Power Finance Corporation Ltd.

Performance Review – Quarter Ended 30th September 2019

PFC announced its financial result for the quarter ended 30th September on 14th November 2019. The performance highlights for Q2'20 and H1'20 are given under.

A. Regulatory Developments concerning PFC

1) RBI Liquidity Framework

- RBI on 4th November, 2019 notified the "Liquidity Risk Management Framework for Non-Banking Financial Companies and Core Investment Companies" to strengthen the Asset Liability Management Framework.
- The aforesaid framework is applicable on PFC.
- PFC will be complying with the revised liquidity framework by December 2020 as prescribed by RBI.
- PFC is already in compliance with RBI Asset Management Guidelines contained in RBI "Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016"
- **Currently, PFC is comfortably placed on the liquidity front**.

2) Taxation Laws (Amendment) Ordinance 2019

- The Government of India on 20th September 2019 has inserted section 115BAA in the Income Tax Act,1961. The newly inserted clause provides domestic companies a non reversible option to pay corporate tax at reduced rate of 25.17% instead of 34.94% effective 1st April 2019.
- **PFC has exercised the option for lower tax rate** and accordingly, recognized the provision for income tax for the quarter and half year ended 30.09.2019 on annualized basis.
- While with this, **significant tax savings will accrue to PFC from now on**, but this is also accompanied by one time impact of re-measurement of Deferred Tax Assets/liability at the lower tax rates.
- 50% of the total impact of DTA re-measurement has been recognized in the profit& loss for quarter and half year ended 30.09.2019. The balance impact will be recognized in the next two quarters.

B. Financial Performance in Q2'20 & H1'20

1) Consolidated Financial Performance

- Consolidated Revenue from Operations at Rs. 30,126 cr. for H1'20 – 17% increase from H1'19.
- Consolidated Profit After Tax for half year ended 30.09.2019 at similar levels
  - Rs. 5,397 cr. for H1'20 as against Rs.5,373 cr. in H1'19
  - PAT impacted due to DTA re-measurement.

- Further, the impact of INR14,500 crores investment in REC on PFC's standalone financials is having an impact on Consolidated PAT also. It is envisaged that the impact of Rs.14,500 cr. acquisition price paid for REC acquisition will be made up in profits during the year through the dividend declared by REC, if any.

- Reduction in consolidated net NPA ratio from 4.20% in Q1'20 to 3.89% in Q2'20 due to resolution of stressed assets.
- Consolidated Net worth at Rs.68,204 cr. as on 30.09.2019.
- Comfortable capital levels to support future growth - Consolidated CRAR at 17.35% as on 30.09.2019
- **Stable consolidated financial performance for Q2'20 & H1'20.**

2) Standalone Financial Performance

- Standalone interest income at Rs. 7,990 cr. for Q2'20 - 15.4% increase from Q2'19
- Standalone interest income at Rs. 15,522 cr. for H1'20 - 14.6% increase from H1'19
- Standalone Profit After Tax at Rs.1,157 cr. for Q2'20 as against Rs.1,383 cr. in Q1'20 & Rs.1,367 cr. in Q2'19
- Standalone Profit After Tax at Rs.2,540 cr. for H1'20 as against Rs.2,751 cr. in H1'19.
- The reason for subdued PAT for Q2'20 & H1'20 is due to impact of DTA re-measurement (as detailed in point A2 above). Also PFC has invested INR14,500 crores in REC. The return on this investment will be in the form of dividend, which will be accounted for on receipt. Thus, this will reflect in PFC's profit in the coming quarters.
- As targeted, PFC's key financial indicators continue to be stable:
  - Yield on Earning Assets for Q2'20 at 10.60% , is at similar levels as Q1'20 i.e.10.61%
  - Spread for Q2'20 at 2.78% as against 2.71% in Q1'20
  - NIM on earning assets for Q2'20 at 3.13% as against 3.06% in Q1'20
- CRAR improved by 53 bps majorly due to write-off in GMR Chhattisgarh loan and due to profit addition. CRAR as on 30.09.2019 is 18.37% with Tier I capital of 13.33% and Tier II capital of 5.04%.
- **Consistent Standalone performance delivered this quarter**.

C. Operational Performance

1) Loan Assets and Disbursements

- Loan asset book grew by 11% from H1'19.
- The increase is due to PFC's constant efforts to diversify its loan book:
  - Renewable portfolio as at end of H1'20 is 6% of the loan book compared to 5% in H1'19.
  - Transmission & Distribution as at end of H1'20 is 29% of the loan book compared to 26% in H1'19.
- Disbursements for Q2'20 at Rs.18,366 crore - 75% increase over Q1'20
- **Considering the current number, PFC is optimistic for future business growth**.

2) Asset Quality

- **Efforts for resolution has now started yielding results**
  - **Upgradation of NPA** - GMR Chhattisgarh project has been successfully concluded. Accordingly, loan to GMR Chhattisgarh has been upgraded to Stage I category i.e. to a Standard Asset.
  - **Reduction in NPA ratios** - Owing to GMR Chhattisgarh resolution,
  - PFC's Gross NPA ratio reduced by 56 basis point from Q1'20 - PFC's Gross NPA ratio is at 9.05% as on 30.09.2019.
    - ✓ Net NPA ratio reduced by 37 basis point from Q1'20 - PFC's Net NPA ratio is at 4.28% as on 30.09.2019.
    - ✓ Total Stage III assets decreased to Rs.29,466 cr. compared to Rs.30,440 cr. in Q1'20 .

- **Update on Resolution Status**
  - Currently in roughly 52% of PFC's stressed asset projects i.e. 15 out of 29 projects, resolution is being pursued through NCLT. This will help in reaching a resolution in a time bound manner.
  - **PFC close to reaching resolution in 2 projects**
    - ➢ **Ind Barath Energy Utkal**
      - ✓ It's a 700MW project
      - ✓ PFC is close to reaching a resolution.
      - ✓ The resolution plan of JSW energy has been accepted by the lenders.
      - ✓ Application for resolution submitted for approval of NCLT
      - ✓ For this loan, provisioning increased from 50% to 68% provision, we feel that current provision levels are sufficient.
    - ➢ **RattanIndia Power Ltd. (formerly Indiabulls Power Ltd (Amravati)**
      - ✓ It's a 1,350 MW project
      - ✓ The promoter has been identified as the successful bidder
      - ✓ One Time Settlement offer submitted by the promoter.
      - ✓ Approval of OTS from lenders underway
      - ✓ We feel that sufficient provisioning i.e. 52% is available against the loan.
  - Further, in **India Power Haldia**, a 450 MW projects which was non-operational due to non-availability of coal, the borrower has now received coal linkage under SHAKTI Scheme.

3) Borrowing Profile

- **KFW Agreement**
  - PFC on 1st November has signed a loan agreement for EURO 200 million with the German Development bank KfW.
  - The loan carries a concessional rate.
  - Loan will be on lent for infrastructure development of power distribution companies.
  - Also, Kfw has given a grant of EURO 3.5 million to PFC for implementation of Environment and Social Management System (ESMS)
- Cost of funds for Q2'20 is at 7.82% as against 7.90% in Q1'20. PFC continues to maintain competitive cost of funds despite a challenging operating environment for NBFC's.

- USD 750 million raised through issuance for foreign currency bonds in Q2'20.74% exchange risk hedging for foreign currency borrowings with residual maturity upto 8 years.

D. **Future Outlook**

- On the asset front, PFC targets to maintain a growth of 10%.
- On the borrowing front, PFC's focus would be on diversification.
- On the key financial indicators, PFC expects its yield, cost and NIM to remain in a stable range.
- On the PFC-REC merger, we are actively taking steps to realize synergies from the envisaged merger of the two entities. For this, we have started coordinating with REC for aligning business processes and polices.

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