



Power Finance Corporation Ltd.
A Govt. of India Undertaking

“Power Finance Corporation Limited Q1 FY14 Conference Call”

August 06, 2013



Power Finance Corporation Ltd.
A Govt. of India Undertaking



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(FINANCE)**



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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY'14 earnings conference call of Power Finance Corporation Limited, hosted by HDFC Securities. As a reminder all participants' line will be in the listen-only mode and 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 "*" followed by "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sameer Narang from HDFC Securities. Thank you and over to you Sir!

Sameer Narang: Thanks. On behalf of HDC Securities, I thank the management of Power Finance Corporation in particular, Mr. Satnam Singh, CMD for giving us the opportunity for holding this post results conference call. I think, Sir we can start with your remarks and then we will go into Q&A after that!

Satnam Singh: Thank you, Sameer. First of all I thought it is important for me to share with all the investors that the concerns in the Indian power sector have been addressed to a great extent. There was an issue about tariff revisions as to whether the states will continue to increase the tariff or not and if you look at 2013-14 data, out of 29 states 24 have filed the tariff petition of which 21 states have increased the tariff (increase ranging from 0% to 31%), 3 states are yet to issue the tariff order and 5 states, mostly in the north eastern region have not yet filed the tariff petition.

FRP was another concern. 4 states have already got the approval from their respective cabinets and another 9 states have conveyed in principal approvals. One of the conditions of the FRP is that after it is signed, the banks have to start relending. Banks have started lending in the case of Tamil Nadu and as the process goes on banks will perhaps start lending to other states also and that will help resolve the issue in a big way.

The other concern was that whether even after FRP there will be an issue about debt servicing by the distribution company. It is here that PFC and REC have come in and provided slightly longer-term support in terms of transitional finance. I have explained this earlier also that both PFC and REC have sanctioned about Rs. 18,000 crores and Rs. 17,000 crores. PFC has made a disbursement of Rs. 14,818 crores till 30.06.2013 and Rs. 2,000 crores during Q1FY2014.

Another issue regarding coal price was also addressed. Pooling of price for imported coal has already been agreed to by CCEA and only the modalities are to be provided. The gas issue is also being addressed though the real impact will come little later. Coal India has also been further directed to sign FSAs with power plants for a capacity of 78,000 MW as against capacity of 60,000 MW that was agreed earlier.

In the meeting of Empowered Group of Ministers (EGoM), evaluation of the priority ranking of natural gas would be considered, which means there will be equal priority to all the core sectors. So in other words, we will get equal priority for power too and lastly, standard bidding



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documents for case one and case two is also at an advanced stage. Ministry of Power has worked very hard on development of these documents and it is indicated that Ministry may approach EGoM sometime this week or next week.

One more factor that I would add is the acceleration in the implementation of R-APDRP scheme which is aimed at bringing down the distribution losses. The towns being declared go-live based on the IT structure increased from 169 as on 31.03.2013 to 349 as on 30.06.2013, so whatever number was achieved in the entire previous year was achieved in only 3 months in the current year and it is likely that more and more states will declare the towns go-live, which will help them reduce losses even with administrative measures. Part B, which is upgradation of the transmission and distribution network will further facilitate loss reduction but the implementation of that will take some time. A large number of towns have already been sanctioned and awarded, so the process is on.

All these factors were raising concerns among investors that what if the government does not take a stand on these issues in the power sector. Now that almost in every case, we are absolutely clear, I think things will move in the right direction. Having said that, I will now share with you the important financials for Q1FY2014 vis-à-vis Q1FY2013.

Our loan assets, which are a basis of our income has increased by 24% from Rs. 134,742 crores to Rs. 167,196 crores. Accordingly, income has increased by 27% from Rs. 3,945 crores to Rs. 5,017 crores.

Net interest income has increased by 39% from Rs. 1,394 crores to Rs. 1,942 crores. Our spread has increased by 66 bps from 2.63% to 3.29%. Net interest margin has increased by 57 bps from 4.19% to 4.76%. Profit after tax has increased by 23% from Rs. 972 crores to Rs. 1,198 crores. As we have discussed earlier also, it is not the actual profit figure but the comparable profit figure, which is relevant in terms of performance. Comparable profit for this quarter has increased by 33% from Rs. 1,029 crores to Rs. 1,365 crores.

The difference between PAT and comparable PAT is primarily on account of 3 things. Firstly, we have started implementing provision against standard assets as per RBI norms. For our assets up to 31.03.2013, we are going to create 0.25% provision over a period of three years. However, on the incremental assets we are going to create 0.25% provision corresponding to the increase in the assets. On this account, provision against standard assets is Rs. 49 crores.

Secondly, we have opted for amortization of exchange loss as per accounting standard AS-11. Though Exchange loss on MtM basis would work out to Rs. 659 crores but the amortized exchange loss is Rs. 109 crores. Some of you had raised some queries earlier while conversing with me that whether all these losses are on account of dollar or are we loosing on all the currencies. The answer is that 29% of our foreign currency borrowing is in JPY and there as you know the loss impact is much lower owing to yen depreciation.



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During Q1FY2014, in USD the loss is 10% and in JPY it is only 5% because we have gained 5% in the USD / JPY leg and though in Euro it is 13% but the outstanding amount is only 2% of the total foreign currency borrowing. So, if you see the overall impact on PAT, it is Rs. 109 crores, though exchange loss on MtM basis worked out to Rs. Rs. 659 crores.

Thirdly, the factor, which is affecting profit after tax and comparable profit after tax is deferred tax liability on account of exchange loss. For the purpose of accounts, we are booking exchange loss on amortized basis; however, for the purpose of tax we are booking the entire loss and therefore taking tax benefit, giving rise to deferred tax liability. Our average rate of tax is about 30% and in the income tax return, our rate of tax is about 26%. As for the amortized portion of exchange loss, which is not being booked to profit and loss account we are creating deferred tax liability at the maximum rate of 34%, in accordance with the Income Tax Act., (impact of which works out to Rs. 43 crores).

If these 3 extraordinary items were removed, then our comparable profit after tax would have risen from Rs. 1,029 crores in Q1FY2013 to Rs. 1,365 crores in Q1FY2014.

Another factor, which I would like to share with you, no new account has been added to NPA in this quarter. Our gross NPAs have come down from 1.02% to 0.69% and net NPA from 0.91% to 0.59% as on 30.06.2012 and 30.06.2013 respectively. During Q1FY2014, we have made additional provision of Rs. 43 crores (almost about 10 %.) made for Konaseema, which has got into the doubtful category of assets. The loans which have been classified as NPAs as on 30.06.2013 are Shree Maheshwar - Rs. 700 crores, Konaseema – Rs. 414 crores, Empee Power - Rs. 27 crores and Om Shakti – Rs. 9 crores.

MoU targets for FY 2013-14 have been fixed, target for sanctions – Rs. 59,000 crores, disbursements – Rs. 47,000 crores and resource mobilization of Rs. 44,000 crores. All these MoU targets are excluding R-APDRP because that is not a continuous kind of scheme and even though implementation will take a long time, almost all the sanctions are already over. Against these targets, the performance in Q1FY2014 is sanctions – Rs. 15,375 crores (26% of target), disbursement – Rs. 8,235 crores (18% of target) and resource mobilization Rs. 9,533 crores (22% of target). Outstanding sanctions which may give you an indication of our future growth rate stand at Rs. 170,254 crores.

Capital adequacy has increased from 17.98% as on 31.03.2013 to 18.82% as on 30.06.2013. The improvement in capital adequacy by 84 bps is primarily because of additional subordinated bonds of Rs. 800 crores which we raised in Q1FY2014 at 8.19%. Most of the resource mobilized in Q1FY2014 is through regular bonds except these subordinated bonds of Rs. 800 crores and CP of Rs. 99 crores.

As far as the subsidiaries performance is concerned, in PFC Consulting we have 18 assignments in hand valuing about Rs. 69 crores. In Q1FY2014, profit after tax is Rs. 3.14 crores and income



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is Rs. 7.98 crores vis-à-vis profit after tax of Rs. 16.38 crores and income of Rs. 36.49 crores in FY2013-14. So, we are performing in line with last year. Once the assignments under consideration are finalized there will be some increase in the income of PFC Consulting.

PFC CAS is a new company which we had opened for doing syndication business. In Q1FY2014, profit after tax is Rs. 0.83 crores and income is Rs. 1.63 crores vis-à-vis profit after tax of Rs. 0.85 crores and income of Rs. 1.78 crores in FY2013-14. Of course, we had not started operations from the beginning of the previous year.

For PFC Green Energy Limited we had discussions with AFD France for obtaining a line of credit of Rs. 1,000 crores. AFD may provide the loan at softer terms but unless the terms are finalized, we will not be able to share the details with you. We have also infused equity capital of Rs.40 crores and preference share capital Rs. 138 crores in this subsidiary. IN Q1FY2014, profit after tax is Rs. 2.13 crores and income is Rs. 3.03 crores vis-à-vis loss of Rs. 0.40 crores and income of Rs. 0.57 crores in FY2013-14. Sanctions during Q1FY2014 stood at Rs. 56 crores while disbursement is Rs. 8 crores, so we are making a beginning in the new company.

As far as R-APDRP is concerned, we have sanctioned Part A (IT) – 100%, Part A (SCADA) – 97% and Part B– 98% and disbursed Part A (IT) -44%. Also, in all these contracts the payments are back-ended and disbursement in Part A (SCADA) - 28% and Part B - 44%. You will be happy to note that ring-fencing has been done for 1,366 towns (98%), baseline data has been established for 1092 (77%) and towns declared go-live stand at 349.

In the ultra mega power projects at this point of time, we are at an advanced stage in the case of Orissa and Cheyyur but the action on these can be initiated once the Standard Bidding Documents (SBDs) are finalized. As far as independent transmission projects are concerned, we have already successfully completed four numbers and we have got another five from ministry on which the progress is at different stages. RFQ of course has been issued for four ITPs and for one ITP, RFQ was issued long time back and the response is expected by 30.08.2013.

Ministry of Power has also appointed PFC as bid process coordinator for two more ITPs - Northern Region Systems Strengthening Scheme and ATS for Tanda expansion.

So, if we comprehensively look at all the changes, which have taken place in the power sector and our Q1FY2014 results, we can safely conclude that we have done very well in the first quarter and given the impact of these changes, which I have shared with you hopefully we will be able to do the same or at least continue to do better over the coming quarters. Thank you very much.

Moderator:

Thank you. Participants we will now begin with the question-and-answer session. We have the first question from the line of Amey Sathe from JM Financial. Please go ahead.



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- Amey Sathe:** Sir, three questions, what will be the restructuring done during the quarter apart from Suzlon?
- Satnam Singh:** Restructuring done during Q1FY2014 is Rs. 2,998 crores (including restructuring of Suzlon loan of Rs. 946 crores).
- Amey Sathe:** What will be the rest?
- Satnam Singh:** Other loans restructured are 2 loans of ONGC Tripura of Rs. 1,685 crores and Rs. 339 crores respectively and Empee Power of Rs. 27 crores.
- Amey Sathe:** What was the reason for restructuring ONGC Tripura?
- Satnam Singh:** For power projects, the main reason for restructuring is delay in commissioning.
- Amey Sathe:** Second question on the status of acquiring banking stake, any development on that side?
- Satnam Singh:** As you know, the last day for applying for the license is already over and we have not applied for any license. As far as acquiring stake is concerned, we were corresponding with Ministry of Finance and Ministry of Power. However, there is no response as yet, so I do not think that anything is likely to happen in that area.
- Amey Sathe:** Last question, the transitional financing that we are providing for Discoms, so there is moratorium on interest payment also?
- Satnam Singh:** There is no moratorium on interest, option for moratorium upto 3 years is given only on the principal.
- Amey Sathe:** But they will be paying interest on the loans right?
- Satnam Singh:** Of course, right.
- Amey Sathe:** Where do you see your margins going forward, because currently I think we are at lifetime higher margins, so I do not think this trend will be difficult to maintain, right?
- Satnam Singh:** Question is how will be financial market behave, given the fact that RBI has increased the rates. Our borrowing cost is also likely to increase on that account. We have a system of passing on the increased borrowing cost to the borrowers, but I think given our high margins we may not be required to pass on and there may be some marginal reduction. The increase in costs only affects the incremental disbursement, and the incremental disbursement compared to the cumulative value of loan assets is very insignificant.
- Amey Sathe:** Thanks a lot. That is it from my side.



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- Moderator:** Thank you. We have the next question from the line of Sunil Kumar from Birla Sun Life Insurance. Please go ahead.
- Sunil Kumar:** Thank you so much sir for providing the updates on the current issues. Sir continuing with the asset quality like you mentioned about Rs. 3,000 Crores of restructuring this quarter, now considering all the developments, which have happened in the power sector, which you mentioned in your opening remarks what would be the outlook on the asset quality in the books in terms of gross NPA or the restructured assets during the year?
- Satnam Singh:** I do not think I can give you outlook. I have explained to you what has been done in the sector and the impact is going to be positive, so I do not think I can predict that the asset quality is going to go down or up. I can say surely that these changes, which have taken place, will have a positive impact. If at all any developer then get affected adversely, it will be on account of some other factor, not on account of the changes, which I have explained to you.
- Sunil Kumar:** I am sure, because of your fuel availability, may be gas or may be coal; there must be some delay in the commissioning of some of the private power projects, which are there in the books. So from that perspective I just wanted to understand how many you would have to restructure in the coming years?
- Satnam Singh:** Well, as far as majority of the power projects are concerned, they are getting coal supply adequate enough to operate at PLF level, which is enough for servicing the debt. The issue is that some of the distribution companies have not been paying to these developers, which is likely to be solved by way of final implementation of the financial restructuring plan and banks starting relending to distribution companies. The issue is that these distribution companies do require a large amount, I am saying at the national level at least Rs. 60,000 to Rs. 70,000 crores as working capital, which is not coming through at this point of time from banks, so once the banks start doing that I think the developers will start receiving the payment from distribution companies and thereby they will not be in that situation.
- Sunil Kumar:** Right now you are saying that the bigger issue than the coal availability etc. will be the SEB the working capital requirement, which needs to be met through the bank financing?
- Satnam Singh:** That is right.
- Sunil Kumar:** Actually there was my second question that if you look at some of the results like may be NHPC or NTPC etc., everybody is complaining that either SEBs are not making payment with them or they are backing down, so they do not want even slight expensive power, so when do you expect this issue to be resolved?
- Satnam Singh:** That you have to ask NHPC and NTPC. I do not think I can answer that question.



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- Sunil Kumar:** From power sector perspective the SEB and the FRP, which we have been talking for a long time actually. These are just examples which I have quoted but the kind of involvement you have in the power sector, I just wanted to understand if you can give us some sense on the timing of this FRP implementation?
- Satnam Singh:** I have already shared with you that 4 states have got the approval from their respective state government and 9 states have given in principal approval and now the remaining action is between bankers and the SEB companies There are 3 steps to be taken, the banks have to take the bonds given by the distribution company in place of the loan to the extent of 50%. balance 50% is to be restructured by the bank based on the cash flow and banks have to start relending, funding of losses. So, the ball is in the court of banks I think.
- Sunil Kumar:** Great thank you Sir.
- Mudit Panuly:** The other thing is regarding this transitional financing what is the outstanding as of now for you in the transitional financing?
- Satnam Singh:** As on 30.06.2013, under Transitional Financing, we have disbursed Rs. 14,818 crores and as per the terms, the repayment has to start after the moratorium.
- Mudit Panuly:** 15000 odd Crores, 14800 outstanding sanctions that you have sanctions how much would be the total amount?
- Satnam Singh:** Under Transitional Finance, total sanctions is Rs. 18,188 crores and total disbursement is Rs. 14,818 crores.
- Mudit Panuly:** What would be the approximate rate differential between your normal lending on this transitional finance Sir?
- Satnam Singh:** We have not made any rate difference for normal lending and transitional finance, , rather, rate varies depending upon the category, in which that particular company falls and also the security. Security in case of transitional finance is state government guarantee, for which rate is 25 bps lower. It is on this account that rate varies, not otherwise. . In other words, what we charge from any state sector company depends upon the security, but in this case, due to state government guarantee, lower rate of 25bps has been provided, so reduction has been given based on the standard practice.
- Mudit Panuly:** The other thing is when you say restructuring, is there any rescheduling of payment outside of this restructuring that you do basically, rescheduling of payment by a few months or so?
- Satnam Singh:** Any rescheduling we do have to come under this, as per RBI guidelines and I am sure, you know that we have exemption as far as state sector is concerned.



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- Mudit Panuly:** Total restructuring outstanding what would be at the moment?
- Satnam Singh:** It is about Rs. 10,000 crores.
- Mudit Panuly:** Thank you.
- Moderator:** Thank you. We have the next question from the line of Jay Prakash Toshniwal from India First Life Insurance. Please go ahead.
- Jay Prakash Toshniwal:** Sir I just wanted to know, what could be repayment you were expecting from the borrowers in the next 18 months, the principal amount?
- Satnam Singh:** Total receipts (principal amount) from loan assets for the balance nine months of FY2013-14 is Rs. 10,943 crores
- Jay Prakash Toshniwal:** What would be for the next year for FY'15?
- Satnam Singh:** About Rs. 12000 crores.
- Jay Prakash Toshniwal:** Of your outstanding loan composition for the private sector, which is roughly around 21400 Crores, how much projects are under commission, which is expected to do commission for the next two years?
- Satnam Singh:** Director (Finance) will answer this question.
- R. Nagarajan:** Of total outstanding of Rs 19,999 crores to private sector generation projects; Rs 4,857 crores is towards commissioned projects, Rs 8,653 crores is towards projected expected to be commissioned in the remaining period of FY2013-14, Rs 6,423 crores is towards projected expected to be commissioned in FY 2014-15 and Rs 66 crores is towards projected expected to be commissioned in FY 2015-16.
- Jay Prakash Toshniwal:** Thank you.
- Moderator:** Thank you. We have the next question from the line of Rohan Samant from Multi Act. Please go ahead.
- Rohan Samant:** Sir my question was regarding in terms of that percentage would be because of delay of commissioning and how much would be because of inability like in case of Suzlon, they are not able to pay?



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- Satnam Singh:** Loans rescheduled because of the delay in the commissioning are Rs. 8,832 crores, i.e. in these loans, repayments had not started (at the time of reschedulement) ; further, due to delay in the commissioning of the project, the repayment has been postponed. In case of some borrowers, the repayment had started; however, they could not pay in between because of some liquidity problem and they came to us for restructuring. Amount of such loans rescheduled due to reasons other than delay in commissioning is Rs. 1,314 crores. The break-up of Rs. 1,314 crores is as follows:-Suzlon – Rs. 946 crores, Orissa Power Consortium – Rs. 51 crores, Empee Power Company –Rs. 27 crores and Indian Metals and Ferro Alloys – Rs. 289 crores.
- Rohan Samant:** Thank you.
- Moderator:** Thank you. We will take the next question from the line of Digant Haria from Antique Stock Broking. Please go ahead.
- Digant Haria:** Just listening to your comments before, you and REC have together sanctioned close to Rs. 36,000 crores for this transitional financing and I see that most of those disbursements are already over. So in the next one or two quarters if the banks do not start lending to the state electricity boards, would we increase our sanctions and would we continue to lend further or we put a full stop at the Rs. 18,000 Crores for PFC and for REC each?
- Satnam Singh:** There is no such proposal at this point.
- Digant Haria:** For now it will be, it is safe to assume that you have done your bid now the banks have to come and do their bid. These transitional financing we classify that as a 10-year loan or how do we classify that in our ALMs?
- Satnam Singh:** For the first 3 years, interest amount will appear in the yearly buckets and after 3 years, both interest and principal will appear in year wise buckets.
- Digant Haria:** But the entire duration would be 10 years right?
- Satnam Singh:** Duration for payment of Interest is 10 years and principal is 7 years.
- Digant Haria:** That is all from my side. Thank you.
- Moderator:** Thank you. We have the next question from the line of Suresh Ganpati from Macquaire. Please go ahead.
- Suresh Ganpati:** I just wanted to know two things; first on any of these restructuring you have taken any NPV loss or made any provisioning?
- Satnam Singh:** No loss has been taken.



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- Suresh Ganpati:** So all this Rs.10,000 crores odd, that is about Rs. 8,800 crores due to delay in commissioning plus about Rs. 1,300 crores, everything is no NPV loss and only 25 basis point provisioning will be done or will be done over a period of three years right?
- Satnam Singh:** Yes.
- Suresh Ganpati:** Just one more thing on the this Rs. 8,800 Crores, you gave Rs. 3,000 Crores of split up of ONGC Tripura and other exposures like Suzlon is it possible to state what is the other largest asset in this Rs. 8,800 crores apart from the Rs. 3,000 crores split up that you have given for the remaining Rs. 5,000 crores?
- Satnam Singh:** Other loans which have been rescheduled are Lanco Amarkantak Power, KVK Nilanchal, Sasan Power as well as some of the NPA accounts are like Konaseema Gas and Power, and Shri Maheshwar Hydel Power. However, it is important to understand that if there is a delay in commissioning even for three months and we are allowing postponing of payments, we are treating it as a reschedulement. This is the reason that we have classified the reschedulement between those where the payments are not coming on time due to delay in commissioning (Rs. 8,832 crores) and where there is a postponement for different reasons like liquidity etc. (Rs. 1,314 crores).
- Suresh Ganpati:** Just one thing on this NPV losses to understand a bit better I mean the fact that your there has been rescheduling and stuff, which has been done, how does this result in zero NPV loss. I mean there has to be some notional amount which is lost, right in this process?
- Satnam Singh:** Even one basis point reduction is not there and we are charging the same rate of interest on the interest payable by them. Even in some of the loan, where we have done the funding of interest, even on that we are charging only the normal rate of interest, so for both the rate of interest is say around 12.5%. So, first do the FITL, then on that amount we are charging say around 12.5 %, so where is the question of NPV loss.
- Suresh Ganpati:** I got it. I just wanted to understand the process. Thank you so much.
- Moderator:** Thank you. We have the next question from the line of Devang Modi from Equirus Securities. Please go ahead.
- Devang Modi:** Congratulation Sir on the good set of numbers. Sir earlier you had mentioned that there are some actions being initiated with regards to gas, but the issue might take a while to resolve, so what is it definitely that you are referring to in terms of the some actions that having initiated?
- Satnam Singh:** Pricing issue has been talked about, that pricing will go up from April next year, also the abolition of the priority and according power sector equal priority.



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- Devang Modi:** Yes, so mainly those two things, the gas pricing and the equal priority possibility by June. Sir also wanted to understand what is the operational percentage of our entire portfolio in terms of the assets that we have financed and what amount would this equate to?
- R. Nagarajan:** Outstanding amount of Commissioned projects as on 30.06.2013 is Rs. 41,583 crores.
- Devang Modi:** Okay and Sir what percentage of our portfolio is expected to be operational as per our estimates in FY'14 and FY'15?
- Satnam Singh:** In the remaining period of FY 2013-14, we expect commissioning to be Rs. 50,620 crores and in FY 2014-15 to be Rs. 21,732 crores.
- Devang Modi:** So, this is Rs.50000 Crores in FY'14. So, this will equate to more than 20 odd thousand megawatts?
- R. Nagarajan:** In Megawatt terms, the commissioned projects as on 30.06.2013 is 30,560 MW and in the remaining period of FY 2013-14 we expect commissioning to be 24,653 MW, in FY 2014-15 to be 23,438 MW and in FY 2015-16 to be 645 MW.
- Devang Modi:** Sir, just a question on this FY'14 amount. Am I right in inferring that it is Rs.50, 620 Crores? And Sir on the margin front, we already guided that our margins could be lower because while our cost would go up you would not be passing up the entire thing?
- Satnam Singh:** Since our margins are pretty high, we may not need to pass on the increased borrowing costs to borrowers. However, it does not mean that our margins will be lower. So, first thing is that how much cost will go up is a question, which only financial market will decide. Second, is that it is to be applied only on incremental disbursement, which is a very low percentage of the total loan book in a particular quarter. Thirdly, our structure is not that every cost increase needs to be passed on. Suppose, we are earning good margins already, in our structure of lending we may not increase the interest rate and therefore I said that there can only be a marginal impact.
- Devang Modi:** All right, got it sir. Thanks a lot sir. That is it from my side.
- Moderator:** Thank you. We have the next question from the line of Jatin Mumtani from Barclays. Please go ahead.
- Jatin Mumtani:** Thanks for taking my question. I had a couple of questions. The first one was around the gas exposure, just wanted to know if you could share with us the outstanding loans in the gas sector, on the private side.
- Satnam Singh:** Outstanding loan amount of gas project is Rs. 7,471 crores.
- Jatin Mumtani:** How much would be private sector?



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- Satnam Singh:** Private sector is Rs. 3,236 crores (including ONGC Tripura Power Company – Rs. 2, 024 crores).
- Jatin Mumtani:** ONGC there is a delay in commissioning the rest of it is under construction, is it?
- Satnam Singh:** Apart from ONGC Tripura, all other projects are commissioned.
- Jatin Mumtani:** My second question was on the loan growth, so, loan growth has been quite healthy and you maintain it at 23% - 24%. Do you see it is slowing down slightly over the next year and is there a broad guidance or a range of guidance that you would want to give?
- Satnam Singh:** No, you know that such questions should not be asked because range guidance we cannot give but you have to draw your inference based on the factors which I have shared that we will have a positive impact. The MoU targets which we have and the ability of the developers to implement the projects and outstanding sanctions of about Rs. 1.70 lakh crores.
- Jatin Mumtani:** That is very helpful. Thank you.
- Moderator:** Thank you. We have the next question from the line of Abhishek Muraraka from IIFL. Please go ahead.
- Abhishek Muraraka:** Just one sort of data keeping question. What would be the amount of assets and liabilities coming up for reset, interest reset in the remaining part of the year?
- Satnam Singh:** Assets due for reset in the remaining period of FY 2013-14 is Rs. 21,230 crores and liabilities Rs. 27,486 crores.
- Abhishek Muraraka:** Sir secondly, in terms of your overall gas based projects that you spoke out, is there any exposure to Ratnagiri Gas?
- Satnam Singh:** Yes, loan outstanding of Ratnagiri Gas is Rs. 749 crores but state government guarantee is available.
- Abhishek Muraraka:** What is the status there Sir. I think there is some bit of what we were discussing earlier that the Discom has not paid them and they are likely to let us say default or may be pay later or something like that, what is the status there?
- Satnam Singh:** As of now there are no outstanding dues.
- R. Nagarajan:** Till today they have paid all the dues.
- Abhishek Muraraka:** Thanks for that.



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- Moderator:** Thank you. We have the next question from the line of Monish Shukla from Deutsche Bank. Please go ahead.
- Monish Shukla:** Good morning Sir. If the 9 more states agree to the FRP, is it possible that you would be giving some additional transitional finance to those states also?
- Satnam Singh:** I think I have already answered that question, that as of now there is no such proposal.
- Monish Shukla:** Secondly, given the currency volatility off late, has there been change of strategy with regards to your hedging policy of your FX borrowings?
- Satnam Singh:** We have taken some steps to hedge our interest rate risk, but since our total borrowing itself is very minimal, 6% of entire outstanding loan liabilities, we have little concern. I would not say we do not have any concern, but we have little less concern.
- Monish Shukla:** So, about 15% is hedged, right, is that still the same?
- Satnam Singh:** Yes, principal is 15% hedged and interest rate is 16% hedged.
- Monish Shukla:** Okay, lastly of the incremental borrowing that you are likely to do this year; do you have any foreign currency borrowing plans?
- Satnam Singh:** Well, we have a total target of raising Rs. 44,000 crores out of which we have already raised about Rs. 9,500 crores. Now, we do not decide in the beginning that we will raise foreign currency or rupee. At the time of borrowing, whenever we have the need, we compare the fully hedged cost of foreign currency borrowing with the domestic borrowing rate. Now, all depends on what will happen to the domestic rate. If the domestic interest rates go up, then foreign currency borrowing may become comparable, so we may borrow foreign currencies in such situation, otherwise we may opt for domestic borrowing.
- Monish Shukla:** Thank you.
- Moderator:** Thank you. We have the next question from the line of Swapna Naik from Bajaj Finance. Please go ahead.
- Swapna Naik:** Sir, what are the factors, which has led to NIMS improvement during the quarter, margin improvement?
- Satnam Singh:** For margin's improvement, I had explained this earlier that what we do is try and match year-to-year repriceable assets as well as repriceable liabilities. So, till sometime back, RBI was increasing the interest rates every now and then and we were not able to pass on that interest rate to the borrowers at that point of time because liability gets reprised immediately when RBI increases the interest rates; However, now that RBI has stopped the interest rate increase every



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now and then, we are able to match. Also, a huge amount of loans come for resetting every quarter. Impact on account of reset in Q1FY2014, is Rs. 63 crores and increase in fee income is Rs.24 Crores. These are the factors for improvement in margins and also because of the decrease in the borrowing cost by 23 basis points.

Swapna Naik: Sir, what is the quantum of assets, which got reprised during the quarter?

Satnam Singh: During Q1FY2014, reset of assets (rupee term loans) is Rs. 7,068 crores.

Swapna Naik: Thank you Sir.

Moderator: Thank you. We have the next question from the line of Kunal Shah from Edelweiss. Please go ahead.

Kunal Shah: Sir, congratulations. Most of the questions have been answered. The question was on Lanco we have been reading it in the media. So, what has been the exposure and do we see any risk of restructuring out there in Lanco?

Satnam Singh: Our loan outstanding amount of Lanco is Rs. 2,922 crores.. There has been some delay and that delay is because they are not getting payment both from UP and Karnataka. As I explained that after FRP implementation, when the banks start relending to these states, the issue would get resolved. I think if you see last 60 years' history, any unit purchased by any of the power distribution companies have been paid though there has been some delay.

Kunal Shah: And Sir this Rs. 2,922 crores, how would that be between Udupi, Amarkantak at the parent level?

Satnam Singh: See, we do not have exposure to Lanco Infratech, Kunal. We have loan outstanding of Udupi Power and Lanco Amarkantak Power which are subsidiaries of Lanco Infratech. However, only Lanco Infratech is going for a restructuring on the CDR and we have not got any exposure to Lanco Infratech.

Kunal Shah: Amarkantak is already done?

Satnam Singh: Amarkantak, I and II are already commissioned even the III and IV under construction. Udupi is already commissioned and the CERC hearing for increasing the tariff of Udupi is on 20.08.2013. In case of Amarkantak, hearing for increasing the tariff was held last week in Haryana And once that is done, they may get around Rs. 200 crores. In case of Udupi, they may get substantial money from Karnataka Discom.

Kunal Shah: This Rs. 2,900 crores, which you had highlighted that was restructuring in Q1 itself, when you say ONGC Tripura?



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- Satnam Singh:** Again Kunal, as per the analysts' definition of restructuring ONGC Tripura need not be considered because they have restructured on account of delay in commissioning. Mainly, Suzlon is the case where they repaid and in between they have done a restructuring. So, from analyst's point of view our restructure asset is only Rs. 1,314 crores. Restructuring done because of the postponement of the commissioning is Rs. 8,832 crores. So, for your information, only Rs. 1,314 crores, need to be taken into account.
- Kunal Shah:** We track it for cash flow issues. But ONGC Tripura, did it happen in this quarter or how is it?
- Satnam Singh:** ONGC Tripura was restructured in Q1FY2014. They have already commissioned one unit and I think one more unit will also be commissioned by December 2013.
- Kunal Shah:** Thanks a lot Sir.
- Moderator:** Thank you. We have got the next follow up question from the line of Devang Modi from Equirus Securities. Please go ahead.
- Devang Modi:** Just a repeat question on that. Rs. 50,620 crores that you had mentioned as expected to be commissioned in the remaining period of FY'14, how it is split across state, central and private?
- Satnam Singh:** State and Central sector constitute Rs. 41,968 crores (12,930 MW) and private sector constitute Rs. 8,653 crores (11,723 MW).
- Devang Modi:** Sure Sir. Thanks a lot Sir.
- Moderator:** Thank you. The next follow up question is from the line of Abhishek Muraraka from IIFL. Please go ahead.
- Abhishek Muraraka:** Sir, just sort of another question on growth rate. Sir, what I understand from what you disclosed in the presentation is that the present disbursements or drawdowns will come out of about Rs. 1,70,000 Crores of outstanding sanctions? About Rs. 170,000 crores is the total outstanding sanctions but the immediate disbursements will probably come out of where documents have been executed, disbursements have commenced or the next. So basically around 100,000 Crores or so. So, do you see that in the present year, you will be able to reach your Rs. 47,000 crores disbursement target excluding of your R-APDRP disbursements from this outstanding sanctions?
- Satnam Singh:** That is our MOU target and we have to achieve it.
- Abhishek Muraraka:** This is the drawdown's you see coming from the existing pipeline itself.
- Satnam Singh:** Yes.



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- Abhishek Muraraka:** Thanks.
- Moderator:** Thank you. We have the next question from the line of Nikhil Rungta from Standard Chartered Securities. Please go ahead.
- Mahrukh:** Hi sir, this is Mahrukh. I did hear your feedback on Lanco. Just wanted to know that in the restructuring what are the projects that are restructured? All the projects that you have exposure to are restructured?
- Satnam Singh:** In the case of Udupi, the restructured amount is Rs. 491 crores out of loan outstanding of Rs. 1,325 crores and in case of Lanco Amarkantak, the restructured amount is Rs. 447 crores out of loan outstanding of Rs. 1,429 crores.
- Mahrukh:** Okay and when were they restructured?
- Satnam Singh:** Lanco Amarkantak was restructured in April 2010 and Udupi in January 2011.
- Mahrukh:** Okay and sir are they performing along the lines of restructuring? I know you talked about SEB hikes but if that does not come through then what happens?
- Satnam Singh:** There is no question of that not coming through. If you assume like this, then anything can happen. The tariff increase is leading to increase in the revenues for SEBs. FRP has been done to ensure that debt servicing does not have issues. Banks have to start relending to ensure that in future there are no problems and additional finances also have been done to take care of that.
- Mahrukh:** Sir what would your exposure be individually to Udupi and Amarkantak?
- Satnam Singh:** Loan outstanding amount to Udupi and Lanco Amarkantak is Rs. 1,325 crores and Rs. 1,429 crores respectively.
- Mahrukh:** Thank you so much Sir.
- Moderator:** Thank you. We have got the last question, which is a follow up question from the line of Amey Sathe from JM Financial. Please go ahead.
- Amey Sathe:** Just one question. Sir, in last 15 years – 18 years have there been any instance where you actually invoked a state guarantee?
- Satnam Singh:** No, we have not invoked any State guarantee.
- Amey Sathe:** Thanks.



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Moderator: Thank you. I would now like to hand the floor back to Mr. Sameer Narang for closing comments.
Over to you sir!

Sameer Narang: Thanks a lot to all the participants and the management of Power Finance Corporation, particularly Mr. Satnam Singh, CMD for giving us this opportunity to host this call. Thanks a lot.

Moderator: Thank you. Participants on behalf of HDFC Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.

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