

Transcript

Investors Conference - Power Finance Corporation Limited

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Presentation Session

Moderator: Good evening ladies and gentlemen. On behalf of Power Finance Corporation Limited, we welcome you to the Investors conference to announce the financial results for the year ended March 31, 2013. On the dais in the center, we have Mr. Satnam Singh, Chairman & Managing Director PFC; to his right, we have Shri. M. K. Goel, Director (Commercial) PFC; to his right, Shri. R. Nagarajan, Director (Finance), PFC; to his right, Shri A. K. Agarwal Director (Projects), PFC; then to the left of Mr. Satnam Singh, we have Shri B. N. Sharma, Joint Secretary, Ministry of Power; to his left Shri. K. M. Sahni, Independent Director and to his left Shri J. N. Prasanna Kumar, Independent Director. Now, I would request Mr. Satnam Singh to share the details of the results with us.

Satnam Singh: Good evening and thank you everyone for responding to our investors meet. Before we discuss the yearly results, I thought it's appropriate for me to share with you the positive developments, which are taking place in the Indian power sector and giving us adequate comfort that future is going to be good. First of all, the tariff increases. I am sure you all know that in the FY 2012-2013, almost all states increased the tariff in the range of 0-37% and in the FY 2013-2014, 23 states filed tariff petition, 15 have already issued the orders and the expected increase in tariff is in the range to 0-23%. Second positive development is the financial restructuring plan. Government of India approved the financial restructuring plan in the 3rd quarter; however, since there were certain issues to be resolved with respect to Reserve Bank of India considering this as second restructuring or not and also about the rate of interest to be charged by distribution companies when they issue the bonds to the banks. It took some time to resolve these issues and the last date was extended from 31.03.2013 to 31.07.2013. Ten states have already conveyed their in-principal approval for joining the scheme and three states have got the scheme approved by their respective cabinets. Hopefully, all these states will implement the financial restructuring plan before 31.07.2013. In March 2013 our Minister of State for Power declared ratings of distribution companies which will become the basis for lending for all the institutions involved in lending to distribution companies. Our assessment is that this will help these distribution companies to improve their performance going forward. That means, if any institution, whether it is PFC, REC or banks want to lend some money to a particular distribution company, they will have to go by the rating specified by Ministry of Power through the rating agencies.

I am sure by now you are familiar with the Restructured APDRP scheme, aimed at bringing down distribution losses in 1,402 eligible towns all over the country which is being implemented aggressively. As of now, 289 towns have been declared Go-live and these towns have been able to reduce losses through the administrative measures alone (without upgradation of the system per se), in the range of 1% to 10%. So, going

forward, even the implementation of this scheme, is going to bring considerable revenue to the distribution companies.

Apart from that, several other initiatives have been taken by the Government of India, for example Cabinet Committee on Investment has been set up headed by Honorable Prime Minister, which has already cleared 13 projects on fast track basis valuing about Rs. 33,000 crores, 12 mining projects with production capacities of about 37 million tonnes have also been cleared. Our minister is taking dashboard meetings where all the important items are listed almost twice in a week and the issues are being decided and they are moving in the right direction. A ministerial panel very recently gave a nod for setting up a coal regulator and the proposal is likely to go to the cabinet in the next 10 days or so and finally CERC's approach towards compensatory tariff in the case of Adani Power and Mundra ultra mega power project of Tata Power is also a step in the right direction. I am sure you know that in spite of negative growth rate in the previous year, Coal India has been able to increase coal supplies to power utilities by over 10% in the financial year 2012-2013. Nobody expected this but this is a step in the right direction. Other positive aspects of course are Reserve Bank of India's stance on softening of interest rates for the last over one year or so.

So, given all these positives happening in the Indian power sector we feel that going forward the situation is going to be much, much better than what it was in the past. Having said that now let me share with you our results for the financial year. Of course we will make a detailed presentation but I'm going to highlight a few of the aspects. Our annual profit increased by 46% from Rs. 3,032 crores to Rs. 4,420 crores primarily on account of increase in loan assets by 23%, some write-back on account of some of the non-performing assets becoming standard assets and also the increase in spread to the extent of 62 bps because of the softening of Reserve Bank of India's stand as far as interest rates are concerned. Our gross non-performing assets, which were 1.04% in the financial year 2012, have come down to 0.71% and there has not been any addition to NPA in the current financial year.

So going forward how does the business look? One, because of these positive developments, positive of course. We have large outstanding sanctions of about Rs 1.64 lakh crores. We had opened two subsidiaries last year. PFC Consulting was already operating, so we have now three 100% subsidiaries operating for the full year, which will result in business growth and we have taken the initiative to set up power equity fund and explore possibility of acquisition of stake in one of the public sector banks. Both these proposals are currently being examined by Ministry of Power and Ministry of Finance. For Power equity fund, we have decided on Tata Capital as the partner. We have also obtained approval from Reserve Bank of India. So, we are at quite an advanced stage as far as power equity fund is concerned.

The details of course you will see in the presentation but I thought I would also talk a little bit about quarter on quarter performance. Our profit after tax in the last quarter increased by 58% from Rs. 818 crores to Rs. 1,294 crores. However, this would have been higher but for some provisions. I am sure you remember last meeting we had discussed that we are not agreeing to Reserve Bank of India's proposal to create provision of 0.25% against the standard assets, but since our profit in the current financial year was quite substantial, we have decided to do so right from this year at the rate of 0.08%, which amounted to Rs. 133 crores, so if that Rs. 133 crores, i.e. that provision had not been created then our profit for the year would have been Rs. 4,553

crores. So, comparable profit for the fourth quarter was 66% higher that means, after adjustment of this provision, plus other items, from Rs. 805 crores to Rs. 1,335 crores. Similarly income, net interest income and spread was much higher as compared to that in Q4FY2012, primarily because I have already explained to you earlier that we match re-priceable assets and re-priceable liabilities on a year to year basis. However, earlier than last year, Reserve Bank of India was increasing the interest rates every now and then. So therefore, our liabilities though matched on year to year basis were getting repriced every now and then whereas our assets were getting repriced only four times in a year, once in a quarter. So, there was also some time lag and therefore a year before last our spread and NIM had come down and investors had shown a concern about that. I had explained at that time that the moment RBI puts a full stop to interest rate increase, our spread and NIM are going to come back and this has been proved correct, you can see it in the results for FY 2012-2013.

As far as business growth is concerned, our sanctions during the year increased by 26% from Rs. 59,429 crores to Rs. 75,147 crores; disbursements increased by 13%, from Rs. 39,818 crores to Rs. 45,151 crores and the loan assets by 23% from Rs. 130,072 crores to Rs. 160,367 crores. Now, though we are not supposed to give any guidance but I am only sharing with you the targets agreed to between us and Ministry of Power as part of MoU. Our sanction target for 2013-2014 is Rs. 59,000 crores; disbursement is Rs. 47,000 crores and resource mobilization Rs. 44,000 crores. We are sure of achieving these targets given the positive developments, which are taking place in the power sector, plus the outstanding sanctions, which we have of the order of Rs.1.64 lakh crores, which is 3.6 times of the disbursement for the FY 2013.

In PFC Consulting we are exploring the possibility of creating a joint venture in the thermal generation area. We have already invited bids. We have received responses from two companies and we are likely to finalize shortly, which is the company with which we will join hands for doing the consultancy business in that area.

We have opened a separate company called PFC Green Energy to give greater focus to solar and wind projects. Solar because Government of India has already set up a national solar mission; some of the solar projects have already happened. Wind projects, because there is a tremendous wind potential in the country and the tariff rates of the wind projects, if you see in the last two or three years, haven't gone up substantially and they have become now comparable to the tariff rates of thermal stations. And of course in the union budget the generation-based incentive for wind energy projects was also restored, which is I think is Rs.0.50 per unit of electricity in terms of tariff.

We have started a new company PFC Capital Advisory Services because more and more projects are happening on consortium-lending basis. We see considerable opportunity in adding to the revenue of the company. Acquiring stake in the bank and the power equity fund, I have already explained. Our capital adequacy ratio as on 31.03.2013 stands at 17.98%, which is quite comfortable as of now. However, Reserve Bank of India is categorically saying that we have to fall in line as far as capital adequacy requirements are concerned for banks. RBI is saying that as far as future disbursements are concerned, meaning thereby, sanctions where disbursements are yet to take place, we need to provide for almost 50% of the exposure towards the capital required for that purpose. We are in continuous discussion with Reserve Bank of India on that account, but for the time being we have found out a way as to create some kind of provisions in

the loan agreements because of which we will not have to keep additional capital on account of un-disbursed portion of the loans.

As regards, provision against standard assets, against 0.25% required to be made, we have started with 0.08% per year and in the current year we have created Rs. 133 crores and we will complete this in a period of three years or so. As far as resource mobilization is concerned, in FY 2013, we mobilized Rs. 40,407 crores and the marginal cost was about 8.79%, which was much lower than previous year and going forward also given the envisaged stance of the Reserve Bank of India we don't see it going in the opposite direction. If at all it will move, it will move in the positive direction.

The last development is about ultra mega power projects. We have identified 16 UMPPs and awarded 4 UMPPs. There has been considerable development on three; however, Ministry of Power, which is working on modifying the standard bidding documents is at an advanced stage of completion. Once that happens we will see a movement in the three ultra mega power projects also. 4 ITPs have already been successfully completed. We have been given another 5 ITPs by ministry. Out of those 5 ITPs, 4 ITPs are in an advanced stage. We have issued RFQ for 4 and we are likely to award these 4 consultancy contracts in the transmission in the current financial year. That is all I had to say. Now, we can see the detailed presentation to be made by Mr. R. Chandrasekaran and then we can take on question and answer session. Thank you.

R. Chandrasekaran: Good afternoon everybody. I welcome you all to this conference to share the performance, highlights of PFC during the fourth quarter as well as the FY 2012-2013. The year 2012-2013 has been an excellent year for PFC in the sense that we have achieved significant growth in all the financial parameters over the previous year. As you can see the net profit in FY 2012-2013 has increased by 46% to Rs. 4,420 crores vis-à-vis profit of Rs 3,032 crores of FY 2011-2012. Comparable PAT after adjusting certain extraordinary items has increased by 50% from Rs. 3,130 crores to Rs. 4,690 crores. Total income increased by 32%, from Rs.13,037 crores to Rs. 17,273 crores and net interest income has increased by 43% from Rs. 4,395 crores to Rs. 6,272 crores in the financial year. Gross NPAs has reduced from 1.04% to 0.71% and net NPAs has reduced from 0.93% to 0.63%. Our interest spread during the financial year has increased by 62bps from 2.25% to 2.87%. Sanctions excluding R-APDRP has gone up by 26% from Rs. 59,429 crores to Rs. 75,147 crores. Disbursements have increased by 13% from Rs. 39,818 crores to Rs. 45,151 crores. Loan assets have increased to Rs. 160,367 crores from Rs. 130,072 crores, which is the main driver for our higher growth. Net worth has increased by 15% from Rs. 19,493 crores to Rs. 22,351 crores.

Now, the results for Q4 FY 13 vis-à-vis Q4 FY 12. There is an increase of 58% net profit from Rs. 818 crores to Rs. 1,294 crores. Comparable PAT has increased by 66% from Rs. 805 crores to Rs. 1,335 crores. Total income increased by 27% from Rs. 3,684 crores to Rs.4,670 crores. Net interest income increased by 40% from Rs. 1,229 crores to Rs. 1,726 crores and interest spread has increased by 66 basis points from 2.33% to 2.99%. As told earlier, after adjustment of certain extraordinary items, the comparable profit has gone up to Rs. 4,690 crores against the reported PAT of Rs. 4,420 crores. The main components are the contingent provision against standard assets of Rs. 133 crores during the year and translation loss of foreign exchanges of Rs. 117 crores.

Our interest income in FY 13 has gone up by 34% in the financial year from Rs. 12,724 crores to Rs. 17,041 crores and operating costs have gone up by 12% and provision for

contingencies have gone down by 43% mainly because of reversal of certain provisions on NPA becoming non NPA. Our total balance sheet size is Rs. 169,817 crores. Our liabilities mainly consist of 82% of borrowings and 14% of shareholders funds. And assets mainly consist of 94% of our loan assets. Main key indicators for our business i.e. sanctions have gone up from Rs. 59,429 crores to Rs. 75,147 crores; yield on assets have gone by 70 basis points from 11.25% to 11.94% and interest spread has gone up by 61 basis points from 2.25% to 2.87% and net interest margin has gone up by 51 basis points from 3.89% to 4.40%. Return on average assets for the year has gone up by 37 basis points from 2.52% to 2.89%. Net worth has gone up from Rs. 19,493 crores to Rs. 22,351 crores and our capital adequacy ratio is comfortable at 17.98% and out of that 16.83% is of Tier 1 and 1.15% of Tier 2. EPS has gone up by 43% from Rs. 23.41 to Rs. 33.48 and book value per share has gone up by 15% from Rs. 147.68 to Rs. 169.33.

Our total sanctions for the year of Rs. 75,147 crores consists of around Rs. 38,352 crores of generation projects, Rs. 8,278 crores of transmission projects, Rs. 1,350 crores of distribution and Rs. 27,167 crores of others, which included our transitional finance. Of these sanctions, sanction for state sectors have gone up by 30% and private sector has gone up by 29%. In Our total disbursements of Rs. 45,151 crores, there is an increase of 41% in state sector disbursements from Rs. 24,601 crores to Rs. 34,781 crores and about 27% increase in joint sector disbursements from Rs. 1,619 crores to Rs. 2,062 crores. As the Chairman has already told, there is an outstanding sanctions Rs. 163,720 crores, which includes 41% of sanctions in loans where disbursements have already commenced.

Our total loan assets is Rs. 160,453 crores, which comprises of assets for generation projects of Rs. 126,773 crores, transmission projects Rs. 11,089 crores, distribution projects Rs. 6,144 crores and others(including transition loans) of Rs. 16,447 crores. As already explained, there is a significant reduction in NPAs. Gross NPAs have gone down from 1.04% to 0.71% and net NPAs has gone down by about 30 basis points and we have made provisions for standard assets of Rs. 133 crores and specific provision towards NPAs of Rs. 121 crores and also reserve for bad and doubtful debts of Rs. 1,409 crores, which comes to around 1% of our loan assets which act like a buffer.

Our total borrowing outstanding is Rs. 139,583 crores consisting of bonds of Rs. 106,321 crores, term loans of Rs. 24,442 crores and short-term loans of Rs. 8,820 crores, out of that foreign currency loans comprises of Rs. 8,424 crores. Apart from the borrowing, which I had showed earlier, our resource profile includes shareholders funds as well as interest subsidy fund from Government of India.

Some of the major loans sanctioned during the year are 1600 MW coal based generation project of Tamil Nadu Generation and Distribution Corporation of Rs. 8,151 crores, 1320 MW Obra in UP of Rs. 6,144 crores, transitional loan to Tamil Nadu Generation and Distribution Corporation of Rs. 5,000 crores, 700 MW coal-based TPP of Karnataka Power Corporation of Rs. 3,749 crores, 800 MW TPS of AP Power Development Corporation of Rs. 3,542, improvement of 765 KV lines of Western UP Power Transmission Company Ltd of Rs. 2,514 crores, improvement of 765 KV lines of South East UP Power Transmission Company Ltd of Rs. of 2,476 crores, transitional loans to Uttar Haryana Bijli Vitran Nigam Ltd of Rs. 2,300 crores, development of overseas oil and gas to Videocon Industries Ltd. of Rs. 2,200 crores and transitional loans to Uttar Haryana Bijli Vitran Nigam Ltd of Rs. 2,000 crores.

Our total equity share is Rs. 1,320 crores, out of that this, the shareholding pattern is as follows:-the President of India holds 73.72%, FIIs hold 12.46%. Indian FIs and banks hold 5.81%, bodies corporate hold 2.45%, resident individuals hold 2.47%, mutual funds hold 2.70%, employees hold 0.08% and others hold 0.31%. The major targets agreed with Government of India for sanctions and disbursements for FY 2013 -2014 are Rs. 59,000 crores and Rs. 47,000 crores respectively. Thank you.

Satnam Singh: Yes. Please, can we take the questions now?

Question and Answer Session

Participant 1: There is a risk faced with regards to power sector loan assets because there are issues with Ministry of Environment and allocation of coal and this is a problem that we find with many PSU banks. In your case we find that not only has your margins improved, NIMs improved, you seem to be doing much better than what PSU banks are doing, while for them power is one sector and for you power is the only sector, so, two parts to the question. One, what's your experience with the generating assets for which sanctions have been given and loans are yet to be distributed, whether you are finding any stress and B, why this difference between your performance and PSU banks?

Satnam Singh: Well, why the difference between their performance and our performance I leave it to your judgment, but let me explain that in April 2011 when we found, based on our experience of previous years that there is considerable time being taken by the developers to get these clearances, we started putting these two conditions, i.e. tie-up of fuel supply agreement and forward purchase agreement as preconditions for disbursement. For some time the bankers thought that we are creating a hindrance, but later on bankers also agreed and started providing these conditionalities. This was in the overall interest of the power sector. It was not that we wanted to stop disbursements, we wanted to make sure that these developers will make concerted efforts to get to these clearances before they start drawing money from institutions and we have analyzed all our projects and we find that as far as coal issues are concerned, there are only one or two projects where we have difficulty, all other projects the issues got resolved, one, because of the conditionalities, two, that we do not disburse till the issue reaches an advanced stage.

Participant 1: Sir, just to understand. You sanctioned some power project for the state in the current year, for example Tamil Nadu, UP etc., so, would it be fair to assume that they have a coal linkage, they have something else tied up to have reached this stage or these pre-conditionalities will exist before disbursement.

Satnam Singh: You see, I have clearly said that both, fuel supply agreement as well as on power purchase agreement, will be pre-conditions when there is no development. We started doing this since April 2011, but now the developers come to us when they have made substantial progress in these two areas. Very recently I think yesterday or the day before there was a news that Coal India has now agreed to sign fuel supply agreements even when PPAs are not there, because for PPAs the developers are dependent on the bidding process of state sector distribution companies and they are not coming out with those bids, so you see, the question is, each institution should be conscious that when money is given, then whether it is possible to implement the project or not.

Participant 1: And, sir, one more question. You mentioned about your interest in the bank and there was a public statement that you were looking at acquiring some stakes in PSU banks. Anything firmed up on that?

Satnam Singh: Yes, I very clearly said that we have proposed this; we have taken a call about this in our board, but we have to take the approval of Ministry of Power as well as Ministry of Finance before we can make headway in that area. So, at the moment, both the ministries are examining our proposal, so it will be very difficult for me to say that we have headway, no. It's our Boards thinking, which we have shared with them and we will wait for their response.

Participant 1: Thanks.

Satnam Singh: But I can share with you why are we proposing that. You see when we lend money to state and central sector projects we have a payment security mechanism in the form of tripartite escrow account, which is an agreement signed between respective power utility, us and their main collection banker, but this escrow account is maintained with a third-party banker. Similarly for lending to private sector, we have a trust and retention account, which is managed by, again, a third party banker where entire money, whether it is equity or loan from lenders they are collected together in that account and draw down specified for that bank to follow. But our feeling is that in both these cases of payment security mechanism, we are dependent on third-party banker and therefore if the developer and the banker connive, we may face difficulty. We may go for breach of contract, but that does not sort of fortify our payment security mechanism, so with a view to ensure that if we get a stake in one of the banks, we will transfer all these accounts in that bank where we also have a role in the management, maybe a board membership or something like that, so that will cement our payment security mechanism, that is why we are trying to achieve that. Yes, please, anybody else?

Participant 2: Sir, you said that RBI is insisting on 50% of your un-disbursed amount to be treated for capital calculations. So, can you just let us know what will be hit if this goes through on our tier 1 basically. I mean, currently tier 1 is around 16.83, so if we include this 50% in our capital calculation there would be...

Satnam Singh: No, no. As of March 2013 our capital adequacy is 17.98% and we have outstanding sanctions of Rs. 163,720 crores. For the disbursements envisaged in the first year, the risk weight is 20%. For the following year disbursement, risk weight is 50%. If RBI asks us to strictly follow that we may need roughly additional capital of the order of Rs. 9,000 – Rs. 10,000 crores, but it is not a question of needing additional capital, it is a question of what will be the impact of this issue on the Indian power sector. If I have, even if I am able to arrange that much additional capital, the cost of lending to power projects is going to go up substantially, As it is, there are issues about tariff increase and viability, so, we cannot afford to, whether it is Reserve Bank of India or us or for that matter any ministry, we cannot afford to take a decision, which will be detrimental to the Indian power sector, so that is why we are continuously generating conversation with Reserve Bank of India that it is not appropriate to take this kind of decision.

Participant 2: Okay and sir what would be our outstanding restructure exposure?

Last quarter I think you said around 3%, 44 million of...

Satnam Singh: It is about Rs. 7.604 crores.

Participant 2: Okay. So, last quarter it was...

Satnam Singh: But let me explain to you these restructured assets, what do they mean. You see power projects in India particularly are being put as special purpose vehicle mostly, 99.9%; and they can start servicing of debt only when the units get commissioned and they start generating revenue. Now, since these projects are long gestation projects some delay takes place. This restructuring is only on account of delay in commissioning. It is not a reflection of the ability of the project to service the debt and this amount is only about Rs. 7,604 crores for private sector projects where we follow the RBI norms.

Participant 2: Okay, thank you sir.

Satnam Singh: Yes. Yes, please.

Participant 3: Sir, first and foremost, many congratulations on posting such wonderful numbers and delivering such a performance.

Satnam Singh: Thank you very much.

Participant 3: You have upscaled from last year almost by 25% qualitatively and your opening point remarks are a pointer to good times to come, but one is seeing two issues in that. One is the availability of coal. Coal India is unable to meet the total national requirement and we are importing 200 million tons of coal. It's not done. We have the largest reserves. On grounds of pollution and on grounds of environment, we are unable to get more coal from our own reserves and which is causing a big imbalance particularly power sector but across the industries, and recently there was in the news that, I think it was at the initiative of PMO that environment clearance for new road projects has been waived off, either we do that again for the power sector or we ensure that ongoing projects comply with the stringent pollution norms rather than bringing things to a standstill complying and then restarting. It is causing a huge delay and cost, which are unbearable. I mean, CERC has agreed for re-negotiated tariffs for private sector power projects. They are not able to get coal even from outside, I mean, the core key burning issue is availability of coal. I thought I should share this thought with you and have your mind on this.

Satnam Singh: Well, I don't know whether you participated in last year's investor's conference. Yes, you did? I will like to repeat what I said last time. I have also shared this with the journalist and the press. My views are widely different from what you hear from most of the people. See, coal and power are interdependent industries and in interdependent industries if you look around worldwide, what is the system of growth. System is growth is not two parallel lines. System of growth in two interdependent industries is peak in one followed by peak in another and that is what has happened in Indian power sector. Capacity addition has taken a peak. The only inference, which is to be drawn, is coal is now going to peak, but people are saying coal is a problem as if it is going to be a problem for the next 25 to 50 years. No. When the system of growth worldwide is peak in one followed by peak in another there will always be some time lag

between the two. But that is a system of growth, so where is the worry. Yes, it would have been a cause of worry only if India did not have coal reserves. For your information, India's proven coal reserves are over 118 billion tons and the yearly extraction rate is only 0.6 billion tons but positive signals are coming in that direction. Nobody thought Coal India will be able to increase the production by over 10% as far as supplies to power utilities is concerned in one year, it was minus 1% last year. So, the positive things have to be seen. It's a process of evolution and I am sure we will be able to get over this phenomenon quickly. At least, faster than any one of us thinks. There are people who think it will take two to three years, according to me it will take one year or maybe less than one year, so be optimistic I suppose.

Participant 3: Thank you.

Satnam Singh: Thank you.

Participant 4: Sir, in few projects where PFC is the lender, these projects do not have a complete PPA. When you must have started lending or sanctioned the loan there would have been some analysis that you would have done that, okay, this is the minimum PPA that the project should have or merchant power. That is one issue. The other issue is the revised SBD is taking more than a year to be revised.

Satnam Singh: Revised...?

Participant 4: Standard bidding document for case one and case two bids. So, what is the outlook now for such projects and what is the outlook for the revised SBD for case one and case two both?

Satnam Singh: Well, as far as power purchase agreement, your first question is concerned, I have explained to you that from April 2011 onwards, we started putting conditionalities wherever there was no progress, that unless you have FSA and PPA in place, you can't get disbursement from us; however, as the time passed by, we kept looking at the progress, which each developer was making with respect to these two aspects and then reviewed our stand and started disbursing whenever the developers had made adequate progress on these two issues. So for example, if they have already bid out a portion and got the award of a portion that they have bid out, so it is wrong to say that unless you tie up everything we will not disburse even a single rupee; so that's how we have followed our approach. As far as your question of standard bidding documents is concerned, Ministry of Power is aggressively working on modification of standard bidding documents, both for case two and case one. In fact, yesterday also there was a meeting, final meeting for case two documents. So hopefully, after a week or 10 days those documents will be put up to a group of ministers for approval. Already a lot of work has been done and in the coming one or two months, I think these documents will be issued and thereafter the action will start.

Participant 4: Sir, are you satisfied with the DBFOT model suggested in the case to revise SBD?

Satnam Singh: No, it's not a question of my satisfaction.

Participant 4: As a key lender?

Satnam Singh: No, no, no. Ministry of Power is the central agency to issue the guidelines about the particular structure. I am supposed to be implementing those guidelines; so where is the question of my satisfaction. The guidelines issued by them, we will implement.

Participant 4: Sir, in the draft some of the vendors were not satisfied, that is the reason I asked.

Satnam Singh: The structure followed by ministry is that they are discussing with bankers, they are discussing with distribution companies, they are discussing with private developers and after seeking the views of all the groups and their own application of mind they have taken the final decision. After that who am I to say whether I am satisfied or not. I have to implement those guidelines. Yes I am satisfied. If that gives you pleasure I am satisfied.

Participant 4: Sir, one last question on the working capital loans, short-term transitional finance to the states, sir, how is the repayment structured for these loans?

Satnam Singh: Well, when Government of India approved the financial restructuring plan and we of course had not lent these short-term loans, which are being restructured under this plan, Government of India also said that you must provide some support to the distribution companies. It is in this context that we called lot of states and asked them as to what will be their additional need over and above the financial restructuring plan approved by the Government of India. So based on that discussion, both PFC and REC had agreed to sanction roughly about Rs. 19,000 crores of transitional loan to five or six states and that is the support, which we have provided. The terms of lending are up to three years moratorium period. We left it to the respective utilities to decide. Somebody may want one year based on their cash flow, somebody may want three years, so up to three years moratorium and up to seven years repayment. It's like kind of long-term loan, which will continue to generate revenue for us and of course is has the security in the form of respective state government's guarantee.

Participant 4: Thank you very much.

Satnam Singh: Welcome. Rate of lending is depending on the rating of the individual states, but it is in the range of about 12.5. Yes, please. Yes, Kunal.

Kunal: Thank you, sir, for taking the question. Sir, firstly on this transitional finance, out of this Rs. 19,000 crores actually what has been disbursed in FY13 and whether the disbursement target of FY14, which we had given to MOU of Rs. 47,000 crores, does that include the transitional finance as well?

Satnam Singh: As far as disbursement in the FY 2012-2013 is concerned, we have disbursed I think about Rs. 12,818 crores and the balance will be disbursed subject to compliance of conditionalities by the respective state utilities. But when we fix next year's target, Rs. 47,000 crores, we do not specifically mention that whether it will be only disbursement against long-term loans or short-term loans. But yes the balance amount will be considered in the disbursement target.

Kunal: Okay. The question was only whether the disbursement of Rs. 47,000 seems to be like optimistic considering, like, Rs. 45,151 crores was the disbursement in this year,

which would have included Rs. 12,818 crores of transitional. So it's like Rs. 32,333 crores, say, ex-transitional finance, okay, and now the target of say, Rs. 47,000 crores. So we would be disbursing say Rs. 4000 - 5000 odd crores, so from Rs. 32,000 crores do we actually see the disbursements growing again to like Rs. 42,000 crores, so, does the outstanding sanctions, the way we look at it, the disbursements spread out there does that suggest that it could be, like, Rs. 42,000 – 43,000 crores odd.

Satnam Singh: Well, this is a figure agreed to between us and the ministry as far as MOU document is concerned. But there is no constraint that we cannot exceed this target. So if we find that the developers have made considerable progress as far as milestones are concerned and they claim disbursement from us we might exceed that target, including the balance disbursement under the transitional loan. It is also possible that some of the utilities may not be able to fulfill these conditionalities for balance disbursement of transitional loan and therefore it may not get disbursed at all.

Kunal: And, sir, then on this RS India, actually if we look at the provisioning, there is almost like Rs. 50 crores kind of a write-back out there because if we had done the standard asset provisioning of Rs. 41 crores in this quarter, in the presentation it shows like Rs. 9 crores of write-back on the provisioning. So net of that it would be like almost like Rs. 50 odd crores and I think on this Rs. 230 crores, we actually made 10% provisioning, which was Rs. 23 crores. So, I just wanted to get the sense like this Rs. 50 crores of benefit on say the upgrade of RS India, so what are the components of that?

Satnam Singh: Well, the total amount due, the total amount lent to RS India was Rs. 228 crores and we had created a provision of 10%, which is Rs. 23 crores approximately and that has been written back. Another amount of Rs. 28 crores was provided on account of OFCD. There was a provision in that structure, optionally fully-convertible debentures, so that has also been written back.

Kunal: So, but that hits the provisioning line item?

Satnam Singh: The Director (Finance) will explain this?

R. Nagarajan: When we restructured the loan, some interest was not paid, that we have converted into OFCD of Rs. 33 crores, so, we allowed them the option to prepay any money out of the OFCD and they paid Rs. 5 crores. So Rs. 28 crores were outstanding. As per the RBI norms, for any OFCD we have to credit to P&L account and then make a provision for that because it was not received in cash. So the Rs. 28 crores when it became a standard asset, we shifted over to accrual system of accounting. When we shifted to the accrual system of accounting, we reversed the Rs. 28 crores or whatever we had provided earlier, that is why Rs. 22 crores reversion on 10% of provision and Rs. 28 crores on OFCD, that's why we got the benefit of Rs. 50 crores plus some Rs. 4 - 5 crores we got the benefit on interest, which is on accrual basis.

Kunal: And, sir, your comments on two specific accounts, Suzlon and Sasan. Today there was news that the Sasan debt is getting restructured so, sir, where do we stand in terms of position and Suzlon for most of the banks it has already been restructured. So, this Rs. 7,000 crores, which you highlighted, does that include Suzlon as well?

Satnam Singh: This Rs. 7,604 crores, which I mentioned does not include Suzlon but it includes Sasan Power. As I have already explained. Power projects being put up as

SPV can start servicing debt only if the units get commissioned and if there is a delay in commissioning, there is a need on the part of financial institutions and banks to restructure to that extent so that the unit is able to service the debt. So Sasan has been restructured based on that because they had originally given a schedule, then they agreed to 36 months preponement, but against that 36 months preponement there was a delay though, they have commissioned it much ahead of the original schedule. As per revised schedule there has been some delay, because of that it has been restructured and that Rs. 7,604 crores includes Sasan. However, Suzlon was not NPA in our books as of March 2013. Since other lenders had gone in for CDR, we did not want to be a part of CDR. They had paid whatever principal was due to us up to September so it was not NPA in our books. But based on that CDR, they also requested us that why don't you be a part of CDR, but we are not the working capital lenders to Suzlon. We have lent it for their capital equipment manufacturing plant. So therefore, we said we don't want to be part of that, but since the company is facing some difficulty in servicing, we have also restructured that loan in the last Board meeting. The details we will spell out only after the minutes are approved, so it's not going to be an issue going forward.

Kunal: Okay. Thanks a lot, sir.

Participant 6: Hi, sir. Sir, can you share your view on interest margins going forward?

Satnam Singh: I have explained that our system of lending is such that we match re-priceable assets and re-priceable liabilities on year on year basis and since earlier than January 2012, Reserve Bank of India was increasing interest rates every now and then, we were not able to pass on that interest increase to our borrowers through this reset process at that point of time. It was happening only four times in a year, that is, once a quarter. So, the spread and the margins had come down. Spread came down at that time by about 20-25 basis points to 225 from 250-260. Now that RBI has put a full stop to interest rate increase our spread and net interest margins have come back. Our net interest margin is also higher because of the high capital adequacy ratio which we are maintaining, which is a comfort for our lenders and going forward if RBI keeps that policy stance of softening interest rates there maybe some positive impact. We have lot of margin to reduce our interest rates but there is no specific event, no bank is reducing. If PFC starts reducing then people will think that I don't know what is happening in PFC so we are keeping those margins close to our chest.

Participant 6: Sir, the reason I asked is that quarter on quarter basis from Q3 to Q4 there were some moderation, so...

Satnam Singh: That is because in the fourth quarter we raised certain foreign currency loan and in foreign currency loan our accounting policy is that all the issue expenses are booked in the quarter in which we raise foreign currency loan, so that is why there has been some impact on the margin in that quarter. I think you are talking of three or four paisa reduction.

Participant 6: No, sir, 14 bps that's okay, sir, thank you, sir.

Satnam Singh: That is because of the fee for raising that foreign currency loan, which has been booked in one quarter itself instead of amortization.

Participant 6: Thank you, sir and all the best.

Satnam Singh: Welcome. Yes?

Participant 7: Going back to your statement about buying a stake in a bank you mentioned that one of the reasons you are considering is that potentially the developer and bank could so to say connive and it might impact you.

Your fear is the developer and bank coming together could potentially impact the cash flows. Now, escrow and DRC is a mechanism, which has existed with you for a long time and has worked really well, so are you really seeing any cases of that happening, which gives you that fear.

Satnam Singh: No, no, no. You see, with the third-party banker managing our escrow account, we have not faced difficulty. But you see my asset book is about Rs.160,000 crores today, in next three years we may be doubling that asset book to over Rs. 300,000 crores, so that time my internal feeling is dependence on a third-party banker may not be so much appropriate. It is better to have that account in a bank in which we have management control. It is purely to cement that particular structure, not that it will not work. We enter into a formal legal binding contract. I can sue a bank if the bank connives with the party and does not pay to us. We have Reserve Bank of India; we can complain to them but why head into that, if I can cement that through a bank in which I also have a stake.

Participant 7: And, sir, as you rightly said, you will need management control, which would imply at least a 10% stake of potentially even higher. So, have you done some assessment in terms of what kind of capital you are willing to put aside for buying the stake?

Satnam Singh: All that is to be done after the clearance by Ministry of Power and Ministry of Finance because that's only a calculation. We know the shareholders funds of almost all banks and 10% calculation or 26% calculation will not require considerable time. We know how much resources we have. We disburse almost Rs. 4000 crores a month, so it's not a big issue for us. The question is let the decision be firmed up. I cannot tell you I have earmarked Rs. 1000 crores, which may give you an idea whether I'm going to have a 10% stake in bank A or a 26% stake in bank B. No. That's not fair. And it's not going to take a long time. The proposals are with the respective ministries. They will respond to us.

Participant 7: Thank you, sir.

Satnam Singh: Have some patience. Maybe next meeting we will share with you.

Participant 8: What are your views on banking license? Will PFC be applying for banking license?

Satnam Singh: That's another option, which we have kept while we sent the request to Ministry of Power and once we receive a response from Ministry of Power we will accordingly appoint our consultant for that purpose.

Participant 9: Hello, sir.

Satnam Singh: Yes, please.

Participant 9: On the financial restructuring plan though you clearly indicated that probably July it will be a concrete thing, which will happen there, but, you know, what we hear through media reports and, there is no crystal clear clarification on the NPV hit part because you see currently those loans attract 12-13% rate.

So our worry is that 50% of those loans will be converted into government bond, which will attract let's say 8.5 to 9% kind of yield and these loans are currently given at a rate of 12 to 13%, so there is clearly a gap of 300 to 400 bps, so how that NPV hit or that loss will be taken care of by the banking system, how that thing will go.

Satnam Singh: I think there is a need to clearly understand that there is not going to be any loss. The current lending by the banks, this is my view and my understanding; of course, you can ask the bankers whose loans are being restructured. The current lending is in the form of short-term loans, which can be, depending on the interest rate curve at that point of time, higher or lower rates, but these bonds, which are going to be issued are long-term government-guarantee based and therefore these instruments will be like quasi-government and therefore the rate of interest cannot be higher, therefore, the rate of interest has been decided in the range of 9% of so. So, when the banks will replace one loan with another loan and also mention the security structure, no one can say that it is loss of interest. It is a different instrument than the other instrument.

Participant 9: Okay and what's your take on standard bid document? What do you see that can probably take a final shape?

Satnam Singh: I have already shared with you. Going forward in a month or two, I think both case one and case two documents are likely to be sort of approved by Ministry of Power and given for implementation.

Participant 9: Thank you.

Satnam Singh: Thank you.

Participant 10: Hello, sir. Just a small question on, to whom do we place our bonds, who are the major parties to whom we place the bonds if you would just clear that, who are the subscribers to the bond?

Satnam Singh: For the resource mobilized in FY 13 through bonds, the major subscribers were banks (44%), insurance companies (8%), financial institutions and NBFCs (7%), mutual funds (31%), pension funds (2%), etc.

Participant 10: Thanks, sir.

Satnam Singh: Yes, please. Anybody else?

Participant 11: Hello, sir. Sir, I just wanted to have two data points. One is pertaining to Suzlon. What is the sanctioned amount and what's the disbursed and the same for Sasan.

Satnam Singh: Sanctioned amount in the case of Suzlon was Rs.993 crores, but some of it has already been repaid and current outstanding is Rs. 914 crores approximately.

Participant 11: So, 914 crores is disbursed you are saying?

Satnam Singh: No, entire money i.e. Rs. 993 crores was disbursed but some of it has been repaid up to March 2013, therefore, as of now Rs. 914 crores is outstanding. In the case of Sasan, the sanction was Rs. 1,770 crores and disbursed amount was Rs. 1091 crores.

Participant 11: Okay. Thank you.

Satnam Singh: That is disbursed and outstanding because repayment hasn't started as yet.

Participant 11: Thanks.

Participant 12: Sir, here on the last row. Sir, can you give us the breakup of FOREX loans between different currencies and hedged and un-hedged.

Satnam Singh: We have total borrowings of Rs. 139,583 crores, our foreign currency loan of Rs. 8,424 crores is only about 6% of total borrowings and since the redemption is not in the near future, we have not hedged the entire foreign currency portion. Depending on our risk management policy, we have kept it open, i.e. 85% is open, 15% is hedged. But since our networth is quite a high figure of Rs. 22,351 crores, this is very miniscule. Thank you so much. If there are no further questions, we request all of you to join us for High Tea please.
