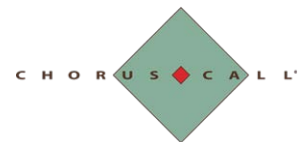




“PTC India Financial Services Limited
Q2 & H1 FY'25 Post-Earnings Conference Call”

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MANAGEMENT: MR. R. BALAJI – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – PTC INDIA FINANCIAL SERVICES LIMITED
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MS. PRIYA CHAUDHARY – INVESTOR RELATIONS TEAM – PTC INDIA FINANCIAL SERVICES LIMITED

Moderator:

Ladies and gentlemen, good day, and welcome to PTC India Financial Services Limited Q2 and H1 FY '25 Post-Earnings Conference Call. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Priya Chaudhary. Thank you, and over to you, ma'am.

Priya Chaudhary:

Thank you. Good morning, everyone. I'm Priya Chaudhary. I'm part of the Investor Relations team at PFS. I would like to take this opportunity to welcome all for today's investor presentation call for the discussion on Q2 and H1 results for financial year '25 for PTC India Financial.

Now just to set the context for the presentation, PFS has undertaken a transformational journey aimed at resolving legacy issues, institutionalizing internal processes and systems, strengthening management, and enhancing employee culture and engagement to ensure a sustainable growth going forward. Our commitment to governance and our continued focus on business will ensure that PFS will continue to strive in an ever-changing, dynamic financial landscape.

I would now like to introduce the senior management of PFS present in today's call: Mr. R. Balaji, MD and CEO; Mr. K. Srinivas, Executive Director; Mr. Abhinav Goyal, VP and Interim CFO.

With this, I would now like to hand over the call to Mr. R. Balaji for his opening remarks. Over to you Balaji.

R. Balaji:

Thank you Priya. Good morning all. So PFS had a quarter closure, the results are already published on the website. So what I would like to share, before Abhinav would take you through the financials, give a brief overview of what transpired in Quarter 2 and what is our way going forward. And Abhinav would take you all through the financials, and then, we can open the floor for questions, which my entire senior team will be there to respond to.

Quarter 2 was a quarter where we witnessed significant change and wherein we initiated the steps for transformation. You are all aware that in the past couple of years, PFS has been assailed by a variety of issues, however going forward, we are moving to resolve those and put the company back on the path of strong growth. The way we are seeing the journey is a 3+1. The 3 critical tasks which we are doing is, one, resolve legacy issues; two, get business back on growth; and three, more importantly, improve and strengthen portfolio quality. These are the 3 things.

So one, as far as resolving legacy issues, we are in active dialogue with the various regulators, to ensure that their concerns are addressed; two, to achieve it, moving beyond assurances, strengthening systems and controls, and putting all the processes in place. This is what we have done. And this would be clearly visible by what we have seen in the quarter 2 results. Compared to the year-ending March or quarter-ending June, the number of qualifications on our financial statements have reduced significantly. We are committed to uphold the highest standards of governance, and going forward, we'll be upgrading our processes and ensure that things are on a smooth track.

Two, getting back on growth. We have made a conscious decision last quarter- we need to grow. But when we say we need to grow, we need to grow in a sustainable and profitable manner. So what we are doing is focusing on projects and proposals which give us a superior risk-adjusted return on capital to ensure that our profitability is maintained.

Today, if you look at quarter 2, we had a post-tax return on assets of 3.1%. This compared favourably with last quarter of 2.77%. Going forward, what we will do is as we start leveraging, the return on asset would come down while the return on equity would increase. But going forward, we want to ensure that while our book increases, our return on assets remain in a healthy level.

And third and more important, like what I said, is to improve the portfolio quality. This is very important because if we need to grow sustainably, access to adequate sources of liquidity or funds at a competitive rate is a pre-requisite, and for that, we need to focus on enhancing our credit rating. And one of the key criteria for the credit rating is how do we improve the asset quality. Because currently, if you look at our net Stage 3 is at 5.9%. But 2 conscious things I would like to highlight to you. While the percentages might look high, if we look at the absolute numbers, compared to last year's September quarter, in this year's September quarter, our gross NPA has declined by 32% in value terms. That's one thing which we have been doing.

Second thing, what we have been doing, is ensuring that for the assets that are provided for, our provision coverage ratio increases significantly. Today, our provision coverage ratio is around 63%, 64%, which is a significant layer compared to the same period last year, then it was about 49%. So these are the 2 which we are doing.

Going forward, we expect a substantial resolution in the stressed assets. One key development, which has happened in quarter 2, is that one of the stressed assets, which contributes approximately 2.3%, 2.4% of the book, we had a successful bidder through the NCLT process, while for any case that goes to the NCLT, there will be a lot of challenges and counter challenges. At least we have resolved it significantly. We expect the actual realization of the proceeds more likely to come in by quarter 4. So that's something significant progress, which we have made.

Alternatively, we had also a couple of other assets which have got a significant value. We are taking steps to ensure that these are resolved by the end of March '25. If it all goes according to plan, we hope to end the year ending March '25, that is this financial year, with a net Stage 3 of less than 2%, which is substantially lower to the current 5.38%. That's something which we intend to do.

So these are the 3 which we are doing: resolving legacy issues, getting cautiously back on to growth and improving portfolio quality. Because once if we do this, we'll be able to get access to more sources of liquidity. But I say 3 plus 1. To do this, one, the most critical factor is increasing and enhancing the employee engagement. We have got a good team to ensure that they are able to cope up with the new requirements, we'll be investing a lot in the skill upgradation, giving them greater opportunity so that by unleashing the passion of the employees and the team, we'll be able to achieve whatever we intend to do so.

Now Abhinav will take you through in a brief about our quarter 2 financials. After that, we can open the floor for questions.

Abhinav Goyal:

Thank you, sir. A very good morning to all our esteemed members. Now I will take you through the financial results. The total revenue for the quarter ended 30th September was INR163 crores in comparison to INR161 crores in Q1FY25. This is a marginal increase. However as MD sir mentioned, we are working on 3 plus 1, so there is a substantial improvement on the qualitative aspect.

Our profit before tax stood at INR63 crores in comparison to INR59 crores the last quarter. Profit after tax is at INR47 crores compared to INR44 crores for the quarter ended 30th June.

During the quarter, we have reported our loan assets of INR5,249 crores. On this aspect, we will like to mention that till date, we have appraised projects more than INR2,100 crores, which are at various stages of consideration. Net interest income for the quarter was INR76.95 crores. Our yield on earning loan was 11.97%. Our cost of funds has increased marginally to 9.43%. This is one of the aspects on which we are working. And our interest spread is 2.54%. Net interest margin is 5.02%. Our earnings per share has increased slightly to INR0.74. Our cost-to-income ratio is in line more or less in comparison to the last quarter at 12.43%. Our capital adequacy ratio, which is an indicator of our cushion for further growth and expansion, is strong at 44.65%. Our debt to equity is very much comfortable at 1.27x. Our return on net worth is 7.27% and return on assets is 3.08%. Our Net NPA for the quarter ended 30th September 2024 stood at 2.65%. And net Stage 3 stood at 5.9%. This is in brief on the financials Q2 FY25.

Now I request moderator to open the floor for question-and-answer session.

Moderator:

The first question is from the line of Suyash Bhavne from Wealth Guardian.

Suyash Bhavne:

Yes, Sir, as we get -- in this year of stabilization, as we get back on our growth path, what kind of support can we expect from our parent PTC India? And what -- has there been any discussions of an additional funding or anything that you can disclose at this present moment?

R. Balaji:

Thank you. So 2 things. We are a listed company. So whatever we are doing, it needs to be at arm's length. So if you look into it, one, we have got ample liquidity at this point in time. If at all any support is required, they have supported us in the past and that would happen. If you consider, for example, in September, our rating has been reviewed by CRISIL and CRISIL has reaffirmed our rating. I request you to go through the rating rationale given by CRISIL. As a part of the rating process, CRISIL also met the Chairman of PTC and the leadership team of PTC, and they were convinced about the support that PTC is going to be extending to us.

Therefore, to summarize, if at all any support is required, it will happen. But at this point of time, from an operational perspective, we think we have got sufficient liquidity to manage our growth aspirations.

Suyash Bhavne:

Okay, sir. I just have one more question, if I may. In our latest investor presentation, what I can see is that for the H1 FY '25, loans sanctioned were around INR500 crores and disbursements

were around INR566 crores. But for the quarterly breakup, it seems as if all of these loans have been extended in only Q1. So is it the case that in Q2 we did not do any loan disbursements?

R. Balaji:

You're right. In quarter 2, we evaluated quite a few proposals. Like what I said, we are going through a period of transition. So we are reorienting our approach to doing business, wherein only businesses which pass a specific muster in terms of return and risk will be able to go forward. So what you would see, in any period of change, there will be a period of turbulence; we'll be more than making up for it in the quarter 3. So what you would see by the end of quarter 3 will be at a significantly higher level compared to end of June. In June, we ended our book at INR5,577 crores. End of December, we'll be significantly higher compared to June levels.

Moderator:

The next question is from the line of Akash Sharma, an individual investor.

Akash Sharma

Yes. Congratulations for the good set of numbers. So what will be the major segments that you will be focusing on in the next 2 to 3 years? And what are the plans? Can you please elaborate on the same?

R. Balaji:

Thank you. First of all, I would like to correct you. These are okay results. These are not good numbers. And going forward, we need to substantially improve on it. And now coming back, what we intend to do is focus on distributed infrastructure projects. Like what we alluded to earlier, we want to focus on superior risk-adjusted return on capital. So given our size and profile, we'll be focusing on smaller projects. So this would be in the energy segment, one, wherein we're focusing on smaller solar and wind projects, anywhere with a size of some 5/10-megawatt to 15-megawatt; this would be a key area. The reason why we'll be able to do so is we'll be able to fund these individually and have a better control over the project execution and project monitoring. That is one.

Two, in the last few years, we have shifted to other parts of infrastructure like roads, wastewater, solid waste. We would intensify our efforts to scale up business in these segments. Doing this would provide us with a natural hedge against the concentration risk with any particular sector. That's two.

Three, we will be focusing a lot on e-mobility, especially in both passenger mobility; passenger transportation and cargo transportation. While we have been one of the pioneers, we have done few projects for state transport corporations across the country, we'll be going down the value chain and focusing on even on private sector opportunities. So these are the 3 which we would be doing.

To complement this, we'll be coming out with other activities like focusing on transmission and distribution sector so that whichever infrastructure value chain we are operating in, we come across as a full-scale ecosystem player rather than operating in one part of the ecosystem. This is what we would be doing.

And to achieve this, our intent is to create solutions which are customer centric. We would identify niches wherein our core skills of credit appraisal, project monitoring and risk assessment, will provide a competitive advantage compared to others. Using this, we'll be able to focus on these niches and deliver a superior economic return.

- Moderator:** The next question is from the line of Riya Sharma who's an individual investor.
- Riya Sharma:** I want to ask you what exactly will be the comfortable level of debt to equity, and if you could provide some guidance on NIM.
- R. Balaji:** See, as we grow, debt to equity ratio will increase. And ideally speaking, if you want to consider long term, by FY '27, we'll be at debt to equity of 3.5% to 4%. That would be our intent going forward. Now, how soon are we able to ramp up, whether it's end of FY '27 or middle of FY '27, it depends upon how successfully are we able to execute our transformation agenda.
- As far as NIM is concerned, it has been historically high because of our low debt to equity, and more importantly, because of legacy projects which we have done. Going forward, there will be a significant downward pressure that's being witnessed in the industry at large. Our endeavor would be to keep it upwards of 4%. That would be the levels, so that we are conscious about this and going forward in the medium term we are anywhere close to a 2.5% post-tax return on asset. That's what we'll be doing for it.
- Moderator:** The next question is from the line of Rajesh Kapoor who's an individual investor.
- Rajesh Kapoor:** I had a question regarding the outlook of 2025. So where do we see the company going in the next 1 year and also in the short term of 3 years?
- R. Balaji:** As far as this financial year is concerned, as I said- 3 plus 1. In the 3 plus 1, primarily, we need to put us on a strong pedestal for future growth. So legacy issues would have been resolved substantially, if not entirely. Our portfolio of quality would have improved significantly. The net NPA would be less than 2%, and gross in the region of 4%, 5%. That's what we'll be doing.
- As far as the business is concerned, we'll be ending the year with approximately more or less on 15% growth in AUM compared to the previous year.
- Rajesh Kapoor:** I had one more question. How do you see the sector mix going forward? Can you please share an outlook regarding the same, like which segment particularly do you see performing better for us?
- R. Balaji:** See, I think if we were a large player like a PFC or a REC, we have to work about the macro trends. Since we are a small player, we think for the areas where we are going to operate, that's a significant opportunity to grow all aspects. But coming specifically to your question, smaller solar and wind projects, especially in C&I segment is a key thrust area going forward.
- Secondly, what the union government in its budget has given; there are two key things, one is focus on compressed biogas- that's a critical possible future growth area. And second thing is increasing the bio-ethanol in auto fuels, having a target of close to 20%. Therefore, compressed biogas and bioethanol will be two areas.
- Apart from these 2 things, one key segment that would witness frenetic growth in the next few years would be energy storage solutions. As it is, currently the time between the peak power requirement and the peak power production, in the course of a day, there's a mismatch. And as

the share of renewables in the grid increases, this mismatch is only going to increase. To solve for this, we require energy storage solutions, whether it will be battery storage or pump storage. I think these would start becoming more and more important going forward.

But I must caution, that when these energy storage solutions become mature, the results would manifest over a 5-10-year period. It's not like in the next 1-2 years, this would become like a significant opportunity. These are long-term trends, wherein the results would manifest themselves over a period of time.

Rajesh Kapoor:

Okay. Sir, again, in terms of the borrowing mix, we see last 3 years the borrowing mix has been more or less similar. Do we see any further changes going ahead?

R. Balaji:

It's a great question. So what we need to do, right, as it is our borrowings is constrained by our ratings. So once we resolve the portfolio quality, and two, start getting back to growth, we'll be doing it, the intent is once our ratings improve, we would start borrowing from bonds also because we cannot be reliant on only a single source, which currently is primarily banks.

The intent is that by -- it's a long-term intent, I can't give because these trends will manifest once of our rating improves from A- to A and AA. Then our ability to participate in the bond market will increase while it will make some small -- we can take some baby steps in the next 1-2 years. The intent is in the long term, say, by 2030, our borrowing from banks should come down to 60% or so, with 40% from bonds and other sources. That's the thing. And a lot would depend on how well we are able to grow, and more importantly, how we are able to manage portfolio quality to ensure that we get the confidence of bond market participants.

Rajesh Kapoor:

Okay, sir. That was very insightful. One last question, with regards to the credit standing, the NPL that we have, so we see that the NPA since the last September '23, you have decreased significantly. But in the last 3 quarters, there has been a very minor decrease, but a little good progress. So where do we see this going in the next couple of quarters?

R. Balaji:

See, these are all large ticket infra projects. So the resolution would be lumpy. We are putting in all efforts. Currently, if you look at it, if you have gone through our presentation, around INR764 crores was the amount in gross NPA as of September. The target- we would like to bring it down from at least by minimum 50%, ideally by 75% by end of March. So INR764 crores would come to at least minimum INR380 crores. But if things go as we have envisaged, it would be close to INR190 crores.

Moderator:

The next question is from the line of Suyash Bhawe from Wealth Guardian.

Suyash Bhawe:

Sir, from what I understand is we are looking at transitioning from mainly an energy finance player to a full-fledged infrastructure player, considering the diversification that you just mentioned. So I have 2 questions on that. One is, would that entail requiring hiring more talent with different capabilities, like considering the different segments that we want to enter? So what kind of effect would that have on our cost-to-income ratio? That is one question.

And second is, now that we are looking at a very different kind of a business process going from -- to go back on the growth part, and infrastructure finance per se has not had good success as in

-- in India as in when you look at its past history. So what kind of different processes or a better control that we are looking at? If you can just elaborate on that.

R. Balaji:

Okay. One is, since we are a large ticket B2B player, our cost to ticket is significantly lower. It's not a very high proportion of our income, around, say, 12%, 13%. Going forward, we expect it to be in the similar range. So we don't see this because we are actually widening our reach and getting into newer niches; these activities or these initiatives to have any significant impact on our cost-to-income ratio. So that's what we are doing. And could -- sorry, what's your second query?

Suyash Bhawe:

As we go from -- as we look to pursue growth going forward, as you said, that we are looking at -- we're cautiously growing, so what kind of processes as in different processes would we want to bring in just to avoid any of the things that happened in the past with respect to control or oversight over the assets that we look to fund, if you can elaborate on any operational processes that we want to change or we are looking to change?

R. Balaji:

See, I would not want to get into the specifics, but I will go through the philosophy. Most of you would be aware at what had happened in the past. So the key thing, one, is to ensure it does not recur. Two, more importantly, to ensure that the organization is resilient enough to weather any such occurrences. So the guiding philosophy which we are going is one, enhanced system capability. So one critical thing as far as this is concerned is to ensure we automate to the extent possible so that the manual intervention in case of data generation, data preparation is minimized such that there's one source of truth across the entire organization.

What would be the benefit of this? The time required for data preparation gets reduced and people spend more time analysing the information and taking decisions, which lead to higher quality of decisions. This is the first one. Secondly, have a clear sense of what is expected, not expected; so that it creates a culture of transparency and outperformance. This is the second thing.

Third, if you needed to make the organization more resilient, make people move across roles so that there are 2 types of growth. When people go up, vertical growth, when they go from particular level to the higher level. Second level is the horizontal growth, wherein they move from role A to role B so that their skill sets get enhanced and their ability to take up higher responsibility gets enhanced.

In short, what we are focusing on is how do we transition from an organization that is dependent on individual capabilities, to creating a culture where institutional capabilities are getting built. That is the key pivot going forward, moving from individual capabilities to institutional capabilities. How are we going to do this? If you looked at the earlier presentation, we are speaking of a sustainable infrastructure where we do this. So internally, we are adopting an eco-friendly approach, -- E-C-O. So basically, what is being driven down internally in the organization is; "E" for ethics. There will be no compromise on ethics and integrity; "C", how we foster collaboration wherein people work together to deliver as a team; and "O", ownership wherein people/ key leaders take ownership for their actions. Through this, we'll be able to put

a system of outperformance across the organization, at the same time, uphold the highest standards of integrity.

Moderator: The next question is from the line of Pawan Sharma from PFS.

Pawan Sharma: So my question is, can you please throw some insight on the sanction and disbursement guidance for financial year '25?

R. Balaji: I think, Pawan, another person had raised the query earlier. We said we'll be expecting around 15% growth in that book, it could be higher. But the primary focus is getting the internal organization in shape for future. So now we can work out the numbers backwards. We do not want to give a very specific thing. But all I could say is by the end of quarter 3, like at this point of time, on a half yearly basis, there are INR566 crores of disbursement compared to 410 in quarters in last year. The end of quarter 3, this figure of INR566 crores would have more than doubled when we come to the end of December quarter. It will be higher than that. But at this point of time, you can say, end of December, we would have more than doubled our disbursement, YTD disbursement.

Moderator: The next question is from the line of Chintan Mehta from Puniska Family Office.

Chintan Mehta: Sir, just wanted to know after FY '25, once we stabilized, at lower base, it's possible to grow at 25%, 30% or we have plans to fund the higher ticket size project or we are planning to fund the lower ticket size project?

R. Balaji: Sorry, it was not very audible. Can you please restate the question?

Chintan Mehta: Sir, after FY '25, once we stabilize, it's possible to grow at higher 25%, 30% rate? And second question is, we are planning to fund the higher size of project or higher ticket size projects or lower ticket size projects?

R. Balaji: So okay, I don't want to answer all questions. So this question will be answered by Srinivas, who's Executive Director, Credit.

Kalur Srinivas: See, as Balaji has indicated, this, of course, is a year of stabilization, and we are aiming for some growth definitely. Now, from FY '26 onwards, I think that is what your question pertains to, whether it is possible to target a higher rate of growth. I think once the things that we are targeting in the short term are in place, it is definitely possible to target a higher growth from FY '26 onwards, given the opportunities that are available in the space that we are in and the opportunities, of course, are referred to in the infrastructure space, tremendous opportunities in the country.

Coming to the second part of the question, in terms of the ticket size, that will be in the nature of something that will be changing over a period of time. I think once Balaji referred to in terms of a certain size, giving the example of renewable energy projects; that will evolve over a period of time, as the business / the loan book also increases. Today, given the size of the loan book, when we are targeting growth in the near term, of course, we will be conscious of single-party

exposure. But yes, as, and when the book size improves, we will be more amenable to take a larger single ticket exposures.

Chintan Mehta: And sir, in terms of exposure, we are looking for both private, public kind of or we are exclusively for the PSUs to fund?

Kalur Srinivas: It can be both in private sector as well as public sector. Today, of course, the loan book is tilted in favour of the public sector. So obviously, over the medium term, we will want to correct it.

Moderator: Next question is from the line of Amey Chheda, who is an individual investor.

Amey Chheda: By the way, I'm speaking from Banyan Capital. Just a couple of questions. Firstly on NSL, we have provided 100% of INR125 crores exposure that we have. So what is the kind of realization that we expect from the NCLT proceedings?

R. Balaji: Greater than or equal to INR125 crores.

Amey Chheda: Okay. And when you resolve all these issues, IL&FS and Vento and Danu, so they have already provided at around 60%, 65%, right? So wouldn't there be any book value reduction because of this? Or do you expect accretion by running down these accounts?

R. Balaji: We don't expect any book value reduction. The accretion, we are not able to quantify at this point of time. Let the event happen, then we will share it with you.

Amey Chheda: Okay. And this -- when you get the amount back, just from an accounting perspective, it will be reflected in other income or credit cost?

R. Balaji: I'll ask Abhinav to answer that.

Abhinav Goyal: So it will be -- suppose if there is an appreciation, it will not be a credit cost definitely. As MD sir has said that there will not be any downward movement in the book value. So it's not a credit cost, right? That is one. Second, now, as regard to appreciation, although we are not able to quantify the same, but it may get reflected in other income.

Amey Chheda: Okay. So basically, in NSL, sir, you have provided INR125 crores, right? So you already returned that off in your books. Now if you get it, you will recognize that INR125 crores in other income. Is that correct?

R. Balaji: Yes. Amit, if you go through the annual report or the financial results of IIFCL, right, there's a line item called provisions and write-offs in the financial results. So currently, in an expense, it's a positive item, therefore, it's reduced from your pre-provision profit. Now, it will be a negative entry, therefore, to that extent, our profit will be stated. So it's a pass through.

Moderator: There are no further questions. I would now like to hand the conference over to Mr. R. Balaji for closing comments.



R. Balaji:

So thank you all for your participation. We hope we have been able to answer your queries to your satisfaction. Anything, you can get in touch with Priya. She heads our investor relations. So feel free to get in touch either with her or with Abhinav. Thank you, and good day.

Moderator:

On behalf of PTC India Financial Services Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.