



Power Finance Corporation Limited

Q2/H1 FY '2023-2024 Results

Conference Call

November 09, 2023

MANAGEMENT TEAM OF POWER FINANCE CORPORATION:

- **Ms. Parminder Chopra - Chairman and Managing Director and Additional Charge of Director (Finance)**
- **Mr. Rajiv Ranjan Jha - Director (Projects)**
- **Mr. Manoj Sharma - Director (Commercial)**

Moderator: Mr. Shreepal Doshi, Equirus Securities



Moderator: Ladies and gentlemen, good day, and welcome to Power Finance Corporation Limited Q2 H1 FY '24 Results Conference Call, hosted by Equirus Securities.

As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference to Mr. Shreepal Doshi. Thank you, and over to you, sir.

Shreepal Doshi: Thank you, Rohit. Good afternoon, everyone. I welcome you all to the earnings conference call of Power Finance Corporation to discuss the Q2 H1/FY '24 performance of the company, business updates and industry trends. We have the senior management team of PFC with us represented by Smt. Parminder Chopra, Chairman and Managing Director, with an Additional Charge of Director Finance; Mr. Rajiv Ranjan Jha, Director Project; Mr. Manoj Sharma, Director, Commercial.

I would now like to hand over the call to Smt. Parminder, ma'am for her remarks, post which we can have the floor open for question and answer. Over to you, ma'am.

Parminder Chopra: Thank you. Good afternoon, everyone. I would like to share that I took over the charge of CMD in August 2023. Before this, I was handling the portfolio of Director Finance. So this is my first earnings call in this new role. I have been part of the power sector for more than 35 years with over 15 years in PFC. I have a long association with both the sectors as well as PFC.

I have seen the Indian power sector grow massively over the years. When I started in the power sector, the generation capacity stood at around 60 gigawatts, and today, it is close to 425 gigawatts. This was one phase of power sector growth. And today, we are transitioning to another one.

India is gradually moving towards achieving the Honorable Prime Minister's vision of reaching 500 gigawatts of renewable energy by 2030. PFC being the largest power sector financier as well as the largest renewable financier has a crucial role to play in fulfilling this vision. All of us at PFC are excited for this next phase. We are committed to it, and we are actively working on tapping new opportunities in this direction.

Our strong financials, large balance sheet size and consistent performance gives us the confidence to continue to lead the power sector financing in the coming years also.

Now, I would like to discuss our results. Starting with the consolidated performance. PFC Group delivered another quarter marked by robust financial and operational performance. The consolidated profit after tax for the half year stood at INR12,610 crores, a 29% increase from H1 2023. The Group's loan asset book crossed INR9 lakh crores, and it is at INR9,23,700 crores as on 30th of September 2023, an increase of 20% from previous H1. I would also like to share that owing to the resolution efforts, the consolidated net NPA ratio is at around 1%.



Now coming to the stand-alone performance. On the PFC's financial performance, I'm happy to share that Q2 '24, PFC has recorded the highest ever quarterly profit of INR3,847 crores, a jump of 28% from Q2 2023. For half year '24, PFC's PAT is at INR6,854 crores, a 34% increase compared to the previous financial year.

PFC has always been delivering excellent returns to its shareholders. Since FY 2020, we have been taking efforts to declare interim dividends on a quarterly basis. I'm pleased to announce that continuing with this practice this quarter also, we have declared an interim dividend of INR4.50 per share.

Also, I would like to share that the allotment of the bonus issue of 1:4 announced in the previous quarter has successfully closed. Now post this, our equity share capital stands at INR3,300 crores. For the purpose of dividend, if we compare it with pre bonus capital, it would have been INR5.60 per share.

Now moving on to PFC's key financial indicators. The yield for H1 2024 is at 9.92%, a 7 bps increase from Q1 2024 yield. We have been increasing the lending rate since December 2022 to reflect on our higher cost of funds. The impact of lending rate increase is now becoming gradually visible in our numbers. The cost of funds for H1 '24 is at 7.41% as compared to 7.30% in H1 2023, which is in line with the movement in the market benchmark rates. This increase is within our expected levels and is also further expected to keep moving, keeping in view the market conditions. With the current yield and cost, the interest spread is at 2.51%, which is well within our target range.

Now I would like to give an update on the PFC's capital levels. We have been consistently maintaining healthy capital adequacy quarter-after-quarter. As on September 30, 2023, our capital adequacy is 24.86%, a 57 bps increase from September 2022 levels, owing to internal accruals. Also, as on 30, September 2023, PFC's net worth is at INR74,445 crores, a notable increase of 18% from last September. This reflects our strong capital position and financial resilience.

Now turning on to stand-alone asset quality. I would like to share that we have maintained the asset quality at the highest level. We have added no new NPAs in last one year. Our net NPA ratio for H1 2024 is at 1%, which is the lowest in last six years. Further, our gross NPA levels have also declined significantly by 109 basis points from 4.75% in H1 2023 to 3.67% in H1 2024.

The other part of asset quality is the resolution status. Currently, we have 22 stressed projects of INR16,497 crores in Stage 3, out of which, 13 projects worth INR13,899 crores are being resolved under NCLT, and the remaining nine projects worth INR2,588 crores are being resolved outside NCLT. Out of these 22 projects, as shared earlier, two projects with outstanding amount of INR2,789 crores are in advanced stage of resolution, first of which is the Lanco Amarkantak project of INR2,376 crores. It is a 1,920 megawatt thermal generation project. The resolution plan has already been filed and the matter is being pursued with NCLT.



Second is the Dans Energy project of INR413 crores. It's a 96-megawatt hydro energy project and is being resolved outside NCLT. The resolution plan for the project has been finalized. All lenders have obtained their internal approvals. Now the documentation process is going on.

Further, on the provisioning front, we have 73% provisioning on the Stage 3 book, which we believe is adequate.

Now coming on to the loan growth. We have achieved 19% growth this quarter over last September. With this, our loan asset book is now almost close to INR4,50,000 crores as on 30th of September 2023. The year-on-year growth seems remarkable. This is because the disbursements last year picked up pace quarter 3 onwards. This year, we have been doing consistent disbursements quarter-on-quarter.

In the current half year, our disbursements are at around INR55,500 crores, a 2.5x increase compared to previous H1. This is mainly driven by lending on the distribution front and towards renewable energy projects.

Now we have also started making disbursements in the infrastructure and logistics sector, which was added one year ago to our business line. In one year, we have sanctioned approximately INR25,000 crores and have disbursed around 5% of this sanction, that is around INR1,900 crores. These sanctions are mainly in government projects and in areas like ports, fibernet, methanol, etc.

Our strategy for infra loan book growth is to build it incrementally and consistently over a long-term horizon. Right now, we look at infra business as complementing the growth in our power portfolio.

Talking about our power sector loan book, in short to medium term, we expect the loan asset book to grow at similar pace as FY '23, mainly driven by lending to traditional solar and wind projects and lending to discoms under Government scheme. In this respect, I would like to share that on the renewable front, in H1 '24, we have registered 37% growth on a year-on-year basis. This is a promising indicator for the growth in renewable space, and we are hopeful that we will tap more lending opportunities in this space.

Regarding lending under distribution scheme. Currently, we are implementing two government schemes for discoms. One is the Late Payment Surcharge Scheme and the second is the Revamped Distribution Sector Scheme. On the LPS scheme, I would like to share that until September 30, 2023, we have sanctioned INR70,500 crores and disbursed INR31,500 crores. Also, the LPS scheme has been a great success. Since its implementation in June 2022, there has been more than 50% reduction in the legacy dues, which are payable by discoms to the generation companies, apart from clearance of the current dues by the discoms.

For the RDSS scheme also, there are impressive numbers to share.

PFC Group, that is PFC and REC are the nodal agency for implementation of the scheme. All the states and union territories are divided between PFC and REC. Under the scheme, action plan for 12 states with PFC has been approved. This is almost 100% of the PFC state eligible



and willing to take funding under RDSS. For these PFC states, projects worth over INR1.17 lakh crores have already been sanctioned. Out of this, around 53%, that is, around INR62,000 crores have been sanctioned for installation of INR10 crores smart meters and the balance for loss reduction volume.

Both the schemes are progressing well. LPS, on one hand, is improving financial discipline of discom, whereas RDSS is a multidimensional scheme focused on discoms' modernization, improving operational efficiencies and financial health through a milestone-based approach. The smart metering under RDSS is another area which I believe has the potential to be a real game changer for reducing mounting AT&C losses. Both these schemes together are expected to bring positive changes in the entire power sector value chain.

Now coming to the medium- to long-term growth outlook. In medium to long term, we see existing business be complemented by opportunities in the energy transition and e-mobility space. Right now, energy transition is an evolving area. A lot of new technologies are being explored, such as for storage like battery and pump storage, production of green hydrogen, ammonia, etc. How the whole journey shapes up would determine the scale and volume of PFC's lending book in future.

But just to give an overview of the size of the opportunities going forward as per the National Electricity Plan, approximately INR33 lakh crores of investments are required by 2032 in the power sector. I would like to share that PFC is currently the largest lender for renewable sectors and has supported 25% of the current installed renewable capacity. Going forward also, we expect to maintain a similar share for energy transition financing in power sector.

Now coming to the liability side. Diversification of borrowing profile has always been our strength, we have been actively taking steps in this direction. In this quarter, on the domestic borrowing side, PFC issued its first three year zero coupon bond and raised approximately INR480 crores. This is the first time that any government company has issued such three year zero coupon bond structure in last seven years to eight years. Also in the last quarter, we have successfully raised around INR2,800 crores through our second public issue of taxable bonds, which was oversubscribed by more than 5x.

Turning to the foreign currency borrowing. In the half year ending September 2023, we have raised approximately USD-equivalent 690 million. With this, our foreign currency portfolio stands at U.S. dollar equivalent of 8.15 billion and is nearly 18% of our total borrowing portfolio. We are aware that foreign currency borrowing has associated exchange risk. Considering our increasing foreign currency portfolio, we are actively focusing on hedging it to insulate our balance sheet from foreign currency fluctuations.

For September 2023, 83% of our total foreign currency portfolio is hedged for exchange rate risk compared to 68% in September 2022. Further, 100% of our U.S. dollar exposure maturing in next five years has been hedged for exchange risk. Also in order to mitigate the risk of having a dollar-denominated book, we have been taking exposures in Japanese yen and euro as well. This approach has helped us in mitigating the exchange losses to some extent during the six



months ending September 2023 as INR depreciated against U.S. dollar but appreciated against euro and Japanese yen.

To conclude, it's been a great quarter for us, driven by strong disbursements, low NPA levels and robust financial performance. We are looking to delivering such strong performance ahead.

Thank you all for joining the call, and best wishes to all of you for the festive season. Now we are open for Q&A.

Moderator: The first question is from the line of Shreya Shivani from CLSA.

Shreya Shivani: Congratulations on a good set of numbers. I have two questions. On the asset quality side, you mentioned two projects, Lanco Amarkantak and Dans Energy, which is in advanced stage of resolution. Can you also help us understand if there are any more projects that may get resolved in this financial year in FY '24? And if you can help us with their names? That is first.

Second is on the loan -- on the renewable project that you spoke about. So you mentioned that you have about 25% market share in the current installed renewable capacity, and the Central Electricity Authority has spoken about installing 50 gigawatt each year for another nine years, which is a project of about INR31 trillion -- which will require a funding of INR31 trillion. So is it fair to expect that you will have 25% market share in that as well? And if that is the case, can you give us a better understanding on what kind of loan growth can you deliver? The 19% that you're delivering this year, is it sustainable for the next four years, five years? Or any guidance around how large your renewable loan book can become or your total loan book can become? And some guidance on the margins as well.

Parminder Chopra: Yes. Shreya, you have asked two questions, one on the asset quality. So as informed earlier, there are two assets on which we are in the advanced stage of resolution. One depends on the NCLT decision because the lenders, CoC, has already submitted its plan and now it's pending with the NCLT.

The other one was outside NCLT, where the resolution has happened and as informed, that we have already waiting for the documentation to be done. We are expecting one or two more resolutions to happen this financial year, but right now, we'll not be able to share the names for that. This much I can tell, that they are in the advanced stage of resolving and the meetings are going on.

On the other question about the renewable capacity. Yes, PFC until now has disbursed around INR1 lakh crores of total funding to the renewable sector, supporting overall -- on an overall basis, 25% of the renewables capacity in the country. So right now, we are at 187 gigawatt, and it is expected that by 2030, we will be achieving 500 gigawatt. So there has to be a rapid addition in the renewables. And we are quite hopeful that we will be able to maintain our share of business in that.

Shreya Shivani: Sure, so how large can your book become? And how sustainable is the current loan growth of 19%?



- Parminder Chopra:** We are quite hopeful that we will be able to maintain the growth numbers. And it's very difficult to say, that how large is going to be the loan book. But it is expected that the total investment required in the sector until 2030 is up to approximately INR33 lakh crores, and we are maintaining on the overall basis, 20% to 25% share in the funding of the power sector. And we are quite hopeful that we are going to maintain this share going forward.
- Shreya Shivani:** Sure, ma'am. And the last commentary on margins. Because we understand that the renewable projects have a lower spread versus traditional conventional generation companies -- generation projects. So any guidance on where the margins -- how the margin trajectory would be?
- Parminder Chopra:** The margins, whatever as of now, maybe approximately, we are expecting 3% to 3.5% -- 3.25% to 3.5%. We will be able to maintain those. On renewables, even though the margins are low, I agree. But on the other hand, these assets have a very short gestation period. So the revenue start flowing much earlier as compared to any other thermal or hydro projects. So that will add to the strong financials of the company.
- Moderator:** The next question is from the line of Rahul Bhangadia from Lucky Investment Managers.
- Rahul Bhangadia:** Congratulations, ma'am, on a great set of numbers, but all my questions have been answered through the previous one. So thank you very much for taking this one.
- Moderator:** The next question is from the line of Jigar Jani from B&K Securities.
- Jigar Jani:** Congratulations, ma'am, on your promotion to the MD and CEO position. I have a couple of questions. Can you share what would be the sanctions that you would have done in the first half of this year? And what will be the corresponding number last year in the first half?
- Parminder Chopra:** This current financial year first half, we have sanctioned INR1.17 lakh crores as against previous year's full financial year we had sanctioned INR2.30 lakh crores.
- Jigar Jani:** Okay, ma'am. And these sanctions would be -- could you give some color? Would this be more on the RE side? Or would it be more on the discoms side, which is the LPS and RDSS for this first half?
- Parminder Chopra:** As we have already shared that the major portion for this year's sanctions as well as disbursement is majorly on the distribution front, which includes funding under the late payment surcharge scheme as well as under the RDSS scheme. There we have also funded for the generation across the thermal and renewable and this also includes the transmission sector sanctions in the pipeline.
- Jigar Jani:** Okay. Understood. And second question, ma'am. We have done very strong disbursements in this quarter on the distribution side. What would be the proportion of the RBPF for the short-term loans? Just to get a sense of where these sanctions have gone in -- the disbursements have gone in this quarter.
- Parminder Chopra:** RBPF constitutes maybe around only 10% to 15% of the total disbursement, Major disbursements are under the LPS scheme to the distribution.



- Jigar Jani:** Understood, ma'am. And the last thing, there was a provision write-back in this quarter. So because REC had highlighted this was partly due to the Dans Energy recovery. Is that the case with us as well?
- Parminder Chopra:** Dans Energy, we have not written back. It was on account of another renewable asset which was under court stay and lying under the Stage 2 category. However, the asset has been resolved with a change in the management and the reversal of provisioning of approximately INR540 crores was there on account of the resolution of them.
- Jigar Jani:** And this was sitting in Stage 2, which is why there is no change in the Stage 3 assets?
- Parminder Chopra:** Right, right. Due to the court stay order, it was lying in the Stage 2.
- Jigar Jani:** Okay, understood. And just last question, could you share what would be our NIM yields and cost of funds for the quarter? You have given it for H1 in the presentation. Can you share it for Q2?
- Parminder Chopra:** So it will be the same as H1. The yield as on 30th of September is at 9.92. The cost of fund is at 7.41. Whereas if you talk about the NIM, it's at 3.37 and the spread is at 2.51.
- Jigar Jani:** So it would be same for Q2 and H1, it is same.
- Parminder Chopra:** Yes, because it is as on 30th of September.
- Moderator:** The next question is from the line of Trideep Bhattacharya from Edelweiss Mutual Fund.
- Trideep Bhattacharya:** First of all, congratulations on good numbers, and I truly appreciate the transparency that is beginning to show up, that first, I wanted to ask that could there be a stake sale by government or at any point in time that we can think about for your company going forward?
- Parminder Chopra:** See, right now, there are no indication from the government regarding this, and this is a prerogative of the government of India to do so.
- Trideep Bhattacharya:** Okay. And apologies if this has been asked earlier. How would you -- how should we think about your growth in the context of power demand growth or power growth -- power situation in the context of the country? If you could relate these 2, that would be a great help, please. That's the last one.
- Parminder Chopra:** Yes. Right now, we are looking at the peak demand of power at 233 to 240 levels. And to meet the continuously growing demand, the government of India has decided to add additional capacities for the generation. So as against the 480 gigawatt as of now, it is expected that the capacity is going to double in next eight to nine years. So if we have that, the consumption for the electricity is growing at 7.18% CAGR till 2027 as per one of the estimates.
- So to meet this growing demand, there would be a lot of requirement of funding for the power sector. If you leave apart the renewable sector, the banks and the other institutions are not coming forward for funding of the generation project, be it in thermal space or in hydro space. So it is



the two major agencies which are focusing on the power sector. They are coming forward and funding.

So what we understand, that going forward, we are going to have lot of opportunities for funding for the power sector, one, to have the increased capacity addition; on the other hand, the increased capacity addition has to be with the energy transition also, which again is capital-intensive, if we're talking of storage -- leading to battery storage or the pump storage for a sustainable renewable-grade, or we are talking of the green hydrogen, green ammonia projects, which are, again, highly capital-intensive plan. So we have a lot of opportunities for funding. And that is why we are expecting that we will be able to maintain the growth momentum for increase in our loan book.

Moderator: The next question is from the line of Sandeep Joshi from Unifi Capital.

Sandeep Joshi: Ma'am, you alluded to it in your previous answer as well about the growth and the opportunities in renewables. I just add two points here. See, we are fighting against a large base. We are almost INR4.5 lakh crores. So despite that, on a high base, you think we can maintain the sort of the mid-teens sort of growth rate, is that sustainable? So just again, a clarification there. And also, see, the renewable projects are also lower gestation unlike thermal projects, which are longer gestation projects. So we'll have to keep on lending there. So again, that problem of growth rate sustainability that comes in. So if you could just give your thoughts there again, please. That would be helpful.

Parminder Chopra: See, that is why I think you have a rightly pointed out that on the enhanced base, we are talking about the growth. We are not telling you that we are going to grow at 20% or 25% because we know that our base is growing -- day by day, we are growing on the base. So we are keeping our target for growth under around 15% to 20% only. We expect that if we are able to capture the share of the total investment in the power sector, we will be able to achieve. That is, as per us, is going to be a realistic figure. So on the -- what was your other question, sorry?

Sandeep Joshi: My point was around, the renewables is also a short gestation project. So we need to sort of lend there more unlike thermal capacity, which is a longer generation projects. Once lend and we have that AU in the book; here, we sort of have to lend again and again because it's a short-term maturity project, right?

Parminder Chopra: See, it's a shorter gestation period project but the lending is for a longer tenure. For renewable also, it is expected that the average economical life of any renewable project is approximately 20 years. So lending is going to be for approximately 15 years. So it's not that, that churning out of the portfolio happens at a very fast pace, even in case of renewables.

Moderator: The next question is from the line of Sumit from UTI Retirement Solutions.

Sumit: Ma'am, my first question is basically on the asset quality side. So as we are diversifying into infra as well as renewables, so do you see any sort of asset quality challenges going to be especially in the private sector?



Parminder Chopra: See, with respect to the renewables, so most of our lending is to the private sector. And apart from a few small, small projects, we have not seen any challenges until now on the renewable trend. So on the infra, the -- basically, we already shared that our strategy for the infra loan book is going to be -- we are going to incrementally build the portfolio on a consistent basis.

So we would like to have a cautious approach for funding of the infrastructure sector. As you know, for the past 35 years, we have been a power sector company, and we have developed an expertise in the power sector. Switching over to infrastructure sectors, we also need to learn about the nuances of each of the sectors specifically. So we would like to gradually build our portfolio on the infrastructure sector.

Sumit: Sure, ma'am. And then secondly, on the discoms, basically. So whatever the asset quality issues basically we have in the past, so based on that experience, so do we have made any sort of changes in our underwriting process?

Parminder Chopra: See, of our total funding, we have approximately 82% funding for the government sector and the balance, 17% to 18% funding, is towards the private sector. If you talk of the distribution, distribution is majorly, our lending is to the state sector utilities where until now we have not faced any challenges on account of servicing of the debt by them. So going forward also, we being a state sector utilities, we don't see any challenge in the debt servicing capabilities of the discoms.

Sumit: And ma'am, the margins on the infra projects which we are doing, so what is the differential between this margin and our power lending? Any differences?

Parminder Chopra: See, I think it would be too early to say anything on that. We are just building our portfolio, and it will take us some time to give any guidance. Right now, we are primarily doing the government sector infra projects where, in a number of cases, it is backed by government of India guarantee. So the risk perception is altogether different. So it will take time for us to give guidance on that.

Sumit: Sure. Lastly, ma'am, on the asset quality front only. So do you see any sort of government policy, basically, changes which gives you the sort of comfort in the asset quality, especially in the discoms?

Parminder Chopra: Right now, I don't think that the government is pursuing any policy for changing in the ownership of the discom, rather the government is aggressively working on making all the discoms financially viable. With the introduction of the LPS as well as the RDSS scheme, the focus is on reduction of AT&C losses, bringing the financial discipline among the discoms for payment to the gencos and the small power producers, to ensure that there is enough liquidity maintained in the whole value chain of the power sector. So I am at least not in know-how of the things that -if any such policy changes momentarily?

Sumit: So the asset quality, which we're seeing basically on a negligible basis on the last one year, it's going to be like the similar at least like the next year or FY '25, maybe, ma'am. Is that understanding correct?

Parminder Chopra: Right now, we are not seeing any sort of pressures on our assets.



Moderator: The next question is from the line of Aravind from Sundaram Alternate.

Aravind: I just wanted to understand how will this infra sanctions to disbursement will play out? Obviously, like if we look at the disbursement to sanctions ratio for conventional energy projects is far higher because we have more conviction about that and we know how it works. How do you look at it? Like whether -- like how it will improve in the upcoming quarters and in the upcoming years? That is one question.

And in renewable energy space, do you see any issues in terms of land availability to get to that 500 gigawatt land availability, are there any other bottlenecks for it? And that is my one question on renewables. And another question what is like the market opportunity you believe in terms of like storage and other renewable opportunities available, including like the government support in terms of schemes, and something like that?

Parminder Chopra: With respect to the land scarcity on the renewable space, yes, I agree because there are only limited pockets there, especially the solar and the wind can work. And maybe we may be reaching to a saturation point, but that is why the government is exploring the possibility of offshore wind and floating solar to increase the further generation capacity under the renewables. So for that, a lot of work has been done, sites are being allocated. So going forward, we may see options on floating solar as well as on the offshore wind, both sides. That is going to enhance the capacity addition on the renewable front.

On the storage, the more and more renewable are added in the grid, so the stability of the grid is a concern. On that, you may be knowing that for the pump storage, recently the government has announced the PLI. And a lot of storage -- pump storage sites are being awarded by all the states taken together by the center as well as the state sector utilities. So we are expecting that in the next three years to four years, a lot of capacity additions through the pump storage we are looking at. That is one.

On the battery storage also, the technical improvements are being done to reduce the cost and making it viable for the commercial use. So the work also on that front also is in the advanced stage. On your question with regard to the disbursements on the infrastructure sector. In any of the infrastructure sector, it always takes time from the conceptualization to financial closure and from financial to disbursements, because in case of infrastructure sectors, we do impose conditions like placement of contracts for acquisition of land, and all related approvals should be in place before making the first disbursement.

So there is a lag period between the sanctions and the start of the disbursement, and that is how you are looking at that we have a large number of sanctions but the disbursement is only miniscule. So that is how this sector works. And accordingly, we are expecting that going forward, our disbursements and the infrastructure is going to increase gradually.

Moderator: The next question is from the line of Manish Agarwalla from PhilipCapital.

Manish Agarwalla: Ma'am, congratulations on a great set of numbers. Just one data getting question. Can you help me just, what was the undisbursed sanction right now outstanding?



- Parminder Chopra:** Pardon?
- Manish Agarwalla:** Total undisbursed sanction?
- Parminder Chopra:** Total undisbursed sanction. So we will be able to share it separately with you about the outstanding sanctions not yet disbursed.
- Moderator:** The next question is from the line of Shreepal Doshi from Equirus Securities.
- Shreepal Doshi:** Congrats on a good set of numbers. I just had a couple of questions. The first question was pertaining to our ECL policy. So is there any thought process to tweak our Stage 1 and Stage 2 ECL policy? Because we are already maintaining close to 90 basis of provision coverage on Stage 1 and Stage 2. So is there a thought process to tweak that?
- Parminder Chopra:** See, we have appointed an external consultant. CRISIL is a consultant for ECL. So they are working out on the various data, overall power sector outlook, outlook on a particular borrower. If it's a state sector borrower, then the state sector finances are taken into account, the policies of the state government are also taken care of. And importantly, for the state sector, which constitute a major part of our loan book, we have never had any NPAs. So the past performance is also being taken as a part of ECL. So I think whatever policy we have for the Stage 1 and Stage 2, we are maintaining the provision adequately on that.
- Shreepal Doshi:** Got it. Also the second question was, we are having 13 projects which are getting resolved under NCLT and close to nine projects which are outside NCLT. So how many of these projects would be overlapping with our subsidiary, wherein we will be a common lender to the same NPA account as our subsidiary?
- Parminder Chopra:** See, in most of the projects, if we talk, which were thermal projects at that point of time, I think because it is always used to be a large consortium, so you will find both PFC and REC to be member of that consortium.
- Shreepal Doshi:** Okay. So is it fair to assume that these 22 projects that we have, most of them will have REC also as a co-lender?
- Parminder Chopra:** Not all 22. But you can clearly assume around 50%, we will be having from it.
- Moderator:** The next question is from the line of Rajeev Agarwal from Sterling Capital Management.
- Rajeev Agarwal:** Congratulations for the good set of numbers. I have one question regarding the RDSS scheme. So how much we have disbursed so far this year in RDSS and what is the disbursement target for this year and the next year?
- Parminder Chopra:** See, with respect to RDSS, what is happening, that there are different stages of disbursement. So first, 5% grant shall be released by the government of India. After compliance of certain condition, meeting the preliminary prequalification criteria and including the scoring on various aspects with respect to the development of the project, the next 10% again is going to go from government of India. And after that, there will be a requirement of going ahead with the counterpart funding.



So with respect to, right now, all the states are still at the level of initial 5% has been released in a number of cases. So total of INR4,000 crores of grant has been released out of the INR10,000 crores of budget. We are not hoping any major disbursements under counterpart funding this financial year. It may be coming up in the first quarter of the next financial year. So maybe in the last quarter of this financial year, depending on the progress made by the states under the RDSS .

Rajeev Agarwal: And one more question, ma'am. So what is this quantum of loan book in the infrastructure sector right now?

Parminder Chopra: Right now, we have sanctions of INR25,000 crores and INR1,900 crores has been disbursed so far.

Moderator: The next question is from the line of Abhishek Maheshwari from SkyRidge Wealth Management.

Abhishek Maheshwari: So I wanted to understand that our net interest margins are going to be seeing a declining trend gradually, slightly declining, not much. But do you think the market is big enough to make up for it in terms of PAT levels? What I mean is, are PAT levels going to continue to expand keeping in mind that capex intensity is picking up and the market is so big that it will cover up for lower NIMs and stretch?

Parminder Chopra: Yes. I think you are right that we will have that much of opportunity available with us.

Abhishek Maheshwari: Okay. Good to hear. But ma'am, secondly, any thoughts about competition from the banking sector? If you can share some clarity on that.

Parminder Chopra: The banking sector has always been funding various sectors. In the past also, initially, they have aggressively came up for funding for the thermal power project. Then, as you know, that everybody has burnt their fingers. And now they are participating in funding of the power sector but majorly on the renewable front, where the gestation period is very low. On the long gestation period, we have not seen much participation as of now. And also, if we talk of the energy transition and the new technologies coming up, there has been not much participation from the most of the banks. But the business pie is big enough that there is enough of opportunities available for each one of us even if they decide to participate going forward.

Moderator: The next question is from the line of Bhavin.

Bhavin: Congratulations for delivering robust performance. I have just one question, and that surrounds the asset quality. What we are seeing is in -- over the last five years, right, from FY '19, where the NPAs, net NPAs were close to 4.5%, we have come a long way to 1%. And given the fact that 22 projects are under resolution either into NCLT or outside NCLT, and coupled with the fact that your subsidiary that is REC, has already guided to become net NPA by FY '25. So could you please give us a little comfort on how your asset quality is going to pan out? And when do you see PFC becoming a net zero NPA company?



Parminder Chopra:

See, I would like to answer your query in two parts. That, one, we have not added any new NPA in our book in the last one year. And right now also, we are not looking at any stress on any of our assets. The other thing is that with respect to the existing NPAs, which 22 numbers you have said, that you know NCLT process, there are 13 assets under the NCLT. And NCLT process is taking -- always taking time.

There are few projects that for the last two years, it has not still been admitted in the NCLT. Once admitted, it is going to take a long process. Even if we talk about the Lanco, the resolution plan has been submitted by the resolution applicant long back, but we have not yet received the NCLT approval.

So saying that we will be in a year, we will bring this at a zero, I think, would be a bit difficult for me because everybody knows that even the project under NCLT is going to take time. And on the other side, be it any financial institution, NPA are an inherent in normal businesses. I'm not saying that we are looking at some major risk in our business. But there could be small, small assets, could be. We can't say right now. Right now, we are not looking at any sort of risk comparison.

Moderator:

Due to the time constraint, that was the last question. And now I hand the conference over to the management for the closing comments. .

Parminder Chopra:

Thank you very much for all of you to participate in this conference and looking for the support in future also. Thank you very much. Thank you.

Moderator:

I also request Shreepal Doshi to speak a few words for the closing comments.

Shreepal Doshi:

Thank you, Rohit, once again. Thank you very much all the participants who took part of the call, and we would like to thank the PFC management for giving us the opportunity to host this call. So thank you all, and have a good evening. Thank you.

Moderator:

On behalf of Equirus Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.
