



## आर ई सी लिमिटेड | REC Limited

(Formerly Rural Electrification Corporation Limited)

(भारत सरकार का उद्यम) / (A Government of India Enterprise)  
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Dated: June 10, 2021

<b>Listing Department,</b> National Stock Exchange of India Limited Exchange Plaza, Bandra Kurla Complex, Bandra (East), <b>Mumbai – 400 051.</b>	<b>Corporate Relationship Department</b> BSE Limited 1 <sup>st</sup> Floor, Phiroze Jeejeebhoy Towers Dalal Street, Fort, <b>Mumbai – 400 001.</b>
<b>Scrip Code—RECLTD</b>	<b>Scrip Code—532955</b>

**Sub: Transcript of Investors' Conference Call of REC Limited held on June 4, 2021.**

Dear Sir(s),

In continuation of our earlier letter dated June 2, 2021, please find enclosed the transcript of Investors' Conference Call of REC Limited held on June 4, 2021, for review of financial results for the quarter and year ended March 31, 2021 and other business updates. This is for your kind information and dissemination.

This is for your kind information and dissemination.

Thanking you,

Yours faithfully,

  
(J.S. Amitabh)  
Executive Director & Company Secretary

Encl. : a/a

**Regional Offices:** Bangalore, Bhopal, Bhubaneswar, Chennai, Guwahati, Hyderabad, Imphal, Jaipur, Jammu, Kolkata, Lucknow, Mumbai, Panchkula, Patna, Raipur, Ranchi, Thiruvananthapuram & Vijayawada

**State Offices :** Dehradun, Itanagar, Shillong, Shimla, Vadodara & Varanasi

**Training Centre :** REC Institute of Power Management & Training (RECIPMT), Hyderabad



“REC Limited  
Q4 FY2021 Earnings Conference Call”

June 04, 2021



**ANALYST: MR. KUNAL SHAH – ICICI SECURITIES LIMITED**

**MANAGEMENT: MR. SANJAY MALHOTRA - CHAIRMAN AND MANAGING DIRECTOR – REC LIMITED**  
**MR. S.K. GUPTA - DIRECTOR (TECHNICAL) – REC LIMITED**  
**MR. AJOY CHOUDHURY - DIRECTOR (FINANCE) – REC LIMITED**  
**MR. R. LAKSHMANAN – EXECUTIVE DIRECTOR – REC LIMITED**  
**MR. V.K. SINGH EXECUTIVE DIRECTOR (PRIVATE SECTOR PROJECT MANAGEMENT) – REC LIMITED**  
**MR. J.S. AMITABH – EXECUTIVE DIRECTOR & COMPANY SECRETARY – REC LIMITED**  
**MR. SANJAY KUMAR – EXECUTIVE DIRECTOR (FINANCE) – REC LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the Q4 FY2021 Earnings Conference Call of REC, hosted by ICICI Securities Limited. 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 “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I would now hand the conference over to Mr. Kunal Shah from ICICI Securities. Thank you and over to you Sir!

**Kunal Shah:** Thank you, Janis. This is Kunal Shah from ICICI Securities. Good afternoon everyone. Today we have with us Mr. Sanjay Malhotra, Chairman and Managing Director, Mr. S.K. Gupta, Director (Technical), Mr. Ajoy Choudhury, Director (Finance) and other senior officials of REC Limited to discuss their Q4 FY2021 and full year FY2021 earnings and to give us the update on the power sector development as well as the financing of opportunities and outlook. Now over to you Sir!

**Sanjay Malhotra:** Thank you and good afternoon to everyone. It is indeed a pleasure to be with all of you once again and to share with you our thoughts and especially the results of the last financial year. As you would all have gone through the last year has been insofar as REC is concerned a stupendous year. It has been the best year insofar as the profits and the revenues etc., are concerned.

Let me first of all take you through the major highlights of the last financial year. You would all perhaps be aware that the sanctions last year we had record sanctions of more than 1.5 lakh Crores which is a 40% rise over the corresponding period last year, the full year.

Similarly disbursements at almost 93000 Crores are up 23%, interest income is up 17% at almost 35000 Crores, 34684 Crores to be precise and total expenditure on the other hand has increased only by 8%, finance cost only by 13%, as a result of which the profit before tax is the highest ever for REC at about 10756 Crores up 54% last year and PAT is also a record for REC at 8362 Crores which is 71% more. Our loan book therefore has grown by 17% and is now about 3.77 lakh Crores.

In terms of the key indicators very happy to report that networth has increased by 24% and now stands at 43426 Crores vis-à-vis 35000 Crores last year. The CRAR ratio now we are quite comfortable touching 20%, 19.72% to be precise with the 16.06% last year. Debt equity has also improved. It is now 7.4 as against 7.94 last year. The spread has increased. The yield on our loan portfolio has marginally decreased by 11 basis points primarily because of liquidity infusion scheme in which we have given concessional rate of interest considering the pandemic, 11 basis point it has come down, but it has been helped by

reduction in cost of funds by 18 basis points from 7.31% it has gone down to 7.13% per annum in the last financial year as a result of which spread more or less static but slight improvement from 3.26% to 3.33%. Similarly NIM there is a 15 basis point improvement from 3.74% to 3.89%. The return on networth is more than 21% and interest coverage ratio is also quite comfortable at 1.5 times.

In terms of asset quality over the previous year we have again there is an improvement with more provisioning and resolution of few assets. The gross NPA now stands at 4.84% as against 6.59% as on March 31, 2020. The provisional coverage ratio is two-thirds almost 64.59% and the net NPA is now 1.71% as against 3.32%. We are quite hopeful even about the next year you would have seen in the in the last year the electricity sector has been quite resilient despite the economy shrinking by more than 7% per annum and demand the consumption for electricity went down only by about 1% and this year now we are seeing a growth in the demand for electricity so that is something which is a positive for the electricity sector. You are already aware that in the budget speech last year an announcement has been made by the Finance Minister for a new revamped distribution scheme of more than 3.05 lakh Crores in which almost a lakh of Crore is going to come as a grant so that is going to give a fillip to the distribution sector and with the improvement in the distribution sector should have a cascading effect on all the other segments, transmission and generation sectors and provide opportunities for finance companies like us to help in the in the investment required for these schemes.

The third push is also as you are all we are coming from the energy transition with ambitious target of Government of India or 175 gigawatt next year FY2022 and then moving forward 450 gigawatt of renewable energy. There is tremendous opportunity for PFC, REC companies to take advantage of this benefit, to take advantage of this push for renewable energy.

Already we are sanctioning a major part of the investments required in the renewable energy sector. Of course, with the COVID last year, the disbursements in this particular sector had slowed down but hopefully we should again be on the growth trajectory.

Then there are other areas like e-vehicles, energy efficiency is another area, which the government of India is going to give a push and then we are entering into associated sectors. We are in touch with various agencies, various state governments and their organizations for projects related to lift irrigation, and others and especially the hydro mechanical components and associated civil works in these projects and that is a new business segment which is opening up for the likes of REC and we are hopeful that the next year again this company the current year we should be able to maintain and in fact exceed the profit levels.

I would also like to mention that first of April 2021 we have rationalized our interest rates with the interest rates in the market as you have seen our cost of funds has gone down and the banks are also lending it at very reasonable and low rates of interest so in order to be able to compete with the banks and also in order to give to our borrowers reasonable rates of interest we have reduced our rates of interest from April 1, 2021 and that also I am quite hopeful will help us in improving our turnover, improving our disbursements, so our focus is going to be more on the quality **(audio cut) 11:07.**

I really do not know. Sorry I got disconnected. I really do not know what point I got disconnected but I think I was saying that we reduced our rate of interest and that will again help us in getting more business without so much impacting our margins because we have already a decent amount of margin decent cushion to actually reduce source rates so that will actually help us expand our business, expand our turnover and revenue without so much impinging on our margins especially hoping that the liquidity that is present in the market and the accommodative stance of RBI and maintenance of REPO rate like we heard even today of the interest rates so going forward I think REC has very good future even in the coming year.

We expect it to be a better year than the last year. I would request Director (Finance), Ajoy Choudhury if he would like to add if I miss out on some of the key points. I would request him to supplement wherever he feels necessarily.

**Ajoy Choudhury:** Thank you Sir. I think Sanjay Sir has covered almost entire gamut. Only one thing that I would like to say is that he touched upon it commissioning purpose ratio which we have improved quite significantly this year. We have an ECL method of providing for on our assets and the standard asset we have now got at par with the IRAC norm of the RBI, which is 0.4%. On stage three assets also we have significantly improved our positioning and two of the assets which have come to standard asset are Essar Power Transmission and TRN Energy totaling to 2520 Crores. So that is one of the highlights. Another thing he touched upon is the Atmanirbhar scheme where we disbursed this year around 40000 Crores. So that almost covers. Thank you. I think we can take questions now.

**Moderator:** Thank you. We will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of Kishan Gupta from CD Equisearch. Please go ahead.

**Kishan Gupta:** Good afternoon Sir. You talked about your reducing rates compared to banks etc., so what sort of competitive advantage do you have compared to banks in your lending business?

**Sanjay Malhotra:** See the advantage that we have over banks is not so much in rates. We cannot beat them in rates, as you would be aware because of the banks raise their funds. Our competitive

advantage basically lies in understanding the businesses especially the distribution companies very well. So it is over there and our liasoning with the state utilities especially because we are mostly in the state which is more than 90% of our portfolios in the state sector so our quantitative advantage is basically in understanding these businesses much better and being able to of course reduce our risks because we are able to get because being the lending arm of Government of India through and implementing various schemes we can get better security from other utilities as compared to banks and then the second advantage is that because we are implementing agency, a nodal agency for various command schemes then it becomes advantageous for the utilities to take funds from one agency because the grant is channelized through REC and of course PFC also. So it is advantageous for them to take the loan component because most of the schemes have a loan component so that is the second major advantage that REC has over the over the banks.

**Kishan Gupta:**

So essentially you mean to say invest in schemes where there are grants and if utilities approach banks they will not be able to get those grants.

**Sanjay Malhotra:**

No. They will be able to get a grants, most of the schemes do a lot it is not that the schemes do not allow it, but then it is easier for them to handle two layers with coordinate with one agency rather than two one for grant and the other for the loan component. So that is why it is advantageous for us. The banks that are that would be a small proportion. I do not think that is a very high proportion of the total loan book. The other advantage is as I mentioned that by virtue of being the implementing arm we are able to understand the business of the utilities, the risk of the utilities and accordingly take security for the advances that we make to them.

**Kishan Gupta:**

Profits almost like left 80% last year but you people have not jacked up the dividends this time so any particular reason?

**Sanjay Malhotra:**

Last year you see 2019-2020, we gave a higher dividend and our profits than what DPE guidelines say. So that is one that is one major reason. So the dividend last year that is 2019-2020 last to last year 2019-2020 was on the higher side. This year it is a shade lower than what DPE could have otherwise prescribed, but that is to adjust for the higher dividend last year and considering that our CRAR ratios at about 17%, debt equity ratio touching almost 8 were high so that is why we have not increased the dividend and then the third thing is that there are certain investment opportunities that may come up especially for the DFI, the financial institution for the infrastructure which has been announced in the budget and there may be some investments over there and then fourthly of course considering our overall growth opportunities we have maintained dividend levels.

**Kishan Gupta:**

And what with the guidance now going ahead for dividends?

**Sanjay Malhotra:** We will as far as possible unless there are any extraordinary levers as I mentioned we will follow the DPE guidelines.

**Kishan Gupta:** Thanks indeed. Thanks.

**Moderator:** Thank you. The next question is from the line of Punit Srivastava from Daiwa Capital. Please go ahead.

**Punit Srivastava:** Good afternoon. Good afternoon. My first question is on the provisioning coverage. It has increased so if you can throw some light is this because you are seeing some more hit on any of the accounts or is it like because it would delay? What would be the reason for raising the provisioning coverage this quarter so much? Second question of course was on the yield side the yield of course you mentioned that on a YOY basis it has not fallen that much but on a quarter to quarter basis there is a sharp decline of around 55 basis point so apart from that interest on interest charge and of course the liquidities Discom scheme is there any other factor we should look at which would have led to such a fall in the yields quarter-to-quarter?

**Sanjay Malhotra:** First question about provisioning major provisioning increase is basically because of you know the Tamil Nadu utilities. Their rating has gone down. Being an election year etc., we hope that their rating will further will improve in the coming years and so this should be only a kind of a one-time thing and the provisioning they it may even be reversed in the coming years to my mind that is the major reason; however I will request my Director Finance Ajoy Ji to supplement me as to what are the other areas where provisioning has gone up and also on your second question related to is to my mind these are the two reasons that you have already mentioned which is to interest on interest which was reversed and secondly the liquidity infusions but if there are any other points then Ajoy Ji please.

**Ajoy Choudhury:** Thank you Sir. We have increased our provisioning on our stage three assets. Last year we had made a provisioning of around 600 Crores on stage three assets which we have taken this time to close to 1800 Crores largely because we think that on the ECL method that we are following along with PFC where that mandates as the time progresses the provision has to be increased but we are very hopeful that some of the provisions will get reversed as we are seeing that the resolutions that are coming at higher levels in two or three cases which we resolved the last year. There was some reversal of provisioning. So the provisioning coverage ratio has been increased largely to take care of the ECL methodology and of course CMD Sir has mentioned that in standard assets provisioning we have taken up, up to the RBI mandated 0.4%. Regarding the yield on quarter-to-quarter basis one is as you said interest on interest of 130 Crores which we made provision for payment of and also because in the last quarter the number of days is less and therefore the income in this quarter, the month of February is less. That is the two reasons only the slight fall in the yield.

**Punit Srivastava:** Thank you. Got it. I am sorry if I can chip in one more question. I just needed some outlook on the coal projects going ahead like so far it has been disbursements have been very strong but there was an article today also you know from IEEFA saying that coal-fired projects are under construction, they may get stranded because of the high cost and all that so going ahead how do you see them, do you see the risks increasing in the coal sector projects and also on the outlook in terms of the sanctions and disbursements?

**Sanjay Malhotra:** That is that is of course as you are saying there is a risk over there but there are countries which are opposing even the IEA on the phasing out of Poland and not remembering this country but quite a few countries I think Japan is there. Japan is also included in them so coal will of course be phased out, but it is going to take time. It is imminent but it is not immediate. It will take time. It will take time and there are you know coal projects which are coming up and will be needed. See India's consumption per capita is only about 1100, 1200 per capita consumption in the country in India, which is one-third the global average and much less than the developed countries. So India is to grow and renewable today it will not be able to meet those demands for some time till we get round the clock renewable energy power at reasonable, comparable costs. The costs of renewables today are comparable only peaked during the daytime round the clock still coal will be required so while the I mean that risk is there if there is a breakthrough in hydrogen or in battery storage or something that risk is always going to be there. Other than that I do not think India can afford to neglect coal at this stage given the technology that we have today. I hope that answers your question?

**Punit Srivastava:** Thank you so much.

**Moderator:** Thank you. The next question is from the line of Saket from India Capital. Please go ahead.

**Saket:** Good afternoon Sir. My question for regarding slippage is this particular quarter I have noted that our absolute gross NPAs have increased slightly from December quarter from around 18221 Crores to 18257 Crores. I just heard Ajoy Sir also mentioning that we have had a couple of resolutions, Essar Transmission being one, so were there any majors' slippages or these resolutions will only be reflected in numbers in the coming quarters just wanted to understand that?

**Sanjay Malhotra:** I will request Ajoy Ji only to answer. I think it is the question they are getting reflected in the accounts, but I will request him to handle this.

**Ajoy Choudhury:** In 2021 we had two upgrades as I said the Essar Power and TRN Energy totally 2500 Crores and one resolution of Facor Power that of 500 Crores. There has only been one slippage during 2021 that is a small renewable project of 36 Crores only. That is why and going forward there are some of the projects which are under very advanced stage of



resolutions and there we hope that about how much about 3000 Crores of assets will be resolved next year. One of 54 Crores VS Lignite has already been resolved and this will be reflected next year.

**Saket:** Great. Good to hear Sir and so resolutions you mentioned that we are expecting about 3000 odd Crores in terms of slippages are we expecting any major project, small I understand can come up but any major projects which you are tracking which can solve the problem in the next year?

**Ajoy Choudhury:** We do not foresee any.

**Saket:** Great. Just one more question from my side if i can slip in, which is on the provisioning side so for as you mentioned that we have taken the PCR on standard assets on NPAs already to 65% so you mentioned earlier that as time progresses we have to increase the coverage over there but now we are given that we are already at 65% and in most cases our resolution percentage has been much higher do you expect that we will do the same kind of provisioning next year as well or would the provisioning requirement come down I just wanted to understand that?

**Sanjay Malhotra:** See provisioning is a dynamic thing and even our ECL methodology is a dynamic thing. We keep revising the methodology based on new experience as we gain experience because we are also new to it. I think 65% my understanding is that 65% is perhaps it is quite a reasonable figure. It is quite a realistic figure and neither it is on the higher side nor on the lower side. I think it seems to be okay. Director (Finance) Ajoy Ji you can also chip in.

**Ajoy Choudhury:** Yes Sir. As you rightly said, we believe that this is a very reasonable figure and our auditors are also quite satisfied with this; however, going forward you know we will have to see how the resolution goes by and if there is a need for further provisioning we will do that and then if reversal comes along we will do that as well but 65% is a very, very reasonable figure leave aside any surprises and COVID is hopefully has burnt and it has already been to a great extent you know factored in. We hope that it should be in the same range.

**Saket:** Glad to know that. Thanks and all the best.

**Moderator:** Thank you. The next question is from the line of Shripal Doshi from Equirus Securities. Please go ahead.

**Shripal Doshi:** Good afternoon. Thank you for giving me the opportunity. Just wanted some project wise update so as you said that you know Essar Power Transformation and FACOR Power have been resolved what about Hiranmaye Energy versus Ind Bharat Utkal and R.K.M

PowerGen because I think these projects were also at advanced stages when we got the resolution but I think they were also another advantage so what is the update there?

**Sanjay Malhotra:** So you have mentioned I think you mentioned R.K.M, so R.K.M restructuring plan has been implemented on 29.12.2020 and 60.7% is sustainable debt. Rest has been converted into debt instruments and account has been upgraded to standard category. Second you have mentioned about Hiranmaye. Hiranmaye we had restructured it. We have given some time till March 31, 2021, for the borrower to agree to certain conditions which he has not been able to do so especially know related to tariff. We believe there were elections in West Bengal, and so we are hopeful that this year we should be able to resolve Hiranmaye. And there was another third one which one did you mention?

**Shripal Doshi:** Ind Bharat Utkal?

**Sanjay Malhotra:** Ind Bharat Utkal? Resolution plan has been approved by COC and NCLT approval is waited.

**Shripal Doshi:** How much recovery are we expecting there and what is the exposure?

**Sanjay Malhotra:** In Ind Bharat?

**Shripal Doshi:** Yes.

**Sanjay Malhotra:** Ind Bharat the total exposure is 416 Crores and I request my colleagues, Mr. Lakshman and then Tanmay perhaps.

**R. Lakshmanan:** Ind-Bharat we are expecting after the plan that is revealed we are expecting 31% recovery. And Hiranmaye one update like the MIT tariff order has come from West Bengal Regulatory Company which was long awaited so that will also probably aid us in the resolution. So that will expedite that.

**Shripal Doshi:** Just a follow-up question Hiranmaye exposure how much are we expecting as a recovery there?

**R. Lakshmanan:** Exposure is a 1347 and we are expecting a recovery on the restricted plan of around 68%.

**Shripal Doshi:** We had indicated that you know some like projects in the liquidation bids have been received so there were three projects which were under liquidation, and I think there were three projects and of course 2000 Crores exposure so what is the update there. Have we got further delayed or if you can just give some color there?

**R. Lakshmanan:** Project under liquidation four projects is there as you rightly said. The liquidator is going through the process of you know selling the assets. Like in a couple of cases like bids are underway and in that Madras there is a litigation which is going on so that is actually delaying the process. So otherwise you know Lanco Babandh piecemeal sale is under this we are getting partial recoveries out of that project was very low on completion. So the bidding is you know underway.

**Shripal Doshi:** And the total exposure as we said is right in 2000 for these four projects?

**R. Lakshmanan:** It is just less than 2000 Crores. It is around 1800 Crores.

**Shripal Doshi:** As you said, there are two projects which are at advanced stages of resolution, so during FY2020 or FY2022 how many projects do you see you know will get resolved or you could have a headwind provisioning write backs from here?

**R. Lakshmanan:** Basically, the projects which are under NCLT where bids have been received there are five projects where we have received bids, accounting for close to 6000 Crores of exposure where you know the decision on the bid is an advanced stages. So we are quite hopeful that at least a couple of them should be resolved in the first half and the balance could take place in the next half. So this is actually a major progress so we are hoping at least two or three of these transactions will fructify in the first half itself.

**Shripal Doshi:** Overall blended you know recovery that we are expecting like for the 6000 Crores?

**R. Lakshmanan:** So all these projects are actually commissioned assets so we are expecting a recovery which could be varying from 45% to 60 or slightly above, depends on the project. Jaguar project is one of them you know for example where resolution is almost around the corner similarly Lanco-Amarkantak is around the corner, Essar Power again you know around the corner, and we are getting good recoveries there and we should take care of if you there may be some reversals. Similarly southeast UP Transmission Company, there the bidding is going on and we expect it should be resolved by this year so quite a few projects. I think this year in terms of resolution we should whether through IBC or outside and outside IBC we have you know dam for example. DANS should get here Hiranmaye we already talked. DANS Energy we should get resolved outside IBC. Restructuring plan is already in very advanced stage. Tariff has been given by the regulators. So that should also, so quite a few projects we feel that this year should be good insofar as a resolution of some of these stressed assets is concerned.

**Shripal Doshi:** Thank you so much. Just one last question I think in our last call we had indicated that there are some you know four projects wherein we have the PPAs stand but they were seeing

some stress. So they were Gencos basically private sectors Gencos so have we seen any slippage from there during the year or are we seeing that it could slip in future?

**Sanjay Malhotra:** Which are the projects you are referring to?

**Shripal Doshi:** I do not know the name but then we had indicated that you know there are four private sectors Genco projects wherein they already have the PPA signed, and our exposure was close to 60 billion, so we were seeing stress building up in those accounts. How is the situation currently?

**Sanjay Malhotra:** Private is Director (Finance) would you like to take this question. To my mind there are like this project in like this project in supplies power to UP, what its name. There is a small project. You know there is some stress. We have restructured it, TRN Energy that is one. Others would be also smaller capacity. I do not think there is any major, can you tell, Ajoy Ji, if there is any?

**Ajoy Choudhury:** We have some of the projects like Sasan Power, Bhiwandi Power, but these are all doing very well. They are servicing our loans pretty well. I think Mr VK Singh, would you like to add something?

**VK Singh:** Yes whatever assets we have particularly in thermal space, all of them have adequate PPA tied up with the state except as CMD Sir mentioned TRN Energy which has got roughly 70% long-term power tied up and rest of the power is being sold on exchange or through short-term arrangements but since TRN Energy has already restructured very, very recently we did 5x25 restructuring in this case but now this account is performing very well, upgraded also and all other accounts are having adequate PPA.

**Sanjay Malhotra:** The other one Teesta that I can remember in Sikkim but that also you know after taking over by the Sikkim Government company that is also performing well and even over there you know we do not expect any issues over there. So I do not know which four companies we referred to last year maybe you know very, very small assets perhaps. So that is why there are no signs of stress that we can see in our large projects.

**Shripal Doshi:** Thank you.

**Moderator:** Thank you. The next question is from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.

**Anand Laddha:** Thank you Sir for giving me time. Just couple of questions from my side. Sir just wanted to have your outlook on growth both in terms of disbursement and loan book growth for this year? Is there any other new area which we are looking to lend as an extension to our power

set exposure, if yes you can do some color on that? Also Sir there has been a media article on market basic dispatch the article talks about the savings for the power sector per se or recipes per se so can you highlight what is this new concept all about? What are the roles with REC or PFC will play in this?

**Sanjay Malhotra:**

Outlook you see this year was an exceptional year because of the Atmanirbhar liquidity infusion scheme as I had mentioned in my earlier concall otherwise if you neglect that we should expect you know normal times 10% growth in disbursement so considering 2019-2020 as the base one can easily expect a minimum of 10% growth over that. Coming to the areas I already touched upon them. Energy transition opens up you know areas in general, so we are giving it a renewed focus, renewables and associated transmission and other associated sectors we are opening up, we are we are trying to get business in irrigation as I mentioned and there is vehicle charging that is again a sunrise sector. We are looking at that. We have done some financing over there. So these are broadly the new sectors and coming to your question about MBAD. MBAD is basically nothing but if you understand merit order. So instead of right now you know all the states are doing a state level merit order dispatch, so merit order basically means that you run the most efficient power plant, most efficient calculated as the one which has the lowest energy charge, the power plant which is able to generate one unit of energy at the lowest cost, so you run that first. Once you exhaust its capacity then you run your next most optimal or cheapest power plant and so on and so forth. So you run your most efficient power plants most so as to reduce your energy charge because fixed charge is a given charge. So that is being done on a state level basis right now. Their attempt is to on in MBAB the attempt is to do a national level dispatch. So that requires changes in regulation and that will mean that the states may be procuring power from cheaper power plants with whom they may not have a power purchase agreement. So right now they are purchasing only from those with which they have a PPA and they do it in the cost efficient way because of which there may be some more efficient power plants with which that particular state does not have a PPA but this MBAD will enable it through the power exchange, it will enable that power plant to supply energy without a PPA, to the Discom and so that will be a win-win because the power plant which is presently not operational, not running it will run and it will make some money because obviously it will be setting power at more than its energy charge in its cost and it will be beneficial to the Discom because it will be procuring at a cheaper cost than it would have otherwise done. So this is what is being attempted. I hope that answers.

**Anand Laddha:**

So what will be the role of REC in that Sir?

**Sanjay Malhotra:**

I do not think PFC REC directly would have a role but there are benefits as power sector improves its sustainability viability as per one study that they were saving when they did this on a very limited distance MBAD on a limited scale there were benefits of about you know 1500 Crores when they did it only for NTPC power plants and those interstate

generating stations IST I think interstate generating stations so those connected to the interstate transmission, there was saving of about 1447 Crores if my memory serves correct or 1500 Crores annually so if this is done pan India basis for all plants there will be savings which would improve the financial health of the Discoms and so there will be spin-off benefits in terms of low risk and lower provisioning etc., so those will be the benefits.

**Anand Laddha:** Allow me I have more couple of questions. So one thing on the dividend policy so what I understand is generally the public enterprise has a dividend policy of 40% of profit or 5% of networth whichever is higher and if I go by that rules this year our payout has been at 26% of the profit so just want to understand Sir what could be about dividend policy going forward?

**Sanjay Malhotra:** So it is 30% of net profit it is not 40%. We are marginally lower and that is as I explained to an earlier question that is because you know our CRAR ratio, our debt equity ratios, we needed to improve that which will in turn help us in reducing our cost of borrowing and secondly it will also help us in expanding as we need more money for expanding our business so it will help us in that. Investment in the National Financial Institution for Infrastructure over there we may have to make some investment. This is over and above fourth reason I gave was that already in 2019-2020 we gave much more than 30%. So if you look at 2019-2020 and 2020-2021 together more or less we have met the DPE guidelines.

**Anand Laddha:** Next year would that be fair to say we will move back to 30% payout policy?

**Sanjay Malhotra:** Yes. 30% or 5% of net worth, in 2019-2020 it was I think around 44% or so, profits were very less, but still we maintained that dividend in interest of the interest of the investors. Bad bank as I mentioned you know we are looking at participating in the bad bank. I am not sure if there will be any as of now there does not seem to be a candidate of from our lending portfolio which we may transfer to the bad bank as of now that does not seem to be any probable candidate. Coming to KSK Mahanadi the bids are awaited it is you know EOIs have been received; however, final bids are still awaited in KSK Mahanadi Power Company. Indiabulls Nasik we are in touch with the Maharashtra government. There is no further update. We are where we work that is there is not much progress. I will request, Director (Technical), Sanjeev Ji to talk about this Mahanadi and Indiabulls.

**S.K. Gupta:** This is the status of the Chattisgarh status as of now.

**Anand Laddha:** Thank you. Thank you for your answers.

**Moderator:** Thank you. The next question is from the line of Vipul Shah from Sumangal Investment. Please go ahead.

**Vipul Shah:** I just wanted to know what is the tenure of loans to this distribution companies in terms of number of years?

**Sanjay Malhotra:** The tenure varies from one year to 15 years. The average I think is about 7 years remaining periods remaining as on today is about between 6 and 7 years. The remaining tenure of loans is between 6 and 7 years Ajoy Ji is that correct.

**Ajoy Choudhury:** Normally in distribution company this normalcy of capex is known as capital expenditure is known for creating assets that is presently generally is 3 plus 10 years that is 3 year moratorium and 10 years is the difference and as you have said very correctly Sir for distribution company where we are lending a lot of this short-term and medium-term loan so the short-term is 1 to 3 years and in certain cases this non-capex loan this tenure comes to even 7 to 10 years. So an average if you will take capex or non-capex loan together the average tenure will be as you have said that maybe 7 to 8 years or so.

**Vipul Shah:** Sir any plan to move away from the lending to this distribution companies which are means no private player generally lends to them so even though we are having a book value of Rs.220 market is giving us very low valuation just because market is not confident that this loans will come back. So what is your view Sir?

**Sanjay Malhotra:** I am very surprised that is why the market behaves like this. I mean, they have their own way of looking at it. But you look at the history. You look at my NPAs how many of them are from the state sector, nil, zero and all payments have been more or less on time within the 90-day period which is even some of them breach that, but within 90 days. So all of them are standard, none of them are kind of NPL. So, we have not had any defaults till now. We have got good security for all our assets, all our loans. So I find it surprising that REC as well as PFC are quoting at less than book value. They are very, very safe. They have been consistently giving dividends. They have been generating enough cash to be able to give the dividend and there has been at the same time reasonable growth about 17% per annum is not reasonable, it is a high growth and we do expect at least 10% to 15% growth in the coming few years given the various opportunities and given the fact that we are still amongst the low energy consumption countries in the world.

**Vipul Shah:** Sir you said you are nil default from the state distribution companies so what exactly is the source of NPA then?

**Sanjay Malhotra:** It is in private sector. It all in private sector, yes.

**Vipul Shah:** Lastly Sir can you make some qualitative comments regarding your relationship with PFC, is this company being run at arm's length or all management personnel are sourced from PFC, if you can offer some comments it will be helpful.

**Sanjay Malhotra:** No they are totally; see they are totally two different companies. Their management is separate. The management is appointed by the government. It is not appointed by the PFC. PFC has the right to only appoint one director, so they are totally separate companies and work independent of each other's and the personnel are totally different they are not personnel of PFC on deputation or on settlement to REC or the other way round, totally different, companies because they were different companies so that is why employees being same does not of being from one company that does not arise and that process of merging the employees also is not on the cards. So they are totally different employee wise, management wise only ownership yes PFC is having majority ownership. Thank you.

**Moderator:** Thank you. The next question is from the line of Romel Oza from Oza. Please go ahead.

**Romel Oza:** Congrats on a great set of results. One, if there are no new NPAs this year will our profits grow compared to last year?

**Sanjay Malhotra:** Profits you see is a function of so many things and provisioning is only a small amount in any case. There are other variables like foreign exchange which we cannot consider, so this year has been, as you are aware this year we have had the highest ever profits. You see our return on networth is about 22%. It is the highest. It is very, very high. I do not think that the return on networth will remain the same and a lot depends on how interest rates move in the market, but broadly speaking I think the profits should remain in the same range perhaps. I would request my Director (Finance) also to supplement as he has any thoughts on this.

**Ajoy Choudhury:** This year was really an exceptional year and also year in which the rupee actually appreciated. It is after a long time that we have seen appreciation of the rupee. But the growth is there in the company, and we have a large order book so I think going forward we should be able to at least maintain this kind of profit maybe somewhat here and there that is all. But looking at the growth book I am confident that we will maintain this quarter profits.

**Romel Oza:** Sir the second question this relates to why I think it is one of the reasons the company cannot get the valuation it deserves. Sir, if you can please even if you have to pay less of a dividend, please convey the idea that you are going to start paying the dividend quarterly. I would prefer buybacks because I think buying the shares back below book value is a good thing but if you cannot do buybacks at least please pay dividends quarterly because what is happening is there is a technical when you pay the dividend in a lump sum manner the issue that is coming is after the dividend is paid for technical reasons the stock is compressed and it has taken almost three months to four months for the stock to go back to where it was. PFC's case it is still not risen back. Sir so please



try to understand how the market perceives this, please I really humbly request you to even if you have to pay less of a dividend but pay it quarterly.

**Sanjay Malhotra:** Okay suggestion taken. We will consider your suggestion seriously.

**Romel Oza:** Please because the stock is extremely undervalued considering about 20% ROE, job of wide mode and this is they are great Sir. Thank you.

**Sanjay Malhotra:** Okay we will consider the suggestion.

**Moderator:** Thank you. We proceed to the next question is from the Meghna Luthra from Daiwa Capital. Please go ahead.

**Meghna Luthra:** Sir, I had a couple of questions. Sir regarding the reduction in card rates and the liquidity scheme how far do you think that NIMs will be compressed or where do you think that NIM would stabilize going forward?

**Sanjay Malhotra:** We would like our return on networth to be somewhere in the range of about 16%. So it is right now last to last year it was about 14%, this year, it is more than 20% so on an average it is about 17%. So that is where we would like it to be. So that is kind of guidance to us and why do we pay 16% is kind of the benchmark because in the power sector this is what is the benchmark at which the regulators are allowing for purposes of tariffs. So if you go by that yardstick and back calculate I think NIM should be about I am not sure, you can do your calculations. I am told you know about 3.2% or something but you can do your calculation. You would like the return on networth as I am saying to be in the region of 16% to 18%, 15% to 18% or so. So you can do your calculations and see where, and this is because you want to balance the interest cost, the consumers, the distribution companies, generating companies and all this goes back to you people like you as consumers because the higher the rate of interest is passed on directly as tariffs and if the benefit is not taken by, is not retained in case there is a reduction in the interest rate the benefit does not go to the distribution company or the generation company. Most of them are around cost plus basis, tariffs are on cost plus basis and so most of these loans benefits of lower rate, pass on to the consumer or in case the rates are increased, the burden goes to the consumer so we would like to balance the interest of our shareholders as well as of the ultimate consumers of the country and keep the return on networth at a reasonable level as you can see this year it is slightly high but it has remained for our previous year lower return on networth somewhere in the region of 16% to 18% is where we would like our return on networth to be and you can do your back calculations and see where slightly it is on. This year you can see it is on the higher side but with the reduction in as you mentioned in the card rate and the lower rate of interest in our liquidity infusion scheme. Yes comprises a little especially but we are

hopeful it will not get compressed too much if the liquidity and the rates of interest remain soft as they are as of now.

**Meghna Luthra:** How much of the capex loan has already been achieved COD and what is underconstruction?

**Sanjay Malhotra:** Sanjeev Ji would you like to take this, do you have any details to share, or we can provide them offline, Director (Technical).

**SK Gupta:** I would like this question to be repeated please?

**Meghna Luthra:** Sir how much is the capex loans I have already achieved COD and how much of these loans are underconstruction?

**SK Gupta:** You see that particularly if you see that this year, we are looking for disbursement in the range of 80000 Crores to 85000 Crores out of which maybe 60000 Crores to 65000 Crores will be towards capex project which we have sanctioned in last few years. So that pipeline is very, very strong and we will maintain this current level of disbursement this year too with almost close to 80% to 85% contribution from capital expenditure projects only. Does that suffice the answer to you?

**Meghna Luthra:** Sir how much is the portfolio has a reset of three years, one year and ten year sir if you can just provide that breakup?

**SK Gupta:** Mostly it is three years. Ajoy Ji would you have figures.

**Ajoy Choudhury:** Yes, Sir it is almost at roughly 370000 out of which 20000 Crores is kind of stress so 350000. Mostly I would tell you about 80% ballpark figure should be three-year reset because the good estimate is that. Yes sir that is the kind of figure and some of them are short-term loans also where there is no reset involved around 80% will be three year reset and as 10% to 15% will be the short-term and medium-term loans and reset will be some of them will be around one year reset and ten year reset so largely of three-year reset. See bulk of the portfolio is three-year reset.

**Moderator:** Thank you. The next question is from the line of Parang Trivedi from India Capital. Please go ahead.

**Sahil Trivedi:** Sir just a small question on yields. The yield reduction that you mentioned will it be applicable for the incremental loans or entire loan book of REC?

- Sanjay Malhotra:** It will be applicable on the incremental loans and on the existing loans as and when the loans become due for reset, interest reset mostly which is three years as we mentioned just now, again they become eligible for alignment with the new rate cards plus we are trying to come up with a scheme for the existing loans or if they want to switch to a one-year reset, mostly I said it is three years, they want to switch to a one-year reset then we are giving some incentive to them of sharing the gains in reduction of on 50:50 basis for the period from the date of shift to one year from that date to the date that the interest rate would have got reset after three years or ten years as the case may be.
- Sahil Trivedi:** Thank you Sir.
- Moderator:** Thank you. Well due to time constraint we take the last question from the line of Punit Srivastava from Daiwa Capital. Please go ahead.
- Punit Srivastava:** Thank you again for the opportunity. Sir I have a question on the government loan book you have like three categories of loans in the government loans category A, B and C and I believe like TANGEDCO was downgraded from B to C last quarter so can you just give that like portion of how much of the loans are in category A, B and C respectively?
- Sanjay Malhotra:** This category that you are referring to is basically the category of the rating. It is the credit rating on the utilities which we are doing for the state power sector utilities. The ratings A++, A+, A, B, C, so there are these categories. There are very few in A+, A++, mostly they are the ones, and we can share the details with you, if you want how much is on A++ offhand I will not remember mostly they will be in the range of B and C, mostly in B.
- Punit Srivastava:** So B and C how much they will be put together or mostly on C what is the number?
- Sanjay Malhotra:** We can share the figures with you. Offhand I will not be able to comment. Mostly they will be in A or B. Mostly they will be in these categories. So we can share the figures with you. There is some in A+ and A++ maybe about 15% would be A++ and A+ will be about zero maybe combined it will be about 15%, to 20% and then the A and B will be the bulk of it and C will be very small.
- Punit Srivastava:** Sir just one last question on the reserve side. So if you see you have started providing some more details on the reserves how they are moving as far as the industry Ind AS and it has been very helpful. So I just needed to understand that last year which is FY2020 you had a net of 1700 Crores of negative reserves coming from the forex translation losses. Now which of course because the rupee has appreciated that has come down to 500 Crores, so reserves so do you account these reserves in the Tier II

calculations especially the forex reserves which is generally very volatile during the quarter and especially...?

**Ajoy Choudhury:** Sanjay Ji I will request you to answer it.

**Sanjay Malhotra:** Yes, we do consider is the impact of reserves in our network.

**Punit Srivastava:** Yes, I am talking about the Tier I sir, but that you consider them for Tier I because there was a loss of 500 Crores which has come down from 1700 Crores last year?

**Ajoy Choudhury:** Let me explain to you as per the ECL method the loans that we have taken before April 1, 2018, those are spread over the tenure of the loans the forex losses that come on those loans are spread over the tenure of the loans but while calculating a networth the Tier I capital as you said, we do take into account the positive of the adverse movements that take place in that account for loans which are before April 1, 2018, after April 1, 2018, any losses that are coming are automatically taken care of in the profit and loss account so it is automatically impacts the tier I capital. So tier I capital is definitely impacted by forex movements.

**Punit Srivastava:** Yes, so you are carrying like 500 Crores of negative reserves, if you see the breakup of the reserves you show like -500 Crores of transmission losses in the reserves so that also you consider the Tier I?

**Ajoy Choudhury:** That is right absolutely any forex losses has considered in Tier I capital.

**Punit Srivastava:** Sir apart from this because the RBDD you do this reserve for bad and doubtful debt that of I think is Tier II and not Tier I so apart from RBDD is there any other reserves which you consider into Tier II like 45IC, and all are they into Tier I or Tier II category.

**Ajoy Choudhury:** You say provision for doubtful debt as you are saying is not considered for capital at all. They are reduced from the capital they have straightaway charged to the profit and loss account. Other than those there are small provisions that we make for under section 45IA of the RBI 20% of PAT and for income tax purposes those are taken generally to be Tier I capital as per the methodology given, there are some of the provisions reserves which have taken to Tier II capital as well.

**Punit Srivastava:** Thank you.

**Moderator:** Thank you. Ladies and gentlemen that was the last question for today. I would now like to have the conference back to the management for closing comments.

**Kunal Shah:** I would like to thank the entire management team of REC for patiently answering all the questions and giving the detailed explanation and all the best for future quarters and thanks for giving us the opportunity to host you. Thank you.

**Sanjay Malhotra:** Thank you ICICI for hosting us.

**Moderator:** Thank you. On behalf of ICICI Securities Limited we conclude today's conference. Thank you all for joining. You may now disconnect your lines.