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CMD Interview in Financial Express



We plan to increase RE share in portfolio to 30% by 2030: REC CMD

Once these all get resolved we are targeting to become net zero NPA (non-performing assets) company by this fiscal

Written by [Arunima Bharadwaj](#)[Raghavendra Kamath](#)
May 9, 2024 01:00 IST



REC Ltd, state-run non-banking financial corporation in the power sector, plans to increase its portfolio in lending to the renewable energy sector to 30% from the current 10% by 2030. Moreover, it plans to double its assets under management to Rs 10 trillion by 2030 with both conventional-energy and RE projects forming the major part of it, Chairman and Managing Director Vivek Kumar Dewangan told Arunima Bharadwaj and Raghavendra Kamath. REC Ltd reported a 33% annual rise in its consolidated net profit for Q4FY24 at Rs 4,079 crore and targets to become a net zero NPA (non-performing asset) company by the end of this financial year.

What is your plan with regard to increasing the portfolio?

In the last two years, [REC](#) has seen phenomenal growth. In FY23, our loan book increased by 13% but in FY24 it was up by 17%. Going forward, we would like to double our assets under management to Rs 10 trillion from \$60 billion to \$125 billion by 2030.

If we are able to maintain a growth trajectory, say 15% itself, we will be able to reach this target by 2030. If growth is 17% or more, which we are quite hopeful about, we will be able to reach this target in 2029, one year ahead.

We are targeting 40% sanctions to go to RE projects. And since turnout time is quite fast we are expecting a lot of disbursement this fiscal and the next. Every year till 2030 we will be able to add 3-4% additional AUM from RE projects.

Of the Rs 10 trillion AUM, we plan to sanction Rs 5 trillion to the conventional including -, generation, distribution, transmission sectors. This, we may, increase to Rs 6 trillion. We are focused only on good asset quality, good entity, where revenue cash flows are assured only those non-power infra log we are sanctioning. REC has diversified in the non-power sector in the last few years.

What kind of growth do you see in each segment of your portfolio going forward?

The share of renewable energy in our portfolio presently is only 7% at around Rs 35,000 crore. We see a huge potential and our loan book in the RE sector is going to see a tenfold jump to Rs 3 trillion by 2030. Right now our 90% lending is to the state companies and 10% lending is to the private sector. Since most RE projects are coming in the private sector, this profile is going to change. The share of private sector lending is going to increase from 10% to 30%, and that of the state sector will come down to 70% from 90%.

What about the exposure to non-power infrastructure sector?

The share of non-power infra [logistics](#) in our portfolio will grow four times to Rs 2 trillion by 2030 from the current Rs 50,000 crore. In the conventional sector too, we aim to finance projects totaling 74 megawatt (MW) capacity as the government targets the addition of 94 MW of new coal-based capacity by 2032. Nowadays the cost of coal-based plants have increased to Rs 10 crore per MW. So we are targeting a conservative estimate of Rs 3 trillion worth coal based power generation projects. This is the most profitable business for us with the largest margin with more than 10% depending upon the rating of the utility.

What is the status of implementation of the Revamped Distribution Sector Scheme?

Out of 250 million, 140 million pre-paid smart meters have already been awarded; the remaining 11 crore are in the pipeline. These will get installed in the next 2-3 years. Even after RDSS is over, the distribution infrastructure is quite old in the country. It will require continuous upgradation for the next 10-15 years. I see that the distribution sector and transmission sector will require a lot of capex and we will be sanctioning projects in this segment. Some smart metering awards are a bit delayed, perhaps it will be extended. RDSS brings us Rs 70,000-80,000 crore business.

What is your target for sanctions in FY25?

In FY25 we are targeting a minimum sanction of Rs 4 trillion. RE itself has a huge pipeline of more than Rs 1 trillion.

How many non-performing assets do you currently have?

At the start of 2018 we had 36 stressed assets, we have already resolved about more than 21 projects, 15 are left. Of these 15 projects, 7 we have made 100% provisioning, because they are heading towards liquidation. The remaining 8 projects are operational assets, we expect good write back because we already made provisioning of up to 70%.

Initially we have assumed that the haircut will go up to the tune of 70% but practically when we are resolving these issues through NCLT, our haircut is limited to 20-30% only. In the current financial year we will be able to resolve all our stressed assets and are expecting that we will get a write back to the tune of Rs 1,500-2,000 crore.

Once these all get resolved we are targeting to become net zero NPA (non-performing assets) company by this fiscal.

Full Story Link - <https://www.financialexpress.com/business/industry-we-plan-to-increase-re-share-in-portfolio-to-30-by-2030-rec-cmd-3481343/>

THURSDAY, MAY 9, 2024

● VIVEK KUMAR DEWANGAN, CHAIRMAN AND MANAGING DIRECTOR, REC

'Plan to hike RE share to 30% by 2030'

REC, state-run non-banking financial corporation in the power sector, plans to increase its portfolio in the renewable energy sector to 30% from the current 10% by 2030. Moreover, it plans to double its assets under management to ₹10 trillion by 2030 with both conventional energy and RE projects forming the major part of it, chairman and managing director Vivek Kumar Dewangan told Arunima Bharadwajani/Raghavendra Kamath. The company reported a 33% annual rise in its consolidated net profit for Q4FY24 at ₹4,079 crore and targets to become a net-zero NPA (non-performing asset) firm by the end of this financial year.

What is your plan with regard to increasing the portfolio?

In the last two years, REC has seen phenomenal growth. In FY23, our loan book increased by 13% but in FY24, it was up by 17%. Going forward, we would like to double our assets under management to ₹10 trillion from \$60 billion to \$125 billion by 2030.

If we are able to maintain a growth trajectory, say 15% itself, we will be able to reach this target by 2030. If growth is 17% or more, which we are quite hopeful about, we will be able to reach this target in 2029, one year ahead. We are targeting 40% sanctions to go to RE projects. And since turn-out time is quite fast we are expecting a lot of disbursements this fiscal and the next. Every year till 2030 we will be able to add 3-4% additional AUM from RE projects.

Of the ₹10 trillion AUM, we plan to sanction ₹5 trillion to the conventional including -generation, distri-

bution, transmission sectors. This, we may, increase to ₹6 trillion. We are focused only on good asset quality, good entity, where revenue cash flows are assured only those non-power infra log we are sanctioning. REC has diversified in the non-power sector in the last few years.

What kind of growth do you see in each segment of your portfolio going forward?

The share of renewable energy in our portfolio presently is only 7% at around ₹35,000 crore. We see a huge potential and our loan book in the RE sector is going to see a tenfold jump to ₹3 trillion by 2030. Right now, our 90% lending is to the state companies and 10% lending is to the private sector. Since most RE projects are coming in the private sector, this profile is going to change. The share of private sector lending is going to increase from 10% to 30%, and that of the state sector will come down to 70% from 90%.

What about the exposure to non-power infrastructure sector?

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The share of non-power infra logistics in our portfolio will grow four times to ₹2 trillion by 2030 from the current ₹50,000 crore. In the conventional sector too, we aim to finance projects totaling 74 megawatt (MW) capacity as the government targets the addition of 94 MW of new coal-based capacity by 2032. Nowadays, the cost of coal-based plants have increased to ₹10 crore per MW. So, we are targeting a conservative estimate of ₹3 trillion worth coal-based power generation projects. This is the most profitable business for us with the largest margin with more than 10% depending upon the rating of the utility.

What is the status of implementation of the Revamped Distribution Sector Scheme?

Out of 250 million, 140 million prepaid smart meters have already been awarded; the remaining 110 million are in the pipeline. These will get installed in the next 2-3 years. Even after RDSS is over, the distribution infrastructure is quite old in the country. It will require continuous upgradation for the next 10-15 years. I see that the distribution sector and transmission sector will require a lot of capex and we will be sanctioning projects in this segment. Some smart metering awards are a bit delayed, perhaps it will be extended. RDSS brings us ₹70,000-80,000 crore business.



● EXPECTING JUMP IN LOCAL CREDIT DEMAND REC to raise \$1-bn loan from ADB, Korea Exim

Says RBI's proposed project finance norms won't hit profitability

ARUNIMA BHARADWAJ & RAGHAVENDRA KAMATH
New Delhi/Mumbai, May 7

STATE-RUN LENDER REC has lined up major plans to raise funds from overseas, preparing itself for the expected jump in demand for credit from all segments of the power industry, as the government aims to double capacities by 2032.

The lender is planning to take a blended loan of up to \$1 billion from Asian Development Bank (ADB) and Export-Import Bank of Korea (Korea Eximbank), chairman and managing director Vivek Kumar Dewangan told FE. The company is also aiming to take another term loan of \$500 million from KfW Development Bank for which the discussions are underway, he said. "We have already submitted PPR (performance progress report) to the (finance ministry)," he said, adding KfW Development Bank loan may later be increased to \$1 billion.

In FY25, REC aims to reduce its cost of funds by 12 basis points to around 7%. The company aims to increase its external commercial borrowing this fiscal and is initially targeting to raise \$2 billion via green bonds. After completion of this, it plans to raise another \$6 billion. Last fiscal, the company raised \$7 billion of external commercial borrowing.

"External commercial borrowing and foreign currency borrowing has become a cheaper option for us as the RBI (Reserve Bank of India) is holding the repo rate steady at 6.5%. We have been able to bring down our cost of funding from foreign currency borrowing to say 6.6-6.7% against 7.5-7.7% in domestic borrowing," Dewangan said. The company has so far been able to hedge 99% of its external commercial borrowing.

Moreover, the chairman noted that the Reserve Bank of India's new draft guidelines on lenders' project

POWER PLAY

REC also aiming to take another term loan of \$500 mn from KfW Development Bank, discussions underway

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■ Lender raised \$7 billion external commercial borrowing last fiscal

■ Plans to infuse ₹500 crore into recently approved arm in GIFT city, Gujarat

VIVEK KUMAR DEWANGAN, CHAIRMAN & MD, REC

PROFIT IS NOT GOING TO BE AFFECTED...
ADDITIONAL PROVISIONING (IF ANY AS PER PROPOSED RBI NORMS) WILL IMPACT OUR IMPAIRMENT RESERVES



finance operations, if implemented, will not impact the company's overall profitability, even as it may "marginally impact" its capital adequacy ratios as it follows the Indian Accounting System. "Our profit is not going to be affected, return equity is not going to be affected at all. What will happen is additional provisioning will impact our impairment reserves," he said, adding the company has a big cushion against the impact on its impairment reserves.

"Impairment reserves, which will be created through the additional provisioning, will impact our tier 1 capital and capital adequacy ratio. Since REC's capital adequacy ratio is at 25.82% and tier-1 capital is at about 23.32% against the requirement of 15% for capital adequacy by RBI, we have a subsequent cushion."

The RBI move has led to correction in the stocks of REC and fellow power-sector lender PFC over the last two trading sessions. REC shares fell 2% on Tuesday, extending the loss.

The chairman said most of the green projects funded by the lender are commissioned on time and hence should not bear any impact. However, some large hydel projects and coal-based generation projects may be

delayed at times which may need high provisioning. "These projects seem to take some time in commissioning, so perhaps high provisioning will be required. But overall since my capital adequacy ratio is good at 25.82%, I can take single exposure up to 30% for my tier-1 capital which is at ₹19,800 crore," he said.

According to RBI's proposal last Friday, lenders must maintain a provision of 5% for loans extended to under-construction projects. The provisions can be made gradually in phases till FY27.

REC also plans to infuse ₹500-crore capital into its recently approved subsidiary in GIFT city, Gujarat. This, the chairman said, can be increased up to ₹5,000 crore depending upon the requirements.

REC, through its subsidiary, aims to finance projects in the green hydrogen and green ammonia sector and has already sanctioned funds for two such projects in Odisha and Oman with a total project cost of ₹8,000 crore.

Going forward, the company also plans to sanction aircraft leasing projects through its new subsidiary, provided it gets recognised under the harmonised list of infrastructure.

Story Link - <https://www.financialexpress.com/business/industry-rec-to-raise-1-bn-loan-from-adb-korea-exim-3480099/>
