PTC India Financial Services Q2 2013 Earnings Call 21 Nov'12

Operator

Ladies and gentlemen, good day and welcome to the PTC India Financial Services Q2 FY13 Earnings Conference Call, hosted by Almondz Global Securities Limited. As a reminder for the duration of this conference, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Please note that this conference is being recorded. At this time, I would like to hand over the conference to Mr. Harjit Singh Sethi from Almondz Global Securities. Thank you and over to you, sir.

Harjit Singh Sethi

Thank you Inba. Good morning, everyone. On behalf of Almondz Global Securities, it is indeed a great pleasure to welcome you all to the Q2 FY13 earnings conference call of PTC India Financial Services Limited.

We welcome Mr. Deepak Amitabh, Chairman and Managing Director; Dr. Ashok Haldia, Director, Operations; Dr. Pawan Singh, Director, Finance, and other members of the management team to the call. I would like to hand over the proceedings to Dr. Ashok Haldia to take us through this quarter's performance and provide insight into the business. Sir, over to you.

Dr. Ashok Haldia, Whole Time Director

Yeah, very good morning and thank you very much for being with us for interaction on the quarter two performance of PTC India Financial Services. With me is Dr. Pawan Singh the Director of Finance and he will take you through the performance in the greater details. But if you look at the performance of the quarter, second quarter, it shows the all round growth in the performance of the PFS both in terms of the financial as well as physical.

If we look at the key indicators that is the total revenue, the PAT, the profit before tax and also if we exclude the profit from sale of investment and we neutralize the two quarters performance on the same platform, we would see there has been a significant growth in the performance parameter of PFS.
The total revenue has increase by 26%, the profit before tax by 40% and after neutralizing the profit on sale of investments, the profit before tax has phenomenally increased by more than 100%.

In terms of the other parameters, we look into the significant aspect in the reduction, in the cost of funds which has gone down to 8.66 and this has been possible because of these changes in the resources such as the increased disbursal from the external, commercial borrowings and also the repayment of some of the costlier loans that we had taken earlier.

And in terms of the physical performance, our effective debt sanctions has increased by 20% and also the disbursement during the quarter and the first six months of the year. If we look at the six months performance compared to the last year performance or last six months performance, you would again find that there has been a significant growth.

So, on the whole, I would say that we have been able to, in our perception, able to maintain the growth story that we told at the time of going to the market for the IPO and later on during the interactions with the investor community from time-to-time. The scenario of this sector as it would appear, is I mean it continues to be if not that pessimistic as it was in the beginning of the year continues to be not so increasing.

And in terms of the power sector, the growth and the capacity and also in terms of the liquidity problems of this sector. But in terms of the PFS volumes, we continue to maintain growth in the sanctions as well as in the disbursements. There has been changes in the profile of the portfolio of the PFS that we have disbursed and also those are in the pipeline.

The problems the coal-based power projects are facing, the shift has been towards the renewable projects and also the projects in the other areas, in the energy value chains, for example the transmissions, the distributions and so and so forth. With that, we have enough pipeline of the projects available which would see that our sanction levels grow further in the current quarter and also in the remaining part of the year.

So with that, I'll request Dr. Pawan Singh to take you through in much greater detail on the performance.

Dr. Pawan Singh, Whole-Time Director and Chief Financial Officer

Thank you so much. In fact this quarter as pointed out by Dr. Haldia, this quarter has been quite good for us and we have shown an increase in net profit after tax by about 25%, and if we take the sale of equity investment which had happened in the last quarter in the previous year, in fact the increase is almost 62%.

Another important aspect which we would like to emphasis is that despite the banking sector and financial industry not doing so well and their NPAs going up considerably and particularly so in the power sector we have been able to maintain zero NPA. Another redeeming factor which I would like share with you is that we still continue to maintain a capital adequacy of nearly 49% which gives us a huge leveraging capability in the next coming two, three years.

Despite the equity investment which we had, equity capital which we had raised, we had exhausted the deployment of that during the year '11-12 and the first quarter of '12-13. That source of fund was not available, despite that we have been able to bring down our cost of capital considerably. If I compare with the previous quarter, it has come down from nearly 10.22 to 8.20 and even in comparison to the previous quarter of the current year, it has come down from nearly 8.6 to 8.20.

And we have continued to maintain a very high NIM spread and also yield on the loans. This we have been able to do despite the difficult challenges being faced and not only that we have been able to maintain a very high spread and cost of funds and yields and NIM. But compared to our peers in the industry, we have been able to have a substantial edge on these parameters.

In fact, another thing which has happened is that from our lending pattern, there has been some change, we have been coal focused so far, in fact in the year September 2011, the total debt outstanding in the coal was nearly more than 54%, now which has come down to 44%. And wind has jumped considerably it has gone to 31%.
We have made the exposure, we made the debut in solar and biomass. So they now nearly constitute about 36%, 37% of our total lending. The advantage on renewable front is that number one, that we have a quick deployment of resources, coal projects normally take three to four years, here we are able to deploy it. So gap between sanction and disbursement is pretty fast, that is one. Second is that wherever we have renewable projects, we have in fact the multilateral agencies have been taking a very, they have been going very fast on giving disbursements and loan sanctions to renewable projects.

So, we have that definite line of ECB credit from multilateral sources which helps us to bring down our cost of capital. And then plus of course we have the advantage of diversifying into various baskets, rather than focusing in one basket, now we have split it into three, four baskets. So, these are some of the highlights which I wanted to...

Another thing is that of course for a closeup is that we maintain our favorable debt-equity ratio of 1:1. So, again and always capital adequacy and debt-to-equity ratio is highly favorable. With this kind of a backdrop, we hope to continue to maintain the similar kind of performance in coming two or three quarter or coming years also. Thank you.

Harjit Singh Sethi

Mr. Deepak Amitabh, CMD has just joined us. He would also like to address.

Deepak Amitabh, Chairman and Managing Director

Sorry for the delay because my earlier meeting was over short. I am sure you all have seen the results which has been exceptionally good this quarter also and we are not leveraging, there is much scope leveraging which we are going to go ahead, in the next two years time we should be able to leverage five to six times whatever the norms are going to be there.

And our objective is to keep reducing the cost of capital as much as possible because today as a funding institution, you on your own cannot fund everything. So you have to do by taking other people also along with you. And because of lot of issues which have come up in the Indian Power sector for last one year or so which has affected the slowing down of the Indian Power sector is also a big concern. And we have to address the concern even if as from the PFS we understand that concern and we understand the risk and still we can manage that risk. We have to also convince everyone else who is in the path, there are the banks or financial institution to go along. So, that's our position as on now.

And we are open for the question and answers if you want.

Questions And Answers

Operator

Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions]. Our first question is from Sharad Jain of Global Investment House. Please go ahead.

Sharad Jain

Good morning gentlemen. Excellent set of numbers. One simple question is when do we believe or when does the management propose to reward shareholders by way of some dividends?

Dr. Pawan Singh, Whole-Time Director and Chief Financial Officer

See shareholder gets rewarded anyway by performance. So as long as we keep on adding numbers to the network, we keep on rewarding the shareholders. Our business model as such today is that we are able to leverage on the debt equity. So what we are able to do is that whatever equity we are raising, we are able to do more than four times that of debt.

So the shareholders has a huge leveraging capability and that gives a return which would be far higher than the dividend. And the company being at the national stage, we have found that you know using the capital to do our, increase our valuation by leveraging on our equity is the model which we have followed so far. But of course there is a view point which has been emerging like what you have said now, that of course somewhere in between the benefit from the profit which have come should also be passed to the shareholder. Probably this issue could be taken up as we close the financial year.

Sharad Jain

See, I mean I understand the business model is very robust and leveraging is necessary for providing more debt to more projects that come our way. The thing is that in the past, specially sometime last year and the first quarter of the current fiscal, we actually sold some, no, not first quarter of the current fiscal, only in the last fiscal we sold some equity investments at substantial gains.

One of them was a power project itself and the other one was in the IEX exchange. So, you know those benefits actually part of them is the request from shareholders because whatever we say, we agree that the performance of the company should really justify the returns for the shareholders, but unfortunately for the original shareholders the market is not giving the right valuation.

Deepak Amitabh, Chairman and Managing Director

Yeah. We really appreciate your words. See, the one way could have been as you are putting that we could have, these exceptional gains which we made part of it could have been returned to the shareholders. But then that creates another confusion because equity, the next round of selling off et cetera, the maturity has not yet come in the other assets which are there and it may take some time. So, then that also could have confused the market, see one year they come out with X percentage dividend and next year not giving any dividend. So, these are the questions I have just taken over as a CMD of this company.

Sharad Jain

I know sir. I know that.

Deepak Amitabh, Chairman and Managing Director

We have the clarity about this thing, and we appreciate your point of view. So we will have to work out. Like even in the parent company also, there is not yet a dividend policy because dividend policy can only come when everything is at nascent stage, you come into a matured stage.

Sharad Jain

I agree, I am not disputing that and I am not even expecting big dividends like Rs.1 per share or something like that. But what happens is for many of the international funds who are sitting on the sidelines to invest in India's infrastructure and power sector, they are looking at some sort of dividend payout. So some of these funds, pension funds who do not require a huge like 5% dividend pay-out or 10% dividend pay out on value, but even 1% or 2% of the value of the share in the market if that can be given out as dividend, helps them put more money and that will probably help increase the investor base into the organization.

Deepak Amitabh, Chairman and Managing Director

The liquidity will increase, okay.

Dr. Ashok Haldia, Whole Time Director

We value investors very much and any view point of investors will be duly given adequate thought and consideration in coming times.

Sharad Jain

Thank you, sir.

Operator

Thank you very much. [Operator Instructions]. Our next question is from Mangesh Kulkarni of Almondz Global Securities. Please go ahead.

Mangesh Kulkarni

Sir, I just wanted to know in last year we have booked some gains in our equity investments. In current half we have not done anything. Do you thing in the near future we have any plans to sell further equities in the second half?

Dr. Ashok Haldia, Whole Time Director

The equity investment that we have made are subject to either the buyback stipulations or adjust through the IPO.

Mangesh Kulkarni

Okay.

Dr. Ashok Haldia, Whole Time Director

Or in terms of the contemplations that we have under the various equity investments. Maybe next year some investments might be right for the buyback or and in the and the beginning of the next the following year, some investment if the market conditions improves maybe right for the IPO.

Mangesh Kulkarni

Okay. And sir in terms of our, can you just throw some lights on our provisioning policy because there is substantial rise in the provisions during the first half of the current year.

Dr. Pawan Singh, Whole-Time Director and Chief Financial Officer

Yeah. Actually see in fact what we thought is it's the rising out of the withdrawal gains which we made during last year due to sale of equity.

Mangesh Kulkarni

Yeah.

Dr. Pawan Singh, Whole-Time Director and Chief Financial Officer

And since otherwise there was provisioning happening because of any NPA or bad performance. So the management took a prudent decision at that point of time to increase our provisioning from 0.25 to 0.50. So this is because of that the provisioning has gone up. Probably this is to give more protection to the future earnings.

Mangesh Kulkarni

Okay. And suppose these new Usha Thorat Committee recommendations comes into implementation, then what will be the additional provisioning requirement, instead of 180 days, 90 days norms comes into a...

Dr. Ashok Haldia, Whole Time Director

No, see the Usha Thorat Committee had given a very wide ranging and far reaching implication recommendations. We have looked into those recommendations and we have tried to assess as to what could be the possible impact and in terms of how are we going to respond. But as of now making calculations on that, even that would require in one or other manner provisioning on the outstanding amounts or the committed sanctions.

Now, we have not yet made those calculations and as the Usha Thorat Committee recommendations are accepted by RBI and put into place, obviously we would be ready to do that.

Dr. Pawan Singh, Whole-Time Director and Chief Financial Officer

See, what happens is that you know just to share with you is that during the beginning of the '11-'12 and end of the year '11-'12, we had over stretched outstandings of about nearly 160 crores, which has now come down to about 7 crores.

Mangesh Kulkarni

Okay.

Dr. Pawan Singh, Whole-Time Director and Chief Financial Officer

So, we are really keeping a close watch on our difficult assets. So, recovery is quite up to date. So, even if new norms are there which are quite stringent, we'll to match those norms.

Dr. Ashok Haldia, Whole Time Director

And let me also appraise you that the Usha Thorat Committee recommendations of this 180 days is getting reduced to 90 days. It's not immediate even if that recommendation is accepted by the RBI, that 90 days, that 180 days would reduce to 90 days only over a period of time. And the provisioning would be implemented in phases rather than straight away accepting the recommendations. And in any case the entire non-banking finance industry is up against the recommendations.

Mangesh Kulkarni

Okay, sir. And sir in terms of our equity investment book of 421 crores, what is the status of the various projects?

Dr. Ashok Haldia, Whole Time Director

Now, if you look into, we have that in Ind-Barath, the Ind-Barath is in the advanced stage of implementation. There have been a delay of about 12 months and they are expected COD at the end of '13. And then we have the East Coast, as you know because of certain issues related to environmental conditions that project was got delayed and again the implementation of that project is again on the fast track and in terms of what we expect is the delay now only of six months because they are confident of covering up the time over ramp in the project.

The Meenakshi, as far as the Meenakshi is concerned their first phase comprising of two units, one unit is already commissioned, the another unit is expected to be commissioned some time in the month of December and the Phase II two units are expected to be commissioned by June 13th and the December 13th.

Mangesh Kulkarni

Okay.

Dr. Ashok Haldia, Whole Time Director

So, these are the equity investment where have the significant investments made.

Mangesh Kulkarni

Also we have investments in the RS Wind Energy where the lenders have made some provisions.

Dr. Ashok Haldia, Whole Time Director

Yeah, out of those 100 megawatts, the 40 megawatts are already up and running and the PLF from those 40 megawatts are as per the expected lines.

Mangesh Kulkarni

Okay.

Dr. Ashok Haldia, Whole Time Director

And the remaining 60 megawatts is expected to be commissioned sometime during the first half of the next financial year.

Mangesh Kulkarni

Okay.

Dr. Ashok Haldia, Whole Time Director

Depending upon the COD of their the turbine manufacturing unit.

Mangesh Kulkarni

Okay. And sir in terms of this exposure to East Coast, we have restructured our deal with swapping the shares with the parent company. Can you just throw some light on that?

Dr. Ashok Haldia, Whole Time Director

No, we have not structured or restructured...

Mangesh Kulkarni

Restructured the deal means...

Dr. Ashok Haldia, Whole Time Director

No, no.

Mangesh Kulkarni

We have taken and swap the shares of the subsidiary with the parent company and all.

Dr. Ashok Haldia, Whole Time Director

Yeah. Originally when we had made investments, we were looking for a very robust exit option. So what we have provided was that either we have the option of swapping into the HoldCo, which is a Singapore-based company.

Mangesh Kulkarni

Okay.

Dr. Ashok Haldia, Whole Time Director

And the other option was that they were to set up an mirror of HoldCo company in the India. So our option was that we would exit from the company wherever the IPO first comes. That stipulation, it is still available. The company intends to transfer their assets from the Singapore HoldCo to the Indian HoldCo. The process is underway as per the Singapore law. So we are waiting the progress, and as soon that happens, then we would be taking a call on swapping our equity either into the Singapore HoldCo or the Indian HoldCo. Our interaction with the company is on.

Deepak Amitabh, Chairman and Managing Director

See the whole issue which I would just want to explain to you on that, that ultimately when you do an equity investment, you have to have wide range of options and that is the advantage with PFS which has, it has a wide range of option, whether to get hooked onto Singapore-based company or Indian-based company. The whole purpose is that whichever place the real value lies, will like to get hooked onto their and where a public exit or a strategic exit can be planned as soon as possible. So that's the reason we have the options and we have been holding these options at multiple levels.

Mangesh Kulkarni

Okay. And sir, have we made any provisions for our investments like due to M2M losses or this thing?

Dr. Ashok Haldia, Whole Time Director

No, as per potential norms, there have been no requirement for any provisioning. So, we have not done any provisioning except that the additional capital adequacy which had to provide for, that we have provided.

Mangesh Kulkarni

Okay sir. And last data point is on disbursement during the quarters and like as per the fuel sources also?

Dr. Ashok Haldia, Whole Time Director

Yes. The total debt outstanding as of now on 30 September is, coal is 44%, hydro is 7%, wind is 31%, biomass is 2%, solar is 3%, gas is 5%.

Mangesh Kulkarni

Right. Sir, I just wanted to know about disbursement during the quarter and their sources?

Dr. Ashok Haldia, Whole Time Director

330 crores is the total disbursement I think.

Mangesh Kulkarni

Okay, sir. Thank you.

Operator

Thank you very much. [Operator Instructions]. As there are no further questions from the participants, I would now like to hand the conference to Mr. Harjit Singh Sethi for closing comments. There seems to be a disconnection from Mr. Singh's line please hold on while we connect them back. Mr. Sethi, you may go ahead sir.

Harjit Singh Sethi

Okay. On behalf of Almondz Global Securities, I thank Mr. Deepak Amitabh and other members of the management team for giving us their valuable time and providing us with insight about the company. I also thank all the participants for joining the call. Thank you very much. Have a nice day.

Deepak Amitabh, Chairman and Managing Director

Thank you.

Operator

Thank you very much. Ladies and gentlemen, on behalf of Almondz Global Securities Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.