Shah: How much would be your incremental cost of funds? We have seen it coming down by 30 basis points in this quarter.

Satnam Singh: No, in this quarter we have reduced by 70 basis points, not 30.

Kunal Shah: Quarter-on-quarter?

Satnam Singh: Quarter-on-quarter we have reduced by 70 basis points. Q3 of FY'09, Q3 FY'10 year-on-year means nine months period it is 24 basis points lower and with our ensuing borrowing USD 300 million it will be still lower in the current quarter.

Kunal Shah: Anything incrementally we are borrowing at the lower cost as compare to that of 8.6 or 8.57 we see for coming down?

Satnam Singh: Yes, of course that is why it has come down.

Kunal Shah: What is the incremental cost now, at what rate we are borrowing?

Satnam Singh: For the Q3, it is 8.57 and the overall for nine month is 8.54.

Kunal Shah: Okay sir.

Moderator: Thank you Mr. Shah. We have a followup question from Mr. Shrey Loonker from Reliance Mutual Fund. Please go ahead.

Shrey Loonker: Just wanted to get a sense how do you see banks approaching power sector, are you seeing them doing a good job when it comes to risk pricing or do you see them getting more aggressive given that the systemic credit process is much lower?

Satnam Singh: Well you know that the sector offers very high-level of opportunities. Even when the original plan was made it was indicated that there is going to be a shortage of roughly about 39% to 40% of the total fund required during Eleventh Plan itself. So any number of additional initiatives by banks one is not going to affect our business and the outstanding sanctions is an indicator of that so we are in no way whether banks go aggressive or not we are not affected as per as our business is concerned; however, I would also like to share with you that bankers are supposed to follow the BASEL II norms, whereby through the state power utility, which are doing new projects they have to go back to 150% risk weight and therefore the kind of risk they will offer to these utilities cannot be lower than ours, so we will be able to get our business share without fail.

Shrey Loonker: But just wanted to get a sense if you are going into these private sector lending how different are the yields given that some of these corporative, private sector borrowers would be rated from a BASIL II perspective would provide a relief to the banking system?

Satnam Singh: Well as far as we are concerned our margins are slightly higher in the case of private sectors borrowers but of course that depends upon what type of the promoters take up the private projects. If they fall in our first two grades then obviously our margins are lower still we have six grades mostly the borrowers are falling in 3 and 4 grade and very few are falling in grade 5. Grade

6 of course we do not fund, so if majority of the people come up in one or two grade then only margins will get affected otherwise margins are going to be sustained.

Shrey Loonker: Sometime back media reports were there that there was a plan somewhere being noted by within the government circles to give retail power bond giving PFC, REC access to retail power bonds, which would be tax. I mean do you see any movement on there, do you see any likelihood of that happening given that as you said the opportunity is huge and clearly this is on the liability side is kind of becoming the talk of almost every conference and every...?

Satnam Singh: That is on our wish list, so we would definitely like it to happen but I cannot answer this question that whether it would be done or not what is the likelihood of this being done that only Ministry of Finance can say. Shrey Loonker: Sure and just wanted to get another sense on the take out financing when take out financing scheme was announced in the interim budget last year, there was a talk that take out financing would be extended to even PFC, REC or rather beyond commercial banks. Although we do not need it but is there any thought out there, is their any update out there?

Satnam Singh: Nothing at the moment.

Shrey Loonker: Great, that is all from my side. Thank you.

Satnam Singh: Thank you.

Moderator: Thank you Mr. Loonker.

Kunal Shah: Sir, Kunal over here. Just one thing with respect to disinvestments, government is holding 90%, so anything on that in next one year or so may be definitely like PFC?

Satnam Singh: I want to know from you. Capital adequacy is high and going forward it will still remain comfortable, as CMD of this company I would not like that this should get increased because then I will not be able to offer same rate of return as I am able to offer to my equity holders today but government is government. Government being holder of 89.78% now it indicates when they are going to disinvest. So I would like to know from you, if you come to know.

Kunal Shah: Just clarifying, I too understand that nothing is going to come up.

Satnam Singh: Nothing, we are not in there, some of the media fellows reported but now our name does not figure in.

Kunal Shah: Great sir, thank you.

Moderator: As there are no further questions I would like to hand the floor over to the management for any closing comments.

Satnam Singh: Well, thank you for participating in large numbers and asking inquisitive questions, it helps us to improve our performance further. Thank you very much.

Moderator: On behalf of Edelweiss Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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