



**POWER FINANCE CORPORATION LIMITED'S  
Q-1- FY 18-19  
CONFERENCE CALL  
12<sup>TH</sup> SEPTEMBER, 2018**



**MANAGEMENT: TEAM OF POWER FINANCE CORPORATION:-**

- Mr. Rajeev Sharma      - Chairman and Managing Director
- Mr. C. Gangopadhyay - Director (Project)
- Mr. N.B. Gupta         - Director (Finance)
- Mr. P.K. Singh         - Director (Commercial)

**MODERATOR: Mr. Pritesh Bham – Prabhudas Lilladher Pvt. Ltd**



– **Operator:**

- Ladies and Gentlemen, good day and welcome to Power Finance Corporation Q1 FY19 Post Earnings Conference Call, hosted by Prabhudas Lilladher Pvt. Ltd. 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 \* and then 0 on your touchtone phone. Please note, that this conference is being recorded. I now hand the conference over to Mr. Pritesh Bham from Prabhudas Lilladher Pvt. Ltd. Thank you, and over to you sir.

– **Mr. Pritesh Bham - Prabhudas Lilladher Pvt. Ltd:**

- Hello everyone. We would like to welcome the top management of Power Finance Corporation, to discuss the Q1 FY19 results. Now, I would like to hand this over to the management to give their brief comments, and then it will be followed by a Q&A. Over to you sir.

– **Management - Power Finance Corporation:**

- Thank you very much for giving us this opportunity. Good morning everyone. I welcome you all to this conference call to share with you PFC's first quarter FY18-19 performance, and also the implication of transitioning to Ind AS reporting system.
- Firstly, I will share few highlights on PFC's performance. On the business growth front, we have shown a robust loan growth of 13% this quarter, with loan assets at Rs. 2,84,848 crores, as against Rs. 2,52,746 crores in Q1 of the previous year. We continue to make efforts in refinancing commissioned projects, and financing greenfield renewable projects. These efforts have already lead to strong disbursement in FY17-18.
- On profitability front, our profit in Q1 FY18-19 has shown a growth of 22%, with profit at Rs. 1,373 crores, as against Rs. 1,122 crores profit in Q1 FY17-18, based on Ind AS reporting. Our Q1 spread is 2.49% as against spread of 2.65% in previous quarter i.e. Q4 of FY17-18. The fall in spread is due to increase in refinancing and renewable business, with lower spreads and competitive pressures. I would like to inform you that there is no addition to the stressed assets, other than what we have indicated in the last financial year.
- On the NPA front, we saw one of the earlier stressed projects with loan of Rs. 561 crores slip into NPA category, which as per Ind AS, is classified as stage 3. At the same time, one state sector project with loan of Rs. 1,100 crores, got upgraded to Restructured Standard Asset as per earlier RBI norms, after serving the specified period.



- With respect to provisioning, as we are now following the Ind AS reporting, we have accordingly, restated our financials whereby we have shifted from rule-based provisioning as per RBI norms, to expected credit loss based provisioning under Ind AS. Accordingly, our net NPAs have dropped to 4.53% in this quarter, from the net NPA of 7.39% declared as per IGAAP in FY18. I am glad to inform you that with the additional provisioning also, our Capital Adequacy Ratio is comfortable at 17.71% against the RBI requirement of 15%.
- Let me explain the impact of Ind AS on PFC's performance. We have implemented Ind AS w.e.f. 1<sup>st</sup> April, 2018. On account of Ind AS, our total provisioning as on 30<sup>th</sup> June, 2018 stands at Rs. 17,238 crores. Out of this, Expected Credit Loss Provisioning is Rs. 15,445 crores. Also, as a matter of prudence, we have made an additional provision of Rs. 1,793 crores in line with RBI prudential norms, over and above the Expected Credit Loss Provisions. The main impact of shifting to Ind AS reporting has been on PFC's net worth, which got reduced by about Rs. 3,000 crores at the end of March, 2018. It's important to note that, at present, there are no specific instructions or guidelines issued by RBI w.r.t. provisioning post implementation of Ind AS. However, in case RBI clarifies provisioning is going to be based on Expected Credit Loss alone, then the entire additional provisions made of RBI norms of Rs. 1,793 crores, will get reversed. Even in the absence of RBI clarification, out of these additional provisions of Rs. 1,793 crores, the reversals in the coming years, in line with the RBI norms are: Rs. 719 crores will get reversed during the current financial year FY 18-19. Rs. 213 crores will get reversed in the next financial year FY19-20. Therefore, in view of these likely reversals, PFC will be able to make up for the loss in net worth for financial year 2018.
- Let me now explain our Loan Asset Book. We have a total Loan Asset portfolio of about Rs. 2,85,000 crores, out of which, government sector loans are Rs. 2,33,000 crores i.e. 82%. Private sector loans are Rs. 52,000 crores i.e. 18%.
- Regarding the government loan book of Rs. 2,33,000 crores, government sector borrowers are servicing dues regularly. Further, we are not envisaging any stress in respect of government sector borrowers. With the implementation of Ind AS, there are no government sector projects under stage 3 as on 30<sup>th</sup> June, 2018.
- In case of private sector exposure of about Rs. 52,000 crores, about Rs. 21,000 crores private sector loans, i.e. 7% our loan book, are regular in servicing their dues, and we see no financial stress. Therefore, 89% of our total asset book is not having any kind of stress. Out of the balance private loan assets of about Rs. 31,000 crores, revival with minimum haircut is envisaged for Rs. 5,300 crores. However, we have still, already made a provision of 15% for these projects. Against the balance private loan assets of Rs. 24,500 crores, 77% provision including reserves are available.
- Now, I will share the update on 28 stressed projects with you. In 5 projects, with our exposure of Rs. 5,300 crores, we expect minimal haircuts. These accounts are:



- GVK Ratle Project in J&K, where we have already entered into a settlement with no sacrifice, and the account is likely to upgrade in the current financial year, leading to reversal of provisions.
- Dans Energy and Shiga Project in Sikkim. These are hydro projects. PPA's are signed and power supply has commenced, and the company has started making payments to lenders.
- India Power Haldia. It's a project in Haldia, in West Bengal. It got restructured without any sacrifice in Q1, and is likely to turn standard after the specified period.
- For South East UP Project, it's a transmission project in UP. We are in discussion for change in management.

The total provision in these 5 projects is 15%, even though we expect minimal haircut.

- Now, the next 5 projects, with our exposure of Rs. 8,254 crores, are in advance stages of resolution. These projects are:

- GMR Chattisgarh, Jhabua Power, KSK Mahanadi. In these 3 projects, we are having discussions with H1 bidders and we are likely to close these deals very soon.
- Indiabulls Amravati Project and Essar Mahan, in these 2 projects, one time settlement offer have been submitted by the existing management, and they are under finalization. We are likely to close these two projects also, very soon.

We therefore, see a likely resolution in these 5 projects, where the total provision already made is approximately 48%.

- In 2 projects, with our exposure of Rs. 8,156 crores, lenders have made significant progress towards resolution. These projects are:

- Indiabulls Nashik, where takeover by State Government of Maharashtra is being pursued.
- The second project is RKM Powergen Stage 1 & 2, where restructuring process is underway. The positive for the project is that it was declared L1 for 550 MW in the recently concluded bid for pilot PPA scheme for stressed assets.

The total provision already made for these two projects is 41%.

- As you are aware, the deadline for filing an NCLT for large borrowers, was to get over on 11<sup>th</sup> September, 2018. However, we understand that the Hon. Supreme Court has stayed the NCLT filing requirement under the RBI circular. We are therefore, continuing with the resolution process, to close them at the earliest. 9 projects with our exposure of Rs. 8,100 crores are being resolved through NCLT. The total provision already made in



these 9 projects is 73%. 4 projects with our exposure of Rs. 298 crores are being resolved through /DRT or SARFAESI mechanism, and these projects already have 100% provisioning.

- Balance 3 projects, with our exposure of Rs. 689 crores are: Essar Transmissions, where the project is very close to commissioning, and we are in discussion with the existing promoter for OTS. For RS India, an OTS proposal has been submitted by the promoter, which is under consideration in PFC. For Astonfield Project, lenders are considering change in management. The total provision already made for these 3 projects is 37%.
- Therefore, the 23 projects which are under various stages of resolution amounting to Rs. 25,500 crores, already have a provision coverage of 54%. Based on the bids received for stressed assets so far, we do not see any additional provisioning going forward. Further, we also have a cushion of Rs. 1,793 crores of additional provisioning done as a matter of prudence, in line with RBI norms, which is likely to reverse.
- On the power sector front, I would like to state that steps taken by the Government of India, like introduction of UDAY, Shakti, pilot PPA schemes have already started yielding results. Recently, Ministry of Power has also issued directions to CERC for timely disposal of tariff petitions, pertaining to change in law. The recently constituted Empowered Committee under the chairmanship of the Cabinet Secretary, for stressed assets, has already started discussions, with intent to expedite the resolutions of sectoral issues impacting power projects. Further, on the power demand front, we have seen demand growth for power at above 6%, and with 100% rural electrification and 'Saubhagya' schemes likely to seek closure. We see further pickup in demand, and it is likely to add another demand of around 28,000 MW. Additionally, the old plants of 15,000 to 20,000 MW are also likely to be closed due to environmental concerns. All this, is likely to translate into power demand pickup in the country. With the Government of India and all the stakeholders taking the necessary steps, and with a likely uptake in power demand, we are optimistic that the stressed projects are likely to fetch better valuations going forward.
- With regard to our foreign currency borrowings, our total foreign currency exposure is 3.1 billion USD i.e. 9% of total borrowings. Out of 3.1 billion USD, 1.8 billion USD i.e 58% is already hedged. Out of the balance open portion, 430 million USD i.e. 14% will mature after almost 10 years. And as per RBI guidelines, upfront hedging is not mandatory. 850 million USD i.e. 28% has average maturity of 3 years, and there is sufficient time to maturity for this open portion. We, therefore, do not see significant impact due to current volatility in exchange rates.
- Now, let me share with you the business going forward. We have sanctioned our first loan for Sewage Water Treatment Plant in Maharashtra, which will be used to feed water to two thermal power projects. Also, we have enhanced the loan amount to the irrigation projects in Telangana, about which we had informed you earlier. We have also



sanctioned two Waste to Energy projects till date, and we will continue looking for financing opportunities in this space. We will also continue to focus on State Sector business, especially with states with whom we have signed MOUs like UP and Maharashtra. Our focus will continue to be on refinancing business, to add more commissioned projects to our asset base. Renewable business will continue to be our focus area. We will continue to make efforts to mobilize higher amounts under 54EC bonds, going forward.

- Just to conclude, we have made a smooth transition to Ind AS reporting system, with our Net Profit Growth reported at 22%. With total provisions reaching Rs. 17,238 crores, this quarter, we have adequately provided for our stressed assets, and we do not see additional provisioning going forward. We therefore believe, that the worst is behind us now in terms of provisioning for stressed assets. We are also likely to see reversals from additional provisioning on RBI norms and reversals on some stressed assets. With our diversification on our lending business, we intend to maintain our loan growth.

- Now we are open to questions. Thank you very much.

- **Operator:**

- Thank you very much sir. Ladies and Gentlemen, we will now begin the Question & Answer session. Anyone who wishes to ask a question, may please press \* and then 1 on their touchtone telephone. If you wish to remove yourself from the question queue, you may press \* and then 2. Participants are requested to use handsets while asking a question. Ladies and Gentlemen, we will wait for a moment while the question queue assembles. To ask a question, may please press \* and then 1.

- The first question is from the line of Mahrukh Adajania from IDFC Securities. Please go ahead.

- **Mahrukh Adajania – IDFC Securities:**

- Hello Sir. Sir, I have a couple of questions. Firstly, could you list all the 7 projects under SAMADHAN, which have buyers?

- **Management - Power Finance Corporation:**

- In Samadhan we have KSK Energy, Avantha Power Jhabua, Ind Bharat Energy Utkal, it has gone to NCLT, RKM Powergen, which we are likely to restructure because it has got 550 MW PPA in our pilot scheme being undertaken with PTC for stressed assets. In KSK, we have already received the bids and it is under evaluation. We are likely to close it very soon. So in Samadhan, we have 4 projects, in which we are there. Avantha Power Jhabua, Ind Bharat Energy Utkal, KSK Energy and RKM Powergen. In Jhabua also we have got a very good one time settlement offer, and it is also likely to be closed very soon.



– **Mahrukh Adajania – IDFC Securities:**

– And sir there were paper reports that Essar Mahan will likely go to NCLT. So those are not correct, is it?

– **Management - Power Finance Corporation:**

– No. In Essar Mahan also we have got a very good offer of OTS. But again, it is under evaluation, and since the Hon. Supreme Court has stayed that 12<sup>th</sup> February circular, now we are likely to close it. It's a very good offer.

– **Mahrukh Adajania – IDFC Securities:**

– What is taking time for the resolution of Samadhan accounts, if buyers have been identified? Is it that the lenders are delaying their board approvals? What is really holding these up? The buyers are there, it's a stressed sector, so the resolutions could have happened faster.

– **Management - Power Finance Corporation:**

– You would appreciate that in consortium lending, there are many consortium partners. Just to give you an idea, in KSK Energy, there are 27 lenders. You would appreciate that it is difficult to get consent from 27 lenders. 22 have already given their consent, 5 are yet to give us. So with the time that we have got after the Hon. Supreme Court's stay, we are likely to also bring those lenders on board. This will be a reconciliation process. And for OTS offers also, lenders are not that large in numbers like KSK Energy, but still, in some cases there are 10, 12, 15 lenders. That's because you require 100% consent of all the lenders; that's important. You would appreciate that.

– **Mahrukh Adajania – IDFC Securities:**

– Okay sir. Thank you so much.

– **Management - Power Finance Corporation:**

– Thank you so much.

– **Operator:**

– Thank you. The next question is from the line of Kunal Shah from Edelweiss Securities. Please go ahead.



– **Kunal Shah – Edelweiss Securities:**

- Sir firstly, in terms of the entire hit on the net worth because of Ind AS, this is almost Rs. 3,000 odd crores. When we look at last time, the overall provisioning that we had outside of the Reserved for Bad and Doubtful Debt was Rs. 9,000 crores. Now under stage 3, what we require is almost Rs. 14,000 odd crores. Would the hit have been higher and have we adjusted the reserves in the net worth? How is it?

– **Management - Power Finance Corporation:**

- Earlier, we were not considering DTA – Deferred Tax on these Assets, on provisioning. So considering the DTA of around Rs. 4,800 crores. Rs. 4,800 is compensated by DTA, therefore, Rs. 3,000 crores is a dip in the net worth.

– **Kunal Shah – Edelweiss Securities:**

- Total hit on the net worth on account of higher provisioning would have been Rs. 8,000 crores?

– **Management - Power Finance Corporation:**

- It's around Rs. 8,000 crores. I said that the net worth has already been reduced by Rs. 3,000 crores, Rs. 4,800 crores due to DTA, around Rs. 200 crores is on account of adjustment of Ind As.

– **Kunal Shah – Edelweiss Securities:**

- Okay, perfect! Secondly, when we look at it, in terms of the accounts which are regular in servicing of Rs. 20,000 odd crores, out of this, which would be the few major accounts?

– **Management - Power Finance Corporation:**

- One is Hindustan Power (MB Power) 2 X 600 MW project in Madhya Pradesh, Anuppur. Another is Sasan, which is the first 4000 MW ultra mega power project in Madhya Pradesh & is supplying the cheapest power in the country. Then other projects are in renewable segment.

– **Kunal Shah – Edelweiss Securities:**

- In Hindustan Power, how much would be the exposure?





- **Management - Power Finance Corporation:**
- It is Rs. 1,330 crores.
- **Kunal Shah – Edelweiss Securities:**
- Okay and Sasan?
- **Management - Power Finance Corporation:**
- Sasan, Rs. 1,638 crores.
- **Kunal Shah – Edelweiss Securities:**
- And the balance?
- **Management - Power Finance Corporation:**
- Another one is 330 MW Alaknanda Hydro Project of GVK, in which we have an exposure of Rs. 501 crores. Others are renewable projects.
- **Kunal Shah – Edelweiss Securities:**
- Okay. So there is no major exposure which would be higher than Rs. 2,000-3,000 odd crores in this?
- **Management - Power Finance Corporation:**
- No.
- **Kunal Shah – Edelweiss Securities:**
- Okay. This time when we look at GNPLs, compared to last time's GNPLs plus Restructured, this time there is some addition. This is largely because of GVK and Shiga.
- **Management - Power Finance Corporation:**
- But it is reversing now. They have got PPA with Haryana, and they have started paying us. It's a hydro project in Sikkim.
- **Kunal Shah – Edelweiss Securities:**
- Okay. Sir, this Rs. 1,883 crores that is there in stage 3 that is GVK, Shiga and Dans Energy



- **Management - Power Finance Corporation:**
- Yes, these are the three projects in stage 3.
- **Kunal Shah – Edelweiss Securities:**
- And lastly, in terms of state utilities, last time there was GNPL also, which was there in the state utilities, as well as something was there in the restructured. That was also almost Rs. 25,000 odd crores. Now it is definitely not there in stage 3 ...
- **Management - Power Finance Corporation:**
- Because there is no financial stress. It was due to technical reasons.
- **Management - Power Finance Corporation:**
- In the ECL, all these assets have gone to stage 1, because there is no financial stress.
- **Kunal Shah – Edelweiss Securities:**
- But, if we look at it in terms of the performance, last time it was there in the GNPL Rs. 5,000 crores. Has there been any improvement in the performance of these loans? Have we got a repayment or something? How is it?
- **Management - Power Finance Corporation:**
- Yes. One project got reversed of Rs. 1,100 crores, Jurala Hydro in Andhra Pradesh. Another thermal project, Royal Seema of Rs. 3,000 crores, also got reversed.
- **Kunal Shah – Edelweiss Securities:**
- Okay. So almost Rs. 4,100 crores out of this Rs. 5,000 crores would have anyway got reverse, even if it was in GNPL, this would've got reversed.
- **Management - Power Finance Corporation:**
- Yeah.
- **Kunal Shah – Edelweiss Securities:**
- Okay. Thanks a lot.



- **Operator:**
  
- Thank you. The next question is from the line of Gaurav Bhuwania from First Rand Bank. Please go ahead.
  
- **Gaurav Bhuwania - First Rand Bank:**
  
- Hi sir. What would be the timelines in the recoveries for the state government projects, under stage 2?
  
- **Management - Power Finance Corporation:**
  
- Projects with overdue between 30 to 90 days have been categorized as stage 2.
  
- **Gaurav Bhuwania - First Rand Bank:**
  
- So what would be the recoveries to stage 1?
  
- **Management - Power Finance Corporation:**
  
- Less than 30 day overdue are in stage 1.
  
- **Gaurav Bhuwania - First Rand Bank:**
  
- I just wanted to ask, when would these stage 2 assets in the state sectors loans be transferred to stage 1 for standard?
  
- **Management - Power Finance Corporation:**
  
- Whenever we get the payments, it will be shifted to stage 1.
  
- **Gaurav Bhuwania - First Rand Bank:**
  
- Can you have a guideline that at the end of the financial year, what would be your stage 2 assets?
  
- **Management - Power Finance Corporation:**
  
- See, it's very difficult to say. We have been pursuing this with all the states and the private sectors, for making payments. If the due remains for less than 30 days, it will shift to stage 1, otherwise it will remain in stage 2.



- **Gaurav Bhuwania - First Rand Bank:**
- My second question would be that out of the total portfolio, how much percentage would be fully commissioned; of the regular projects?
- **Management - Power Finance Corporation:**
- Can we get back to you on this number?
- **Gaurav Bhuwania - First Rand Bank:**
- Sure, no problem.
- **Management - Power Finance Corporation:**
- I think it will be more than 60%, but we will again confirm.
- **Gaurav Bhuwania - First Rand Bank:**
- Thank you sir. That's it from my side.
- **Management - Power Finance Corporation:**
- Thank you so much.
- **Operator:**
- Thank you. The next question is from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.
- **Anand Laddha – HDFC Mutual Fund:**
- First of all, thanks for a very detailed presentation which gives a lot of clarity on all the stress in the private sector exposure. Your disclosures are one of the best in the industry, sir.
- **Management - Power Finance Corporation:**
- Very good. Thank you.
- **Anand Laddha – HDFC Mutual Fund:**
- Secondly, can you throw some light on what is your total exposure to renewable sector, and out of that, what is the exposure to solar and wind?



- **Management - Power Finance Corporation:**
- Roughly, our exposure to renewable sector is around 6% of the total loan book.
- **Anand Laddha – HDFC Mutual Fund:**
- Which is almost like Rs. 12,000 – 13,000 crores.
- **Management - Power Finance Corporation:**
- Yeah.
- **Anand Laddha – HDFC Mutual Fund:**
- And within that, how much would be solar and how much would be wind?
- **Management - Power Finance Corporation:**
- Just a minute. Outstanding is Rs. 5,762 crores in wind, and around Rs. 6,000 crores in solar. That is about 50-50, but solar is more.
- **Anand Laddha – HDFC Mutual Fund:**
- Okay. Is hydro not part of the renewable?
- **Management - Power Finance Corporation:**
- As on date, no. Only Hydro projects with capacity up to 25 MW are in renewable. The government is considering to declare, but their Hydro Policy is still awaiting the approval of the cabinet. Rs. 272 crores is in hydro renewable.
- **Anand Laddha – HDFC Mutual Fund:**
- Sir, we had two small exposures in NPA assets . One was a Maharashtra gas based plant, where NTPC and GAIL are also shareholders. Is it part of NPA?.
- **Management - Power Finance Corporation:**
- It was Ratnagiri, it has become standard now. After the demerger policy approved by the High Court, it has become standard now.



- **Anand Laddha – HDFC Mutual Fund:**
- Another small question sir. What about exposure in MP Power.
- **Management - Power Finance Corporation:**
- It is standard. They have been making regular payments to us.
- **Anand Laddha – HDFC Mutual Fund:**
- Sir, can you give some colour on our incremental lending rate? Have we increased our lending rate? If we have increased our lending rate, when will it get fully implemented?
- **Management - Power Finance Corporation:**
- I think in the last quarter, we had increased it by 25 basis points. Again we are reviewing it. I can't say that we will consult with our competitor REC, but we will definitely take a view very soon.
- **Anand Laddha – HDFC Mutual Fund:**
- And sir, what could our incremental lending yield now be?
- **Management - Power Finance Corporation:**
- It may be between 10.5% to 11%.
- **Anand Laddha – HDFC Mutual Fund:**
- In terms of borrowing, in the current year, which source of borrowing do we plan to use? Do you plan to use domestic more or international?
- **Anand Laddha – HDFC Mutual Fund:**
- Sir, can you give some colour on the borrowing side? How do we plan to borrow for the rest of the year? Are we looking at domestic bond borrowings, are we looking at international bond borrowings, and what is the incremental costs of the borrowings?
- **Management - Power Finance Corporation:**
- See, it will be a mix of domestic as well as the foreign borrowings. The domestic may be a mix of short term and through bonds, as well as term loan from banks.



– **Anand Laddha – HDFC Mutual Fund:**

– At what cost will it come sir?

– **Management - Power Finance Corporation:**

– It depends on the tenure. Today, even 10 year bonds costs around 8.80%.

– **Management - Power Finance Corporation:**

– We are in discussions with State Bank of India and LIC for long term loans.

– **Anand Laddha – HDFC Mutual Fund:**

– Okay. At what costs will international bonds come?

– **Management - Power Finance Corporation:**

– Nobody can predict it today, but at this exact point of time, we will try to get the cheapest.

– **Anand Laddha – HDFC Mutual Fund:**

– Sir, the current spread of 2.5%, do you see some downside risk to this spread, or will this be maintained at this level?

– **Management - Power Finance Corporation:**

– I think we will be able to maintain it. Because of competitive pressures it has come down, but the volume of business is increasing. Moreover, our share in re-financing is increasing. So they are already commissioned projects; risk is less. So definitely, we are able to maintain.

– **Anand Laddha – HDFC Mutual Fund:**

– Okay. Thank you sir.

– **Management - Power Finance Corporation:**

– Thank you so much.



– **Operator:**

- Thank you. The next question is from the line of Andrew Lundstrom from WindAcre. Please go ahead.

– **Andrew Lundstrom – WindAcre:**

- Thank you so much for the call. To follow up on a prior question, the cost of funding might be 8.8% and the incremental lending rate might be 10.5%. Then how can we maintain 2.5% spread?

– **Management - Power Finance Corporation:**

- Yes, because for state power utilities and for some private sector projects, our interest rate is in the range of around 11%. So it's a mix. In some good projects, if it's a commissioned project, we offer a very very competitive rate. But for state power utilities, we offer interest rates in accordance with their categorization. We categorize them in accordance with the risk perception; A+, A, B. So definitely, if it is a lower grade, we offer a higher interest rate. So, it is an average of all the interests of our different borrowers. So we will be able to maintain. That is because 82% of our share is in state power utilities, government utilities. So, we are fully confident that we will be able to maintain this spread.

– **Andrew Lundstrom – WindAcre:**

- Okay. What is the strategy of focusing on re-financing coming from? Does that also include the state sector?

– **Management - Power Finance Corporation:**

- Yeah. It's again a mix. We have refinanced a project of NTPC also which a joint venture of NTPC and the UP Government. So, we replaced 17 banks there. It was a thermal project of 2 X 660 MW. We have also taken over wind projects. We have refinanced some solar projects as well. We have also refinanced a bank portion in a thermal project in Karnataka, in which we were already lenders, but we have replaced banks. It was a 2 X 800 MW thermal project in southern states, Karnataka. We have replaced 5 banks there.

– **Andrew Lundstrom – WindAcre:**

- What percent of the current loan book today is loans to refinancing opportunities? And where might that develop? What number might that go to, in the long term?





– **Management - Power Finance Corporation:**

- Maybe around Rs. 10,000 crores in the private sector, and maybe the same number in the government sector.

– **Andrew Lundstrom – WindAcre:**

- Do you envision that growing much larger?

– **Management - Power Finance Corporation:**

- We will consider the distressed assets also, if a new developer comes into some stressed assets, and he approaches us. Some of them have already approached us. So that is also another opportunity to fund such projects.

– **Andrew Lundstrom – WindAcre:**

- Great. Can you discuss, in the asset quality discussion, how you assessed that 54% haircut on those 23 stressed projects? What was the manner that you determined or studied that figure?

– **Management - Power Finance Corporation:**

- This is an overall average. We have almost provided 54%, and we don't expect any further provisioning, once these projects are resolved. That's because in many of them, we have received offers from new developers, which are under evaluation. In some projects, we have got a one-time settlement offer, and it is based on the sustainable debt which is calculated and evaluated by a rating agency like CRICIL, ICRA, etc. They have already been empanelled by the State Bank of India, and we have awarded this work to those rating agencies. The rating agencies have already informed us the sustainable debt level in these projects. Accordingly we have decided, how much we should provide for these projects. So we are quite hopeful that we need not to provide further for these assets.

– **Andrew Lundstrom – WindAcre:**

- And do you happen to know, how they determine sustainable debt? Is that something like a multiple of four times?

– **Management - Power Finance Corporation:**

- Yes, very much, because they take all inputs from us. If the project has good positives, then sustainable debt is more. If it has more negatives, sustainable debt is less. Our



appraising officers are aware about this because we have got a variety of projects in our loan book. So these rating agency officers are constantly in touch with our officers.

– **Andrew Lundstrom – WindAcre:**

– And given that you are not receiving full interest or maybe any interest on stage 3 loans, you must think that PFC is under earning on its NIM.

– **Management - Power Finance Corporation:**

– That's true. On stage 3 projects we are not earning any interest. Though ECL allows us, but we are not earning.

– **Andrew Lundstrom – WindAcre:**

– And do you have an idea of how that NIM might adjust, once it's at a normalized level?

– **Management - Power Finance Corporation:**

– When we realize the amount from these stressed assets, definitely we'll earn more interest. My NIM will definitely go up.

– **Andrew Lundstrom – WindAcre:**

– Can we quantify that at all?

– **Management - Power Finance Corporation:**

– It's very difficult to quantify at this juncture, because once we close a project, only then we will come to know. But it is our guess that haircuts, what we were expecting, in accordance with that, we have provided for, depending on the sustainable debt level in each project.

– **Andrew Lundstrom – WindAcre:**

– Thank you. I'll move to the end of the queue.

– **Management - Power Finance Corporation:**

– Thank you so much.

– **Operator:**

Thank you. Ladies and Gentlemen, in order to ensure that the management is able to address questions from all participants in this conference call, please limit your



questions to two per participant. If you have any further questions, you may come back for a follow-up. The next question is from the line of Vishal Goel from UBS Securities. Please go ahead.

– **Vishal Goel – UBS Securities:**

- Hi sir, thank you for your disclosure. On the SAMADHAN accounts, what is the timeline we should expect, to close these resolutions?

– **Management - Power Finance Corporation:**

- Actually, we have four projects in SAMADHAN. Avantha Power, Jhabua, we have already received OTS, and it is under evaluation. I think very soon, within a month, we should be able to close. Similarly, Ind Bharat Utkal has gone to NCLT. So it will take time. It has been admitted also. Then in KSK Mahanadi, we have already identified the H1 bidder. You would appreciate that there are 27 lenders in KSK. 22 are already on board. We are in discussion with the remaining 5, and we are trying to bring them on board. Similarly in RKM Powergen, we are trying to restructure with the existing developer because it has got a very good positive development. 550 MW PPA, under that pilot scheme of PTC and PFC Consulting Ltd. They have got LOA for three medium term PPA for 3 years. They were L1. So, we will be able to resolve. And now we will get the rating done for sustainable debt and we will resolve this.

– **Vishal Goel – UBS Securities:**

- Can RKM also happen in one month, or would it take more?

– **Management - Power Finance Corporation:**

- Yes, one month is possible because they have already received LOA from PTC for 550 MW supply of power.

– **Vishal Goel – UBS Securities:**

- So to close this, to create the sustainable, unsustainable portion, and recognize the balance portion as standard asset, what are the steps to be now taken from here?

– **Management - Power Finance Corporation:**

- First step is that they have got this LOA. Now it will be informed to the rating agency to find out the sustainable debt level. If a project has great positives, definitely sustainable debt will increase. Once that rating agency gives that sustainable debt, then we will proceed further. Maybe in 1 ½ month, we should be able to close this.



– **Vishal Goel – UBS Securities:**

- And just to get a sense on the kind of haircuts that would be required in one or two of them, for eg. RKM, what is the sustainable debt levels? Just to understand what is happening in the sector.

– **Management - Power Finance Corporation:**

- That is very difficult to tell you until the rating agency completes the exercise. Yesterday or day before yesterday they got the LOA. The other exercise has already been completed by our officers. But until you come to know the sustainable debt level, you can't close the project. We have already made 44% provisioning in this. So we don't expect any more.

– **Vishal Goel – UBS Securities:**

- And on the Supreme Court order, they have not stalled the RBI circular. They are just saying, 'I will hear all the cases', right? That's what they have said. They have not said that RBI circular is not in force. What can happen now from here? Till the time the Supreme Court decides something, can you pass all the resolutions, or you cannot?

– **Management - Power Finance Corporation:**

- You would appreciate that 12<sup>th</sup> Feb RBI Circular is not applicable to us as we are a Non Banking Financial Company. But as a prudent corporate body, I declared all those accounts, in which I was in the consortium with the banks (as RBI circular was applicable to them) as NPAs in the last financial year itself. And I am taking all possible, sincere efforts to resolve these projects. After this, the Hon. Supreme Court has given time till November. Now I'm fully confident, that along with these public sector banks and private sector banks, we will able to close some good projects, which we were not able to close, because time was running out. So I am quite confident in KSK Energy, Jhabua Power, RKM and even the Indiabulls project, Amravati. There is also OTS offer with us. So I am really quite confident that within one month, we should be able to close some good projects, which can fetch a good rate.

– **Vishal Goel – UBS Securities:**

- Okay sir, thank you. All the best.

– **Management - Power Finance Corporation:**

- Thank you so much.



– **Operator:**

– Thank you. The next question is from the line of Harshad Borawake from Mirae Asset. Please go ahead.

– **Harshad Borawake – Mirae Asset:**

– Hi, thank you for the opportunity. I have three questions. One is, can you talk about the incremental yields on each – refinancing loans, renewable and then the other loans? And correlated to this, last quarter you had said that NIMs are expected to sustain at 3.76%. This obviously has come down. What is your outlook on the spreads and NIMs, both in the near and the medium term? And lastly, what is the expected credit cost under this ECL for your portfolio? Thank you.

– **Management - Power Finance Corporation:**

– NIMs, once we are able to settle these stressed assets, definitely NIMs will increase. We will be able to bounce back to around 4%. As you may be aware, we are likely to close 3-4 good projects like KSK Energy, in which already an H1 bidder has been identified. 22 lenders are on board. The remaining 5 projects, we are quite confident that we will be able to close within this time which the Hon. Supreme Court has extended. In Jhabua power, we have got a good one time settlement offer. It is under finalization, and we are hopeful that we will be able to close it. Similarly, in Amravati, we have received a good OTS offer. So similarly, like Dans Energy and Shiga, they got a PPA and now they have started paying us. Once the account on which we were not getting any interest, if they start repaying, our NIMs will improve. As far as the spread is concerned, we are confident that we will be able to maintain it around 2.52%. But the business volume is increasing, and moreover, there are competitive pressures. So we have to be little realistic. Earlier we used to have spreads in the range of 3.8% or 3.9%, but that was not very realistic. But now, I think 2.50% to 2.54% is realistic, and we are quite confident on that because 82% of our portfolio is government utilities, where we offer interest rates according to the category i.e. A+, A, B, etc. So it's a mix of different interest rates. So we will be able to maintain the spread with the help of those government utilities. Even in the private sector, it depends on the rating of the developer. In some cases, it is risk related. We are refinancing some renewable projects, some thermal projects also. In renewable we are very meticulous in appraising aggressive competitive bids of renewable projects.

– **Harshad Borawake – Mirae Asset:**

– So what is the difference in yields between refinancing, renewable, where you're saying it's more competitive, and others? Is the difference meaningful in terms of incremental yields for these projects?



– **Management - Power Finance Corporation:**

– It's very difficult to say, but yes. On Greenfield projects, definitely the yields are more.

– **Harshad Borawake – Mirae Asset:**

– Sir the question is, if you had to disburse more on the renewables, which obviously is competitive, it would obviously mean that NIMs would continue to trend lower as the renewable percentage increases.

– **Management - Power Finance Corporation:**

– On Greenfield projects we are not able to offer such competitive rates. But for refinancing yes. We see the attractiveness of the proposal. If a project is running well for the last 2-3 years, and the beneficiary is NTPC or SECI, with whom they have signed PPAs it is important, for our appraising team. If it is with states, we are very conservative. If it is with NTPC or SECI, we offer very attractive rates. So it depends. It's a mix.

– **Harshad Borawake – Mirae Asset:**

– And lastly, what should one assume as the expected credit loss under ECL for our portfolio, going forward?

– **Management - Power Finance Corporation:**

– See, we feel that sufficient provisioning has already been made under this ECL mechanism. On settlement, we don't expect any further hit to be taken on accounts.

– **Harshad Borawake – Mirae Asset:**

– Okay, thank you.

– **Management - Power Finance Corporation:**

– Thank you very much.

– **Operator:**

– Thank you. The next question is from the line of Manish Karwa from Deutsche Bank. Please go ahead.

– **Manish Karwa – Deutsche Bank:**



- Hi sir, thanks for the opportunity. On your foreign borrowing, how much have you hedged upto now?
  
- **Management - Power Finance Corporation:**
  
- 58%.
  
- **Manish Karwa – Deutsche Bank:**
  
- Okay. And under Ind AS, how does it work? The gain that you've made in this quarter of Rs. 423 crores, is that related to the hedge that you have done?
  
- **Management - Power Finance Corporation:**
  
- Yeah, a portion pertains to that hedge portion also. But if you see, we have also made some exchange loss which is appearing in my expenditure side. And after considering the tax, the net impact is only Rs. 200 crores. What you are seeing as Rs. 424 crores, the net impact is only Rs. 200 crores.
  
- **Manish Karwa – Deutsche Bank:**
  
- And given the fact that the Rupee has now depreciated, it now roughly means that in the next quarter when we do our accounting, my interest expenses would be higher, assuming the un-hedged portion would have to be passed through the interest expense. Is that the way it will work?
  
- **Management - Power Finance Corporation:**
  
- See, 85% of the interest portion is already hedged.
  
- **Manish Karwa – Deutsche Bank:**
  
- But that 85% is only for this year, right? In the following year, that wouldn't have got hedged.
  
- **Management - Power Finance Corporation:**
  
- It is for the duration. For the whole duration of the loan, 85% of the interest is already hedged.
  
- **Manish Karwa – Deutsche Bank:**
  
- But the repayment has not been hedged.



– **Management - Power Finance Corporation:**

- Yeah, repayment is 58%. As far as the interest is concerned, 85% is already hedged. But due to this fair valuation, there may be some impact on profitability, but that will be offset by our expenditure also, the expenditure on foreign exchange variations.

– **Management - Power Finance Corporation:**

- I think for accounting purposes, what we are doing is, the raisings that we have done in Q1, that will be immediately booked i.e. the translation loss. Whereas, the raisings that we have done before 1<sup>st</sup> April, 2018, that will be on an amortization basis. So for those raisings, the impact on translation loss will not be that much. Whereas, for the fresh raisings after 1<sup>st</sup> April, 2018, full impact will be taken. So that is how the accounting will be done. That's how Rs. 320 crores have come in this year.

– **Manish Karwa – Deutsche Bank:**

- And how much have you raised after 1<sup>st</sup> April?

– **Management - Power Finance Corporation:**

- After 1<sup>st</sup> April we have raised \$600 million USD, and this is not hedged.

– **Management - Power Finance Corporation:**

- No. \$300 million is hedged, and \$300 million is a bond for 10 years, which we have not hedged so far.

– **Management - Power Finance Corporation:**

- It's not required to be hedged as per RBI guidelines.

– **Manish Karwa – Deutsche Bank:**

- That's fine. But given the fact that the Rupee has depreciated, this will have an impact on our earnings.

– **Management - Power Finance Corporation:**

- But 10 years is a long period. It is only a book adjustment. Let us see. At this time, foreign exchange is very volatile. But we feel that it will not remain as it is for a long time.





- **Management - Power Finance Corporation:**
- For the majority of the portfolio it will be amortized.
- **Manish Karwa – Deutsche Bank:**
- Okay. Under Ind AS, you have compared June'18 quarter v/s June'17 quarter. And in the June'17 quarter, there is an impairment allowance on financial instruments. That is about Rs.1,100 odd crores. Is it to do with the NPLs?
- **Management - Power Finance Corporation:**
- Yes, it is NPA only. That is the ECL provision which we made in Q1 of last year.
- **Manish Karwa – Deutsche Bank:**
- And since you've already now adjusted almost all of it through reserves, incremental impairment allowance will not be much?
- **Management - Power Finance Corporation:**
- Yeah, that's right.
- **Manish Karwa – Deutsche Bank:**
- Fine. And under Ind AS, why are we still accounting for Deferred Tax Liability now?
- **Management - Power Finance Corporation:**
- Yes, DTA and DTL, both have to be accounted for.
- **Manish Karwa – Deutsche Bank:**
- Okay fine.
- **Operator:**
- Thank you. Ladies and Gentlemen, due to time constraints, that was the last question. I now hand the conference over to the management for closing comments.
- **Management - Power Finance Corporation:**
- Thank you very much. Thank you so much.



- **Operator:**
  
- Thank you very much sir. Ladies and Gentlemen, on behalf of Prabhudas Lilladher Pvt. Ltd., that concludes this conference. Thank you for joining us. You may now disconnect your lines.

***END OF TRANSCRIPT***