Power Finance Corporation Ltd.

Performance Review – Quarter Ended 30th June 2021

PFC announced its financial result for the quarter ended 30th June 2021 on 12th August 2021. The performance highlights for Q1’22 are detailed under.

A. Financial Performance - Q1’22

1) Consolidated Financial Performance

- 28% increase in consolidated Profit After Tax from Q1’21 - PAT at Rs. 4,555 cr. for Q1’22.
- 12% increase in Consolidated Revenue from Operations from Q1’21 - Consolidated Revenues at Rs. 18,965 cr. for Q1’22.
- Reduction in consolidated net NPA ratio from 3.15% in Q1’21 to 1.80% in Q1’22 due to resolution of stressed assets.
- Consolidated Loan Asset Book grew by 9.5% - Rs.7,49,373 cr. as on 30.06.2021 vs. Rs.6,84,383 as on 30.06.2020.

2) Standalone Financial Performance

- 34% increase in Standalone Profit After Tax from Q1’21 - PAT at Rs. 2,274 cr. for Q1’22.
- Interim Dividend of Rs.2.25 declared per share.
- PFC has been focusing on building adequate capital buffer. Accordingly, PFC has achieved a CRAR level of more than 20% - CRAR increased by 384 bps from Q1’21. CRAR as on 30.06.2021 is 21.16% with Tier I capital of 17.56% and Tier II capital of 3.60%. Further, PFC has declared final dividend for FY 20-21 and interim dividend for FY 21-22, the payout for which will happen in Q2 of FY 22. Therefore, this will bring down the available capital buffer and consequently impact the CRAR levels going forward.

- **Key Financial Indicators**
  - Yield on Earning Assets for Q1’22 within the expected levels at 10.39%. The impact of interest rate cut offered to PFC borrowers last year has now started reflecting in our yields, leading to a decreasing yield.
  - Cost of Funds for Q1’22 at 7.43% - achieved 25 bps reduction from Q1’21. This is in line with the market conditions.
  - The decline in the yield has been marginally offset by the reduction in cost of funds leading to a spread of 2.96% for Q1’22.
  - NIM on earning assets for Q1’22 at 3.70% - an increase of 22 bps from Q1’21. The positive impact of resolution of various stressed assets in last year has led to improved NIM levels.

- **Loan Asset Book -** Loan asset book of Rs.3,69,983 cr. as on 30.06.2021**.** In line with the past trend, the disbursements in the first quarter of this year have been slow. Therefore, this has led to a subdued loan asset growth in Q1’22. Further, as the disbursements will picks up momentum in the second half of the year, going forward loan asset growth is envisaged to be at similar levels as last year.

Delivered a healthy financial performance for Q1’22 in a challenging operating environment.

B. Asset Quality

1) Improving NPA levels

- Owing to enhanced provisioning levels, the net NPA ratio as on 30.06.2021 has reduced to 2.00%, the lowest in last 3 years. The Gross NPA ratio is at 5.72% as on 30.06.2021.
- Currently, the total Stage III Assets (NPA Assets) stand at Rs.21,154 cr.

2) Update on Resolution Status

- Currently, 26 projects of Rs. 21,154 cr. are in Stage III. Out of this 16 projects of Rs.15,820cr. are being resolved through NCLT and the remaining 10 projects of Rs.5,334 cr. are being resolved outside NCLT.

- Further, two projects worth Rs.2,109 cr. i.e. 1200 MW Essar Power Mahan loan of Rs.1,345 cr. and 600 MW Jhabua Power loan of Rs.764 are in advance stages of resolution. In both these project, the resolution plan has been filed in NCLT. Sufficient provisioning is available against these assets.

3) Provisioning Status

- In Stage I assets, additional provision of around Rs.219 cr. has been created majorly due to revision in rating of Discom(s). The provision is based on PFC's ECL model, wherein along with other factors, rating of the borrower is also considered. For Discoms, PFC rating is aligned with the Integrated Rating notified by Ministry of Power (MoP) for Distribution Companies. ICRA and CARE are the designated credit rating agencies for such rating and PFC has been mandated by MoP to co-ordinate the rating exercise. Recently, Ministry of Power has issued a revised rating for the Discom(s). Accordingly, the impact of this is being captured in our ECL model and has resulted in higher provisioning level.

- In stage III assets, with focus on building a resilient balance sheet, the provisioning coverage has been enhanced from 63% in Q4'21 to 65% in Q1'22.

Targeted resolution approach and sufficient provisioning levels expected to improve Net NPA levels in the future

C. GOI Atam Nirbhar Discom Scheme

1) Status of GOI Atam Nirbhar Discom Scheme

- Under the Atam Nirbhar Discom Scheme, so far PFC has sanctioned Rs.67,699 cr. and has disbursed Rs.38,501 cr. For PFC & its subsidiary REC combined together, sanctions stand at Rs.1,35,537 cr. and disbursement stands at Rs.79,678 cr.

- We are expecting the disbursement to pick up gradually as tranche II disbursements are in the pipeline.

2) Revamped Distribution Sector Scheme: A Reforms based and Results linked Scheme

- The Government of India on 30.06.2021 introduced a Reforms-based and Results-linked, Revamped Distribution Sector Scheme.

- The Scheme seeks to improve the operational efficiencies and financial sustainability of all DISCOMs/ Power Departments excluding Private Sector DISCOMs by providing conditional financial assistance to DISCOMs for strengthening of supply infrastructure.
- The scheme is a departure from earlier distribution reform measures of the Govt. as financial support from Govt. is only upon carrying on of reforms and achievement of results.
- PFC and REC have been designated as nodal agencies for facilitating implementation of the Scheme.
- The Scheme will have an outlay of Rs.3,03,758 crore with an estimated Gross Budgetary Support (GBS) from Central Government of Rs.97,631 crore. The currently ongoing approved Projects under the Schemes of IPDS, DDUGJY along with PMDP-2015 for the Union Territories of Jammu & Kashmir (J&K) and Ladakh would be subsumed in this Scheme.
- **Scheme Objectives:**
  - Improving the quality and reliability of power supply to consumers through a financially sustainable and operationally efficient Distribution Sector.
  - Reduction of AT&C losses to pan-India levels of 12-15% by 2024-25.
  - Reduction of ACS-ARR gap to zero by 2024-25.
- **Major Components:**
  - Prepaid Smart Metering for Consumers and System Metering
  - Distribution Infrastructure Works
  - Training, Capacity Building and other Enabling & Supporting Activities
- The Scheme would be available till the year 2025-26. The Scheme will be implemented in urban and rural areas of all States/ UTs except private DISCOMs.

The Government Revamped Discom Reform scheme a significant business opportunity for PFC going forward.

D. Borrowing

- In line with our objective of diversification, PFC for the first time explored funding through a floating rate bond structure linked to the 3 Month T-Bill rate and successfully raised Rs.1,985cr for a 3 year tenor. This has been well received by the market players.

- On the foreign currency front, PFC continues to maintain 86% hedge ratio on exchange risk for portfolio with residual maturity of upto 5 year.

With PFC's high credit worthiness, well established relationships and dedicated focus on diversification, we feel that PFC will continue to achieve cost efficiencies in its raising activity.

E. Future Outlook

In line with the targets outlined previously:

- PFC's continued focus will be on T&D & renewable business & lending under the DISCOM Credit Package
- Loan Asset Growth is expected to be at similar levels as previous year.
- PFC is envisaging business opportunity in Revamped Discom Reform scheme and refinancing business.

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