

# REC Limited Media Coverage 16 May 2024

## CMD Interview With NDTV Profit Transcription



**Anchor:** Good morning. Welcome. You're watching NDTV Profit. I'm Hersh Sayta. Quick check on where REC is doing in trade today, but we have the management of REC. The stock has been on a tear at least over the last five days. Stock is up 22%. And over the last one year, it's up 4x. Over the last two years, the stock is up nearly five and a half plus x. So it's been a multi-bagger of sorts across time periods, and it's been a very solid performance from Q4 as well from REC. To give us more perspective as well as to understand what we can expect going forward. We have with us Mr. Vivek Kumar Dewangan, who is the Chairman and Managing Director at REC Limited. Firstly, welcome and pleasure having you here, sir.

**CMD:** Thank you, Hersh.

**Anchor:** Sir, again, first off, congratulations on a very strong quarter yet again. You've beaten what street estimates had really pegged with regard to your Q4 numbers. I want to focus in on that, especially with regard to recoveries, because that's the real number which has given you a leg up in terms of what estimates were versus what you delivered. Talk to us about the as well as the recoveries which are coming through with regard to FY24 and what one can expect for FY25 with regard to this number.

**CMD:** FY24, we got recoveries to the tune of about RS 750,000 crore. And going forward for FY 25, as we are applying to resolve all the stress assets, we are expecting right back to the tune of about 1,500 to 2,000 crore.

**Anchor:** Understood. Right back of Rs 1,500 to 2,000 crore, This is net of any loan losses which you will incur as part of this recovery process, is what I assume.

**CMD:** Yes, that's true, because some of the assets are heading towards liquidation. For that, we already made 100% provisioning, and some of the operating asset for which we have made provisioning about 70%, we are likely to get very good returns from that because our haircut has been limited only about 20 to 30%, and we are expecting better resolution because KSK Mahanadi, Nasik plant, here in Mahi, they are going to give us better returns.

**Anchor:** Understood. For viewer context, 14,000 crores is the profit after tax for FY24. You're expecting 15% of that number just in terms of recoveries for FY25. I want to try and bring in context with regard to growth as well, because you are expecting to double your balance sheet in the next four years? How confident are you of that number?

**CMD:** We are quite confident, actually. In 2022-2023, we started with a loan book of Rs 3,85,000. At the end of 2022-2023, it rose to about Rs 4,35,000. And in 2024, our loan book has increased to Rs 5 Lakh 90,000 crores. So there has been a growth of 13% in 2022-2023, and FY 24, we saw growth of 17%. We are expecting this growth trajectory we will be able to maintain, and 15 to 20% growth every year we are expecting. That's why we are targeting to double our asset tender management to about 10 Lakh Crore by the year 2030. But if this growth trajectory of 17% continues, then perhaps we may achieve this asset tender management of 10 Lakh crore by the year 2029 itself.

**Anchor:** Okay, sir, before I go to 2028 or '29 FY, which is roughly the trajectory which you're currently taking with regard to doubling loan book. I want to first talk about the levers which will probably help you get there. You're getting into infra financing. You are getting into a financing of renewable energy, both on the individual side as well, rooftop, solar, and the light, as well as renewable financing in terms of renewable energy financing just in terms of the industry and the scale which the industry requires in

terms of financing. What are these levers like in terms of growth? How will the book shape up with regard to these two, three new levers, as you would call it?

**CMD:** Let me tell you that our renewable energy portfolio is at around Rs 35,000 crore. We are expecting a tenfold increase in our renewable energy portfolio to, say, about 3 Lakh crore by the end of 2030. With regard to non-power infrastructure, logistics, our loan book is about 50,000 crore, and we are anticipating that it will see a four-fold growth by the year 2030. It will reach about two-lakh crore by the end of 2030 for the non-power infrastructure logistics. Plus, one more additional component has been added that Central Electricity Authority and Ministry of Power have worked out the base law requirement for the country, and country will still require coal-based thermal power plant with the tune of 94 gigawatt capacity by the year 2032. That will also give us additional lever for increasing our loan book.

**Anchor:** Understood. So just the rough math that I'm doing, basis what you've just suggested, just these two new verticals will probably add roughly 4 Lakh crore to your current balance sheet. So are you expecting prepayments, repayments to, therefore, in some form, dampen growth on the thermal side of things, or you're expecting thermal also the demand to be quite robust? So probably a 10 Lakh crore. Plus a number by FY28.

**CMD:** Yeah, that's what we are explaining that we are targeting 10 Lakh crore by the year 2030, actually. But it appears to me that we'll be able to reach this 10 Lakh crore before by 2029. It's a 28-29 itself, we might achieve this because renewable energy portfolio is really going forward because last year we have sanctioned about 1Lakh 36000 crore, that was a jump of 533% as compared to FY 23, that was only 21,554 crore. Similarly, coal-based generation capacity, because within eight years, this additional capacity has to come. Therefore, the sanctions and approval will have to be done next 2-3 years. For that also, our sanctions, loan book for coal-based thermal power plant will also increase.

**Anchor:** Got it, sir. And sir, with regard to margins, therefore, you earlier had a guidance band of 3.3 to 3.5%. You've upped that to 3.6 now. You feel comfortable with this number is what you seem to suggest. Sir, tell us, is this something like a medium-term target or guidance, 3.6% margin and sustainability of that?

**CMD:** Yeah. We have made constant efforts to reduce our cost of funding. Our cost of funding has gone down by 15 BPS from 7.28 to 7.13%. We are making a judicious mix of our borrowing, particularly external commercial borrowing with innovative hedging techniques has helped us bring down the cost of external commercial borrowing to, say, at around 6.6, 6.7%. And that's why we are targeting to bring down our cost of funding to, say, about 7%. And we hope to hold on to this net interest margin of about 3.55 to 3.6%. Our spread is also improving. Last year, our spread has improved by 41 BPS from 2.45% to 2.86%.

**Anchor:** And this is despite all the prepayments you've seen in FY24. Do you see that prepayment trend continue into FY25? And you're holding on to surplus liquidity, yet you've done this margin. So I want to try and understand whether prepayments are expected to continue. You see that trend continuing, and despite that, margins will hold. So therefore, would you therefore expect some margin upside from here?

**CMD:** Yes, actually, the very nature of renewable energy, you have to see the business, actually. The turnaround time of renewable energy projects are very fast. It gets commissioned. Solar and wind projects get commissioned for a period of 2-3 years. The developers want to exit, and they want to invest their equity in some other projects. So there's likelihood of prepayment for this commissioned renewable energy projects, actually. But the prepayment is going to happen. That we are going to meet through the large scale volume of sanction that is happening, actually. My loan for the project pipeline for the current financial year, for example, is quite strong, actually. For renewable energy projects, I have pipeline of about 1.75 Lakh crore projects are already there. Then a conventional generation transmission and distribution, we have huge pipeline project. This year, we are targeting to a sanction of about 4 Lakh crore. But since this project get commissioned over a period of 5-6 year, the disbursement will keep happening over a period of 5-6 years.

**Anchor:** With regard to net NPAs, you are guided to bring them down to zero percent. What is the impact of that on your P&L, one can expect in FY25?

**CMD:** Our gross NPA is 13,800 cr and those assets that are heading towards liquidation are 2222 crore for which we have made 100% provisioning. Remaining assets we are expecting good resolution and since we have made provisioning of 70%, we are expecting that we will get rightbacks to the tune of 30-40%. In some cases, it may go up to 50%. The total rightbacks would be around 1500 - 2000 crore that will add to our P&L account.

**Anchor:** So you will have a positive number of 1600 to 2000 crore, and you have a net NPA of Zero at the end of FY25. Is that how your P&L will shape up? So a net right back of Rs 1500 to 2000 crore is what you are anticipating. You have grown 30% on your top line over the last 5 years but you have seen a 20% increase on the bottom line. How will the math move as you scale?

**CMD:** You have rightly analyzed our asset management. It will grow around 17 to 20% over the next 3 to 4 years, and our profit after tax is bound to increase to more than 23-24%.

**Anchor:** So lastly, with regard to dividend yield, you will continue the 30% dividend yield policy regardless and would you require extra capital while growing because you are a high-profit business, and therefore, capital adequacy will remain healthy.

**CMD:** Our dividends, since we are a government company, we have to follow DIPAM guidelines. So 5% of the net worth or 30% of the profit after tax, whichever is higher, we are bound to give that dividend. That trend will be an upward swing only with regard to capital adequacy ratio and the projects that are supported by government guarantees. So we will maintain the capital adequacy ratio of more than 25% and no equity dilution.

**Anchor:** Thank you so much, sir.

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