



“Rural Electrification Corporation Limited”

May 25, 2011



MODERATORS: **MR. HARJIT SINGH SETHI**
 MR. H. D. KHUNTETA



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Moderator: Ladies and gentlemen, good day and welcome to the Rural Electrification Corporation Conference Call hosted by Almondz Global Securities Limited. As a reminder for the duration of this conference all participants line will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Harjit Singh Sethi. Thank you and over to you Sir.

Harjit Singh Sethi: Thank you, Velan. Good morning everyone. On behalf of Almondz Global Securities, it is indeed out great pleasure to welcome you all for this conference call with Rural Electrification Corporation Limited. Our sincere apology for the delay in starting the call as management was busy in a meeting. First take this opportunity to congratulate Mr. Khunteta for his recent elevation to the coveted post of CMD of this esteemed organization. REC has been at the pole position of investor's interest as a preferred organization for investors seeking its exposure at the interesting insertion of power and finance deal. Sir we welcome you, and request you to take us through Q4 FY'11 results. We would also take this opportunity to request you if you could throw some light on few of the major investor concerns in terms of health of SEBs, and our exposure, state of business growth increasing, worries on rising interest rates, lowering of investment, lower Capex cycle. Sir over to you now.

H. D. Khunteta: Thanks Mr. Harjit. At the outset I am sorry for the delay. Actually Mr. Dhuruwala of ICICI Bank he was sitting with me and because of that it has been delayed. As far as the quarterly results are concerned or the yearly results are concerned for sanctions are around Rs.22560 Cr for Q4, and whole of the year the sanctions are Rs 66421 Cr higher by around 46% compared to the year 2009-10. As per disbursements are concerned for the Q4 it is 8322 Cr and for the whole of the year disbursements are 24519 Cr that is higher by 16% on year-on-year basis and Q4'10 and Q4'11 it is higher by 39%. Our loan assets are 81725 Cr higher by 24% compared to the previous year and out of these states has 83% amounting to Rs.68092 Cr. Central PSU the outstanding were 5853 Cr that is 7%. The private sector is at Rs.7780 Cr. It is around 9.5% or around 10% we can say. That is area of total bifurcation state, central and private sector.

As far as generation is concerned, it forms 42%. T&D forms 51% and other form ~ 6%. Total income is concerned it is Rs. 8100 Cr compared to the previous figure of Rs 65431 Cr that is a rise of 26% on year-on-year basis and net interest income is concerned is Rs 3258



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Cr that is a rise of 29%. Profit after tax is 2570 Cr on a standalone basis. On consolidated basis it is Rs.2584 Cr, a rise of 28%. Yield on the loan assets is concerned it is 10.98%; cost of borrowing is 7.62% whereas in earlier year it is 7.15%. Spread is 3.66%, net interest margin of 4.41% and debt equity ratio is 5.47 times and earnings per share is Rs.26. The REC has also declared a final dividend of Rs.4 and earlier we have declared a dividend of Rs.3.50 paise, so overall dividend is Rs.7.50 paise on a paid up share of Rs.10. That is 75% and regarding the health of the SEB is concerned as I told that around 84% is on the state power utility and it is true that some of the SEB like Tamil Nadu or UP or MP or Rajasthan has been not so good. They are incurring huge losses, but the first time of the improvement is from Rajasthan where the tariffs are being increased and our loans procured through the government currently around more than 90% of the loan is covered through government currently, in addition to 100% through Escrow mechanism. In case of MP or UP our exposure is not too large, but in case of Tamil Nadu was a state utility, that is Tamil Nadu Electricity Board, so where the government also has to provide funds in case of any shortfall where I see the total outstanding is in Tamil Nadu around Rs.6000Cr. So that is also covered through escrow mechanism.

As per other states are concerned like Maharashtra or Andhra Pradesh or Karnataka or Gujarat or Punjab, Haryana the losses are within reasonable limits and so far none of the states have defaulted on payments except from North Eastern states like Meghalaya or Mizoram, but they are in payment on receipt of mercy support from the central government and there may be phases in 2007-2008 or 2008-2009 when there was some delay by one quarter or two quarter certain time for NPA's but based on the money has been received. But these states also the money is being received, but technically there may be delay over quarter or two quarter, but after getting the funds from central government through budgetary support they are also making their payment.

So this is the position of the SEB and we have also asked them to go for tariff specialized system, also the subsidy where the power is provided at a free of cost or at a subsidized rate we will have to provide subsidy to the state utilities so their financial position will remain quite well and there should not be any cash crunch, or they should not go for borrowings from the bank and they should also improve the efficiency by reduction of the losses and for that I must tell you that the government has come up with another scheme, APDRP-II, which is around 50,000 where the 50% will be converted into grant if the losses are reduced to the level of 15%. So the states are being motivated to reduce the losses and so there may not be so much impact on the tariffs because if the losses are to do less than the revenue will also increase and some state where the tariffs has not been increased in last four to five years like UP or MP have being pressurized by the Ministry of



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Power to increase the tariff so that the utility will not be in a position to come to that level then they cannot default. So to avoid the default they are also being pressurized by Ministry of Power to make the payment of the subsidy and the provisions of subsidy act of 2003. Like Maharashtra where the losses are around 1500, but the cash losses are not there for Andhra Pradesh or Karnataka or Gujarat these states are already making the profit so there is no question of worry and they are also going for the reduction of losses. In Gujarat or Rajasthan or Maharashtra or Andhra Pradesh or Karnataka they have already reduced the losses to less than 20%, so I feel that way there are good progress as far as losses are concerned. There are reductions in the losses. Earlier it was around more than 35%, now it has come down to less than 20% for the entire country and states like Rajasthan or Maharashtra or Andhra Pradesh or Karnataka they have already reduced the losses to the level of less than 20%, so they have made a good progress and Bihar or Jharkand and other states are concerned our exposure is already very low and these states are also making the effort to do reduce the losses and in case of generation most of the projects are going to the private sector. So this is the status as far as risk management we have already formed a committee for ALCO and risk management also and regular meetings are being held and you can see as per the interest space are concerned or forex is concerned, our cost of borrowing is much, much lower compared to any of the institution and in case of foreign borrowings in last year from September to March we have raised \$1.2 billion and also out of that \$500 million has already been used and we are trying to raise the balance amount also at a reasonable price and current year we are planning to borrow \$1.5 billion from international market for sumari bonds in place of funds to be raised at around 1.75 at a fixed rate. The mandate has already been given to the four banks in case of Swiss frank bond issue the mandate as been given to the four banks like UDIFL, and RBS and Desctue we also got an offer from banks for \$300 million where the cost is 190 basis point included in all expenses plus US LIBOR. So our effort is that overall course should be maintained at a reasonable level, so we can have spread of around 3.2% and in April and may we have already increased the interest rates by 50-basis points at both the times, so overall increase in the cost of lending has been increased by 100-basis points in current year.

Now this is open for question and answers.

Moderator:

Thank you very much Sir. We will now begin the question and answer session. Our first question is from the line of Deepak Tiwari from KR Choksey. Please go ahead.

Deepak Tiwari:

Hi Sir. Congrats for the good set of numbers. Couple of data points; what would be the disbursement and RGGVY while in FY'11 as well as subsidy received and sanctions also?



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- H. D. Khunteta:** Last year we have received from the government to the tune of Rs.5000 Cr as a subsidy out of which Rs.4200 I think got disbursed.
- Deepak Tiwari:** What would be the sanctions?
- H. D. Khunteta:** Sanctions last year it was very low, because in Rajiv Gandhi it is Government of India Scheme and 90% is coming from the Government of India as a grant. So higher in 2007-2008 or 2006-2007 probably the work is going on, on those sanctions where approval has been given earlier.
- Deepak Tiwari:** Sanctions are execute for the generation segment. Does it suggest that lackluster demand from TND segment going forward?
- H. D. Khunteta:** Last year we have sanctioned for the generation to the tune of Rs.40,000 Cr or the TND is around 22000 Cr it is a growth compared to the last year.
- Deepak Tiwari:** But sanctions were because of generation of segment?
- H. D. Khunteta:** The generation takes around four years time to complete whereas the TND takes probably two years time from the date of the award of the contract.
- Deepak Tiwari:** Sir, are we going to see the change in mix, we will see more than the sanctions and disbursement in generation side?
- H. D. Khunteta:** I think both will be around 50:50, because in generation in the next plan again the capacities are being created so that sanctions will be higher in case of generation, but TND the sanctions are also higher compared to previous year and secondly in case of TND the number of things are being done through RGGVY then the APDRP-II scheme, so where the money is coming from the Government of India even if through APDRP the 25% is coming to Government of India, then 75% is given by loan by REC and PFC and some banks. So there are some support through Government of India also and second in case of Power Grid Corporations the transmission lines are used they are borrowing from the institutional financial institutions and through bond issue where our exposure is nil at this time. So overall in transmission system what we feel the ratio of at present is 51%. In coming years, overall ratio in generation and the TND will be around 48 or 52 like that only or may be equal in both the cases.
- Moderator:** The next question is from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.



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- Anand Laddha:** Sir what is the guidance for next year in terms of disbursements and if you can give in terms of outlook for the spreads?
- H. D. Khunteta:** Current year the disbursements are expected to reach 28,000 Cr to 30,000 Cr. Loan book it will be from 82,000 Cr to 1,02,000 to 1,05,000cr. Topline growth may be around as in 20%; bottom-line growth will be on the range of 17% to 20%. On higher base.
- Anand Laddha:** Would the spread sustain or will be there some more pressure on the spread?
- H. D. Khunteta:** As far as the spread is concerned, I think looking at the present market condition, so far there is no pressure, because in April and May we have increased lending rate by 1%. So whatever the increase in the cost of borrowing is there, it has been offset by in the lending rate.
- Anand Laddha:** We increased lending rates by 100-basis points in May?
- H. D. Khunteta:** April first we have increased by 50-basis points and again on May 19, we have increased by 50-basis points, so overall increase in the front end by 100-basis points.
- Anand Laddha:** What is our incremental lending rate now, Sir?
- H. D. Khunteta:** For the private sector it is minimum is 13%. For state sector it is 12%. It is chargeable on quarterly basis.
- Anand Laddha:** Then what explains the fall in the yield on advances this quarter, sequentially?
- H. D. Khunteta:** Actually there are repayments by the Gujarat Board there they repayment amount here on Rs.1600 Cr that rates were higher, so there are some yield on the loan side, but we have also mentioned in our presentation that yield on the loan as on date on annualized basis is around 11.60%. So you can see that even I take the borrowing cost at around 8%, we are maintaining that go to space, and some pressure is there on the spread, given we can maintain it around 3.20% on incremental basis unless the market dynamics are totally changed.
- Anand Laddha:** If I am not wrong Gujarat Government repayment was the loan was originally at 13%?
- H. D. Khunteta:** The maximum loan was at 12% over 13% like that and now they have taken from banks at 9% to 9.5% last year in February March.



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- Anand Laddha:** Sir, what is the average duration on the borrowing side?
- H. D. Khunteta:** It is 6.45 years and assets size around 8 years.
- Anand Laddha:** Once you become infrastructure NBFC, you can borrow up to 50% of your network without RBI approval and if I am not wrong, I already crossed that, so how much further we can borrow?
- H. D. Khunteta:** We have already approached the RBI for approval of \$750 million and I think the approval will be received next week and earlier I told that we have given a mandate for Sumari bonds and Swiss Frank issue bond issue and also likely to be give for syndication loan to Bank of Mitsubishi, so I hope that \$750 million will be raised before August 2011 and again we will propose the RBI for \$750 million more so current year we are expecting to raise around \$1.5bn however, it is based on the market conditions also.
- Anand Laddha:** Would we have any board guidance in terms of what proportion of your total borrowings would be from International maximum can be?
- H. D. Khunteta:** It is generally 10%. We will not go more than 25% as I said.
- Anand Laddha:** Sir, lastly, if you can just say what is your exposure to UP, Rajasthan and Punjab Board SEBs?
- H. D. Khunteta:** Our exposure to the Rajasthan is Rs.8868 Cr that is 11% of loan book, Uttar Pradesh it is Rs.6211 Cr that is 8% and Tamil Nadu it is Rs.11000 Cr that is 14% and maximum exposure is Maharashtra where amount is Rs.12711 Cr that is 16% of the total loan book.
- Anand Laddha:** Sir, Punjab?
- H. D. Khunteta:** Punjab is Rs.5571 that is 7%.
- Moderator:** Thank you. The next question is from the line of Ramnath Venkateshwaran from Birla Sunlife. Please go ahead.
- Ramnath V.:** Sir, I just wanted to ask you question in terms of yesterday there was this article in newspaper on the National Electricity Fund. What exactly is that fund? If you can just explain that to me?



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H. D. Khunteta: There were talks in the last two to three years that National Electricity Fund to provide the funding for TND sector at a lower rate. There is also another phase II provides a subsidy, so what the government seems to provide the subsidy to the state government if they were to reduce the losses to less than 15%. It would be in the range of around 4% to 6% and this would be done through that they will take the money in the REC or PFC or Banks and we will charge at our card rate and then central government will give the subsidy to the state either through REC or PFC and the object is to reduce the burden of interest to the respective the state if they are making the attempt to reduce the losses to 15% then they have to finalize their annual accounts also within the period from the closure of the year that is also the condition and we have to abide by the provisions of 2006 I think they have to provide subsidy in cash to that utility also. So the whole of the objective is to make the state distribution company as a financially viable utility.

Ramnath V.: Sir how does it differ then from APDRP? Or is it just an extension of the APDRP scheme?

H. D. Khunteta: The APDRP II schemes will be applicable to the area where the population is 30,000 or less than or higher than 10,000. These schemes will be applicable to the area where the population is less than 10,000.

Ramnath V.: So APDRP is between 10,000 and 30,000 and this scheme would be for population less than 10,000?

H. D. Khunteta: Or may be that APDRP may be higher than 30,000 APDRP and this scheme will be 30,000 to 10,000. That will be the possibility. The Rajiv Gandhi scheme is especially for the areas where the population is very less, where the power has not been provided. So APDRP scheme also covers the semi-urban area, urban areas and this covers the rural areas.

Ramnath V.: Okay, so that would be the kind of format that could?

H. D. Khunteta: AG-15 is to be put up to the net for approval.

Ramnath V.: But APDRP-II is already up in running.

H. D. Khunteta: Yes.

Ramnath V.: The other question was again related to the on the ECB, I think you have just answered that question. I could not get or catch the number; it was \$750 million if I am not wrong?

H. D. Khunteta: \$750 million.



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- Ramnath V.:** That RBI has already approved and we are going to?
- H. D. Khunteta:** It is likely to get approved further, because only the signature of the one of the members is yet to be signed.
- Ramnath V.:** So after that you will approach for another \$750 million?
- H. D. Khunteta:** Then after that we will apply for another \$750 million.
- Ramnath V.:** Sir the last question is on this capital gain bonds that it is being launched, because of the tax exemption and stuff like that do you see what is the amount that you are targeting this year?
- H. D. Khunteta:** I think financial year we will get more than 5000 Cr for this.
- Ramnath V.:** 5000 Cr last year how much was that amounting if I am not mistaken was?
- H. D. Khunteta:** 5000 Cr.
- Ramnath V.:** Same kind of thing?
- H. D. Khunteta:** May be higher but the trend is very good.
- Moderator:** Thank you. The next question is from the line of Amit Premchandani from UTI. Please go ahead.
- Amit Premchandani:** Just a question on the foreign borrowings, out of the 7500 Cr of outstanding borrowings, what is the hedged amount?
- H. D. Khunteta:** **Except** \$700 Million balance all is hedged. We are already calling the bid from the banks and overall losses are much lower than the domestic that would also be hedged. Our policy is to raise at that right time, but open position cannot be as more than 30% of my network. That is our policy and that policy after that we should raise at an appropriate time, so the overall cost should be lower than the domestic market and we can have the advantage by going through the ECB.
- Amit Premchandani:** So this 3.5% cost for the current quarter that is unhedged cost?



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- H. D. Khunteta:** That will be unhedged cost. Earlier that \$200 million has been raised fully at 7.5% and \$270 million we have raised cycle by saying that 3.68% for 200 or 3.81 % or 3.84% for \$70 million.
- Amit Premchandani:** All the hedging cost is reflected in the interest expense line?
- H. D. Khunteta:** Because \$270 million has been raised in April first week, so that will be reflected in the current quarter.
- Amit Premchandani:** Sir, overall borrowing of around 77000 Cr you have what is coming up from reprising next year for FY'12?
- H. D. Khunteta:** 9657cr.
- Amit Premchandani:** On the borrowing side?
- H. D. Khunteta:** On the borrowing side and on the asset side it is 12898 Cr.
- Amit Premchandani:** Sir, this 9000 does not include banks and FIIs, because it is outstanding is 11900, I guess it is a base rate linked book, right?
- H. D. Khunteta:** What I am telling for assets side it is 12898 and liability side it is 9657Cr.
- Amit Premchandani:** But does it include bank loans because it itself is around 11000?
- H. D. Khunteta:** Bank loan also includes the loan taken from the LIC its at fixed rate.
- Amit Premchandani:** So it includes all banks and everything, base loan and everything.
- H. D. Khunteta:** Everything.
- Moderator:** Thank you. The next question is from the line of Jayprakash Toshniwal from Taurus Mutual Funds. Please go ahead.
- Jayprakash Toshniwal:** Out of this 7200 private loan book how much is expected to be repaid in next one year?
- H. D. Khunteta:** Actually this figure may not be available, but we will provide the information.
- Jayprakash Toshniwal:** But if you can give us some guidance like how much in generation of these?



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- H. D. Khunteta:** 7500 entire is for generation. We have not paid any amount so far for transmission, although the loans have been sanctioned for transmission project to the private sector, so far there are no calls.
- Jayprakash Toshniwal:** How much are all these commission of these projects which you have given loans to? How much of the projects have been commissioned at this point in time?
- H. D. Khunteta:** So far only the 20% of the projects have been commissioned. Balance is under construction. So out of 7400 or 7500 so these are only for around 20% of the loans. Balance is under construction, because as far as our sanction terms they have to make the payments after six months from the date of commission of the project.
- Moderator:** Thank you. The next question is from the line of Dhaval Gala from Birla Sunlife Mutual Funds. Please go ahead.
- Dhaval Gala:** Congratulations on a good set of numbers. I had two questions, one was I wanted to understand what would be the borrowing program for FY12?
- H. D. Khunteta:** Current year the total borrowing program is of 28000 to 30000.
- Dhaval Gala:** Largely it would be in line with what your outstanding disbursements would be?
- H. D. Khunteta:** Yes.
- Dhaval Gala:** Also would want to understand on this 28000 to 30000 Cr how much you would expect from capital gains bonds, because this year you raised sizable 5000 Cr?
- H. D. Khunteta:** Here the capital-to-capital gain the amount will be around or more than Rs.5000 Cr. International borrowings it may be around Rs.7400 Cr and balance would be raised from LIC and through banks or zero coupon bonds or infrastructure bonds.
- Dhaval Gala:** What would be the current proportion of zero coupon bonds in the balance sheet?
- H. D. Khunteta:** It is very negligible. Only last year we raised, I think, very negligible.
- Dhaval Gala:** 200-odd Cr.
- H. D. Khunteta:** It would be Rs.649 Cr outstanding. Rate of interest is around annualized is 8.34% for 10 years.



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Dhaval Gala: Sir, also wanted to understand you have seen very sharp increase in your sanctions in the fourth quarter, so was there any pending documents related sanctions in the previous quarter which has bumped in the fourth quarter? Do you see that the last year of the Eleventh Five Year Plan disbursements pace actually picking up compared to the last year significantly. system as a whole if not for REC?

H. D. Khunteta: The sanctions are higher because the number of projects from the State sector has come up. Karnataka where the sanction is around say Rs.7000 Cr for a single project, so the generation projects the amount is very high. In private sector the sanctions are Rs.1000 Cr for that project. In case of generation from the date of sanction the disbursement takes place only after one-and-a-half years and they complied with all the terms and conditions to put up in the sanction letter as a pre disbursement condition, like the land, planning of the power project to the extent of 70% of the capacities and signing of the fuel supply event or the latter to receive from the ministry of coal for supply of coal and environment clearance, forest clearance, every thing is put up as disbursement condition, after complying of all these conditions then the documents are signed and then they have to take upfront equity and offer equity and after that disbursement takes place.

Dhaval Gala: Sir, my last question is more to do with your future thought process on making standard asset provisioning and what is the outstanding provisioning you carry on your balance sheet just for the contingent perspective of bad debts, meaning anything you are looking to do from P&L in the year FY'12?

H. D. Khunteta: There is no debt for external assets. There is no provision. As per the RBI's guidelines there is no requirement for it, but in current year we can think to provide the provision to the extent of around 3% of the profit. That matter will be discussed in the board meeting or so the next board meeting or after that after that the net provision will be made.

Dhaval Gala: If you are estimating only 3% of profits that may not be 25-basis points also on your outstanding loan book, which would actually grow into the level of 1-lakh Cr?

H. D. Khunteta: There is no need for 25% of the OEM. There is no way we are receiving that. In power projects where the power is a necessity for everybody that money is secured through escrow mechanism and it is financed at 25% and 75% of equity debt. I do not see there is any need to provide such a large provision and in fact there may be some time a delay of one or two quarters all of our or the excise duty the payments are being received. There is no such need to have such a provision. The 3% of profit I think long-term we want to create the reserve for if we need any such contingency.



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- Dhaval Gala:** So this is something you are looking to keep it as a continuing policy of 3% every year and it will not be a one-off if at all?
- H. D. Khunteta:** Board approval. We discuss it with the other members of the board and after agreeing by all of them we will consider. There is no requirement of RBI that I can say.
- Dhaval Gala:** What would be the outstanding provisions on the balance sheet, which would be for reserves under bad debts?
- H. D. Khunteta:** Rs.18 Cr.
- Moderator:** Thank you. The next question is from the line of Venkatesh Sanjivi from ICICI Prudential. Please go ahead.
- Venkatesh Sanjivi:** I just wanted to understand this 18000 Cr of sanctions in generation in Q4 can you broadly give some breakup where you said Karnataka SEB is 7000 Cr, who else will be there in this?
- H. D. Khunteta:** I will give the results; you can give your mail ID or fax number so that we can send the details.
- Venkatesh Sanjivi:** Would you know these are the sole lending by you or is it consortium based lending in these cases sanctions?
- H. D. Khunteta:** In case of state it is shared with REC and PFC and only in case of Karnataka one of the projects it has been financed entirely by the REC, but it is subject to the number of pre-disbursement condition, that they have to decide their full supply events with the Coal India, so under this supply agreement they get the assurance from the Ministry of Coal to and get the coal from Coal India, after that, the disbursement will take place.
- Venkatesh Sanjivi:** Just to understand do you recognize any revenue on sanctions in terms of some fees or something, nothing at all?
- H. D. Khunteta:** No, not particularly. As for our policy and unless that the money exists we do not recognize any income.
- Venkatesh Sanjivi:** I had one other question on your loan book; the interest, which you have paid on the banking commercial paper borrowing has moved down from 8.5% to 8.1% on a quarter-on-quarter basis, so can you just explain in this kind of environment we actually had a fall in your cost?



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- H. D. Khunteta:** See actually last year the cost has come down, because of the number of efforts like raising of money for 15-year bond at a price 8.75. This is set up after one year and costs have come down to 7.4%. Like in commercial papers from September onwards when the rate of interest has gone up we have not gone for the commercial borrowings, as structure is one month or two months, wherever it is necessary, but now whatever the borrowings to commercial paper we have made that was made before September and since the rates have gone up very high, so we have not gone for that.
- Moderator:** Thank you. The next question is from the line of Nikita Govandi from Quantum Asset Management Company. Please go ahead.
- Nikita Govandi:** Sir, can you tell me the rate for current year on your borrowings and lending rate?
- H. D. Khunteta:** Borrowing depends on the market condition for the current year. As on date on the overall borrowing of Rs.70,000 Cr the cost of borrowing is 7.84%. If we take average on closing and opening of the last year then the cost comes to 7.62%. As far as lending rate is concerned, at this time, as of today, the lending rates are in the range of 12% to 13%.
- Nikita Govandi:** Sir, one more question here, regarding private power project, Sir seeing the percentage of loan contribution, will be from IIP till 2015? Currently it is 10%.
- H. D. Khunteta:** Currently it is 10% and what we feel that the loan book towards the private sector is around 13% to 15% by the end of this year, most likely it was around 13% or 13.5% of the loan book.
- Nikita Govandi:** Till 2012?
- H. D. Khunteta:** The reason is that the next plan 60% of the capacity coming from the private sector.
- Nikita Govandi:** Till 2015 it will be?
- H. D. Khunteta:** 2015 at this time it is quite difficult to say, but it will be as less than 20%. There are some exposure limitations also as we cannot reiterate to more than 40% of exposure as a group. I think the project we cannot take more than 25% because of the net value. But respect to the RBI you leave out the guidelines or it does not consider ultra mega power project as part of the exposure, but it is very difficult to give the loan. Secondly we are required to increase the networth to increase the exposure to the private sector.



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- Nikita Govandi:** Sir, going forward if your private projects contribution increase, Sir, is you seeing any rise in provisions, are you maintaining for that?
- H. D. Khunteta:** What we have also seen is that even Adani or Reliance or Tata, Sterlite or Lanco; all are acquiring the mines outside India. Other companies like Abhijit group, Manujaiswal, Vidya Steel, Vidya Power, or other companies, factory they have got the assurance from the Coal India or they own the mines and start on the no go area except from Essar Steel, Essar group. We have sanctioned the loan. We have also put up the condition that unless they get the environmental clearance or forest clearance this sanction cannot take place and they have to submit the plant for development of the mines also where they own the mine, so they have been allotted the mines. So everything is linked to that progress of the power projects, as development of the mines, and if there is some delay in the development of the mines, they have to tie up the coal with Coal India. Assurance set up must be received before the disbursement of the money.
- Nikita Govandi:** Sir, is the company going to raise more equity?
- H. D. Khunteta:** Have not planned so far.
- Moderator:** Thank you. The next question is from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead
- Anand Laddha:** Just wanted to know that we have got some money from LIC this year, Sir, if you can share the quantum, average tenure and the yield of the same?
- H. D. Khunteta:** The current year we have approached LIC for the loan of amount of Rs 1550 cr and what I understand this has been approved by the chairman and the rate of interest is 9.35% and they have put up the case to the investment committee and after getting the approval of the investment committee then the money can be drawn in first week of June, so it is subject to the approval of the investment committee.
- Anand Laddha:** This is the request we have put in last year, this year, current year also we expect about more request from LIC?
- H. D. Khunteta:** Earlier we have put up the request for Rs. 3000 Cr through subscription of bond. This year we have subscribed at 9.18% for tenure of 10 year. After that in month of April we have put up the request for Rs.1500 Cr at a tenure of 10 years at a rate of interest of 9.35% and as I told this has already been approved by the Chairman and now it is being put up to the investment committee.



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- Anand Laddha:** On your zero coupon bonds like in the case of some of the NBFC they take the head from the network, we also take the same way, we also treat it the same way in the books?
- H. D. Khunteta:** No we do not take it as a part of network.
- Anand Laddha:** We are providing it in the P&L?
- H. D. Khunteta:** We are providing it in interest liabilities.
- Moderator:** Thank you. The next question is from the line of Jaynee Shah from Avendus Capital. Please go ahead.
- Jaynee Shah:** Just wanted to understand that the targets that you have given on disbursements that is 28,000 to 30,000 Cr do you see a risk to that because of the slowdown in project execution in the power space?
- H. D. Khunteta:** My offering sanctions are more than 1,50,000 and we already conceived that there may be some delay in the number of projects and based on that I have physical work going on generation project and I am making transmission and different expert is to be ready in the infrastructure. Last year we have disbursed Rs 24000 Cr so we should have taken 20%-25% growth in the disbursement and I am totally hopeful that looking through that trend and physical progress on the ground and letter of award issued by the number of SEB this should be achievable and even we have discussed in our zonal meeting of our company and they are totally confident that as per disbursements pretty much as it is, but always we take cumulative figure while telling to the investor.
- Jaynee Shah:** Sure, but you do not see any kind of slowdown in the project execution impacting us in anyway, because this quarter the growth numbers have been exceptionally high, so do you think or there seems to be some kind of a disconnect there?
- H. D. Khunteta:** Unless there are some problems in the power sector. That can effect, but looking to the certain trade, I do not think there may be any problems as far as the generation projects are concerned. The work is going on and it is not in best of the developer or it is related to the generation company to delay the projects, because it only increases the cost of the project. There have been no new projects that are not coming because of the delay of the project. So everybody is instructed that their projects should be ready and coal is a major issue, but I think the way the Ministry of Power is highlighting this issue to the CM office or the Ministry of Coal there may be some solution and only possibility may be that blend may be 70:30, 70% will be domestic and 30% imports, so the cost of generation may



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increase by 20 paise or 50 paise like that because of the import of the coal. Further the work on since the work on the projects is going on, so we are totally confident that disbursement growth will be maintained at 25% based on the physical progress on the ground.

Jaynee Shah: Sir just one last data point. Can you tell me what is the quantum of reprising of assets and liabilities in the coming year?

H. D. Khunteta: Assets is 12898, liability side 9637.

Moderator: Thank you. The next question is from the line of Parag Jeriwala from Anand Rathi Securities. Please go ahead.

Parag Jeriwala: Sir, just one question I had, as you said that some of the SEBs may find some difficulties in paying for a quarter or two, Sir, what kind of NPA recognition norms we follow. We have 90-days recognition or do we even restructure the accounts, what exactly is the policy of this?

H. D. Khunteta: We follow the 180 days policy. If the amount is not received for two quarters then it is recognized as a sub-standard asset and we have to make provision also. In case of interest if the interest is not received for two quarters this is not recognized, earlier income should be reversed.

Parag Jeriwala: Sir, do we need restructure the account this way?

H. D. Khunteta: As far as two cases konoshima and mauser we have not restructured the loan and some restructuring is done like increasing the commission period by six months like that, but interest rate or anything we have not restructured at all.

Parag Jeriwala: Sir, can you share the amount restructuring in FY'11?

H. D. Khunteta: In case of Mauser where the loan amount is only Rs 250 Cr from restructured handling done by increasing the commission period otherwise nothing has been done.

Moderator: Thank you. The next question is from the line of Aditesh Nair from UBS. Please go ahead.

Aditesh Nair: Just a question on how much is our overall portfolio, how much exposure will be to operational power projects and how much will be under construction?



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- H. D. Khunteta:** We will provide you that detail. So you can give you mail ID or fax number and it is very easy to identify, because we have to identify this through this, but exactly it will be only for the generation project. The TND work has to be completed within one year or two years so most of the loans, which have been given in 2008-2009 or even up to December 2009 the work, has already been completed.
- Aditesh Nair:** Sir, other details, which you can help is how much of the exposure will be for project funding and how much will be working capital finance for state duties?
- H. D. Khunteta:** For state duties the financing is done for the financing of the capital assets only. Except that some amount is given as to meet the work of requirement. That is only Rs.5341 Cr and that excludes 10% of the loan given for IGGY, the state government is responsible to make the payment of interest and repayment of the loan. So I think the total book to meet the working capital requirement may be in the range of around Rs.4000 Cr and it is covered through escrow mechanism and wherever guarantees are required we have taken the guarantee also.
- Aditesh Nair:** Just on the escrow things are we the only people who have the charge on the cash flows or do we share it with some other stakeholders?
- H. D. Khunteta:** It depends where the collection of funds is very huge. They can also provide the charge to others also, but for accepting the escrow mechanism we see that last 3 years collection would be sufficient to meet my payment of my EMI in addition to what they have agreed to others also and for future they cannot give pass through to any other companies before getting the no objection from the REC.
- Aditesh Nair:** So the first charge is private lenders on the cash flow?
- H. D. Khunteta:** First charge of cash flow we have others also, but before accepting this escrow mechanism we see the collections of last 3 year, there could be sufficient to meet the payment of EMI to me also, and if it is given to others then that parties will also have to make the payment.
- Moderator:** Thank you. The next question is from the line of Mudit Painuly from Macquarie. Please go ahead.
- Mudit Painuly:** My question is regarding your merchant power plants. How much of the total exposure would be specifically to merchant power, out of the individual power plant exposure how much generally would be merchant power and how much would be PPA?



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- H. D. Khunteta:** Merchant power we have not sanctioned loan to any of the company. Around 80% of the non-sanctioned for the generation of power projects on power purchase agreement basis, around 20% of the loans have been sanctioned to the private sector company. There 70% of the power generated will be sold through long-term cost purchase agreement and 30% is kept open. So what I can say is that out of the total sanctions of the core generation project 80% of the sanction is covered through 100% long-term power purchase agreement and 20% where 70% I think put up as a condition for long-term power purchase agreement basis and 30% is only open. That 70% should be sufficient to meet payment of my interest as the payment of the loan.
- Mudit Painuly:** Agreed. As far as equity participation in projects is concerned, is there any thinking on that? How do you look at it?
- H. D. Khunteta:** Actually so far the opportunities have not come because you can see most of the companies like in case of JSW, Adani, they have come up with very good premiums like Rs.100 or Rs.90 so we do not want to invest at that. We are interested to invest either at a Par value and where the total surety of the coal and power purchase agreement to the extent of 60% to 70% and the cost is coming around Rs.2.50 paise or like that where the returns can be around 30% or 33% on the equity. We are interested to invest in that and whenever such opportunity come we will definitely take on that.
- Mudit Painuly:** There was a news article which suggested that you will keep your unhedged forex exposure to 30% of your networth, has that proposal been passed or what is the current status there?
- H. D. Khunteta:** It has been passed, but we have also mentioned in our policy that we will make the efforts to hedge the foreign exposure at an appropriate time and all of the objective is to bring down that cost and ultimately we have to use the common-sense & analysis also, to say whether to pay 7% hedging cost is commercially prudent or not. So in earlier around \$470 million we have raised the cost has come on fully basis at 7.5% as against domestic rate of around 9% and in case of \$270mn we have only hedged our principal to cover the rate. In our opinion the interest rate is not likely to go too high even if that goes and the other financial institutions we will also increase the rate, so it has been kept on floating basis.
- Moderator:** Thank you. The next question is from the line of Prakash Sharma from CLSA. Please go ahead.



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- Prakash Sharma:** Bookkeeping question. Would you have the amount of interest on advances for fiscal 2011?
- H. D. Khunteta:** Tax on advances?
- Prakash Sharma:** Received, the full year. You have given the total interest income just wanted to know if you have the interest advances. I wanted to calculate basically just for the estimates. If it is readily available, please?
- H. D. Khunteta:** For the last year the income was Rs.8109 Cr and I could not understand your final question?
- Prakash Sharma:** It includes all other income as well and if?
- H. D. Khunteta:** That is coming separate. I shall give the breakup of that.
- Prakash Sharma:** That is there, would you have the interest on advances? You have given it in the schedule, other income is detailed in that, but total interest on advances also includes some other lines, so that is why I am trying to get a sense of what is it?
- H. D. Khunteta:** That is actual details for the upfront fees, process fees, and other income. Incentives we have shown as other special income or other income so whatever the interest income has been received that is surely the part of interest income only. That does not include any upfront fees or anything else.
- Prakash Sharma:** Sir, on the private sector lending as well as in the SEB segment, some of the PPAs are also seemingly getting dishonored by either the transmission or the distribution leg of the entire power sector value chain. Now one, how does this impact the power projects and especially for you, do you see any risk coming because even though there is a PPA it is not being respected in the true spirit?
- H. D. Khunteta:** Only thing in case the state governments does not opt for power or does not purchase the power then they have to pay the fixed charges. These are the upfront of **Kona Cinema** because of the good monsoon and inflow in the dams they have used hydro power and they have asked Kona Cinema to run the project at around 65% of the capacity, but they have been fully paid for the fix charges, sometimes that may be the possibility and the supplies over. Supplies exceeding the demand or they can ask them to run the projects as these plants load factor at that. So I think in long-term or if you go on a yearly basis we have taken the scale of 85% not 90% or 95%, so 85% that covers, sometimes the project



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runs at 80% or 85% but for the whole of the year it is to be around 85%. Data is also available even in state sector or private sector the progress has run as an 85% of the capacity.

Prakash Sharma: Sir, at 85% in most cases your repayment should not get impacted?

H. D. Khunteta: 85% also includes the return on equity at the rate of 15% post tax. They are in a position to make the payment even if project runs to 70% or 75% of the capacity at least my payment of long is assured.

Prakash Sharma: Sir would you have done any internal analysis on what percentage of your total generation projects do not have adequate coal price passed through in their agreement?

H. D. Khunteta: Actually where the coal mines have been allotted licenses for Ultra Mega Power projects or where in the private sector the coal mines have been allotted only in that case they have submitted the bid for long-term basis at SEB states, but they have been allocated or they have been allowed from the Coal India that we have put up the condition that whatever entering the post there could be pass through. Some of at the SEB state unless back-to-back agreement for that is also agreed for the supply of fuel. This is the condition put up by the company also, before sanction of the loan.

Prakash Sharma: Will this be a right assumption to make that at least 98% to 99% of your loans are to generation projects either built in adequate pass through or if there is no pass through in the contract it is because the coal supply price has been fixed for a period of time?

H. D. Khunteta: Once we have put up the more condition in case of passing we have put up the condition that they supply the coal to another live project the price of coal will be fixed with the lenders also or that project or otherwise that project should be invested company. So they are supplying the power at around Re.1.90 paise on annualized basis but since we thought that the project may not be viable so this condition has also been put up by the REC. So before sanction of the loans we look through all the conditions and our objective is to ensure that the payment of the interest of payment loans should be secured. So wherever necessary such type of condition is put out. So in case of Adani where they have signed the agreement with the Adani Enterprises suffice the coal has 45 we have asked them to submit the cost purchase fuel supply agreement and they say they have not signed and we have not sanctioned unless they have purchased the mines in Indonesia and signed the forcible contractual agreement with another company, another Adani subsidiary. They are taking the supply of coal. After that we have sanctioned the loan.



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- Moderator:** Thank you. The next question is from the line of Amit Golchha from Emkay Global. Please go ahead.
- Amit Golchha:** You mentioned that losses of SEBs have come down from 35% to 20%?
- H. D. Khunteta:** Some of SEBs.
- Amit Golchha:** Okay you mentioned about some of these SEBs only. Secondly, what is the change you see between the APDRP-I and APDRP-II?
- H. D. Khunteta:** APDRP-1 is basically for power generation project and APDRP-II is basically for reduction of the losses. This will be monitored by the PFC and loans will be given by PFC and REC and banks. If they are able to reduce the losses to the level of 15% continuously for five years then 10% of the loan will be converted at a branch to motivate a stake. That is the thing.
- Amit Golchha:** Okay, if I understand correctly in case of escrow mechanism, you said that the collection, whatever for the last year will be deposited in this particular account and the first charge would be given to the lenders like REC. So basically out of all the collections, first the employee expenses their overheads and power purchase costs to be paid and the balance would be deposited in escrow account, how will it work?
- H. D. Khunteta:** Actually there are two things. Escrow is provided from the main bank account where all the collections are deposited then your quality is **corrupt**, but somewhere we were also asked to provide the particular collection center like Agra or any other cities, we are asking that this collection is to offset in order to meet the payment of the REC. Then they are required to make the payment of the salary, but it is on the main account then first they have to meet their expenses also, then they have to make the payment, so before expecting this we see all these what are the necessary payments on account of active clients and then the funds are available or not. That means they have to become the financial viable and whatever the losses are there they have deputed to the State government accounts. State government has to provide the funds and that is possible by making the payment of structurally in case as per the provisions of the electricity act of 2003 then state wise also has to give the direction to do the left within the ARR and they have this cost of the supply and they have to become efficient also by deduction of the dosage. So they take all three. They I think they become the financial viable and the time will force them who take out this because they cannot afford to default. In case they default and default is not only to REC. This is through the power generating companies and transmission company.



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- Amit Golchha:** To everybody then.
- H. D. Khunteta:** They will not get the power. So it is a very tough matter and this is one of the reason why Central Government is exercising through the State utilities they should become financial viable, reduce the losses, increase the tariffs, following the provisions of the 2003 also.
- Moderator:** Thank you. The next question is from the line of Sanjeev Zerbade from Kotak Securities. Please go ahead.
- Sanjeev Zerbade:** According to some reports plants for which equipment's are already manufactured and which are in midway in the construction stage, some of these projects have also do not have coal linkages in place, even if there is one or two years down the line for them to get commissioned, so what is the status as per what is your take on that?
- H. D. Khunteta:** We have noted the projects including the supply of the coal also and we have put up the condition/ exercise and say unless the LOE is being given by Coal India, no proposal of loan will be sanction by REC, and now we have one step ahead and unless they sign the agreement with the Coal India the no disb. will take place.
- Sanjeev Zerbade:** Sir, also with the way the SEB finances are and the merchant power also are now softening do you see interest or the enthusiasm of private sector in investing in generation going down in the near term?
- H. D. Khunteta:** That depends on the demand and supply even when we come out at the time of IPO.
- Sanjeev Zerbade:** Have you seen any slowdown in terms of?
- H. D. Khunteta:** Everybody was interested to structure the power project, as it is a gold mine. At that time they have told to FIs or so and other units that after three years when the price will come down in the range of Rs.3 to Rs.4. That remains like anybody who's posted coming higher than Rs.4. Before sanction of the loan we see that cost of this generation surprised to note the as currency to Re.3.50 paise or Rs.3.75 paise depending on the location like Punjab or Rajasthan or Tamil Nadu, the cost will be in the range of Rs.3.50 to Rs.3.75 because they do not have the mines and because of the transportation of the coal the costs will be higher, but in case where the coal mines are there, where the project is at a speed head, the cost will be in the range of around Rs.2.50 paise to Rs.2.75 paise. This is the general price range of the tariff. So when sanctioning of the loan we look through the tariff also and we also assume that the tariff can go up by around Re.0.25 paise or Re.0.50 paise



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because of increase in the coal and we take the rate of around 6% on the coal price, before arriving to the tariff. So all these things are being stroked before the sanction of the loan.

Moderator: Thank you. The next question is from the line of Amit Premchandani from UTI. Please go ahead.

Amit Premchandani: Sir just a follow-up question on yields and advances. The yields on loans have actually fallen 28-30-basis points quarter-on-quarter can you please explain on rising rate environment what is the reason for this fall?

H. D. Khunteta: Actually in case of interest rate swap it includes the one-time expense paid on raising on ECB also.

Amit Premchandani: Sorry Sir, I am talking about yield on loans, interest on advance rather than expense?

H. D. Khunteta: The cost of borrowing in the fourth quarter I think the margins have come down whereas the forex gains and on ECB it has been shown as a part of other income. So that is interest income.

Amit Premchandani: I did not get you. Can you please explain the sense there was a forex income, which was included in the yields on loan last quarter, which is not into it this quarter?

H. D. Khunteta: No in case of forex gain it has been shown as a part of other income whereas one-time upfront fees paid on ECB has been shown as interest expenditure.

Amit Premchandani: I take your point, Sir, but it will impact the spread. I am talking about interest income line? The yield on loan that you mentioned was 11.24 last quarter.

H. D. Khunteta: I told you why it has come down basically the repayment of loan from Gujarat State. Gujarat Energy Power Corporation and there are other two corporation where the repayment has come to the extent of around 1500 Cr and the rate of interest was around 12.5% to 13% and our rate of interest is around 11%, so that has impacted the yield on the loan also, but if I see that if we take the total outstanding obviously Rs.2000 Cr and we consider it at today's rates then the yields are coming around 11.66% on annualized basis.

Amit Premchandani: So it is not related to you have funded a lot of working capital loans this quarter. It is nothing like that?

H. D. Khunteta: It is not like that.



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- Amit Premchandani:** Sir on the overall portfolio you mentioned on the SEB the working capital is around Rs 4000-5000 Cr.
- H. D. Khunteta:** Only Rs 4000 cr.
- Amit Premchandani:** But on the overall Rs 82000 Cr book what would be the working capital contribution?
- H. D. Khunteta:** I told you only Rs 4000 Cr.
- Amit Premchandani:** It includes everything.
- H. D. Khunteta:** No, it is in working capital loan; ideally loans given for RCDYE that is furnishing and working capital loan.
- Moderator:** Thank you. The next question is from the line of Vidya Subramaniam from IDBI Mutual Fund. Please go ahead.
- Vidya Subramaniam:** If you could just give us to a number you are expecting you are borrowing from in terms of infra bonds to be raised? What are you targeting? How much are you targeting?
- H. D. Khunteta:** Last year the overall fund raised for infrastructure bond will be around Rs.4000 Cr or even less than Rs.4000 Cr so in spite of the fact that the Ministry of Planning commission is concerned are expecting to raise the funds through issuance to a tune of around Rs 20,000 so there is no reference. At the time of planning commission we also told that last year size for this loans is only around Rs.5000-Rs.7000 cr and actual amount is less than Rs.4000cr and the number of players are there, so I do not think from this scheme the funds can be raised more than Rs.500 Cr. The rate of interest is not also not attractive. It is limited to the G-sec benchmark. Even if we become average I think we come out with the public issue the issuance expenses are also to be adjusted, so overall force comes to around 8.40% or 8.50% and in long run where the assets size are to be reached after three years, so I think that it is not too much attractive, and from investor point of view size who subscribe the bonds in large it is not too much attractive. We told to Ministry of Finance that interest view on this so out of this consider as a reinvested in case they opt for cumulative bonds.
- Vidya Subramaniam:** Great. On your investments for the past three years it has been on a declining trend, can you just throw some light on investment?
- H. D. Khunteta:** Are you asking about the infrastructure bond?



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- Vidya Subramaniam:** My next question is on the line of investments on the balance sheet?
- H. D. Khunteta:** Investment is basically on account of bonds received from the Government of MP and some amount, which have been invested in small is beautiful. So there is no major investment by the company and many investment I can say it is not an investment, it is the settlement of deals with the Government of MP and in turn they have issued the bonds.
- Vidya Subramaniam:** Sir on your sanctions and disbursements front, I mean last year it was we find that in the first two quarters we kind of entered then it flowed through the last second half, and Q4, do you see this trend continuing forward. How do you see the entire scenario? How was this quarter if you can just give us some highlights? Is this trend continuing or how do you see it?
- H. D. Khunteta:** Sanctions this is not on quarterly basis. The yearly sanctions are more important. Some quarters sanctions may be higher, some quarter it may not be too much higher. It may be lesser. It is not a product, which is being sold in the market. Projects which are being sanctioned it has to be completed within in case of generation it takes around four years time.
- Vidya Subramaniam:** On the disbursement front, Sir?
- H. D. Khunteta:** What I am telling you is that the yearly sanctions have to be considered.
- Vidya Subramaniam:** On the disbursement front would you see this trend kind of going forward also?
- H. D. Khunteta:** Current year we are expecting a growth of 25% as per the disbursement part is concerned and will be higher than 65000 Cr.
- Vidya Subramaniam:** Will it be back and clean as this time, will it be back ended or how do you see it pan out in the quarterly basis? Are you seeing any uptake at least for this quarter with two months down?
- H. D. Khunteta:** Quarter the trend is good.
- Moderator:** Thank you. The next question is from the line of Chirag Shah from Credit Suisse. Please go ahead.
- Chirag Shah:** Part of my question has been answered, but is there any possibility of restructuring of loans given to this huge loss making SEBs like Tamil Nadu or Punjab or may be state



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government possess companies like REC or PFC to restructure the loans. Any thought on that, Sir?

H. D. Khunteta: There have been no proposal and none of the states so far have defaulted in any of the repayment of the loan and debt payments and as earlier I told that they cannot afford to default also the governments had to provide their support also. Because whatever the losses are there it is on account of 1) increase of the tariff and the losses I think is debited to the state government. So state government is bound to provide the guarantee to provide the financial strength or they do not provide the funds to the utility then they have to provide the guarantee to the state utility so they can take the loan from the banks to repay this or subsidy or other government losses they have to provide the funding to the utility.

Chirag Shah: Sir, just to summarize this, as of now there is no thought process within the state government also to as of sort of restructured these loans?

Moderator: Thank you. The next question is from the line of Rajarshi Malviya from RBS. Please go ahead.

Rajarshi Malviya: With respect to your forex income in this quarter of 569 million could you throw some light on this?

H. D. Khunteta: Actually this is a forex gain. We have raised \$500 million in January and dollar was around 45.60 and in march was 44.60 like that, so there is a gain of around 50 Cr on account of that.

Rajarshi Malviya: For the full year how much gain was that?

H. D. Khunteta: Full year it is Rs.85 Cr. Since that we have also charged upfront fees etc., to the tune of around Rs.50 Cr.

Moderator: Thank you. We will move on to the next question. It is from the line of Jigar Walia from OHM. Please go ahead.

Jigar Walia: I had a question regarding like would the state of SEBs and the losses you see them reducing post commissioning of ULD piece. We have one commissioning next year, and that would help them as they have not passed on in terms of the cost environment. This is certainly happening in Gujarat, in the longer run you see that is the case?



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H. D. Khunteta: Longer run I see that cost of purchase of power because there are so many ultra mega power projects are coming here, the tariff is in the range of around Re.1.19 paise to Re.1.26 paise where the mines have been allocated or in case of port base the price is in the range of Rs.2.60 paise to Rs.2.90 paise, what I feel that overall cost of purchase of power to the decision company has been in the range of around Rs.3 to Rs.4 it is depending on the state utility, whether it is Jharkand or Chattisgarh, or where the coal mines are there, the cost of purchase of power will be in the range of around say Rs.2.50 paise to Rs.3.00 and there where the mines are not there, average cost of purchase of power will be in the range of around Rs.3.00 to Rs.3.25 paise to Rs.3.50 paise and this figure is being taken specific in prices of coal prices of Coal India. So that may be the average cost and transmission distribution cost is if they are able to reduce the losses to 15% and we have to take around this 50% to 75% at T&D expenses. So at these levels the price of supply of power will be in the range of around Rs.4.25 paise to Rs.4.75 paise. So whereas the state government wants to provide power to the thermals or to other states we of course as per the provisions of 2003 they also make the payment in advance. So that policy has to be followed to make the funds and distribution company as a state utility.

Jigar Walia: Sir other followup on this thing is that post commissioning of this UMPP you will see declining utilization for the other high cost generators?

H. D. Khunteta: Actually it depends on the demand and supply, and what ever the projections has been made by the planning commission there may be some occasions where the demand may come down because of better monsoon or weather condition, but normally if the economy is going at 8% then the demand of power will increase. So what we have done is we have taken the average scale of authority 5% now we are thinking to take that average clear up structure from 75% to 80%. That in case sometime the project runs at less than 20% even 50% comes as to 100% capacity the average to be maintained in the range of around 80% and that should be sufficient. Normally our thinking is that just from 100% and 105% of the capacity. Since that time has gone, then I can say after two years the time may not be there. You have to agree that the cost of power let us relook at gradually increase and that has to be passed through besides we have to consider it as a community.

Jigar Walia: For each of the SEBs in terms of their negotiating power should they have access to cheaper power say from UMPP and all? Do you think in case the demand is not much they will be able to rework on the PPA with other high cost suppliers?

H. D. Khunteta: It depends. In the entire country if it electrifies and it is the commitment of the government of India to provide the power to all and if the economy is going at 8% or like



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this, so in my opinion whatever you are telling that beside of the lower cost through ultra mega power project they should purchase the power. That is the capacity where the project is only around so far only two projects has been awarded, one is this Parson and another is in Orissa. Two projects have been awarded in four bases. Mundra and Krishnapatnam. So I do not think that most of the ultra mega power projects are coming at a street high. So this capacity is not sufficient. This can lose the power to a very low level. So whatever I say that average cost after considering the increase in the coal price and likely increase in the coal price because the Coal India is also thinking that this would get the pricing near to the international level. So that factor has been considered while including this. We have taken the Coal India price and 6% increase at the escalation of the coal price and there the mines have been allotted to the allocated through the private /public sector people. Their prices are definitely lower. It is coming in the range of Rs.2.25 paise to Rs.2.75 paise. So average cost of purchase of power to the SEB will be in the coming years, we are not talking for today. We are talking in 2012-2013 and all. It will be in the range of around Rs.2.50 for the projects where there are different projects are there or hydro projects are there they are getting the pre factor of purchasing the power. Otherwise in most of the case like Rajasthan, Punjab, Haryana, Tamil Nadu or Maharashtra the cost of purchase of power will be in the range of around Rs.3.00 to Rs.3.75 paise. That is the expected price. The supply of power will be in the range of around Rs.4.50 to Rs.4.75 paise or Rs.4.85 paise. Where there are projects are there it may be lesser than Rs.4 like this.

Moderator: Thank you very much Sir. Due to time constraints we would be unable to take any more questions. I would now like to hand the floor over to Mr. Harjit Singh Sethi for the closing comments.

Harjit Singh Sethi: On behalf of Almondz Global Securities, I thank Mr. Khunteta for his valuable time and providing insights about the company. I would also thank all the participants for joining the call. Have a very nice day. Thank you, very much.

H. D. Khunteta: Thank you, Mr. Harjit and all who have participated in the conference call.

Harjit Singh Sethi: Thank you, Sir.

Moderator: Thank you. On behalf of Almondz Global Securities Limited that concludes this conference. Thank you for joining us.