



Power Finance Corporation Ltd.

A Govt. of India Undertaking

**“Power Finance Corporation Limited
Q1 FY 15 Conference Call”**

August 14, 2014

Power Finance Corporation Ltd.
(A Govt. of India Undertaking)



ICICI Securities



**ANALYST: MR. SANTANU CHAKRABARTI – ANALYST
– ICICI SECURITIES**

**MANAGEMENT: MR. M. K. GOEL – CHAIRMAN AND
MANAGING DIRECTOR – POWER
FINANCE CORPORATION**



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Moderator: Ladies and gentlemen, good day and welcome to the Power Finance Corporation Q1 FY 2015 Earnings Conference Call hosted by ICICI Securities Limited. As a reminder all participant lines will be in the listen mode only and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand over the conference to Mr. Santanu Chakrabarti from ICICI Securities Limited. Thank you and over to you, Sir!

Santanu Chakrabarti: Thank you Karina. Good afternoon, ladies and gentlemen I take great pleasure in having with us here today Mr. M. K. Goel - CMD, Mr. R. Nagarajan - Director (Finance), Ms. Nalini Vanjani - ED (Finance) and Mr. K. Sridhar - ED (Finance) of the Power Finance Corporation. They are here to discuss with you the company’s performance in Q1 FY 2015 and the business outlook going forward. We will have a Q&A session after the short discussion where all participants will get an opportunity to address the queries directly at them. Without much further ado, let me hand over the floor to our distinguished guests. Over to you Sir!

M. K. Goel: Good afternoon everyone. As you are aware, we had our last investor’s conference at Mumbai in May’ 2014, when the new government was just formed.

I therefore, would like to first highlight, the thinking of the new government towards power sector and initiatives taken by them, so far to address the challenges in the sector.

As announced, new government undoubtedly has identified infrastructure as its priority to push economic growth and is addressing power sector issues more aggressively.

Let me first tell you about the various initiatives taken by the new government to push the sector and this push is reflected in the government’s coordinated approach of having one minister in charge of coal, power and renewable energy, which is having lot of synergies in dealing with the interrelated issues of coal, power and renewables for sustainable solutions.

As you know, that power and coal both are having interrelated competing issues and it is expected that the issues would be resolved in a coordinated manner with single minister in charge at the apex level to address the issues of both the related sectors.

You may be aware that the most critical challenges facing power sector are related to fuel and the weak financial health of discoms.

Some of the new initiatives taken by the government to address the challenges with respect to fuel are that the e-auction limit is proposed to be reduced from existing 58 million tonnes to 25 million tonnes which means that 33 million tonne coal will now be available for the power sector.



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An exercise to rationalize coal linkage is underway to supply the coal from the nearest possible coal mine. This would release substantial coal transportation capacity and reduce cost of power. A task force has been set up within the ministry which is going to study the coal linkages in the country. Ministry of Environment & Forest and Ministry of Power jointly reviewed projects pending environment clearance and have set a timeframe to speed up the process in a coordinated manner.

MoEF has issued guidelines aimed at enhancing coal production which includes additional mining of existing mines up to a limit without public hearing. Clearance in clusters for nearby mines, instead of separate approvals. Doing away with compensatory afforestation and empowering district administrations to manage settlement and consent of projects within 60 days.

Power utilities have been advised to use imported coal wherever necessary as the increased cost is pass through in the tariff. Availability of coal is being monitored at the highest level in the government. Government is working with the state governments to expedite land acquisition process, as many times we have seen that the land acquisition with respect to coal mine areas is becoming an issue.

Coal India and its subsidiary working on augmenting coal production including capacity addition from new projects and by use of mass production technologies and stringent monitoring of coal block development.

As far as the challenge with respect to gas shortage is concerned, government is working seriously to address the issue.

Proposal to revive gas starved power projects, approximately 26,500 megawatt capacity by way of providing subsidy of around ₹ 5,700 Crores to bear the additional cost over and above the per unit cost of ₹ 5.5 per unit after following a pooling mechanism for domestic gas and imported RLNG which is likely to be effective by month end.

In fact, as per the media reports, meeting is scheduled next week of PMO, Secretary Power and Secretary Ministry of Petroleum to sort out the issue of gas pooling.

Additionally, for other gas based projects, financial package is being proposed with relaxed ECB norms, three year moratorium period on repayments, waiver of interest etc.

Government is clearly working towards turning the stranded power assets into productive generation assets with an approach of getting the benefits of low hanging fruits.

New government has also made its intention very clear through recent Union Budget, where it has announced several measures for the power sector.

Government is committed to 24X7 uninterrupted power for all.



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Some of the union budget measures are tax benefits to promote investments in the sector, measures to improve AT&C losses, measures to push renewable energy in a big way.

While the new government is addressing the fuel issue, there are some positive takeaways in the generation sector. As you may be aware, on the capacity addition front, the X plan added a capacity of 21 gigawatts which was increased to 55 gigawatts in the XI plan, witnessing a two and a half times increase. In the current XII five year plan period, the first two years saw a capacity addition of 43 gigawatts against a total plan target of 88 gigawatts which means around 48% of the XII plan target has been achieved in just two years of the plan and more importantly, 60% of this has come from the private sector.

To facilitate competitive bidding and private participation, government has finalized and issued model bidding documents for procurement of power on long-term, medium-term and peaking power. This facilitated good response for Odisha and Tamil Nadu UMPPs.

So capacity addition momentum is likely to improve going forward given the initiatives of the new government to address the fuel challenge.

Now, let me share with you, the positive developments in the distribution sector, which is another critical area of concern. As you may be aware that the regular tariff revision by the states has been a major area of concern in the past, the tariff revisions are not regular and wherever tariff revisions were there, tariff revisions were not adequate. After APTEL's directive in November 2011 for suo moto action by SERCs, if states do not file tariff petitions, we have seen in 2012-13, all states have issued tariff order. Tamil Nadu has increased tariff by 37%, many other states like UP, Haryana, AP, Chhattisgarh etc. have increased tariff in the range of 18% to 20%. For 2013-14, 26 out of 29 states have issued tariff orders where AP has increased by 23%, Haryana by 13% and Rajasthan by 11.3%.

As far as 2014-15 is concerned, already 16 states have issued tariff orders with hike upto 15% and 8 states have filed the tariff petition seeking hike up to maximum of 28%. We have observed that tariff revision is regular and tariff quantum is also by and large adequate.

The FRP package which got notified by the government in October 2012 is making a difference in the seven states implementing the FRP which are UP, Rajasthan, Haryana, Tamil Nadu, AP, Bihar and Jharkhand.

Out of ₹1.9 lakh Crores, about ₹ 1.2 lakh Crores is already restructured, bonds worth ₹ 57,000 Crores have been issued and ₹ 51,000 Crores loans have been rescheduled. About 97% subsidy amounting to ₹ 46,500 Crores have been released which was booked in 2011-12 and 2012-13 for these states. Participating states have revised tariffs in last three years and about 7% increase in the power procurement by the Discoms has been observed.



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Therefore, the benefits of FRP are visible in the FRP implementing states, demonstrating noticeable improvement in the power supply, reduced cash losses and paying upfront subsidy on a monthly basis.

Another flagship program towards the distribution reform, the R-APDRP scheme which is restructured accelerated power development and reform program is aiming at reducing the AT&C losses below 15%. We have identified 1412 towns which are having a population of 30,000 and above based on 2001 sensex.

Under the program, almost entire sanctions against the eligible projects under Part - A and Part - B have been sanctioned, which is amounting to roughly ₹ 39,000 Crores of which about ₹ 7, 500 Crores have already been disbursed to the utilities. Out of the total 1,412 towns, 632 towns have been declared Go - live under Part – A for IT enablement of the distribution systems, which means that the energy report at the distribution transformer level which is the lowest level in the distribution business is available with the distribution utilities, to identify the loss / profits at the smallest unit level. This helps to address the issue and take corrective measures to plug the pilferages and the other slippages so as to improve the AT&C losses just by taking administrative measures.

So, out of the 632 towns which have been declared Go – live, 376 towns saw AT&C loss reduction to an extent of 7% to 8% just by taking administrative measures. So this is a very powerful program and it is expected to bring the desired results and the program is expected to be completed by the end of XII Plan.

Another exercise which we had started is the annual rating of distribution companies to incentivize the discoms to reform and perform and this exercise is being carried out since 2012-13 which is being coordinated by PFC.

This rating captures all the Discoms' performance on operational, financial, reform and regulatory parameters based on a uniform approach. . The second report based on FY'13 accounts has already been finalized.

The non-performance / non-compliance of the Discoms on the above parameters will not only adversely affect the rating of Discoms but also the funding of the Discoms by banks and FIs, as they used these ratings while funding Discoms.

Another key scheme is the National Equity Fund scheme which is the interest subsidy scheme of roughly around ₹ 8,500 Crores of subsidy which is envisaged to be provided over 14 years. Already, projects worth ₹ 26400 Crores have been approved and the scheme is under progress.

In addition to this, new government has finalized the loss reduction trajectory for bringing down the AT&C losses at national level from the existing level of 26% to 15% by 2021-2022 by taking various measures which includes feeders segregation scheme exclusively for agricultural load in



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rural areas, establishing adequate power evacuation system by reducing gaps in Sub-T&D and achieving 100% consumer metering.

All states have been given advised to follow the above measures or any other measures best suited for their states to achieve the final objective of reducing the AT&C losses in their states to a level of 15% by 2021-2022. So, this is another crucial area of the weak health of distribution utilities which is being addressed by the new government by taking a host of measures.

Given that the new government is geared up to the challenges of the power sector with a host of initiatives, I believe that the power sector going forward will see tariff increase regularly, reduction in AT&C losses and the availability of fuel in future will improve. Therefore, I am quite optimistic that the worst is behind us and I see power sector revival going forward.

Coming to our financials, despite the challenging environment, our performance during Q1 FY'15 has been encouraging. This quarter, we have shown sound profitability driven by good asset growth and healthy margins.

During Q1 FY'15, our PAT has gone up by 21% to ₹ 1,448 Crores from ₹ 1,198 Crores during Q1 of the previous year, driven by loan asset growth of 17% to ₹ 1,95,000 Crores as against ₹ 1,67,000 Crores.

We were able to maintain interest spread at a healthy level of 3.30% and NIM of 4.79% for Q1 FY'15. Accordingly, our NIM for the quarter has increased by 17% to ₹ 2,291 Crores from ₹ 1,950 Crores.

On the asset quality front, there has been some increase in gross and net NPAs, due to two loan accounts slipping into NPAs, the major one being Ratnagiri Gas and Power where we have an exposure of ₹ 722 Crores against which a provision of ₹ 72 Crores have been created.

As you know that due to shortage of gas, the project stopped generation. However, as per PPA, fixed charges are recoverable from the Discom. As there is no clarity on the domestic gas availability, Discom is not willing to pay the fixed charges. The dispute is being addressed at the highest level in the government as the project company is managed by government owned entities like NTPC and GAIL with 30% stake each and also the dispute is with state government entity MSEDCL.

We are therefore, hopeful that the issue will be resolved sooner either by the Discom making the payment of fixed charges or the gas shortage issue will be resolved as is being proposed by the government through subsidy.

Another small NPA account is Octant Industries Ltd., a 10 megawatt bio-mass project at Sambalpur in Odisha with exposure of ₹ 25 Crores against which provision of ₹ 2 Crores has been created. The project is suffering from fund flow problem and at present borrower is trying to tie-up the funds for the project and complete the project at the earliest.



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With this, our gross NPA stands at ₹ 1,974 Crores i.e. 1% of loan assets and net NPA stands at ₹ 1,616 Crores i.e. 0.83% of the loan assets.

As far as the PFC funded gas based projects are concerned, our total outstanding exposure to gas based project is less than 3% i.e. roughly ₹ 5,300 Crores against the loan book of ₹ 1,95,000 Crores as on 30 June, 2014, of which the private sector is just 0.6%.

The project suffering due to gas shortage is Konaseema Project which is already NPA with the loan exposure of ₹ 415 Crores and Ratnagiri project which has become NPA this quarter with an exposure of ₹ 722 Crores. Other project linked to KG Basin is the State Power Utility of Gujarat where we do not see any issue.

As far as the restructured loans are concerned, three projects were restructured during Q1 FY'15 worth ₹ 2,800 Crores, where there is only change or revision in COD and not financial restructuring as such. One is Alaknanda hydro project, with outstanding of ₹ 481 Crores. This is a project which has been affected due to flood in Uttarakhand last year and as per the directions of Ministry of Finance, all lenders have given one year moratorium. So, payments will start from October 2014 and the project is likely to be commissioned by FY'15.

Another project is Ind Bharat Energy (Utkal) with an outstanding of ₹ 1,174 Crores. The project got affected due to delay in laying the transmission lines, hence rescheduled. However, the positives of the project are that it has a firm FSA and PPA in place and we do not see any viability issue. Scheduled COD is in March 2015.

Third project is Essar Power MP with outstanding of ₹ 975 Crores. Its scheduled COD is in November 2014 and Essar Power Transmission with an outstanding of ₹ 216 Crores, scheduled COD is in November 2014. The power project got delayed due to captive coal block clearance delay and local agitations and the transmission project got delayed due to RoW issues. First Unit is already generating and Scheduled COD is in November 2014. The project is at a final stage. The stage I and II forest clearances are already in place. Shortly, mining plan will be approved and we expect coal extraction from March-April 2015. Meanwhile, the coal from e-auction is being used.

Our capital adequacy continues to remain strong at 20.5% with 17% tier I capital as at June 30, 2014.

As far as resource mobilization is concerned, we have raised about ₹ 8,600 Crores during Q1 FY'15 at a marginal cost of 8.82%. We have also started raising funds through bonds with effect from July 2014, after receiving approval of shareholders through postal ballot for raising funds through private placement of securities.

Further, we have already conducted ECB road shows for raising a syndicated loan of US dollar 250 million.



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Regarding our business performance during Q1 FY2015, we have sanctioned about ₹ 10,000 Crores which is in line with our annual target of ₹ 55,000 Crores.

As regards disbursements for the quarter, we have disbursed about ₹ 8,282 Crores, which is almost similar to the last year disbursement of ₹ 8,235 Crores. However, if we exclude the transitional loans which were disbursed during last year for a specific purpose, the comparable disbursement has grown by 26% during quarter from ₹ 6,235 Crores to ₹ 7,857 Crores.

Further, we have outstanding loan sanctions for ₹ 1,57,000 Crores, which is three times the disbursement of FY'14. This indicates our strong business pipeline going forward.

Further, with the new government at the Centre, markets are witnessing a significant push to infrastructure for promoting economic growth. This would only help us improve our business growth further given that we are a major player in the power sector and the power sector holds the key for economic growth.

Before I close here for the questions, let me address some of the areas of concerns which you might be having in your mind. First is regarding the RBI dispensation to banks for raising long-term bonds. I believe, the RBI dispensation would help banks to lend to infrastructure sector without impacting their ALM or provide more favorable terms to the borrowers.

However, it is not expected to adversely affect PFC, both on lending and borrowing front, given that PFC still has an edge over banks on many fronts. RBI is not permitting crossholding of such bonds amongst banks while there is no such restriction for PFC. Issuance of only unsecured bond by banks while PFC can issue secured bonds also. Minimum maturity of the long-term bond is seven years and there is no such restrictions for PFC. Issuance of bond only in the plain vanilla form without any put or call option which is available with PFC. On the existing infrastructure portfolio, only 16% benefit from SLR and CRR requirements is allowed which will gradually increase to 100% by March 2020. Additionally, incremental lending to infrastructure sector will get full benefit which is subject to sectoral cap.

Banks are governed by the sectoral limits, which PFC does not have because PFC is fully dedicated only for the power sectors funding. In addition to this, PFC has an edge over banks while lending as well. Dispensation is available to various infrastructure sectors including power sector so competition is limited to that extent from the banks. Fund requirements of the power sector is huge, so we do not expect that with such huge funding requirement, PFC has a threat. Moreover, PFC can lend up to 150% of its networth in case of government sector. Apart from 7 - 8 banks, all other banks have networth less than ours. At present, we have a networth of about ₹ 26,500 Crores and we can offer long-term lending due to better ALM compared to the banks.

It is easier to financially close the project with PFC as a part of consortium because it would require only two-three lenders only. However, if a developer does not involve PFC, he may end up having more than 7 to 8 banks to financially close the project. Above all, PFC is a specialized power sector financing institution with expertise built over 28 years with better understanding of



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the sector and its players. Banks themselves are many times comfortable if PFC is a part of the consortium.

Given all the above and PFC's established relationship with the clients over last 28 years, we do not see any significant risk due to dispensation allowed to banks for raising long-term bonds.

Another issue is regarding the RBI restructuring norms and its applicability to the PFC. These norms were not applicable to us, we being a government company. However, RBI vide letter dated April 3, 2014, has asked us to comply with the restructuring norms issued to NBFCs.

We have taken up the issue with RBI by highlighting the implementation issues along with PFC's roadmap for compliance. MoP has also written to RBI to accept our proposal in the interest of power sector. RBI has considered our request favorably and gave us certain relaxations already, which are that RBI has allowed PFC to follow our own / existing restructuring norms till March 31, 2017 for transmission, distribution, R&M, life extension and Himalayan hydro projects.

New generation project loans and restructured w.e.f. April 1, 2015 onwards will affect RBI provisioning norms. With respect to outstanding restructured project loans as on March 31, 2015 RBI provisioning norms will be applied gradually in a phased manner up to March 31, 2018. So these are the various concerns which I thought best to put forth before you. So, now we are open to the questions. Thank you.

Moderator: Thank you very much, Sir. Ladies and gentlemen we will now begin the question and answer session. First question is from Suruchi Chandra from Edelweiss. Please go ahead.

Kunal Shah: Sir firstly on this restructuring, was there any additional restructuring in this quarter?

R. Nagarajan: As I have told, we have done restructuring but it is only due to delay in COD and no financial restructuring got added during the quarter. The three projects restructured during Q1 FY'15 amounting to about ₹ 2,800 Crores, of which Alaknanda hydro project amounts to ₹ 481 Crores and Ind Bharat Energy (Utkal) amounts to ₹ 1,174 but none of the restructuring is on account of financial restructuring.

Kunal Shah: When we look at this in terms of say the applicability of the provisioning last time what we highlighted in terms of ₹ 11,500 being the overall restructured pool out of which about ₹ 9,700 is due to delay in commissioning and about ₹ 1,800 is due to cash flow. So we would need to maintain this kind of provisioning norms on about ₹ 1,800 odd Crores?

R. Nagarajan: As on June 30, 2014, the total amount of assets where reschedulement was done before principal repayment started is ₹ 10,147 Crores and reschedulement done after principal repayment started is ₹ 3,059 Crores but as CMD has explained to you already that though Essar Mahan MP and Essar Power Transmission have paid one or two principal repayments, they have been rescheduled because of the delay in commissioning. The various projects are Essar Power MP -



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₹ 975 Crores, Essar Power Transmission - ₹ 216 Crores, Konaseema Gas and Power - ₹ 415 Crores, Suzlon Energy - ₹ 1,098 Crores, India Metals & Ferro Alloys - ₹ 283 Crores, Empee Power - ₹ 27 Crores and Orissa Power Consortium - ₹ 44 Crores adding to a total of ₹ 3,059 Crores. As far as the provisioning is concerned, as CMD has already explained, RBI has given us a dispensation that in case of the book outstanding as on March 31, 2015, we may make provision at a rate of 2.75% and increase it to 5% up to March 31, 2018.

- Kunal Shah:** Sir, then what about the reschedulements which are there in state electricity utility loans?
- R. Nagarajan:** Actually, we have also written to RBI on July 3, 2014 and clarified to RBI of how our implementation stands. We have informed to RBI that up to March 31, 2015, for generation assets other than the Himalayan region hydro power plants, we will follow our prudential norms and as per our prudential norms, state government restructuring is not treated as restructuring and that is why we are talking only about the private sector.
- Kunal Shah:** But this is only up to March?
- R. Nagarajan:** Outstanding loan book of March 31, 2015.
- Kunal Shah:** But Sir, post that where we look at it after 2018 onwards...?
- R. Nagarajan:** For any new loan sanctioned after 01.04.2015 and restructured, if it is generation assets, then only we will apply 5% straightaway on that, irrespective of whether it belongs to state sector or private sector.
- Kunal Shah:** Sir, what about this entire Ratnagiri Dabhol, what has been the issue and when do we see it getting solved?
- R. Nagarajan:** CMD has already explained to you. Further, as per RBI guidelines, in case of a TRA account where all the money is flowing into one account, the money should be allocated among the various lenders of a consortium on a proportionate basis. Suppose, the borrower has paid one lender up to March 31, they should pay to all lenders. In the case of Ratnagiri, the lead banker is IDBI and the TRA banker is SBI. Bank dues have been paid but not PFC dues. So, our October dues are unpaid even today, and we had taken up the issue with IDBI also. Secondly, as CMD has explained to you that today's newspaper report says that on August 19, meeting is scheduled in PMO for settlement of issues of gas based power plants. We hope that because of this also, some solution will come, maybe by September or October'14.
- Kunal Shah:** As of now, are we seeing any other account which would be under watch list or something which can get under the watch list?
- R. Nagarajan:** We have already told several times that Lanco Group is still under our watch list. However, the silver lining is that Udipi Power is being sold to Adani. I hope that will solve certain issues.



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- Kunal Shah:** Okay, so apart from Lanco nothing major. I think Ratnagiri dues were not paid since October, any similar indication?
- R. Nagarajan:** No, because we are dealing with government project of which IDBI is the lead and MSEDCL which is a government company is making the payment to the TRA account. So, it is the duty of the TRA banker and the lead bank to ensure that the dues are paid to all. So, we are taking up the issue with the RBI.
- Kunal Shah:** Okay, so over here the provisioning of 70 and...?
- R. Nagarajan:** We have provided ₹ 72 Crores, and we lost ₹ 69 Crores on account of reversal of income. In case, an account is NPA, we have to reverse the income already booked on accrual basis. So, ₹ 72 Crores plus ₹ 69 Crores, we have lost; otherwise our profit would have been higher, say around ₹ 1,560 Crores instead of ₹ 1,448 Crores.
- Kunal Shah:** Thanks a lot.
- Moderator:** Thank you. We have next question from the line of Kaitav Shah from Anand Rathi. Please go ahead.
- Kaitav Shah:** Thank you Sir. If you could also briefly talk about the pipeline for restructuring over the next six to nine months?
- R. Nagarajan:** Actually, you also know we can discuss only the past and cannot talk about the future. So, we will not be able to talk about that.
- Kaitav Shah:** From a medium-term perspective how does the power sector outlook look and while you did mention that the worst is behind us but in terms of megawatts something that you expect to get added and what is the way forward in terms of the fuel, something more specific Sir?
- R. Nagarajan:** We have already shared with you that the government has been taking so many measures. As regards coal, they are talking with the state governments, environment ministry for faster clearances, increasing mining in existing coal mines. Government is looking at ramping up the capacity by using mass production technologies and in addition to this high cost imported coal has been allowed as an immediate measure and this high cost of fuel is being made pass through in the tariff. . With respect to gas, as I have already told you that almost on daily basis the issue is being addressed at the highest level. Now a meeting on 19th August is scheduled where the PMO, Secretary Power and Secretary Petroleum Gas would try to find a way out, maybe by way of pooling of imported LNG and domestic gas. As regards coal availability, government has already made it clear that all the plants which are to be commissioned by March 2015 will be given coal allocation . So, the projects which are going to be commissioned in near future will not be made to starve for fuel.
- Kaitav Shah:** Thank you.



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- Moderator:** Thank you. We have next question from the line of Digant Haria from Antique Stock Broking. Please go ahead.
- Digant Haria:** Sir, just a clarification on the restructuring guidelines, so we would be providing 2.75% on the ₹ 3,089 Crores of reschedulement which is there because of cash flow problem and by when do we provide this 2.75%?
- R. Nagarajan:** As on March 31, 2015, we have to provide.
- Digant Haria:** So Sir, this year we would be making 2.75% and then slowly go to 5% over the next three years?
- R. Nagarajan:** By March 31, 2018.
- Digant Haria:** Just one more thing the total rescheduled projects both because of delay in commissioning dates and cash flow all together is ₹ 10,147 Crores right?
- R. Nagarajan:** Total is ₹ 13,206 Crores.
- Digant Haria:** That is all from my side. Thank you.
- Moderator:** Thank you. We have next question from the line of Devam Modi from Equirus Securities. Please go ahead.
- Devam Modi:** Sir, if you could provide us with the details of what is the commissioning under construction capacity for FY'15 and 16 portfolio in rupees million and in megawatts?
- R. Nagarajan:** In terms of megawatt, it is 23362 MW for FY'14-15 and 15785 MW for FY'15-16 and in terms of rupees, it is ₹ 47,311 Crores for FY'14-15 and ₹ 23,861 Crores for FY'15-16.
- Devam Modi:** Sir, how would be the split in the percentage terms across central and private sector projects?
- R. Nagarajan:** In case of state/central/joint sector, expected commissioning in FY'14-15 is ₹ 36,326 Crores and in FY'15-16, it is ₹ 16,770 Crores. In case of private sector, expected commissioning in FY'14-15 is ₹ 10,985 Crores and in FY'15-16, it is ₹ 7,091 Crores. In megawatt terms, in case of state/central/joint sector, it is 8891 MW in FY'14-15 and 7130 MW in FY'15-16. In case of private sector, it is 14471 MW in FY'14-15 and 8655MW in FY'15-16.
- Devam Modi:** So that means that we expect almost 23000 megawatt of private sector commissioning in FY'15 and FY'16?
- R. Nagarajan:** Yes.
- Devam Modi:** Sir apart from Lanco amongst some of the other names like Essar Power and Abhijit Group, how are they doing in our portfolio?



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- R. Nagarajan:** Essar Power MP and Essar Transmission were rescheduled on account of delay in commissioning and expected to be commissioned in November'14 and since we have done the restructuring of the loan, there is no issue for us as on date.
- Devam Modi:** On the Abhijit Group Sir?
- R. Nagarajan:** As regards Abhijit Group, we have not given any money to Corporate Power. In case of Jas Infrastructure, ₹ 217 Crores was disbursed and is outstanding with us. IDC provisioning is being debited to the loan account. However, Axis Bank is trying to sell the assets to some other party so we will also go along with that. Also, it is a standard asset.
- Devam Modi:** Finally just if you could inform us of the transitional loans, what is the current balance and interest rate on this loan?
- R. Nagarajan:** ₹ 20,584 is the amount outstanding as on June 30, 2014. As we have explained to you several times 12.5% is the interest rate that we are charging from the transition funding to all the states.
- Devam Modi:** Thanks a lot Sir. That is it from my side.
- Moderator:** Thank you. We move on to the next question that is from the line of Amey Sathe from JM Financial. Please go ahead.
- Amey Sathe:** Sir is it possible to get other projects in gas based exposure, so you had given Konaseema and Ratnagiri Gas which are the other projects?
- R. Nagarajan:** In case of private sector, Vadinar Power Company - ₹ 683 Crores, Konaseema Gas and Power - ₹ 415 Crores and Aban Power Company - ₹ 15 Crores. In case of state/central/joint sector, the various borrowers are Pragati Power, Ratnagiri, Rajasthan, Tamil Nadu, Assam and Gujarat utilities.
- Amey Sathe:** There you do not see any risk with respect to availability of gas?
- R. Nagarajan:** There is risk in Ratnagiri which we have told you. In the balance accounts, there is escrow account where the cash flow is coming, so whether it is a gas based power plant or thermal power plant or hydro power plant, we do not see any problem in the state sector borrowers where they have got different projects to give us the repayment. However, in case of Ratnagiri, they had only one account and they got one payment already from MSEDCL.
- Amey Sathe:** Sir your cost of funds are up 20 basis points sequentially any specific reason?
- R. Nagarajan:** Cost of funds has increased from 8.75% in Q4FY14 to 8.95% in Q1FY15. In March'14, we borrowed funds from banks because of the restriction placed on us as per the covenants of one of our borrowings. As per the covenant, secured debt ratio of PFC will not go beyond 85% of the networth and in June 2013, RBI came with the guidelines that only secured bonds should be



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issued by even institutions like PFC and REC. We took up the issue with RBI and RBI gave clearance only in April'14. In Mar'14, since, we had already hit the limit for secured bonds, balance amount for the purpose of disbursement was borrowed from the banks. As you know that interest rate of banks is around 9% to 10.25% and whatever we borrowed during the last few days of Q4FY2014, the full impact was seen in Q1FY2015. Secondly, this quarter we could not raise tax free bond whereas full benefit of tax free bonds raised in Q3FY2014 was received in Q4FY2014. That is why the cost has gone up by 20 bps.

Amey Sathe: Okay and the issue I think you are saying that has been resolved right with respect to that?

R. Nagarajan: In April'14, RBI permitted us to issue unsecured bond. However, due to the changes in the Companies Act, approval of the shareholders was required for the purpose of issuing bonds on a private placement basis. Then, we got the approval of shareholders as CMD has indicated and from July'14 onwards, we are able to raise unsecured nonconvertible debentures.

Amey Sathe: Thanks a lot, Sir.

Moderator: Thank you. We move on to the next question that is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint C: Sir, during the quarter, you have sanctioned a loan to a company called Jinbhuvish Power Generation in Yavatmal. So, is it true that there is some enquiry on economic offences against the loan sanction and the Company Law board is against this?

R. Nagarajan: We are not aware of that because REC is the lead in the consortium.

Nischint C: Thank you.

Moderator: Thank you. Next question is from the line of Sameer Dalal from Natwarlal & Sons. Please go ahead.

Sameer Dalal: You mentioned a lot about how the tariff revisions had happened and also how the APDRP program is progressing. I wanted to know how much would the losses be reduced from last year to the current year for the distribution companies and what kind of benefits are coming from this guidance into that?

M. K. Goel: These measures are being taken now and actually the loss reduction I have told you about is just by taking administrative measures but final loss reduction figure will be arrived at after implementation of the Part B of the project which is the system upgradation scheme and is under implementation now in some of the states. Once this will be done and then with the help of already executed Part A project which is the IT enabled system, the losses reduction will be measured with respect to the baseline data and then the reduced losses figure will be informed by the utility. As of now, only Part A has been completed and we cannot say what will be the final



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loss reduction figure unless Part B is implemented. However, all these measures are likely to show the results in the years to come and going forward we will see the reduction in losses.

Sameer Dalal: What are the current losses estimated around?

M. K. Goel: Around 25%.

Sameer Dalal: Also second thing, you said all the distribution companies have increased the price of power, how much have these price increased and how much would that have reduced the losses of the distribution companies in monetary terms, not necessarily in terms of power losses?

M. K. Goel: Losses data with respect to FY'14 is not yet available because the annual accounts for FY'14 has not yet been made public. As you know, we have been coming out with the report of the annual performance of utilities, and the data for FY'13 is in the public domain but the FY'14 data is not available because final audited accounts of the FY'14 are not available with us. So, it is difficult to say but all these measures are expected to reduce the losses and the final figure will be known once these annual accounts are available from the utilities.

Sameer Dalal: Last question regarding the provisioning, you mentioned that the total restructured plus rescheduled is ₹ 13,206 Crores, of which your current provisioning is about ₹ 2,600 odd Crores so for the remainder of the year, it will be safe for us to assume you would have to reach 2.75% on the full amount of ₹ 13,206 Crores?

R. Nagarajan: There is no requirement for any provisioning on an amount of ₹ 10,147 Crores, because even as per the RBI norms, in case of postponement of the principal due to delay in the commissioning, it is not considered restructuring. Only in case of loans, where repayment began and thereafter we have restructured the loan, i.e. around ₹ 3,059 Crores, we have to ensure that by March 2015 we have provided at a rate of 2.75%. Out of this, Konaseema and Empee Power are already NPA, so we are already provided for them. So, on the balance amount we have to provide at a rate of 2.75%.

Sameer Dalal: That clarifies. Thank you.

Moderator: Thank you. Next question is from the line of Niranjana Karfa from Jefferies. Please go ahead.

Niranjana Karfa: Thanks for taking my question Sir. Two questions, number one your notes to accounts point number five suggest that this credit concentration is allowed whatever is there till about March 2016. Would we be able to help what are the top three exposures to you currently that is there and how do you want to tackle this problem going forward?

R. Nagarajan: In terms of loan outstanding, the top three utilities belong to Rajasthan, Maharashtra and MP.

Niranjana Karfa: What is their percentage of network?



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R. Nagarajan: Our networth is ₹ 26,472 Crores and outstanding loan assets of utility in Rajasthan is ₹ 14,902 Crores i.e. about 56%, Maharashtra is ₹ 12,344 Crores i.e. about 47% and MP Genco is ₹ 9,400 Crores i.e. about 36%. In 2009 also, funding in the state sector was restricted. We may request to follow the new norms from 01.04.2016 on the loans given to the state generating company and to continue with the old loans as such till they are repaid. On the new exposure, we may be able to follow the norm because if we are asked to reduce existing exposure to 20% of networth as on March 31, 2016, then we cannot do any business.

Niranjan Karfa: Yes exactly that is the point I am trying to reach at. So unless you are given an extension or only on new loan?

R. Nagarajan: We may request that on the old loans, we would not increase the exposure or give any fresh loan.
Niranjan Karfa: Secondly sir, would you agree that in the current five year plan your possibility of investment in transmission and distribution will be much more and then in the generation and given that in the past generation has always been significantly higher, is there a plan that you can try move into the T&D segment as well?

R. Nagarajan: You see, that the exposure whether in generation, transmission and distribution depends on the ratio of investment in the power sector. If in the power sector, investment in generation is going high, definitely, our share in the generation will be high. So, it depends on how much investment in the transmission and distribution sector is going to take place. As you know, in the transmission sector, primarily, the major investment is from PowerGrid. PowerGrid is a central transmission utility and is like PFC, so our funding does not go to PowerGrid. That is the reason, our exposure in the transmission sector is not much. As regards distribution sector, as and when the state utilities are approaching us, we have been sanctioning loans to them.

Niranjan Karfa: Thank you very much.

Moderator: Thank you. Next question is from the line of Archit Singhal Nomura. Please go ahead.

Archit Singhal: Thanks for the opportunity. Sir my question was relating to the states which have signed the FRP I wanted some color on the tariff hike in FY'15 particularly for Rajasthan, Uttar Pradesh, Tamil Nadu, if you can give any color on the same?

R. Nagarajan: Uttar Pradesh has filed the tariff petition but not got the order. Tamil Nadu filed the tariff petition and their regulatory commission have filed suo moto order to continue existing tariffs. Rajasthan has filed a tariff petition for 22% hike.

Archit Singhal: Sir, what is the hike proposed for UP?

R. Nagarajan: UP petitioned for a hike of 9.25% to 11.78%.

Archit Singhal: Thank you Sir.



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- Moderator:** Thank you. We have next question is from the line of Abhishek Murarka from IIFL. Please go ahead.
- Abhishek Murarka:** Good afternoon. Actually I joined a bit late and you said just now that you gave a list of all the restructured accounts of ₹ 3,059 Crores, can you please repeat that?
- R. Nagarajan:** Essar Power MP - ₹ 975 Crores, Essar Power Transmission - ₹ 216 Crores, Konaseema Gas Power - ₹ 415 Crores, Suzlon Energy - ₹ 1,098 Crores, Indian Metals - ₹ 283 Crores, Empee Power - ₹ 27 Crores, Orissa Power Consortium - ₹ 44 Crores. Now, among these, Konaseema and Empee Power are already NPA accounts.
- Abhishek Murarka:** The fresh NPAs would involve?
- R. Nagarajan:** Ratnagiri Gas and Power - ₹ 722 Crores and Octant Industries - ₹ 25 Crores.
- Abhishek Murarka:** Thanks.
- Moderator:** Thank you. As there are no further questions from the participants I would now like to handover the floor back to Mr. Santanu Chakrabarti for his closing remarks. Over to you Sir!
- Santanu Chakrabarti:** Many thanks to PFC management and all the call participants for a vibrant discussion. The call will now be closed. All of you have a great extended weekend.
- Moderator:** Thank you very much Sir. On behalf of ICICI Securities Limited that concludes today's conference. Thank you for joining us and you may now disconnect your lines.

Note: This document has been edited to improve readability and relevance.