

Q3FY09 Post Result Conference Call Transcript

Representative:

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Mr. Sridhar, AGM (Risk Management)

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Moderator

Ladies and gentlemen good afternoon and welcome to the Power Finance Corporation Conference Call hosted by Prabhudas Lilladher Private Limited. As a reminder for the duration of the conference call all participant lines are in a listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should anyone need assistance during the conference please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. At this time I would now like to hand the conference over to Mr. Bharat Gorasiya of Prabhudas Lilladher. Thank you and over to you sir.

Mr. Bharat Gorasiya - Prabhudas Lilladher

Good afternoon ladies and gentlemen, I Bharat Gorasiya, on behalf of Prabhudas Lilladher welcome you to the Conference Call for Power Finance Corporation. Without any further delay I would hand over the call to [Mr. R. Nagarajan - ED \(Finance\), PFC](#). He will give you a brief presentation about the results and we leave the floor open for any questions and answers. Over to you sir.

Mr. R. Nagarajan - ED (Finance), PFC

Good afternoon ladies and gentlemen. I am Nagarajan, ED (Finance) from Power Finance Corporation. Mainly I will talk about the major highlights of the 9 months results. First is net profit has increased by 6% from

Rs. 911 crores to Rs. 965 crores, comparable PAT increased by 18% from Rs. 897 crores to Rs. 1063 crores. Operating profits as % of average assets increased by 2 bps from 3.54% to 3.56%. Total income increased by 30% from Rs. 3,673 crores to Rs. 4,764 crores. Net Interest Income, NII has increased by 22% from Rs. 1325 crores to Rs. 1616 crores. Gross NPA as percentage of loan was decreased from 0.03% to 0.02%. Disbursement has gone up by 45% from Rs. 9726 crores to Rs. 14,101 crores. Loan assets increased by 28% from Rs. 47,129 crores to Rs. 60,441 crores and net worth increased by 8% from Rs. 8887 crores to Rs. 9587 crores. CAR is Rs16.21 and EPS Rs 11.21 and book value per share is around 83.53. These are the major highlights of the Q3 profits.

Moderator

We will now begin the question and answer session. Anyone who wishes to ask a question may press "*" and then "1" on your touchtone phone. If you wish to remove yourself from the questioning queue you may press "*" and then "2". Participants are requested to use only handsets while asking a question. Anyone who has the question may press "*" and "1" at this time.

The first question is from the line of Mr. Hardik Doshi of Voyager Investment. Please go ahead.

Mr. Hardik Doshi - Voyager Investment

Hi, thank you. I have 3 questions. My first one was, can you give us some idea about the total sanctions that are outstanding and how you expect that to flow through for FY09, FY10 and FY11?

Mr. Hardik Doshi - Voyager Investment

The second one was is the target for the total sanctions for FY09 is at Rs. 50,000 crores.

Mr. R. Nagarajan - ED (Finance), PFC

Yes it is for sanction. We have signed with Government of India in MoU is Rs. 50,000 crores and we have achieved on Rs. 43,000 crores already. So only around Rs. 7,000 crores we have to sanction by 31st March 2009 and we have got 2 months of that to complete that portion actually.

Mr. Hardik Doshi - Voyager Investment

And my last question was on the repayment side like what are the repayments that we are expecting in FY09, FY10 and FY11?

Mr. R. Nagarajan - ED (Finance), PFC

You know as usual we cannot talk about FY09 and FY10, we cannot give.

Mr. Hardik Doshi - Voyager Investment

Ok but can you just tell me what is your sanctions, total outstanding sanctions and how you expect the disbursement over the next 3 years?

Mr. R. Nagarajan - ED (Finance), PFC

I think outstanding sanctions are around Rs. 60,000 crores.

Mr. Hardik Doshi - Voyager Investment

I believe the figure in the last quarter which I have is Rs1,10,000 crores yet to be disbursed?

Mr. R. Nagarajan - ED (Finance), PFC

You are taking unutilised sanctions for disbursement that is what you are asking. Fine, it is at Rs. 1,10,000 crores.

Mr. Hardik Doshi - Voyager Investment

And how is that flow through in the next 3 years?

Mr. R. Nagarajan - ED (Finance), PFC

You see in 11th plan most of the pickup of the projects may be taking place around FY10, FY11, FY12, maximum will be in FY12. So over a period of time you can say disbursements will be split 30-40-30% in terms of years, plus whatever sanctions we are making now and in future that also will materialize to disbursement, may be 5-10% in FY10, FY11 and FY12.

Mr. Hardik Doshi - Voyager Investment

And can you give an update on the APDRP scheme that you are talking to the Government?

Mr. R. Nagarajan - ED (Finance), PFC

The status is KPMG has been appointed as the process consultant and appointment of IT implementation agencies is in process. Likely sanctions in 2008-09 is about Rs. 1,100 crores in part A, likely disbursement in 2008-09 is about Rs. 340 crores. Part B will come after the completion of the process of part A so part B, we will not be discussing now. So in part A it is around Rs. 1,100 crores in 2008-09 sanctions and disbursement is around Rs. 340 crores in part A.

Mr. Hardik Doshi - Voyager Investment

Ok. Alright, thank you.

Moderator

Thank you. The next question is from the line of Mr. Anand Ladha of HDFC Mutual Fund. Please go ahead.

Mr. Anand Ladha - HDFC Mutual Fund

Just wanted to have a breakup of foreign currency loan in terms of the denominator, how much is in US dollars, UK and Yen and when these are payable for due?

Mr. R. Nagarajan - ED (Finance), PFC

Total amount in US\$ liability is around US\$442 and Euro liability is 43 million US\$ equivalent and Yen liabilities around US\$ 38 million equivalent. US\$ liability works around 84% of total foreign currency exposure and Euro liabilities is around 8% and Yen liabilities are around 7%.

Mr. Anand Ladha - HDFC Mutual Fund

And sir these are fully hedged?

Mr. R. Nagarajan - ED (Finance), PFC

Out of these 47% is not hedged, ie. open position.

Mr. Anand Ladha - HDFC Mutual Fund

And sir when are they due for repayment?

Mr. R. Nagarajan - ED (Finance), PFC

I will talk about the liabilities due within one year, US\$ 100 million is due in 2009-10 and in this open portion is only 10%, syndicated loan another US\$100 million, of which open portion is around 60% that is payable in August 2009. Euro loans are around 3 million, it is only partial servicing in the month of June and December and ADB CFS loan again in the month of May and November around 10 million and ADB new loan around 0.05 million. So total open position is around 83 million.

Mr. Anand Ladha - HDFC Mutual Fund

Which is repayable in the next year?

Mr. R. Nagarajan - ED (Finance), PFC

Right.

Mr. Anand Ladha - HDFC Mutual Fund

Sir just one more thing, there were few in articles and in paper which says that PFC will may be allowed to raise tax free bonds. Sir anything on that, is it possible whether that can happen, any quantum on that?

Mr. R. Nagarajan - ED (Finance), PFC

You are talking about Financial Express report and Economic Times Monday paper, It was a request made by Hon'ble Union Minister of Power Mr. Sushil Kumar Shinde, to our Prime Minister that has come in the paper and the report says that it is under consideration, that much I can tell. That was the request made by Ministry of Power to Prime Minister.

Mr. Anand Ladha - HDFC Mutual Fund

Ok sir. Thank you sir.

Moderator

Thank you. The next question is from the line of Mr. Rohit Shimpi of SBI Mutual Fund. Please go ahead.

Mr. Rohit Shimpi - SBI Mutual Fund

Congratulations on good numbers sir. Did you book any in PFC Consulting in this quarter?

Mr. R. Nagarajan - ED (Finance), PFC

We have already explained in the notes of accounts, PFC Consultancy has become a subsidiary of PFC on 31st March 2008. No income has been booked on PFC Consultancy in PFC books. Whatever equity we have put in PFC Consultancy it will come as a dividend and only if we do consolidation at that time we will come to know what is the income in the month of March.

Mr. Rohit Shimpi - SBI Mutual Fund

But you won't be aware sir of the amount for the quarter? You would not be aware of your amount of revenue in the subsidiary for the quarter?

Mr. R. Nagarajan - ED (Finance), PFC

It is around Rs. 3.53 crores of income.

Mr. Rohit Shimpi - SBI Mutual Fund

And sir second question is on the lending rates, have we revised our lending rates downwards in line with the falling interest rates?

Mr. R. Nagarajan - ED (Finance), PFC

I cannot talk about the reduction now we may consider a reduction later.

Mr. Rohit Shimpi - SBI Mutual Fund

No issue on that sir, my question is that in the quarter did you change your rates?

Mr. R. Nagarajan - ED (Finance), PFC

If you are to be in the business I have to do the lending at a particular rate which is acceptable to the market. So in line with the market PFC may consider reduction.

Mr. Rohit Shimpi - SBI Mutual Fund

In Q3 that would have not happened, no reduction?

Mr. R. Nagarajan - ED (Finance), PFC

No reduction was done before 31st December.

Mr. Rohit Shimpi - SBI Mutual Fund

So our PLR would have been around what 13-13.5%?

Mr. R. Nagarajan - ED (Finance), PFC

There is no question of PLR concept in PFC, 13.25% to 15% depending on the ratings of the borrowings, depending on whether it had State Government or private player.

Mr. Rohit Shimpi - SBI Mutual Fund

And sir how do you say in case of a scenario where now you see the triple AAA bond yields have also come down and say 80% of our borrowings being fixed, we would have to reduce the lending rates also. We have had very strong NIMs in FY08 and FY09 so far, you would think that in following interest rates scenario that can be maintained or you think there could be some pressure?

Mr. R. Nagarajan - ED (Finance), PFC

We will try to maintain the same level of NIM.

Mr. Rohit Shimpi - SBI Mutual Fund

Ok. Thank you.

Moderator

Thank you. The next question is from the line of Mr. Mahesh Vaze of Blackstone. Please go ahead.

Mr. Mahesh Vaze - Blackstone

If one looks at the quarterly results there has been few tensions last quarters, this big charge which has come because of the currency translation loss. So what is the logic, meaning we are in the business of lending to power companies, why do we keep a positions open? We are not exactly foreign currency traders so why are we taking this call at all.

Mr. R. Nagarajan - ED (Finance), PFC

First reply to your question, we are in the lending business so I don't know at what time my borrower will ask for a foreign currency loan. There are loans that we have sanctioned for foreign currency loans so if they come for foreign currency loans then we cannot say no to them. That is one of the reason we are keeping it open, Unless, we have got an open portion we cannot do lending first. Second thing is you see that in most of the cases wherever repayments are payable within one year we have done hedging. There is one USD loan which will be repaid in 4th September 2017 which we have borrowed on 4th. September 2007. So there is no point in hedging this loan today by paying premium substantially for keeping it hedged. That is why we have not hedged that loan because it is payable after 2017.

Mr. Mahesh Vaze - Blackstone

So what is the internal listing that if it is below one year then we will hedge?

Mr. R. Nagarajan - ED (Finance), PFC

No, currency risk management policy is there, if the exposure for exchange rate risk is less than 30% on net worth for principal and 20% of net worth in case of interest, we need not do hedging. So all are within the exposure as per the CRM policy of the corporation so that is why we are not doing that.

Mr. Mahesh Vaze - Blackstone

Are you looking at changing that policy because the fact is that in every quarter there is a significant swing from this so obviously there is something wrong with the policy? I take your point that if there is a 10 years liability then it doesn't make sense to hedge it. But for a shorter duration liability you are keeping the portion open equivalent to taking a FOREX currency punt.

Mr. R. Nagarajan - ED (Finance), PFC

Sridhar is AGM in risk management, he will just explain this.

Mr. Sridhar - AGM (Risk Management), PFC

Hi, I am Sridhar, our company's policy of borrowing is that we are borrowing long term. We are not borrowing short term like banks and so because of long term borrowings there is no point in hedging right in the beginning or immediately after borrowing. Necessarily we are also watching the movement of the currency, it is quite possible that during the term of the loan the exchange rate may swing but our aim is to have an optimum hedge on the foreign currency loan. It is not that just for the purpose of not showing the exchange loss or translation loss in the books of accounts to hedge right in the beginning. We have long term loans in US\$ and ADB, we have long term loan in Yen. It is not useful for us to hedge right at the beginning and show it as a closed one. So keeping that in mind we are continuously watching the currency rates and we are hedging at appropriate time.

Mr. R. Nagarajan - ED (Finance), PFC

To supplement what Sridhar has told, in 2003 we borrowed a Yen loan, at that time done the hedging, everything on the date of borrowings, the cost to the company would have been around 9%. In-between we had taken a different position, we have done a cross currency, we have done USD to rupee. We have done separately for dollar and yen and so because of that we are able to reduce the cost over the period of time to 2.15% p.a. When we had repaid the loan on 4th February 2008, the cost to the company was 2.15% p.a. Suppose as you are suggesting we had done hedging on 4th February 2003 then we would have had 9% p.a.

Mr. Mahesh Vaze - Blackstone

So essentially what you are saying is that this loss should not be taken as extra ordinary then because corresponding to this loss you NIM or spreads are higher because of your open portions, that's what you are saying?

Mr. R. Nagarajan - ED (Finance), PFC

No there is no cash outflow in this, it is not an incurred loss, it is a loss notionally. So as and when redemption occurs the loss is booked anyway and then show the expense. Till the redemption is occurs, it is going to be a sustaining loan, then where is the question of loss on that?. It is only disclosure by way of accounting standards that this much is the

valued amount of the forex position as compared to book value or as compared to previous quarter. That is the difference which we are making so that doesn't enter into the spread or NIM till it is realized actually.

Mr. Mahesh Vaze - Blackstone

I completely agree sir but P&L is full of items which doesn't have cash charge. For example depreciation is not a cash item, right?

Mr. R. Nagarajan - ED (Finance), PFC

Yes.

Mr. Mahesh Vaze - Blackstone

So meaning if I have to believe P&L I have to look at every number, right?

Mr. R. Nagarajan - ED (Finance), PFC

Agreed.

Mr. Mahesh Vaze - Blackstone

So just because it is not a cash item I cannot ignore it, isn't it?

Mr. R. Nagarajan - ED (Finance), PFC

We don't suggest you ignore it; what we are saying is we have disclosed adequately in accounts and for analysis, unless the loss is realized we are not taking into account the loss. We are saying wherever necessary we are hedging appropriately so that our cost of funds come down. As in the case of Yen loan, we had kept it open and we were able to reduce the cost from 9% to 2% p.a. If the opportunity arises, we would like to exercise the opportunity.

Mr. Mahesh Vaze - Blackstone

The other thing is when will clarity emerge on this deferred tax liability.

Mr. R. Nagarajan - ED (Finance), PFC

We are following up with ICAI. They will put it on the site, they are evaluating the standards. We have talked to the Chairman of the Committee, they may even submit the report before the end of this month.

Mr. Mahesh Vaze - Blackstone

What is the timeline one should expect sir, 6 months or so?

Mr. R. Nagarajan - ED (Finance), PFC

The thing is they have to first put it on the site, they will get the comments from all and then may be 3-6 months yes.

Mr. Mahesh Vaze - Blackstone

Ok so currently on a per share basis what will be this deferred tax liability?

Mr. R. Nagarajan - ED (Finance), PFC

As on September it was about Rs. 1300 crores, General Reserve will go up by Rs. 1300 crores. Sir roughly around Rs. 11 per share, you can take as expected reversal.

Mr. Mahesh Vaze - Blackstone

So basically if you adjust for that the book value will be Rs. 94.

Mr. Mahesh Vaze - Blackstone

Thanks a lot sir. Thank you.

Moderator

Thank you. The next question is from the line of Mr. Amit Ganatra of Religare AMC. Please go ahead.

Mr. Amit Ganatra - Religare AMC

Sir what is the percentage of loans which is on floating and fixed?

Mr. Sridhar, AGM (Risk Management)

79% is floating rate assets and 21% is fixed rate assets. Here I will say floating means it is not pure floating as you understand from banks. We have loans with reset clause which is having 3 years reset,

5 years reset and some with 10 years reset like that. All these loans which are subject to reset clause we are calling as floating and 79% is with reset clause. So what we are saying is that it does not move up and down as and when market interest rates move. However it moves every 3 years in a staggered manner.

Mr. Amit Ganatra - Religare AMC

So I mean do you have this further breakup into 3 years, 5 years or so?

Mr. Sridhar, AGM (Risk Management)

Yes, wait a minute please. 3 years reset loans will be 60%, 10 years reset loans will be 15% and then other reset will be roughly around 3%.

Mr. Amit Ganatra - Religare AMC

But that will be more than 10 years or less than 10 years?

Mr. Sridhar, AGM (Risk Management)

No, less than 10 years, 5 years, 3 years, 4 years, 6 years like that, those are very minor 3%.

Mr. Amit Ganatra - Religare AMC

So 3 years 60% means I mean less than 3 years also?

Mr. Sridhar, AGM (Risk Management)

It is 3 years. Every 3 years it is getting reset.

Mr. Amit Ganatra - Religare AMC

So there may be some part of it which might come to reset for next year?

Mr. R. Nagarajan - ED (Finance), PFC

Every year the portfolio gets churned so every year there will be some reset.

Mr. Amit Ganatra - Religare AMC

And in terms of borrowings how much 80% is fixed?

Mr. Sridhar, AGM (Risk Management)

90% is fixed.

Mr. Amit Ganatra - Religare AMC

And sir can you repeat this foreign currency the loan, is if US\$ 442million?

Mr. Sridhar, AGM (Risk Management)

Yes. The total is US\$523 million equivalent. We are having foreign currency loans in USD, Yen and Euro. So US\$523 million is the total foreign currency loan on which I will say US\$442 million is US\$ itself. Roughly around 8% is Euro loan which is around US\$ 43 million equivalent and the balance is in Yen loan.

Mr. Amit Ganatra - Religare AMC

And 47% is unhedged?

Mr. Sridhar, AGM (Risk Management)

Total of the US\$523 million, 47% is unhedged. Of which in 2017 around US\$ 180 million is maturing.

Mr. Sridhar, AGM (Risk Management)

What we are trying to tell is that 47% is open position. In the open position we also have long term loans so roughly about US\$248 million is open position, around US\$180 million is long term loan in USD which is getting matured in 2017.

Mr. Amit Ganatra - Religare AMC

US\$180 million is long term loan?

Mr. Sridhar, AGM (Risk Management)

Yes, not only US\$180 million but another ADB loan of US\$20 million equivalent is a long term loan which is staggered and then repaid over a period of 20 years.

Mr. Sridhar, AGM (Risk Management)

20 million is getting staggered and repaid over a period of time starting from next year but the amount is very negligible, it is not even half a million. So lumpsum amount of 180 million is getting repaid in 2017.

Mr. Amit Ganatra - Religare AMC

Ok so basically 180 million of that is a relatively long term loan so ok I understood. So how much is the total open position of the total repayments within next one year.

Mr. R. Nagarajan - ED (Finance), PFC

US\$216 million we repay next year and US\$83 million is open, roughly about 40%.

Mr. Amit Ganatra - Religare AMC

216 that you pay next year out of that 83 million is open portion, right?

Mr. Amit Ganatra - Religare AMC

Any loss that we will have to incur, it will be only US\$83 million?

Mr. R. Nagarajan - ED (Finance), PFC

Yes.

Mr. Amit Ganatra - Religare AMC

And sir one more thing is that how much is the timeline between normally between the sanctions and the disbursement?

Mr. R. Nagarajan - ED (Finance), PFC

In one case we have done the sanction, disbursement, documentation everything within 20 days or so. There are cases even after 3 years the disbursement have not taken place. So average you can take always around 6-9 months from the time of sanction to disbursement.

Mr. Amit Ganatra - Religare AMC

Why I am asking is that your unutilized sanction have actually now gone up significantly, right 1,10,000 crores.

Mr. Sridhar, AGM (Risk Management)

Let me explain the reason. it is a project loan, it is not a working capital loan,. In a project loan in the power sector the drawl is in a staggered manner. Apart from the initial time taken by them to comply with the terms and conditions and the documentation, disbursal itself takes in a phased manner according to milestones occurring in the project. So disbursement will be spread around 3-4 years. So naturally the sanction to disbursement ratio of about 50% is very good.

Mr. Amit Ganatra - Religare AMC

And one more thing is that in the current environment are you taking any additional, I mean due diligence efforts before sanctioning the loans basically to private sector?

Mr. R. Nagarajan - ED (Finance), PFC

We have got a very good appraisal system and then all the factors which ever is necessary on the interest rate side or the equipment side, everything is taken care of. Any specific thing if you have then you can tell us, we will be able to answer.

Mr. Amit Ganatra - Religare AMC

I was trying to understand that in the current environment do you differentiate between NTPC or a Reliance Power per say in terms of due diligence because one is the private sector and another is State utility. So are there any additional differences?

Mr. Sridhar, AGM (Risk Management)

As of now NTPC has not posed any project as such for financing. For the private sector they have to give any additional securities, if it is necessary based on project appraisal..

Mr. Amit Ganatra - Religare AMC

And last thing is that can you repeat the credit risk exposure amounts that you just mentioned earlier?

Mr. R. Nagarajan - ED (Finance), PFC

What we are saying, is we have a freedom to hedge at any level looking to the currency movements but we have internal policy which says our open position may not exceed 30% of our net worth in the case of exchange rate risk and may not exceed 20% of the net worth in the case of interest rate risk.

Mr. Sridhar, AGM (Risk Management)

Yes that is our internal policy but what we have freedom to hedge upto any level, not necessary that 30% we should keep open. On current portion is much less, our exchange rate open position is hardly 13% of the net worth and interest rate position is hardly 3% of the net worth.

Mr. Amit Ganatra - Religare AMC

And currently do you have any specific foreign currency loans under your sanctions?

Mr. R. Nagarajan - ED (Finance), PFC

Yes we have, right now I don't have the details but yes we have sanctions done, that is why we used to keep certain positions open, so we should have money to disburse to them.

Mr. Amit Ganatra - Religare AMC

Thank you sir.

Mr. R. Nagarajan - ED (Finance), PFC

Ok. Thank you.

Moderator

Thank you. The next question is from the line of Ms. Swati Kulkarni of UTI Mutual Fund. Please go ahead.

Ms. Swati Kulkarni - UTI Mutual Fund

My question is you said that roughly borrowings are 90% of the borrowings are fixed and whereas 60% of the portfolio has a 3 year reset clause. In this scenario I don't understand how you are saying that the NIMs and spreads would be maintained because interest rates are going to fall from these levels also. So how is that going to be achieved?

Mr. Sridhar, AGM (Risk Management)

Whatever is with reset clause in asset side we are showing it as floating and whatever loans with interest reset will be shown as floating in the liability side also. We borrow short term, medium term, long term loans so it is the mixture of the loans which we are having and that mixture will take care of the NIMs.

Ms. Swati Kulkarni - UTI Mutual Fund

So basically you are saying that the asset-liability match would take care of the NIMs?

Ms. Swati Kulkarni - UTI Mutual Fund

And in terms of the foreign currency sanctions, the foreign currency borrowings, what is the kind of ratio that you would have in the sense if you have US\$523 million in different currencies. So would you have sanctions of equivalent amount as of date or it is much lower than that?

Mr. Sridhar, AGM (Risk Management)

At any particular point of time I won't say that we are borrowing foreign currency only because of the foreign currency lending which we have to do, we borrow foreign currency for rupee lending also. Presently the foreign currency assets constitutes 1% of the total loan assets. But whenever foreign currency demand is there from the borrower we would not like to say that we don't have foreign currency money and that we will not lend.

Ms. Swati Kulkarni - UTI Mutual Fund

Ok. Thank you.

Moderator

Thank you. The next question is from the line of Mr. Anand Ladha of HDFC Mutual Fund. Please go ahead sir.

Mr. Anand Ladha - HDFC Mutual Fund

Hello sir. Sir can you just tell me what is the duration of loans as well as duration of liabilities you are having?

Mr. Sridhar, AGM (Risk Management)

The maturity is 5.43 years for assets and 4.45 years for liability.

Mr. Anand Ladha - HDFC Mutual Fund

Sir in terms of liabilities you mentioned 90% of the liabilities are fixed, even the bank loan liability is fixed or do you have some reset clause?

Mr. Sridhar, AGM (Risk Management)

90% of the liability is fixed.

Mr. Anand Ladha - HDFC Mutual Fund

And even though bank loan you have taken is fixed or is reset clause?

Mr. Sridhar, AGM (Risk Management)

Some are fixed rate and some are floating rate also.

Mr. Anand Ladha - HDFC Mutual Fund

In the case of bank loan are they linked to the PLR of the bank so whenever they see the PLR of the bank you loan also get repriced?

Mr. Sridhar, AGM (Risk Management)

Some linked to PLR also, some are with reset clauses and some with fixed rate also, it is a mixture of all.

Mr. Anand Ladha - HDFC Mutual Fund

Sir what could be the proportion which is linked to reset?

Mr. R. Nagarajan - ED (Finance), PFC

Right now I don't have, reset we have told it is 10% of the total loan portfolio.

Mr. Anand Ladha - HDFC Mutual Fund

Liabilities I am talking about.

Mr. R. Nagarajan - ED (Finance), PFC

Liabilities only I am telling, I am saying that out of the total liabilities, 90% is fixed and 10% is floating which is including reset PLR based, or reset clause based, everything.

Mr. Anand Ladha - HDFC Mutual Fund

Sir can you just give an idea, in terms of loans and advances, how much next year are coming for repricing?

Mr. R. Nagarajan - ED (Finance), PFC

We would not like to guess right now on that.

Mr. Sridhar - AGM (Risk Management), PFC

As it relates to future period we don't want to inform the number.

Mr. Anand Ladha - HDFC Mutual Fund

Fine sir. In terms of liabilities also what sort of liabilities are maturing?

Mr. Sridhar, AGM (Risk Management)

At present we cannot talk giving the number. One more thing just correcting the maturity of assets and liabilities which you asked for, it is 5.43 years of maturity for assets and 4.45 years for maturity of liabilities.

Mr. Anand Ladha - HDFC Mutual Fund

Ok sir. Thank you.

Moderator

Thank you. The next question is from the line of Mr. Amit Premchandani of UTI Asset Management. Please go ahead.

Mr. Amit Premchandani - UTI Asset Management

What is the average leverage do you expect going forward?

Mr. Sridhar, AGM (Risk Management)

Currently it is slightly above 6 times, I would not like to guess for future, it depends upon the disbursement and then how do we move on the net worth also. So I would not like to guess now right at the beginning but currently it is slightly above 6 times.

Mr. Amit Premchandani - UTI Asset Management

And sanctions to private sector is around 22%, when are they likely to get reflected in disbursement?

Mr. R. Nagarajan - ED (Finance), PFC

It will take time. Historically the entire power sector is in the State sector. Even in the eleventh plan you will see that 20,000 mega watts only is being created by the private sector and the balance is being created by public sector. Even if they create about 20,000 mega watts, the total proportion in the entire power sector, will be very less. So we cannot say all the 22% will get disbursed this year.

Mr. Amit Premchandani - UTI Asset Management

And just the rate at which you have raised money in the bond market, can we get the rate and the incremental rates?

Mr. R. Nagarajan - ED (Finance), PFC

Recently what we have done is around 8.71%.

Mr. Amit Premchandani - UTI Asset Management

That's it. Thank you.

Moderator

Thank you. The next question is from the line of Mr. Jatinder Agarwal of ABN AMRO. Please go ahead.

Mr. Jatinder Agarwal - ABN AMRO

Good afternoon sir.

Mr. R. Nagarajan - ED (Finance), PFC

Good afternoon.

Mr. Jatinder Agarwal - ABN AMRO

Just one thing sir earlier if you go back to history, till the mid of last year we used to get sheet in your presentation which included weighted average and also the fixed and floating on your liability side, if you could get that again inserted, we would be obliged.

Mr. Jatinder Agarwal - ABN AMRO

Could you just give us an update as to what's happening on the project side of the business? Have you seen any cancellation, delays, cost escalations and whatever?

Mr. Sridhar, AGM (Risk Management)

Our loan growth is telling everything. There may be small cancellations but not on mass scale to be of noticeable nature. As far as the disbursement, we don't find any slowdown. It is 50% upto half year and then it is 45% now; Normally we find disbursement pick up occurs in Q4, so we feel the growth momentum will be there as far as our disbursement and loan asset increase is concerned. Around 92% of our loan book is comprising of State sector who for their equity depend on budgetary support and not on the capital market. Taking into account the Government's stimulus package and interest rate cuts which RBI has exercised and taking into account that state sector is dependent on the planning commission allocation and budget support, we find that there will not be any slow down on our loan book.

Mr. Jatinder Agarwal - ABN AMRO

And last one question sir, on the press reports of Rs100 billion tax free bonds?

Mr. R. Nagarajan - ED (Finance), PFC

Yes it is a fact that Hon'ble Union Minister of Power, Mr. Sushil Kumar Shinde has written letter to Prime Minister and the paper reports say it is under consideration of Ministry of Finance. So that is all we can tell now.

Mr. Jatinder Agarwal - ABN AMRO

Many apologies I just want to understand whether in earlier in history ever, have you been allowed to raise such type of bonds?

Mr. R. Nagarajan - ED (Finance), PFC

Yes in 1997-98 we have raised tax free bonds, 10.5% bonds, and two tranches in 96-97 and upto 1998.

Mr. Jatinder Agarwal - ABN AMRO

And sir typically in that era itself if you were raising tax free bonds the cost would be lower than your normal cost of borrowings. Does this spread benefit actually go down to the company or does that have to be passed to the borrowers?

Mr. R. Nagarajan - ED (Finance), PFC

It is left to the company to decide whether to pass on or retain this benefit with the company.

Mr. Jatinder Agarwal - ABN AMRO

And sir in your history was it retained or was it passed on?

Mr. R. Nagarajan - ED (Finance), PFC

In those days the margins were around 6%, you see historically.

Mr. Jatinder Agarwal - ABN AMRO

Perfect sir. Thanks a lot sir.

Moderator

Thank you. We would now be taking last 3 questions for the conference. The next question is from the line of Mr. Siddharth Teli of ICICI Securities. Please go ahead.

Mr. Siddharth Teli - ICICI Securities

Good afternoon sir. Just wanted to know that in the last quarter when there was a liquidity crisis what is the amount that we would have actually raised at that point in time and on blended basis what is the rate that you would have taken?

Mr. R. Nagarajan - ED (Finance), PFC

In last quarter we raised around one bond issue of around

2,600 crores, at around 11.25%.

Mr. Siddharth Teli - ICICI Securities

Sir just wanted to understand, actually rates are down, 90% of our borrowings are fixed and in an environment like this where assets will reprice faster than liabilities, how can we protect our spread sir?

Mr. Sridhar - AGM (Risk Management)

What we are trying to tell is that 90% of the fixed doesn't mean that it is fixed for a very long time. We have a mixture of liabilities where short term loans are there which are maturing in less than one year also. We have mixture of loans of 2-3 years and then 5 years and 10 years also. So in that mixture you have seen that we are able to maintain the interest rates risk on repricing, asset repricing and liability repricing. That will take care of maintaining our spreads.

Mr. R. Nagarajan, - ED (Finance) PFC

To quote an example we have recently done a bond issue of 8.71%. These are fixed rate bonds, 18 months bond so the of bond is only 18 months. So if you see on that basis even any short term loan is equal to repricing of the liabilities. So that way even though we calculate as fixed rate loans, it may be coming for repricing and it will take care of floating rate assets.

Mr. Siddharth Teli - ICICI Securities

Sir just could you tell us if you were to lend today what would be the incremental yield that you will make?

Mr. Sridhar, AGM (Risk Management)

We would not like to comment about the future thing, what we would like to say is that we will try to maintain our spread at around 2%.

Mr. Siddharth Teli - ICICI Securities

Ok. Thanks sir.

Moderator

Thank you. The next question is from the line of Mr. Ramnath V of Kotak Securities. Please go ahead.

Mr. Ramnath V - Kotak Securities

Hello sir. I joined slightly late in the conference, so if I am repeating the question I apologies for that. I just wanted to get a sense in terms of what are you doing to boost your non-interest income especially in the area of loans syndication and other things which you were planning to carry out. And also on the State sector plans that you were, even at State level when you were planning to execute some of the UMPP kind of things. So if you can just give us an update on that or if you have done it already, I apologies for it?

Mr. R. Nagarajan - ED (Finance), PFC

In case of consultancy business we have transferred to PFC Consulting Limited and for that is why we have not shown any income under other income from consultancy business. There are projects in the State sector like we have done in UMPP, we are trying to do,. So they are having around Rs50-60 crores business on hand from all these State level entities. Infact compared to the total income if you say that your consulting income is not growing, yes it is a fact it is not growing. It will not grow the way it is growing for other financial institutions

Mr. Ramnath V - Kotak Securities

Sir loans syndication part of the business?

Mr. R. Nagarajan - ED (Finance), PFC

Loans syndication part comes, it will come to PFC only because that business is not transferred to PFC Consulting. We are getting 2-3 leadership position in private sector which may materialize in next year.

Mr. Ramnath V - Kotak Securities

Ok sir. Thanks.

Hello I apologies, the last question is from the line of Mr. Kunal Shah of Edelweiss. Please go ahead.

Mr. Kunal Shah - Edelweiss

Sir just wanted to know like how has been the statewise sanctions over last 3-4 quarters. In last like we have almost sanction of 69,000 crores in FY08 and around 43,000 in first 9 months. So is it too much focused on one or some of the particular states so just can give the like top 2-3 states wherein you have sanctioned?

Mr. R. Nagarajan - ED (Finance), PFC

Kunal we will give the detail, presently we don't have that, we will give it to you separately.

Mr. Kunal Shah - Edelweiss

And sir regarding the repayment if you see the first 9 months of the repayment it is like last 4-5 years we have seen repayments in the range of 18-20% but in first 9 months that has been only like 10% of the outstandings as on FY08. So no doubt you won't be giving the guidance for FY10 and FY11 but can you see like what repayments would be coming days in Q4?

Mr. R. Nagarajan - ED (Finance), PFC

Repayment of our dues to lenders or my repayments from borrowings?

Mr. Kunal Shah - Edelweiss

No, no your dues to lenders.

Mr. R. Nagarajan - ED (Finance), PFC

That is may be around less than Rs1,000 crores.

Mr. Kunal Shah - Edelweiss

Less than 1,000 crores, ok so in this quarter the repayment was approximately 1,700 odd crores. So may be like in the next quarter you are saying round about 1,000 crores only would be the repayment. And sir just in the presentation if I see the press release then over there this FOREX loss is 68 crores but if I see the presentation post tax adjustments it is 38 crores?

Mr. R. Nagarajan - ED (Finance), PFC

In the last Board meeting they had decided that translation loss can be in the form of principal loss and coupon swap as well One rupee bond we have converted into coupons of Japanese Yen. Till now we have been showing it as a part of the cost in the P&L Account. But this time the loss will shown as a translation loss and that is why we have shown Rs68

crores. But in the presentation we are showing this as part of borrowing cost in case of coupons swap or showing as exchange loss in case of principal swap.

Mr. Kunal Shah - Edelweiss

Could I get the breakup of coupon swap and principal swap?

Mr. Sridhar, AGM (Risk Management)

Out of the Rs68 crores, Rs57 crores is the translation loss; and Rs 38 crores what is shown in comparable profits is net of tax.

Mr. Kunal Shah - Edelweiss

That is Rs57 crores.

Mr. R. Nagarajan - ED (Finance), PFC

Rs57 crores is the gross translational loss.

Mr. Kunal Shah - Edelweiss

And sir this income tax refund which is there, income tax refunding including interest, it was there in Q2 as well and Q3 also it is round about 5 odd crores so anything it is like, what is this with respect to?

Mr. R. Nagarajan - ED (Finance), PFC

The assessment relevant to previous period we have got income tax refund.

Mr. Kunal Shah - Edelweiss

Yeah so it is like the assessment is done and we don't expect any further income tax refund or is it closed now?

Mr. R. Nagarajan - ED (Finance), PFC

For YOY the income tax assessment amount has been refunded, that is the assessment is over now.

Mr. Kunal Shah - Edelweiss

Ok thanks a lot sir.

Moderator

Thank you Mr. Shah. I would now like to hand the conference over to

Mr. Bharat Gorasiya to add a few closing comments?



Mr. Bharat Gorasiya - Prabhudas Lilladher

Thank a lot sir, thank you all participants for attending the conference.

Mr. R. Nagarajan - ED (Finance), PFC

Actually I was in the Ministry so that is why there was a delay of about 10-15 minutes for that. Once again thank you for participating in the conference of PFC.

Moderator

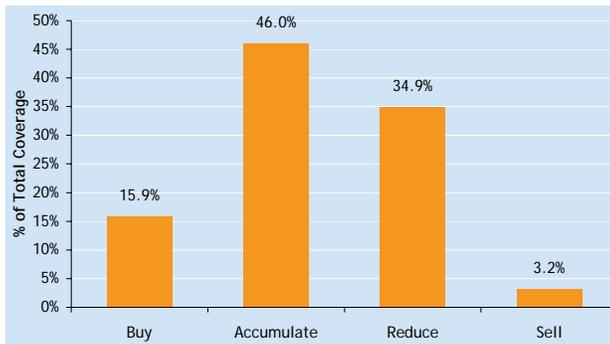
Thank you Mr. Nagarajan, thank you Mr. Gorasiya, thank you participants. On behalf of Prabhudas Lilladher Private Limited that concludes this afternoon's conference call. Thank you for joining us and you may now disconnect.

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