



# “Power Finance Corporation Limited’s Q3 FY13 Results Conference Call”

**January 31, 2013**



**MAIN SPEAKER: MR. R NAGARAJAN – DIRECTOR(FINANCE), POWER  
FINANCE CORPORATION LIMITED**

**MODERATOR: MR. KARAN UBEROI – ANALYST, JM FINANCIAL**

**Moderator**

Ladies and gentlemen, good day and welcome to the Power Finance Corporation Limited's Q3 FY13 Results Conference Call hosted by JM Financial Institutional Securities Private Limited. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference, please signal an operator by pressing '\*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand over the conference to Mr. Karan Uberoi of JM Financial. Thank you. And over to you sir.

**Karan Uberoi**

Thank you. Good morning everybody and welcome to Power Finance earnings call to discuss the third quarter results. To discuss the results we have on the call Mr. R. Nagarajan, who is Director (Finance). May I request Mr. R. Nagarajan to take us through the financial highlights, subsequent to which we can open the floor for Q&A session. Over to you sir.

**R. Nagarajan**

Good morning and thank you Mr. Uberoi for giving PFC a chance to hold the conference call with the investors and analysts. The conference call is structured in the same pattern as that of last quarter September'12, that is financials first, then other developments in PFC and sectoral developments and its implications on PFC. Once this is over we can take the questions.

Compared to nine months of FY'12 and FY'13, the sanctions have gone up by 45% that is from Rs. 40,958 crores to Rs. 59,574 crores. Disbursement has increased by 25% from Rs. 24,126 crores to Rs. 30,175 crores. The loan assets increased by 26% from Rs. 1,17,995 crores to Rs. 1,48,282 crores. Outstanding sanction excluding R-APDRP is Rs. 1,69,538 crores as on 31<sup>st</sup> December 2012.

As far as profitability is concerned, PAT increased by 41% from Rs. 2,213 crores to Rs. 3,125 crores. Comparable PAT increased by 44% from Rs. 2,328 crores to Rs. 3,355 crores. Total income has gone up by 35% from Rs. 9,353 crores to Rs. 12,602 crores. Net Interest Income (NII) has gone up by 44% from Rs. 3,166 crores to Rs. 4,546 crores. Spread has gone up by 60 bps from 2.22% to 2.82%. NIM has gone up by 47 bps from 3.89% to 4.36%.

Comparing Q3 FY'12 Vs. Q3 FY'13, the sanctions increased by 45% from Rs.12,475 crores to Rs.18,444. Disbursement increased by 28% from Rs. 9,892 crores to Rs. 12,621 crores. PAT increased by 1% from Rs.1,108 crores to Rs. 1,117 crores. Comparable PAT has gone up by 57% from Rs. 791 crores to Rs. 1,243 crores. Income has gone up by 36% from Rs. 3,284 crores to Rs. 4,466 crores. Net interest income increased by 53% from Rs. 1,097 crores to Rs. 1,677 crores. Spread has gone up by 93 basis points from 2.15% to 3.08%. NIM has increased by 76 basis points from 3.85% to 4.61%.

So overall the situation in our spreads and margins have improved given the shift in RBI monetary policy from upward bias to neutral or downward bias of interest rates.

We have declared an interim dividend of 60% in FY'13 as against 50% last year.

As promised by us in the last conference call, we have made provisions for standard assets. Provision for the first 3 quarters of FY'13 has been made in Q3FY'13 for an amount of Rs.92 crores that is around 0.06% of the standard assets as on 31<sup>st</sup> December 2012. So the reported Q3 FY13 profit is after considering the provision of Rs. 92 crores. If we had not made this provision, the actual PAT would have been higher by about 10%.

No new NPA has been added in this quarter. Old NPAs like RS India, Shree Maheshwar, Konaseema, Empee Power, and Om Shakti are continuing. However, RS India has performed very well in the last year, they have cleared all the dues starting from 1<sup>st</sup> January 2012 till date. So this account will become a standard asset i.e. it will be converted into performing asset from January'13 onwards and the provision made till date will be reversed. There is also a small NPA account called Empee Power which will become a performing asset if Rs. 5 crores is paid and we are making all our efforts towards this.

As far as Konaseema is concerned, the APTEL order is reserved and it has also gone for a CDR. After the CDR package is announced, we will also decide accordingly. In case of Maheshwar, we have given an alternative option to Government of Madhya Pradesh so as to make the power project cost effective. We are awaiting their response.

Gross NPA as on 31<sup>st</sup> December 2012 is Rs. 1,363 crores and we have created provisions of Rs.1,568 crores i.e. general provision of Rs. 1,424 crores (consisting of Reserve for Bad and Doubtful Debts of Rs. 1332 crores and provision on standard assets of Rs. 92 crores) and specific provision of Rs. 144 crores.

Transitional funding has been given to DISCOMs of 6 states. Total amount allocated was Rs.19,630 crores but since Andhra Pradesh did not seek any sanctions, the total sanctions are Rs. 16,630 crores. The break-up of total sanctions is as follows:- Punjab - Rs. 1,000 crores, Haryana - Rs.4,300 crores, U.P. - Rs.1,830 crores, Rajasthan - Rs. 4,500 crores and Tamil Nadu - Rs. 5,000 crores. We have disbursed total Rs. 8,211 crores up to December'12 and break-up is as follows:- Punjab - Rs.600 crores, Haryana - Rs.2,580 crores; U.P. - Rs. 1,281 crores, Rajasthan - Rs. 2,250 crores and Tamil Nadu - Rs.1,500 crores.

During 9MFY'13, we have raised bonds of Rs. 23,472 crores including tax free bonds of Rs.1,110 crores, ECB of \$250 million and CP of Rs.3,723 crores. There is a possibility we may raise the balance Rs. 3,890 crores of tax free bond allocation in March'13 depending on the market condition and whatever amount we raise in this category will add to our margins.

We have also conducted the road show for the MTN program of \$1 billion. Once the cool off period is over, we will again try to do the pricing of the issue. We are also planning to raise another ECB loan of \$250 million, document for which is under finalization.

As regards PE Fund, JV agreement with Tata Capital has been discussed and it will be signed after finalization.

We have also got exemption from prudential norms and certain capital adequacy norms by RBI upto 31<sup>st</sup> March 2013 and time for submission of roadmap.

As far as subsidiaries are concerned, of PFCCL has in hand assignments worth Rs.116 crores. PFC CAS and PFC Green Energy have started operating. PFC Green Energy has obtained the RBI NBFC license from 1<sup>st</sup> October, 2012.

In case of UMPPs, we are awaiting revision of SBD documents by Ministry of Power. In case of ITPs four have already been transferred, for 5<sup>th</sup> ITP (DGEN Transmission Co. Ltd), RfQ was issued in October'12. And MOP has appointed PFCCL again as a Bid Process Coordinator for 4 new ITPs.

APDRP sanction status is as follows:- PartA (IT) - 100% ; SCADA - around 98%; PartB - 97% ; and disbursement status is as follows:- PartA (IT) - 35%; SCADA - 29%; PartB - 48%. Ring-fencing has been done for 1,332 towns i.e. 95% and baseline data has been established for 845 towns i.e. 60%. 243 towns have been integrated with data centre. Go-live has been activated in 111 towns. 95 towns in 4 states reduced the AT&C losses upto 10% before Part-B.

Now let us discuss some major power sector developments which may have impact on PFC. 10 states have filed the tariff petition for revising the tariff in FY'13 - FY'14. Government has taken steps to reduce the DISCOM losses, improve efficiency and offered financial restructuring package (FRP) for DISCOMs. Government notified the FRP on 5<sup>th</sup> October 2012 and the scheme was open upto 31<sup>st</sup> December 2012. Now, the time limit has been extended upto 31<sup>st</sup> March 2013. Up till December'12, only Tamil Nadu got the FRP approved by their government and the regulator and submitted it to the Ministry of Power. They also constituted the state level committee for reviewing the FRP.

As per the FRP Scheme, 50% of outstanding STL as of 31<sup>st</sup> March 2012 is to be taken over by the state government and balance 50% is to be restructured by rescheduling loans with moratorium on principal repayment. Investors wanted to know from RBI that for states like Rajasthan, Haryana and Uttar Pradesh, in which banks had restructured earlier upto December'12, whether now restructuring again upto March'12 as per the FRP scheme would be treated as a repeated restructuring. The clarification given by RBI is that they shall be treated as standard assets.

However, FRP is subject to concrete and measurable action by DISCOM and State government to improve operational performance of the DISCOM. There are 7 mandatory conditions which are to be complied with and the most important condition is that States will have to enact legislation within 12 months from date of circulation of model legislation by MoP to mandate compliance of provisions of FRP. FRP may also be made part of the annual state budget statements for effective monitoring of its impact on State finances. Once states pass the legislation, it lends some credibility that it shall be adhered to irrespective of the political party ruling the state.

Also, state and central level committees are to be constituted to monitor the progress of Discoms. The Central committee is already formed. The Central Government is to provide grant equivalent to value of additional energy saved over and above the R-APDRP level. The Central government is also to provide capital reimbursement support of 25% of principal repayment by the state government (based on the liabilities taken over by the state government) under the scheme. PFC and REC have provided around Rs. 35,000 to Rs. 40,000 crores transitional finance to fund DISCOMs of 6 identified states. As mentioned previously, out of these 6 states, only 5 states have come to us for sanctions namely Punjab, Haryana, UP, Tamil Nadu and Rajasthan while Andhra Pradesh did not seek any sanctions. We will fund the balance cash gap based on the FRP of each state and disbursement is linked to reform milestones.

10 states have already filed the tariff petition for revising the tariff in FY'13 - FY'14. R-APDRP scheme also helps in reduction of T&D losses. Basically, now a lot of importance is being given by the Ministry of Power, PFC and also the Planning Commission and monthly and sometimes bi-monthly meetings are taking place to ensure that R-APDRP progresses well and the ring-fencing as well as the online data centre integration is done in time.

As far as the coal FSA issue is concerned, Coal India has already signed some 42 out of the 114 FSAs and the balance also are expected to be signed shortly. As per news reports, the Cabinet Committee on Investment (CCI) is going to discuss FSA issues, major projects above Rs. 1,000 crores and coal pool pricing. So we expect some improvement in the situation.

Another new development is that Government has decided to allow power companies to divert natural gas from one of their plants to other plants to achieve optimal operations, relaxing the stringent policy that restricted fuel supply to specific units.

The coal offtake to power from CIL and SECL has also improved. For the period from Apr – Nov'12 it was about 237 million tonnes i.e. 12% growth over the corresponding period of the previous year.

There is also large potential for growth in capacity addition as can be seen from previous year figures. Breakup of capacity added year wise is as follows:- 9,585 MW in FY'09-10 ; 12,161 MW in FY'10-11; 20,502 MW in FY'11-12 and 9,854 MW in FY'12-13 (Apr-Dec '12). A capacity target of 17,956 MW was fixed for FY'12-13. In case of 12<sup>th</sup> plan, capacity addition target is around 88,537 MW and capacity of additional 30,000 MW is proposed from renewable energy.

An important development in the finance side which may have impact on PFC is RBI's draft guidelines for non-bank finance companies. As per the guidelines, minimum Tier-1 capital would increase from 10% to 12% and we are already complying with that requirement. The guidelines also propose a change in the period of classifying loans into NPA from the present norm to 90 days, in a phased manner but we have requested RBI to let the present norms continue for at least PFC because our recoveries are linked in turn to developers receiving

their dues from the DISCOMs which is based on the PPAs etc. So, we are still insisting that we be allowed to follow the 180 days norm. We have given our comments to RBI on three more issues i) the increase in standardized provisioning from 0.25 to 0.40 from March 2014 and ii) requirement that all government companies that qualify as NBFCs are to comply with the regulatory framework applicable to NBFCs at the earliest iii) ALM requirement to ensure that the negative gap in the 1 – 30 day bucket does not exceed 15% of cash outflows.

We have also received some awards this quarter, namely -- “JGBS Top Rankers Excellence Award” and “ICC PSE Excellence Award”.

So these are the major financial, business and the sectoral highlights (both from power sector as well as the financial sector) which are impacting PFC. Now, I can take questions from the analysts.

**Moderator** Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. Our first question is from Amit Premchandani of UTI Mutual Fund. Please go ahead.

**Amit Premchandani** Can you please repeat the transitional finance amongst states, the sanction and disbursement?

**R. Nagarajan** Breakup of total sanctions is as follows:- Punjab - Rs. 1,000 crores; Haryana Rs. - 4,300 crores; UP - Rs.1,830 crores; Rajasthan - Rs. 4,500 crores; Tamil Nadu - Rs. 5,000 crores; AP did not seek sanctions. Breakup of total disbursements is as follows:- Punjab - Rs. 600 crores; Haryana - Rs. 2,580 crores; Haryana (both DISCOMs i.e. both Dakshin and Uttar Haryana Bijli Vitran Ltd.); UP - Rs. 1,281 crores; Rajasthan - Rs. 2,250 crores ( all the 3 distributional companies i.e. Ajmer, Jodhpur and Jaipur Vidyut Vitran Nigam Ltd.); Tamil Nadu - Rs.1,500 crores (Tamil Nadu Generation and Distribution Corp Ltd.).

**Amit Premchandani** What is the general rate of interest and risk weight for these loans?

**R. Nagarajan** The general rate of interest is around 12.5% and they are all totally guaranteed by the state government.. So that is one of the reasons our capital adequacy has gone up to 18.1% on Dec’12 from 17.92% in Dec’11.

**Amit Premchandani** So they will carry a 20% risk weight?

**R. Nagarajan** Yes.

**Amit Premchandani** Sir if you are lending at say 12.5% to the State Electricity Board and you are earning say 4.5% kind of a margin is there any pushback from them because 4.5% margins obviously abnormal in the current environment? So when the interest rates are going down, are they still willing to pay 12.5% to you and how long will it sustain at this stage?

**R. Nagarajan** As per PFC policy, say if today a loan is sanctioned and rate is say about 12.5%, if borrower takes the disbursement tomorrow, he may be charged 12.5% but if he takes the disbursement after one year and the rate prevailing after one year is say 10% he will be charged only 10%.

So when market was giving me high cost loan around 3 months back, 3 year or 5 year borrowing was at around 9.5% then lending rates are also in line. But now the bonds yields have come down drastically to around 8.75% and after following the rate cut by RBI, we are also examining whether to reduce the rate of interest.

**Amit Premchandani**

So what is the duration of the loan and when can the interest reset come?

**R. Nagarajan**

The banks have been told by RBI and finance ministry that the loans should have a moratorium of 3 years plus 7 years repayment. So for all the transitional funding that we have given, there is first 3 years interest payment and moratorium for principal repayment whereas after 3 years they have to service the principal plus interest also.

**Amit Premchandani**

The interest reset, this 12.5% can be reset every quarter or how is the reset clause?

**R. Nagarajan**

3 years.

**Amit Premchandani**

Reset will be after 3 years?

**R. Nagarajan**

Suppose, the borrower has taken the loan on August 2012, the first reset will come on August 2015. For all subsequent disbursements also, made in say November 2012 December 2012 and April 2013, all these will be clubbed together and reset on August 2015, i.e. it is reset is from the date of first disbursement.

**Amit Premchandani**

And generally sir, what do you expect the margin outlook going forward because 4.6% and 3% plus spread do you think it is sustainable or we will move flat to 2.5%?

**R. Nagarajan**

As told previously, the margins will be around 2.5% but our aim is to improve it over a period of time.

**Amit Premchandani**

How much of the assets will get repriced over the next say 2 quarters and same on the liabilities side?

**R. Nagarajan**

Next year i.e. in FY'13-14 around Rs. 48,735 crores of assets and liabilities Rs. 39,788 crores will come for repricing after considering repeat reset.

**Amit Premchandani**

On the pipeline of restructuring basically recently one account, Suzlon was restructured in the CDR platform. You too have exposure to that account. Can you just explain the terms of restructuring and how will you account for it?

**R. Nagarajan**

We have already told the management of Suzlon that even though all banks have done the restructuring, we can think of something only if they service all their dues. We may allow them to postpone the principal repayment but we will not be taking any haircut on the interest rates. Whatever restructuring we have done earlier like in RS India or Empee Power, we have not taken any interest cut, we are prepared to postpone the repayment to manage the cash flows.

- Amit Premchandani** So what is the term of restructuring for you in Suzlon if any?
- R. Nagarajan** If they want to postpone the repayment by some 6 months to manage their cash flows we can consider that but without any haircut.
- Amit Premchandani** So you will also be paid interest in cash because some of the banks have given interest for the 2 years?
- R. Nagarajan** I know that banks have allowed 2 years interest rates moratorium, principal moratorium and servicing of interest in the form of the equity. However, we have made clear to the Suzlon top management that we want cash payment of the interest and we can only consider postponing the principal repayment to match their cash flows.
- Amit Premchandani** Sir, what is the exposure to Suzlon for you?
- R. Nagarajan** Rs. 934 crores
- Amit Premchandani** Any other pipeline of restructuring that you have?
- R. Nagarajan** As on date, nil.
- Moderator** Thank you. Our next question is from Jaynee Shah of Aventus Securities. Please go ahead.
- Jaynee Shah** Just a follow up to the earlier question. Wanted to know what is the outstanding restructured assets as on date, if you could share that number?
- R. Nagarajan** It is around Rs. 4,984 crores.
- Jaynee Shah** Regarding this Financial Restructuring Program for the SEBs, just wanted to get some sense as to what is the willingness of states to agree to the terms?
- R. Nagarajan** As already told in my opening remarks, Tamil Nadu has already got approval of the state cabinet, in-principle approval from the regulator they have submitted to central government and also formed a committee as desired by the scheme. As per news reports UP has already got approval of the state cabinet and require approval of regulator before approaching the central government for this offer. I think Haryana, Rajasthan are also approaching their respective governments for getting their approval. So, at least these 3 states, U.P. Rajasthan, Haryana look set to comply with the FRP. Only Madhya Pradesh is not interested in FRP and Punjab is not interested in the Central Government FRP.
- Moderator** Thank you very much. Our next question is from Vikesh Gandhi of Bank of America. Please go ahead.

- Vikesh Gandhi** Just a couple of questions. One is on your exposure to Konaseema. I believe that was recognized as an NPA in December of last year. So technically would not the provision supposed to be stepped up in this quarter or would it be in the next quarter?
- Vikesh Gandhi** We had recognized Konaseema as NPA in December'11,so after completion of 18 months, we will provide in Q1FY14.
- Vikesh Gandhi** How much will that go from 10% to...?
- R. Nagarajan** 20%.
- Vikesh Gandhi** Another 10% you mean?
- R. Nagarajan** Yes.
- Vikesh Gandhi** And on the Maheshwar side?
- R. Nagarajan** We had provided for Maheshwar in March'12,so after completion of 18 months, we will provide in Q2FY14 .
- Moderator** Thank you. Our next question is from Devang Modi of Equirus Securities. Please go ahead.
- Devang Modi** Just wanted to know what is the percentage of operational and under execution assets that are currently financed by us?
- R. Nagarajan** Total outstanding of generation assets is Rs.1,21,181 crores, out of which commissioned assets is Rs. 33,787 crores.
- Devang Modi** Sir, in terms of MW, what is the amount of generation assets that are expected to come on ground in FY'14 and FY'15 as per the projects that are being financed by us?
- R. Nagarajan** Actually we don't have the MW breakup. The amount wise breakup of loan assets where the commissioning will take place is as follows:- Rs. 11,306 crores in FY'14-15; Rs. 569 crores in FY'15-16; Rs. 2,417 crores in FY'16-17.
- Devang Modi** Apart from this just want to know what is the amount of transitional loans that have been done in this quarter in terms of disbursement?
- R. Nagarajan** We have disbursed Rs. 6,111 crores in Q3FY13.
- Moderator** Thank you very much. Our next question is from Suruchi Chaudhary of Edelweiss Capital. Please go ahead.
- Suruchi Chaudhary** On RS India that you mentioned is likely to get upgraded in January, other than the provision reversal, what is the kind of income reversal that might take place?

- R. Nagarajan** We are charging interest at around 13%, so for about Rs. 224 crores, we might get around Rs. 5-6 crores additional income this quarter on accrual basis..
- Suruchi Chaudhary** Sir but you mentioned that the account has been servicing for the past one year. So the interest also would have been serviced in this duration?
- R. Nagarajan** Interest serviced has been accounted for on cash basis. Interest from 2nd January 2013 to 31st March 2013 will be recognized on accrual basis, and that would be around Rs.5 - 6 crores.
- Suruchi Chaudhary** And the 10% provisioning that you had made on this Rs. 230 crores, so that Rs. 23 crores will get reversed?
- R. Nagarajan** Yes, Rs. 22 crores provided against the loan of Rs. 224 crores will be reversed.
- Suruchi Chaudhary** On the transitional financing disbursement you have disbursed Rs.16,000 crores till date.
- R. Nagarajan** No, we have disbursed Rs. 6,111 crores in Q3FY13 and Rs. 8,211 crores in 9MFY13.
- Suruchi Chaudhary** Sir that is the disbursement that has happened over the last two quarters.
- R. Nagarajan** Yes, Rs. 8,211 crores is total disbursement in transitional finance so far.
- Suruchi Chaudhary** In terms of the sanctions breakup that you gave out of Rs. 16000-odd crores, so that's the total sanctions till date right?
- R. Nagarajan** Yes, we have sanctioned Rs. 16,630 crores and disbursed Rs. 8,211 crores as on 31<sup>st</sup> December 2012.
- Suruchi Chaudhary** Are we likely to see further sanctions going forward, say may be not in the immediate one or two quarters but...
- R. Nagarajan** The 5 SEBs to whom we have given transitional finance have got a lot of issues and their combined loss figure is around 50-60% of total losses. Considering this, I don't think anybody else will come for this scheme.
- Suruchi Chaudhary** So, given the tariff revision petition that they are filing, they should be able to then manage their finances going forward.
- R. Nagarajan** Yes, because based on news reports some of the states have proposed a tariff revision ranging from 7% to 59%. The breakup of tariff revision filed by each state is as follows:- Andhra Pradesh by 15-20%, Haryana by 46%, Kerala by 18-19%, Madhya Pradesh by 20-27%, Nagaland by 7%, Punjab by 59% and Rajasthan by 10-13%. Delhi, Orissa and Jammu & Kashmir have also filed for tariff revision.

**Suruchi Chaudhary** You mentioned, your endeavor is to further see NIM expansion from here on. So is that going to come mainly from the cost benefit that we are seeing, we have seen costs dropped this quarter also or do you anticipate the yield on assets also to increase from here on?

**R. Nagarajan** We may see lowering of costs from three resource mobilization activities. Firstly, benefits from tax free bonds that we got in only the last month of Q3FY13, the full benefit will arise in the next quarter i.e. Q4FY13. Secondly, benefit will arise on the balance raising done from our tax free bond allocation. Thirdly benefit will arise from \$250 million ECB we are planning to raise in Q4FY13. We have already appointed the merchant banker for the ECB. Regarding the MTN program for \$1 billion, road shows have already been conducted and pricing will be done after the cool off period is over. The interest rates in domestic markets have also softened, as can be seen by the drop in the bonds yields to around 8.7 – 8.75%. However, on the assets side, the reset is already over. There is also rupee/dollar appreciation i.e. it was at around Rs. 55 in December'12 and now it is around 53.27 today. We also have Yen loan of about equivalent \$500 million in our portfolio, where the yen/dollar rate was 85.55 in Dec'12 and now it is around 91. So, in the foreign currency liability portfolio, even if we don't do any hedging, benefit will arise on a mark-to-market basis. Hence, due to all the above reasons mentioned, there may be substantial benefit in the next quarter.

**Suruchi Chaudhary** Are we likely to pass on the benefit on the yields also?

**R. Nagarajan** After the rate cut by RBI, we are also examining whether to reduce the rate of interest.

**Moderator** Thank you. Our next question is from Anand Ladha of HDFC Mutual Fund. Please go ahead.

**Anand Ladha** On the SEB transitional finance, just wanted to understand, what has been a basis of this Rs. 16,000 crores sanction, is it that they will have to fund a current loss gap, so PFC, REC will be funding equally and some proportion will be fund by even banks also?

**R. Nagarajan** Regarding the restructuring done by most of the banks earlier, they offered 3 year moratorium and 7 year principal repayment. Apart from this condition, we have also put some sub-conditions. Also, you can see the turnaround in some of the states like Tamil Nadu which has already increased tariff from 2003-2010 by around 37%, planning to file another tariff petition shortly and also got the FRP approved by the state cabinet. As per the state cabinet approval, state government will fund whatever shortfall is there in each year. The regulator (ERC) has also agreed with the FRP proposed by the Tamil Nadu Electricity Board. So, it's a great change in Tamil Nadu and everything was done before the time given by the central government i.e. on 31st Dec 2012. Other states are also making efforts to increase the tariff as they have realized that that you cannot just run the show without increasing the tariff.

**Anand Ladha** My question was to understand suppose there is a loss to the SEB, transitional loss, like there has been a period before the breakeven off, suppose Rs. 100 crores, so is it that PFC, REC and banks have agreed to fund this loss in a proportion basis. So this Rs. 16000 crores sanctioned is a part of that.

**R. Nagarajan** The total accumulated losses of the state power distributing companies are estimated to be Rs. 1,90,000 crores. Losses are either funded by the state government or funded by the lender.

**Anand Ladha** In that case even the bank would be charging similar rate of interest?

**R. Nagarajan** We are providing some oxygen, so that over a period of time, they will turn around and some specific conditions have been stipulated by us like raising the tariff every year and filing the tariff petition etc. Maybe four states out of the six states will turn around in three years. Punjab is already talking of being cash surplus in next year i.e. 2014.

**Anand Ladha** Sir, just want to understand when you say we charge around 12.25% is it linked to some sort of your internally like, basic plus some spread. So what is your base rate or what is your lending rate as such and what is the spread on that?

**R. Nagarajan** We don't have any base rate system from the time PFC was started. Our system of lending is that the rate of interest is the rate applicable on the date of actual disbursement. This is useful in project funding. Suppose, the rate is very high, say 16% on the date of signing the agreement, we cannot charge 16% on the date of disbursement, if on that date, the market has already moved to 8%. In the same way, say on the date of signing, the rate of interest is 8% and on the date of disbursement, we cannot charge at 8%, if on that date, the market has gone up to 20%. So, we charge whatever rate is applicable on the date of disbursement. Further, the borrowers are given two options for reset of the rate, i.e. 3-year reset or a 10-year reset. If the borrower has opted for a 3-year reset then at the time 3-year reset, whatever rate is applicable, it will be applicable on the entire loan outstanding on the date of reset. So as on date we are charging around 12.5%. If there is a reduction in rate, that benefit will be passed on to the borrowers either in case of future disbursement, or in case of old disbursement at the time of reset, if any.

**Anand Ladha** Sir, for us would there be some thought or like what sort of spread we always target, like for lending, like this 12.25% is based on my cost of capital plus 3% spread or 2% spread?

**R. Nagarajan** Nobody reduced the rate in the market after the rate cut by RBI in April'12, so we have also not reduced the rate of interest from July'11. Now, after the rate cut by RBI in Jan13, we are also examining whether to reduce the rate of interest.

**Moderator** Thank you very much. Our next Question is from Rahul Jain of Goldman Sachs. Please go ahead.

**Rahul Jain** Just two questions sir quickly. One is how much is the repricing of liabilities happened in third quarter and by how much the rates would have come down on those liabilities?

**R. Nagarajan** Most of the loans are either linked to base rate or PLR rate. No bank reduced the rate of interest after the rate cut by RBI in April'12, so there was no reduction in rates in the base rate / PLR

linked loans for us in the third quarter . Only, wherever bonds were linked to one-year reset or three-year, we may have got some benefit due to low bond yields.

**Rahul Jain** The reason why I was asking is cost of fund decline of about 20 bps QoQ was quite steep. So just trying to figure out as to what could have ...?

**R. Nagarajan** Firstly, the bond yields have come down drastically in this quarter; secondly, we have raised some commercial papers also and thirdly, we got the full benefit of the ECB raised in August'12. Actually, we paid the full upfront fees for the ECB in the month of August'12 and rate was around 225 bps in Q2FY13 as against 175 basis points in Q3FY13. These are the three reasons why the cost has come down.

**Rahul Jain** Second thing, quickly wanted to understand what is happening on this coal price pooling, anything that you would be aware of ...?

**R. Nagarajan** I think before the budget something will happen in the Power sector and also in Gas sector. CCI has already given directions to ministry to settle the issues of no-go in 14 blocks. In fact, news reports say that out of the 14 blocks, 7 blocks are being upgraded to no objection instead of no-go.

**Rahul Jain** Just one final thing, you talked about your restructuring portfolio at about Rs. 4,500 crores...

**R. Nagarajan** Rs. 4,984 crores

**Rahul Jain** Okay, this would be also including the non-performing loans also which would have got restructured or this is ...

**R. Nagarajan** Yes, non-performing loans are also included like RS India - Rs. 224 crores and Maheshwar – Rs. 700 crores .

**Rahul Jain** Is this Rs. 4,984 crores including the non-performing loans also?

**R. Nagarajan** Yes.

**Moderator** Thank you, Our Next question is from Devang Modi of Equirus Securities. Please go ahead.

**Devang Modi** This is just a follow-up question, one, you have mentioned that you expect around Rs. 11,306 crores of assets to come up in FY14.

**R. Nagarajan** You are talking about the assets which will be coming for commissioning the subsequent year.

**Devang Modi** In that you have mentioned that Rs. 33,000 crores is already up on ground,

**R. Nagarajan** Commissioned outstanding is Rs. 33,787 crores.

- Devang Modi** We have a total exposure of Rs. 1,21,181 crores.
- R. Nagarajan** Rs. 33,787 crores in the commissioned category and breakup of yet to be commissioned outstanding is as follows:- Rs. 23,885 crores in FY'12-13, Rs. 35,586 crores in FY'13-14, Rs. 11,306 crores in FY'14-15, Rs. 569 crores in FY'15-16 and Rs. 2417 crores in FY'16-17.
- Devang Modi** For 2013 the number comes to Rs. 23,885 crores, so this is to be added on to generation assets of Rs. 33,787 crores that you mentioned?
- R. Nagarajan** That would depend on whether it is commissioned by March or not.
- Devang Modi** So for FY'13-14 the number is?
- R. Nagarajan** Rs. 35,586 crores in FY'13-14.
- Devang Modi** Just one more question on this, like in any loan let us say a bank gives, for example, loan by SBI, the pricing is SBI PLR plus a particular spread. So how do we price our loan in that particular way?
- R. Nagarajan** There is no base rate system or PLR system in PFC. However, in case of state sector borrowers, we follow a rating of A+, A, B,C and in case of a private sector borrower, we follow a rating of IR1, IR2,3,4,5,6. IR6 is not investment grade, so we do not give loan to that category. Based on the rating of the borrowers, whether it be say A+ or A or B or C we are charging the applicable rate of interest. Only thing peculiar to our system is that the rate of interest is the rate applicable on the date of disbursement. Suppose, there is a loan of Rs. 200 crores. The rate on say 1<sup>st</sup> January 2013 is around 12%, and we disbursed Rs. 100 crores at 12%, on 1<sup>st</sup> March 2013 if the rate is say 10%, on the balance disbursement Rs. 100 crores, we will charge at a rate of 10%. So previous rate of 12% is not applicable. However, if these amounts are covered by a 3-year reset clause, they are eligible for reset on 1<sup>st</sup> January 2016 and 1<sup>st</sup> March 2016 respectively i.e.. Rs. 100 crores will be reset on 1<sup>st</sup> January, 2016 and another Rs. 100 crores will be reset on 1<sup>st</sup> March 2016, at the rate applicable on the dates of reset.
- Devang Modi** This rate that you apply 12% or 10%, this is dependent on general index or this is just generally taken by PFC, what is the benchmark used for taking this rate, that's what I was asking?
- R. Nagarajan** It is linked to our cost of borrowing. Suppose RBI cuts rate by 100 bps and the bond yields fall by 50 bps, then automatically I will also reduce the rate by 50 bps.
- Devang Modi** But so this is an ad hoc adjustment, there is no particular PLR or anything that has been maintained internally?
- R. Nagarajan** There is no base rate or PLR system in PFC. We have a system of borrowing plus margin and lending rate also depends on the rating of the borrower i.e. the rate will be the lowest for A+ and highest for B in case of state sector, lowest for IR1 in case of private sector, which rarely happens.

- Moderator** Thank you. Our next question is from Kaitav Shah from Anand Rathi. Please go ahead.
- Kaitav Shah** I wanted your outlook on Lanco exposure. How is it behaving?
- R. Nagarajan** We have got around Rs. 3,162 crores exposure in LANCO. In case of Udupi, it had signed the PPA at around Rs. 3.2/kWh and then sought revision to Rs. 4.37/kWh. They won the case in CERC and filed their petition with the state government in Karnataka for payment of around Rs. 600 to Rs. 800 crores. So, they still face the sovereign risk because they are yet to receive all dues from the state distribution company. Maybe once the liquidity position of the distribution company improves, then all the dues will be paid by them as per the agreement.
- Kaitav Shah** And Suzlon, how many days is it overdue as of right now?
- R. Nagarajan** The dues are around Rs. 85 crores of 31st December 2012 (overdue of principal, interest and interest on interest). We will ensure that it will not become NPA.
- Kaitav Shah** And one final question if you permit, your outlook on disbursements and sanctions both for next year?
- R. Nagarajan** Let us first concentrate on a very good performance in March '13. That is very important for me rather than talking about 2014.
- Kaitav Shah** The Q4 outlook will also do then Sir.
- R. Nagarajan** Rupee has appreciated against the dollar and yen has depreciated against the dollar since Dec'12. We have got a very good Yen exposure drawn at 82 and 84 levels against the current level of 91. So, in the foreign currency liability portfolio, even if we don't do any hedging, benefit may arise on a mark-to-market basis. Also benefit may arise from raising of balance tax free bonds allocation. Regarding the tax free bond raised earlier, the full benefit shall be available in the coming quarter. Benefit will arise through raising of ECB and MTN program also. So, the performance should be at par with whatever we have done in this quarter.
- Moderator** We will take our next question from Hiren Dasani of Goldman Sachs. Please go ahead.
- Hiren Dasani** Just one thing, this Rs. 92 crores of provision which you have shown in the presentation, if you were to look at in terms of the P&L line items, where would it be reflected to?
- R. Nagarajan** It is a charge against profit.
- Hiren Dasani** I understand that, but if you look at your statutory disclosure to the exchanges, it is not appearing separately anywhere.
- R. Nagarajan** It is part of the interest and other charges.
- Hiren Dasani** So financial expenses right?

- R. Nagarajan** Yes.
- Hiren Dasani** And the other question is that if we were to look at this 5 SEBs, where you have provided the transitional finance; Punjab, Haryana, UP, Rajasthan and Tamil Nadu, put together they would account for what percentage of the overall system's SEB losses?
- R. Nagarajan** The combined loss figure of the 5 states may be around 50-60% of the overall system's losses. That is why these are the focus states of the Government of India.
- Hiren Dasani** All of them have implemented FRP either on a bilateral basis or on a central basis?
- R. Nagarajan** They have implemented on a central basis. Tamil Nadu has already got the approvals of the state cabinet and in principle approval of the regulator and have submitted to Central Government. . As per news reports, UP has also got the approval of the state cabinet and require approval of regulator before approaching the central government for this offer. Haryana, Rajasthan are also approaching their respective governments for getting approval. So, at least these 3 states, U.P. Rajasthan, Haryana also look set to comply with the FRP.
- Hiren Dasani** And Punjab will be doing a bilateral?
- R. Nagarajan** Punjab may not be going for FRP scheme.
- Hiren Dasani** But is it because they are without FRP also they are on track of profitability?
- R. Nagarajan** They are on track because they have already filed a very hefty revision of tariff of around 59% increase in November 2012, and they feel they will become cash surplus in one year i.e. 2014.
- Hiren Dasani** If they are not implementing FRP, then under what scheme we are disbursing...?
- R. Nagarajan** Government will be supporting them in addition to the tariff increase that will be taking place in the state. Based on the data given in the 5th October' 2012 circular on FRP (Annexure I), it can be seen that Punjab has a lower amount of short term loans as compared to Haryana, Rajasthan, Tamil Nadu and UP. Even Madhya Pradesh has short term loan outstanding of only Rs. 585 crores. The benefit of FRP scheme is only for those with substantial short term loans, because only the short term loans will be converted into long term loans.
- Hiren Dasani** These 4 states would have large amount of short term loans?
- R. Nagarajan** Yes, they have huge short term loans.
- Hiren Dasani** And Punjab doesn't have that?
- R. Nagarajan** Punjab has lower amount of short term loans as compared to Haryana, Rajasthan, Tamil Nadu and UP

- Hiren Dasani** But Punjab has also done some bilateral restructuring with the banks, right?
- R. Nagarajan** Yes, bilaterally they have done restructuring with some banks, but they are not coming for the central FRP governed by the Ministry of Power.
- R. Nagarajan** Thank you. Our next question is from Jyoti Kumar of Spark Capital. Please go ahead.
- Jyoti Kumar** Just one question, we see a sharp jump in sanctions in the Generation segment on a QoQ basis, it was Rs. 6,000-odd crores last quarter, it is about Rs. 12,000 odd crores currently.
- R. Nagarajan** It is due to one large sanction given for Rs. 8,151 crores given to Tamil Nadu Generation and Distribution Corporation.
- Jyoti Kumar** Yes Sir. I see that and it is towards the power project?
- R. Nagarajan** It is sanctioned for coal based super critical TPP (2X800 MW) at Ennore SEZ.
- Jyoti Kumar** No, what I was driving at, is it a sign that people are now willing to commit capital in Power Generation segment?
- R. Nagarajan** Capital is not an issue for a state government, there is no problem for the state government to inject equity in these projects.
- Jyoti Kumar** But on the ground, things have not improved materially from private...
- R. Nagarajan** We are still getting some proposal from the private sector also, because most banks are not funding them owing to their exposure limits. You can see from our sanctions figures that against the MoU target agreed with the Government of India of Rs. 45,150 crores, we have already achieved around Rs. 58,682 crores. Even if you remove the transitional funding of around Rs. 16,630 crores, Rs. 42,052 crores have been sanctioned in 9 months of FY'13 which is only Rs. 3,098 crores less than the target for the full year.
- Jyoti Kumar** If I can just allude, if I just look at the disbursements numbers, adjusted for the transitional finance, actually our disbursements are almost flat on 9 months basis. So if I just take the forward-looking estimate, would that mean we will face trouble in loan growth going into FY14?
- R. Nagarajan** Let us first talk about 31st March 2013. Compared to January 2012, the overall situation has improved a lot. There were a lot of problems in FSAs in which some resolution took place and now 42 FSAs have already been signed by Coal India Ltd. CCI held a meeting yesterday where the gas and oil sector was discussed and next power sector issues may be discussed. The FSAs and environment clearances may be discussed. The situation is not as gloomy, and I think situation in 2013 is definitely better than that in January 2012, so we should not worry too much about 2013-14 growth.

- Jyoti Kumar** And lastly on one data point that I just missed the details, the quantum of assets that will be repriced next year and liabilities that gets repriced?
- R. Nagarajan** Next year, repricing of assets is Rs. 48,735 crores and repricing of liabilities is Rs. 39,788 crores after considering repeat reset.
- Moderator** Thank you. Our next question is from the line of Kamlesh Kotak of Asian Market Securities. Please go head.
- Kamlesh Kotak** Could you elaborate on the strategy of the company in terms of taking strategic stakes into thermal power producers or the thermal power projects? Those have been some media reports that we would be taking some strategic stakes.
- R. Nagarajan** I think you are talking about news reports that PFC is taking a stake of Rs. 200 crores in Nagarjuna Construction. We do have an equity policy which was approved by the Board of Directors around six to seven months back, and we are getting proposals based on that. However, we have not sanctioned any proposal of Nagarjuna Construction.
- Moderator** Thank you very much. Ladies and gentlemen, that was the last question. On behalf of JM Financial Institutional Securities Private Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you very much Mr. Nagarajan.