PTC India Financial Services Limited
Q1 FY21 Earnings Conference Call
August 06, 2020

Moderator: Ladies and gentlemen, good day and welcome to the PTC India Financial Services Limited Q1 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 Goya – Vice President, PTC India Financial Services Limited.

As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" then "0" on your touchtone phone. For the 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: So, good evening to everybody. And let me welcome you to the first Q1 investors conference. And it's a great pleasure to welcome you again, because we have been welcoming you every quarter and we really appreciate that the kind of response we have been getting. And just to begin, I must tell you that the COVID impact both in terms of life as well as impact on the company. In fact, the PTC Financial has been so far, quite a bit God blessed, because not any of our employees got affected by this virus, nor their family members and also on the business side, the impact was not there. So, if the impact was there if in real terms, if I have to say it was positive, only and not negative. So, that was one of the reasons that since we focused in the areas of HAM project, Transmission Line projects and more than 50% in renewable and renewable because the power demand came down by even 25, 30% even more in some states. But despite that, renewable only costs you 10% of the total power consumption and they are must run, so, they were all, power was being drawn and payment was being made as it was made in past. To that extent, we were quite insulated and in fact, it proves that sustainability which is our core focus area, sustainability infrastructure is core focus area, prove to be a very, very resilient model in this kind of a very most, crisis kind of a situation. So, that way we consider our self very, very fortunate and fortunate and we also feel a little self-assured that our model has been validated in times of one of the biggest economic crisis or social crisis or political crisis the world has ever faced. So, with this, I just give you a backdrop a little bit on the strategy, which we have adopted and then of course, arising out of that strategy, the numbers which have been thrown up in this quarter, because all the numbers which you will see now and later would be part of the strategy it would not be random numbers coming here and there. So, what we are trying to do is, we are trying to be as predictable as possible, as far as the outcome and the business flow is concerned. So, the whole thing our operating parameters are flowing from the strategy which we have adopted. So, as I have shared with you earlier that last about 20 months, our strategy has been many folds one is consolidation of our balance sheet that is what we have tried to do, when I say consolidation. Again, one big strategy followed by some sub strategies like, that we moved our loan because 90% of our loan is a pass through loan. So, we try to move from a base rate pricing model, reference rate pricing model to a base rate pricing model. So, where all our cost would be pass through so, minimizing risk and making margins was one of our strategy which entire loan book we have been able to convert from reference rate to a base rate model. Which has reflected in a very, very positive kind of yield, which again has over 20 months my yields have correspondingly increased by about 130 basis point and which has been, if you compare my Q1 19 to Q1 20 numbers, you will find there is a distinct improvement in NIMs and spread and this is arising out of the strategy which we adopted.

Despite there is a slight decline in the revenue income marginal decline. That is because 1st Quarter we held back disbursements quite a bit because of the COVID situation, we held back sanctions also. So, despite that we have been able to achieve this kind of spread and NIM and also which has not reflected in the profitability because compared to the Q1 of 19 this time my profit has gone up close to about net profit has gone up by 70%. So, and second strategy of course has been, sub strategy has been to improve the quality loan book and as I have said earlier about 1300 crore worth of last 20 months 1300 crore of stress assets we have been able to handle. And going forward also because whatever is left, quite a bit of advanced action has been taken and, in fact before coming to this meeting, I was trying to do a back of envelope calculation as to next a quarter or four months from now, how much additional stress asset we will be able to resolve and I could easily arrive at a number of close to about 625 to 650 crores is what we will be able resolve in next three to four months from now. And that is second part of the consolidation and the consolidation also resulted in reduction, as I said that the focus more was on top line and bottom line and not so much on the expansion of asset base and the cost of margins. So, consolation was also from that angle. And that has also resulted in our leverage going up quite a bit. So, we have improved our leverage which was close to 5.7 at one point of time, we have brought it down to almost 4.34 in this quarter.

So which gives us and backed by a capital adequacy of almost touching now 24% so, these two things, we have a sufficient elbow room to expand business. And that we have gained confidence understood the experience and then of course, third strategy, sub-strategy has been to decarbonize our balance sheet, because our focus has been that. We will be a sustainable infrastructure finance company and will not be everywhere here and there. So, core competency is what we are focusing on and our core competency will be primarily, your sustainability Infrastructure finance company. So, we have decarbonized our balance sheet quite a bit and we have brought down our thermal assets from 30% to 10%. And say by end of this year, this will come down to 5%. And by running thermal effect is only 5%. And that was one of the reasons which vis-à-vis our other partner in this industry we were able to show our resilience during COVID period because, large number of thermal plants had to back down. So, that proved to be our advantage.

Then of course, both part of our consolidation has been the improvement in the spreads and NIMs which went up from Q1 2.99 that is NIM 3.36. Debt equity ratio was also mentioned improved from 5.15 to 4.36. Our cost to income ratio improved from 9.82 to 9.50. And our yield on portfolio improved from 11.50 to 11.56. Cost of funds has come down substantially 9.13 to 8.76. One point I would like to cover here as part of consolidation is that, improvement in the liquidity position because post NBFC crisis what happened with ILFS, Altico, Dewan Housing and so on. Liquidity is what we focused on and that is why apart from COVID and consolidation we have not been very aggressive in the expansion of our loan book hider to. But, so now we have a very good, we have created a HQLA close to about 270 crores that is high quality liquid asset that is where we have parked our funds in. Then we have about 1600 crore of undrawn limits which are available with us and we have almost close to 1300 crore loan which is either sanctioned or sanctions is almost, the letter is to come to us in a couple of days. So, and then of course, IFC loan and OPIC loan we have also mentioned last time they are still work in progress because of COVID it got little delayed by may be October or so, we will like to see the finality of it.

So, liquidity is another area which we focused and we are very comfortable, our long term to short term ratio we improved almost, which used to be 60:40 we have improved it to close to about 91:9 now. So, that is the improvement which we have done. And of course, we had very little market borrowing because with a negligible market borrowing, even large players like I've been talking to RBI and they said that, even very strong players like L&T Finance, HDFC had this issue because they had huge market borrowing for their debt program, whereas we had almost next to nil kind of market borrowing. Notwithstanding that, that has helped us now because with the little bit of policy support coming from the government for NBFC and the way we have been able to demonstrate the strength of our balance sheet, we have started getting opportunities on the market borrowing also, which was almost dried up, it was also part of strategy and also part of market being dried up. So the market for that has started opening up, we have already done one 300 crore on draw down on the commercial paper, because that also while maintaining a very strong long term to short term ratio, which we have fixed a limit of 15% and beyond 15%, our risk rating model says that it will fall into the high risk category. So, up to 15% probably will do that so that we try to have icing on the cake and bring down our cost of taper, our cost of borrowing. So that also has started to happen and 300 crore we have done, roughly about 400 crore line we have got recently so draw down of that should happen before September.

So to sum it up, also we have pulled up a decent pipeline and close to more than 2500 crore of pipeline of quality assets in renewable sector is now available and also road sector is now available with us for lending and day before yesterday by board, now they have also felt comfortable sanctioning and first, they have sanctioned about 350 crore loan day before yesterday's meeting and will continue to again by end of this month, we'll try to push some proposals again with the board with quality proposals. So now, so far it was consolidation and now from this quarter onwards, we are moving towards the phase of consolidations from consolidation to growth and expansion. So, we will now with all the inertia, with all the test of resilient model, with all the liquidity, with all the improvement in operating parameters, with systems and processes like movement from risk rating model for pricing and new risk creating model for, because earlier our model was more towards power sector and we have now multiple sector kind of infrastructures sector kind of rating model, especially sustainability focused we have started doing water, we have done sewage treatment plant, recently we have done one waste management plant along with waste energy. So, this will be our focus area and of course, HAM projects, Boards, PPP and transmission lines would again continue to be part of our lending process.

We are trying to bring additionality into our renewable factors and where e-charging and e-vehicle financing is something which we are considering at advanced stage, we have moved to decentralized renewable energy finance one of the pioneers in decentralized, renewable energy financial PFC has been. And we have kept a good budget target of this year, mentioned target and disbursement target close to about 3000 crore and we are fairly confident of meeting that target in the current year. So, with this backdrop and snapshot on our strategy and a snapshot on numbers, I will now request my Chief Finance Officer, Mr. Sanjay Rustagi, to take you through the numbers in detail and also two word about him because we had a ECL model implemented earlier but this year, with the RBI coming and making ECL far more stringent and regulatory norms tightened, we were able to put a very, very robust ECL model in place and he was the person who has steered and monitored it, very, very strong on regulation and very, very strong on accounting issues. Now, I'll request him to take you through the financial numbers in detail.

Sanjay Rustagi: Good evening to all. Myself Sanjay Rustagi, I will take you through the financial results. So, what I am talking about first, the comparison between Q1 financial year this year versus the corresponding quarter that is Q1 of financial year 20. The profit before tax increased to Rs.42.60 crores in Q1 20 as compared to Rs.23.43 crores in Q1 from

21 to 20. So, there is a increase of around 81%, profit after tax has increased to Rs.26.57 crores in Q1 21 as compared to Rs.15.64 crore in the correspondingly quarter. That equity ratio has improved to 4.34 in Q1 21 as compared to 5.15 in the corresponding quarter. The net interest in margin improved to 3.36% in Q1 FY as compared to 2.99%. The cost of borrowed funds as Dr. Pawan Singh told has been reduced to 8.76% from 9.13%. Interest Spread has improved to 2.80% as compared to 2.37% in the correspondingly quarter previous year.

And company has received additional credit line of Rs.500 crore in this quarter. If we compare the financials of this quarter with respect to the previous quarter, that is quarter four of the financial year 20. The profit before tax has increased to 46 crore as compared to 14 crore so, there is a growth of 228%. The profit after tax increase to Rs.26.57 crores as compared to Rs.7.05. The total income stood at Rs.298 crores, yield on the earning portfolio remains constant. It's 11.56% from 11.67%. The net interest margin is almost same in this quarter it is 3.6% as compared to 3.38%. We have a good capital adequacy of 23.75% as on 30th June and the debt equity ratio as we told 4.34. So, these are the financial highlights now I'm handing over it to Mr. Naveen Kumar, the Director Operations, who will take you through some operational.

Pawan Singh: So, before that before, Mr. Naveen Kumar has been handling the operations of this company and he has a very solid experience in infrastructure space and before coming here he was –ED finance in Power Finance Corporation and he was the senior most ED there and longest service serving. He has had a very terrific experience before that on both plant operation as well as plant development and he is known to be system process man and he has worked quite a bit in improving our monitoring system, internal control systems and processes and I will request him to go through the system improvement and processes which he carried out and also his own, this on how he looks at business going forward and how we have performed in the operations front and how things look like on the operation fronts going forward. So over to you.

Naveen Kumar: Thank you, Dr. Pawan Singh. Good evening friends, I am Naveen Kumar, Director Operations. So, Dr. Pawan Singh and our CFO, Mr. Rustagi they have given a comprehensive presentation on the various aspects. So, I will take this opportunity to talk about the operational aspects pertaining to PFS. As you are aware that during the past few months, all NBFC, they have been facing a very challenging environment and which include this situation that emerged because of default by some NBFC and the merger and acquisition which had taken place in the renewable space and then this coupled with the onset of COVID-19 really challenging situation has emerged. But as I mentioned last time also, we remain very much conscious about the prevailing environment and the environment which is likely to emerge in the future. In view of that, we were consistently doing our homework to meet these challenges and our operational and financial parameters. They are the indicators of the kind of efforts we have made during this difficult period and managing the operations in a comfortable manner.

Talking about the present business scenario here. We have sanctioned about 123 loans totaling to about Rs.16,800 crores and out of this 123 loan accounts, which are there 91 projects pertaining to that they have been commissioned and dispersal is going on in about 109 projects. Then, we are consistently monitoring the progress in the wake of the challenging situation that, I have mentioned based on our effective monitoring system, and EWS framework and the strong risk team. So, whatever eventuality is there likely to emerge, we try to make some estimation about that and take the corrective action to control the situation. Talking about the impact of COVID-19, difficult situation had resulted because some of the projects which were under implementation, their progress suffered, there were difficulties in acquisition of the land, because of the lockdown situation, the work was not progressing the way we wanted it to progress, the way we estimated during the course of our appraisal. And then the projects which were under operation, they also face certain problems because of nonpayment and irregular payment by DISCOMs. Electricity demand had also come down. Then, apart from that we were in slightly in a uncertain situation, that is regarding what is going to happen whether new project proposals will be coming because the prospective borrowers, they were also very much impacted by this COVID-19 scenario. And, as I've already mentioned, that our repayments, they were also a cause of concern to us during this situation.

Then government of India you came out, RBI came up with a scheme to extend the moratorium, the first phase of which started from the March and the second phase it has started from May to August. We realized the situation and in-line with the RBI policy we also framed our internal guidelines, and we extended the moratorium the phase one where we extended, deferred the payment of Rs.202 crore which included mainly this 55% for the DISCOMs. And in the moratorium phase two, Rs.330 crores or so, this moratorium was given, there also the share of the DISCOMs was more than 50%. So, in total about Rs.530 or Rs.540 crores worth financial moratorium has been extended to the various borrowers. Then in this negative or difficult scenario some positive developments also have been noticed by us. Under construction projects, road and solar were because of the lockdown problems, difficulty was being faced by the project proponents and construction activities. They have started to some extent in different projects after the lockdown period. Now, in this situation when the project is progressing further physical progress is taking place, naturally it is a good news for us because we will be able to do the disbursal in a better manner during the second quarter vis-à-vis the last quarter or the quarter before that one.

Then the concerned agencies like MNRE, NHAI they have extended the period for achievement of SCOD for this project. So, now, some of the uncertain situation that has been taken care of because of this kind of initiative by these concerned agencies, and this is something good for our organization also. Then, Dr. Pawan Singh mentioned that some good projects are there in pipe line about Rs.2500 crores worth of projects pertaining to the domains where we are extending the financial support and out of that about Rs.1500 crore worth of proposal, they have been cleared in our internal committee meeting and then we'll also now try to give a push for further sanction of the projects because of the improvement in the situation.

Then another thing that you already know that renewal they are given much strong status by government. Then another thing is that the under the scheme of one time relief for Rs.90,000 crores extended by the central government Rs.90,000 crores to be infused through PFC and REC. For Telangana two DISCOMs PFC and REC, they have sanctioned, they have infused Rs.6000 crores, Rs.3000 crore each by PFC and REC. So, that will be quite helpful in the sense that, because they have deposited the amount to the accounts of the generator, which had supplied the power to these two DISCOMs but fail to recover the money. So, from that point of view, some relief will be there to them and directly or indirectly that relief will be coming to the lending community also.

Then coming to the future plans of our organization, we shall continue to fund the renewables the way we have been doing and then apart from that, we'll be focusing on funding of road transmission, solid waste management, sewage treatment plant, gas distribution projects, electric vehicle charging and water supply project. Focus shall always remain on the sustainable projects in-line with our vision for extending the financial support. And we have already funded some of such projects in the last two or three months. Regarding this solid waste management, we have sanctioned a project in Maharashtra and as has been discussed earlier the sewage treatment plant we had funded this Prayagraj project in Allahabad area under Namami Gange project. Then and electrical vehicle, relating project proposal has come to us that is being appraised and very shortly we will be taking it to our Board of Directors for consideration. So, the areas which I have mentioned that will be endeavoring to make our presence as I have just explained slowly and slowly we are progressing in that direction and we are trying to include those such project, such areas in the portfolio of PFS.

Regarding our plan to do the business in the ongoing financial year 2020-21 about Rs.4000 crore of the sanction and about Rs.3500 crore of disbursement we are anticipating during the current financial year. That may include about 25% in the solar domain, renewable domain 40% to 50% anything in that range for the structured loans and around 25% in the transmission, roads and new areas. Then of course, we'll continue to give a lot of stress on managing the stress assets, the balance stress asset as MD and CEO has explained that in the past, we have focused in this area and we have achieved very good results also and we will continue to focus in this area, because our stress assets mainly they pertain to conventional large thermal and hydro project. So, our efforts will continue in this area and friends, we have managed under difficult situation, as I have explained by just changing our policy guidelines, diversifying into new areas, endeavoring to improve our liquidity position, then adopting the benchmark rate and so many other actions like that. And we are hopeful that we will continue to perform in a still better manner in the coming time. As the situation is becoming relatively better. So, obviously we are going to achieve the better results in the coming time. So, with these words I'll stop here. Thank you so much for your patient hearing.

Pawan Singh: Thank you, Naveen Kumar. So we will leave it at that, and we can take all your question as it comes.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: So, just to understand your stressed asset book a bit better, out of the Rs.12,000 odd crore book around Rs.1200 crore is in a stage three and you have provided Rs.450 crores for that Rs.1200 crore exposure and Rs.700 is still there to be, is still there in the loan book. Rs.711 right net exposure to the stage three?

Management: Yes.

Sarvesh Gupta: Yes. And then moratorium is apart from this which is around Rs.500, Rs.600 crore as he the Director Operations was mentioning and what is the other stressed asset apart from these. And when you are saying Rs.600 crore resolution will this come from this book or which book and how much of haircut would be there in that?

Management: So, you're right close to slightly less than Rs.1100 crore is the total stress book which we have mentioned, and there's no other stress which we have now. So, this is the final stress book which is before you. And, as you have said that we have made a provision of close to Rs.459 is what we have made the total provision, against the stressed asset. So, balance when I'm talking about close to Rs.600 crore, see there are four projects which are at a very, very advanced stage of resolution. So, this is Dirang which is Rs.75 crores, this is Minakshi, Rs.150 crore and NRSS, Rs.206 crores, NSL Nagapatnam, Rs.125 crores. So, these add up to close to about roughly Rs.560 crore and there are some cases where resolutions have already happened and we are expecting payment during this quarter and these are small amounts where we likely to get some payment and that is KSK Mineral and then your Himgiri and also your ICOMM Tele Limited. So, that about all combined together we hope to get about additional Rs.15 crore from these three. So, this is what we were talking about. Now, as far as these roughly about Rs.600 crores of stress asset are concerned, we have already provided for roughly Rs.100 crores for them, and we are hopeful of getting close to about Rs.325 to Rs.340 crores out of this. So, Rs.440 crore is what will Rs.100 provisional and Rs.340 likely realization Rs.325 to Rs.340. So, balance in these cases balance provision would be roughly we are expecting close to about Rs.50 crores on estimated basis. So, this takes care of about roughly my Rs.600 crore of stress asset, the balance Rs.500 crore we have already made provisioning close to about 50%. And what we hope to in this cases whatever will be left un-provided that we are in case of KSK Mineral Resources, we are hopeful of getting the total, because we have made a provision of Rs.18.40 crores already against Rs.44 crore, so we hope to get some right back there. So, 44 crore would be recoverable. In case of Himgiri the amount is Rs.5 crore I mentioned that will totally come back to us. The big amount is ILFS Tamil Nadu Rs.218 crores we have already made a provision of Rs.58 crores. There also we will get close to the stable value that is what we are expecting we are looking at two routes, one time resolution along with the other lenders or ARC, we have already got the ARC bid which is closer to the balance value of the amount. So here also we are not expecting so, two amounts Rs.218 crores ILFS and your KSK Mineral Rs.44 crores, Rs.272 crores is what we don’t expect any further hair cut to happen.

In balance whatever is left, Athena Chhattisgarh, we have about that is another big amount Rs.189 crore we have already provided Rs.102 crores. So there we expect additional hit of anything between, there could be a some hit which of course we cannot estimate as of now, but there could be some hit coming there. So, this is what it looks like. So what I’m trying to say is that whatever stress asset we have, two things. One is that we are all at a very advance stage of resolution. So a large part gets resolved within three months' time. Balance also gets resolved maximum another six to nine months' time, and we have made very high provisioning close to more than 50%. And, what I would like to emphasize here is that, our provisioning numbers are likely to decline and my credit cost is going to substantially decrease this year and year beyond that.

Sarvesh Gupta: And what about moratorium sir?

Management: Yes, we have given some loans we have given moratorium but moratorium is not my stress asset, moratorium we have only provided to meet the temporary liquidity match because some of them did take the advantage of moratorium, they would otherwise would have also serviced but they have taken the advantage of moratorium precisely because many cases these projects what happen is that in any case renewable projects, there is some of the states there is a time lag, three to four months. So, normally what happens is to take care of the time lag and meet the whatever covenants are concerned some of the borrowers have taken the moratorium benefit, they would have otherwise also service they would have not defaulted.

Sarvesh Gupta: So, how much is that sir?

Management: That is Rs.506 crore (amount of principal and interest falling due during moratorium period), CFO mentioned.

Management: I just add one point here. So, there is around 50% portfolio which seek moratorium and those are the commissioned project and there is a cash flow mismatch because they are getting some delay, they are getting payment, there is some time lag in getting the payment from the DISCOM first and second out of this 50% loan so suppose my book is 11,000 and 5,500 is the people seeking moratorium and out of that 5500 close to 30% as around Rs.1800 crores is the DISCOMs the distribution companies to we have financed. So, practically it is around

3000 and 3500 between the borrowers who seek the moratorium, and those are all the good accounts and the remaining 50% borrower even don't request for the moratorium and they are making the payments on timely manner.

Management: Also, explain what is the moratorium about.

Management: And moratorium is only the, which is installment and the principal falling due between 1st March to 31st of August 2020 and that amount comprises of 506 odd crore.

Sarvesh Gupta: So, sir you are saying about of Rs.11,000, Rs.12,000 crores roughly around 25%, Rs.3000 crore worth of assets are under moratorium of which Rs.500 crore of cash flow was due?

Management: Apart from the distribution companies like AP DISCOM.

Sarvesh Gupta: Which another Rs.2000 crore?

Management: Which is close to Rs.2000 crore.

Sarvesh Gupta: Okay. And in terms of your stress asset, you are saying in the stress asset pool you are expecting to get around 340, 350 crores from the identified stressed asset**?**

Management: Dr. Pawan Singh, has given the indicative amount because as you know it's COVID there so there are certain assets which are under resolution plan like Minakshi and Athena. So, debates are going, these few of the investors are submitting the bids, so based on those bids. We need to see whether there is additional provision, but the facts which are available as of today the provision has been made. So because of this COVID situation it's very difficult for us to visualize what exactly amount will come.

Sarvesh Gupta: Understood. And sir second question is on this stake of PTC India, stake in PTC India Financial Services. So, the deadline for submitting the initial interest was 31st of July. So if you can give us some color around this stake sale, where are we in the process and what is going to be their strategy post the stake sale and what timelines are we looking at?

Management: Stake sale is PTC is looking for stake sale at their end. So, it will be best that they will be able to answer this question. We may not be the best people to answer that. From our side the Board has approved the capital raising of Rs.500 crores which we are working on that for raising that capital.

Sarvesh Gupta: Is it debt to equity?

Management: Equity, debt is much more. So, what I think debt approval is almost Rs.10,000 crores?

Management: Around Rs.32,000 crores

Management: Debt approval is Rs.32,000 crores, equity is Rs.500 crores.

Sarvesh Gupta: So, who will include this Rs.500 crore sir, will it come from PTC or will it come from any other source?

Management: No, this may not come from PTC. We are talking to other large financial institutions and this money may come from these financial institutions or DFIs or investment funds as the case may be. So, we will take the appropriate disclosure at the right time.

Sarvesh Gupta: Sir, but here the only challenge will be since we're trading at a market cap below our book value so it will further dilute the book value per share?

Management: No. See, this is a traditional way of looking at things. What happens in NBFCs and banks capital raising is not so much related to book value of share. Raising of capital gives you an elbow room to expand your business. It adds strength to your balance sheet; it helps in improving your credit rating profile. It helps you in improving your raising further debt. So, in financial industry and banking industry normally it is a welcome move because your capital raise is more likely raw material for NBFCs and bank. So, it will only give me elbow room to do more business, expand my business faster than what I'm doing today. So, this will go back to the shareholders who can solve profitability, dividend and improvement in the network.

Sarvesh Gupta: Understood sir. And any guidance on the credit cost for this year?

Management: See, credit cost I have already told you that, the three assets which we are going to resolve we have said that we have already done against Rs.555 crore, we have already done a provisioning close to about Rs.600 crores. So, here the additional credit cost should be anything in the range of Rs.40 to Rs.50 crores is what we are expecting. Balance whatever is left Rs.+500 crores we've already told that, that may happen in this year and next year. There's also the credit cost in a tapering manner, it should be lower than, we expect that to be lower than what it will be for this year.

Moderator: Thank you. The next question is from the line of Aman Thadani from Consortium Securities Limited. Please go ahead.

Aman Thadani: Sir, my question is on the stake sale by PTC India. So, can you provide us any update on that, or estimated time for completion of stake sale, if possible?

Management: So, I've already answered that question it was asked by the previous person. So, I said that is PTC stake sale so, PTC would be best to answer that question. I have also told that we have been authorized to raise Rs.500 crores. We are working with various financial institution, developmental financial institution to raise this Rs.500 crore. So that we will make appropriate disclosure as the appropriate time comes.

But stake sale is what PTC is working and when, how much, what methodology. They will be, taking a call on that.

Moderator: Thank you. The next question is from the line of V. Salesha from Adani Capital. Please go ahead.

V. Salesha: Sir I just wanted to know those borrower who have opted for moratorium in phase one, are the same borrower who opted for moratorium in second phase?

Management: Most of them are the common.

V. Salesha: And what about, under renewable sectors which have major portion of the book, how much, the way you have told Rs.3300 crore of the book line the moratorium apart from DISCOM book, so what would be the percentage share of renewable book in that Rs.3300 crore?

Management: It may be around 50%. I need to recalculate it. We will come back to you, we don't have that manual data, if will be around.

V. Salesha: And there has been no disbursement in sanction happened in this quarter what I understand?

Management: Disbursement is close to Rs.100 crore in this quarter.

V. Salesha: Rs.200 crore?

Management: That is Rs.100 crore.

V. Salesha: And what is your plan this quarter reason to what are the disbursement in sanction plan?

Management: So, this quarter because last quarter was basically because of COVID, we were having a wait and watch strategy. So, from this quarter it will be business as normal. So, we as I already mentioned by Direction Operation, we have a disbursement target of Rs.3250 for the entire year. So, and this will be spread in 4 Quarters. So, you can say that, almost one fourth of this should be happening in the current quarter itself disbursement.

Moderator: Thank you. The next question is from the line of Mukesh Agarwal from Arcil. Please go ahead.

Mukesh Agarwal: I just wanted to ask in terms of the book plus DISCOMs, so are you facing any stress, I'm assuming like Rs.1500 crores of your total book is with or Rs.2000 crores worth of your book is with DISCOM and considering, the situation of the DISCOMs and the payment are not getting released on time. So, do you see that some of those loans, might slip into like an NPA or beyond 90 days. Although, DISCOM is like government body, so the cash will come but there will be more and more time lag when you'll realize the money.

Management: That's a very good question, because when we were starting the DISCOM loan, that is the contemplation we also spread that whether we should be giving loan to state DISCOMs or not but in our case, we have been only trying to because we have categorized DISCOM into high risk, moderate risk, low risk. So, we have tried to limit it to low risk DISCOMs and one or two solitary case of moderate risk DISCOM we have not taken any exposure in high risk DISCOM but goes without saying that in DISCOMs have a very dynamic scenario because sometimes which is a moderate risk becomes high risk. The Maharashtra which used to be at one time best DISCOM in the country about two years back became the worst DISCOM, Andhra which used to be the best DISCOM in this country became, has now become the worst. So, it keeps on changing dynamics of that, but see the beauty of this business and strength of people who lend to DISCOMs the lenders comes from the fact that what happens is that, DISCOM normally make payment through a waterfall mechanism. They have a default escrow mechanism. So, what happens is that the lenders get paid first, now of the out cash flow collection of DISCOM the lenders amount would be not more than 15%, 17% or 18% in different cases which, these more than 70% of the payment is to the power purchase bill or transmission charges. So, what happens is because in the default escrow, a DISCOM maybe not making profit but in default escrow as far as the cash flow goes the lenders come higher in the category and since, there is only accounting for 15 to 18% of the total cash outflow which is happening. So, lenders get serviced in time and that is why you will find that not a single case or single day default for us in DISCOM lending has happened. It has never happened and they have been the best paymasters. Yes, they have taken moratorium because this facility was available. So, normally they have a cash flow, overall a cash flow because they always have a cash flow constraint in terms of making power purchase payment. So, yes they have utilized this for that purpose, but as far as the lenders go, they are always paying in time. So, from lender's perspective though, the face of it and the tip of the iceberg if you look at it, it appears to be a little challenging, but then if you look at it the strength of cash flow, we get serviced very, very strong cushion is available because since it is only 15%, 17% of the total cash collection. So, we have a huge cushion available, so then it would never happen that DISCOM anybody can default but DISCOMs will rarely default.

Management: It has not defaulted.

Management: Never they have defaulted, not even for a day.

Mukesh Agarwal: Okay, understood. But how about your exposure to AP DISCOM and Tamil Nadu, and UP, these are some of the DISCOMs which are under stressed?

Management: Yes, DISCOMs are normally under stress, some are more under stress, some are less under stress, what would be less under stress tomorrow may become more under stress, more under stress will become less under stress so that. So, dynamics keep on changing based on how the regulator announces the tariff and allows pass through to happen, but let me explain despite the strain, because I said that their connection only 15% is required. So, even if they are strained we are very well cushioned. And we have not given to UP, we have given to AP and we have given to Tamil Nadu and we have given to Punjab and we have also given to Rajasthan, but none of the cases we have faced any problem.

Mukesh Agarwal: Okay. Sir the other question that I have is for your under construction transmission assets and road HAM assets. Do you see, since the COD has not been achieved do you see that those assets getting into stress and probably your future cash flow stress coming from the under construction, transmission and load assets?

Management: In case of HAM projects what has happened is, normally nowadays the milestones are quite well defined and financial closure happens only when almost entire land is acquired. So, earlier uncertainty is not there, normally all my projects are HAM projects, so means they are hybrid annuity projects. So, hybrid annuity projects are supported by grant and they are supported by, they are supported by annuity payments. So, basically what you are doing is that you are taking except for the construction risk, and construction risk is also backed by the equity infusion. So what has happened is that in most of the HAM projects, the effective equity infusion by the promoter comes down to as low as 12 to 13%. And balance comes through grant payment. And what happens is that many of these grants have milestones related grants. And what had happened in the post COVID scenario is that, these grants have been, now they have been front loaded instead of being back loaded, they have been front loaded. So they’ve been allowed to take grant, in proportion to the construction because earlier it was based on certain, higher milestones. Now, they have said that a small progress also they can go back and take annuity payments from the annuity means, grant payments from this. Plus what has happened is, that they have provided some concession on the bank guarantees, bank guarantee also they have reduced the amount based on pro rata one completed, and they have also allowed time extension without penalty. So, they have been supported by the government. So, there is no problem in hybrid projects and since land acquisition is there, so, small delay three, four months but then that three, four months is taken as a force majeure and already the National Highway Authority has been particularly proactive act.

Mukesh Agarwal: Sir, even if that is the case the COD has not been achieved and the annuity is not coming correct, because we are under construction?

Management: I'm not talking about the annuity. I'm talking about the grant. So, grant in the construction phase, 40% of the grant comes in the construction, so only he has to bring 12%, 13% of equity. So, that grant has been up fronted instead of back loaded, they have been up fronted because of the COVID. So, this is under the Atmanirbhar Bharat scheme where this facility has been provided.

Mukesh Agarwal: Okay, understood. But the lender payment will only start after the COD has been achieved. I'm assuming the grant money will not come to the lenders right?

Management: The grant money is going for the completion of the project. As, in proportion to his equity and grant money we proportionately release our debt. So, as the project progresses, so this money is required for progress of the project and lenders will only release that money in proportion to whatever equity and grant which is available.

Mukesh Agarwal: Sure. Last question is, in terms of you said that your target is now to do Rs.3000 crores in this year in FY21 of which you said 50% of the target is in structured loans. So, I just wanted to know, what is the structure loans, are you trying to increase your yield and hence looking at structured loans and out of the existing book of 11,000 crore hour how much is a structured loan, if you can give me some color on that. So, just to understand like, is it only purely to increase the yield of your portfolio?

Management: The yield is one of the factors also see what happens, we have to be a niche player, we cannot be everywhere, see there is an area where there are other players who are available. So, in market we have to create a niche and we have to develop our underwriting capability. So, I cannot have a model where I borrow from public sector bank, and I give it entirely to a project finance company and I work as just like a pipeline in the process. And I take a marginal margin on that and that is, for some time we were focusing more on that and because of that our spread and yields had gone up by a bit and because of compounded by the credit cost, so return had quite a bit come down. So, we have to be strong because if we are in the business of NBFC, we cannot be copying developmental financial institutions entirely and we cannot be copying large public sector banks entirely, we have to develop our credit underwriting capability. So, we have to design products which are niche requirement. But, what we try to do here is, we are developing a capability rather we have quite a bit evolved in this area where we, if you're talking about hybrid projects, we have been trying to do hybrid financing. Where hybrid financing what we do is that, it's a costly project and costly HoldCo financing where the money goes though it's a HoldCo financing, but the money goes to identified projects for identified purpose, maybe early EPC, early land acquisition, early payment of advanced to contractor. So identified through a transaction account, we ensure that the money goes to the right direction, and then it's backed by n minus one kind of a cash flow. So we have identified two cash flows. Normally, this money would not come and it's not a multipurpose advance but it is project specific advance. When the money would come back through identified cash flows, either from that project or combination of cash flows, where the cash flows would be escrow to us. Or it would be coming and the n minus two would be that, we would have a financial closure subsequently and the money would come from there. So, we take almost, we take, we see that at least three options, three types of cash flows are available to us and identified cash flows and the money goes to identified projects. So it's a hybrid, kind of a project. So, HoldCo financing which we have evolved in the system. If we don't do multi-purpose financing. Last year it was 24%.

Mukesh Agarwal: Okay, so that comes to around Rs.500 crores.

Management: Yes. And also, what we have to see is that what happens in renewal, there's a huge amount of repayment which happens. So, I cannot have all my loans on one side where almost one fifth of my loan gets repaid every year. So there has to be a combination of loan which doesn't get prepared. So, I have to have short term versus long term and tomorrow as I move towards short term versus today my long term financing is 90%, but tomorrow I will have to use a combination of long term, short term financing. So, asset liability match also is held by that. So, I have to be as strict jacketed pipeline solution as an NBFC, I will not be able to carve out a niche for myself and create a USP in the market and kind of create a value in the market. So, it is very important for us to develop that capability of adding value in the market. And that is why we would be a little different from what PFC, REC and IRDA would be.

Mukesh Agarwal: Sure, sir understood. But have you had so far this, did you have success in this model of hybrid loans and structured loans or did you have any stress also under this new model or under this new product?

Management: So, see recent what we have done, because see, we have earlier we had done some corporate growth and there we had, because they were combination of both, the one which I said that a pure corporate loan types of loan and also hybrid kind of, so there we had mix success, combination of both but there also where we had some cases we made good money lot of return came to us because we charged very high interest, so very good yield and in some cases went into stress. The NSL Nagapatnam is one case, is following in my stress comes from there, and Himagiri Hydro is another case which is falling in my stress which is coming from there. But since another good factor about these loans is that they are always backed by strong collateral and that is why we are able to realize close to 80 to 90% of the loan to value, loan to value ratio is very high in these cases. So, that is what we are trying to do get the best out of it, but in the present loan what we have done last, close to last about two years which we are trying, we have not a single case of stress happening in this kind of loan because we have structured it very differently. Not only that, in many cases we get those since they are almost like project finance and there people come to us because they feel that at that point of time money's required. In most cases, many cases the prepayment has happened.

Mukesh Agarwal: Sir last thing is under your liability management, like you yourself said most 90% of your liability is like a long term. So, are you looking at some short term also so that your ALM is taken care?

Management: Yes. See ALM is better taken care by long term. So, from that angle it is okay and I have Mr. Abhinav who looks after resource mobilization in my company, he will just add to what I have said.

Abhinav: Actually, although we are trying to explore short term facilities so, in last quarter we have taken Rs.300 crore of commercial paper at a very competitive rate, at the same time we are managing a comfortable position in that term. Whatever be the short term we are taking, it should be backed by some bank as a lending available to us. So, in case of any surprise which has happened a year, a year and a half back when IL&FS episode occurred. So, if there is any such surprise in future there should not be a problem for the company. So, in case it's not getting rolling over, then we may draw from bank line and may be pay it off fully.

Management: Yes, but also I just wanted to add to it is that, in between there was some squeezing also of availability of short term in terms of products not in terms of nature of loan because short term, long term loans were both available for us, but commercial paper for us had dried up. So, now that has started happening Rs.300 crore we have done, from Rs.400 crore offer is now available with us.

Moderator: Thank you. The next question is from the line of Pranay Jhaveri from JNJ Holdings. Please go ahead.

Pranay Jhaveri: Sir, my first question is, can you just elaborate on the point because I've heard two figures for moratorium one was 50% of the book which is about Rs.5500 crore and the other figure what I heard was of Rs.500, Rs.600 crore, can you just elaborate please?

Management: I am glad that you asked because I was also feeling that these two figures floating around will create some kind of a doubt so, I will ask CFO to very clearly explain this whole concept.

Sanjay Rustagi: So, there we are talking about Rs.5500 it is the debt outstanding as on date to these borrowers, the debt outstanding of Rs.5500. So, it doesn't mean that this Rs.5500 is becoming due, this is the total exposure we have as of today with respect to the Rs.506 crore or what so ever we have told you, this is the amount falling due between 1st of March 2020 to 31st August 2020. This is the difference between these two; I think I am able to explain you.

Pranay Jhaveri: Yes. So basically industry wise when we talk about moratorium so that was misunderstanding, the percentage of total loan book. So it is 50%, 5500 crore right?

Management: Yes. So it doesn't mean that Rs.5500 crore is fix around,

Management: It doesn't mean that Rs.5500 crore is under moratorium, amount under moratorium.

Pranay Jhaveri: So, Rs.506 crore is basically the interest and the interest the principal due in that period of time, right?

Management: So, in our case, what we have done, see we have done a very different kind of work. What we have done is that, we have converted into an installment and we have added it as a part of the loan installment and we have made it as the last installment. So, assuming that this was to be paid in 30 installments, now it gets paid in the 31st installment.

Pranay Jhaveri: Okay.

Management: That I tell you, it is not entirely a moratorium, it is kind of a extension of the tenure by another quarter or so or two quarters. And what happens is that, for us it was a that is why I said it was a blessing in disguise, because since we didn’t do any disbursement so this liquidity we had ample so we were able to use this money and since we granted this installment deferment, so it added to our book size and interest income.

Pranay Jhaveri: Fair enough. Sir my next question is basically on the stake sell by PTC and fundraising for PFS. So, I’m a little confuse, so there is a promoter who wants to get it stake either down or want to sell in full. And there is a company which wants to raise funds for growth. Why is it happening on different pages and on the same page, because I am little confuse how will this go, so basically if you dilute it first, probably that will hamper their process and vice versa. And I just had one more thing. So, if I’m just assuming that if our say if you raised dilute at around the book, as the book is quite clean or may be most of the provision is taken care of, on the two rate side of probably you will have dilute to roughly about say close to about 20%, 25%. So, in all their state would go down below 50% without them getting any money and that will trigger our open offer, so I am little confused?

Management: So, see there are, when you are doing capital raising, there are various combinations and options. And there is no divergence in what they are doing and in what we are doing, ultimately see there are two ways of raising capital, I raise capital and they get diluted right that is one way. Second is they get diluted and raise capital for us. So, what is felt see, in any case, the fundamental driver for this decision whether we do it or PTC does it, is bringing capital in this company. Now, it is felt, because there were views, that it was felt that a larger capital infusion would be possible. If somebody gets, majority stake. So, he would be ready to put more capital in the company. So, the sale just may not, to my understanding the sale may not just happen entirely that sale will happen. The sale would also have entirely a clause that some additional capital infusion should happen in PFS, that is the understanding and that is the primary my understanding goes the primary reason for driving the decision there or here. So, the capital raising could either happen by they getting diluted in either case they are getting diluted, in five years capital they get diluted in terms of percentage.

Pranay Jhaveri: So, that exactly what I am trying to understand, so basically it will be a process which will be run single handedly, because actually I understood that you are doing your own dilution and they are going to sell on their own. So, I was a little confused so, basically it will be a?

Management: We will be working in tandem, it is not that, but since it is their equity, I will not be selling their equity. So, they will be selling their equity.

Pranay Jhaveri: When they are selling there will be a clause that there will be another Rs.500 crores required for the growth of this company, right?

Management: Yes, so part of it. It may not be in this kind of words what you have said but the part of it is that, majority stake with capital infusion in PFS.

Moderator: Thank you. The next question is from the line of Deepak Kumar Kapadia an Investor. Please go ahead.

Deepak Kumar Kapadia: What is the gross NPA and net NPA percentage for this quarter? And what do you expect for the Q4?

Management: The gross NPA is 8.57% and the net NPA is 5.14%.

Deepak Kumar Kapadia: And what do you expect this both number for the Q4 of this financial year, the gross expected?

Management: So, from this if you deduct the resolution which we have mentioned, roughly about 600 crores resolution is what we are expecting. They should go out of my gross NPA.

Moderator: Thank you. The next question is from the line of the Vikas Kumar from Creative Ideas. Please go ahead.

Vikas Kumar: I have follow up questions there are two which, I am very keen to ask, number one what is going to be the net interest margin that you are looking at for the entire year keeping in view that this quarter there has hardly been any disbursements. So 3255, heard correctly is what is your target for the next, coming three years quarters and precisely 25% of that is going to happen in this quarter, second quarter. What will be the impact vis-à-vis the last financial year and this financial year in terms of sales and net interest margin?

Management: See NIMs we have reached a NIM of 3.36 and we have reached a spread of close to 2.80 on the running loan book, from 2.37. So, NIM is again factor of because if I increase my equity suddenly you will find without increasing my loan book. So, that is not the correct way of looking at it. So, spread is the correct way. So, my spreads have now, this is the stable level of spread which we would like to maintain, there could be quarter-to-quarter, there could be 5% to 10% variance on the spread part. Either by marginal correction increase and marginal reduction in cost of funding, but this is what it looks like that this will become a kind of a benchmark for us.

Vikas Kumar: 3.8%?

Management: No, 2.8%

Vikas Kumar: Okay, fine. Now, we are talking about, I was also curious to know about the financial year performances, vis-à-vis last year 19-20 and 20-21. In terms of sales or the kind of interest margin that you will be gaining?

Management: No, as I have told that spread I have already told you this is the spread level we will maintain, we have also told you the kind of sanctions and disbursement we are going to make. So, now it is for you to forecast our numbers, beyond this we have given you enough guidance as to how the books would look like in future also, we have given you enough guidance on how my stress book would evolve. So, a combination of three factors would make you overcome this number. So, I leave the calculation part to you.

Vikas Kumar: Okay, right sir. Thank you now two more things, very small issues. Number one, if I have heard it correctly and read from the media, in the media specifically in the newspapers, you have had a return of income tax in the month of July to roughly about 135 crores is that correct?

Management: This is the assessment order which we got because last year we have said there are certain settlement of the old account and the reason which we are carrying in our books that has been written off because you have to make provision based on the estimate realization and when the actual settlement happens you have to write it off and claim the income tax refund. Even you can claim as a deduction while filing your return. And there are certain borrowers who deducted the TDs at the rate of 10% on my interest payments. This is the amount of tax which has been collected by them and now we will file our return and adjust Income tax department has assessed my income under Section 143(1) and we are expecting to get this anytime now.

Vikas Kumar: So this in any case you are going to get into your profit and loss statement, am I right?

Management: It is not going to go into my profit and loss statement because the same has been appearing as receivable in my balance sheet so, once the money it will be adjusted from that receivable.

Management: So, only thing that Rs.5 crore that interest we have got that we have taken as income already.

Management: That is part of the other income.

Management: But this whatever money it will be a cash flow to us. So on this I'll get my yield is what close to 11.5 now. So, this will be non-cost bearing cash flow to me because no cost to it. So, on the amount which I've received on this Rs.130 crore I will get a yield of 11.56%.

Vikas Kumar: Right. Sir, last and final question which I wanted to ask was, again it really correlates to the disinvestment that everybody is so very curious and is making an headlines as of now. Why this particular question I'm asking is, the moment PTC dilutes its own majority stake, definitely, there's going to be a change in management. So whatever the, the plans you have envisaged for the entire year, probably that might or might not gel with the incoming management. So how do you plan to seek that number one, number two, let's talk about this first, and then probably I'll ask you a follow up question.

Management: That's a very nice question and allows me to do a lot of thinking before I answer that. So now see what happens, you know better than me, it's a going concern, so going concern is a going concern. Management change, not only this management change here also in company managements, board changes, today, PTC also is basically a professional run company. So, PTC management also can there be some management, tomorrow there'll be some management. So these things are likely to be happening. It's not that something which is but, Yes two things one is who so ever is coming probably is looking at robustness of my model. Anybody coming here would, he would we expected that it would, his line of thinking may not be too much in departure because we are not into retail financing. So, we are, but he coming here would not come with the intention of tomorrow he starts saying that you start giving motorcycle loan, if will just continue to do infrastructure because we are infrastructure finance company and we are supposed to do and that is what we have been doing. Probably our anticipation is probably, if somebody comes and focus could be our understanding could be that the focus could be more on the yields higher yields and that we have already started working on that. That is what, probably there could be a little push there, which my current thinking is also, our current thinking is also in that direction probably somebody coming from there and somebody because the value of the loan book comes from the, because having seen the COVID situation. A lot of us have learned our lesson a lot of businesses have been wiped out. I don't think anybody would try to misadventure too much. And we are the only infrastructure finance company who have kind of held our head high. SREI has moved away from there. Even the banks have moved away from infrastructure side of financing to that side and IDFC has become a bank and ILFS has got wiped out. I don't want to take one or two marquee names who are our others field ahead of us, but that name also the on and off RBI talks about they also being in trouble. So, we are the ones who have been quarter-to-quarter sail through the storm. So, somebody coming, the wisdom which we have gathered will not be lost.

Vikas Kumar: I keep my fingers crossed and wish you all the very best. And last and final question probably you would be kind enough to elaborate. You have been talking about infusion of capital, raising of about Rs.500 to the tune of Rs.500 crore, as an equity, right sir?

Management: Yes.

Vikas Kumar: Now another thing that I heard if that was correct was, that you are planning to raise, you have had a sanction of about Rs.32,000 crore of debt equity as well?

Management: No, we have been empowered by the board.

Vikas Kumar: That's what I am saying sir, you have had the rights whether you raise it or not is a different issue.

Management: Rs.32000 crores of debt. So we can raise debt up to Rs.32,000 crores.

Vikas Kumar: Yes, that's what I'm saying.

Management: We have raised debt up to 10,000 crores and we can raise the debt up to Rs.32,000 crore there is no restriction.

Vikas Kumar: Correct sir. But, still that Rs.500 crore is so very minimal in front of Rs.32,000 crore why actually look forward that to that Rs.500 crore and maybe going for a consortium with the incoming management or whatever the PTC is selling its stake. In front of Rs.32,000 crore, Rs.500 crore is hardly peanuts. Even, if you raise that in point of an equity, it will not make any difference to your equity in terms of your net investor margin of spend?

Management: No, Rs.32,000 crore is a ubiquitous kind of clause so all large companies who do huge borrowing if you go there, you will find that the borrowing program will be maybe not even 10% or 15% of what has been, it's a general kind of authorized.

Vikas Kumar: Has been sanctioned, authorized okay.

Management: It's not that, what I can borrow is what is provided in my budget, my budget is sanction of whatever I've mentioned disbursement of 2350 so, my borrowing has to be less than 3250 for the current year.

Vikas Kumar: That's correct, sir. So, that is exactly what my question comes to is like, when you have a leverage of raising money and then why even look at equity dilution?

Management: So, can you elaborate this question a little bit more?

Vikas Kumar: Sir, I'll tell you, as a as a shareholder when you dilute the equity, it directly affects by returns. But the moment you raise your debt and lend it further, it is just a difference between the net interest margin or the spread that you're talking about. Now, in this case, that is why I was in the first question was the net interest margin not on spread. Here, now the spread will come, spread I'm ruling out because I'm talking about not equity. I'm just talking about the debt.

Management: No, see, if the news goes in the market, that ICICI or HDFC Bank are raising equity, it is every time I have seen that the market has valued it quite a bit. So, as I said earlier also that in case of NBFC and banks, the equity is not to be seen the way it is seen in a case of infrastructure company or a manufacturing company, there it is a source of raw material.

Vikas Kumar: Sir sorry to interrupt, but source of raw material can also be a debt why equity?

Management: I cannot be leverage beyond a point, that also my rating will also get affected by so, I have to have the optimum mix.

Vikas Kumar: So, that is your debt equity ratio that you want to maintain?

Management: Debt equity and that is the capital adequacy requirement from the RBI which also have to maintain. So, I cannot go below that, and I also I have to see that my rating is better not intact, I have to become a better rated company. So, our challenge is tomorrow to become a AA and one of the factors for AA rating would be and third is my elbow room to expand. So, once I get Rs.500 crore, then I can maybe the budget size which I'm looking at probably this budget size will improve So, when I do my revised estimates in November or December and If I have the capital, my budget size, you will find that I have gone about improving my budget size. So my growth will be different from what it is. So from that angle equity capital is a big, it's kind of a big.

Vikas Kumar: Is a plus point, I get your point sir. I really very well take your point, very well explained, thank you very much. I was missing on that point to be honest. Now, another thing is that, the moment we are talking about the potential of the market, which you are catering to infrastructure financing, the market is huge, tremendously huge. Where do you think the board or the management as the leader, as an MD, where do you envisage that our company is going forward in next couple of years, let's say. Do you think we can be the market leaders as the corporate lending to the infrastructure across the board or it is just like we're talking about renewable energy and the roads and some kind of electrical electrification and something that sort of vehicle electrification?

Management: No, see we have two thing, our focus area one is in terms of product line and in terms of service provided. So, one is the nature of infrastructure and second is the product of infrastructure. So, the nature of infrastructure, we would be trying to be focused, we will not be spreading our wings too far. Our analysis is value and core competency, basically we would like to stick to that. Our core competency is sustainability, infrastructure finance, along with HAM and ports with concession agreements, PPP model. This gives us enough opportunity if whatever government of India plan is that I can even by doing this, I can expand my book many fold. So, I can be doing very large business expanding a growth in a big way and at the same time sticking to the core area and sticking to my core value. This is what we would like to do, for example see earlier because a lot of things you learn and a lot of things you de-learn also when you do mistakes and that is where experience comes. So, when you do mistakes then also you learn, when you don't do mistakes then also you learn. So, we learned one thing that we will not be doing even if we do infra we will not be doing that kind of infra where the gestation period is three years, four years large hydro, large thermal, anything which has large gestation period that we avoid to do. We would avoid projects were generally cost overrun possibilities are there, HAM projects because they have two years completion period. Land is acquired pre-hand, there is a grant from the government. Equity infusion is not so much of a challenge, right off finances are available, cost overrun possibilities are remote, that also we have developed as to how to safeguard cost overruns. So we inbuilt in our for business credit model, the protections which will be available. So, we will not like to do because what had happened in past, about the thermal projects we did, they got grounded or cost overruns happened we were not able to participate in that, so that has just left to large lenders. Let PFC do it, let REC do it, let SBI do it, let ICICI bank do it. We will not do it, we will be doing moderate size projects. We will be doing projects which have good turnaround. We'll be doing projects which have early completion and we'll be doing projects a combination of project finance combined with hybrid project finance. So, that will be so, we have to be very clear of what we are doing, we will be developing, we have developed our competency and we will continue to develop competency in this area.

Vikas Kumar: So, what do you feel is the market size for this kind of a segment in the next five years let say?

Management: I will request Director Operation to supplement, Naveen what will be market size in this area?

Vikas Kumar: In your core competencies?

Management: Renewable, water, etc.

Naveen Kumar: See, as I mentioned when I spoke a few minutes back, there are many areas where we can do the business but then we have to be very clear that in which particular area we would like to go, see as far as the condition projects are concerned thermal, hydro, large size so lot of problem all the financial institution lender they are facing, especially the big lenders, a lot of NPAs they are appearing in that, see we have got a strong reason to believe. I was in Power Finance Corporation earlier for 29 years. So, there when I visualize from that point of view, I feel that as a relatively smaller organization, we should not endeavor to make an entry, further entry into these area. Some of the legacy assets which have become NPA. So, we are based on our dedication to clean our balance sheet we are getting rid of that. So, what I'm trying to say is that, conventional projects lot of scope is there, but we have decided not to make a further entry in that area. Renewable is a coming up area. Renewable a lot of potential is there 175 gigawatt say by 2022, which is supposed to be increased to 220, 175 to 227 gigawatt, a lot of scope is there in that, then we have made an internal estimation that what kind of business potential will be there, what could be our possible market share considering the size of our organization considering our appetite to sanction the loan. So, accordingly we are in the process of finalizing our business plan. Then there are certain areas, further areas where we can endeavor to enter considering that our focus area is sustainability. And when I talk about sustainability then this solid waste management, sewage treatment plant, electrical vehicles, these kind of projects they assume great significance for an organization like ours. So, we did the analysis, we got the input from some of the consultants and as far as our organization is concerned, I'll repeat it the size of our organization considering our appetite in this area, not comparing us with the largest institution they will be having different kinds of vision like my ex organization Power Finance Corporation, who talks about sanction of Rs.1 lakh crore or disbursement of Rs.70,000 crore. So, we feel that say 15% to 20% growth every year and say after 5 years taking our loan book size, I visualize from the scenario with respect to the situation which is prevailing right now. So about say Rs.25,000 or Rs.26,000 or maybe up to Rs.30,000 in the next five years we can think of taking our loan book to that size only, and funding the renewable and these sustainable kind of projects. I am considering these areas only and I have given you some idea also that up to what level we can think of going in the next five years. Thank you.

Vikas Kumar: Thank you very much, sir. Just one last bit of my question. We are talking about solar power, energy and other renewable new energy sources. We have also seen in the recent past only may be about a year or two back. That is when the renewable energy sources have folded there, organizations also have folded because of you either over jealousy or for being non-competent enough, even they have folded. I'm sure you must be doing recon for the projects that you're financing, but do you envisage anything of that sort of a thing happening again?

Management: Can you be specific about the likely problems that are coming to your mind in this regard?

Vikas Kumar: Yes, sir. The company's those who are taking the, who are setting up the solar power plant or solar electrical parts or generating wind power, they might not be able to generate enough revenues because of their kind of spare parts and other parts being so highly costing and their entire business portfolio is not sustainable. It all becomes unsustainable after, initially euphoria is right because even the government is also providing subsidies. But after that, everything fades out. So, the business model is not there actually, sustainable business model that we talk about?

Management: If we talk about the sustainability, then renewables are supposed to be the best source for power generation now coming to the doubts which have been raised by you, I really appreciate some of them. See spare parts and all that of course, I couldn't understand because if we talk about conventional process.

Vikas Kumar: Sir that was just a small hint. So, please don't take, it's just a holistically I am speaking.

Naveen Kumar : I have understood. See basically solar panel and solar cell, about 80% of them. They are being imported from China and Malaysia and balance they are coming from Western countries. So, so long we are getting the solar panels, solar cells because frankly speaking we are not self-sufficient in this particular domain of manufacturing solar cell or solar panel. So, we are supposed to import them only, even if we try to manufacture in this country then also some of the elements like, this poly silicone which is the base material in this and apart from that the glass which is used in this and then Ethylene Vinyl Acetate. So, these are some of the name which are being imported from the other countries, though our country is also taking initiative, but it will take some time till we become the self-dependent in this area. So, the issue is, if we go on getting the solar panel and solar cell from the, we are able to outsource them, then perhaps there will not be any problem as far as setting up of the solar project is concerned. But then there is another dimension attached to that, it is regarding the creation of the storage capacity on a commercial scale than, nowhere is available in the world it is at a very, very small level we are in the beginning phase in this particular area. And that is why you are dependent upon the kind of environment which is prevailing in the daytime you can generate the solar energy during monsoon, the quantum of energy produce will be less but in a thermal and hydro plant you will be getting continuous energy and you can have a base load operation also, which you cannot get from the renewable energy intermittent generation of energy is there when it is fed into the grid then there will be some disturbances in the grid also. So, to take care of this problem, then storage of the capacity and giving the support through those storage means like pump storage plant integrated with the wind power or solar power plant or the storage battery creation, these are the alternative. But then these are not India specific problem, these problems are being faced at the international level only.

Vikas Kumar: It's a industry specific problem?

Naveen Kumar : Yes, it is the problem common kind of problem where a lot of research is going on and, I feel say in another five, seven years something might come out and storage capacity creation on a commercial scale that will be, that should be feasible, because time is required for carrying out this R&D activities. And since, this is the best way of producing the clean energy, we should promote this kind of energy generation in this country, the way the other countries are doing it. So, your concern, as far as you're concerned is there in the present scenario, I'll also say that some issue is there, but then we have to move on the way the whole world is moving and we have to be positive that something will come out regarding this creation of storage capacity number one, and the second thing is that we slowly and gradually will be able to create the solar cell and solar panel manufacturing capacity in this country also. So, that in the next 5 to 10 years period, we will come on the verge of becoming self-sufficient and solving this problem. So, this is what I wanted to say it.

Moderator: Thank you. The next question is from the line of a Aditya Mundra from Mytemple Capital Advisors. Please go ahead.

Aditya Mundra: Sir, just two small questions, sir the structure loan that we have spoken about. Sir, will there be in the similar line of business or sustainable infrastructure and ports, PPC transmission line, e-charging, water sewage or there could be some, are you open in the structured space in some other line of business although?

Management: So, it would be largely confined to this area only. Our core competency and where we have the capability of handing such cases.

Aditya Mundra: And sir how much percentage, like in the long term, how much percentage of your book will the structure loan be approximate. I understand it is 5% right now?

Management: No, last year it was 24% and this included about 15%, 16% to the DISCOM hence gradually we’re trying to increase this percentage and may be in the next four, five years we will bid on 50% of the total portfolio. This is what are.

Aditya Mundra: Okay. So, last year it was 24% of the total loan book no, the total disbursement, it was 24% of the loan book, outstanding loan book?

Management: Yes, exactly.

Aditya Mundra: Okay. And going forward we see it up to 50% of the total loan book?

Management: Yes, three to four years, that is what four, five years.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Dr. Pawan Singh for his closing comments.

Pawan Singh: So, thank you very much and it was a very fruitful discussion which we had and it always very important that in the investor conference we also give our viewpoint and also we get feedback from you. And we appreciate that very much. As we have been, our earnest endeavor has been to improve all our operating parameters and also maintain the resilience of the company and also to maintain the quality of assets and also to maintain adequate liquidity backup and to have adequate elbow arm to expand business. Our endeavor will be to work on as I said that so far we have focused on consolidation and I gave out as to what are the areas of consolidation we have worked on, the consolidation also means that we have developed strength, that is also mean that we have developed strength and we have developed resilience and now from now onwards, as I said now it will be from here we will move towards calibrated growth and expansion for future in the area where we have developed our core competency. And especially, what we will like to do is that, we have optimized our spreads which we like to sustain. We would, continue we have brought down our stress asset almost by Rs.1300 crores and balance, I have told you that Rs.600 crore I have given you a timespan of about three to four months and the balance also we hope to get rid of as quickly as possible.

What is also likely to happen is that, the areas which we have moved the credit cost is going to come down that you will find in our results and impact of that in the results both in terms of reduction in credit cost and also in terms of expansion of business should be visible as we go forward. So, from here, we look as things to be, as we fight the COVID problem and come out and the country comes out of it. In subsequent quarters, we also hope PFS would be able to demonstrate a result which would be distinctly, qualitatively improvement on what we have been able to demonstrate so far and all our efforts of consolidation will result in the results as we show you through our expansion and growth. Thank you so much. Thank you for the patient hearing, take care and take care of your families. Thank you so much.

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

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