

# RURAL ELECTRIFICATION CORPORATION LIMITED

(A Govt. of India Enterprises)

Core-4, SCOPE Complex, Lodhi Road, New Delhi-110003.

## COMPANY SECRETARY'S DIVISION

No. SEC-1/8(1)/2010 / 316

Dated: 13<sup>th</sup> January, 2010

### LOAN POLICY CIRCULAR – No.001 / 2010

**Sub: REC's scheme for Financing Power Purchase / Sale through Indian Energy Exchange.**

The Board of Directors of REC, in its 358<sup>th</sup> Meeting held on 30<sup>th</sup> December, 2009 has approved introduction of "REC's Scheme for financing power purchase / sale through the Indian Energy Exchange" along with operational guidelines, as per details given in the enclosed Annexure.

The scheme will be effective from 30<sup>th</sup> December, 2009.

  
(B.R. Raghunandan)  
GM & Company Secretary

Encls : Annexure

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**DISCLAIMER:** "Rural Electrification Corporation Limited proposes, subject to receipt of requisite approvals, market conditions and other considerations, to make a further public offer of its equity shares and has filed a draft red herring prospectus ("DRHP") with the Securities and Exchange Board of India ("SEBI"). The DRHP is available on the website of SEBI at [www.sebi.gov.in](http://www.sebi.gov.in) as well as on the websites of the book running lead managers at [www.kmcc.co.in](http://www.kmcc.co.in), [www.dspml.com](http://www.dspml.com), [www.icicisecurities.com](http://www.icicisecurities.com), [www.jmfinancial.in](http://www.jmfinancial.in) and [www.abnamro.co.in](http://www.abnamro.co.in). Investors should note that investment in equity shares involves a high degree of risk and for details relating to the same, see the section titled "Risk Factors" of the aforementioned DRHP.

This advertisement is not an offer of securities for sale in the United States or elsewhere. Securities may not be offered or sold in the United States absent registration under the US Securities Act of 1933, as amended, or an exemption therefrom. Neither the issuer nor the selling security holder have registered nor intend to register any securities under the US Securities Act of 1933, as amended. There will be no public offering of the securities in the United States. The issuer is not and will not be registered under the US Investment Company Act of 1940, as amended, and investors will not be entitled to benefits of that Act. No money, securities or other consideration from any person is being solicited and, if sent in response to the information contained in this advertisement, will not be accepted".

**REC'S SCHEME FOR FINANCING POWER PURCHASE / SALE THROUGH INDIAN ENERGY EXCHANGE (IEX)**

**Objective:** IEX offers a transparent, national-level platform for trading electricity in India enabling participants to plan their power procurement and sale in an efficient manner to maximize their returns in particular and social welfare in general by transfer of power from power surplus regions to power deficit regions. IEX also indirectly promotes power generation investments by allowing power transfer amongst participants. Transparent and fair trading promotes efficient price discovery of power. Rural Electrification Corporation(REC) is a stakeholder in this endeavour, shares the vision of IEX and proposes to finance trades done on Indian Energy Exchange (IEX).

- 1. Eligibility:** Initially Central / State Sector companies who are existing borrowers of REC and have a grading of A+, A and B shall be eligible for finance under this scheme. It should not be declared defaulter as per REC Policy and should have a valid grading. The actual amount paid by REC on behalf of buyer/seller shall be treated as a loan. The Buyer shall sign a tripartite agreement with REC and IEX in the prescribed format besides other prescribed loan documentation. Credit shall be allowed only for bonafide power sale or purchase requirements and not for speculative purposes.
- 2. Quantum of finance:** The financial assistance under this scheme shall be up to 100% of the requirement of funds for purchase of power and associated charges subject to a maximum limit of Rs. 50 crore per borrower i.e. outstanding amount at any point of time per borrower shall not exceed Rs. 50 crores. Payout requirements of IEX's Trading Members would be funded under this scheme. All payments shall be made by REC on behalf of a Trading Member directly to IEX's settlement account.
- 3. Duration of loan:** The borrower shall repay the loan amount along with interest within a maximum period upto 90 days from the date of each tranche/disbursement. The borrower shall indicate the amount of loan and period for which the loan is required from REC to IEX. In turn IEX would intimate REC of the loan requirement of participants and loan period within the sanctioned exposure limit. Repayment of loan amount by borrowers shall be made directly to REC.
- 4. Interest rate:** Interest from all eligible borrowers shall be charged at 8.5% annualized on the actual amount availed within the exposure limit sanctioned starting from the date of transfer of funds from REC to IEX's settlement account. In case the dues are not paid on due date the borrower shall be charged penal interest @ 2% p.a. along with the applicable interest. The interest rate may be changed at the discretion of REC through a notification and the rate of interest as prevailing at the time of disbursement shall be applicable. Prepayment shall be allowed by paying @ 2% p.a. on the outstanding principal for the unexpired duration of the loan.
- 5. Security:** The loan shall be secured by either escrow cover or bank guarantee at the discretion of the borrower. In case a bank Guarantee is provided as security, it shall be valid for a minimum period of 3 months from the due date of payment of dues.

**6. Operational guidelines:** The operational guidelines for the scheme are indicated below :

- 6.1. Eligible entities shall make an application to REC on plain paper for sanction of credit limit under this scheme upto a maximum amount of Rs. 50 crores.
- 6.2. On in-principle sanction by REC, the Buyer/Seller shall sign a tripartite agreement with REC and IEX and execute other loan documentation in the prescribed format and arrange for escrow cover/bank guarantee.
- 6.3. After due verifications REC shall prescribe and communicate the credit limits to the applicants and IEX after which the credit limits shall become operational.
- 6.4. IEX will consolidate total date wise obligation of a participant and shall send requisition for transfer of funds on the due dates of such obligations. (Due dates of payin/payout of trading members shall be as per business rules/circulars of IEX). End of day, IEX will raise the invoice to REC on behalf of its participants. The invoice raised by IEX to REC will include the following details for each participant :
  - Participant name & code
  - Total credit limit prescribed by REC
  - Utilized credit limit till date
  - Balance limit available on date
  - Invoice raised on date (The invoice raised by IEX for a particular participant shall be the aggregate amount which may include quantity of power purchased, rate and other charges payable.)
  - Balance credit limit after payment of invoice

The amount and duration of loan required by the eligible entity shall also be mentioned by IEX on behalf of its participants.

- 6.5. REC shall transfer the requested loan amount to the settlement account of IEX before 11.00 A.M. at T\*+2. REC shall send an advice to IEX of the funds released.
- 6.6. REC may increase/decrease the exposure limits by intimating IEX. In case reduction in exposure limit is contemplated it shall be notified to IEX at least 15 days in advance, so that further exposure by the participants can be restricted.
- 6.7. No Service charges will be applicable during the introductory period of this scheme upto 31.3.2010. In future, service charge may be charged on 1<sup>st</sup> April of every year.

(\* T – denotes date of receipt of invoice by REC from IEX)

