

Transcript

Power Finance Corporation Limited

Analyst Meet: Convention Hall, BSE, Mumbai

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Moderator: Good evening distinguished guests. On behalf of Power Finance Corporation Ltd., I welcome you all to the august premises of the Bombay Stock Exchange for the investor cum analyst meet of the Company. Before we commence the proceedings I would like to request all of you to kindly stand up for the national anthem.

PFC Ltd., a Navratnas CPSE is a financial institution dedicated to financing the power and associated sectors. It gives me great pleasure ladies and gentlemen to introduce distinguished dignitaries on the dais. In the centre it is my privilege to introduce Shri Satnam Singh CMD of PFC Ltd, to his right is Shri M. K. Goel Director Commercial, to Mr. Goel's right is Shri R. Nagarajan Director, Finance. and to his right is Prof. Ajit Prasad, Independent Director. To the Left of Shri Satnam Singh, is Shri K. M. Sahni, Independent Director, and we are waiting for Mr. S. C. Gupta, Independent Director.

I would like to commence the proceedings by requesting Shri. Satnam Singh, CMD of PFC Ltd., to make the keynote address.

Satnam Singh: Good afternoon everyone and thank you for responding to our invitation. Power sector is a area of concern in the minds of many people and I am here to remove some of those concerns at least, not by just making some statements but by sharing with you as to whatever is happening in the Indian power sector how as the largest funding institution in the Indian power sector, we view these changes which are taking place in the sector.

First of all, the change which has taken place we all know that is the huge capacity addition. The capacity addition during the eleventh plan is more than 2 1/2 times as compared to tenth plan. And this has resulted in some kind of difficulty with respect to fuel supply and also it has raised greater concern in terms of sale from these power stations to the discoms. Because discoms financial is similar to what was in the past.

Now do we view it and what is the concern? How are we addressing this concern? You see the issue was that earlier, everyone whosoever was involved in the power sector wanted to know, that why is it that capacity addition not happening? And there is a need to give it a push. And when the push has been given and the result has come, now we are saying, well it is a big problem, no it is not. How do we view this change is something like this.

Just for a moment think, two interdependent industries anywhere in the world, have they grown in two parallel lines? Is anybody having any example of two interdependent

industries in the world grown in two parallel lines? At least I am not aware and I have not come across any such industry. So, if that is not the way of growth than what is the way of growth? The way of growth is there is a spike which comes in one industry followed by either similar or lower or higher spike in the corresponding industry. And this is what has happened in the Indian power sector. There has been a spike in the capacity addition. Though it is being viewed as negative by most of the people involved in power sector, but we view it as positive. Because it gives an indication to us that with that capacity addition, that much higher coal consumption is going to be there for the following 25-30 years. So what does it mean? If you know that if the consumption of a particular item is going to be much higher going forward what does it indicate to you, that there is a need for acceleration of that product which is going to be in demand for the next 25-30 years? Is it positive or negative? We at least take it as very positive because, I am 100% sure that the coal industry and the railways will seize this opportunity and growth rate in these two sectors is going to be much higher than what it was in the past, having said that, the coal supply issue, after meeting of big developers with Prime Minister, has gained focus at the highest level. And direction has been given that at least 80% of the required quantity must be supplied and fuel supply agreements must be signed for that much quantity and there should be a penalty clause. So let me first bring confidence to you all that if 80% of the quantity is supplied, what happens? If that much quantity is supplied there will not be any default to any lender in the power sector. Because with that quantity the developer will be able to achieve a level of plant load factor which will help them generate adequate revenue for servicing of the debt.

Coming to the penalty, which most people are mentioning that it is miniscule, now how do we look at this? In the morning also, I was discussing with very senior people that why is it that people think that the penalty is miniscule? See, compare it with past culture in the Indian industry, do you know of any public sector which ever compensated you for non-performance of the contract? It was not the system in our country. Here is a system which is being created now, that large public sector is prepared to commit howsoever meager it may be for non-performance of the contract. If this is agreed to, imagine what will happen after 3 or say 5 years? People will talk about comparative compensation, and if a developer has to compensate say 'X' for the non-supply of power and developer has to incur that because of non-supply of coal, or for that matter any other fuel, then the developer is going to demand corresponding penalty from the supplier of raw material too. So that kind of system is getting developed, and that must be read as a positive signal rather than that well Coal India presently agreeing to give a very meager penalty and because the penalty is so meager, they may or may not supply and therefore there is a doubt about even the supply of whatever they are committing. I at least feel that it is not going to be like that. Whether you pay miniscule penalty or too much of penalty, penalty is penalty. It will be viewed as non-performance by Coal India to that extent.

Given the fact that various other issues are taking time in resolution with respect to coal supply, Government of India has already proposed that they shall appoint a Coal regulator. Now a system without a regulator and system with a regulator, we have had the experience that, wherever the regulators have been appointed over a period time it has been beneficial to the consumer at large. So that is what one should expect in the coal sector too.

The other trend which is pretty visible and how do we view it is that private sector participation is increasing at an increasing pace. We all know that in the 10th plan it was 9%, in the in the 11th plan it was anticipated to be 30% or 31%, but actually it had been

42%. And 12th plan target may be anywhere between 55% to 60%. I am sure even in 12th plan it will be much higher because of the fact that competitive bidding has been introduced for both private sector projects and state sector projects from January 6th 2011. And imagine how many of the state power companies are equipped to win projects on a competitive bidding? Not many according to me, and therefore more and more projects which would have otherwise gone to state power companies, would also be captured by private companies, and that's why I am saying that the contribution by the private sector will be much higher going forward.

Now what does that mean to us and public at large? What it means is greater efficiency and competitive pricing of power, like we have had the experience of ultra mega power projects. The ones which were awarded the learning from those projects have been that they have led to lower tariffs compared to the present tariffs, compressed construction timelines, and also much higher efficiency parameters. Similarly for independent transmission projects, I think about 12 were identified, 8 have already been awarded, 4 by us and 4 by Rural Electrification Corporation. The experience has been that the tariff as compared to the CERC norms has been reduced by about 25% to 40%, which is very competitive compared to what we have been paying so far.

On the ultra mega power projects, many of you may have concerns that after those four not much of movement is there. Here, I would like to share with you that on January 10, Empowered Group of Ministers had given a direction that two projects – Chhattisgarh and Odisha UMPP at that time PFC can go ahead based on the old documents with some modifications which is what we did. But for the no-go issue which was raised by the environment ministry and we could not go ahead on time. We had to defer the due dates by many times, I think 6-7 times in the case of Odisha and 10 times in the case of Chhattisgarh. But Odisha as you know we have already gone through the process of RFQ and our evaluation is ready. We are awaiting new documents from Ministry of Power. And Ministry of Power, I can assure you is working on those issues at a considerable speed. So once those documents are finalised we will be able to come out with RFP for Odisha. Cheyyur UMPP which is based on imported coal because of the issues raised by Mundra and Krishnapatnam some modifications are envisaged, I don't know what modifications will take place, but once the modified documents for imported coal based UMPP's are ready, we will be in a position to issue the RFP.

The other major area of concern has been the financial health of the discoms, more so when much more capacity has come in. Now first comfort I want to give you is that, we have been lending to state power utilities for the last 25 years. And lending from zero to ₹ 1,30,000 crores, of course that's not only to state sector but all put together, we have had zero bad debt written off in the state sector so far. We had NPA with one company in the state sector some time back, which is Bihar State Hydro Power Corporation. That was also because of some specific interpretation of the money laundering act applicable in Bihar, which has been resolved and we have got our money back. So far we have had no bad debt in the state sector. So to presume that the financial health is such that it will lead to everything going non-performing asset is inappropriate. Atleast, I have no information that even if the worst of the state power utility having bought one unit or more units of power not paid to the developer. Delay, yes we have heard of. Not paid. I bought power from you but I will not pay whatever you want to do, do. No. That does not happen in the Government sector. So these two aspects if are factored, I am not saying that whatever is happening there is appropriate but it should give pretty good comfort level that things are not as bad as they appear to be.

Having said that there are many initiatives which are being implemented and one such initiative which we are implementing as nodal agency which is called "Restructured APDRP Scheme" aimed at bringing down distribution losses in the power sector. First time in the history of Indian power sector an attempt has been made to use state-of-the-art IT technology. We called ourselves to be number one, number two in IT but never ever we thought of using IT expertise for bringing down the losses in the power sector. But under this scheme we are doing so. The Scheme covers 1400 towns, we started implementing in early 2009, and so far 194 towns have been integrated based on the mechanised system. What it means is that even without improvement of the structural changes which are required it is possible for the utilities to bring down losses through administrative measures and best practices being followed. And using these measures various states, have reduced losses ranging from 1% to 10% in Andhra in 22 towns, 2% to 13% in 22 towns in Karnataka, 1% to 10% in 19 towns in Gujarat and 1% to 10% in 16 towns in Madhya Pradesh. So, moreover this is being implemented at a fast pace.

Needless to say that Central government is giving encouragement in the sense that the Scheme has two parts; part A part B. I am sure you know it because we have come out with paper news many times. Part A is 100% grant, provided the respective power utility completes the milestones which are envisaged. Part B is 50% grant once the milestones are achieved. So that's a big scheme being implemented which is aimed at bringing down losses and increasing the revenue of the utility.

Similarly, the appellate's judgment, which says that the regulators in the state have the right to increase the tariff **suo-moto** even if the annual revenue recovery statement or petition is not filed by the respective discom. Now that is bringing in results. We have some data in 2011-12 only 15 states had filed the tariff petition. For 2012-13, 23 states have already filed the tariff petition. Now once they file the tariff petition, obviously over a period of time the tariff would also increase. And you very well know that given the fact that we and the banks, when we tightened our knot on the power utilities they started increasing the tariff last year. And large number of them including Tamil Nadu, nobody expected that Tamil Nadu will increase tariff by 37%, has been a reality now. Now over a period of time, such increases in tariff will definitely improve the financial health of the state power utilities.

We have also come out with, what we call as stricter lending criteria for the discoms, much more stricter compared to the past. There are number of parameters we want to ensure before we lend. Five parameters prior to lending and nine parameters within six months of lending have to be achieved by a particular discom, after which they can continue to get the assistance from us which is also having a positive impact.

Shunglu Committee Report has already been submitted to the planning commission and the recommendations of the Shunglu Committee, which again are aimed at improving the financial health of the discoms are under consideration. You may like to know when these will be implemented. I am not in a position to comment on that, but I guess sooner than later.

The Government of India in its budget presentation in March this year also showed a positive approach towards Indian power sector, when they announced that the power sector is now included in the venture capital funds, withholding tax on ECBs has been reduced from 20% to 5% for three years, Power sector has been allocated tax free

bonds of ₹ 10,000 crores. Part finance of Rupee Debt through ECB allowed to power companies and qualified financial institutions investors to invest in corporate bond market. These five-six modifications is fairly good indication of Government also having a positive approach towards power sector.

National Electricity Fund is a scheme which has been approved by the cabinet for all towns which are not covered by restructured APDRP scheme. What it means is that if power utility decides to bring down losses in towns other than covered by R-APDRP scheme, then they are entitled to concessional funding, I think ranging from 3 to 7% interest subsidy, which will again help them to bring down the distribution losses in those areas. Having said all this, I feel that the issues raised, which got raised in the Indian power sector are being addressed in big way though in some cases results are pretty visible like tariff increases etc., in some cases results will come over a period of time.

Now on to the results, first of all like many people feel that given these problems, I am sure anybody or everybody who is in Indian power sector, the results would have got affected, but not in our case. In 2009-10 we got an award for highest growth rate amongst PSUs, when our assets grew 24% year on year. On a higher base in 2010-11 our growth rate was 25%, and still on a higher base rate, of almost 1 ½ times of the original, in 2011-12 our growth rate of assets have been 31%. So, if we look at the original base and then see the growth rate, it will be of the order of about 50% or little less than 50%. That's the rate at which we are growing.

For the FY 2011-12 our loan assets increased by 31% from ₹ 99,571 crores to ₹ 1,30,072 crores, as a result of which our income increased by 40% for the quarter and by 28% for the year. The figures are, for the year from ₹ 10,161 crores to ₹ 13,037 crores and for the quarter from ₹ 2,623 crores ₹ 3,684 crores. As a result of increase in our income, our profit after tax for the quarter increased by 35% from ₹ 608 crores to ₹ 818 crores and for the year from ₹ 2,620 crores to ₹ 3,032 crores which is 16% high. We all know that PFC always has some extraordinary items in terms of the fee for which it earns for the APDRP scheme and the income tax refunds etc., plus translation losses which do not have direct link with the operations of the company, if these adjustments are made for the quarter profit after tax has gone up by 36%, from ₹ 589 crores to ₹ 800 crores and for the year by 23% from ₹ 2,522 crores ₹ 3,095 crores.

The spread, as I have explained in the past that, we have matched our liabilities and assets on yearly basis. However, resetting of income on assets side takes place only once in a quarter that is four times in a year, whereas on liabilities, it takes place as and when Reserve Bank hikes or reduces the rates. Since in the last one year, except the last quarter, RBI has been increasing interest rates every now and then, there was a time lag and therefore our spread was appearing to be lower. But in the fourth quarter our spread has gone up from 2.10% to 2.33% and for the year of course it is 2.25% compared to 2.49% last year, and going forward this trend is likely to grow because RBI is not expected to at least increase interest rates if not reduce it.

The average yield for the quarter and for the year has been 11.32% and 11.25% and average cost of funds 8.99% and 9%. Our outstanding sanctions are still considerably high at about ₹ 1,84,000 crores. Our EPS for the quarter has been 24.80 (annualized) and for the year 23.41. Return on average net worth 16.71% and 18% for the year. So, all these figures clearly show that whatever are the issues in the Indian power sector, we

have been able to accelerate our growth rate in line with the growth which is taking place in the power sector.

Some of the other developments which have taken place are that, we had exemption from credit concentration norms for lending to state and central sector utilities up to March 12. I am happy to share with you that Reserve Bank of India has extended it by one more year, up to March 13. They have said that they will review it once again, based on the roadmap, (which we are supposed to submit by 30th June) and take a call whether further extension is to be allowed or not.

Last year we raised about ₹ 36,000 crores, including tax free bonds of ₹ 5,000 crores successfully. We transferred the independent transmission project Nagapattinam-Cuddalore in Tamil Nadu to Power Grid Corporation. We have started two subsidiaries PFCCAS and PFC Green Energy. And we have successfully moved over to our mechanised system of ERP for all our operations from 1/4/12.

With a view to expand business, going forward we are looking at extending financial assistance to those Indian companies who are wanting to acquire resources outside, be it coal mines, gas fields etc., with a provisory that they will bring the output to India for consumption by Indian power companies. We are exploring that possibility.

Our contribution to power sector has been recognised by external agencies in the last year. We have got many awards, for the 8th time we got award for MOU Excellence from Honorable Prime Minister. We also received Gold trophy for SCOPE Meritorious Award for Best Managed Bank/Financial Institution/ Insurance company from "Her Highness President of India" and many more awards from KPMG, Dainik Bhaskar etc.

We have signed an MOU with the Ministry of Power for next year wherein we are committed to, disbursements of over ₹ 43,000 crore. Resource mobilisation of ₹ 40,500 crores, and sanctions of over ₹ 46,000 crores. One more aspect, the non-performing assets which some of you must have read in papers, in our case has gone from 0.23% to 1.04% and this is not a surprise because we have been talking about one Hydro Project, Shri Maheshwar Hydro Project in Madhya Pradesh for quite some time. We had got special exemption from Reserve Bank to treat that asset as standard asset because of certain extraneous situation. That exemption is now no longer extended by Reserve Bank of India, and that is why that has gone into NPA. If that is removed then it is not a very high figure compared to what other banks and financial institutions have. Having said that, if you want us to make a presentation on details we can do that or else we can straightaway go to question answers. Thank you. Our data is uploaded on our website. whatever are your concerns, you can ask those questions I will address them. Yes please.

Question and Answer Session

Speaker 1: Sir you are apparently planning to raise 500 million dollars from overseas, this is what we have read in the papers. The value of the Rupee seems to be depreciating by the minute what would be the impact of this of the borrowing on the company?

Satnam Singh: Whenever we borrow from the international market, whether Rupee devaluates or not, we always look at fully hedged cost and compare that fully hedged cost for that tenure with the domestic borrowing and only if it is attractive then we will raise those funds from the international market. For the last one year or so, we have not raised any money from the international market even though we have set up a MTN programme for raising resources. Primarily because five years and beyond paper on fully hedged basis was costing much more than the cost of borrowing in the domestic market and we continued to borrow from domestic market than from the international market. So don't worry about this part that we will go for a costly borrowing from the international market which will have negative impact on our profitability or spread. We are not going to do that.

Speaker 2: This pertains to your disbursement growth target that you have quoted in the last slide of your presentation. It seems kind of low is it something that it's just a government committed target or how realistically do you look at the target?

Satnam Singh: I thought when we interacted with various investors at the time of IPO and FPO we made it very clear to them that there is nothing called government allocation. When we lend money for the execution of the projects we make sure that the disbursement is not diverted for any other purpose through our disbursement procedures. The structure particularly for state power utilities is that you get the equipments supplied through the supplier, verify the bills, send the bills to us and we will make the payment directly to the suppliers. So there is no question of any direction or allocation by central or state governments against which we are disbursing money. These are project specific loans and the disbursements are made as per the schedule agreed to for the implementation.

Speaker 2: My question is that how realistic do you think it is? Do you think you want to perceive that or just as we have been in the past or how do you see that? Because if I look at the current year disbursement number and look at the projection the growth rate seems to be fairly low?

Satnam Singh: No, we have also shared with you the outstanding sanctions are about ₹ 1,84,000 crores, and our disbursement targets are ₹ 43,000 crores. Now, ₹ 1,84,000 outstanding sanctions plus further sanctions which we are going to do in the current financial year ₹ 46,000 crores at least, so that will make it ₹ 2,30,000 crores out of disbursement of only ₹ 43,000 crore. It's not going to be difficult for us.

Speaker 2: And second question pertains to a couple of days back I think there was a newspaper article which said that you have changed the lending norms for private projects, not very clear about that so could you explain that?

Satnam Singh: In April 2011, we had started putting stricter conditionality for fuel supply agreement and power purchase agreement, to be signed prior to our disbursement. And why did we do that was because we felt that over earlier two years, neither the FSAs were getting signed nor PPAs were happening. So we thought that we will create through this process some change in the Indian power market and partly we have been successful. Now what we have done is based on the progress made by a developer on account of these factors whether it is FSA or PPA, we are allowing them some relaxation. Not just like that it is on case to case basis. Not that we have started saying now FSA is not required at all. If somebody comes back and says that look I have made

considerable progress and FSA is likely to be signed shortly then you please allow disbursement. Yes we are agreed to such a situation. Similarly somebody has got a captive coal block and majority of the milestones required for the coal production have taken place, based on which we are reviewing and agreeing to give disbursement

Speaker 3: As you rightly said now generation capacity has already come on stream, so coal supply has to match that, so, do you feel that earlier very strict norms of environmental clearance will be diluted to some extent so that Coal India can supply coal in larger volume?

Satnam Singh: I don't think environmental concerns can be softened. But yes given the need for faster movement of those mines I am sure the environment ministry is aware of that they will reduce the time taken for environment clearance, which is what is in focus today.

Speaker 4: Sir have you done some analysis that, how many of the coal mines of Coal India are in such way where this kind of action, little bit of speediness in terms of environmental clearance can increase the volume significantly. What I am trying to say is investors are again doubting this FSA thing also. Right? That 80% of whether Coal India will be able to supply?

Satnam Singh: We have not done analysis mine wise but I can share with you that for new mines the extraction time is only six months and the clearance time is roughly about two and a half to three years. So if let's say a situation comes where Government of India finds that so many projects are stranded, for non-clearance of the coal mines to take up mining, I don't think it's not a big issue that somebody will sit down and say ok all these clearances can be given quickly. I don't think the situation will be allowed to reach that level where power projects will not get coal for long time.

Speaker 4: And the second question is regarding as you rightly said that now private sector will play a dominant role in terms of future. Because on the bidding side private sector will play an aggressive role but given the fact that somebody as big as Tata Power has clearly said that we are going very slow in terms of power projects in India, actually are facing leverage issues significantly. So even in this kind of circumstances you feel that private sector has a possibility and you yourself have said that you have tightened lending norms for them. So, do you feel that private sector still has probability?

Satnam Singh: Well, with all this tightness our outstanding sanctions are about ₹ 1,84,000 crores.

Speaker 4: But that includes states also.

Satnam Singh: Yes it includes states, but role of states over a period of time is going down. It is moving towards 1/3. So with tightness also so many projects are happening. May be if the tightness was not there the growth rate would have been still higher. But it is not that slow. You know Tata's have made that statement for a specific reason, because the change in the regulation for Indonesian coal has not been directly addressed, at least they feel so. But Government of India is saying it cannot, because it has been done for all the countries. It is not India specific that they changed the rule for

India that the Indian government can take it up at diplomatic level and solve that. Because if it is done for everyone then what is there to take up with individual country?

Speaker 4: Sir last point. You had said that you have taken a call that you will also finance India's power companies who acquiring assets or say natural resources assets outside India, but given the fact that past so many experiences of Tata Power buying Indonesian coal mines, they have not been so successful. You know when it comes to the governments like Indonesia treating those things. So whether you feel that this kind of call can put some kind of risk on our balance sheet.

Satnam Singh: No not all. Number one, this being a new area, we are going with a conscious mind which means two ways, one we are not extending financial assistance in a big way, there are other institutions taking bigger share, we are going to take only a smaller share. Secondly, since we have no clue about the international country risk, we will ask one of the counterpart companies of that group to provide that additional collaterals in case of any such difficulty. So we are going in a safe manner as far as new business is concerned.

Speaker 5: Sir just to understand, we had just transferred Nagapattinam-Mallugiri Transmission Company to Power Grid. Sir, can we understand the brief like what the transaction there was and what we got from there?

Satnam Singh: Like the ultra mega power projects, we were given four transmission lines for conducting competitive bid process. So, we did that for this line in the last financial year and Power Grid Corporation of India was also allowed to bid as per the guidelines, and they won that line. They quoted the lowest. So, when we say that we have transferred it successfully means that line at that lowest price has been transferred to them, lock, stock and barrel, after which they will construct that line and provide that service and we have charged our consulting fee of ₹ 15 crores from them.

Speaker 6: Private sector exposure has gone up I think 25% quarter to quarter. So in this environment it is surprising,. is there any one offs, or is there any relaxed norms or something like that?

Satnam Singh: No. no, not at all, compared to state sector our private sector norms are much stricter. No doubt about that. But the exposure has gone up in line with the role being played by the private sector. If more and more projects happen in private sector, obviously we being the dedicated financial institution for power sector will take exposure there rather than projects which are not happening. Since more projects are happening in private sector, therefore, our exposure in the private sector is going up as the time passes.

Speaker 6: And sir, the last question is on your foreign borrowings. How much of it is hedged and at what rate?

Satnam Singh: Our foreign currency borrowings as a percentage of total borrowing is miniscule. It is about 5%, and even of that, the redemption for the borrowings which we have taken is for a long period, redemption due is quite far. It starts from 2014 onwards and therefore, we had taken a deliberate decision not to hedge because redemption being far away. But the figures of hedging are, about 14-15% hedged and balance open.

Speaker 7: Sir, I wanted to understand what percentage of our loan book non-interest bearing. within the moratorium period and if you can give a comparative figure of the last year. What percentage of loan book is non-interest bearing?

Satnam Singh: There is no loan which we give on which we do not charge any interest, actually there is no moratorium for interest. The only moratorium we provide is for repayment of principal. During construction the interest is charged to capital cost. It is either funded by the respective institutions or through the equity. So, it is capitalised. So there is nothing called no interest or some moratorium for interest, nothing like that.

Speaker 7: And sir, one question towards the target for ₹ 43,000 crores disbursement going forward ahead we see the mix remaining the same or with the improvement in the steps taken by the SEBs, increase in disbursement to SEBs.

Satnam Singh: No the role of SEBs going forward is going down. So if you look at the data, the sanctions are tilting towards the private sector. I think last year out of the total sanctions about 25%, and therefore against those sanction the disbursements would take place in future. So the composition of disbursements will be tilting towards private sector rather than state sector whether improvement or no improvement.

Speaker 8: Sir, two of the large power producers, Adani Power and Tata Power after a long time they have shown big losses. So how do you react to that?

Satnam Singh: I am sure the losses are on account of Adani having a very different view point on Merchant power, rather than greater share on long term basis power purchased based share. Anybody taking a cue that all my power will be sold on Merchant basis at exorbitant price for all times to come was surely to go wrong. So, I don't think the producers which had signed long term PPAs for the specified percentage, like the rule is 85% of the production or generation should be based on long term PPA only 15% for thermal station can be on merchant basis. If that structure is followed no power project will suffer any loss.

Speaker 9: What are the chances of revision of power purchase agreement rates where fuel purchase cost has gone up significantly. So those projects what is the status. What do you feel?

Satnam Singh: I don't think, I am authorised to comment on that but power purchase agreement as you know is an agreement between two parties. First, both of the parties have to together agree it is a situation beyond control. Once that happens then the regulatory authorities can think of making some changes.

Speaker 9: Lastly what is the attributed trend for the NPAs going forward? Do we see increase in NPAs?

Satnam Singh: Not at all, because as I said in the beginning, that these NPAs in our case were well known. One project we added in the third quarter of last financial year, where the project is nicely commissioned, that means as per the structure, but it is not getting the required gas. Therefore, it has become an NPA. Once the gas is made available to that project it will no longer be a NPA. The Maheshwar Hydro Project this is a long outstanding project. The developer does not have the required equity, to

commission the project. So that is why the delayed commissioning is leading to this kind of issue. We have got special dispensation from Reserve Bank up to March 12 to treat this as a standard asset because of this special dispensation further extension has not been given we have classified it as NPA. So it's not a surprise, but apart from that rest of the projects there is no issue.

Speaker 10: Sir, do we expect this project to be standard asset

Satnam Singh: Yes, we had taken up this issue with the government of Madhya Pradesh which is going to be the ultimate beneficiary, because at least three units of this plant are ready for commissioning in a period of two to three months time if money is given, but debt equity ratio having already gone to 86:14, no institution is wanting to extend further loan unless the promoter brings the equity. So since the promoter is not able to bring, we have asked the Madhya Pradesh government to look at the alternatives.

Speaker 10: And, is the project going to be profitable or...?

Satnam Singh: It has a PPA with Madhya Pradesh government for purchasing at whatever cost the generation takes place and it is simple of the simplest Hydro Power station, what I shared with the Chief Minister of Madhya Pradesh was even though the official life of this project is 35 years, and if you work out tariff based on 35 years it may appear to be expensive. But like Bhakra dam, it is going to run for 100 plus years. So it will actually be very cheap for you in the long run. Therefore, you must take a different standpoint on this. So, we hope to resolve this in the coming 3-4 months' time.

Speaker 11: Sir, we basically saw an increase in the short term loans in this quarter, on a quarter to quarter basis. Firstly, does this portion also include short term loans given to SEBs?

Satnam Singh: Yes, as I said we had formulated much stricter criteria for extending short term loans to State Power Utilities and those utilities which could fulfill that criteria only have been given short term loans. But the percentage of short term loans, to the total loan is miniscule. I think it is about ₹ 6-7000 crores as against ₹ 1,30,000 crores

Speaker 11: And sir, only thing is in the incremental growth, short term loans contributes about 20% and given that it will be a freeze down on short term loan lending by banks to SEBs could we see continued growth in this portfolio in the near term say in the next two to three quarters?

Satnam Singh: We also have a structure where we do not lend more than 20% of annual disbursement, as short term loan. But the factor which is governing these loans is the stricter criteria. Now rest assured that if anybody is able to comply with that stricter criteria then lending to such utilities is not going to be a problem

Speaker 11: What kind of stricter criteria would you be talking about or if you could just mention couple of those important ones?

Satnam Singh: Ya sure. What we are saying is that anybody who wants short term loans from us should have last year's tariff in place, next year's tariff petition should have

been filed, the audited accounts of that utility should not be older than 18 months, they should provide the state government guarantee, and the proportionate subsidy for that year should have been paid in cash by the respective government. So if these five parameters are satisfied then the discom is entitled to a six month loan. And during those six months they have to comply with another nine parameters. Otherwise later they will not get any additional money.

Speaker 11: And sir, there have been several restructuring done by public sector banks for Rajasthan and Haryana SEBs, obviously the public sector banks follow the different norms and we would also be having exposure to these entities and we follow like 180 days so is it likely that there would be restructurings over here?

Satnam Singh: Our lending to State Power Utilities or private sector is project specific and we do not envisage any restructuring. Because banks probably have lent to them other than project specific loans which was utilised by power utilities for something else other than the purpose for which it was lent. Therefore, they have gone in for restructuring. We don't envisage anything like that and we have not done it so far in any case.

Speaker 11: Ok Sir and we see that the CAR, the capital adequacy has come down to 16.3% now. Could we just get the numbers of tier one capital and the total risk weighted assets that are there over here?

Satnam Singh: In our case majority of our reserves is tier one only, except for reserve for bad and doubtful debt which is about 1 % or so. But then since the capital adequacy has come down to 16.3%, we have already in yesterday's Board meeting taken an approval for perpetual bonds of ₹ 2,500 crores. So we will be having some of the tier two capital this year.

Speaker 11: Sure Sir and what would be the Asset duration for the existing loan book ?

Satnam Singh: It's about six years.

Speaker 11: Sir, just getting back to the previous question on the denominator that is the Risk Weighted assets, what is the percentage of risk we are attaching over there right now?

Satnam Singh: Risk Weighted Assets are ₹ 1,27,066 crores..

Speaker 11. Alright. Just the last question, how many projects and assets are there in the gross NPAs ? That is in the total amount of Gross NPAs how many projects and assets would be there?

Satnam Singh: Number of projects are five. Shri Maheshwar, Konaseema Gas, Om Shakti, Empee Power and RS India. RS India is a wind power project which they have restructured. It's in the NPA list only because of that one year restriction. After one year they are making payment whatever is due on time. After one year it will go off the NPA. Konaseema gas, the moment the gas is made available it will become a performing

asset. Shri Maheshwar as and when we sort it out with the government of Madhya Pradesh and the project is commissioned, revenue generation starts after year it will become a performing asset. Empee Power and Om Shakti these are smaller projects very small size, there some kind of settlement is likely to take place.

Speaker 11: Sure Sir. Thanks a lot.

Speaker 12: I have three questions from my side. The first one is regarding the UMPPs. We have transferred four UMPPs so far and unfortunately all of them are stuck with some problem or the other. Leave alone the sovereign risk which Tata Power is facing, but apart from Sasan & Taliya, where issues regarding diverting excess coal. No wonder the EGOM has actually gone ahead and given the judgment in favour of Reliance Power but then how do we plan to incorporate these inconsistencies going forward into other UMPPs?

Satnam Singh: Well, EGOM in that meeting where decision about Sasan was taken, and earlier EGOM decision was upheld, has very clearly said that future will be dependent on the new coal policy, which is likely in next six months' time.

Speaker 12: Ok and what about the import of coal based projects?

Satnam Singh: I think, I have already explained that. That change in regulation by the Indonesian government is not a change only for India. What Tata's have been asking government is that take it up at diplomatic level and solve this issue. Now if the issue is relating to only India, then it can be taken up that way. But the issue is common for all countries in the world what is it that can be resolved. No country will say ok, I will give preference to India. Such kinds of things don't happen.

Speaker 12: Second question was regarding the competitive ECB rates. Given the proposal in the recent union budget which kind of gives leeway to most of these independent power producers, to even get compensated for any kind of forex losses, how are we going to compete with these external ECB money increasingly because increasingly most of our portfolio is going to come from the private power producers?

Satnam Singh: It's like this that power projects mostly are set up as SPVs with very low rating. Now most of these SPV will not be able to tap external commercial borrowings barring SPVs promoted by Reliance, Tatas and such big companies. So we have no fear per se of ECB money will come in as a competition to us.

Speaker 12: Last one is, we have been tracking the financial performance of most of the state utilities. Recently what we have seen is that in spite of a 37% hike in the TNEB, still there have been a lot of hue and cry about power cuts across the industrial belts of Tamil Nadu. So basically it's not really helping gauge any financial performance in any way. But how do you perceive it and what you think would possibly change the going ahead because of the future tariff hike which is expected in TNEB.

Satnam Singh: No, you see it is like this. Compare past with present. In the past similar things were happening with no tariff increase. Now they are still happening with tariff increase having taken place. Over a period of time the revenue is likely to go up...

Speaker 12: Sure but inspite of...

Satnam Singh: See 62% or 65% of Tamil Nadu's power is from outside Tamil Nadu. Now if the other outsiders stop supplying power to Tamil Nadu. You know many people ask this question from me what if Tamil Nadu does not increase tariff. I said they cannot afford to, because otherwise state will come to darkness. And which is what happened after a while. They had to increase the tariff. So since the dependence on the outside sources has gone up, they are left with no option but to increase tariff and increased tariff will definitely bring high revenue to the utility

Speaker 12: Yes but still on an aggregate basis average south Indian consumer actually pays much more than consumer from any other part plus, since you have said that dependence outside is much heavier and what we have actually seen is post the tariff hike there have been more power cuts So do you really think it is just seasonal that will stabilise going ahead?

Satnam Singh: No, In Tamil Nadu as you know the tariff was not increased since last eight years. Now to say that 37% is very high compared to other states is not correct, because if they had increased from time to time, then they would not need to increase so much in one go. Because they have not done it in the past it is looking to be very high.

Speaker 12: So the concern is not the tariff hike. Concern is would they be able to go ahead and still maintain, I mean not maintain but improve the financial performance because of this?

Satnam Singh: Yes why not? Because even if, look at it from the state finances angle. Even if a state does not increase tariff do you think they are not incurring the cost? Imagine previous year when the tariff was not hiked. The state was buying that power from outside and making payment that is why they continued to supply. They were taking out money from other sources. So the incidence of the cost to the state remains the same. It is a question of from where it is captured as revenue.

Speaker 13: From Tamil Nadu State Utility have you actually seen the receivables which they owe to PFC going up post the tariff hike?

Satnam Singh: No, Whatever we lend that has our amortisation schedule. So we don't sell power. Receivables going up means what?

Speaker 13: In the sense, whatever you have to receive in terms of interest payments

Satnam Singh: No, that's what I said. Our loans have got set repayment schedule. Now if we lend more then only it can go up. Otherwise it won't go up, not because of the tariff hike I suppose.

Speaker 13: But existing loans which you have given to TNEB you are getting regular interest payment?

Satnam Singh: Yes, our recovery rate for the financial year 2011-12 has been 99.2%.

Speaker 13: Thanks Sir

Speaker 14: Sir two questions. One on Maheshwar Hydro. Whether the exposure has been taken as gross NPA? And secondly, one of the gas based projects by the name Samalkot which has been sanctioned during the year. Has disbursement started and what is the status of this project?

Satnam Singh: For Maheshwar, yes the total exposure has been taken as gross NPA. ₹ 700 crores is the total lending in that case. As far as Samalkot is concerned, we have sanctioned with certain conditionality, which are not suitable to Reliance, so no disbursement has taken place.

Speaker 14: Thank you Sir.

Satnam Singh: Yes.

Speaker 15: Sir apologies for raising question again on Sri Maheshwar But do you realise that it was a ₹ 400 crore guarantee that was offered by PFC, so it will crystallize over a period of time. So can you give us a sense of what these guarantees were and what amortisation schedule for it?

Satnam Singh : Shri Maheshwar project had gone in for what is called as optional fully convertible debentures, and we stood guarantee against that borrowing by the project based on the counter guarantee given by the government of Madhya Pradesh. So, it's not a direct exposure to us. It's a guaranteed exposure, so that's not an issue at all. If the payment of that amount is not made and if we have to make the payment we will claim from the government of Madhya Pradesh.

Speaker 16: Sir, one last question. Sir in third quarter we changed our accounting policies, exchange difference on foreign borrowings that was taken in, some was taken in P & L and some was taken in balance sheet. Now for the fourth quarter the year ending there is some 5 million which there in the balance sheet. Is there any hit which has been taken in P & L this quarter for the same amount?

Satnam Singh: While the Dollar-Rupee price varied, Ministry of Finance had given special dispensation, that the organisations which have got foreign currency exposure can go in for amortisation of the notional loss over the period till the redemption takes place on a proportionate basis. And we exercised that option. And accordingly the notional loss has been given that treatment. That is why the reflection of the notional loss in the financial year 2011-12 is much lower. If entire thing is shown as loss then I think it would have been over ₹ 600 crore. It is a gain in our case for the last quarter.

Speaker 16: Thank you Sir.

Speaker 17: Sir one question only on outlook towards gas based power projects. You have some exposure konaseema you have bhavana also. So how do you look at it?

Satnam Singh: For anybody now wanting to ask us for a lending to a gas station we are asking them that unless you have fuel supply agreement tied up we are not prepared to extend financial assistance. I think, outstanding amount for gas based projects is about ₹

7,500 crores. Mostly state sector projects and other than konaseema gas no other station is having problem of gas.

Speaker 17: Any update on the Udupi project?

Satnam Singh: Yes. A small portion of the transmission line because of which Udupi second unit could not be declared as commercial, now has got the environment clearance and is under construction. And I think by August or so the Udupi second unit would also be declared as commercial.

Speaker 17: Thank you Sir.

Speaker 18: Good afternoon Sir. Out of the total fresh sanctions how much is for the state?

Satnam Singh: For the year 2011-12, 74% of the sanctions are to the state sector.

Speaker 18: And how much you expect in 2012-13, Sir?

Satnam Singh: No, we do not mention in advance as to how much would be state and other sectors, it would be depending on the projects which come up for sanction. But overall target is about ₹ 46,000 crores.

Speaker 18: My second Question is can you give me state wise break up of how you have lent to states Top five states, six states...

Satnam Singh: Ya we can give you that. There is no issue.

Speaker 18: Can you share the numbers with me?

Satnam Singh: As of 31st March '12, outstanding to top five states (this is all projects put together whether it is a central sector project or a joint sector project or a state project or a private sector project) is, Maharashtra ₹ 14,758 crores, Rajasthan is ₹ 12,800 crores, Delhi is ₹ 12,049 crores, Andhra Pradesh is ₹ 11,089 crores, and Haryana ₹ 10,471 crores. If you want for more states we can share with you.

Speaker 18: Thank you Sir.

Speaker 19: What is the total quantum of foreign currency translation reserve on the balance sheet and how many years do you intend to amortize it?

Satnam Singh: Ya, total is ₹ 515 crores. As I said redemption of majority of loans is starting from September 2014. Some are in 2014, some are in 2015 something is in 2017. Like the US private placement which we borrowed in 2007, it is a 10 year paper coming for redemption 180 million dollar in 2017. So other three are some 300, 240 and 260 million and there repayments are starting from 2014.

Speaker 19: Secondly Sir, your repayment rate was much lower than the average annual rate. Like as a percentage of opening loans, the annual repayment trend is

around 16 to 18%. But whereas for this year it was around 11%. So anything you read into this?

Satnam Singh: No. when we introduced long term loans of 18 years door to door for thermal stations and 24 years door to door for hydro stations, the repayment effectively started coming down but over a period on a year to year basis, now there is not much of a difference. It is almost percentage wise similar. But since the growth rate in the current year is much higher than the past that is why the percentage may be looking little low. Suppose if we had not grown at 31%, then the repayment would look much bigger, because we have grown much higher rate the percentage looks to be smaller. Otherwise it is nothing like that. It is a standard amortisation schedule.

Speaker 19: Thank you Sir.

Moderator: On behalf of PFC, I thank you once again for coming here. Thank you. Have a nice day.

Note:

- 1.This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.