



CMD

VIVEK KUMAR DEWANGAN

INTERVIEW

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INTERVIEW: Diversify, amplify, globalize: REC's ambitious growth roadmap for 2023-24

In an exclusive interview with ETEnergyworld, REC Ltd CMD Vivek Kumar Dewangan shares the company's growth trajectory, the larger outlook and strategy for future development, and a perspective on key industry trends.



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REC Limited, a Maharatna corporation, is an NBFC focusing on power sector financing. It is diversifying its loan portfolio to include non-power infrastructure and logistics, eyeing a record high of Rs 4 lakh crore in loan sanctions for

the current fiscal year. In an exclusive interview with ET Energyworld, Vivek Kumar Dewangan, the Chairman and Managing Director of REC, outlined an ambitious growth strategy that also includes a long-term target to increase the total loan book size to Rs 10 lakh crore by the end of 2030.

Dewangan also highlighted REC's plans for international expansion, including involvement in projects in neighboring countries and a green hydrogen ammonia project in Oman. This diversification and overseas expansion come as part of a multifaceted growth plan, which includes a heightened focus on renewable energy, and an improving track record in asset quality. Edited excerpts..

Can you give us an overview of REC's financial performance for the last fiscal and what you expect for this year?

In the last fiscal year ending March 31, 2022, our outstanding loan book was at 3.85 lakh crore. During that year, we sanctioned Rs 2.68 lakh crore, with a disbursement of Rs 96,800 crore, which are the highest numbers we've seen in a single year. This activity led to our loan book increasing to Rs 4.35 lakh crore, marking a jump of Rs 50,000 crore. For the current fiscal year, we've already sanctioned Rs 1.85 lakh crore and expect to reach 2 lakh crore sanctions in just the first six months. We anticipate our disbursement will be Rs 75,000 crore by the end of Q2, giving me confidence that our sanctions could be between Rs 3-4 lakh crore and disbursements around Rs 1.3-1.5 lakh crore for the year.

How has the government's nod for diversifying your operations influenced your loan book and future strategy?

After becoming a Maharatna company last September, the Ministry of power allowed us in October 2022 to diversify into non-power infrastructure and logistics. Our loan book used to primarily focus on the power sector, but we've now been allowed to diversify up to one-third of our loan book into non-power sectors. In the current fiscal year, we target sanctions of about Rs 1-1.25 lakh crore in these new areas, including metropolitan railway projects, roads, highways, and airports among others. Our loan book for renewable energy currently stands at around 7%, and we have major plans to substantially increase that. India aims to achieve a 500 GW capacity through renewable sources, and REC plans to fund nearly 20% or around Rs 3 lakh crore towards this. By the end of 2030, we aim to increase our loan book size to about Rs 10 lakh crore.

Can you elaborate on REC's role in the Revamped Distribution Sector Scheme (RDSS)?

RDSS has an investment outlay of over Rs 3 lakh crore over four years, with the Government of India providing a grant of only Rs 97,000 crore. The remaining will come from states or through financing. REC and PFC are going to finance about Rs 1.2 lakh crore. REC is taking care of 19 states and 36 out of 56 discoms. We're not just the financing arm but also involved in preparing detailed project reports and implementation. We act as the project monitoring agency as well.

What's the status of project approvals and implementation under RDSS?

Sanctions and DPRs have been approved for all states except Telangana and Karnataka, which are yet to get their state cabinet approval. Most of the states have approved DPRs and invited tenders. We hope that by the end of October, 60% of the loss reduction would be awarded. We have to install about 25 crore smart meters across India. The tendering process for 9 crore meters should conclude by this October, with the remaining to be awarded by next March.

Which sectors have turned out to be the most profitable for REC?

For REC, the conventional coal-based generation sector has been yielding higher profits, attributed primarily to interest rates that exceed 10%. In contrast, renewable energy projects typically offer interest rates around 9% or even less. Despite this reduced profitability in renewables, REC is mitigating the impact by scaling up the volume of its renewable energy business. Furthermore, the infrastructure sector is also emerging as a source of profitable ventures for REC.

How has REC managed its asset quality, particularly in relation to Non-Performing Assets (NPAs)?

Over the last five quarters, REC has managed to not add any new NPAs to its books. The gross NPAs have decreased from roughly 4.5% to around 3.4%, while the net NPAs have seen a decline from approximately 2.3% to 1.01%. Notably, no new NPAs have been added for projects that were sanctioned after the year 2015. Out of the 36 assets under scrutiny by a cabinet-led committee, 17 have been resolved either through the NCLAT or One Time Settlement. Of the remaining 19 assets, nine are slated for resolution within this financial year, and the remaining ten by the next financial year. REC projects that by the end of December 2025, it will achieve a net NPA status of zero. In terms of renewable energy projects, REC has been cautious, focusing only on A+ category developers.

What is your strategy for tackling stressed assets?

In dealing with stressed assets, we employ a three-layered strategy: One-Time Restructuring, NCLAT, and Liquidation. Initially, we had made a provision for a 70% haircut. However, through processes like NCLAT, the actual haircut has been restricted between 40% to 50%. In essence, we are retrieving a higher value than what we had initially accounted for. These recovered sums are subsequently reflected back in our loan book."

Could you share information on how REC's interest margins are evolving?

Our net interest margins have been on an upward trajectory since the start of the first quarter, currently standing at 3.28%. The spreads we are capturing are at 2.59%. After a long period of maintaining the same rates — indeed, we had last decreased them two years ago — we recently took the step to raise our interest rates by 40 to 45 basis points. Looking ahead, we're aiming to stabilize our net interest margins around the 3.5% mark.

How are you optimizing the cost of your funds?

We're employing a conscious effort to mitigate the cost of funds. One way is through 54 EC bonds, a capital gains tax instrument that provides us funds at a rate of 5.25%. Our current corpus for 54 EC bonds is Rs 38,000 crore, and we aim to boost this to Rs 50,000 crore by year-end.

Additionally, we are utilizing external commercial borrowings and foreign currency non-resident term loans. We have managed to secure these at costs below 7%, which is more economical than domestic borrowing rates that are approximately around 7.5 to 7.7%. We are also considering raising funds in Yen, as it offers a far cheaper option. The total all-in cost for these funds is often less than 7% or even 6%, inclusive of all hedging costs.

Why is REC giving precedence to pumped storage hydro projects over battery energy storage?

REC's focus on pumped storage hydro projects is rooted in several factors. First, India does not possess domestic sources of lithium-ion, which is crucial for battery energy storage. This lack of domestic supply means reliance on imports, primarily from China. Second, battery energy storage systems have a life span of approximately 8-10 years, necessitating replacement and ongoing reliance on imports. Because of these concerns, the Ministry of Power has guided REC to prioritize pumped storage hydro projects, which utilize domestic resources and expertise.

What opportunities do you see with the India-Middle East-Europe Economic Corridor?

The India-Middle East-Europe Economic Corridor is expected to facilitate easier implementation of the 'One Sun, One World, One Grid' initiative. Infrastructure is planned to be developed first, which will be followed by road and rail connectivity linking India to the Middle East and then to Europe. REC, being recognized as a Maharatna company, is permitted to invest in any project outside India. This status enables REC to consider financing green projects that align with this economic corridor, expanding the scope of its operations.

Are there any international collaborations in the works?

Currently, REC has secured a green hydrogen ammonia project in Oman. Additionally, under the aegis of the Ministry of Power, a specialized task force has been initiated. This task force is engaged in outreach programs across Middle Eastern and European nations to explore collaborative possibilities within the 'One Sun, One World, One Grid' initiative. This signifies the beginning of what we believe will be a series of inter-regional collaborations.

Are you planning any projects as a part of your international expansion?

REC is in the process of evaluating and planning projects in countries that share borders with India, such as Bhutan, Nepal, Bangladesh, and Sri Lanka. Projects under consideration include hydroelectric power projects and transmission lines, like those that could connect India with Sri Lanka and Bangladesh. Other types of renewable energy projects are also under evaluation in these countries. All international initiatives are subject to approval and guidance from the Ministry of External Affairs, which will assess how these projects align with India's strategic interests.

REC Limited is an NBFC focusing on Power Sector Financing and Development across India. Established in 1969, REC Limited has completed over fifty years of operations. It provides financial assistance to state electricity boards, state governments, central/state power utilities, independent power producers, rural electric cooperatives and private sector utilities.

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REC going global with green hydrogen project in Oman, eyes South Asian markets

The company sees an opportunity in financing green projects within the framework of the India-Middle East-Europe Economic Corridor (IMEC) and the 'One Sun, One World, One Grid' (OSOWOG) initiative.



New Delhi: State-run financier REC Ltd is expanding its international portfolio with a sanctioned green hydrogen ammonia project in Oman and prospective projects in Bhutan, Nepal, Bangladesh, and Sri Lanka, Chairman and Managing Director Vivek Kumar Dewangan told ETEnergyworld in an exclusive interview.

The expansion comes as REC became a 'Maharatna' company in September 2022, enabling it to invest in projects outside India. Dewangan sees this as an opportunity for the firm to finance green projects within the framework of the India-Middle East-Europe Economic Corridor (IMEC) and the 'One Sun, One World, One Grid' (OSOWOG) initiative.

He said projects in the neighboring countries are in the pipeline and set to be finalized soon. "We have sent a team to Bhutan and are awaiting MEA clearance for the projects," he said. The targeted projects include hydro power facilities, transmission lines connecting India to Bangladesh and Sri Lanka, and other forms of renewable energy.

The selection of these projects will be aligned with India's strategic interests and will be guided by the Ministry of External Affairs (MEA).

The IMEC is a proposed economic corridor designed to enhance economic development by promoting connectivity and integration among Asia, the Persian Gulf, and Europe across multiple sectors, including trade and energy.

The OSOWOG initiative was first proposed by Indian Prime Minister Narendra Modi in 2018 during the first assembly of the International Solar Alliance. According to a draft by India's Ministry of New and Renewable Energy, the initiative aims to supply power to around 140 countries through a common grid that will transfer solar energy.

REC has seen its loan book grow from Rs 3.85 trillion at the end of March 2022 to Rs 4.35 trillion at the end of March 2023. An additional Rs 190 billion were added in the first quarter of the current financial year. If this growth rate continues, Dewangan anticipates that the loan book could exceed Rs 5 trillion by the end of the year.

Last year, REC reported sanctions totaling Rs 2.68 trillion and is on track to reach nearly Rs 2 trillion by the end of September, with projections for the total sanctions for the year at around Rs 4 trillion and disbursements expected to be around Rs 1.5 trillion.

REC is an NBFC focusing on power sector financing and development across India. It provides financial assistance to the complete power-sector value chain, for various types of projects including generation, transmission & distribution and renewable energy.

The company has also diversified into the non-power infrastructure and logistics sector, to cover areas such as airports, metro, railways, ports, bridges, etc.

Specialized task force formed to propel 'One Sun, One World, One Grid' initiative across Europe and Middle East: REC CMD Dewangan

The OSOWOG initiative was first proposed by Indian Prime Minister Narendra Modi in 2018, with the aim of providing a common grid to supply solar energy to around 140 countries.



New Delhi: The Ministry of Power has formed a specialized task force to advance the 'One Sun, One World, One Grid' (OSOWOG) initiative across the Middle East and Europe, said REC Chairman and Managing Director Vivek Kumar Dewangan in an interview with ET Energyworld.

The OSOWOG initiative was first proposed by Indian Prime Minister Narendra Modi in 2018, with the aim of providing a common grid to supply solar energy to around 140 countries.

According to Dewangan, the newly constituted task force will engage in outreach efforts to explore opportunities for collaboration with Middle Eastern and European nations.

The task force is part of the broader strategy involving the India-Middle East-Europe Economic Corridor (IMEC), aimed at promoting economic integration and development across Asia, the Persian Gulf, and Europe.

Dewangan stated that the initial focus of the IMEC will be on developing green energy infrastructure before considering road and rail connectivity.

He also informed that REC has sanctioned a green hydrogen ammonia project in Oman and is examining options to finance additional green projects along the IMEC route.

The firm is also targeting projects in neighbouring countries like Bhutan, Nepal, Bangladesh, and Sri Lanka. Dewangan informed that a team from REC had visited Bhutan and is awaiting clearance from the Ministry of External Affairs.

REC is keen on investing in hydro projects, transmission lines connecting India with Sri Lanka and Bangladesh, and other renewable energy projects in these countries.

The company has also expanded its scope to include non-power infrastructure sectors such as airports, metro, railways, ports, and bridges. With its diversified portfolio and financial growth, REC appears well-positioned to contribute significantly to the OSOWOG initiative and shape energy dynamics both in the region and globally.

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