



Transcript

Rural Electrification Corporation 1QFY17 post result Conference Call

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Moderator:

Mr. Rahul Modi	– Antique Stock Broking Ltd.
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Moderator: Good afternoon ladies and gentlemen. I am Honeyla, moderator for this conference call. Welcome to the post 1Q FY17 results conference call for Rural Electrification Corporation. We have with us today Mr. Ajeet Agarwal, Director – Finance and team. At this moment, all participant lines are in the listen only mode. Later we will conduct a question and answer session. At that time if you have a question, please press * and 1 on your telephone keypad. Please note that this conference is recorded. I would now like to hand over the floor to Mr. Rahul Modi. Over to you sir.

Rahul Modi: Good afternoon. At the outset we would like to thank Mr. Ajeet Agarwal and team for their time out and participating in this call. And I would like to thank the participants. I would like to handover the call to Mr. Agarwal. Thank you and over to you sir.

Ajeet Agarwal: Good afternoon to all of you present. Myself Ajeet Agarwal, Director Finance of REC, assisted by ED – Finance Mr. Sanjiv Garg, GM – Generation Mr. V. K. Singh, GM – T&D Mrs. Valli Natarajan and Company Secretary Mr. Amitabh. Hope that all of you present here have the results of REC declared yesterday. If somebody wants us to brief about the results or can we start with the question and answer session straightaway?

Rahul Modi: Sir, we can start with the Q&A also sir, that is fine. That will be fine.

Moderator: Sir, can I announce?

Rahul Modi: Yeah.

Question and Answer Session

Moderator: Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

We have the first question from Mr. Kunal Shah from Edelweiss. Please go ahead.

Kunal Shah: Hello sir. Good afternoon. Sir firstly, in terms of again coming back to this entire bond repayment under the UDAY scheme. So, finally out of 30000 crores, what are we anticipating over the next, say particularly in this fiscal? And how are you looking at this scenario in terms of yields? So, today when you look at it, yields are quite strong. In fact the margins have been somewhere around 4.7 odd percent. So, to that extent we are not seeing that kind of a pain on the margins with this situation and the State utility is also improving. So, are we seeing any kind of a pressure on the yields going forward or how should we look upon it in terms of the margins?

Ajeet Agarwal: As far as the UDAY part is concerned, as we have just mentioned in our presentation that REC has received by the end of the first quarter is around 30052 crores. This is the money we have received. The part of it, which was 10000 odd figure, was by March 2016 and 21000 approximately have been received in the first quarter. If you look at all the twelve States which have joined UDAY till date, the major State which has joined are UP, Rajasthan, Haryana and Punjab, where the REC has a maximum exposure have already repaid their dues which were outstanding as of September 2015. And the 75% of the dues, those dues have been received by us in cash. Then I would like to clarify about REC, as far as the REC is concerned, we are not going to get any bonds, neither we have to invest in the bonds. The money has to be repaid to REC in cash. All that money which we have

received has since been utilized and placed in the business. As regards to the future likely receipts under UDAY is concerned, we understand that in the last week two more States have joined, State of Madhya Pradesh and Pondicherry. But, we do not have a very sizable exposure in these two States and the impact may not be that much. The major two States where the REC has the maximum exposure is the State of Maharashtra and Tamil Nadu. Today, as of date when we are talking, there is no indication of their coming to the UDAY. And the moment they come on the UDAY, it might impact, in the sense that some dues might be coming back. So, as of today whatever we were initially planning of 45000 crores was the total outstanding in these States, which have already signed the UDAY. And approximately 75% of their dues, totaling in terms of 31000 hence has been received. Regarding the yields as you have mentioned, yes, as you can see that the cost of borrowing is going down in the market and our interest rates scenario is basically determined on the lines of the cost of borrowing. If I have 12% kind of yield today, then my cost of borrowing at that point of time used to be 8½% to 9%, with a spread of 3% and odd we have been keeping in mind. Considering the product mix that the REC has, yes, we have been getting an yield of 12% plus. But, of the last two months we have seen the cost of borrowing going down quite substantially. Today you can raise a three years paper or a five years paper with less than 7½%. So, there is ample scope for us to reduce our lending rates, but keeping the margins and the spread intact.

Kunal Shah: Sir, when we look at the balance 25% which is there, 75% has got repaid, how are we seeing this re-pricing of this balance 25%? Is it continuing at a similar rate, where we have lent or maybe there is a demand in terms of breaking down the cost even for the balance 25% after the repayment of 75%?

Ajeet Agarwal: No, as far as the balance 25% is concerned, the scheme does mention that for the banks, they have not mentioned anything for REC and PFC, because REC and PFC as such do not announce any base rate of their own. The scheme does provide for a re-pricing of these loans at the bank base rate plus 0.1, 10 basis points over the bank base rate. So, we are in discussion with the utilities. Then we will work out our own base rate kind of model. We should not be less than 10% in any case. Then we will have a bilateral discussion with the utilities, how this balance 25% is going to be re-priced for us.

Kunal Shah: Okay. And any scope that they would be repaying this another 25% as well and not hold anything with them (inaudible)?

Ajeet Agarwal: Yes. Most of the utilities have been working on issues with DISCOM bonds duly guaranteed by the State Governments. And the State of UP and Rajasthan has started working on these DISCOM bonds. And they are likely to see the marketability of these bonds. If they are able to sell these bonds in the market maybe at a pricing, though they are looking between 9½% to 10%. And once they get the cash after selling the DISCOM bonds, some of the States, the State of Rajasthan have already sold some DISCOM bonds in the market and repaid the full amount to the banks. So, if they are able to sell the DISCOM bonds duly guaranteed by the State Government and get the cash receipts with them, REC doesn't mind to get the balance 25% in cash also.

Kunal Shah: Okay. So, that is also possible. And when we look at it in terms of incremental yields, so how are they? Today when we look at it in terms of our lending rates for the projects on the generation and on the T&D side?

Ajeet Agarwal: The generation projects at present interest rates, as we have internal categorization of the borrowers is for the State sector it goes like, A plus, A, B and C. A plus category States which are analyzed internally by us are having the least interest rates which start at 11½% today. Likewise in the private sector we have an integrated rating system and we have IR-1, 2, 3, 4, and 5. And the minimum rate of interest in the private sector is also starting at 11½ and going as high as 13½% as of today. But, considering the today's scenario there is a scope for reduction in the interest rates.

Kunal Shah: Okay sir. As of now we have not actually reduced it, so it is not inaudible?

Ajeet Agarwal: No, we were waiting for the latest policy announcement by the Reserve Bank of India, which has been done on 9th of August this month. And we are awaiting for another weeks time to see how the yields are going to, the bond yields are going to stabilize. And accordingly we will take a call and decide.

Kunal Shah: Okay. And demand is there at 11.5 in terms of REC?

Ajeet Agarwal: The demand is there. The 11.5 is the notified rate for us. But, in the State sector we do provide them some discounts on quality assets. It is no bar that we cannot go below 11½% in the State sector projects. Considering the total project viability and other things like the nature of borrower, we can go below 11½% also.

Kunal Shah: Okay. Thanks a lot sir.

Moderator: Thank you sir. Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad.

I repeat, if you have a question, please press * and then 1 on your telephone keypad.

Sir, the next question is from Mr. Anurag Mantry from Jeffries. Please go ahead.

Anurag Mantry: Good afternoon sir. Just to clarify once again, so basically you have, the States that have joined the UDAY as of now, from which you have already got prepayments; you have got repayments of 31000 crores. In that you have exposure of 45000 crores. So, there is a balance of 14000 crores, which is still pending, which you will get back.

Ajeet Agarwal: Yes, all approximately. You can work out the 75% as (not clear), while 31000 (audio break). Yeah, it is 42000 and to be exact it is 42323.

Anurag Mantry: Okay. And so this balance that you will get, you are not sure right now whether you will get this, the mode in which you will get it back, because these will basically be the bonds issued by the DISCOMs?

Ajeet Agarwal: Yes. As far as the REC preference is concerned, we are not obliged to take bonds, either the SDL bonds, which were recently issued for the 75% also and the balance 25% also. In case the bonds are having a good coupon and guaranteed suitably by the State Government, it could be looked at as an option. I am not denying the fact that we will not subscribe to the bonds, only what coupon has been offered to us on the bonds.

Anurag Mantry: Okay, understood sir. And this amount of 42323 does not include the exposure that you have to Maharashtra and Tamil Nadu, right?

Ajeet Agarwal: It does not include. I am talking of the States where we have an exposure and where MoU have already been signed and has been implemented also.

Anurag Mantry: Understood. So, what is your exposure in Maharashtra and Tamil Nadu?

Ajeet Agarwal: If you look at the total figure which was worked out as of 30th of September, 2015, was in the range of around 75000 crores. Out of which around approximately 45000 stands covered. So, balance remains around 30000 crores. Hopefully the State of Maharashtra and this Tamil Nadu should be having exposure of approximately 20000 crores. But, we will confirm this figure later on. Right now I do not have exactly immediately the figure. But, it should be....MP which has recently signed; we have an exposure of around 4000 crores. So, approximately another 30000 crores or 32000 crores. If Tamil Nadu, yes, as of today I can say this total exposure in Tamil Nadu is around 13000 crores. As of September it should be slightly lesser. As far as the Maharashtra is concerned, we have around 9000 crores as of June. Maybe 1000 crores less you can make it. So, approximately 20000 crores in these two States. Madhya Pradesh another 4000 crores which has recently joined. Madhya Pradesh in case they say everything has got implemented, then we should be getting another 2000 crores back.

Anurag Mantry: Right. And the balance would be Pondicherry and other States?

Ajeet Agarwal: Pondicherry we don't have any.

Anurag Mantry: Okay, understood. Right sir. And secondly on your overall the kind of loans that you were disbursing post the UDAY scheme has come in, if you can give some color as to what kind of projects you are getting into and what are the indicative ease that you are getting? Or what is the spread that you are eventually making?

Ajeet Agarwal: As far as the RECs business activities are concerned, they are going as normal as we have been doing prior to the UDAY also. And I have been maintaining and I have been clarifying this stand assuming REC has been directionally stronger in the T&D segment. Transmission and distribution predominantly it is the State sector only. Assuming that the UDAY has a loan component outstanding as on 30th September 2015, ongoing process that we have been sanctioning, the projects in transmission and distribution on a going concern concept and the disbursement takes place over a period of time. Just to give you an example that assuming I have sanctioned a project of 100 crores in the month of June 2015, a disbursement of 30%, 30 crores have been drawn by September 2015 that becomes the part of UDAY repayment. The balance 70 crores is yet to be disbursed by me, after September 2015 is being disbursed as per the milestone agreed with the borrower. Normal activities are going as usual. T&D we have been going aggressively in sanctioning the projects. As far as the generation part is concerned, off late we have been very actively considering this funding in the State owned GENCOs and renewable projects. Recently we have made certain policy amendments in the renewable funding, where we can go funding up to fifteen years. Collateral to some extent has been compromised, which means we are not taking collaterals in a large size projects. Our loan component in renewable, we can take in a single, sole lender up to 300 crores of debt, which was earlier 150 crores to 200 crores. So, now REC considering the overall focus of the Government of India on the renewable has started very proactively looking into the funding of the renewable projects. And we hope that in the balance remainder of this financial year, we should be having the approvals of the renewable projects

to the tune of 3000 crores to 4000 crores. Minimum 4000 crores to 5000 crores, as the number of projects are already in pipeline. And similar kind of disbursement at least we anticipate in the balance month of the financial year, in the renewable segment. So, that is the area we are trying to catch up very fast.

Anurag Mantry: Right. So, you are saying minimum 4000 crores you should have in terms of sanctions for the renewable segment.

Ajeet Agarwal: Because, it is based on the pipeline that we have on today.

Anurag Mantry: Right, understood. And sir, any outlook in terms of how you are basically using this cash? Is it apart from investing in say, NHPC or in bonds of State owned enterprises? What are the basically uses of cash you are envisaging?

Ajeet Agarwal: What has happened, if you look at the presentation we have released on the first quarter, you would find that the REC has not resorted to any kind of long term borrowings as of today. Whatever the borrowings we have done is only through the commercial paper with a short term liability, in order to match the receipts likely under UDAY. So, (not clear) got from the UDAY till it gets disbursed on my normal activities, we have been investing this money in the mutual funds, corporate deposits, fixed deposits, commercial papers and has yielded us returns of almost 7½% on annualized basis. So, as of today all the money has since been utilized. And day before yesterday we have borrowed again from CP, 3000 crores for a duration of 45 days at a rate of 6½%. So, since our recovery is in September, in the month of September 2016, we hope that we should be utilizing, rather we have utilized all the money which we have got from UDAY and (audio break) with the disbursement, with no long term borrowing resorted to as of date. And we intend to go on a long term borrowing by October 2016 onwards and by that time the rates have already stabilized. And as of 30th June, yes, there is some money in cash of around 12000 crores-15000 crores were made available to us, because we got a payment on 16th or 17th June of 12000 crores from the State of Rajasthan. But, as of today there is no bank and cash balance available with us.

Anurag Mantry: Right, understood. Sir, final question from my side. There is a particular account which has gone into litigation as your notes to accounts mention for asset classification. If you can just give us further details of what has happened in that account and why you have decided to basically recognize the interest income for that account rather provide for it?

Ajeet Agarwal: No, let me explain to you. RKM is one of the projects where the PFC happens to be the lead financier and REC also has a good exposure of 1800 crores approximately. This project has gone into certain problems with the Enforcement of Directorate with reference to the customs duty issues, where their accounts were seized by the department and the party has gone into the court, stating that there was no merit for the Enforcement Directorate to seize their accounts. As a result of which the borrower, the lenders could not be paid in time. And there are some 500 crores to 700 crores of FDRs were not released by the ED. So, the High Court after seeing the merit in the case has issued a stay order, stating that since the issue with the ED is resolved by the developer, the lenders will not declare this project as NPA, because it is of a technical nature. Off late now we understand that the ED has already settled the issue with the developer. And last week we had a meeting with the Power Finance Corporation, where it has been agreed that the PFC is taking a lead in requesting the Court to vacate the stay and REC will also follow the suit. And hopefully by this quarter or maybe in the next quarter, we should see that the stay is vacated.

Anurag Mantry: Right. So, basically after that you will be able to upgrade the account?

Ajeet Agarwal: No, account is not downgraded as of today. It is status quo because we have not downgraded this account. Account that is what the order of the High Court is. You cannot downgrade the account to a NPA category or a substandard category, unless the issue gets resolved. So, it is a sub-judice matter and we are making this account as standard in our books.

Anurag Mantry: So, what happens after the (inaudible)?

Ajeet Agarwal: After, we don't expect that the account will be downgraded to NPA. With me my GM – Generation Mr. V. K. Singh is present, who would like to give little bit more details on the project please do.

V. K. Singh: There are some more sanction which are lying pending with the lenders as of today, which we have not effected because of all these litigations. And moreover the 500 crores FDs which were given to the customs authorities will also get de-flushed. And by that de-flushing, the company will get sufficient cash to clear all the dues of the lenders. And we expect that our dues till June will be settled very, very shortly, June 2016. And additionally in the meantime with whatever funds the company has, they have commissioned two more units in the projects. So, projects are also in any case progressing well. And the chances of getting this account turning NPA is probably ruled out at this point of time.

Anurag Mantry: Right. Thank you sir.

Moderator: Thank you sir. Sir, the next question comes from Mr. Vishal Biraia from Antique Stock Broking. Please go ahead.

Vishal Biraia: Good afternoon sir. Sir, my question pertains to the opportunities that you have in the near term for lending to T&D space. Sir, if you could quantify the opportunities that you have from the Central as well as State sector in the near term for FY17, for FY18, because we understand that there is a huge opportunity in the T&D space, there will be huge CAPEX. But, if you could quantify in the near term what is the kind of lending opportunities that you have, it will be great sir.

Ajeet Agarwal: What we are just trying to work it out, it is approximately 25000 crores of sanctions are likely to be in pipeline. Here in the transmission sector I would like to add one more thing, the RECs one of the subsidiaries, REC TPCL is the bid process coordinator for awarding the lines to the private sector on a competitive bid basis. Almost seventeen lines have since been handed over through that subsidiary company, which has gone mainly to the private sector companies like Reliance, Sterlite and big names are there. And they are likely to approach us and we have started approaching them for lending also. And there the question of interest rates has started coming in. And we are very proactively looking into offering a very good rate of interest to those companies like (not clear), Reliance, Sterlite, who have been awarded certain transmission lines for construction. And this is the area which we have been very, very aggressively looking at and hopefully in the times to come we should have a very good result at this private transmission developers also. Otherwise we hope that 25000 crores to 30000 crores of sanctions from the State Government and the distribution segment shall be coming forth.

Vishal Biraia: So, this is inclusive of this private and the State, 25000 is cumulative, right sir?

Ajeet Agarwal: 25000 we are anticipating only from the States.

Vishal Biraia: Okay. Sir, have we been talking to some States for doing this? Do you see this actually materializing or this is just an expectation that this should happen?

Ajeet Agarwal: No, these are our ongoing processes. You must have seen that the REC has eighteen projects spread across India. REC has an office in almost all the State capital. And we are in one to one direct touch with all the State utilities through our local project offices on a day to day basis. And we know what are the orders, what are the CAPEX plans for each and every State and how it is going to materialize over the period of next two to three years. And this is how we just work out over our market share in these lines. And we have been very aggressively screening the distribution segment and we will continue to do so, with the help of our relationships, with the help of our presence in the field, and CAPEX plans for the State which we are in very specifically on the day to day basis.

Vishal Biraia: Okay. Sir, for FY18 what would be the projections for sanction sir?

Ajeet Agarwal: It will not be very prudent for us to make a future statement as of today. I have been advised not to do like (audio break) make forward looking statement; it will constituted as a forward looking statement. But, hopefully you can see the trend which we have seen in the past.

Vishal Biraia: That answers my question sir. Thank you.

Moderator: Thank you sir. Sir, the next question comes from Mr. Amit Goel from Rare Enterprises. Please go ahead.

Amit Goel: Sir, hi. Thank you for the opportunity. My question has been answered sir. Thank you sir.

Moderator: Thank you sir. Sir, the next question comes from Mr. Saurab Kumar from JP Morgan. Please go ahead. The question is from Mr. Saurab Kumar from JP Morgan. Please go ahead sir.

Saurab Kumar: Hi sir. I just want some better clarity on this private sector books. Sir, we have 31000 crores odd outstanding, of which 9000 crores odd is restructured. And another maybe 1600 crores is in NPL. So, of the balance 20000 odd crores sir, how much will be operating in nature, which will probably not then slip into restructured NPAs? So, what will the balance left? And what will be your expectation of how much can potentially slip into restructured here?

V. K. Singh: I think I cannot right now give you the exact number. But, roughly we have thirty four projects under private sector segment, of which roughly fourteen to fifteen projects are commissioned.

Saurab Kumar: Fourteen to fifteen are commissioned, okay.

V. K. Singh: So, what is the total exposure when this is commissioned and what is the ongoing, what is the exposure of the ongoing projects, I do not have that number immediately? I can share subsequently.

Saurab Kumar: But roughly?

Ajeet Agarwal: Up to 15000 worth of projects are already commissioned. 9000 as you mentioned is already under restructured, so major ones are commissioned (not clear).

Saurab Kumar: Sir, your voice is not coming properly. Can you just tell me how much is commissioned?

Ajeet Agarwal: The project like (not clear) is commissioned. The Indiabulls is commissioned. RattanIndia is commissioned.

Saurab Kumar: No sir, what will be the total value?

Ajeet Agarwal: (Not sure) is also recently commissioned. Nagarjuna is likely to be commissioned. These are the projects where we have very large exposure. So, hopefully the State position whichever we have done, the NPAs as of today, barring those I don't expect in the near future any projects is under that kind of stress, which could slip into the NPAs category. Even if you look at our NPA list, which we have been publishing, you will find most of the projects have been termed technical NPAs. The assets are on the ground due to these, initially the fuel issues were there. The issues of coal mine, de-allocations are there and partly due to the NPAs. So, we hope that in the times to come, most of these assets which have been declared as the NPA could be recovered back, barring one is the Corporate Power which is basically not yet commissioned. Rest of the projects are already commissioned ones, like if you look at the Essar Power Mahan, if you look at (not sure) power, if you look at the Konaseema, Alaknanda Hydro Power project, these are all generating projects. Due to one reason or the other, they could not generate sufficient revenues. And at that point of time, this 5/25 scheme was not made available by the RBI. Had it been in place, things would have been slightly different scenario today.

Saurab Kumar: Okay. So sir, broadly can we say of the 20000 odd crores book which is either not restructured and not NPA, may be about 10000 odd crores is already commissioned, so the rest if any, will be on the remaining 10000? Will that be a correct assessment?

V. K. Singh: I think out of 20000 crores, 14000 crores-15000 crores commission and (inaudible).

Ajeet Agarwal: Out of that 20000, you can take 15000 worth of projects are commissioned.

Saurab Kumar: Okay. So that was helpful.

Ajeet Agarwal: (Not clear).

Saurab Kumar: Okay. And sir, this 12000 odd crores of public sector loans which are restructured, this is what COD extension?

Ajeet Agarwal: Yeah, primarily it is the COD extension. As you have seen, the RBI has a special dispensation given to REC and PFC that we could be the sole lender in the State sector projects. The number of projects which we are talking in the State sector is hardly two or three. I can mention the names of these projects. One is the UP Anpara, which has already been commissioned now. But, some delay was there. So, we have to make a provisioning of it. Another is the Kakatiya project, the APGENCO. There we have an exposure of 2300 crores. So, total number of projects is four today. MSPGCL Chandrapur, where we have an exposure of around 4400 crores. And another MSPGCL project of Parli. So, these are the four projects, two in the State of Maharashtra, one in Andhra Pradesh Kakatiya and one in UP. Out of these, Chandrapur is likely to be commissioned soon and Parli is also likely to be commissioned soon. And by October 2016 we hope that both these projects should be commissioned. In each of these projects our exposure is, in the case of Chandrapur is 4400. In case of UP, it is 4700, APGENCO is 2300 and MSPGCL Parli is 1000. So, these are the only four projects which have been restructured due to the delay in COD.

Saurab Kumar: Okay. So, only these will (inaudible).

Ajeet Agarwal: One is already commissioned; two are likely to be commissioned by December itself. And Kakatiya is also nearing commission. So, during this financial year all the four projects will be commissioned.

Saurab Kumar: And it takes you one year after commissioning to reverse them back to standard, right?

Ajeet Agarwal: Provisioning will be reversed then.

Saurab Kumar: After one year, right?

Ajeet Agarwal: Yes.

Saurab Kumar: Okay. And sir, basically in terms of your credit provisioning cost, overall your 1Q levels have not been as good as we thought. So can we and there is no new asset which has slipped into restructured this quarter. So, will that trend continue over next two-three quarters you think or....?

Ajeet Agarwal: It is likely to continue barring one or two smaller projects, which are readily not available, the details. But, I don't think there will be any major project which will be slipping into this restructured category.

Saurab Kumar: The worst of restructuring is behind you now? You may just have to make incremental provisions on these things?

Ajeet Agarwal: Yeah, incremental provision will be made out, because already by the current year end we should be touching 4.25% and next year we can attain 0.75% making it a total of 5% on the previously started projects and on the new projects, already we are making a straightaway provision of 5%. So, it is not an issue for us.

Saurab Kumar: Okay. And will you consider moving that into accelerated manner, since you already have a very good profitability; just make an accelerated provision or no?

Ajeet Agarwal: That would be thought of, but presently we have not thought over it. Considering the profit scenario, we can definitely make it accelerated provisioning.

Saurab Kumar: Alright sir, thank you very much. Thank you for your time.

Moderator: Thank you sir. We request the participants to restrict their questions to only two questions in the initial round. Thank you.

And the next question comes from Mr. Asin Bhand from HSBC. Please go ahead.

Asin Bhand: Thank you sir. My questions have been answered.

Moderator: The next question comes from Ms. Devika Malik from India Ratings and Research. Please go ahead.

Devika Malik: Good afternoon. My question is how much investment has REC made in AT-1 bonds this year?

Ajeet Agarwal: We have made 1500 crores of investment in three banks, Vijaya Bank, Syndicate Bank and Indian Bank, 500 crores each.

Devika Malik: Alright. And sir, if I may know the yields for this?

Ajeet Agarwal: Yields have been ranging from 11.10% to 11.25%, the ratings of these banks.

Devika Malik: My questions have been answered. Thank you.

Moderator: Thank you ma'am. The next question comes from Mr. Abhishek Murarka from India Infoline. Please go ahead.

Abhishek Murarka: Hello? Good afternoon sir.

Ajeet Agarwal: Good afternoon Abhishek.

Abhishek Murarka: Sir, regarding this RKM Powergen, what is your exposure to them?

Ajeet Agarwal: Our exposure is around 1800 crores in total as of today.

Abhishek Murarka: Okay. So, if this account were NPA, then it would be in D-3 category?

Ajeet Agarwal: Pardon?

Abhishek Murarka: Sir, if this account was NPA, then it would have been in D-3 category or what classification would it attract?

Ajeet Agarwal: As of today we are showing standard and suppose if it becomes NPA, it will be a substandard and then accordingly they will be made out. As of today already 5% provisioning we have made it. Assuming that hypothetically if the asset turns out to be NPA, another incremental provisioning of 5% of the loan outstanding as on date shall be made out. As of today we are not anticipating this to slip into the NPA category.

Abhishek Murarka: Got it. Got it. Okay sir, thanks. That was my question.

Moderator: Thank you sir. The next question comes from Mr. Devam Modhi from Equiris Securities. Please go ahead.

Devam Modhi: Sir, just wanted to understand that for the incremental lending to an SEB, what is the kind of interest rates you are looking at in terms of T&D as well as generation, to a TRANSCO or a GENCO? What is the kind of marginal interest rates we will be looking for in incremental lending?

Ajeet Agarwal: Let me just give you what is the present rate of lending as of today for the transmission center we have 11.25% to start with. And the distribution we have 10.75% rate of interest, the minimum which we have been charging as of date, barring the discount which we offer for a State sector. And on the generation segment we have 11½%. As we just mentioned in response to the earlier question in case the cost of borrowing continues to be in the same range as we are witnessing today and the trend will continue till the financial year end or maybe latest say, by December. We feel there is scope for reduction in the interest rate by 25 to 50 basis points. So, this is being a market driven thing, so I cannot make a very kind of sweeping statement that I should be reducing it by 1%. Today we might decrease it by 50 basis points, but tomorrow we can increase it by another 25 basis points. So, these are the market dynamics forces which decide on the lending rate and we have been looking at it. So, hopefully as the things stand today, there is scope of 50 paisa reduction in the interest rates.

Devam Modhi: So, basically we are talking of something like 9.5 to 10.5 sort of range between GENCO and TRANSCO?

Ajeet Agarwal: Not exactly we are looking in the range of 9.5 to 10.5. Yes, in terms of renewables, we are looking in those lines. Renewables we are trying to focus more. But, on the conventional side the interest rate might come down from the present level, not more than 50 basis points. So, it should be in the range of 10½% to 11%.

Devam Modhi: Okay, sure sir. That is all from my side.

Moderator: Thank you sir. The next question comes from Ms. Chinmaya Garg from Dron Capital. Please go ahead.

Chinmaya Garg: Hi. Actually by what time do you think that disbursements will start more than repayments that will happen? When will the loan books start growing again?

Ajeet Agarwal: Madam, if you look at the loan book as of 30th June also, you will see that it has shown an increase, based on the incremental disbursement we have made. As we have just mentioned that our loan book as of March 2016 stood at around 2,01,000 crores and as of today we have 189. We got 21000 crores of disbursement money back from the DISCOM. If you reduce 21000 from 2 lakhs, it should have been around 180. Today we are at 189. So, our incremental lending of

12000 has added another 9000 crores to the loan books. Since the major chunk of the UDAY has come back, we hope that from now onwards we should see an incremental increase growth in our loan book also.

Chinmaya Garg: True, true. But, probably Maharashtra and Tamil Nadu will also join the UDAY scheme.

Ajeet Agarwal: For just to mention that already 20000 crores worth of amount has been disbursed by us. We have an internal target. Last time you could see that we have disbursed 46000 crores. Even if, barring them may not, if I take that (not clear) UDAY money comes from Maharashtra and other States also, still will have some increase in the loan book.

Chinmaya Garg: From March to March?

Ajeet Agarwal: March to March I am talking of, because on the quarter to quarter basis it will be very difficult to predict for me when this money is going to come back. As of September, if nothing comes we will see a growth in loan book as compared to June. Already we have been reaching around 195. So, it depends when the money is going to come back. Anything above 2 lakhs we are anticipating by March.

Chinmaya Garg: Perfect. Thank you.

Moderator: Thank you ma'am. The next question comes from Mr. Nitin Jawate from Kotak Securities. Please go ahead.

Nischint: Thank you. This is Nischint here. Just wanted to get a little bit of a color on the sanctions that you have made on the generation segment, if you could give us some broad sense as to how this 8500 odd breaks up?

Ajeet Agarwal: Yes, we will provide you. Just Nischint, wait for a minute.

V. K. Singh: So, in private sector generation segment sanctions so far, I think in the first quarter we sanctioned 3250 crores and in the current quarter another 532 crores. So, total 3700 crores is the total sanction that we have made in private sector generation. And the rest is in State sector.

Ajeet Agarwal: So, around 5000 crores we have made in State sector generation project and 3500 crores in the private sector generation and the first quarter of 8500 crores.

Nischint: Okay. And these are refinancing, what exactly is this?

Ajeet Agarwal: One of the projects that was done is refinancing, 1000 crores and the balance are on account cost overrun for the ongoing projects.

Nischint: Okay. I know you can't give the guidance, but broadly incrementally how the, when I am looking at sanctions, how should I look at it? Are you looking at a lot more overruns or is it something or are you seeing lot more opportunities on the refinancing side?

Ajeet Agarwal: Largely it will be on the refinancing side.

Nischint: Okay sir. So, overruns more or less you are done is what we can say, is it?

Ajeet Agarwal: Because not many projects are there in the pipeline and we are not very keen to look at the projects as of today. There may not be many cases over cost overrun.

Nischint: And the refinancing I believe is for the operational projects?

Ajeet Agarwal: Yes.

Nischint: Okay, great. Thank you very much.

Moderator: Thank you sir. The next question comes from Mr. Anurag Mantry from Jeffries. Please go ahead.

Niranjan: Hi sir. This is Niranjan. On the previous question, of the total, actually before that what is the total outstanding undisbursed sanction and broken down between let's say generation and transmission and distribution, if you can help us with that?

Ajeet Agarwal: Yeah, I was just working out, hopefully it should be in the range of 125 to 1,50,000 crores of sanctions outstanding undisbursed. Some are already documented and some are in the process of getting documented. And the major portion of approximately 70000 in terms of this distribution and transmission. And the exact details can be emailed to you maybe later in the day, because right now I don't have that breakup. But, I am talking of on broad terms.

Niranjan: Right. So, it will be great to have those details. If I can further drill down on this, let us say, we have 70000 crores in T&D, out of that how much was sanctioned let's say two years back and has never come through?

Ajeet Agarwal: We will provide you the details of the live sanctions only. Whatever sanctions have been fructified, we have to remove them from our books over a period of time. Generally if you look at the sanction letters which we initially issue has a period of six months, which could be extended maximum to a period of eighteen months, unless the case merits otherwise. So, we have seen (not clear) sanction which have not fructified over a period of two years or eighteen months, we do not consider them as our sanctions for the future business course. So, what the figures we have been talking as of now are the sanctions which are already live, in terms either they have been documented and where the disbursement has really started or which are in the process of getting documented over the period of next two to three months. We don't consider those sanctions which have not been in operation for let us say more than eighteen months or two years.

Niranjan: Right, okay. That is very helpful. And sir, on the same terms, if you can classify, break that outstanding sanction for let's say the generation and transmission, let's say between what is operational projects refinance and what is the new projects, if you can do that as well, that will be really helpful sir.

Ajeet Agarwal: We can do that. But, it may take some time. We will do it and email it to you.

Niranjan: Right. And sir, you probably will not guide, but would we be able to see a double digit loan growth this year?

Ajeet Agarwal: Double digit loan growth after taking the impact of UDAY?

Niranjan: Yes.

Ajeet Agarwal: I think it seems to be little bit difficult thing you are taking to March 2016, you are taking the base of March 2016.

Niranjan: No, from here on if I take, which is basically we are largely done with the bulk of the shift that could have happened.

Ajeet Agarwal: Yes, taking the June figure is possible.

Niranjan: Okay. And bulk of this will move to the transmission and distribution side or generation side?

Ajeet Agarwal: Pardon?

Niranjan: Which side should we see the loan growth, on the generation side or the transmission and distribution?

Ajeet Agarwal: (not clear) portion which we have been looking in the last three-four quarters, because we have got disbursement start flows we continue to have the disbursement in those areas. So, I think broadly it should be in the same ratios.

Niranjan: Right. And sir, last question sir, do you face a lot of competition from banks versus let's say three years back, two to three years back or it is basically a free field for financiers like you and power finance?

Ajeet Agarwal: Largely it is kind of free field as of today, because of UDAY, the banks have yet to make up their minds to come out in a power sector, the way they have been doing in the past. Some strategies are undergoing change within the banking system. They may not be very keen to do a bridge financing or a working capital requirement in between as we have been witnessing. (Not clear) CAPEX base or refinancing some of the large size banks like SBI and others might be interested in taking a takeout financing project.

Niranjan: Right. So, would that therefore mean that because of almost negligible competition you will be able to maintain the margins at current levels, barring obviously whenever you pass on those 50 basis points?

Ajeet Agarwal: To be very frank, the kind of company we have been referring, as we have been maintaining in the past, the power sector requirement is too huge and even REC, PFC put together subscribe only 40% of the market share. (Not clear) is yet to come from other financial institutions. So yes, there may not be that much of pressure in terms of the lending rates.

Niranjan: Right, okay. Thank you very much sir.

Moderator: Thank you sir. Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad.

Sir, we have the last question from Mr. Jeevan Patwa from Candyfloss Advisor. Please go ahead.

Jeevan Patwa: I just want to understand post UDAY, how much would be your NPAs if we assume that Tamil Nadu and Maharashtra does not go for this scheme, then how much would be your NPA?

Ajeet Agarwal: NPA means?

Jeevan Patwa: Gross non performing assets, how much would be that?

Ajeet Agarwal: Here we have been trying to say is that loan book, as a percentage of the loan book, right?

Jeevan Patwa: Yes, yes.

Ajeet Agarwal: It might go up. Considering the same level of NPAs, since my denominator will be slightly lower, it could have an impact of 0.2, at the most 0.2 basis points. But, that is not an issue. The absolute number remains the same. But, if you talk in terms of percentage, I don't think that is that relevant to us. If you look at the absolute number of NPAs, that is not going to get impacted (not clear), because in the State sector we never had any NPAs and not even likely to expect anything. What you are trying, which I could follow is that, in case the loan book is reduced as we have seen in the month of June due to the UDAY factor, if the denominator goes down, the denominator remains the same, in terms of the percentage it may look slightly higher. But, absolute numbers we have to start looking at.

Jeevan Patwa: Okay, thanks a lot.

Moderator: Thank you sir. And we have one more question from Mr. Vishal Sheth from BNK Securities. Please go ahead.

Vishal Sheth: Thank you sir for the opportunity. Sir, just wanted to check what will be the milestone now for transitioning, migrating to on NPA classification? I think we have a dispensation till March 2017. Will we migrate to 150 by 2017?

Ajeet Agarwal: No, exactly as of the rule it should have been 120 days by March (not audible). By March 2018, it should be 90 days. We have been taking up the matter with the Reserve Bank of India stating that since the book of 85% is from the State sector, and they have very (not clear) dependent on State finances and other things, it may not be feasible for them to immediately come back to quarter basis. As of today the Reserve Bank of India has permitted up to March 2017 only to follow 180 days norms. So, as of today it will be 90 days. But, we are going to take it up again with the Reserve Bank of India at least in the State sector projects. Private sector we will follow the same RBI guidelines. But, for the State sector projects, yes, there is a case for taking up the higher period, considering the fact that they have been signed a CLA much before these kinds of dispensation came in. They have all projected their cash flows accordingly and they are dependent on the finances and the other things. But,

we are fully geared up even to have 90 days period. We have been sensitizing all those borrowers in advance saying that from the next year onwards it will be 90 days. Let us see how the RBI looks at it. But, till March 2017, 180 days. The option given to REC is to either follow 180 or 120. But, from next year onwards it is 90 days.

Vishal Sheth: Sir, we would directly shift from 180 to 90?

Ajeet Agarwal: No, we have been not directly shifting, yes, officially you can say, but internally we have been working it out. We are not allowing any of our borrowers or somebody to have a default pending more than 120 days.

Vishal Sheth: Sir, as of now the current NPA is basically on 180 DPD basis and by March 2017, if we shift to 150?

Ajeet Agarwal: March 2017 is also 180. From 1st April 2017 onwards, it will be 90 days.

Vishal Sheth: Okay. Sir, what would be the impact on current basis, you think that the NPA doubles from here?

Ajeet Agarwal: No, not exactly.

Vishal Sheth: Sir, 180 if you migrate from 1st April?

Ajeet Agarwal: If you have to settle the electricity bill in thirty days, either you do on the twenty ninth day or you do on the first day, it is your choice. It is not that you have made of fifteenth day; it is a delay, if you have been given thirty days to settle, just out of the context.

Vishal Sheth: Okay. So, we will be doing 180 this year itself and from 1st April next year, we will shift, migrate to 90.

Ajeet Agarwal: Yes, as of today, yes.

Vishal Sheth: Okay, thank you sir.

Moderator: Thank you sir. And that will be the last question for the day. Ladies and gentlemen, this concludes your conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may all disconnect your lines now. Thank you and have a good day everyone.

Note:

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.