PTC India Financial Services Limited
Q2 FY21 Conference Call
October 30, 2020

Moderator: Ladies and gentlemen, good afternoon and welcome to the PTC India Financial Services Limited Q2 FY21 Conference Call. We have with us on the call Dr. Pawan Singh – MD and CEO, Mr. Naveen Kumar – Director Operations, Mr. Sanjay Rustagi – CFO and Mr. Abhinav Goyal – Vice President, PTC India Financial Services Limited. As a reminder, all participants lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your telephone phone. For convenience of all, it is requested to ask maximum two questions in one turn and thereafter you will be placed in the queue for another turn. I now hand the conference over to Dr. Pawan Singh - MD and CEO, PTC India Financial Services Limited. Thank you and over to you, sir.

Pawan Singh: Yes, so good evening and welcome to the Q2 conference call of the financial results of PTC India Financial Services Limited and while I welcome you, I hope everybody is safe and sound and because both the twin cities; Mumbai and Delhi, The Financial Capital and The Political Capital have been the most vulnerable cities of this country in terms of the Pandemic.

As far as our organization goes, I would like to share the good news that we were safe from this kind of, the impact of the Pandemic and we have been doing our operations normally, either initially it was more from work to home. Now also it is a combination of work to home and physical presence but there has been no hiccup or stalling of the operations and in fact, in many ways we have found that some of the revelations have been that output has in certain areas has become better by very focused things and very focused discussion and probably even now we have this physical opportunity and most of us have started coming to the work place but large part is still, hope we will try to whatever learning has been there, we will try to implement it in the company, whatever the costing or top it. So, as we say, as every dark cloud has a silver lining, so here also the silver lining has been our learning that how we can make our work more effective, less effort but more outcomes. So that has been our learning through Pandemic and that is how we see the positive side of the negative.

Coming to the financial, of course before I dwell upon the financial, two things I would like to specially dwell upon; one is the, because we have been trying to focus our self as a sustainable development infrastructure finance company and we are trying to carve a niche for ourselves. So I would like to dwell upon this area, how this area is going to unfold, how opportunities are going to unfold in this area. And second is that how the economic challenges, because peers, has being a NBFC and most of our infrastructure NBFC the challenges of the specific sector which have been casting overcast there, rather been overcast on the working of NBFCs, how we have tried to travel our path and of course the opportunity which I say about sustainable infrastructure financing, the road map and opportunities, lessons learned also I will try to cover up to bring about little bit of quality input into today's conference. And let me share with you that the learning here has been for us also that one thing is very good, because environment plays a very important role, it plays a very important role in the economy and those who ignore environment in long run have to pay a price. And that is why we started the focus on sustainable infrastructure financing before the Pandemic but after the pandemic our value system has been reinforced and we feel strongly, more strongly about this area and it has not only proved to be a good social sense but it also proved to be a good economic sense because what happened during this period of pandemic that the sectors where we have taken exposure; the transmissions, the HAM projects, the areas like renewable projects, the sewage treatment plants, these were the areas where the payments came, where the support of government was available and renewable operated as must earned plants. So not only the power uptake which fell down to almost 50% to 60%, the power uptake from renewable happened and payments continued to get paid, they would have got continued to pay in normal circumstances unlike other areas. Not only this, in the Atma Nirbhar Bharat Scheme, special liquidity measures have been taken which again further boosted the requirement of the sector. And let me tell you, a very small percentage of our loan book in terms of asset, maybe close to 4% is what we had to provide moratorium. The moratorium period is over and all our borrowers are making payments timely and there is no concern in this regard. As far as PFS was concerned, as a part of this business strategy we have said that our focus is consolidation and first thing why we were doing consolidation because we had to face this NBFC challenge; asset liability match, liquidity challenges, liability challenges, so challenge moved from not only managing assets but also to manage our liability and we are happy to report that we were able to move from a 40:60 in short term to long term ratio to close to 10:90 short term to long term asset ratio and we have demonstrated in our presentation also that our cash inflows are largely over and above the cash outflows which are projected for coming times. Also, what we have tried to do is that, we since moved our business from the legacy portfolio where we had this thermal and hydro assets and that is where my stress assets came from and we were able to resolve last 17 to 18 months close to rather play about Rs. 1300 crore of our stress assets over Rs. 2200 crore of stress assets which we had in our books. So, but this quarter, yes we have no specific case to report where resolution has happened but let me tell you, it was almost touch and go because we were about to resolve but in order to get little better pricing, probably being throw forward will happen in this quarter. So we hope to have almost three of our assets getting substantive along, getting resolved in this particular quarter as a part of the resolution. And also let me tell you that first two, in fact the first quarter was a quarter of Covid, so we were very cautious in our business and growth and this was since where absolutely very negligible, the second quarter we made some incremental disbursements, we started to begin with disbursement but now in the third quarter is where we are fully reassured and we are back to business as normal. And in fact, yesterday itself our board has sanctioned close to about Rs. 630 crore of sanctions which are low hanging fruits and likely to be disbursed within a month’s time and they are all three of them, I am happy to report. I am very happy to report that all three, one is of course underlying completed port project but two are out of which; are sustainable project, one is a Wind project and another is Hybrid project which will be based on pumps storage as well as Wind and Solar, so combination of that. So that will be a very unique project and we are very happy to be one of the pioneer lenders in this area as we have been pioneer in many other areas. So, this has been our backdrop and two, three things because financial results and request here for to take into detail but I will just touch upon some of the areas where we have worked and consistently demonstrated our operating improvement and that is one area where the operating margins where my spread and NIM both have consistently been going up, both on the running loan book as well as on the total loan book, so if you look at my earning portfolio my NIMs have over 5 quarters, have gone up from 2.99 to 3.70 and my spread has gone up from 2.37 to 2.83 and mostly moving in a linear manner. Similarly, on the overall loan book also this has been a trend which is reflected and of course the other area is where stage 3 assets where we have been able to make substantial reductions and I said that going forward also this quarter as well as subsequent quarters we hope to get quite a bit of resolution. On the essence, most of our lending, if I say 52% of my lending close to is to renewable. We have almost zero stress there and in the others category also we have zero stress, all this is coming out of thermal asset, thermal is a little lower, 10% today but we are trying to bring it down to as low as 5% by end of this year, we could have done it little earlier but because of pandemic since first two quarters we did not have sanctions going forward as well as resolutions also took little more time than what we had anticipated and we would appreciate that but these are reasonable kind of a delay, not abnormal delay and nor have they jeopardize our action plan for future. So, under this backdrop I will request my CFO, Mr. Sanjay to take you through financial number and then Director-Operations, Mr. Naveen Kumar as time again he has been with you, now in a well-known figure in the Investor community, a very strong person on the operations, very deep experienced on appraisal and PFC, BHEL, NTPC and so on, so later on I will request him to also give his view point on, not only on the business plus also on the control systems and processes which he is very strong on, to give his viewpoint and then of course we will take Q&A. So, over to you Sanjay.

Sanjay Rustagi: Good evening. I am just giving the key parameters for the September ended 2020. During this quarter we have sanctioned a loan for Rs. 350

odd crore and disbursement of Rs. 334 crore and with respect to the borrowings we have signed one long term loan agreement with the SBI for about Rs. 300 crore and few of the other long-term borrowing proposals are in pipeline and are expected to come in this quarter.

With respect to the capital adequacy it stood at 24.06% as per the Regulatory requirement of 15%, it gives us an upper hand to expand in terms of the portfolio and in terms of the leverage and in fact the leverage is around 4.30% as of September' 20. It has been improving from last one year, it was around 5.28% one and half years back, now it is around 4.3%, so it has given us an ample space to borrow for our expansion and growth.

With respect to the profit before tax for the Q2 of '20 versus Q2 of '21, the profit before tax is Rs. 48.46 crore against the previous of Rs. 68.11 crore, the yield on the assets stood at 10.38% as compared to 10.60%. The spread for the Q2 '21 improved to 1.85% from 1.51%, the cost of borrowed fund has reduced to 8.53% from 9.09%. If we compare quarter to quarter from June quarter to September quarter the net interest income has improved to Rs. 95.87 crore as compared to Rs. 84 crore so there is an improvement of around Rs.10.5 crore. The profit before tax for the Q2 is Rs. 48.46 crore as compared to Rs. 42.60 crore. The Profit After Tax is Rs. 31.85 crore as compared to Rs. 26.57 crore. Even the spread for Q2 is 1.85% which has increased from 1.6% from the Q1 and as I told you earlier the disbursement during the quarter is Rs. 334 odd crore. With respect to the 6 months '21 versus 6 months of '20, the Net Interest income is almost in the same range of around Rs. 180 crore against Rs. 190 crore, the total income is also in the same range Rs. 596 crore to Rs. 705 crore. The yield on the earning assets stood at 11.75% earning assets and the disbursement for the 6 month is Rs. 434 odd crore. The book as on

30th September 2020 is Rs. 11,194 crore and if we add up the LOC which is aggregating to Rs. 444 crore, the exposure is Rs. 11,638 crore. The Gross non-performing account is 8.46% and net NPA is 4.74%. The capital adequacy ratio is 24.06 and the cost of borrowing is 8.53% for the quarter ended September 30, 2020. So, this is about the financial results, I am handing over to Mr. Naveen Kumar, The Director Operation.

Naveen Kumar: Good evening to all our esteemed investors. Dr. Pawan Singh and our CFO, Mr. Sanjay Rustagi have covered the whole gamut of activities in a quite comprehensive and clear manner. So, I would like to share some of my views also with you.

Kindly allow me to recap some of the past events because what I have seen that it is the cumulative effect of this various kind of events and developments which make an impact on the business operations of an organizations. Similar kind of situation as you all know we have faced during the last 1 or 2 years period, at the cost of the repetition, I will say that in the financial year '20, we had experienced drying up of the liquidity with the result that there was increase in the cost of borrowings for various lenders and there was a limited growth of the loan book size, then further we witnessed a flurry of merger and acquisition activity which also created lot of impact on our business operations, this happened in the renewable energy sector, including the billion dollar deal in which GreenCo acquired Orange Renewables and Renew Power acquired Ostro Energy. What was the impact that is known to everyone that our exposure had crossed the limit as set by RBI, in case of GreenCo it went to as high a level as Rs. 1100 crore or so. So naturally we were supposed to restore our exposure within limit, so those borrowers had to pre pay the loan to us. Naturally this made an impact on our loan book size immediately. Then COVID-19 emerged, the situation is known to everyone regarding coming up of the new projects and implementation thereof and then migration of the labor from one place to another place. All of these activities, the sum total was that there was an adverse impact on the project financing and project implementation activity but that kind of development did not make any adverse impact on our morale. We went on making the efforts, we went on strategizing in a proper manner so that we may be able to continue with our business operations in an effective manner. So, a multi prong strategy, perhaps I mentioned last time also, we had followed and the same we are following now also and from time to time we look out for some other better alternatives also to make a positive impact on our overall operations. Our CFO had mentioned that there was a shift in liability mix from short term to long term, then we focused on stress asset resolution. If I refer to the financial year '20, then what I can re-collect that about eleven number of stressed assets with outstanding of Rs. 1300 crorewere resolved by us, which includes about Rs. 685 crore in the financial year '20. So that was a very bold step and many peers group companies they talked to us and they have taken a note of the actions that we are taking for the minimization of the stressed assets. Then we have moved away from conventional power projects funding and primary focus has been on renewable energy projects and diversification of our loan portfolio in some other areas. Regarding this point, based on the past experience also, I know that especially in case of large thermal power projects, coal based thermal power projects, there has been tremendous cost overruns over the years, many of these assets have become NPAs. The reasons I discussed last time also but the question is, if reasons are known then why we cannot take a corrective action? In this regard, I would like to submit that our share is generally very less in comparison to the large lenders. In a consortium, since our share is small so making a significant impact may not be possible. As Dr. Pawan Singh has mentioned that we are quite concerned about creating checks and balances implementing the proper control system, that perhaps may not be possible to that extent in case we are a small-time lender in the consortium. If we have to carry out the due diligence for such large size projects, we have our own system of estimating the realistic cost for the completion of the projects, the realistic implementation schedule, the co relation between the various activities, the sequencing of the various activities and then how to minimize the IDC in that, then to check the scope of work so that there may not be any situation where the scope of work is not completely covered and once the disbursement starts then the borrower comes to us and says the unforeseen circumstances there forced them to include some more scope, there may be some tactics to get the DSCR, IRR these kind of ratios which generally the lender excuses to bring them to the desired range by making some undue adjustments in the implementation period and in cost of the projects, etc. So, the point which I am trying to make is, that based on the past experience referring to the data bank created by the lenders and their operational experience matters a lot in ensuring that the minimum number of assets become NPAs. So, if we cannot correct the situation in view of our smaller size loans in the consortium financing, it will be better to consider that we stay away from funding of large size projects where our share is small. Another strategy which we adopted was to introduce the EWS framework for early detection, prevention and initiation of the corrective measures. We are religiously following it for all high-risk loans, and the relatively higher risk loansare being included under EWS category and we take the required action from time to time to ensure that they do not become NPAs in future.

Then we made some internal changes; shifted from reference rate of interest to benchmark rate system which I mentioned last time also and then the way I have explained for the requirement of the proper appraisal technique that we are following and with the belief that learning is a continuous process then whatever we have learnt in the past and accordingly refined our appraisal procedures, that efforts are continuing so that we may be able to have a complete control on the fate of the project that we have financed.

Something to talk about our loan portfolio; our effective sanctions are around Rs. 16,440 crore for119 projects. About 112 projects, are being executed in which disbursals are going on. The total outstanding is of the order of Rs. 11,200 crore and the broad break up is, solar constitutes about 27%, wind constitutes 21%, thermal is around 9%, hydro 2%, road 9% and corporate structural loan 26%, this includes our loan to the DISCOMS also. As MD and CEO has mentioned, the sanction and disbursements expected to pick up during the third quarter. Earlier we were expecting that the same may happen in the second quarter but then because of continuation of certain problems which otherwise we thought will be taken care of, they were still continuing and there are certain reasons for this slow growth of the sanction and disbursement, one or two reasons I have already mentioned which made a cumulative impact that was drying up of liquidity in the market impacting the sanctioned disbursement during 2019/2020, then impact of the mergers and acquisitions that also forced us to correct exposure limits scenario, some cancelling of the bids by SECI that you must have heard about that maybe around 40% to 50% during the last financial year.

Then tariff capping policies of the DISCOM; Andhra Pradesh for example, overall impact of the Covid-19 situation etc. If we analyze all these factors, then perhaps it will become easier to understand that why the growth in the sanction and disbursement could not be up to that level which we have envisaged in the beginning of the financial year.

The last time I shared how we are going to do in the ongoing financial year with regards to our sanctioned loans and still we are trying to make renewable about 25% to 26% of the overall sanctions, transmission maybe around 9% to 10% and road and highways about 10%, then some of the water schemes also maybe a single digit figure in that, DISCOMS maybe 10%, 12% in that range and corporate loans maybe around anything between 30% to 40%, we are trying to create the opportunity in that regard.

Pursuing to the RBI circular of March 2020 and May 2020, we had extended the moratorium to our esteemed borrowers for the March - May quarter we had given the moratorium amounting to about Rs. 199 crore which included the 57% of this for the DISCOMS and for the next quarter, the moratorium extended was Rs. 290 crore and the share of the DISCOM was 53%. So, on an average, for both the quarters, it is about 60% to 61% in case of DISCOMS.

Then final word I would like to share with you, we shall focus on the new area and go for diversified operations including roads, ports, water, electric vehicle charging, solid waste management, sewage treatment areas, then with your support and guidance we are geared up to meet the emerging challenges the way we have done in the past, the way I have explained to you, in the last few minutes. Thank you so much.

Pawan Singh: So thank you Naveen ji for so elaborated the whole process and systems and the highlights of business. Now the floor is open for question and answer, so we will be happy to answer any of your questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. Anyone who wishes to ask a question may press '*' and '1' on your touchtone telephone. If you wish to remove yourself from the question queue, you may press '*' and '2'. Participants are requested to use handsets while asking a question. We have our first question from the line of Aditya Mundra from Mytemple Capital, please go ahead.

Aditya Mundra: Hello sir, what is your gross NPA number and net NPA number for the quarter end?

Pawan Singh: Yes, so the gross NPA is 8.46 and 4.74 net NPA.

Aditya Mundra: And sir, like for all other NBFCs there are, what is the amount which is yet to be recovered from the moratorium book because the moratorium is over on 31st August, so has the entire amount been received or there must be some amount which is still pending?

Management: The answer is that 40 days, the amount which got moratorium so as we had stretchered because as a last instalment. After the moratorium any amount falling due from 1st September to 30th September and even subsequently, almost all the borrowers have started making the payment as per the revised schedule.

Aditya Mundra: Okay, so was the re-structuring involved or ..?

Management: No, it is not re-structuring because it is in line with the other banks which have done because suppose if you have not generated something and if we ask you to pay the entire amount in one go, it is not possible for the borrowers. What we have done, the instalments which were falling due between this 1st March to 31st August, that has been clubbed together and created an EMI that will become due at the end of the tenure but most of the loans as Mr. Naveen Kumar told that 60% of the borrowers who opted for moratorium will be PSU that is the distribution companies only. So renewables pays most of the borrowers have not opted for the moratorium.

Aditya Mundra: Sir as on 31st August, what is the total amount which was due as per the moratorium, which if the moratorium was not there would have been taken?

Management: So, it is close to Rs. 500 crore odd.

Aditya Mundra: And sir, what would be our stage 2 book?

Management: Yes, our stage 2 book is, it is close to Rs. 1100 crore.

Aditya Mundra: And sir, do we expect any re-structuring to come as per the RBI circular, has anyone approached that?

Management: Yes, so even none of the borrower has approached us for the re-structuring because as Dr. Pawan Singh told we are into renewable sector and most of the renewable projects have been commissioned and injecting the power to the grids and they are getting the payment to, so there was little mismatch because there was injecting and there was some delay from the DISCOM and that is the reason for the initial periods as per the moratorium and they have started paying after that. So none of the borrowers has approached us for the re-structuring.

Aditya Mundra: No none other DISCOMS, nothing?

Management: No, on the contrary DISCOMS have been pressing for pre-payment because of the Bharat Nirman, PFC and RAC have given little low rate of money to them, so they are pressing for, further we are settling it with them.

Aditya Mundra: And sir just to re-confirm, your loan book composition; it is 52% renewal, 9% - 10% thermal and road and transmission and that would be how much, sir?

Management: Road is about 8.5%, transmission is little over 5%, port is 1.22% and distribution is close to 15%.

Aditya Mundra: And sir the structured book is?

Management: That is about 9%.

Aditya Mundra: Structured loan book.

Management: Yes.

Aditya Mundra: And sir renewable includes solar, wind and hydro?

Management: It includes solar, wind and a very negligible amount of biomass. Hydro is separately shown because we have large hydro and we show it separately, that is 2%.

Moderator: Thank you so much. We have the next question from the line of Manoj Saha from Lexcorp Investments, please go ahead.

Manoj Saha: Yes, good afternoon gentlemen, my question is with respect to this provisioning of NPI, even you are showing in the slide, the presentation total NPI is around Rs. 947 crore, out of which you have made a provision of roughly around Rs. 438 crore. Do you expect rest of it to recover or you will make a provision where going forward for the remaining amount of roughly around Rs. 500 crore. Can you comment on that? And the second question is, like if I see your net interest income chart, it has more or less remained in the range of from say last eight, nine quarters roughly in the range of Rs. 90 crore to Rs. 95 crore, so when can we expect the company to go back on a growth trajectory and this balance sheet would get induct?

Management: Yes, both are very in fact, qualitative questions and let me try and address it. See as far as provisioning is concerned, we you know, whatever residual amount is available in various projects, they are the ones where you know resolution is at a very advanced stage and hopefully as I said in the, you will see some resolution in this quarter and also in the next quarter and we hope to get a large portion of resolution cleared during this period, a marginal throw forward may happen to the first quarter of the next year. So the resolution as such which we have, except maybe one thermal asset odd here, most of the assets , because we now follow an ECL model and we provide for expected credit loss. Now in ECL model what happens is that whatever is our anticipation of future credit loss is already taken care of and we have been able to provide. So our own understanding is that a very large portion of the provisioning has already taken place and that we have not shifted to ECL as well as RBI model, so we do provisioning as per the ECL and if net balances whatever is available, we are taking it to reserve and taking it out of the net owned funds. So over and above the provisioning which you talked about, roughly about Rs. 77 crore we have taken a hit on the reserve side, that is net owned funds and we have reduced that amount. So in the balance residual assets as I said, except one odd asset where we still have no clarity because the bidding has not taken place, it has gone through an NCLT route and only when the bid price comes, we will have clarity. All other assets are almost at the stage of resolution and based on ECL methodology, we have provided to the extent in future whatever we expect provisioning to take place.

Manoj Saha: Okay, so basically what you are saying is, out of this 977, you have already provided for credit 430, so out of this 500, you expect to recover at least decent percentage of that through the resolution mechanism, is that correct understanding?

Management: Yes, that understanding may not be wrong.

Manoj Saha: Okay, and also comment on the interest income over the last eight, nine quarters it has more or less remained stagnant kind of strategy. So when can we see an uptake on that?

Management: Yes, this NII figure what you are talking about is, as you are saying that it has been more or less constant but if you compare it Q2 of 21 over Q2 of the previous year, then there is more or less flat but if I take it with Q1 of 21 then there has been an increase of roughly 15% - 16% increase has happened. So it is not that it is stagnant, it is going up. Also, what you have to read this figure, not in isolation but also as a matter of how this will span out. So this figure has to be co-related with the figure of my NIM and spread because that has a direct bearing on my NII. Now because my loan book has stuck down partially because some of the loan assets were under stress and one example which Director Operations gave of GreenCo which mandatorily we had to bring it down and of course because of corona, first two quarters there was a caution on part of the management to expand at loan book. So despite the loan book coming down, we have maintained the NII, so that reflects one thing. That reflects that despite substantive reduction in the loan book, over 12% to 13%, the NII has gone up, by and large previous quarter and flat compared to the previous quarter of the last year. So that reflects because of the increase in the spread and NIMs, we have been largely able to show a marginal improvement or reasonable improvement on the NIIs but as I said that when we glow the brook, the reflection of NII and spread will be seen in the NII, so you will see that NII is going forward, you know distinct, you saw a marginal improvement, not I will say it is still not a marginal improvement, 17% - 18% is a good improvement. So this kind of improvement, this trend or better than this trend, in future quarters you will be able to see.

Manoj Saha: Okay, can I ask one more question?

Management: Yes, if you are with part of the protocol, yes please go ahead and do it.

Manoj Saha: Yes, based on check, see what I have seen the learning from this last two, three years of the NPA cycle, what has changed in your mindset of the company's, in that sense? If you can comment little bit on that.

Management: Yes, so the mindset of the company has been quite a bit of learning because two, three things have been there. One is that we have hither to move away from projects which have had last large gestation and we have also moved away from the projects where the revenue certainties were not known in advance and not tied in advance. So the problem which came, largely if you look at my NPA asset, it is mostly from thermal assets, solitary here and there hydro assets. So here what had happened is, because all these projects are working two, three things in common. One is that they all had long gestation period, all tariffs were unknown, they were to be tied later on, Number three, the cost estimates should have gone for haywire because they required huge investments, long time and IDC and all that could be a factor.
so because of this, many of these projects ran into trouble. Thermal there was this additional factor of DPS not happening and coal block's calculation, policy issue. So our learning has been that if we are doing infrastructure and also one of the lessons for us has been that we are

a small partner in large consortium, largely dominated by public sector banks and where they were more bound by in fact, following the procedure so that they are personally protected rather than looking for a commercial interest. So we were also tagged along and though we used to do maximum policy adequacy, means it is like they are taking the call after which we tried many times and the drag was one case where we extracted our pound of flesh, we were the last ones to join the resolution plan but only after we had taken our pound of flesh then we joined. So that has been our learning that we will not be part of this kind of a consortium lending, we will not be part of projects where long gestation period is involved, we will not be a part of projects where cost overrun possibilities are there, we will not be part of projects where we do not deal where the revenue certainties are unfrozen, so this has been our learning here. And that is why, if you look at my other than the legacy loan book, the lending which we have done in the last three years or four years, we can say with lot of confidence that there has been zero stress on that loan book. So this has been up, apart from that what we have done is, that is the appraisal part of it. In appraisal the times of monsoon, we had inbuilt for it because we have modified our rating model because our rating model was highly oriented towards kind of putting lot of emphasis on construction risks, now that since as I said, construction is not so much of an importance to us because no gestation projects, time is less where these projects are most based on supply products and the stocks, less of construction input. So the risk rating model we have modified, so along with CRISIL we worked on a different risk rating model. And then also, for corporate loans we developed a risk rating model. Apart from that, the quantitative risk model which we run which is absolutely a total bail on the part of the model and the person who operates it. Apart from that, we also do our qualitative analysis, so we do our own qualitative analysis so our risk department is fairly independent and that does the qualitative analysis, then we have this risk rating model and then of course three, four stages of credit underwriting and approval, we have initial internal credit committee, then we have the model with the risk rating qualitative analysis, two levels of CRO check, a Chief Risk Officer, then we also have our directors looking into it and then all cases go to board, our board committee, subcommittee. So this is the kind of robust system of approval internal check which we have introduced, subsequent to that we have introduced early warning system where we keep on, we have several variables on which we monitor the project and on that we have very little control because the number throw up and any variable going haywire, the early warning system pops up a warning for us and it is very, rather very sensitive kind of a WSN, it is so sensitive that you know, if maybe the twenty parameters or even two parameters are not going the way as which have been projected in the appraisal, the warning signal comes thrown up and the moment it is, EWS is there then we have to take necessary action from the management’s side. We have a risk management committee which is a very strong committee headed by ex-secretary to government of India and the group chief risk officer also being a part of that. So, they meet almost every month and review these kind of an early warning systems, so these are the some of the systems and processes which we have put in place. And what we have also done is that the rating model which we have done for appraisal, we have linked it to the monitoring rating model. So automatically what has been rated in the appraisal and that parameter start misbehaving or sort of variation happens, automatically in the monitoring model this shows up. So, a very robust I think very few infrastructure finance company or NBFCs would have this kind of a systems and structures now in place.

Moderator: Thank you so much. The next question is from the line of Aditya Babu from HDT Global Securities, please go ahead.

Aditya Babu: Yes, sir just wanted to know that we had some plans of raising around Rs. 500 crore, so can you just throw some light on that please?

Management: Yes, so if you look at my capital adequacy, it is over 24% now, debt equity ratio also is close to almost 4:1, so that way we are very comfortably placed and you know first two quarters because of the Covid-19 impact, we did not really go for that kind of increase in our loan book. So we are comfortably placed as long as the capital requirement is concerned. Yes, but the plan is there because capital is something, it is like a raw material to NBFC and since our board has approved it and it was not the best time to kind of raise capital because of couple of reasons; one is that the economic situation prevailing the Pandemic which was there, the NBFC crisis preceding us and we putting our house in order. Now that we have met our facts, now that we have kind of hopefully the Pandemic also, I will be praying, all of you must be praying also I believe that it goes as early as possible. And this behind us and having set our house in order and from this quarter we have entered the expansionist move because very beginning only that Rs. 630 crore we have sanctioned, and which was likely to be disbursed within the month only. So with this kind of a demonstration and NIMs and spread consistent performance, I think in one or two quarters I said that stress assets behind us, so I have a balance sheet which I can really kind of market it, there I have capital protection till then. So I will go to the market when I feel, when I am best you know, it is on the Olympic when I am best fit to run the Olympic, so lot of homework has to be done before that.

Aditya Babu: So maybe, we can consider it around two quarters for that, at least?

Management: Yes, so we have not kept any fixed timeline because see also depends on response what we are getting from and also would depend on what kind of capital, who is bringing that, that is also very important for us because we have certain values on which we are now working and so whosoever comes, either feels of the same values, we have lot of values and is able to give strategy also apart from money to further growth and expansion of the company.

Aditya Babu: Sir I have couple of questions, if you do not mind. Sir what will be the interest rates going complying for lending as well as on the borrowing side? I mean drastic changes would be there or it would be ..?

Management: See that cannot be uncertain in isolation because what is very important is that lending rates are also factors of the market and then here also following a referral set model. So something whatever we are getting the benefits, some of it also we have to pass on to some of the borrowers who are already on a variable basis borrowing, so we will have to do that but one thing I can assure you that the NIM and spread which we have demonstrated, that we will continue to demonstrate in the coming times also, improvement in that. And what will also happen because Sanjay referred to the spread on the overall loan book. Overall loan book and the spread on the running loan book almost 100 basis points difference, so what happens is that as I reduce my non-running loan book from the running loan book and I increase my running loan book, my overall spread will continue to increase. So your concern should be more of spread because ultimately spread get into the bottom line. Of course, our endeavor will be to bring down our cost and give start of to the lenders also, not everything goes to the borrower but some part of it has to go to the borrower also because he has to stay with us.

Aditya Babu: And sir last question from my side is like are you having any plans to, can you do retail lending ?

Management: See we do not have immediate plan to go into retail lending but see what we are trying to now do is that since we have moved away, we have moved away to a different kind of infrastructure finance lending. Number one, we have moved to and more of a sustainable lending. Number two, we have moved to not very big projects but smaller projects in the tune of we have been doing in past. Third thing is the kind of projects ,we are moving towards e-vehicle sanitation waste management, waste to energy, drinking water, so these are the projects which would not be very huge projects, they would be much smaller projects in terms of large infrastructure projects. So our focus that automatically brings down our size of the loan book. So we would be focusing in this area, maybe we would co-partner with other co-lenders, yes our endeavor would be to bring it to a smaller ticket size as we go forward, add more numbers, a smaller ticket size but to typically call it a retail, would be I think technically incorrect.

Moderator: Thank you sir. We have the next question from the line of Chanav Mallu from Mourya Academy, please go ahead.

Chanav Mallu: Good evening sir. Since last quarter we were listening about the scenarios may process, till today, there is no any proper processes seeing about the divestment process, what is going on now?

Management: I would request you to repeat your question so that I can answer it better. Sorry about that.

Chanav Mallu: Since last quarter only we are listening about this scenario spread process sir, so till today there is no any clear picture about the divestment of the process sir.

Management: Divestment is to be done by our holding company that is PTC, so I will request that you hold this question to the holding company whose results will be coming very soon and you can ask them this question.

Moderator: Thank you sir. We have the next question from the line of Aditya Mundra from Mytemple Capital, please go ahead.

Aditya Mundra: Hello Sir, regarding the gross NPA and net NPA, gross what would be the percentage if the Supreme Court order effect is not taken?

Management: There is no such case in our, there is no account relates which can be classified as NPA, but we are not classifying because of the Supreme court order, so there is no such case.

Aditya Mundra: Out of the Rs. 334 crore odd book that you have disbursed, what would be the breakup or as far as the renewable versus the new business is road, transmission and the new areas and the structured loans?

Management: If you have another question, you can give it to us, we will let you know meanwhile, we do not waste time on that.

Aditya Mundra: Sir, like you said from September ’19 to September ’20, the loan book has reduced which is partly due to some stress also and I believe in the opening remarks you were also talking about some pre-payment due to some reasons, what was that sir, maybe I missed it?

Management: Yes, I will request Director, Operations to answer that point on the pre-payment.

Naveen Kumar: As we have already mentioned that there has been instances of merger and acquisition activities where Greenco acquired Orange renewables and the result was that suddenly we landed in a situation where we were supposed to reduce our exposure by Rs. 1100 crore plus, so it was a very difficult situation but somehow we were able to take up this issue with Greenco and were able to bring it to the required level and in such a situation we sent a request to RBI also to give us some reasonable time in this regard and we are supposed to do the follow-up because if say one or two months' time is given then it becomes difficult to comply with the situation and in that case we have to request them again to help us correct the situation. And similar situation happened in case of some other projects also like HERO group, there was some problem regarding the exceeding the exposure but it was not as significant as was there in case of Greenco and recently we had some small problem with one of the DISCOMS also, so there also this kind of situation had arisen but since the amount is not very much on the higher side, so the option left with us is to close the loan after disbursing the amount up to the level where we will not breach the exposure limit. Then these are some of the few cases on.

Management: Yes, and breakup of Rs. 334 is.

Management: Yes, I am giving the breakup, the transmission is close to Rs. 116 crore the transmission projects, there is one structured loan of Rs. 89 crore that is to the PSU, that is Tamil Nadu transmission and then one is the Port Rs. 50 crore odd and Roadways Rs. 48.40 crore and Prayagraj water sewage treatment which we are discussing Rs. 15 crore to that plant and the existing Hydro project is Rs. 14.87 crore, the large Hydro. The total comes to Rs. 333.07 crore.

Aditya Mundra: And the sanctions would also be in this ratio broadly.

Management: So most of these are sanctions because these are the ongoing projects, so these are the based on the project milestone achieved, so based on those milestones.

Aditya Mundra: Okay, so the fresh sanction in this quarter also would be in this ratio or that could be in different ..?

Management: Fresh sanction is happened to Rs. 350 crore odd during this period and that pertains to.

Aditya Mundra: Sir what are the fresh sanction amount total with this quarter?

Management: Fresh sanction is Rs. 350 crore, in that, one is the transmission project of around Rs. 250 crore and one is the Port project of Rs. 100 crore, so that constitutes the Rs. 350 crore.

Aditya Mundra: Sir so this as a pre-payment in the loan books, so largely the loan book is reduced because the disbursement is far less than the premium in the last one year, largely because six months Covid-19 as well as some amount of stress.

Sanjay Rustagi: So during the last six months, if you see, so my book remains almost constant from Rs. 11,000 crore to Rs. 11,197 crore, so there is no such reduction in last six months. So there were few projects which got pre-paid in the March because of certain consolidation.

Management: Just to add up to what Sanjay is saying, see reduction happened in Q2 of 2020 and so thus the reduction happened from roughly about Rs. 1274 crore to Rs. 1100 crore but after that there has been no reduction.

Aditya Mundra: Okay but our loan books are still reduced as from September '19 to September '20 about Rs. 2000 crore odd, if I am not wrong.

Management: Yes, so that was between September, that period was from Q2 of last year, it got reduced to that extent.

Aditya Mundra: No sir, post Q2, I am saying, like at the closure of Q2 it was about Rs. 12,000 crore and at the closure of Q2 FY21 it is about Rs. 10,000 crore.

Management: No, it is Rs. 11,000 crore now. So, this is the Rs. 1000 crore because as you are aware that there is a lot of consolidation taking place between the renewal players and whenever there is a some, because we have to follow that RBI direction and …

Management: See there is no, overall, there is net reduction has not happened beyond '21 Q2.

Aditya Mundra: Okay and sir these are RBI mandatory exposure limits, not internal exposure limits, is it?

Management: Our internal exposure limits follow RBI exposure limits.

Aditya Mundra: And sir one final question, you are saying that you will avoid long gestation projects, how sir even road and transmission and port would be long gestation, am I right?

Management: Yes, that is true. So everything is related, all projects have some gestation period, only thing is compared to what thermal and hydro six years, road projects may take much lesser time twenty four months, and they are the longest which we do. They are not the only ones which we do but as I said is only 5000 of my total loan book, so they are the longest. And there also we ensure that before the cases which we have been taking, the land acquisition, one is that MSCI has awarded, we know upfront what is the bid price, we know that the land acquisition majority of it is continuous, land acquisition is available. You know, the equity has been brought in many cases upfront, so these are the setback which is built and this is the longest issue.

Naveen Kumar: See there is a lot of difference between a transmission project, a road project and a conventional thermal and hydro project, as MD has rightly explained. See this conventional power project is a very complex kind of arrangement. If you see the scope of work and if you see the number of activities involved, if you see the quantum of supplies that are involved, the number of contracts that are to be awarded, lot of base work is required to be done at the lender's level also. As I have just mentioned earlier that since we are a small-time lender in comparison to a big lender where the loan required is Rs. 5000 crore or Rs. 3000 crore, our loan amount will not be much comparatively. Now these kinds of complexities are relatively lesser in a road or transmission projects. Over the years I have seen that the cost of overruns are taking place in almost all the thermal projects, there is a delay in land acquisition, quantum of land is very high, there is a delay in getting clearances and linkages because many clearances and linkages are required if you compare a thermal and a conventional thermal and hydro projects, then issues in supplies and erection, issues in contracting structure, it is such a complex game that unless you carry out detailed due diligence and spend lot of time then only you can mitigate some of the risk but still you cannot mitigate 100% of the risk but on the contrary, you know in the case of transmission and road projects, the situation is not as complex as is there in these cases.

Moderator: Thank you sir. Ladies and gentlemen that was the last question. I would now like to hand the conference over to the management for closing comments, over to you sir.

Pawan Singh: Thank you very much for finding time and being here for the investor call and I wish we could have answered more query but we will be happy to answer this query. My team is there; Mr. Sanjay Rustagi is there and Mr. Abhinav Goyal is there, who is looking after investor relations, so they would be happy to answer. And Mr. Naveen Kumar and I also would be available, so we will be happy to take your queries in future. And as I said that you know, the focus hitherto has been on building strength and capability, building strong operating model, systems and processes which we have done and now we have started to grow and expand. So I hope as we go forward and the environmental and social situation and the Covid-19 problem largely gets dissipated in the next few months, we will be able to do a good business and what we have been able to demonstrate in terms of operations, that is NIM, spread, stress asset resolutions, control systems, you know not allowing recent assets which have been sanctioned to get into trouble. Apart from that, you will also find that our management capability is getting demonstrated, the expansion side of the business, growth side of the business which you will, the value for which will be available to you. So with these words, I would again thank you once more and take care and be safe and I hope all your families are also safe. Thank you very much.

Moderator: Thank you very much sir. Ladies and gentlemen, on behalf of PTC India Financial Services Limited, that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.

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