POWER FINANCE CORPORATION LIMITED

Q-4/ FY 2022-23

CONFERENCE CALL

29TH MAY, 2023

MANAGEMENT: TEAM OF POWER FINANCE CORPORATION:-

- **Mr. R.S.Dhillon - Chairman and Managing Director**
- **Ms. Parminder Chopra - Director (Finance)**
- **Mr. Manoj Sharma - Director (Commercial)**

MODERATOR: MR. SHREEPAL DOSHI – EQUIRUS SECURITIES

Moderator: Ladies and gentlemen, good day and welcome to the 4Q-FY23 Earnings Conference Call of Power Finance Corporation 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 management commentary 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 over to Mr. Shreepal Doshi. Thank you and over to you, sir.

Shreepal Doshi: Thank you, Yusuf. Good afternoon, everyone. I welcome you all to the earnings conference call of Power Finance Corporation to discuss the 4Q FY '23 performance of the company, industry trends and business updates. We have the senior management team of PFC with us, represented by Mr. Ravinder Singh, who is the chairman and managing director, Mrs. Parminder Chopra, who is the director of finance, and Mr. Manoj Sharma, who is the director of commercial.

I would now like to hand over the call to Mr. Ravindra for his opening comments, after which we can take questions and answers. Over to you, sir.

Ravinder Singh: Thank you very much. A very good afternoon, everyone. I welcome you all to this conference call. It has been more than a year since we last connected and I am delighted to have the opportunity to update you on the performance of Power Finance Corporation for the 4Q and Financial Year ending March 2023. The last year has been a year of revival for both the Indian economy and PFC. As we step into 2023, the economic environment appears even more promising than anticipated and I believe it will continue to drive capex growth in the power sector.

The key highlights for the financial year 2023. Now let's start with the key highlights of the performance of PFC. Financial year 2023, PFC delivered the highest ever annual profit of INR11,600 cr. marking 16% increase from financial year '22. Even in Q3 2023, PFC recorded the highest quarterly profit of INR3,490 cr., representing a notable 34% jump from the previous year. It brings me great joy to share that PFC has been consistently breaking its own profit records for the past two to three years.

At PFC, we have always emphasized on maximizing returns for our shareholders. With the final dividend of INR4.5 per share announced on Saturday, the total dividend for FY ‘23 reaches INR13.25 per share, representing 132.5%[1] dividend per share. With this, PFC continues with its trend of delivering extraordinary shareholder returns. On the dividend front, I want to address the queries often received from retail investors on when the final dividend payment will be made. I would like to inform that the dividend recommended by the PFC Board will be approved by the Annual General Meeting, following which the dividend will be paid to the shareholders.

Now let's move to some key financial indicators. The yield for FY ‘23 stands at 10.04% vs 10.22% in FY ‘22. This is lower compared to the previous year but remains within our target range. This dip can be attributed to interest rate cuts implemented over the past two to three years. The cost of funds for FY ‘23 saw a 20 basis points increase, resulting in a cost of 7.51% compared to 7.30% in FY ‘22. This rise is mainly due to increase in market rates on account of RBI policy tightening.

Driven by yield and cost of funds movement, the spread for FY ‘23 is at 2.53% and NIM is at 3.36%, both within our guidance range. The CAGR remains healthy with a CAGR of 24.37% and Tier 1 capital of 21.61% as of 21st March 2023. These levels give a sufficient flexibility to our borrowers, particularly the government sector where PFC is now subject to RBI limits.

Moving on to the consolidated performance, PFC Group delivered a strong performance in FY ‘23. The Group's loan asset book crossed INR 8 lakh crores mark, reinforcing PFC's position as the largest group in the Indian power

[1] Inadvertently quoted during call. It is 132.25% dividend per share.

sector space. Furthermore, the consolidated profit t for FY '23 reached a new high of INR 21,180 crores, a 13% increase from FY '22.

Now turning to PFC's loan asset size, I am happy to announce that we have achieved a substantial increase in disbursement for fiscal year 2023. We disbursed a remarkable amount of INR 85,760 crores, representing a 67% increase compared to the disbursements of INR 51,240 crores in the previous financial year. It is worth noting that the COVID-19 pandemic has a dampening effect on our loan asset growth over the past two years.

However, I am pleased to share that we are witnessing a revival of economic activity post pandemic which coupled with the lending to distribution sector and government schemes has been instrumental in driving the uptick in our loan asset growth. Our standalone loan book has demonstrated strong growth with a double-digit increase of 13%.

As of March 31, 2023, our loan book stands at an impressive INR4,22,500 crore compared to INR3,73,000 crores as on 31 March 2022. As we look ahead, we maintain an optimistic outlook for the growth of our loan asset book. Building upon the positive momentum we have witnessed this year; we anticipate the loan book to grow at a similar pace in the coming years.

Coming on to the asset quality, I am pleased to share that our continuous and active resolution efforts over the past few years have yielded exceptional results in addressing non-performance assets. In the last one year itself, PFC resolved three stressed assets amounting to INR4,400 crores. These assets include South East UP Power Transmission, Jhabua Power and in Bharat Energy Utkal. As a result, our stressed asset book has decreased by 21% from 20,900 crores as on 31 March 2022 to Rs.16,500 crores as on 31 March 2023.

Consistent resolution efforts have led to the lowest net NPA ratio in the past six years. For FY '23, our net NPA ratio stands at an impressive 1.07%, reflecting a significant decrease of 69 basis points from 1.76%[2] in financial

[2] Inadvertently quoted during call. Net NPA ratio was 1.76% in FY 2022.

year '22. Furthermore, our gross NPA levels have also witnessed a substantial decline. In FY '23, the gross NPA levels decreased significantly by 170 basis points from 5.61% in FY '22 to 3.91% in FY '23.

Moving on to the update on resolution status, we currently have 22 stressed assets with a total value of INR16,500 crores in Stage 3. Out of these 22 projects, 13 projects worth INR13,900 crores are being resolved under NCLT, while the remaining 9 projects amounting to INR2,600 crores are being resolved outside NCLT framework.

On the provisioning front, I would like to mention that successful resolution and upgradation of stage 3 assets during the year has contributed to provisioning reversals without any additional credit cost. It is crucial to note that although in absolute terms provisioning against stage 3 assets have reduced, we have enhanced the overall provision coverage ratio on stage 3 assets from 69% in FY '22 to 73% in FY '23. We firmly believe that these provisioning levels are adequate to support future resolutions.

Now I would like to provide an update on the liability side. In FY '23, PFC raised in a total amount of INR76,000 crores from both domestic and foreign sources. As of March 31, 2023, our outstanding borrowing stands at INR3,62,630 crores. Looking ahead to the next financial year, which is FY '24, I would like to share that PFC Board has approved a borrowing program of INR80,000 crores. This program aims to raise funds from both domestic and international markets through various instruments including bonds, term loans, commercial paper and other suitable avenues.

On the domestic currency front, I would like to highlight that our low cost 54 EC portfolio, which has a coupon rate of 5%, witnessed a remarkable 65% increase in FY '23 compared to FY '22. As of March 31, 2023, our outstanding 54 EC bonds amount to INR6,600 crores, a substantial growth from INR4,000 crores as of March 31, 2022.

Turning to our foreign currency side, we have successfully raised US dollars equivalent to 1.66 billion in foreign currency during the year. In line with our objective of diversifying our borrowing, these funds were raised in USD and JPY and through combination of products such as foreign currency term loans, FCNRB loans and loans from development banks. While borrowing in the foreign currency exposes us to exchange rates, I want to assure you that we have been consistently monitoring our forex positions to mitigate this risk.

Currently our exchange risk hedge ratio stands at approximately 68%, a significant improvement from 55% last year. Moreover, we have hedged 92% of the exchange risk for portfolios with a residual maturity of up to five years, including 100% of exchange risk for US dollar loans with a residual maturity of up to five years. With these measures in place, we firmly believe that PFC's bottom line is adequately protected from foreign exchange fluctuations.

Before I close, I would like to share our strategy for the coming year. First and foremost, our business priorities will be closely aligned with the targets and thrust area set by the Government of India, especially in the energy transition as well as DISCOM reforms. On the generation side, in line with the Government's energy transition goals, PFC would continue to tap the renewable energy business. On this front, I would like to share that PFC recently undertook one of the largest financing deals in the renewable energy space, within which we have refinanced JSW Energy loan of INR6,112 crores for renewable energy projects of Mytrah Group, which has been recently acquired by them.

You know, right now, India's energy transition landscape is quite exciting with newer technologies being explored to reduce carbon emissions. Some of the emerging technologies that are now being explored for commercial expansion are green hydrogen, battery storage, pump storage and offshore wind. PFC's thrust in the coming years is to actively target these technologies and contribute in making India a greener nation.

On this, I would like to further add that while going green is undoubtedly the way forward, energy security is also crucial. Recent events such as energy crisis faced by European countries during the Ukraine-Russia war have highlighted the need for additional conventional generation capacity to ensure grid stability and meet the ever-growing electricity demand. Therefore, while renewable energy will be a focus, conventional generation funding will continue to be a part of our lending business, although not at the same scale as in the past. Also government is looking at reducing carbon emissions from the existing coal plants by retrofitting them with carbon offsetting technologies. We see that this is another potential lending opportunity for PFC in future.

Moving on to the distribution sector, it is currently one of the top priorities for the government as it plays a critical role in improving the overall health of the power sector. To improve the operational and financial health of DISCOMs, government has launched the revamped distribution sector scheme in 2021 and late payment surcharge scheme in 2022. PFC and its subsidiary REC are the nodal agency for RDSS implementation, and all eligible states and UTs have been allocated between PFC and REC equally. RDSS has an outlay of INR3 lakh crores covering smart metering and infrastructure projects, of which around 60% will be from government grants, and the balance will be the counterpart funding from PFC or REC or state's own resources for infrastructure works. The smart metering shall be implemented in PPP mode.

Before the counterpart funding starts, the action plan submitted by state DISCOMs were to be approved and the government grant portion is to be released based on the achievements of the milestone. I would like to share the action plan approval process is complete for nearly all eligible states of PFC. Further sanction is being awarded by DISCOMs and the grant release cycle has started. Around INR1,679 crores of grant has been released so far. With the progress we have made, we expect counterpart disbursements under RDSS to commence towards the end of FY ‘24.

Also in this context, I would like to highlight that the scheme is playing an important role in bringing financial discipline in the state DISCOMs by the way of regular publication of quarterly accounts, timely submission of annual accounts, timely release of subsidy and payment of common dues, tariff orders etcetera, which are some of the important qualification conditions for release of funds under the scheme.

Coming on to the LPS scheme, the LPS scheme was introduced in around June 2022 which has shown promising results with a 40% reduction in outstanding dues of DISCOMs to GENCOs within just 10 to 11 months. PFC and its subsidiary REC are the key financers for the scheme. So far PFC has sanctioned around INR47,900 crores, of which 35% has been disbursed that is around INR16,700 crores. The remaining balance is expected to be disbursed in the course of next one to two years. On the distribution side, RDSS and LPS are the two schemes where we envisage major business opportunities.

Now turning to the recently added business line for PFC which is infrastructure funding. This is one of those milestone decisions which will play a crucial role in PFC's long term business growth. Diversifying to infrastructure lending was a natural extension given PFC's past experience of financing electromechanical components of infrastructure projects. The idea is not to shift focus from power to infra but to gradually build it over time, creating a separate business line, as the power sector matures. But yes, it will be forming part of our future lending business going forward.

Since receiving approval in August 2022, PFC has already sanctioned around INR16,650 crores and disbursed around INR1,000 crores. These funds have been directed towards projects such as ports, irrigation and fibernet. Additionally, it is important to highlight that, we have initially focused on specific sectors within the infrastructure domain. We remain open to funding all types of infrastructure projects.

We understand the significance of diversifying our portfolio and expanding our capabilities. Therefore, we are actively working on building our expertise and strengthening our team to effectively cater to diverse needs of the infrastructure sector. In this direction, on 26, May 2023, we have entered into an MOU with RITES for providing technical assistance and support in financing of infrastructure projects.

Lastly, I would like to share some promising figures that demonstrate the potential growth for PFC. Currently, we have approximately INR2,31,600 crores of sanctions in our pipeline, which we plan to disburse over the next few years. Moreover, we have entered into memorandums of understanding worth INR90,000 crores with various state agencies in the fiscal year 2022-2023. These strategic agreements are aimed at extending financial assistance across the power sector value chain.

Notably, we have signed significant MOUs with prominent states like Andhra Pradesh, Uttar Pradesh and Madhya Pradesh, as well as with Kerala Infrastructure Investment Fund Board and Mahatma Phule Renewable Energy and Infrastructure Technology Limited, Mahapreit. These collaborations will not only support the power sector but also contribute to the growth and development of infrastructure as a whole.

It is important to emphasize that, the project sanctioned under these MOUs will span several years, providing a valuable and sustainable business pipeline for Power Finance Corporation. In conclusion, we remain optimistic about our future growth by leveraging favorable market conditions and maintaining our commitment to prudent lending practices. We expect to continue growing at a similar pace as we have witnessed this year. Thank you very much. And we are open to the question and answer session.

Moderator: Thank you very much. First question is from the line of Dhaval from DSP. Please go ahead.

Dhaval: Hi, sir. Thank you for the opportunity. Congrats on good performance. I had two questions. First is relating to the spreads and margin. So, sir, this year, we saw decent reduction in spreads from 2.9% to 2.5%. Going forward, where do you think, spreads will stabilize, given the rise in cost of fund that, we are seeing right now? So any comments here would be useful both on the re-pricing as well as cost of fund side? So that is the first question. Then I have one more question.

Ravinder Singh: So you are going to add with the second question or should I reply to the first one?

Dhaval: Sir, you can reply. Then I'll ask the second one.

Ravinder Singh: Okay, fine. So as has been indicated, our spread has decreased and basically our interest rates, we had implemented a decrease in the interest rates and then, there was an increase. We had done decrease of around 165 basis points to 300 basis points and then we had increased the interest rates in December '22 and March '23[3]. So that effect of increase is yet to materialize.And on the borrowing side, the interest rates have increased.

So our spreads have decreased as you have indicated by around 40 basis points and going forward, we should be maintaining the spreads, within our targeted range.

Dhaval: Okay. So, sir, you are saying that this 2.5% spread is sustainable going forward with the re-pricing that, you have taken in December and March. Is that correct?

Ravinder Singh: So, further also we are reviewing our interest rates and based on that, let us see, if we have to increase, we'll go ahead.

Dhaval: Okay. And sir, what is the magnitude of price increase, you have taken in December and March? Cumulatively, what price increase you have taken?

Ravinder Singh: So in March, we had increased by around 10 basis points to 50 basis points across different category of projects and in March '23, it was 25 basis points across the board except 10 basis points for renewables.

Dhaval: Understood. Got it. Sir, my second question relates to asset quality. So, you indicated the INR16,500 crores stage 3 between NCLT and non-outside NCLT. I just wanted to understand, within NCLT, the big accounts would be KSK, Mahanadi and Lanco Amarkantak, would these two be the biggest part now?

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[3] March 2022 was inadvertently quoted. The rate increase was done in March 2023.

Ravinder Singh: Right.

Dhaval: Okay. And sir, any comments on both these projects? Where are we on the resolution front and any possibility of either of them happening in FY '24?

Ravinder Singh: So KSK Mahanadi is under NCLT and the consolidation of the different SPV's is under NCLAT. So, that is the ongoing position as of now. And with respect to Lanco Amarkantak, a letter of intent was issued to PFC projects and REC consortium and the resolution plan has been filed with NCLT. So, we are waiting for the decision of NCLT.

Dhaval: Understood. Apart from that, sir, any other project under NCLT, which is large and likely to see resolution in FY '24?

Ravinder Singh: So one of the projects is Sinnar Thermal, where the proceedings under NCLT has been stalled but we are in discussion with Maharashtra GENCO for taking over the project. So, let us see what happens based on that discussion. And another project is East Coast, which is under liquidation and Maheshwar Hydel project is there, which was admitted after a long period of more than four years, it was admitted under NCLT. But now again, the CIRP process has been stayed and we have filed before NCLAT for early hearing in this case.

Dhaval: Got it, sir. Yes, those are the questions from my side. Thank you and all the best.

Ravinder Singh: Thank you very much. Thank you.

Moderator: Thank you. The next question is from the line of Arjun Bhatia from Bowhead Investment Advisors. Please go ahead.

Arjun Bhatia: Yes. Hi, thanks for the opportunity. Just one clarification on your loan growth guidance. So you said loan growth in '24 to be similar to '23. So you mean loan growth should be around 13%, which is in Q4 FY '23?

Ravinder Singh: So now we have started funding infrastructure. So let us see what type of projects we get, we are getting lot of projects in infrastructure. But there is a restriction that we can only sanction around one-third of our total assets --

the total sanctions during the year for infrastructure. So going forward because the base for the last year was slightly lesser, so we have to see whether we will be able to maintain the same growth or not with respect to the percentage.

Arjun Bhatia: Sir, any percentage number that you are targeting in '24? Like double -- 10%, 11%, 13% or could it be lower?

Arjun Bhatia: Yes, no, I am saying this loan growth for '24. So any range that you have, say, between 10% to 12%, 12% to 13%?

Ravinder Singh: So we should be around the double digit mark.

Arjun Bhatia: Okay. And my next question was any chance of PSU being made a nodal agency for financing renewable projects?

Ravinder Singh: So we have taken up with the Government of India for becoming a DFI for energy transition. So that was not accepted by the government. So we have been trying to get special dispensation from the Government of India. And going forward, we were trying to become a focal agency for lending to renewables, energy transition.

Arjun Bhatia: Okay. So when you say a focal agency, is there like any formal process to that? Like have you been applied to some authority for that?

Ravinder Singh: No, we have not applied, but we are in discussions with the Ministry of Power and Ministry of Finance regarding that. And as you are aware, we have the largest loan book for renewable energy of around INR48,000 crores.

Arjun Bhatia: Right. Yes. And based on the interim segment, do you have any disbursement targets for FY '24 or FY '25?

Ravinder Singh: So disbursements we are getting the figures from our borrowers and we think that we should be at the same level, almost the same level with the economy reviving and a lot of renewable projects coming up and also transmission projects. And, obviously, the funding to RDSS will also start and we have the counterpart funding from PFC and REC will also be required.

Arjun Bhatia: Got it. And lastly on this INR2.3 lakh crores of sanction, I'm very impressed that you said you have as of now, so how much of this can convert to disbursements in FY '24 and FY '25?

Ravinder Singh: Could you repeat that?

Arjun Bhatia: Out of the total sanction pipeline of INR2.3 lakh crores that you gave, which is very impressive, how much of that can convert to disbursements in FY '24 and in FY '25?

Ravinder Singh: So these, the implementation of the project will take around two to three years for implementation and some of the recent projects we have funded are infrastructure projects, which may take a longer time. So the disbursement will follow the implementation.

Arjun Bhatia: All right, got it. Thank you so much.

Moderator: Thank you. Next question is from the line of Manish Agarwalla from PhillipCapital. Please go ahead.

Manish Agarwalla: Yes, hi. Good afternoon. A couple of questions for my side. One is on your infra sanctions. So if I look at REC, this year has sanctioned almost INR85,000 crores and we have done somewhere around INR16,000-odd crores. So why is there a difference in the sanctions arc? Is that some of the projects we were not comfortable and hence we didn't entertain?

Ravinder Singh: No, I think REC has sanctioned a major to that Mumbai Metro. So there they had executed the loan documents and it is not that we are averse to funding these projects, but initially we have taken exposure to the refinery project and the other projects, ports also, we have done the disbursement also, we have done the disbursement of the ports.

Manish Agarwalla: So any particular reason why we are averse to Metro funding? Is it because of tenure or high risk involved there?

Ravinder Singh: No, we are inclined to funding Metro. We are not adverse. We have received DPR for the Metro project also, and we are going to fund these projects. \ We are not avoiding these projects.

Manish Agarwalla: Okay. My second question is on your interest reversal this quarter. I understand a large part of that is because of interest reversal in stage one and stage two. So any particular reason why we are doing that, or is it because discoms rating has improved and hence we are now reversing that?

Ravinder Singh: So I would, our Director, Finance, should take that question.

Parminder Chopra: As you know, during the Q3 when we have announced the results, we said that there is a change in the discoms rating and as a result around INR900 crores to INR1,000 crores additional provision was required to be made based on the annual rating exercise. So the rating exercise is carried out on half yearly basis. So when we have done the next half year basis, reviewed the rating, so the lot of discoms have complied with the conditionalites and submitted their accounts, based on which they have been upgraded and as you rightly said, the major amount is on account of upgradation of the discoms only.

Manish Agarwalla: Any further scope of interest reversal there?

Parminder Chopra: See, discoms rating as I told you that it is a half yearly exercise and if there is further improvement in the overall functioning, compliance and financials of the discoms then definitely the same will be reviewed.

Manish Agarwalla: Got it. I have another question on Lanco Amarkantak. So there was some news that DIPAM is not comfortable with the current structure of REC-PFC bidding. Any comments on that and when do you think is a feasible date for completion this resolution?

Ravinder Singh: So we would like to clarify, there is no regulatory hurdle in the PFC and REC bidding, that bid for Lanco project and the resolution process is going on as I had indicated that the resolution professional has filed the application with NCLT with our bid, which was accepted by the CoC.

Manish Agarwalla: Okay. And any timeframe you would like to allot to this, or is it too early to take call?

Ravinder Singh: This is a legal process, which is there, so we will refrain from giving any time line.

Manish Agarwalla: Sure. Thank you. Those were my questions. Thank you for answering those.

Moderator: Thank you. The next question is from the line of Jigar Jani from B&K Securities. Please go ahead.

Jigar Jani: Yes. Hi. Thanks for taking my question. Two questions. Firstly, we have seen a sharp increase in renewable energy allocation within the generation segment. So, just wanted to understand whether the margin profile for renewable generation projects is a bit lower than normal generation projects. If you could comment on that because in the slide you have mentioned that the yields are lower for these kinds of projects. So, if there could be any commentary on that.

Ravinder Singh: Renewable energy is always in our thrust area and we have lower interest rates for these projects because the government of India ialso has a target for that 500 gigawatt of renewable energy is to be there by 2030. So, we have to support that and obviously as I had also indicated, we have done refinancing projects for JSW where more than INR6,100 crores were sanctioned and out of that INR3,400 has been disbursed . So, these projects have a lower gestation period also and if they are implemented. So, we take larger exposures to these projects also because financial closure is required by the developer early and processing is also faster for these projects.

Jigar Jani: Okay, understood. And for this ECLexercise, ideally this is based on FY'22 numbers but the current numbers for the ACS, ARR gap and the AT&C losses, if you look at the current numbers, they have gone up as compared to FY'22 level. So, when you do the review next time, does that negatively impact your ECL model now?

Ravinder Singh: So, the numbers which you are talking about, there is the quarterly numbers will be there, the yearly number will be different on what we have seen earlier also. So, we will go by the annual numbers.

Jigar Jani: I believe you said it's a half yearly exercise…

Ravinder Singh: So, whenever there is a change in any information which we receive from the accounts or some accounts are given to us, then only we change to the rating. Otherwise, it is an annual exercise which we do on behalf of the Ministry of Power.

Jigar Jani: Sure, thank you. And just last question, is it possible to split the private sector loan book into like Genco and transmission and distribution? If possible, percentage wise?

Ravinder Singh: This is private sector is around 20% of our total book and we will provide you the details with respect to the transmission, distribution. Distribution is hardly there is any exposure except for the small one.

Jigar Jani: Okay, great. I will take it offline probably. Thank you so much for answering my questions. Thank you.

Moderator: Thank you. Next question is from the line of Mangesh Kulkarni from Almonds Global Securities. Please go ahead. Mr. Mangesh, your line is unmuted. Please go ahead with the question. Mr. Kulkarni, please go ahead with the question. As there is no response from the current questioner, we will move to the next question from the line of Niharika from Aequitas Investment. Please go ahead.

Niharika: Hi, thank you for the opportunity. I just want to understand why have we increased our PCR from 69% to 73%? Is there increase in risk which we perceive or some change in the regulation?

Ravinder Singh: Could you repeat that? We could not get…

Niharika: Sir my question is on the PCR. So why have we increased our provision coverage from 69% to 73%? Do we perceive more risk increase or is it some regulation because of that which we are doing this?

Parminder Chopra: No, that is only majorly on one project that is TRN Energy where the provision has been increased even though in absolute numbers if you have seen that our provisioning on overall the basis of Stage 3 is lower due to resolution of the asset and the lower NPAs. But with the increase in the TRN Energy thing that the provisioning has increased.

Ravinder Singh: So, in TRN and Maheshwar we have increased the provisioning and basically in absolute terms this has obviously decreased and percentage terms rate has increased.

Niharika: Okay. Got it. And my second question is how much percentage of our book will get reset in this current year and what will be the impact on NIMs? Will it get further dragged down this year?

Ravinder Singh: So, we have this policy of resetting in three years and so maybe around one third will be reset this year.

Niharika: And will it be dragging down our NIMs further or do we see that it will be at the same level because of the reset?

Ravinder Singh: No, it appears that it will be at the same level.

Niharika: Okay and with AT&C losses narrowing down and the target of ARR and ACS gap to be zero in like another three to four years, how do we see that it will go into impact PFCs book? Do we see that the book size would decrease and how much should it reduce because of all the narrowing down?

Ravinder Singh: So, with the financial health of the discounts improving, obviously the overall our portfolio assets will be on a better footing.

Niharika: Okay but do you see that some quantum that our book will reduce because of if say ACS and ARR gaps narrow down to zero?

Ravinder Singh: No, but there is going to be addition in the infrastructure for the power sector to grow and additions will be there in transmission, distribution. So, that we see this is a growing sector and under Saubhagya you know that all the households have been electrified. Now the consumption there will increase, the energy requirement will increase and the requirement of expansion of the network will be required and then the renewables energy is going to come in a big way and evacuation from this renewable energy will also be required. So, there will be a substantial capex requirement for transmission and then down below distribution also.

Niharika: Okay and my next question will be on the spread. So spread on RDSS and LPS. So, is it like sub-2.3, 2.4 because it is state guaranteed? What is the range of the spreads we have on RDSS and LPS loan schemes?

Ravinder Singh: So, in both these we are going to, this LPS we are going to get the state government guarantee. So obviously , we give a lower interest rates to them and our spreads will be lower in these cases.

Niharika: So, is it like sub-2.3, 2.4 or sub-2?

Ravinder Singh: That we have to see. The overall we have around 2.5. So, we have to see that spread. Our Director of Finance would like to add to this.

Parminder Chopra: So, this is in line with normal business operations that as sir has said that we offer 25 basis point reduction in case of government guarantee. So, only that concession has been given since all these loans are backed by government guarantee.

Niharika: Okay and my last question would be on the spread on infra and EV sector that we are doing. Are we having higher spreads than renewable on this, on infra and EV?

Ravinder Singh: These are the new areas which we are going to fund and we, if it is a project within the energy transition area then we can have a lower spread. But for other infrastructure projects it will be slightly higher because the risk we perceive and the new areas which we are entering into.

Niharika: Okay. Thank you so much. I'll join the queue.

Moderator: Thank you. The next question is from the line of Chintan Shah from ICICI Securities. Please go ahead.

Chintan Shah: Yes. So congratulations on good set of numbers and thank you for the opportunity. So I had one question largely on the ease front, so in terms of fixed and floating book, how much percentage of our book would be fixed and floating or is it that it is entirely floating?

Ravinder Singh: Majority of our loan book is floating in nature because as indicated the interest rates are going to reset after every three years.

Chintan Shah: Sure. And in terms of the foreign borrowing, on the borrowing side, how would it be that mix? It is also largely floating or is it a mix of fixed and floating?

Ravinder Singh: No. There we have mostly fixed rate borrowings. So that is above 70% would be fixed rate borrowings.

Chintan Shah: Okay. And so one thing you mentioned in the opening remarks that we had seen a reduction of 250 to 300, or 165 to 300 with decline in the yield. So that decline was during what period if you would just mention and the reason would be the competition, right?

Ravinder Singh: So no, no, no, no, not exactly competition. At that time since September '20, we have reduced the interest rates to during up to December '22 by 165 to 300 basis points. So there was competition also and during that time the interest rate regime was also lower. So we were able to borrow at a lower rate and we passed on that benefit to our borrowers.

Chintan Shah: Sure, sure, got it. And so largely in terms of this hedging cost, I just wanted to understand from the accounting perspective, so the hedging cost for the foreign currency borrowings, that would be accounted under interest expense or would that be a separate line item?

Ravinder Singh: Our director of finance would reply to this question.

Parminder Chopra: The hedging cost is forming part of the interest expense.

Moderator: Thank you. Next question is from the line of Chintan Shah from JM Financial. Please go ahead.

Chintan Shah: Hi, sir. Thank you so much for the opportunity. So I just had one question, so this quarter there was no dividend declared by a subsidiary REC and we have a statutory mandate for the same. So how should we read this?

Ravinder Singh: Could you repeat that?

Chintan Shah: Yes, so REC did, our subsidiary REC did not declare any dividend this quarter and there is a statutory mandate to do so. So I just wanted to understand if there is any particular reason, is there any change or something that we should be aware of?

Ravinder Singh: No, there is no requirement as it is. Statutory requirement is notthere. But we are hopeful we will get the dividend.

Parminder Chopra: And if you see the last year also, last year also along with the first quarter results, they have declared the final dividend.

Chintan Shah: Okay, so in Q1 we should expect two dividends. One would be the final one and the normal interim one that will declare?

Parminder Chopra: We won't be able to comment on that.

Moderator: Thank you. Next question is from the line of Punit Srivastava from Daiwa Capital Markets. Please go ahead.

Punit Srivastava: Yes, good afternoon. So my first question is on this yields and ratios that you have given this time for the full year. Can we please have the quarterly ratios as well? Because that will help us a lot to understand the quarterly movement?

Ravinder Singh: So we will share these numbers with you.

Punit Srivastava: Okay. And the other question was on the margin front. I mean, I believe you already have spoken about it. But we just wanted to understand like whether how the cost of funds are moving quarter-to-quarter like whether we expect cost of funds to go up further from here or remain like stable. How do you expect the cost of funds to move from 7.5% levels?

Ravinder Singh: So last quarter if you see the interest rates have hardened and going forward I think we should be stabilizing at these values. And obviously it depends on the market and we are linked to the international market. So let us see what happens.

Punit Srivastava: Actually, the question I was asking about the quarterly is because if you see the nine months margins, net interest margins were reported at 3.37 and then in for full year it is reported at 3.36. So there seems to be almost flat but the numbers are showing that margins were under pressure. So that was the reason I was asking about the fourth quarter, you know, because there seems to be some adjustment happening somewhere because nine months to full year the margins are showing flat numbers?

Parminder Chopra: So there has been some reduction in the yield but if you see the margins that we are able to maintain I think Q4 margins were still around at 3.39%. So whatever additional numbers you require for the Q4 you may please let us know, we will provide you.

Punit Srivastava: Sure, I have got it. Would you have some kind of ROE target which you internally look at and if you would like to share that? Thank you.

Ravinder Singh: So we do not have any targets as such.

Moderator: Thank you. The next question is from the line of Dhaval from DSP, please go ahead.

Dhaval: Yes, so just one question relating to the credit cost for next year. I mean this year we saw some write back on a net basis. So next year would it be safe to assume that the credit cost should be less than 20 basis points? I mean given that there are still large projects under various stages of resolution?

Ravinder Singh: We are not able to say that because most of these projects as I have indicated are under NCLT. So how much time, they are lingering on for quite some time and how we are able to resolve this so we are not having any target with respect to that.

Moderator: Thank you. The next question is from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: So thanks for the opportunity. Just wanted to understand on the infrastructure segment like how are we looking at between say the public projects and private projects and what was the sanctioned in FY '23 which is yet to be disbursed in FY '24 and what is the pipeline for sanctions for FY '24?

Ravinder Singh: So PFC is a loan asset is mostly in the government sector and our first reference for the infrastructure projects also will be to take up some government sector projects. However, we have funded electric vehicles etcetera. which were in the private space and as indicated we have sanctioned loan for the ports and there we had the disbursement of around INR1000 crores. And moving forward we, these new type of projects, energy transition projects are there which we will be taking up like pump e storage schemes and if offshore wind comes up, green hydrogen projects come up, we will be taking up these projects.

Rohan Mandora: And sir, what is the sanctioned pipeline for FY '24? Overall, at an overall level?

Ravinder Singh: This I think we can share, we do not have the figures as of now.

Parminder Chopra: It is, as and when any project is posed to us that we initially do the appraisal and based on that the viability of the project be it in the private sector or in the government sector. So, after that only, we will be taking up to the sanction as per our competent authority. So that will be known in the near future.

Rohan Mandora: Thank you.

Moderator: Thank you. The next question is from the line of Shreya Shivani from CLSA. Please go ahead.

Shreya Shivani: Hi, thank you for taking my question. I just have one doubt, when you say that you have done repricing in December of 10 bps to 50 bps and in March of about 25 bps, does this mean that the new disburses that will be happening would be higher or the floating rate, like the older ones are also getting repriced? Like I am just trying to understand what that sentence really meant?

Ravinder Singh: So, after we raise our interest rates, raise or decrease or increase, the future disbursements will be done at that rate and whenever the loan comes, already existing loan comes for reset, it will be reset at that rate.

Shreya Shivani: Okay, got it. So, whatever portion of loans will be getting reset now will get reset at either 25 bps higher or 20 bps to 25 bps higher and the disbursement will also be at this higher rate. Got it. Thank you. Thank you so much.

Moderator: Thank you. The next question is from the line of Satinder Singh from Eon Infotech Limited Investment. Please go ahead.

Satinder Singh: Thank you for the opportunity and congratulations on a good disbursement growth this year. So, you mentioned about the various opportunities before us in terms of energy transition, the DISCOM reforms and also the inter-lending. What are the top three concerns that you have as the leadership of the PFC? What are the top three concerns that you have? So, the opportunities you made clear, sir. What are the top three concerns that concern you as a leader of the company?

Ravinder Singh: So, these are the new areas which we are getting into athe credit appraisal should be I think a challenge for us and as has been indicated, we have signed a MOU with the RITES for doing maybe a lot of traffic studies,with respect to they have experience in infrastructure projects, we will be taking that expertise.

Satinder Singh: Okay. So, what are the concerns, sir? What are the challenges that you see? And then the new type of projects which are coming in energy transition.

Ravinder Singh: So, these will require some sort of viability gap funding if you see, green hydrogen or offshore winds. So, initial projects will be taking off but subsequently we will need lower cost of funds for funding these projects so that they become viable. So, our challenge is there that our borrowing should be, we are looking at special dispensations from the government and raising funds from outside which are cheaper. So, that is a challenge for us to decrease our cost of borrowing.

Satinder Singh: Okay. Okay, sir. Any comments on the competitive intensity? So, this year our fee and commission income has fallen by almost 50% even though the disbursements have been steady. So, how do we explain that and a few comments on the competitive intensity in our business?

Ravinder Singh: So, I will tell our Director of Finance to answer that.

Parminder Chopra: See, fee and commission income also includes a component of prepayment premium. Actually, this year our prepayment has been on a very lower side. So, we have not earned any prepayment premium which has led to what you see as reduction in the fee and commission.

Ravinder Singh: Last year was prepayment was not happening to what level they were. Previous year to that and then after COVID when the banks were having lot of liquidity and they were giving, offering lower interest rates to the projects which were commissioned which we had financed. So, there was a repayment which was happening. So, the prepayment premium we do not waive for any other borrowers but that was being paid and last year it was not happening. So, the fee income has come down.

Satinder Singh: Right, sir. And the competitive intensity, as the health of the power sector improves, a concomitant risk is that you have other lenders come in and willing to take that risk. So, some comments on the competitive intensity, sir. How has it changed in the last 12 months?

Ravinder Singh: No, we have this additional prudential norms which Ministry of Power has indicated which along with PFC and REC, other banks have to also follow this. So, if additional prudential norms they are meeting, then obviously the banks also can offer and PFC has an advantage that we offer longer tenure and the amounts, whatever is required can be taken from PFC. So, that advantage is there with PFC and we understand the sector also.

Parminder Chopra: And the main change as compared to the earlier years, recent past was that the liquidity has dried up for the banks which has led to, as we said, lower prepayment and accordingly lower competition from the banks.

Satinder Singh: Right, ma'am. And finally, sir, we've seen greater disbursement to the private sector. So, the share of private sector from 17% as of end of FY ‘22 was 26% for the complete FY ‘23 and in fact even 33% for the last quarter. So, is this a sign of things to come? Do we expect this private sector to go up to this 25%, 30%, 35% or is PFC trying to consciously, wanting to keep it to the low teams and hence lower risk because all our spillovers and provisions are for, slippages are on the private sector.

Ravinder Singh: So, as you are aware that mostly the requirement of the country for power is increasing and all the new generation capacity is coming in renewables and within renewables most of the projects are private sector projects. So, obviously our book with respect to the private sector will increase going forward as we are funding these renewable projects as per the requirement of Government of India also to have a capacity of 500 gigawatts. So, these private sector portfolio I think will increase in the coming years.

Satinder Singh: Right sir, thank you, very clear. I got one question, I’ll come back in the queue. Thank you.

Moderator: Thank you. Ladies and gentlemen, this was the last question. I would now like to hand over the conference over to Mr. Shreepal Doshi from Equirus Securities for the closing comments.

Shreepal Doshi: Thank you, Yusuf. Thank you very much to all the participants for being part of the call. And we would like to thank the management of the company, of PFC for giving us the opportunity to host the call. Thank you.

Ravinder Singh: Thank you very much for this conference call. Thank you very much.

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

This transcript has been provided "as is" except for certain factual discrepancies which were inadvertently quoted during the call and the same have been updated by way of footnotes.