



Power Finance Corporation Ltd.
A Govt. of India Undertaking

“Power Finance Corporation Limited Q2 FY14 Conference Call”

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



Moderator: Ladies and gentlemen, good day and welcome to the Power Finance Corporation Q2 FY'14 Earnings Conference Call, hosted by IIFL Capital Limited. As a reminder for the duration of this conference, 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, please signal an operator by pressing “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Murarka from IIFL Capital Limited. Thank you and over to you Abhishek!

Abhishek Murarka: Thank you. Good afternoon and welcome to PFC's Q2 FY'14 Earnings call. I welcome Mr. M. K. Goel, Chairman & Managing Director and Mr. R. Nagarajan, Director (Finance) to this call and also congratulate them on a good quarter. The call will commence with an opening remark by the management and that will be followed by Q&A session. So, I would now invite Mr. Goel to make an opening remark. Over to you Sir!

M. K. Goel: Good afternoon everyone. At the outset, let me share our financial result for the Q2 FY 2013-14 along with other business developments of PFC. Thereafter, I would like to share with you the positive developments in the power sector. I intend to cover all this in about 20 minutes or so and thereafter we would be happy to take your questions.

On a YoY basis, our loan assets increased by 22% from Rs. 140,819 Crores to Rs. 172,051 Crores. Our income which is derived from loan assets has accordingly increased by 27% from Rs. 4,191 Crores to Rs. 5,337 Crores in this quarter.

Our net interest income has significantly increased by 43% from Rs. 1,475 Crores to Rs. 2,111 Crores, mainly due to increase in the interest spread by 86 bps from 2.74% to 3.60%, reduced cost of borrowing, fresh disbursements at a rate higher than the average yield during the previous period and additional income due to reprising of existing loan assets at high rate.

Our PAT for this quarter has increased by 23% from Rs. 1,036 Crores to Rs. 1,274 Crores. However, if we take out the extraordinary items like foreign exchange loss, standard assets provisioning, etc., our profits from ordinary business operations has in fact increased by 36% from Rs.1,096 Crores to Rs.1,485 Crores. As regards NPAs, you will be glad to know that we have not added any new NPA account in this quarter.

In fact, our gross NPAs has reduced by 30 bps on a YoY basis from 0.97% to 0.67%. Similarly, our net NPAs have reduced by 32 bps from 0.86% to 0.54%. Our gross NPAs as on 30.09.2013 amount to Rs. 1,158 Crores. We have already made provision of Rs.236 Crores (including the current quarter provision for Maheshwar loan to the extent of Rs. 72 Crores) thereby leaving net NPAs of Rs. 922 Crores.

Additionally, as you are aware, we have started creating provision against standard assets in a phased manner to achieve 0.25% level. On account of this, we have already provided Rs.236



Crores up to this quarter end. Further, we have built a reserve for bad and doubtful debts of Rs.1,532 Crores till the end of this quarter.

As far as our business performance is concerned, we have already entered into an MOU with Government of India for the financial year 2013-14 for various targets. The targets for the sanctions during the current year is Rs. 59,000 Crores and disbursement is Rs. 47,000 Crores. Against the target for sanctions, the achievement during H1 FY 2013-14 is Rs.27,425 Crores, which is about 46% of the target set for the year.

As regard growth in sanctions on a YoY basis, if we exclude the transitional loan sanction in H1 FY 2012 -13 since they were sanctioned for a specific purpose, the sanctions have grown by 9% during H1 FY 2013-14 from Rs. 25,102 Crores to Rs. 27,425 Crores.

Against the target for disbursements, the achievement during H1 FY 2013-14 is Rs.18,012 Crores that is 38% of the target set for the year. As you may have noticed earlier also, the trend for the disbursement has always been that the disbursements in the second half of the year are significantly higher than that in the first half year. We are therefore optimistic about achieving our disbursement targets. This optimism is also backed by the outstanding sanctions of about Rs.1.63 lakh Crores, which are yet to be disbursed.

Further disbursement has shown growth of 3% in the first half year despite the sectoral issues which are being addressed aggressively by Government of India and which I will be sharing with you during the latter part of my talk. However, again on a QoQ basis, the growth in disbursement excluding the transitional loans is of the order of 21% from Rs. 7,572 Crores to Rs. 9,192 Crores.

As regards capital adequacy, the figure stands at 18.70% against the RBI prescribed level of 15%, leaving sufficient headroom for further business growth. As regards the financials, I will share the numbers for the QoQ and HoH separately.

As regards QoQ numbers, the PAT has increased by 23% that is from Rs. 1,036 Crores to Rs. 1,274 Crores. The comparable PAT has increased by 36% that is from Rs. 1,096 Crores to Rs. 1,485 Crores. The income has increased by 27% from Rs. 4,191 Crores to Rs. 5,337 Crores. The net interest income has increased by 43% from Rs. 1,475 Crores to Rs. 2,111 Crores. Spread has increased by 86 bps from 2.74% to 3.60%. The NIM has increased by 76 bps from 4.28% to 5.04%.

As regard the numbers for the period H1 FY 2013 versus H1 FY 2014, the PAT has increased by 23% from Rs. 2,008 Crores to Rs. 2,472 Crores. The comparable PAT has increased by 34% from Rs. 2,125 Crores to Rs. 2,849 Crores.

The income has increased by 27% from Rs. 8,136 Crores to Rs. 10,354 Crores. Net interest income has increased by 41% from Rs. 2,869 Crores to Rs. 4,054 Crores. The spread has



increased by 76 bps from 2.68% to 3.44%. The NIM has increased by 67 bps from 4.23% to 4.90%.

As far as the resource mobilization is concerned, we have raised about Rs. 16,000 Crores during H1 FY 2013-14 at a marginal cost of 8.36% p.a.. PFC has been allocated Rs. 5,000 Crores tax free bonds this year and we have successfully raised the entire amount with the closure of the public issue on November 5 of this week. This would further help us to reduce our cost of borrowing for the FY 2013-14.

As you are aware that we are the nodal agency for implementation of various programs of Government of India like Restructured APDRP, Ultra Mega Power Projects and Independent Transmission Projects. I would like to share with you the progress regarding these Government of India initiatives.

As far as R-APDRP, the flagship program of Government of India is concerned the program is aimed at reducing aggregate technical and commercial losses below 15% and the program is progressing well and almost entire sanctions against the eligible projects on the Part A and Part B of the projects have already been sanctioned amounting to Rs. 37,190 Crores of which Rs. 7,017 Crores has already been disbursed to the state Discoms.

In addition to this, counterpart funding of Rs. 13,859 Crores has been sanctioned by various financial institutions including PFC out of which Rs. 728 Crores has been disbursed already.

The scheme has now picked up momentum and 413 towns under the Part A, IT enablement of the distribution system has already been declared go live out of the total 1,398 towns. The implementation of Part B, which is the actual upgradation of distribution systems, has started in 923 towns out of the total 1200 eligible towns. We are hopeful to complete the entire R-APDRP program before the end of Twelfth five year plan.

As regard Ultra Mega Power Projects, Ministry of Power, Government of India has come out with new bidding guidelines for Case-II bidding of power projects. The changes in the documents primarily are that the project will now be developed through Public Private Partnership route and construction and operation of projects will be on Design Build Finance Operate and Transfer that is DBFOT basis.

Most importantly, the fuel charge has been made a pass through with appropriate safeguard to address the uncertainty of the fuel prices. As you are aware this was the issue, which was felt as a concern in case of our earlier four UMPPs which have been successfully transferred to the successful developers. Based on the revised standard bidding documents, we have already issued RFQs for the two UMPPs that are Odhisa UMPP and Cheyyur UMPP on 25th and 26th September respectively and we have held pre-application conferences at Delhi and Singapore.



The last date for submission of RFQs has been extended from November 11, 2013 to November 25, 2013 for Odisha UMPP and November 28, 2013 for Cheyyur UMPP. So far 10 companies have already purchased the RFQ documents for the two UMPPs put together. In addition 9 UMPPs are in the pipeline and they are at various stages of development.

Regarding the independent transmission projects (ITPs), 4 ITPs have already been transferred. Letter of intent have been issued to 4 additional independent transmission projects. In addition to this, 3 more ITPs are under process at various stages of development.

Now, let me share with you the positive developments of the power sector. As we are aware that the Government of India has notified Financial Restructuring Plan (FRP) scheme in October 2012 to address the issue of poor financial health of the state distribution utilities. Initially, 13 states have shown interest for participating in FRP scheme of which 4 states, UP, Rajasthan, Haryana and Tamil Nadu have already got the scheme approved by their respective state cabinet and amongst them 3 states Tamil Nadu, UP and Rajasthan have already started issuing bonds and their banks have also started restructuring their loans.

In addition 2 states, Himachal and Meghalaya are in the process of finalizing their FRP and 4 other states Jharkhand, Bihar, Andhra Pradesh and Karnataka are unable to participate in the FRP due to difficulties being faced in meeting certain stipulations of the FRP. 2 states, Madhya Pradesh and Punjab have reservations on the package and Kerala is ineligible as unbundling is required by FRP scheme.

Ministry of Power has already come out with the model State Electricity Distribution Management Responsibility Bill as envisaged under the scheme with an objective to ensure financial and operational turnaround and long-term sustainability of Discoms with clearly laid out responsibilities of the state government.

As far as the tariff revision is concerned, all states have increased the tariff during financial year 2012-13 except for Assam. During this year, tariff for the financial year 2013-14, already 23 states have issued tariff orders out of total 29 states with a tariff increase up to 31%. It is indeed a very, very good sign as far the reforms in the power sector are concerned.

With the aggressive implementation of our R-APDRP, FRP and the tariff hikes regularly by the states, we are optimistic that the Discoms financial health would improve going forward.

As far as the coal issue is concerned, there are positive developments. In Q2 FY14, coal production has increased by 9.6% and coal supply to power sector increased by 7% over the second quarter of the last financial year. In September 2013, coal production has increased by 15.6% and coal supply to the power sector by 9% as compared to September 2012.

Government has approved the methodology for allocation of coal block through competitive bidding which is likely to enhance the coal supply. This initiative of Government of India will



allow private companies to bid for coal mining licenses for the first time ever through competitive bidding. The auction will be based on the production linked payment on a rupee per tonne basis and basic upfront payment of 10% of the intrinsic value of the coal block.

Further on the gas availability front, empowered group of ministers (EGoM) has taken a decision to put a cap on the total domestic gas supply to the fertilizer sector at the present level of 31.5 MMSCMD and to allocate all additional domestic gas from the year 2013-14 to 2015-16 exclusively to the power sector to boost gas supply to the gas-based power projects.

Ministry of Power is proposing gas pooling and subsidy mechanism, which means the government would subsidize the additional cost incurred on account of pooling domestic and imported gas, which if approved would bring relief to the gas based power projects.

I am sure with all these developments, the power sector environment is likely to improve going forward. Thank you so much for patient listening. We will now be open to the questions. Thank you.

Moderator: Thank you very much Sir. We will now begin the question and answer session.

Abhishek Murarka: Sir just like to start off by asking can you just give us an update about Maheshwar Project you said, you made an another 80 Crores provision against it, so can you just give us an update there about what is happening? What is the status of the projects and any project especially names like Lanco or something, which is coming up for restructuring going forward?

R. Nagarajan: Maheswar become NPA in March 2012, so at that time we made provision of around Rs. 70 Crores, because as per norms we had to provide at the rate of 10%. Since the time, we classified it from standard assets to substandard assets, 18 months are over, so now as per norms, we have provided an additional Rs. 70 Crores on this account. Further, Ministry of Power has constituted a Committee for the purpose of fixation of the tariff which will enable the lenders to ascertain whether the project is viable. The project is also under the control of the CCI which is also monitoring. Yesterday, they had a meeting with BHEL to see how far this project can be completed because almost 98% civil work has been completed. Once the tariff determination is done by the committee set up by the CCI, then the backward calculation will be done by all the lenders. Hopefully some more light will be thrown by the end of this quarter or by March 2014 and some issues will be resolved in this account.

M. K. Goel: The most crucial issue is the finalization of tariff, which will be based on today's cost and acceptability of the tariff to the Madhya Pradesh State Government. So, deliberations are going on and we hope to find what tariff would be acceptable to MP Govt and accordingly this restructuring will be done and the financing plans for the balance funds required to complete the project will be finalized.

Abhishek Murarka: Okay any accounts like Lanco which are coming up for restructuring possibly in this quarter?



- R. Nagarajan:** From Lanco Group, Lanco Infratech has gone for CDR but we have not funded it..
- Abhishek Murarka:** Thank you Sir.
- Moderator:** Thank you. The next question is from the Nischint Chawathe from Kotak Securities. Please go ahead.
- Nischint Chawathe:** Just to start up with the micro question, I am trying to understand what is the reason for rise in operating expenses during the quarter?
- R. Nagarajan:** The rise in operating expenses is mainly due to change in treatment of CSR expenses. Based on the opinion of Export Advisory Committee of Institute of Chartered Accountants of India, earlier we allocated the amount to reserves. Now, the revised guidance says that if you cannot spend the allocated amount within three years, the amount has to be transferred to the Government of India. So, the amount became a crystallized liability and as far as AS-29 is concerned, we have to create a provision for this. So the reserves accumulated till last year have all been reversed and additionally, this year we had to provide for last year's allocation also.. In effect, Rs. 22 Crores are provided for this year and additional Rs. 19 Crores was provided for last year which explains the increase in the expenditure and other expenses to the extent of Rs. 41 Crores.
- Nischint Chawathe:** Okay, just trying to understand if I look at the major projects that you have sanctioned during the first half. You know the first project is MP Power of Satpura, was this a nonperforming project sometime back?
- M. K. Goel:** Let me clarify that the NPA account is of Empee Power (outstanding being Rs. 27 Crores) and current top sanction of Rs. 3,720 Crores is to M.P. Power Generating Company Ltd. which is a MP government company.
- Nischint Chawathe:** Sorry, I understood. The name was confusing.
- Nischint Chawathe:** What would be the restructured loans during the first half of the financial year?
- M. K. Goel:** Rs. 4,292 Crores is the outstanding amount of loans which have been restructured. Out of above loans, there is ONGC Tripura (Rs. 2,054 Crores) whose 1st Unit has already been commissioned and remaining two projects will be commissioned by March Other loans are Suzlon Energy (Rs. 983 Crores), Empee Power Company (Rs. 27 Crores), Parbati Koldam (Rs. 271 Crores) and Indiabulls Power (Rs. 957 Crores).
- Nischint Chawathe:** Okay, any fresh restructuring during the quarter?
- M. K. Goel:** During the quarter, Parbati Koldam (Rs. 271 Crores) and Indiabulls Power (Rs. 957 Crores) were the two loans which were restructured.



Nischint Chawathe: Another question, actually this pertains to the data that you published on SEB losses and there I believe that there was some restatement of SEB losses that was kind of putout in the past, so I just wanted to kind of get a little clarification on that? They have restatement of around Rs. 20,000 odd Crores of losses I thought may be?

R. Nagarajan: As CMD has already explained, so many reforms have taken place in this sector., 23 states out of 29 states have increased their tariff in this financial year. As we have already explained the FRP was adopted by the states of Tamil Nadu, Uttar Pradesh, Haryana, and Rajasthan. Already, Rajasthan, Tamil Nadu and Uttar Pradesh have issued the bonds to the banks and they also got funding from all the banks. Haryana is also in the process of issuing the bonds. Once these four states start doing well, then automatically, the liquidity in the system will improve. As CMD has explained already that some more states are also showing interest like Andhra Pradesh, Karnataka, Meghalaya, Jharkhand, Himachal Pradesh and the MoP is also thinking of going to the cabinet again for the purpose of getting a revised FRP done for all these states because the deadline has already expired on July 31 2013. So once that is done plus tariff increase and the budgeted support of the government is received, the Discom loss should go down over a period. With the FRP, Tamil Nadu may break even by 2016-17 or 2017-18 only and UP may break even by 2014. So, the losses would be there, but losses will be gradually going down plus as CMD has explained about R-APDRP, once R-APDRP implementation is complete, the losses also will come down drastically and that will also improve the revenue generation of these distribution companies.

M. K. Goel: Let me tell you one thing. In R-APDRP, with the completion of IT projects in 400 odd towns only, just by taking administrative measures, around 8 or 9 Discoms have already reduced their losses ranging from 2% to some 20%. The loss reduction is just by taking administrative measures without implementation of Part B of R-APDRP, which is the actually system upgradation scheme meant for reduction of AT&C losses. So, this implementation of R-APDRP is going to significantly reduce the losses of the Discoms.

Nischint Chawathe: Thank you very much.

Moderator: Thank you. The next question is from the Jai Mundra from CRISIL Limited. Please go ahead.

Jai Mundra: Good evening Sir. In your opening remarks you mentioned that you have increased the lending rates. Can you just tell me how much is the quantum that you have raised and when?

M. K. Goel: No, I never said we have increased the lending rates. What I have told is that the increase in the interest spread by 86 bps from 2.74% to 3.60% is due to the reduced cost of borrowing and fresh disbursement at a rate higher than the yield during the previous year and additional income due to reprising of existing loan assets at a higher rate. We have not increased our rates.

Jai Mundra: So, during this quarter, there has been no increase in lending rate?



- M. K. Goel:** We have not increased the rate or reduced the rate.
- Jai Mundra:** Okay and is any new NPA during this quarter, because the number has increased slightly?
- M. K. Goel:** I have already explained to you that in Maheshwar, we had to make additional provision of 10%, because the period for which it was sub-standard asset has lapsed beyond 18 months. We had made the first provisioning in the March 2012. Now 18 months are over and we had to provide additional 10%, which is the reason that NPA has gone up. Secondly, in the case of standard assets, RBI has come with the guidelines that on the new loans created in this financial year, we have to provide straightaway 0.25% provision. Earlier, we planned to provide over a period of three years i.e. 0.8%, 0.8% and 0.9% but now RBI has come up with the guidelines that for new loans, you have to provide at the rate of 0.25% immediately.
- Jai Mundra:** No, actually I was looking at the gross NPA figure, which from Rs. 1,150 Crores has gone slightly up to Rs. 1,158 Crores. So I just want to understand if there is a new NPA during this quarter?
- M. K. Goel:** No new NPA has been added. In case of Konaseema, we have also given foreign currency loan and because of variation in the foreign currency conversion rates, the amount has gone up.
- Jai Mundra:** Okay and this restructuring during this quarter, one was India Bulls Power and what was the second and what was the quantum?
- M. K. Goel:** This quarter figures are Parbati Koldam - Rs. 271 Crores and Indiabulls Power Rs. 957 Crores and the reason in both the cases is the delay in commissioning.
- Jai Mundra:** It is roughly Rs. 1,100 Crores right, restructured during this quarter?
- M. K. Goel:** Restructured during Q2 FY14 is Rs. 1,228 Crores.
- Jai Mundra:** This India Bulls Power, is it some sort of, I assume, is project based right, it is not corporate loan, it is project based?
- M. K. Goel:** All the loans given by PFC are project related except transitional loans and short term loans
- Jai Mundra:** This is single power project is it?
- M. K. Goel:** It is Amravati project and, one unit has already been commissioned.
- Jai Mundra:** Okay and Sir lastly if you can tell me what percentage of the loans I mean in the lending book would reprise this fiscal year?
- M. K. Goel:** Reset of assets in the remaining period of FY 2013-14 is around Rs. 16,201 Crores and reset of liabilities is Rs. 27,735 Crores.



- Jai Mundra:** Next year? Similar number for liability Sir, if I may ask?
- M. K. Goel:** Next year, Rs. 45,422 Crores assets will be reset. As regards liabilities, some floating rate liabilities like bonds are reprised at fixed intervals and some floating rate liabilities like term loans are reprised every time the bank changes the base rate and considering this the liabilities coming for reprising in FY 2014-15 is Rs. 43,160 Crores..
- Jai Mundra:** Thank you. That was helpful. Thank you.
- Moderator:** Thank you. The next question is from the line of Amey Sathe from JM Financial. Please go ahead.
- Amey Sathe:** Sir on the restructured loan book, what would be the outstanding number on the books?
- M. K. Goel:** The amount of loan outstanding as on 30.09.2013 of Private sector loans rescheduled from April 2005 to September 2013 is Rs. 11,541 Crores.
- Amey Sathe:** The second question on the disbursement, during the quarter, the disbursement to private sector picked up a lot so any major project that you have funded?
- M. K. Goel:** Some of the top private sector borrowers to whom disbursement was made in Q2 FY 2013-14 are RKM PowerGen – Rs. 1,008 Crores, GVK Ratle Hydro Electric Project – Rs. 817 Crores, India Power Corporation - Rs. 238 Crores, NCC Power Project – Rs. 180 Crores, Adani Power Maharashtra – Rs. 173 Crores, East Coast Energy – Rs. 129 Crores, Bhubaneswar Power – Rs. 113 Crores and Indiabulls Power – Rs. 93 Crores.
- Amey Sathe:** On the cumulative sanctions side that number has been declining for the last two, three quarters. So do you think that loan growth going forward might be also on the declining trend?
- R. Nagarajan:** CMD has already explained to you the outstanding sanction as on 30.09.2013 is about Rs.1.63 lakh Crores and compared to previous figure it has come down, but if you see, steps have been taken to tackle the three major issues troubling the developers in the power sector. Firstly, the Cabinet Committee has told Coal India to sign the FSAs and they have signed almost all the FSAs. Secondly, for the Discoms, FRP has taken place, so the liquidity in the system would also improve and CCEA is also looking at the problems of all the MoF clearances etc. For some of the loans sanctioned after April 2011 we had put a condition that they should have FSA or PPA in place before they get disbursement. Since the FSAs signed by Coal India have increased, so slowly all these projects will come to us for the purpose of disbursement and new projects will also come. I do not want to quote the numbers but we have done substantial sanction in today's board meeting also. Yesterday's feedback from the minister was that the worst is over for the power sector, we also have to believe that worst is over for power sector and people have taken initiative to put money in the power sector again, so slowly the sanctions will pick up. Also, a lot of projects which got commissioned are also coming for refinancing and even some of the state



sector boards are also coming to us for refinancing. In addition, going forward all these FRPs will be adopted for the new states and they also may be seeking assistance from us for the purpose of funding the FRP. So, over a period of time, the sentiment has improved.

Amey Sathé: Last question, RBI talked about restructuring guidelines for NBFCs, so what do you think? First of all do you have any interaction with RBI with respect to that?

M. K. Goel: In the prudential norms of PFC there is a clause about restructuring or reschedulement, so we have taken up the issue with MoP and also with RBI. RBI has told us that in case of restructuring or reschedulement or re-negotiations guidelines may come shortly. So, once the guideline comes, we will be able to tell whether it is applicable to us or not and whether there is any exemption given to government owned companies or IFCs. So we cannot say today that what will be the guidelines, but we are discussing with RBI

Amey Sathé: Thanks a lot for the answers.

Moderator: Thank you. The next question is from the line of Kaitav Shah from Anand Rathi. Please go ahead.

Kaitav Shah: Congratulations on a good set of numbers and thank you for taking the question. I just wanted to understand this restructuring book, what is the amount as for the banking guidelines is and what is the overall amount?

M. K. Goel: The loans where reschedulement has taken place because of the postponement of the commissioning date, the outstanding amount is Rs. 10,192 Crores. The loans where the borrower could not pay and then we have done the restructuring to facilitate the repayment of the loan, the outstanding amount is Rs. 1,348 Crores (Empee Power – Rs. 27 Crores, India Metals and Ferro – Rs. 289 Crores, Orissa Power Consortium – Rs. 49 Crores and Suzlon Energy – Rs. 983 Crores).. Combining the above amounts, the total amount is Rs. 11,541 Crores.

Kaitav Shah: My second question was in the presentation you give this breakup of provisioning against contingent assets, so that includes your standard asset provisioning?

M. K. Goel: Standard asset provisioning is Rs. 236 Crores.

Kaitav Shah: It is only standard asset provisioning. One final question is as of right now since you have not calculated the impact on RBI restructuring guidelines, if suppose in case that comes in is 10,000 the number that we have supposed to look at or is it some other number that you have?

M. K. Goel: Let us see the guidelines and then we will be able to work out what is the correct number.



- Kaitav Shah:** One final question is, on the sector, as well as being seen that the cash flow cycle can improve, so have you seen that happening already during the current quarter?
- R. Nagarajan:** Let me tell you about SEBs. Take the example of Tamil Nadu, it had to around 15 months dues last year to be paid to power generating companies and now reduced the dues to only two months. Based on this, we can say that things are improving due to FRP, tariff increase and other initiatives taken by Ministry of Power
- Kaitav Shah:** Sir we have also heard that probably REC-PFC may also be looking at acquiring assets, which have turned into NPA or are going for restructuring, is that correct?
- M. K. Goel:** No it is not correct. We do not intend to acquire any assets.
- Kaitav Shah:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Harsh Dole from IIFL. Please go ahead.
- Harsh Dole:** My question is as follows and it is basically in two parts. You have been stressing that post financial restructuring of the debt, the cash flow within the system will go up or rather the liquidity within the system will go up. Would it be in that company such as yours, would extend a lot of working capital loans to the Discoms particularly to undertake a power purchase?
- M. K. Goel:** If you see the FRP, it is clearly mentioned that banks and institution are not required to provide any short-term loans to these borrowers.
- Harsh Dole:** Then essentially when we are looking at improvement in the liquidity in the system, it will essentially emanate only in 2015-16 onwards, because I think most of these bonds are getting issued only by the end of December or so, is that fair assumption?
- M. K. Goel:** It is incorrect. As per the scheme of things, the SEBs have issued the bonds to all the banks and institutions, so that 50% has already taken place. Only thing is, as per the FRP depending on the FRBM limit the State Government will take over these bonds as and when the FRBM limit starts. So bonds have been issued by the state Discoms and as and when FRBM comes, it will be taken over by the state government entity. Till such time, the servicing of the interest will be done by the State Government. Hence, liquidity improved in the hands of the distribution companies. If you see, in FRP the interest will be serviced by the State Government even though the bonds are issued by the distribution companies.
- Harsh Dole:** Second question was essentially in terms of aggregate losses at the SEB level, it is good to see the tariff increases in the finance restructuring. Do you see that in FY 2014-15, the losses will be much lower than what we have seen in the 2012-13 or at best you know these measures will result into plateauing of the aggregate losses?



- M. K. Goel:** Definitely, there will be losses But losses are expected to go down with the introduction of the various reforms measures, as I have already told you, like the implementation of R-APDRP and regular increase hike in the tariffs etc.. We are definitely hopeful that going forward the losses are going to reduce.
- Harsh Dole:** Thank you.
- Moderator:** Thank you. The next question is from the line of Jaskirat Chadha from ICRA. Please go ahead.
- Jaskirat Chadha:** Sir good afternoon. I just wanted to check you mentioned that total book, which has rescheduled or restructured is about Rs. 11,540 Crores. This is largely all private sector book; in addition to this there would be some other government sector exposures which have also been rescheduled and how much would that be?
- M. K. Goel:** As far as our prudential norms are concerned, we do not consider state sector loans in reschedulement figure. Let me tell you the reason, in case of all the SEBs, an escrow account is maintained where the cash flow of the borrower comes and sometimes even when a particular project has not commenced, the interest or the principal of the loan has been paid from the overall escrow account. So, that is the reason, this is not considered as a part of the reschedulement, restructuring and renegotiation of the loan.. For the escrow account, a tripartite agreement is signed with the SEB plus the borrower to ensure the cash flow will come there.
- Jaskirat Chadha:** One more question is the state of Andhra Pradesh there is going to be potential split of the states, how are you interacting? In Andhra Pradesh, in bifurcation which is going to happen, how do you see that impacting in debt servicing? In the past we have seen when other states there was similar thing happened, there was very large disputes on liabilities, which tend to take about liabilities, so how do you see that panning out in AP could there be in potential or overdue in the case of AP when this transition takes place?
- M. K. Goel:** In the past, when Jharkhand as well as Chhattisgarh had separated from Madhya Pradesh, Ministry of Power had given some guidelines on who will take over the assets, liabilities and whether allocation will be on population basis or asset basis. Since, it is all listed by the Central Government, the loans are serviced. Wherever disputes are there between allocation of loans to any state, then only we have some problem. Otherwise, most of the loan, whether sanctioned to Chhattisgarh or Madhya Pradesh or Jharkhand or Uttar Pradesh or Uttarakhand, we did not have any problem. Madhya Pradesh and Chhattisgarh went to Supreme Court against the issued guidelines and the problem was settled by the Central Government after 11 years. So, your point is well taken that there may be some problem but entire assets will not become NPA at least.
- Jaskirat Chadha:** One specific issue on the project this is ONCC Tripura, it has been rescheduled. Is there any issue on gas availability for this project?



- M. K. Goel:** It is not a gas availability related issue. The only problem was due to the land locked location of Tripura, the equipment could not be taken directly to Tripura and was sent through Bangladesh. For this purpose, they did not have proper bridges, roads which had to be constructed. That is the reason for the delay in the commissioning of this project and reschedulement. The project will likely be commissioned in December. However, there is plenty of gas in Tripura and there should not been any concern on this.
- Jaskirat Chadha:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Aditya Singhanian from Enam Holdings. Please go ahead.
- Aditya Singhanian:** Thank you Sir. I had two questions. You mentioned there are two states, which are unable to comply with the terms of FRP. One was Jharkhand and I missed the other one if you could help with that?
- R. Nagarajan:** What we have told is that the two states Himachal and Meghalaya are in the process of finalizing their FRPs. The four states Jharkhand, Bihar, Andhra and Karnataka are unable to participate in FRP due to the difficulties being faced in meeting certain conditions like unbundling of the SEBs after March 31, 2012 and no accumulated losses. One of the conditions for FRP was that unbundling should have taken place before March 31, 2012 but like in case of Jharkhand some unbundling has taken place after March 31, 2012 because of which they are unable to participate. However, on these issue Ministry of Power is taking a view and it is considering to extend special dispensation to these states, so as to allow and enable them to enter into the FRP scheme.
- Aditya Singhanian:** Sorry, there are four states, not two.
- M. K. Goel:** Four states, Jharkhand, Bihar, Andhra and Karnataka.
- Aditya Singhanian:** Okay and were these part of the sort of sanction or disbursement that you made to the SEBs?
- M. K. Goel:** No sanction or disbursement in transitional loan have been made to these states.
- Aditya Singhanian:** Not in that, so you have no risk as such that?
- M. K. Goel:** Absolutely no.
- Aditya Singhanian:** I think in this list of states there would also have been Madhya Pradesh and Punjab?
- M. K. Goel:** Punjab and Madhya Pradesh are not in the list. Punjab wanted that upfront benefits should be given for the bonds. Short-term liabilities of Madhya Pradesh were low which is the reason they were also not interested because unless you have got huge short term liabilities and accumulated losses this scheme is not beneficial.



- Aditya Singhania:** You are saying MP is not taking part in the FRP at all?
- M. K. Goel:** Yes, MP is not taking part in the FRP as the amount outstanding of short-term liabilities is low .
- Aditya Singhania:** Why not Punjab Sir?
- M. K. Goel:** Punjab wanted upfront incentive of 25% funding i.e. whenever they repay the bond, they wanted 25% cash flow from Central Government which was not agreed to. Hence, they are not participating.
- Aditya Singhania:** Okay and for just second question on margins, your margins appear to be I guess at an all-time high now while we understand the drivers could you give us some outlook in terms of what we can expect?
- M. K. Goel:** We cannot give outlook on the margins or profit; We are committed to do our best to improve every operations of our company.
- Aditya Singhania:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Kaitav Shah from Anand Rathi. Please go ahead.
- Kaitav Shah:** Actually I was just trying to check the share of private sector has been increasing both in your outstanding loan book as well as disbursement, so these loans are more short term in nature or they are asset backed?
- M. K. Goel:** All the loans in private sector are project asset financing.
- Kaitav Shah:** Asset backed. Thanks a lot Sir.
- Moderator:** Thank you. There are no further questions. I would now like to hand the floor back to Abhishek Murarka for closing comments. Over to you Abhishek!
- Abhishek Murarka:** Thank you Sir for your time and thank you to all the participants for attending the call as well. We will meet the next quarter and all the best Sir, for the next quarter to you.
- M. K. Goel:** Thank you Abhishek.
- Moderator:** Thank you. On behalf of IIFL Capital Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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