Power Finance Corporation Ltd

Q4/ FY2024 Results

Investor Meet

May 15, 2024

MANAGEMENT OF POWER FINANCE CORPORATION:-

- **Ms. Parminder Chopra - Chairman and Managing Director with additional charge of Director (Finance)**
- **Mr. Rajiv Ranjan Jha- Director (Projects)**
- **Mr. Manoj Sharma- Director (Commercial)**
- **Mr. Ajay Tewari, Govt. Nominee Director**
- **Mr. Bhaskar Bhattacharya, Independent Director**
- **Ms. Usha Sajeev Nair, Independent Director**
- **Mr. Prasanna Tantri, Independent Director**

Comparer:

Good morning ladies and gentlemen, on behalf of Power Finance Corporation, we feel honoured and privileged to welcome you all to this Investor Meet. Today, the company announced its financial results for the year 2023-24. PFC is always aiming to connect with its investor and build a strong and positive relationship with the investment community. With this objective, today's event has been organised to discuss PFC's financial performance and future outlook with the current and prospective investors.

Now, I would like to introduce PFC's Management: On the dias, we have starting to my immediate left: Mr. Prasanna Tantri, Independent Director, Mr. Bhaskar Bhattacharya, Independent Director, Mr. Ajay Tewari, Government Nominee Director, Ms. Parminder Chopra – CMD with additional charge of D(F), Mr. Rajiv Ranjan Jha- Director (Projects), Mr. Manoj Sharma- Director (Commercial) And Ms. Usha Sajeev Nair, Independent Director

The programme for today's Annual Investor Meet will be in two parts: First, PFC's CMD will discuss the performance for FY 2024 followed by a Q&A session.

Then, we will have a presentation on India's energy transition outlook by USAID. USAID is an international development agency of the Federal Government of the United States and it has launched its South Asia Regional Energy Partnership Programee (SAREP) to improve access to affordable, secure, reliable, and sustainable energy in six countries – Bangladesh, Bhutan, India, Maldives, Nepal, and Sri Lanka. Recently, PFC has partnered with USAID SAREP Team to support in its ESG activities.

Now I would like to invite Smt. Parminder Chopra, Chairperson and Managing Director to address the gathering.

Parminder Chopra:

Good evening, and a warm welcome to all of you. This is our first investor meet one to one after the COVID time, and I am happy to see a good turnout from our investor community. Today morning, PFC's results for the fourth quarter and financial year ending March 2024 have been declared. And I am happy to share that we have again delivered a remarkable performance.

I will start with PFC's consolidated performance. At the group level, PFC continues to deliver strong performance year on year. We continue to be the largest NBFC group in India with a consolidated balance sheet size of 10.40 lakh crore. For FY 2024, the consolidated PAT stood at 26,461 crores, that is 25% increase from the previous financial year. The group loan asset book registered a growth of 16%. On the asset quality front, we continue to see a decreasing trend in our NPA levels. The consolidated net NPA ratio for FY 24 stands at 0.85% as against 1.03% in FY 2023.

Now moving on to PFC's stand alone performance.

First of all, I am happy to share that we have closed the year on a high note by delivering an all-time high annual profit of 14,367 crores, a 24% increase from the previous financial year. With this, PFC is now the highest profit-making NBFC in India. I am satisfied to see that our bottom line is growing year on year. This is largely driven by our improving margins while ensuring prudence in provisioning, risk management, and governance.

Our steadily increasing profits enable us to maximize risk returns to our valued investors and shareholders year on year. I am pleased to share that the board has proposed a final dividend of 2 and a half rupees per share, the payout for which shall happen after the AGM approval. With this, the dividend for FY 24 has reached to rupees 13 rupees 50 paise per share. This dividend is complemented by the bonus of 1:4 already given out in this financial year. So if I talk on a pre bonus levels, the dividend per share would have been rupees 16 rupees 88 paisa per share.

Now talking of the key financial ratios, we have been sharing that we are targeting a spread in the range of 2.5%. I'm happy to share that we have achieved a spread of 2.64% with a net interest margin of 3.46% for FY 20 24. The spread is mainly driven by stable yield and improvement in cost of funds in FY 2024.

The yield for FY 24 stands at 10.01%. On the cost side, there is a considerable reduction from last financial year and stood at 7.37%. The market since last year has been quite volatile, so we have been keeping tight control on the cost of funds. We are maintaining our costs through an active liability management strategy, which is focused on - replacing high cost debt as and when window of opportunity is available. Then maintaining a mix of floating and fixed rate borrowing. And lastly, the balancing between the domestic and the foreign currency borrowing.

Last year, we have raised approximately 1 lakh crore in line with our strategic approach to maintain a diversified mix, 18% of our fundraising was through foreign currency borrowing, with a mix of short term and long term funding.

While talking about the foreign currency borrowing, I would like to mention that we have a very active treasury desk for managing the risk. Right now, 88% of our portfolio is hedged for the exchange rate as against 66% last year. More than 90% of the exchange rate risk is hedged for portfolios having a residual maturity of up to 5 years. And if I talk of the residual maturity up to 5 years, for US dollar-denominated portfolio, 100% of the exchange risk is covered. These numbers give us the confidence to say that we can hold on to our bottom line in a situation of wide foreign exchange currency fluctuations in the future.

Also, our strong capital adequacy ratio of 25% and a robust net worth of more than 79,000 crore build financial resilience and give comfort in managing future uncertainties.

While talking about resilience, I would like to discuss our asset quality. For more than a year, we have not added any new NPA. We continue to maintain 74% provisioning on the NPA portfolio, which is at the similar level as that of the last year. Owing to our prudent provisioning and active efforts for resolution, our net NPAs have reduced to 0.85% from 1.07% in the previous year. Here I would also like to mention that in last 5 years, our NPA book has reduced by nearly 50%. Our current gross NPA levels are at 3.34%.

Right now, we have a total NPA book of 16,000 crores, which comprises of 21 projects. Out of this, 13 projects worth approximately 14,000 crores are being resolved through NCLT, of which 7 projects amounting to 2,600 crores are under liquidation. The remaining 8 projects worth 2,200 crores are being resolved outside NCLT. Out of these 21 stressed projects, 2 projects with outstanding amount of 2,900 crore, i.e. 18% of the total NPA books are in the advanced stage of resolution.

First is the Lanco Amarkantak project, with an outstanding amount of 2,400 crores. It is a 1920 megawatt thermal generation project. The resolution has been submitted for NCLT approval in March 2024, and the approval is still awaited. As a prudent practice, we continue to maintain 76% provisioning for this project. As per the resolution plan, we expect more than 35% principal recovery.

The second project is the Shiga Energy Project with an outstanding amount of 522 crores. It is a 97-megawatt commissioned hydro energy project. For this, the resolution is being purused outside NCLT. The restructuring plan has been finalized. PFC has given its approval for the plan, and other lenders are in the process of obtaining approval. Currently, we have 31% provisioning on the asset, and we expect 100% principal recovery out of the resolution plan for this asset.

With the resolution of these two assets, we expect our NPA's to come down under 3%.

I would like to share the developments in the other two stressed assets where the resolution process has progressed.

One is the KSK Mahanadi project with an outstanding of 3,300 crores. It's a 3,600-megawatt coal-based project. This project is under NCLT. Last month, an expression of interest was issued, and active participation has was seen with twenty six expressions of interest being received. And we will be floating an RFP soon. For this project, we are already maintaining 55% provisioning.

Another asset is the Sinar Thermal Power Project with an outstanding amount of 3,000 crore. It is a 1350 megawatt coal based plant. The project was admitted under NCLT in September 2022, and resolution proceedings were stayed in the same month. Now the stay has been vacated, and expression of interest was published in March 24. 16 expression of interest has been received. And in this also, we will be floating RFP soon. We are maintaining 80% provisioning in this project.

On the overall provisioning front, there is no change in the stage 3 provisioning during the year. And we have continued to maintain 74% provisioning similar as last year. We believe that these provisioning levels are adequate.

As a prudent measure, management exercised its discretion for ECL overlay. Accordingly, we have additionally created provisioning on standard assets that is stage one and stage two assets to the tune of approximately 800 crores during the year. Currently, we have provisions of around 0.85% on standard assets.

Now I would like to discuss on two key areas impacting PFC. First is the PFC's loan book, and second is the impact of the recent RBI draft RBI guidelines for projects under implementation.

On the loan book front, I am delighted to share that in FY 24, we have successfully delivered on our promise.

PFC has registered a double digit growth of 14% in the loan assets. Here, I would like to share that our renewable book has achieved 25% year on year growth. With this, the renewable loan portfolio is around 60,000 crores. The loan asset growth was driven by the strong disbursements of 1,27,660 crores during the year.

While talking about the loan book, I would like to emphasize that PFC's earning asset book is close to 4,95,000 after considering investment of rupees 14,500 crore in REC.

The investment in REC is akin to our loan assets as it is not part of our routine investment. It represents capital which would have otherwise been deployed for lending. The REC investment has provided a return of around 15% this year. If we consider the total returns on our earning book, including REC Investments, our yield is at 10.18 percent and the spread is at 2.81%. From the overall earning perspective, PFC's asset book is delivering strong returns. This is further reflected with our position as India's highest profit making NBFC.

Now let's shift gears to our future loan growth strategy. Here, I want to emphasize on our strategy for building resilience. PFC is a systemically important NBFC managing asset book of 4.95 lakh crore on a standalone basis. For a company as big as PFC, it's important that the growth we achieve today enables the company to sustain and grow for decades to come.

Now, if we see the operating environment is becoming increasingly complex and challenging over the years. Interest rates are at the highest level in over a decade. Inflation continues to rise, Market volatility persists, and the geopolitical environment is ever changing. These recent challenges have brought forward the importance of maintaining long term financial stability for an organization. Therefore, today's environment demands that companies should have a steadier financial foundation with a stable profit growth, which is resilient to handle uncertainties.

With this in mind, in PFC, we are guided by the motto of “3R”: Realistic, Resilient, and Robust loan growth. We are focused on expanding our loan book in a way that continues to sustain over the years, delivers a steady bottom line, and maintain robust asset quality. The goal is to strike a balance between value and volume, enabling us to achieve consistent year on year growth and build a stronger and more resilient PFC. With this approach, we expect to have a similar loan book growth in the next financial year also. Key drivers for growth will include business in energy transition space, such as traditional solar and wind and energy storage solution coupled with lending in the distribution space, majorly under RBPF scheme.

Also, until renewable reaches critical masses to meet energy demand and energy stability. Funding for conventional generation will be needed for energy security. This will be another potential lending area for PFC. Till now, we have supported 50% of the installed capacity and we expect to maintain our market share in a similar range. Additionally, lending in the infrastructure sector will also contribute incrementally to our loan asset growth. Overall, our growth in the next few years will come from a diversified mixed of opportunity within the power and infrastructure sector.

To give an overview on the energy transition, Mr. Mayank from USAID will make a presentation today, this evening. However, I would like to briefly touch upon the improvements happening in the distribution space, which is a critical link to the value chain.

As you may be aware, PFC, as part of its developmental role, has been partnering with government of India for bringing in improvement in the sector and is acting as the nodal agency for government reform schemes. PFC has been undertaking the rating exercise for past many number of years.

Recently, the 12th integrated rating and ranking of the power distribution utilities has been released. This is an annual exercise being done to assess the performance of the DISCOMS. If we compare the results with the 11th rating report, there have been significant improvements.

AT&C losses have decreased to 15.4% in FY 23 from 16.2% in FY 22, inching closer to the national goal of 12 to 15%. Billing efficiency has improved to 87% from 86% in FY 22. With the implementation of the late payment surcharge scheme, the number of days of payable to DISCOMS to GENCO and Transco have reduced from 166 days to 126 days in FY 23. Here, I would like to share that after the implementation of the LPS rules, 72% of the legacy dues have been paid. Timely tariff orders are issued for 26 states and union territories for FY 24 as compared to 20 in FY 23 and 14 in FY 22. So the results of the reform measure and financing schemes implemented is visible. This is positive for the overall health of the power sector.

Let's now turn to the draft RBI circular for projects under implementation. We understand that one of the key concerns of the investors on these regulations is the potential impact on the provisioning. On this first thing, we would like to clarify that for the purpose of asset classification and provisioning, PFC is applying IND-AS methodology of expected credit loss. As per RBI guidelines, any incremental provisioning required under ICAP over and above in the AS norms needs to be created through impairment reserve and not through P&L. So any provisioning impact under these draft guidelines will not have any immediate impact on company's profitability. Right now, the nuances of the circulars are still being discussed among the financial institution.

So to assess the impact in medium to long term, we need more clarity. Just to give an idea, if we see our current outstanding book, around 25% of the total book is under construction. Now based on our preliminary understanding, the provisioning requirement primarily for projects under construction phase where DCCO extension has been opted. In the under construction portfolio, around 45% are conventional generation projects, which are generally long gestation, and where DCCO usually gets extended. The balance is towards renewable and transmission and distribution projects, they are comparatively of shorter gestation.

So if RBI clarifies on this understanding for applying provisioning only on cases where DCCO extension has been opted, the potential impacted portfolio would be much less. Here, I would like to mention that currently we are maintaining an average combined provision of nearly 0.85% on stage one and stage two assets.

Now the next concern is that the additional provisioning may require higher capital to be maintained for the project. So first question is how we will manage this and whether this increase in capital would increase the project lending cost.

On this, I would like to share currently we have a robust capital adequacy level of 25% as against the regulatory requirement of 15%.The tier one capital is at 23% against the requirement of 10%.

These numbers give us adequate comfort for future credit growth. On the future impact on capital, the situation is dynamic as the implementation of the draft circular is still being discussed. But RBI is focused on protecting the capital levels of financial institutions and is open to understanding the concern. The circular is being discussed among the financial institution, and if something material emerges, the same will be taken up with RBI.

Having said that, if any need arise to shore up capital, PFC is well equipped to raise perpetual debt from the domestic and international market. And we have sufficient and adequate cushion available under RBI limits for this. Given our ability to raise capital, I expect the business to go continue as usual without impacting the growth.

Now any additional capital would impact the lending cost, But it will all depend on future clarity and final guidance from RBI and also how the interest rate regime is playing. The situation is still evolving, and we will share impact as and when more clarity is received.

Before I conclude, I want to emphasize that PFC is actively taking steps to support the growth of the power sector in India, including the energy transition goals. In this direction, in FY24, PFC has set up its subsidiary PFC Infra Finance IFSC Limited in IFSC Gift City, Gujarat. We are the first government owned NBFC to set up operations in the IFSC Gift City. This subsidiary will provide foreign currency lending to drive the power sector's growth. We have already made a capital infusion of 100 crore in the subsidiary . We see IFSC subsidiary as a promising avenue to finance India's growth.

To conclude, we believe that our commitment to excellence combined with robust fundamentals positions PFC well to leverage future growth opportunities. Thank you very much. And now we are open to questions.

Comparer:

Thank you, ma'am. Ladies and gentlemen, we will now have the Q&A. As you raise your hand, we will have a volunteer come up to you with the mic. You are requested to kindly introduce yourself and the name of the company.

Shreya Shivani:

Thank you. My name is Shreya. I'm from CLSA. I have 2 questions. First is on the RBI regulation and the current loan book. So, wanted a clarification that of your DISCOM and short term loans, how much would be considered as project finance? Will all of your DISCOM loans be considered as project finance? I mean, our LPS and our loans ideally shouldn't be considered, but what is your view and understanding on the same? And second, Ma'am, is on the Thermal Capex. So we have, basis media articles and peer commentary we have heard is about 94 gigawatt of, thermal capex getting planned of which 74 would be non NTPC. So, your loan growth guidance of 12% to 15%, does it account for this thermal capex coming in? What is your view on it and when do you think the thermal capex will actually start moving on ground?

Parminder Chopra:

With respect to the DISCOM lending, especially under these LPS, LIS and RBPF, these are non-Project loans. So as per our understanding, the RBI circular, the recent draft guidelines shall not apply to them.

Shreya Shivani:

Ma'am, how much would be this of your total DISCOM?

Parminder Chopra:

I think substantial part that is around 70 % of DISCOM portfolio would be of these schemes. On your second question about the addition in the thermal Generation Capex for that part. So we are open to funding that, but as you rightly said most of it is coming under NTPC, and NTPC is a central sector, and they are not a borrower from PFC. So if something is coming up in the states, we are open to that, and we would be funding that, that may be coming in there are certain projects on which it is an ongoing disbursement. Projects have been sanctioned, but the capacities are yet to come or the project are yet to be commissioned. So on that front, we will be disbursing right now also. But if new schemes are coming, then we will be planning accordingly.

Shreya Shivani:

Ma'am, just to follow-up on the traditional or the thermal, Genco book, so a peer analysis simply shows that there are these electrical and mechanical kind of projects which also get clubbed in the thermal, in the book for our peer. So, do we not participate in such projects or because the trend is PFC's, thermal genco or the traditional genco book has been either flat or declining while for a peer, that book has been growing? And the main reason for growth there has been participation in these E&M kind of loans. So, are we not participating in those? What are we what are our views on the same?

Parminder Chopra:

See, what I understand, I can't say about the peers, but for PFC, the generation portfolio which we are showing is the purely generation portfolio. No E&M portion has been clubbed.

Shreya Shivani:

So the E&M portion, you don't participate or it's not it's not even in the other loan book.

Rajiv Ranjan Jha:

No, definitely, we participate under E&M, but it doesn't appear into the book because it doesn't lead to generation. There are electromechanical component in some of the schemes where we participate.

Parminder Chopra:

So that is appearing in the other loan book.

Shreya Shivani:

Got it. Very useful. Thank you, ma'am. Yes.

Andre Purushottam:

Hi. My name is Andre Purushottam. We are part of a family office, me and my wife. And we are shareholders in your company. First of all, ma'am, can I congratulate you and your team for an outstanding performance. It's really heartening to hear.

I had two questions. one was on the cost front and if you can break it up both into borrowing costs and operating costs. As far as operating costs are concerned, are there any levers that you have to drive further efficiencies either in terms of retires of senior and expensive personnel or cost, reductions that can happen with the aid of technology? That's one part of the question. And as far as the borrowing cost are considered, you referred to the retiral of high-cost debt. So are there significant opportunities that you see in the next one or two years in that area? And, therefore, can we see a significant, reduction, either as a percentage or otherwise of costs going forward in the next 1 or 2 years? That's my first question.

Parminder Chopra:

On the operational cost, cost you are say referring, so considering the PFC's overall revenue, So that portion is negligible. What I can share the maximum amount is the CSR expenditure 2%, which we have to incur. Otherwise, our costs are very miniscule because as far as the manpower is concerned, we are a very lean organization. So that doesn't contribute to major operational costs for us. On the other side what was your next question?

Andre Purushottam:

On the borrowing cost, Ma'am of high cost debt and any other measures that could be taken to reduce, your costs and therefore improve your margins.

Parminder Chopra:

The borrowing consists of 2 types of loans. one is the bonds which we borrow from the market and is at fixed rate, but there we don't have any prepayment option. The other part is the loans from the banks where the rates are floating but along with the prepayment option, and generally, they are priced a bit higher than the bond prices since they have the prepayment facility. So the retirement of expensive loan or high cost loan we were referring, that was primarily the term loans we have borrowed from the banks. Either banks have decided to reduce the interest rate for lending to PFC in the existing loan, or after prepayment, they have lended to PFC at a lesser rate later.

Andre Purushottam:

And one more question I had, Mam, was on risks. You've done very well in the last 2 years are there any significant risks that you can foresee the next year or two that could be confronted in the next two years?

Parminder Chopra:

See, one, that on the credit cost, I think provisioning front, we have sufficient cushion built in both on stage one, stage two, as well as on stage 3 asset. So we are not seeing any additional major risk on that front. But as we grow and as our regulator increases the compliance, so that could be one of the risks we can like these draft guidelines. So everybody, all the investors are concerned that what sort of impact it's going to have. So that is one risk that can be that is always open from the regulator point of view. And the other could be if any major fluctuations in the exchange rate is happening. I think these are the 2 major risks as far as our understanding that is there.

Andre Purushottam:

Thank you very much, ma'am.

Shweta:

Hello, Ma'am. Shweta here from Elara Capital. Ma'am, I have couple of questions. So one, your peer has already taken provision reversals on the biggest account that is Lanco Amarkantak contact. So is it that our LGD/PD, assumptions are different and that's why, so why, you know, like, despite having similar accounts, why the, accounting period on provision reversals is differing and therefore, are we expecting this to come by in Q1?

Parminder Chopra:

See, what I would request all of you that you may not ask the question with reference to immediate peers. You can ask why reversal has not been done by PFC. That would be a better way to ask a question.

Shweta:

Sure.

Parminder Chopra:

So as per our policy, when we get the final approval and when the resolution plan is implemented.So we have been consistently reviewing the provision at that stage. So NCLT approval is still pending. We are waiting for the NCLT approval to be received and resolution plan to be implemented, after which we will be doing the reversal. And obviously, when we do the reversal, then we will both we will be at the same platform.

Shweta:

Right. and Ma'am, just a related question. So you mentioned in your commentaries that, we have made an additional 800 odd crores of standard asset provisioning on stages one and two. So this is in line with the new draft norms or, is it, exclusive of that? And if so, then, what led you to put up extra provisioning?

Parminder Chopra:

See, this management overlay, what we were talking, we have already done till Q3.So it is not in this particular quarter we have done any management overlay. So the draft guidelines have come much later than that. So this was done. We had some reversals. But as a prudent measure, we thought that let us have a strong asset book and additional provisioning to take care of the any future uncertainties. So on that account, we have exercised that option, and you are seeing that on overall basis, we have reversals of just 134 or 124 crores.

Shweta:

Also, again related, should we imply that the private exposure on the renewable side is slightly expanding and are we coming from there?

Parminder Chopra:

See, it is once the management, overlay is exercised so you can it said in order to build the overall cushion on all the stage one assets. We have increased the provisioning to a minimum of 0.4% individually, not on the portfolio level. So this was the call management has taken.

Shweta:

Ma'am, one last question and I'll be harping on growth. So correct me if, my understanding is correct. So we are guiding 12 to 15 percent loan growth. Talking about the power sector value chain opportunities. So even though you answered in the previous question that on the thermal side, largely, NTPC is gonna pick up, from the 94 gigawatt, installation capacity that is expected. But, since we are in initial stages of emerging technologies like battery and storage, so there is ample opportunity with thermal coal back in reckoning.

Point number 1. Point number 2 on the renewable side, we are also expecting 313, extra incremental requirement, and we are very low today around 187. And, if I take it annual basis, we are only 12 gigawatt and I am not even talking about rooftop solar financing opportunity. On the DISCOM side, distribution capex is still ongoing And we have still not explored fully the infra side of the book. So we, despite this kind of funding opportunity and potential on the across the entire power value chain, what is leading to slight conservatism in our growth estimates? And just, part two of my question, so while you clearly explained that the new RBI draft, norms, given the fact that we are high on capital adequacy, it might not even burn our capital to that extent. So, if you can touch upon these two and tell us, where we are coming from on the growth targets where, you know, where you have more than 15% growth potential? Thank you.

Parminder Chopra:

See, we have always been talking about that we will be growing at somewhere between 12 to 15%. So you need to appreciate that our base is growing on which we are talking of the growth.So base has increased from 4,57,000 to 4,81,000. So accordingly, the numbers are we want to give realistic targets which we can achieve and we can sustain over a longer period. It is not that whatever is coming to us, we are funding. We have to build our book to sustain the future of PFC. So that is the motto by which we are going. For you, it may seem to be a conservative number, but actuals, whatever we can think of, we are giving. If there is more potential, we are always open to do to it that if we are finding more commercially viable projects. So we are open for that.

On this, your second question about the impact on the of the draft guidelines, I think a lot of clarity is required on these guidelines. Still, everybody is interpreting in the more you read, I think more confusion it gives. So on what portfolio you need to apply, how you need to apply, how forward to take it. So all those things need alot of clarity. We will be giving our comments to RBI and let us see what RBI is coming out whenever they come for the final guidelines. So this much only I can say.

Ramesh Bhojwani:

Madam,Ramesh Bhojwani from Mehta. We saw your AV presentation before you came. It was playing continuously. And it was so heartening to see that what we have achieved, the capacity of power generation of about 230 to 240 gigawatts. We are likely to double going forward in the next 5 or 7 years. And you are positioned exactly at a point from 86 when you started to 2024. This asset base and funding will double in the next 5 years is what I see. Just your thoughts on this. And second, a small thing, the T& D losses have very heartening to see have come down to 15.43%. With the help of installation of smart meters, can we not reduce it to a single digit loss so that we are generating power, but we are losing it? Essentially, my reading is we are losing it because of power theft.We put it in nice way T & D losses, but it is nothing but a power theft. And with smart meters, we can arrest this power threat. And this T& D loss can come down to a single digit. Maybe because of long distance transmission, there is a loss. Your thoughts on both

Parminder Chopra:

So on doubling the capacity, I would like to share that PFC has supported 50% of the total installed capacity in the country .And if I talk of the renewable capacity, we have supported 25% of the installed capacity. And we hope to continue with our share in the increased capacity of the country. So this could be one. The other thing that there has been substantial reduction in the T& D losses. And in some states, this is the average for the country we are discussing. But however, in some states, we are already experiencing T& D losses coming in the single digit.

Ramesh Bhojwani:

Excellent.

Parminder Chopra:

So there are few states for which this particular average is distorted. So we will think once those states also perform, then overall on the country level, we will achieve in single digit.

Ramesh Bhojwani:

And, one thought came to my mind with the renewables which you mentioned we need to accelerate and lay extra focus on hydropower. We have a lot of waterfalls whenever there is heavy rainfall in the northeast. That water causes destruction. By way of flooding and overflowing and, you know, whatever other infrastructure we created gets destroyed. If we can channelize with the waterways of India, not only we can see the destruction or the destruction, we can also reach the water down in the four southern states because in every summer, there is a report that people buy a bucket of water for 20 bucks. But hydro power is something which we can generate and put use to, an asset.

Parminder Chopra:

I would like, our government nominee director, Mr. Ajay Tiwari, to reply.

Ramesh Bhojwani:

Yes.

Ajay Tiwari:

This is actually a question directed to the government rather than PFC.

Ramesh Bhojwani:

Yes.

Ajay Tiwari:

So, as on today, we have a hydropower of around 47 gigawatt in the country installed capacity, which includes few projects of PSP also. From 47 gigawatt, now we are trying to, there was a lull in between, as you all know it, because of solar and wind coming at cheaper tariff. So there was a lot of lull in the hydro sector. But now the government is giving extra emphasis on the hydro power because it is very stable, it supplements your peak power requirement which also balances your RE intermittency into the grid.

Ramesh Bhojwani:

Yes.

Ajay Tiwari:

So it's a very quality, power, electricity. So we have put extra emphasis. And in the last, during last year itself, in the month of August, if you would have heard or read in the newspapers, that in the Arunachal Pradesh itself, the government of India signed 13 memorandum of understanding for 13 projects of 13 gigawatt. Yes,Thirteen projects of around 13 gigawatt in one day.

Ramesh Bhojwani:

And in one state?

Ajay Tiwari:

In one state.

So that is Arunachal has got so much hydro potential as you said.

Ramesh Bhojwani:

Yes.

Ajay Tiwari:

In the northeast, Arunachal Pradesh has almost has 60%, power potential. So that is what we are tapping apart from that in the other states also. We have taken a new scheme, which is going to be, approved very soon, which will be like central financial assistance in the form of equity to the state governments up to so that they can participate in each hydro projects up to 24 percent. So that they also get involved into the project fully, and they also get the revenues later on. So similar, steps are being taken in other states also.Like Jammu and Kashmir, lot of projects are coming up. And, you will soon see a rise of hydro balls again in the country. But in terms of percentage in the energy mix, that is about to that is to remain around 12% even till 2047. Because solar and wind RE is coming up. We have taken a target of 500 gigawatt in the country.

So, that is all.

Ramesh Bhojwani:

And, Sir, one thing you did not address correctly is that when we have excess water, say, in the northeast causing damage and destruction to whatever infrastructure or living we have created. But the same water, if we can channelize through by forming a waterway or a river ways of India From north, northeast to complete south, we can eliminate this water shortage forever for the entire nation.

Ajay Tiwari:

So that will be taken care of if the projects are multipurpose projects apart from the hydro. So our idea is basically to go for multipurpose projects, which will also add into irrigation, into the flood moderation downstream. Also, restoring your flora and fauna biodiversity. There are so many other, unstrategic importance as we all know in the northeast. So these are the things and the, damage that you are saying is caused downstream.

This can all be taken care of if these big projects come up in the upper reaches, middle, and lower reaches as we have planned. And there'll be more plans coming up, basically. More projects are being taken up, within the higher regions towards the border areas.

Ramesh Bhojwani:

Thank you, and all the best.

Comparer:

We'll take one more question, And we'll take one from behind because we have another presentation.

Yeah. Go ahead.

2nd largest, stressed asset for us is the thermal power project. So you just talked about, there is a process that started again after court cases. So would it see in next one year's project being started, fully? Because it's so it was a near completion when everything went out of the way. So can you throw some light? Because our provision is largest in also in this Sinnar power projects.

Rajiv Ranjan Jha:

That Sinnar power project is around 1350 megawatt, 5 units of 270 megawatt. So this project has been taken into NCLT. And you may be aware. So our first instructions from the COC side to the RP is to make the units operational, at least 2 units operational. So that, because the coal transportation, there is a limitation. The coal siding railway siding is not available really.So by road only, the coal can be transported. So the first instruction is to make 2 units operational. So RP is working towards that. That's what I would like to do. And the resolution process is on the way.

How much is the provision created?

Parminder Chopra:

80%.

Comparer:

We'll take one last question over there before we move on to our next presentation.

Manoj Chandani:

Very articulated talk and you answered all the questions very very well. A couple of thoughts for Mr. Tiwari. Yesterday, the Finance minister talked bbout a $20,000,000 inflow, because of the inclusion in JP Morgan index. How PFC is poised to capture that. She also talked about, the rupee advantages of the rupee. So apparently, the cost, of hedging is also come down, and it's a great opportunity. And Mr. Tiwari and also the CEO, if you can mention it, how we are poised for that. Point number 2. Again, Mr. Tiwari, what are the thought. We are the largest NBFC. You are very clearly said, but apparently very undervalued with a high yield and very low price to book. It can improve further if there is a consolidation. Today, there are 2 companies and there's a lot of cross holding. So Mr. Tiwari, how you can influence the biggest shareholder that is government. Because I know you can answer that and it can further improve the valuation from just 7, PE or, you know, forecasted just 5 PE and being the largest one that does not reflected clearly. But you have come post COVID. You answered everything and wish you all the best. My name is Manoj Jalim Chandani. Thank you so much.

Parminder Chopra:

I think you have, raised 2 questions. 1 was on the JPMorgan index. So we have already seen valuations going up after the declaration, and we expect that it will further be post result and looking at the overall power sector scenario. On the rupee, yes, I agree that the government has announced, but the market is still to be developed. So it is not only that we desire to raise funds from outside market in rupee, But it is also important that for the other party lend the person or the institution lending to us, how does it make a commercially viable proposition.

Because we are raising purely on the strength of balance sheet, of PFC's balance sheet. We don't have any support from government of India in this regard. So it has to be a commercially viable proposition for both parties. On the if you allow me, I would like to answer on behalf of Mr. Tiwari. On the consolidation front, yes, there is an issue of hold co discount and how you are seeing that the stock is underpriced.

You know, at that time of acquisition, the intent, the logical conclusion for the acquisition was the merger of the two companies. But somehow due to lot many other priorities of the government, be it COVID, be it economic situation or other factors. Somehow this issue was put on the back burner and we are waiting for our, honors or the majority shareholders whenever maybe in the times to come, whenever a thought process is put on this, so we will get the direction in this regard. You know that there are certain issues also with the deal which are required to be addressed. So I think a lot of thought process is required before taking any further action.

Comparer:

Thank you. Thank you very much for your active participation in this Q&A. Now I would like to invite Mr. Mayank Bharadwaj from USAID SAREP to deliver a presentation on India's energy transition outlook. Mr.Mayank Bhardwaj is an energy and infrastructure expert with more than 15 years of experience in financial appraisal and transaction advisory and is currently leading the clean energy investment mobilization vertical of SAREP.

Mayank Bharadwaj

Thank you. First of all, I would just like to thank PFC for giving SAREP this opportunity to, you know, present this compelling case, as we call, for clean energy investment in India. I'll, primarily cover the growth story. How the power sector has grown over the years.

What are the future drivers for growth? Some of the targets that the government has already, announced the policies. And, some assessment on what the investment potential looks like. So this is how the power sector has grown in India. If you see, about 4x growth in the installed capacity over the last 20 years, there has been, almost a 2.4x increase in per capita consumption.

And, similar, growth we have seen in the transmission and distribution lines. So last 20 years, this is the story. And it gets much, very more interesting, like, I think, from here on it's expected to double, in the next 10 years or so. Now, if I look at some of the drivers, some of the growth drivers, now, if I look at some of the growth drivers that are there, for this, one is the policy. The government policies that have created this conducive atmosphere for investment. You can look at that India still is at about 1.2, in per capita consumption. There's a huge potential there. We are still about 50% of the world average. That is the second one the population growth, again, expected to put a CAGR of around 7% in the overall electricity consumption.

As I mentioned, current capacity of 442 gigawatt, expected to become 900 gigawatt in the next 6 to 7 years. Already achieved the COP 21 target, which was there, 9 years ahead of schedule. So, again, a good market, growth drivers everything in place. The government has already announced, the target. So it's a push that has come, a voluntary push that has come, net zero by 2070. Second, as Sir also mentioned on 500 gigawatt of capacity, non fossil capacity by 2030. Reduction in GDP emissions capacity by 45%. We have already reached, or we're nearing the 200 gigawatt capacity in non fossil, which is there, which is about 45% of the current, installed capacity of India. Already, the 33% reduction in GDP from 2005 levels have been achieved. So we are well entrenched. We are well on our path to get and possibly get onto that energy transition. So the energy transition is real. It's happening. It's just a question of scaling it up further, just taking that extra push.

These are, some of the sectors, which will drive this growth. Renewable energy, most of us know about it. The EV and the charging infrastructure, the E- mobility, that will come in. The green energy corridors, the RE linked transmission system that is there and the as we call it, the new kid on the block, green hydrogen, which is there. If I look at the RE, the renewable energy, we are looking at almost 24%, 15%, large amounts of growth annual CAGR that are there. Around a 3.5x growth is required in solar, a 2x growth required in wind, a 6, or a 12x growth required in the storage segment.

Again, storage, as you know, very important to get the RE penetration or to get RE integrated into the system. Government policies, they have been there. The PLI, the production link incentive schemes for manufacturing of solar, which is there. The Kusum scheme and recently the Surya Yojana that was, announced especially for the rooftop solar. Expected to drive the growth further into this, into the RE segment.

Energy storage, VGF, the viability gap funding has been announced. It is there. The tenders are already out. Also, there is a promotion. There is, the incentive scheme going on for manufacturing of battery that is also in place.

The advanced cell chemistry, as we call it, the battery manufacturing, the pieces of the puzzle are actually climbing up. Also, some of the policies which were expected, like the RPO obligation for the DISCOMS they have been notified till 2030. And, the national repowering wind policy also actually came into the picture. That is notified again to revive the wind sector to have because wind, again, location specific.And, requires a lot of assessment. So that is one. It's expected to, push and revive the wind sector. Offshore is another one that will expect you to come up later this year, or maybe at the start of the next year.

Green energy corridor, the RE linked transmission system, as we see the interstate waivers on the interstate energy charges, transmitted charges, is already in place, for RE and now also for the green hydrogen sector. The open access rules for green energy also notified, contracted capacity reduced from 1 megawatt to 100 kilowatt hour. This is what the story looks like. $337 billion required in the next 7 to 8 years. Most of it, 50 percent in the solar space.

And additionally, about $29 billion are required for the green energy corridor, that is there. If I move on, e mobility. Electric mobility, the government has already announced a target of EV 30 at 30. So new vehicle sales should comprise of 30% of electric vehicles by 2030. We have seen growth, in this area. So about 50 percent, of there's been a 50% rise in 2023 in the sales, as compared to 2022. Right now, we have charging stations in the range of about 16,000- 16,500. And increase of about 80 times is required by 2030. So to reach a figure of 1,300,000 charging stations. Again, a very, promising opportunity.

On the electric bus segment, it's, again, a USD 10 billion investment right now as per the national electric bus program, where about 50,000 electric buses are to be deployed. India has about 23 lac, buses,. So you can imagine the market potential for the electric bus segment. Government of India, in collaboration with the US government, also has, is, you know, planning to set up a payment security for mitigating the risks associated with payment delays by the state transport undertakings. This, again, will mitigate investor risk, make more projects more bankable, and get the banks and the financing institutions to, finance those projects.

FAME, scheme one and two,again, capital subsidy was provided for setting up charging infra-stations for buying it 2 wheelers and 3 wheelers which were there. Overall, 192 billions investment opportunity in the next 6 to 7 years. About 3 billion dollars expected to come in charging infra and, around 177 in the vehicle production place, which will also include a lot of or a majority part of the electric bus.

Green Hydrogen,again, big opportunity. USD 100 billion in next, 8 years, which is required. Government has already come up with a National Green Hydrogen Mission, already put in around 3 billion dollars on the table under the SIGHT program, as we call it, wherein they have come up and put up the grant the subsidy on the table to attract this 100 billion dollars in the next 6 to 7 years. 5 millions metric tons domestic capacity by 2030 that is required. Electrolyzer manufacturing and, hydrogen projects growth, hydrogen production projects are already awarded. Incentives are already rolled out around 1500 megawatt per year for electrolyser production and about 4 lakh tons of green hydrogen product, green hydrogen projects. Production projects already, have been awarded by the government under the scheme. Primarily, the hydrogen, sector, the use cases are in the areas of chemical manufacturing, industrial uses, fertilizers, petroleum, and, energy storage. So this is what we're talking about 656 billion dollar investment.

Again, 8 years. So you can imagine the quantum of investment that we are talking about. That's why I was calling it a compelling investment, opportunity. Something which, people should not miss, something which people should participate in to become a part of the India's energy transition story. Again, most of it, expected to go into the renewables, about 50%, around 336 billion dollars followed by, electric mobility, another 190 billion dollars.

Now I have talked about all the good stuff. What's the challenge? So, some of the challenges that are emerging is that we have, been able to achieve those 10 gigawatts, those 12 gigawatts, those 15 gigawatts of renewable capacity addition year on year. And we are very comfortable in doing that. The question remains, can we actually scale it up to 40 gigawatt or 45 gigawatt annually? If you look at the last 2 years, in 2022, FY 23, we were able to achieve around 15 gigawatt, 15 to 16 gigawatt of RE capacity. Last year, FY 24, we were able to reach 20 gigawatt. But now the question is, can we further scale it up to 40, 45, and reach that, target of 500 gigawatt or not? As RE penetrates, as the composition of RE increases in the energy supply, the integration of storage becomes very crucial. So, again, the question is on how, where the storage can come in, and what are the opportunities and how the go and how the government policies actually, implements on the ground. That is one area.

So, again, development of adequate storage capacity becomes very, very crucial for more and more RE penetration to come in. And last piece, the low cost funds for the emerging technologies. Again, very crucial for enhancing the adoption, accelerating the adoption of, such technologies, making them more competitive in respect to the conventional, you know, ice vehicles or conventional hydrogen, production, processes that are there. So that, again, remains a challenge. One of the biggest challenges to really, come up and, you know, reach those 2030 targets.

This becomes one of the major issues, one of the major parameters which needs to be looked at. So why transition? I I mentioned, and I've covered that piece together on there's already an enabling policy environment, ambitious goals, the NDCs have been announced by the government. It's a strong domestic demand as I mentioned, there is export competitiveness, which is there. The support infrastructure already is there in place. For example, a lot of RE linked transmission that I mentioned already in place so that more and more RE can come up. So those are some of the major, factors, some of the major you know, support that why, the India's energy transition story, is there and why, one should actually invest in it.

So, where is PFC?

And I think, it we have discussed that today. So PFC has always been, at the forefront and is actually in a way contributing and driving this energy transition story, of India. More than 30 years, 3 decades of experience, in power sector and now diversification into the infra space as well. The long tenure loans, which are there 10 years 15 years actually gel very well with, the overall, concept of asset-liability mismatch.

I think we all know about that. Leading RE lender, it's there, supported almost 25% of India's RE, capacity. And lastly, it has, helped or it has, lend to sectors like RE. It has lend to sectors like e-mobility and energy efficiency. And now it's in a good position or a great position, actually, to put it all together and scale up further, into these sectors, giving or pushing the clean, energy transition or the India's energy transition story forward. That's it.

Thank you. And, in case there are any questions, I will be happy to take those questions here.

What's the downside to the story this time?

Question: I had 2 questions. One is of green hydrogen, where are we in terms of cost competitiveness of green hydrogen today and if are not there right now, how long will it take to come down?

Yeah.

You heard my question?

Mayank Bharadwaj

Yeah. Yeah. I heard your question. So, right now, the green hydrogen, we are somewhere in the region of USD 4 to 5, dollars, per kg that is there, which is, again, you know, when you need to be at least less than 2 to, you know, make it more competitive. So those, you know, the, what I mentioned about the policies, the incentives that the government is providing, those are expected to drive it down. If you look at US, the inflation act that came in, the target is to take it below 1 dollar in the next 6 to 7 years. So that is what the US is targeting. There is no such target or no timeline for India, but, in the next 3 to 4 years because it is expected to, you know, I will bite the bullet.

It may, reduce to those levels of, 2 to $ 3 here. But it will happen over a 3 to 4 year period. Yeah.

Question: You also made an important reference to export competitiveness. Right.

Could you just describe in some detail as to where does this export competitiveness arise from in terms of India's capabilities And, how do we see this, being exported given the fact that there would be considerable barriers towards importing dirty energy, so to speak. Right?

Mayank Bharadwaj

Correct. So, export competitiveness, I was, you know, if if I look at, primarily green hydrogen or green ammonia pieces, there are 2 or 3 factors. One factor which is very, important is land. Right. If you look at Japan and Korea, again, land is a major issue. So that is that is one piece where it comes in, second is the renewable energy tariffs. Right. So India's, tariffs, the renewable energy tariffs are one of the lowest in the world right now, which is a major component of actually producing green hydrogen. It constitutes about 40 to 45 percent of the cost. And third is, you know, the labour cost, which is there, which we harp on a lot of things. So I think these are some maybe three factors, that you can consider which will have that export competitiveness factor.

Ajay Tewari:

I can give you a little bit of idea on this, on export competitiveness. We are targeting to export green hydrogen to Japan, to Singapore, to Germany and similar other countries, even Korea, because they have a problem, as he's just explained, and, we have advantage there. And these countries are very keen on green hydrogen, For which, they are also likely to share the carbon credit generated out of it. Some of the carbon credits, they will adjust on their NDCs. And a portion of it, we will put it on our

NDCs, nationally determined contributions. So this kind of agreement are going to be signed between these three countries.

We are actually processing it, pursuing it. And, very soon we'll see that carbon credit will also be one of the factors for competitiveness. So I think other factors he has already explained. So these are the major markets we are actually looking at.

Mayank Bharadwaj

So you had a question?

Question: Yeah. This is a great, fantastic story. All positives. So what's your view on the downside?

Mayank Bharadwaj

This I will, not, you know, answer be on behalf of PFC. I can just give you my perspective that, the downside is there, in a way, because, the RE intermittency, is one of the biggest challenges, which is there and if you are not able to have adequate storage capacity in place, this is going to be somewhat of a challenge. That is one, second piece is obviously the growth factor of India. Right? Now if the growth factor of India is outpacing your capacity addition or the other pieces, then you'll have to look at it from that perspective.

Third is E- mobility. Right? Now when you start to transition from your normal ice to electric mobility, there's going to be a lot of demand, you know, which is generated. Now how do we cater to that and whether we are ready? So just some of top of the things, you know, that come up, which may have a negative impact on, on this story maybe, if, this is from my, expert's, you know, perspective. Rest if ma'am wants to add to something like that.

Ajay Tewari:

Let me just add to his what he's saying. The storage is the biggest challenge as of today. And what you are asking is the downside.It is not a downside but a challenge which we will meet. Already with the US, Indo US Taskforce has been created to look into the chemistry of this battery storage. Whether it is for the greatest scale battery storage or for the mobility for this scooties and 4 wheelers. So this battery, which actually uses lithium, which is a rare earth material or critical mineral, this is a challenge for us. So we are also exploring alternative chemistry, sodium based and other kinds of battery storage, for which India and the US both are working together.

And this is a very unique kind of energy storage task force, ESTF, which has been created during our Prime Minister's talk with the U. S. President, last time when our Prime Minister visited. So this is at the very high level which has been decided. So I think this task force is already working in the industry.

It is housed in the Indian industry, not with the government. So this is working overnight and we are going to come up with those solutions. And we have a lot of startups in our country. So I think this challenge will also be. And, USAID is also the part of the story of the entire work that the way we are working on the storage part, battery part, basically.

Question: Your take.

Parminder Chopra:

We as a financial institution, I think lot of work is being done on the technologically improvement to make these technologies as viable. So we are already there. And as I think earlier also our director project said that we are waiting, these technologies to be commercially viable. So initially we will go with a caution. And once these are fully commercially viable, then we are open to funding all these opportunities.

Perfect. Thank you. All the best.

Ajay Tewari:

Tell about the start up, which is already worked upon the storage based technologies in India. IIT Bombay, IIT Roorkee and this energy storage task force, the industry, they are working together to create, to scale it up from the start up in IIT Roorkee campus and also IIT Bombay.

So that is how we have actually worked out. And very soon you will see that we are scaling it up, making it commercially viable and India will show the way in the alternative chemistry of the batteries.

Sure. Thank you.

Comparer:

Thank you, Sir.

I think that was really a very active participation over there, and I am sure a couple of people behind were deprived of asking questions because we were only looking at the ones in the front. Ladies and gentlemen, we would like to take this opportunity to thank each and every one of you for taking time out of your busy schedules to be here with us. Thank you very much. Do join us for high tea, and have a lovely evening. Take care.