



**Power Finance Corporation Ltd.**

A Govt. of India Undertaking

**“Power Finance Corporation Limited  
Q3 FY 14 Conference Call”**

**February 5, 2014**



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**ANANDRATHI**

C H O R U S C A L L ®



**ANALYST: MR. KAITAV SHAH**

**MANAGEMENT: MR. M. K. GOEL - CHAIRMAN &  
MANAGING DIRECTOR**



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**Moderator:** Ladies and gentlemen, good day and welcome to the Power Finance Corporation Limited Q3 FY'14 Earnings Conference Call, hosted by Anand Rathi Research. As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing "\*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand over the conference to Mr. Kaitav Shah from Anand Rathi. Thank you and over to you Mr. Shah!

**Kaitav Shah:** Thank you moderator. First of all, I would like to extend a warm welcome to all the participants. Today we have the honor of welcoming the top management of Power Finance Corporation Limited, represented by Mr. M. K. Goel, Chairman & Managing Director and Mr. Nagarajan, Director (Finance). We can have a brief on the result and then we can open the session for Q&A. Over to you Sir!

**M. K. Goel:** Good morning everyone. I am happy to share with you, our financial result for Q3 FY 2014. I am sure you may be aware about our results, which have been declared last evening.

This quarter has seen sound profitability driven by the asset growth and healthy margins. We have not added any new NPA in this quarter and maintained our NPAs at the lowest level. Most importantly, this time we have declared an all time high dividend of 88% with an increase of about one-and-half times i.e. 50% increase over the interim dividend, which was declared last year. Our loan sanctions have shown a robust growth this quarter, totalling to ₹ 24,600 Crores approximately, which is an increase of 36% compared to the corresponding quarter during last year.

In terms of numbers, we have shown loan assets growth of 20% from about ₹ 1,48,300 Crores to about ₹ 1,77,500 Crores. Accordingly our income for the third quarter has gone up by 24% from ₹ 4,466 Crores to ₹ 5,547 Crores. The interest spread has increased by 36 bps from 3.08% to 3.44%, given the reduced cost of borrowing, fresh disbursements at a rate higher than the yield during the previous period and additional income due to repricing of our existing loan assets at higher rate.

Accordingly, our net interest income for the quarter has increased by 29% from ₹ 1,677 Crores to ₹ 2,161 Crores. As a result of this, our profit after tax for the quarter has gone up by 37%, from ₹ 1,117 Crores to ₹ 1,534 Crores. As regards NPAs, as I have told you earlier, we have not added any new NPA during this quarter. In fact, our gross NPAs have reduced to 0.65% compared to 0.92% in the corresponding quarter of last year and similarly our net NPAs have reduced to 0.52% from 0.82%. When compared with the immediately preceding quarter our gross NPAs have reduced marginally this quarter to 0.65% from 0.67% as on 30<sup>th</sup> September, 2013. Similarly our net NPAs have also reduced to 0.52% from 0.54%. Our capital adequacy ratio as at 31<sup>st</sup> December, 2013 stands at 18.86%, against the RBI prescribed level of 15%.



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Now coming to our business performance, our sanctions during Q3 FY14 has increased by 36% from ₹ 18,144 Crores to about ₹ 24,630 Crores, including transitional loans. During 9M FY14, our sanctions stood at ₹ 52,054 Crores, which is 88% of our sanction target of ₹ 59,000 Crores for FY14. Further we have outstanding sanctions to the tune of about ₹ 1,72,000 Crores which is about four times the disbursement of FY 2013.

As regards disbursement for the quarter, we have disbursed ₹ 12,215 Crores which is similar to the last year disbursement of ₹ 12,621 Crores. However, if we exclude the transitional loans, which are disbursed for a specific purpose, the comparable disbursements have gone up by 31% during the quarter from ₹ 6,510 Crores to ₹ 8,545 Crores and during 9M FY14, if we exclude these disbursements against transitional loans our disbursements have gone up by 9% as compared to 9M FY13. As far as disbursements of FY14 are concerned, we have disbursed ₹ 30,227 Crores during 9M FY14 which is about 64% of the FY 2014 target.

As far as the resource mobilization is concerned, we have raised about ₹ 26,600 Crores (which includes ₹ 5,000 Crores of tax free bonds) up to 31<sup>st</sup> December 2013 at a marginal cost of 8.79%.

As I have already stated the quarter numbers, let me share with you the number for the 9M FY13 versus 9M FY14.

The PAT has increased by 28% from ₹ 3,125 Crores to ₹ 4,006 Crores. Income has increased by 26% from ₹ 12,602 Crores to ₹ 15,901 Crores. Net interest income has increased by 37% from ₹ 4,546 Crores to ₹ 6,214 Crores. The spread has increased by 62 bps from 2.82% to 3.44%. NIM has increased by 55 bps from 4.36% to 4.91%.

This was all about the financials of the company.

Now let me share with you, about the positive developments in the power sector. First of all, as regard the tariff revision, already 26 states out of 29 states have issued the tariff orders during the FY 2013-14, increasing the tariff up to a maximum of 31%. At this point of time, I would also like to clarify one of the concerns which you might have had after reading in the papers that recently some of the states like Delhi, Haryana and Maharashtra have announced tariff reduction for certain categories of consumers. I would like to share with you all that this has been done by the state government purely on the basis of government subsidy. As per Section 65 of the Electricity Act 2003, states are required to pay upfront subsidy to the Discom if they wish to subsidise certain categories of consumers. The same holds good for any other states which might like to follow suit. Further, in a state like Haryana which is a part of the FRP scheme of the Central Government, they are obliged to follow certain guidelines, stipulations and conditions of the restructuring package, in which they are required to pay the upfront subsidy before announcing any tariff reduction.

In addition to this, they are required to follow the Model State Distribution Management Responsibility Bill, which they have to pass in their legislature. It is a requirement of the FRP



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package and this responsibility will also mandate upfront subsidy payment. In addition to this, the annual exercise of rating of Discoms takes into account nonpayment of upfront subsidies which will not only adversely affect the rating of Discoms, but also the funding of the Discoms by banks and FIs because these ratings are used for funding by banks and FIs as well.

Also, Haryana, Delhi and Maharashtra have already issued tariff orders for FY 2013-14 with the tariff increase in the range of 5% to 13%. In addition, DERC has recently hiked the surcharge in the range of 6% to 8% for Delhi Discoms on account of power purchase cost adjustment (PPAC) with effect from February 2014. Based on these observations, I believe that the recent announcements of tariff reduction by the states will not have adverse impact as is being perceived, on the reforms being undertaken in the power sector by the Central Government.

Government of India has notified the FRP scheme in October 2012 to address the issue of poor financial health of the state Discoms and the current status is that four states namely, UP, Rajasthan, Haryana and Tamil Nadu, have already implemented the FRP scheme worth about ₹ 95,000 Crores, of which bonds worth about ₹ 46,700 Crores have already been issued by the state. As a result of this, Tamil Nadu, Rajasthan, and Haryana have seen noticeable improvement in their supply. Haryana, Rajasthan, both are now having surplus power and they do not have to buy the power from the spot market.

The cash losses of the Discoms of UP, Rajasthan, Haryana and Tamil Nadu have reduced in the range of 42% to 64% and all these four states are now paying subsidy upfront on a monthly basis. This is the turnaround which we are seeing after the implementation of FRP package in all these four states.

In addition to this the Government of India has recently approved the special dispensation for another set of three states i.e. Jharkhand, Bihar, and Andhra Pradesh by allowing them time up to March 31, 2014 to finalize their FRP. In case of Jharkhand, the state government has already approved the FRP and same has been forwarded to the Ministry of Power and in the remaining two states, the Discoms are in the process of finalizing their FRP with respective state governments.

R-APDRP is another important central sector scheme, it is the flagship program of Government of India for reduction of AT&C losses in the distribution sector. This scheme is progressing very well and entire sanctions of ₹ 37,200 Crores against eligible projects under part A and part B have been sanctioned, of which ₹ 7,143 Crores has already been disbursed. Out of the total 1400 odd towns under the R-APDRP scheme, 460 towns have already been declared go-live under part A of the scheme for IT enablement of the distribution system. This means that online live data is available for all these towns and energy audit report up to distribution transformer level is available online which will identify the loss in the distribution system of these towns where measures can be taken for reduction of their losses. Out of these 460 towns, in about 95 towns of the four states where these towns have declared go-live, the states have reduced AT&C losses by



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levels varying from 2% to 20% just by taking the administrative measures without any technical interventions.

In addition to this, counterpart funding of ₹ 14,700 Crores has already been tied up against the total requirement of ₹ 20,000 Crores. So this is another scheme which is progressing very well and will be helpful in turnaround of the distribution sector.

Another initiative of Government of India is Ultra Mega Power Project which is also progressing very well, especially after modification of the standard bidding documents. The most important change as you are aware is that the revised bidding documents provides a pass through of the fuel cost. Bidding of the two UMPPs namely Odisha and Cheyyur based on the revised bidding document has seen considerable RfQ response.

Odisha UMPP has received 9 applications and Cheyyur UMPP received 8 applications representing 10 companies in total and all these 10 companies are big and serious players in the power sector. All the RfQ applications for both the UMPPs were qualified, 5 RfPs have been purchased for each of the UMPPs and the last date of RfP submission is 26.02.2014. Further, 9 more UMPPs are in the pipeline at various stages of development.

Another important scheme of the distribution sector which is being implemented by Government of India is National Electricity Fund Scheme. It is an interest subsidy scheme aimed to promote capital investment in distribution sector by providing interest subsidy linked with the reform measures. Under NEF, loans of about ₹ 17,000 Crores have been approved for 23 Discoms covering 14 states. Additional proposals worth ₹ 8,000 Crores have been received and are likely to be approved shortly.

As regards fuel related issues, out of the total 172 FSAs for 78,000 MW, 157 FSAs for 72,000 MW have already been signed and all the issues pertaining to signing of balance 15 FSAs for 6,000 MW have already been resolved. It is a matter of time and procedure only and these FSAs are likely to be signed anytime from now. This will cover all the generation projects which are commissioned or likely to be commissioned by March 2015. So, we do not anticipate any issue with respect to the fuel for all the units which are likely to be commissioned by March, 2015.

Third party sampling in the supply of coal has been introduced to ensure good quality of coal to power producers. This became operational from October 2013 onwards. Coal Regulatory Authority Bill was introduced in the Parliament in December 2013 for setting up an independent coal sector regulator with an authority for charting methodology to fix prices of coal and resolve disputes.

As far as the gas supply is concerned, the Ministry of Power had recently circulated a draft note for consideration of CCEA which proposes financial subsidy to address the recent decision of substantial hike in the price of the domestic gas from \$4.2 to a \$8 per MMSCMD so as to make the power project viable at the increased price.



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The environment clearance process has picked up pace at MoEF and there have been positive statements from MoEF aiming to clear the backlog by February 2014. Further, the cabinet committee on investment (CCI) has cleared 3 hydel projects of about 2,000 MW recently which were awaiting clearance for a long time. Also CCI has exempted Jharkhand UMPP from providing non-forest land as a compensation for the loss of forest land acquired for the project.

With the benefit of FRP starting to materialize for the states, resolution of fuel supply issues with Coal India, recent environment clearances coupled with the progress of distribution reform schemes like R-APDRP, NEF, and regular tariff revision by the states, I am sure the power sector environment is likely to improve going forward.

That is all I would like to share with you. So I would be most happy to respond to your queries. Thank you.

**Moderator:** Thank you very much, Sir. We will now begin the question and answer session. The first question is from the line of Kunal Shah from Edelweiss. Please go ahead.

**Kunal Shah:** Congratulations for a good set of numbers. Sir, we understand that this quarter also, you have sanctioned transitional finance of approximately ₹ 4,300 Crores to Tamil Nadu and UP. Sir, actually just wanted to understand the FRP is there and I think the banks have also resumed lending to these SEBs, so what was the need for the further sanctioning the transitional finance to these Discoms?

**R. Nagarajan:** Good morning, Kunal. In the case of Tamil Nadu, as per the scheme any losses actually incurred or projected has to be funded by banks and institutions or by the state government. So, in this case the state government, instead of funding, has given a guarantee and then requested PFC to sanction the loan for the actual loss. So we have sanctioned the loan and the guarantee given by the state government is also helping us in improvement of the capital adequacy ratio. In case of UP, Allahabad Bank and Vijaya Bank have high exposure and are not able to sanction any loan for loss funding. So, UP has requested us to sanction, and we have taken over from Allahabad Bank and Vijaya Bank. This is the reason that transitional funding has gone up for both Tamil Nadu and UP by Rs. 4,381 Crores.

**Kunal Shah:** This UP is also State Government guaranteed or that is not state government?

**R. Nagarajan:** No FRP loan is given by PFC without state government guarantee. So, both the loans have got government guarantee.

**M. K. Goel:** In case of UP, though we have subscribed the bonds which banks were not willing to take, there was no compromise in the interest rates.

**Kunal Shah:** So there is no hit on any of these?



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- M. K. Goel:** Absolutely, no.
- Kunal Shah:** On the restructuring also which we have done during the quarter, was there any kind of hit which have to take from the restructuring?
- R. Nagarajan:** In this quarter, restructuring of Indiabulls Realtech for loan amounting to ₹ 1,500 Crores was done because of postponement in the commissioning date and restructuring of Konaseema, for loan amounting to ₹ 419 Crores was done because it was a NPA account and restructuring is in line with CDR package. Further, since Konaseema is NPA, it has already been provided for. As regards both the loans restructured, Indiabulls Realtech is on account of delay in DCCO and Konaseema is NPA, so as per the analyst norms, there is no reschedulement in this quarter.
- Kunal Shah:** So the overall restructuring pool now stands at ₹ 13,300 Crores, anything got upgraded from restructuring where we have got?
- R. Nagarajan:** ₹ 11,540 Crores was rescheduled because of postponement in the commissioning date and ₹ 1,804 Crores because of some cash flow problems. The amount of real restructuring done as per the analyst view and also as per the RBI view is only ₹ 1,804 Crores.
- Kunal Shah:** What is the overall view in terms of incremental restructuring or any slippages, at which we are looking?
- R. Nagarajan:** We cannot predict about the future, so we are talking only about December 31, 2013.
- Kunal Shah:** Because last time we have highlighted that Lanco is giving out some problem and that is being closely monitored?
- R. Nagarajan:** In case of Lanco, already they have got an APTEL order, they will get around ₹ 200 Crores before March and in case of Udupi Power also, they are expecting order from CERC in February 2014. We expect some positive development in both these accounts.
- M. K. Goel:** They are paying to all their suppliers and even to PFC and all the loan is relating to Lanco group are standard assets.
- Kunal Shah:** Last question, I just wanted to understand this reserve for bad and doubtful debts, it has actually come down quarter on quarter from about ₹ 2,000 Crores to ₹ 1,600 Crores, so was there any utilization? If you look at slide number 16, in September 2013, the reserve for bad and doubtful debt was ₹ 2,004 Crores?
- R. Nagarajan:** Reserves for bad & doubtful debts as at 31.12.2013 is ₹ 1,630 Crores and as at 30.09.2013 it was ₹ 1,532 Crores .
- Kunal Shah:** Because if I look at Q2 PPT, in Q2 that is also moving up?



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- R. Nagarajan:** See, it will move up. You would have confused between total number and reserve for bad and doubtful debts.
- Kunal Shah:** There is no utilization?
- R. Nagarajan:** If I utilize, I have to pay tax.
- Kunal Shah:** Thanks a lot Sir.
- Moderator:** Thank you. The next question is from the line of Parag Jariwala from Macquarie Securities. Please go ahead.
- Parag Jariwala:** Can you just tell me the movement in restructured asset last quarter was ₹ 115.4 billion, so what has come in and gone out with this?
- R. Nagarajan:** In this quarter, Konaseema has been added as a restructured asset which is already NPA. As per the RBI guidelines, if there is a postponement under the DCCO, it is not considered as restructuring. So in the case of Indiabulls, there is a change in the DCCO from May 2013 to March 2015, so an outstanding amount of ₹ 1,500 Crores is not restructuring, because it is on account of postponement of the DCCO,
- Parag Jariwala:** Sir principal payments have not yet started before during this?
- R. Nagarajan:** Second account is Konaseema Gas & Power, this is already a NPA account, we are in line with the CDR and we have done the restructuring of the account in the third quarter.
- Parag Jariwala:** Okay so what is the outstanding restructured book as of December?
- R. Nagarajan:** It is ₹ 1,804 Crores as on December 31, 2013.
- Parag Jariwala:** In terms of forex borrowing what portion is hedged and what portion is not hedged?
- R. Nagarajan:** 83% is open and 17% is hedged.
- Parag Jariwala:** Thanks.
- Moderator:** Thank you. The next question is from the line of Sunil Kumar from Birla Sun Life Insurance. Please go ahead.
- Sunil Kumar:** Sir first thing I want to understand as of now how much is the total exposure to the private power projects and out of which how much is restructured?
- R. Nagarajan:** Total outstanding of Private sector as at 31<sup>st</sup> December, 2013 is ₹ 26,314 Crores, of which restructuring after commissioning is ₹ 1,804 Crores .



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- Sunil Kumar:** Of which restructured asset is only ₹ 1,804 Crores. Then there will be reschedulement also out of ₹ 26,000 Crores, how much is that?
- R. Nagarajan:** That is why again I am explaining, changing of repayment date because of nonpayment of dues once it has become due is to be considered as restructuring, which is ₹ 1,804 Crores. RBI in its recent guidelines also states that postponement of the repayment because of delay in commissioning of project may not treated as restructuring.
- Sunil Kumar:** So how much is that reschedulement Sir?
- R. Nagarajan:** About ₹ 11,500 Crores where postponement of the repayment is due to delay in commissioning .
- Sunil Kumar:** Also like you mentioned in the beginning as per the Electricity Act the subsidy has to be paid upfront here, so one will be Haryana, Delhi and Maharashtra how much is your total exposure right now?
- R. Nagarajan:** Loan outstanding to Maharashtra is ₹ 24,378 Crores, consisting of ₹ 18,982 Crores to state sector, ₹ 4,674 Crores to Private sector & ₹ 722 Crores to Joint sector. Then, Haryana the total outstanding is ₹12,608 Crores, out of this state sector is ₹ 6,806 Crores, private sector is ₹ 455 Crores, joint sector is ₹ 5,347 Crores. Delhi the total outstanding is ₹ 11,415 Crores, out of this central sector is ₹ 9,594 Crores, the private sector is ₹ 8 Crores and state sector is ₹ 1,813 Crores.
- Sunil Kumar:** How are these companies saying that we are running into losses etc., and if the subsidy is being or to be paid upfront as per the Act?
- R. Nagarajan:** In Delhi, they are talking about regulatory asset. They have not got money from the consumer to the extent of ₹ 15,000 Crores. I think in the paper you would have seen today. Regulatory assets are nothing but the tariff increase, which are not allowed by the regulatory commissions, which should be recovered over a period of time. As Distribution Companies have not got reimbursement in the form of the tariff, the regulators allowed the regulatory asset funding by agencies plus even the intra-account funding is allowed as a pass through when they do the recovery of the regulatory assets.
- Sunil Kumar:** So from your perspective have you seen any change in the payment behavior from SEBs?
- M. K. Goel:** Haryana has paid all the dues in time. They are making regular payment.
- Moderator:** Thank you. The next question is from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.
- Anand Laddha:** Good morning. Can you just give some color, if I have to see private sector sanctions in the last nine month last quarter has been quite okay, this quarter it is ₹ 3,473 Crores , so if you can just give some color in terms of which could be the large exposure which you have sanctioned?



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- R. Nagarajan:** It is there in our presentation uploaded on the website in slide number 19. During 9M FY14, our private sector sanctions mainly consist of GVK ₹ 2,500 Crores, underwriting portion of GVK ₹ 2,200 Crores, Karcham Wangtoo project of Jai Prakash Power Ventures ₹ 1,500 Crores and Tuticorin TPP of SEPC Power Limited ₹ 1,142 Crores. During Q3 FY14, our private sector project sanctions mainly consist of Jai Prakash Power Ventures ₹ 1,500 Crores, Indiabulls Realtech ₹ 627 Crores, and NSL Nagapatnam ₹ 600 Crores.
- Anand Laddha:** Sir for next year what is our disbursement target i.e. for FY 2015?
- R. Nagarajan:** We cannot talk about it, because the MOU has to be signed by PFC with the Ministry of Power, which may be signed by March 31, 2014, so will be able to expand on that only after March 31, 2014.
- Anand Laddha:** Sir on the transitional finance if you can just give us total sanctions and disbursements made done by you?
- R. Nagarajan:** The total sanction till 31<sup>st</sup> Dec, 2013 is ₹ 22,569 Crores & total disbursement is ₹ 19,073 Crores.
- Anand Laddha:** That is all from my side. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Digant Haria from Antique. Please go ahead.
- Digant Haria:** Sir my question actually was pertaining to specific case in Maharashtra, for example we have seen that the Maharashtra State Government announced tariff cut and said that a part will be borne by the Discom that is MSEDCL, so in this case obviously the MSEDCL does not have adequate finance to actually fund these losses, so something similar may happen in other states as well, as you mentioned in the beginning that the subsidies have paid upfront, so what do you see a resolution to such kind of a stalemate?
- M. K. Goel:** We do not think that there will be a stalemate. In any case, if states continue to subsidize a certain category of consumers and state government does not pay the subsidy, as I have told you that their rating will go down and it will adversely affect their further expansion plans and further lending by the banks. I am sure that none of the states particularly states like Maharashtra can afford to do that. So either they have to slice their subsidized tariffs or state governments have to compensate them by way of providing upfront subsidy if they want to subsidize certain category of consumers.
- Digant Haria:** But Sir to the extent of the portion MSEDCL has to bear, how will they fund that component because at the end of the day the banks have to or lenders like you have to come and bail them out again?
- M. K. Goel:** I do not think that would be an issue basically, because their accounts are transparent and the cost of the supply and cost of power which they are required to supply that is known.



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- Digant Haria:** Sir but the Honorable Chief Minister actually had announced that part has to be borne by MSEDCL and part will be through subsidies so we are just taking it from there?
- M. K. Goel:** That is precisely what is to be resolved between the utility and the state government and they have to come to a mutually agreeable solution definitely, because someone has to pay the bill either by the Discom or by the state government. So this has to be decided between two of them, if they are not able to decide it will adversely affect the rating of the Discom which eventually will further deteriorate their growth prospects and lending by the banks and FIs, they cannot afford to continue with that stalemate and it has to be resolved.
- Digant Haria:** I understand your point just last question on this, if something similar happens in a state which is undergoing the FRP so there will be a clear overlap, because the FRP states completely different contours to the funding, so how will that be taking care of?
- M. K. Goel:** That is what I have told you that before releasing any money under FRP, state government has to agree with certain clear cut milestones for turnaround of their distribution utility. Disbursement under transitional finance is made based on achievement of these milestones. It is not that the entire payment is made upfront, so that might lead to even suspension of further assistance or whatever it is, but it is a hypothetical situation. In fact I do not foresee any situation like this for the states, which are under FRP because they are bound by the reform related conditions of Model State Distribution Management Responsibility Bill which mandates the state government to take certain actions for financial turnaround of these state Discoms on a sustainable basis. So, I do not think that any state can afford to land into that situation.
- Digant Haria:** That is all from my side. Thank you so much.
- Moderator:** Thank you very much. The next question is from the line of Ramnath Venkateswaran from LIC Nomura Mutual Fund. Please go ahead.
- Ramnath V:** Sir I just wanted to know in case of certain infrastructure developers their balance sheet got stretched, so are you in a way persuading them to sell off some power assets or projects which do improve their viability?
- M. K. Goel:** We have well defined and very transparent model for appraisal which is clearly defined into two parts, the project appraisal and the entity appraisal and again in both areas there are qualitative parameters and the quantitative parameters. The quantitative parameters, their ability to raise the equity, identification of source of equity, what is the past record of raising the equity and their technical expertise to undertake the projects and to commission the projects in the past. It is a very exhaustive model with the benchmark value and based on those benchmark values the marks are assigned against each of the parameter during the appraisal process and it is a complex metrics, which takes into consideration their marking with respect to project, out of the project appraisal as well as the entity appraisal integrated rating is derived, and based on that rating our lending exposure, lending rate and securities, all these are being decided after that so if anyone



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stretches its balance sheet to fund certain category of certain project, that will be captured during the appraisal process and it will be adequately taken care of during appraisal process by way of additional securities etc.

**Ramnath V:** The point is that we all know that there are few developers who are continued to face a lot of cash flow issues at least that is what we read, right now the point that I just wanted to understand from a lender's perspective are we kind of asking them to basically dispose of some assets?

**M. K. Goel:** We do not interfere with the business aspects of the developer. We see what they give and we see the net outcome in terms of their potential and the cash balance and all. We do not advice them on the business prospects and business operations.

**Ramnath V:** Thanks a lot.

**Moderator:** Thank you. The next question is from the line of Umang Shah from CIMB. Please go ahead.

**Umang Shah:** Good morning Sir. Thanks for taking my question. I have two questions; one is the data point which I have missed, out of a foreign currency borrowing how much is unhedged?

**R. Nagarajan:** 83% is open.

**Umang Shah:** 83% is unhedged. Second thing in our presentation where we report our tier I capital which is 17.06%, does this also include the reserve for bad and doubtful debt?

**R. Nagarajan:** No, this is part of Tier II.

**Umang Shah:** Sir the 1.8% Tier II capital. It is included there and the book value does not include the reserves for bad and doubtful debt and hypothetically we can use this reserve for writing off any assets in future if need to?

**R. Nagarajan:** Yes that is the purpose of that.

**Umang Shah:** Thanks.

**Moderator:** Thank you. The next question is from the line of Rahul Jain from Goldman Sachs. Please go ahead.

**Rahul Jain:** Good morning. I just wanted some clarity on this restructured number, so what is the outstanding restructured pool as on December 31, 2013?

**R. Nagarajan:** I told you, ₹ 1,804 Crores.

**Rahul Jain:** Last quarter it was ₹ 11,000 crore or something?



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- R. Nagarajan:** Rahul there are two clarifications. One is that the postponement of the repayment because of the postponement of the commissioning. That is not a restructuring. So that is around ₹ 11,500 Crores. Second type of restructuring is, where the repayment have been started and in between there is cash flow problem, that is ₹ 1,804 Crores.
- Rahul Jain:** How much of this ₹ 1,804 Crores would be NPA, already Konaseema would be included in this ₹ 1,804 Crores?
- R. Nagarajan:** Konaseema and Empee Power Company are two NPA accounts.
- Rahul Jain:** It is totaling about ₹ 1,000 odd Crores if I am not wrong?
- R. Nagarajan:** Konaseema is ₹ 419 Crores and Empee Power is ₹ 27 Crores.
- Rahul Jain:** RBI last week has come out with guidelines on provisioning requirement?
- R. Nagarajan:** First of all, if you go through the master circular of July 2013, where para 1 (3) (IV) says that the direction except the provisions of paragraph 19 are not applied to nonbanking financial company being a government company as defined under section of 617 of the Company's Act and not accepting /holding public deposit. Now the RBI circular dated 23<sup>rd</sup> January, 2014 says that in exercise of the power the direction shall be amended with immediate effect as follows namely amendment of paragraph 23 sub paragraph 1 to 11 is deleted, and new paragraph 23 A shall be inserted called Norms for restructuring of advances. Hence these guidelines are not applicable to us. However, RBI in the month of August 2013 has sent us a letter, where they mentioned that they will revert to us regarding restructuring, reschedulement and renegotiation norms, so we are expecting a reply from RBI on these.
- Rahul Jain:** That part I understood but just if assuming that RBI imposes this on us also, and then the liability would be calculated on...?
- R. Nagarajan:** It would be ₹ 1,804 Crores.
- Rahul Jain:** Part of that is already NPA?
- R. Nagarajan:** If at all we can do, we can do on around ₹ 1,400 Crores, at 2.75% because all these are done before January 23, 2014 because if you do any restructuring after January 24, 2014, they say straightaway 5%. If we do it before January 23, 2014, it is 2.75%. So it is may be around ₹ 40 Crores we had to provide on the backdrop of huge profit declared by us, that is what the RBI says.
- Rahul Jain:** Just one last question if I may, out of this total sanctioning which we did in this quarter towards state sector about ₹ 19,000 odd Crores, how much was towards transitional financing, I missed that number you have mentioned?



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- R. Nagarajan:** ₹ 4,300 Crores, Tamil Nadu is ₹ 2,800 Crores and UP is ₹ 1,500 Crores.
- Rahul Jain:** Any more that you expect in the subsequent quarters?
- R. Nagarajan:** Yes, there is a possibility of business from Jharkhand, Bihar, Andhra Pradesh coming to us, which would also help us in capital adequacy because of the fact we are getting the state government guarantee. Risk weight on state government guaranteed loans is only 20% which is also helping us to leverage the capital and also improve our profitability.
- Rahul Jain:** What is the rate of interest you are charging on these?
- R. Nagarajan:** Banks are charging 13.50% on a monthly basis. We are charging around 12.25% on a quarterly basis, so still we are cheap.
- Rahul Jain:** But why would that be? Why you are charging lesser than bank?
- R. Nagarajan:** We have created for them. Banks are not created for them.
- Rahul Jain:** Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Abhishek Puri from Deutsche Equities. Please go ahead.
- Abhishek Puri:** A couple of questions. First is the state Discoms responsibilities bill and it is not an act, if I assume it correctly, so do the states have to adopt it mandatorily?
- M. K. Goel:** The states which are availing the FRP package, as a part of the reform conditionality, for those states, they are mandated to adopt this State Distribution Management Responsibility Bill.
- R. Nagarajan:** If we go through the circular of October 5, 2012 they have mentioned clearly in the circular that the Ministry of Power will come with the guidelines for a model responsibility bill within one year of the circular that is September 5, 2013.
- Abhishek Puri:** Secondly FRP also had a condition of tariff gap to become zero in three years time, how is the debt in the current scenario where state subsidy is increasing?
- R. Nagarajan:** In 2012-2013 out of the 29 states, 28 states have increased their tariffs and in 2013-14, 26 states have issued tariff order. You are all aware that elections may be held in May, 2014, so may be all will revise the tariff post May after the elections. However, as you are aware in all the FRP states monitoring committee are formed i.e. state level monitoring committee and central level monitoring committee. State level monitoring committee is setup by the Chief Secretary and Central level monitoring committee is setup by Member (Energy) Planning Commission. The meeting of this committee is day after tomorrow in Delhi to monitor the progress of all the four states Tamil Nadu, UP, Haryana and Rajasthan how they have done the FRP, how it is



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progressing, what are the conditions they are to comply, what is the allotment. In the review meeting, Secretary Power will be there, CMD PFC, CMD REC and CEA is also participating in the meeting. In addition to that as per the terms and condition of the FRP, there shall be a Nominee Directors of Lenders on the Board of Discoms, now we have nominee director of lenders in the Board of three Discoms and one of our members also in one of the Haryana Discom's Board. So lenders nominee sitting in the Board of these Discoms, will be taking care of the lenders interests. So, monitoring mechanism has been created, so that as you are saying that over a period of time the ACS and ARR gap will be reduced.

**Abhishek Puri:** My last question is on slide #19. I guess you have given additional loan of ₹ 1,500 Crores to Karcham Wangtoo which is already operational?

**R. Nagarajan** Actually Karcham Wangtoo is an operational project, still the terms and conditions not finalized; we have not signed the documents also, once it is signed then we may give the loan. We have to sign the agreement now for the purpose of disbursement of the loan, so they have to comply with the pre-commitment conditions then we will sign the document, when they comply with the pre-disbursement conditions then we will disburse. So it is only a sanction made, no execution has taken place as on date.

**Abhishek Puri:** So you mean to say they have already invested equity and it will be now replaced with debt?

**R. Nagarajan** In the case of Karcham Wangtoo it is already an operational project. It is only debt refinancing, so they have to pay to some lenders and we will take over the loan from other lenders. They may want to reduce the cost of borrowing by shifting the loan from banks to institutions.

**Abhishek Puri:** What will be the cost of debt if I may ask here?

**R. Nagarajan** For them our rate of interest would be 12.5% on a quarterly basis at least.

**Abhishek Puri:** Thank you Sir.

**Moderator:** Thank you. The next question is from the line of Dewang Modi from Equirus Securities. Please go ahead.

**Dewang Modi:** Congratulations on a great set of numbers. Sir, we wanted to know firstly that what part of our portfolio is expected to be operational in 2015-2016 in both in rupees million and megawatts?

**R. Nagarajan** In MW terms commissioning in the remaining period of FY 2013-14 is 15,153 MW, in FY 2014-15 is 24,558 MW, in FY 2015-16 is 5,765 MW and in FY 2016-17 and beyond is 14,630 MW. In terms of outstanding amount which is expected to be commissioned in the remaining period of FY 2013-14 is ₹ 21,389 Crores, in FY 2014-15 is ₹ 42,716 Crores, in FY 2015-16 is ₹ 6,718 Crores and in FY 2016-17 and beyond is ₹ 4,864 Crores.



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- Dewang Modi:** Sure Sir and what will be this component in just megawatt for the private sector?
- R. Nagarajan** In Private sector, the commissioning in MW terms in the remaining period of FY 2013-14 is 11,723 MW, in FY 2014-15 is 13,796 MW, in FY 2015-16 is 135 MW and in FY 2016-17 and beyond is 850 MW.
- Dewang Modi:** Over here clearly this 11,723 MW is the huge number which appears to be still left to be commissioned in FY 2013-14, you will be seeing some restructuring and probably elongation?
- R. Nagarajan** DCCO postponement may be there, not restructuring. Let us not use the word restructuring.
- Dewang Modi:** Basically another thing, in terms of the coming year it is 13,796 MW there is still no spillover that has happened from FY 2014 as of now in the FY 2015 commissioning part?
- R. Nagarajan** We do not have the number, but yes your question is valid, because of delay in the signing of FSAs and clearances, there is a possibility that spillover will be there from FY 2013-14 to FY 2014-15.
- Dewang Modi:** Finally what percentage of our portfolio will be operational on the overall front and how much will be under construction?
- R. Nagarajan** Actually commissioning outstanding is ₹ 46,984, that is around 35% of the generation loan assets.
- Dewang Modi:** 35% of the portfolio is operational?
- R. Nagarajan** ₹ 1,36,570 Crores is the loan outstanding of generation projects of which commissioned is ₹ 46,984 Crores, i.e approximately 35%.
- Dewang Modi:** Just one more question Essar group in this particular quarter because we saw some mobilization by then in the foreign market, so has there been any repayment from Essar Group in this quarter?
- R. Nagarajan** Essar group's transmission company and generating company i.e. Essar Mahan had to pay October dues. They might have borrowed for the group, I do not think they would have borrowed for the purpose of the specific project.
- Dewang Modi:** There is no prepayment per se that we have seen across our portfolio as of now?
- R. Nagarajan** In the second quarter, GSECL has done the prepayment, this quarter we have got a prepayment from DVC.
- Dewang Modi:** Okay but not a similar trend is there in the private side?
- R. Nagarajan** Private side has no trend of prepayment.



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- Dewang Modi:** Thanks a lot that is it from my side.
- Moderator:** Thank you. The next question is from the line of Anirudh Gangahar from Nomura. Please go ahead.
- Anirudh Gangahar:** Thank you for the opportunity. Just some color on the UMPP, some of the IPPs are telling that they have sought a clarifications before filing the RFP, any color on that and do you foresee delay in the end February deadlines?
- M. K. Goel:** We had a conference a couple of days ago and all the concerns, and issues that were raised and issues primarily were basically on account of certain clarification on the PPA and those we have clarified and by and large all the concerns raised were addressed. But the bidders have been requesting for some postponement of the submission date, which we are working on and that will be considered and the decision would be taken maybe in consultation with the Ministry of Power in due course of time. Yes, we have a request from the bidders for extension of bid submission date and we are working on that. But as far as the issues are concerned, most of the issues we have addressed and we will be replying to them formally also.
- Anirudh Gangahar:** Thank you. Just one clarification on what you had mentioned previously you said that upfront subsidy has been given to all the three states, which have announced tariff rollback is that correct Sir?
- M. K. Goel:** States are obliged to pay the upfront subsidy as per the Act and if they announce to subsidize certain category of consumers, they are obliged to pay that subsidy upfront.
- Anirudh Gangahar:** In Haryana as you mentioned that they have subscribed to the FRP they have not gone ahead with filing for a tariff hike in FY 2015 and there is a rollback as well, so is that understanding correct or am I missing something Sir?
- M. K. Goel:** For FY 2014 they have announced the tariff revision and FY 2015 they have not yet done, but whatever the financial impact on the Discoms would be there, to that extent states are obliged to pay the subsidy upfront.
- Moderator:** Thank you. Last question is a followup from the line of Ramnath Venkateswaran from LIC Nomura Mutual Fund. Please go ahead.
- Ramnath V:** Just a small data point. In the initial comments that you were making you said the losses for the four states, states of Tamil Nadu, Rajasthan, UP and Haryana, you have quoted a number by which their losses have come down, so if you can just repeat it for me?
- M. K. Goel:** Cash losses have reduced, by 42% to 64%.
- Ramnath V:** This is on FY 2014 compared to FY 2013 is it?



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- M. K. Goel:** As on FY 2012.
- Ramnath V:** If I have not mistaken the losses of these companies were close to ₹ 60,000 Crores, so you are saying that it has come down by almost 50%, it has come down to 30%?
- M. K. Goel:** Their losses are estimated at ₹ 2,887 Crores for Tamil Nadu and ₹ 9,899 Crores for UP and ₹ 13,205 Crores for Rajasthan and ₹ 2,018 Crores for Haryana.
- Ramnath V:** This is on FY 2012 right? They have come down you are saying that this.
- M. K. Goel:** FY 2012 levels, the losses have come down by 42% to 64%.
- Ramnath V:** Thank you so much.
- Moderator:** Thank you. Ladies and gentlemen due to time constrains that was the last question, I would now like to hand the floor over to Mr. Kaitav Shah for closing comments.
- Kaitav Shah:** I would like to thank all the participants and the management for taking the time out to address everybody's queries. Thank you Sir.
- Moderator:** Thank you. On behalf of Anand Rathi Research that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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