MANAGEMENT DISCUSSION AND ANALYSIS REPORT

The Management of the Company is pleased to present its report on Industry Scenario including Company's performance during the financial year 2014-15.

1. BUSINESS ENVIRONMENT

Global economic recovery on the whole has not come out of the woods barring a few exceptions. The financial condition of major developed economies is still a major cause of concern. Among the developed economies, only US has shown signs of promise, while the ongoing recession in Europe in past few years has added Greece as a new member after Portugal and Italy to the financial contagion. Japan has resorted to quantitative easing for stemming the subdued growth and China is witnessing decreased economic activity of late. The prevailing situation has posed challenges before emerging and developing economies owing to subdued external demand from these markets. Protracted periods of credit expansion coupled with high leverages during good times present the risk of exposing emerging and developing markets to financial vulnerabilities. Managing the risks of transition while maintaining robust growth and financial stability will be a key challenge confronting the policymakers.

As far as India is concerned, the economy has bucked the global trends and shown clear signs of uptick in growth in financial year 2014-15. As per Central Statistical Office data, the Indian economy grew at 7.3 % in 2014-15 due to improvement in the performance of both services and manufacturing sectors. Further, the economy is expected to grow at a rate of 7.5 % in financial year 2015-16, which is even faster than the predicted growth rate of China as per the International Monetary Fund (IMF) estimates.

At present, the country is relatively better placed in terms of Current Account Deficit (CAD) and Balance of Payments (BoP). A major reason for this has been steep decline of crude price because of excess production of Shale gas in US, thereby drastically cutting down its crude requirement and subdued economic activity in Eurozone and Japan. The rise of crude price again is expected to be limited with the recent lifting of sanctions on Iran. The decrease in oil prices has brought the inflation down sharply from 8.3 % in March 2014 to 5.2 % in March 2015. Other important determinants *viz.*, key economic indicators showing signs of recovery, exchange rates inching towards stabilization and reduced inflation, has helped RBI cut policy rates by 75 bps since January 2015 and ease liquidity.

The tangible improvement in the overall growth of the core sectors including growth in Coal and Electricity sectors during Fiscal 2015, is a positive indicator for development of Power Sector in the coming years. Also, the Government's steps to improve the operating business climate by taking various reforms initiatives coupled with a good monsoon are expected to push the otherwise subdued investment cycle and economy.

2. INDUSTRY STRUCTURE AND DEVELOPMENT

Industry Overview

The financial year 2014-15 saw the highest capacity addition of 22,566 MW in a financial year vis-à-vis addition of 17,825 MW in previous fiscal, i.e., a 26.6 % rise on year-on-year basis. The major contribution came from thermal stream having constituted 92 % of the total capacity addition. Of 22,566 MW, the private sector share was 59 % and around 64 % of the total thermal capacity addition came from the private developers. The electricity generation was 8.4 % higher than the achievement of 967 BUs in the year 2013-14. The actual electric energy generation during the Fiscal 2015 was 1,048 BUs against the generation of 967 BUs in the previous fiscal.

The total Power Supply Deficit as on March 2015 was 2.1 % whereas Peak Power Deficit stood at 3.2 %. In Fiscal 2014, total Power Deficit was 4.3 % which was 8.7 % and 10.2 % in Fiscal 2013 and Fiscal 2012 respectively. Similarly, Peak Power Deficit in Fiscal 2014 was 4.5 % compared to 9.0 % in Fiscal 2013 and 11.1 % in Fiscal 2012. Among all regions, the power supply deficit and peak power deficit was highest in North Eastern region, followed by Northern region.

As on March 31, 2015, the total installed capacity of the country was 2,67,637 MW which was 10 % higher than that at the end of the previous fiscal. During the first three years of XII five year plan, 61,014 MW was added against the targeted capacity addition of 88,537 MW in the XII five year plan.

The capacity addition achievement vis-à-vis targets till X five year plan was low, barely crossing 50 % mark of the targets set for respective five year plans. However, the generation capacity added post X plan has improved relatively. It was only in the XI plan that the capacity addition was 88 % of the target of 62,374 MW. The XII plan targets for power envisage addition of 88,537 MW of capacity. The capacity added during the first three years constitutes around 69 % of the planned capacity addition in XII plan. With the record capacity added in the past fiscal, the target of the XII five year plan seems achievable.

The overall requirement of funds for the power sector for XII five year plan period (2012-2017) has been estimated at around ₹ 14 lakh crore. For the XIII five year plan period, NITI Aayog estimates that in order to meet the projected demand requirement by 2022 at a GDP growth rate of 9 %, capacity addition of 94,000 MW would be required along with matching expansion in transmission and distribution systems.

Industry Structure

Generation

The installed generation capacity in the country stood at 2,67,637 MW as on March 31, 2015 with 96,963 MW (36.23 %) in the State Sector, 72,521 MW (27.1 %) in the Central Sector and 98,153 MW (36.67 %) in the Private Sector. The share of the Private sector has seen an increase over the last three years.

In terms of the generation capacity by type as on March 31, 2015, the installed thermal capacity was 1,88,898 MW (70.58 %), 41,267 MW (15.42 %) was in hydro and 31,692 MW (11.84 %) was in renewable energy sources. The nuclear capacity witnessed no new addition during the financial year 2014-15 which stood at 5,780 MW (2.16 %).

The installed Generation capacity has increased, but the sector is still to come out of the whirl gig of policy imbroglio which adversely affected the Power Sector development in the past 4-5 years. The major bottlenecks have been slippages of long-term coal linkages to the projects identified, failure to achieve planned targets from captive coal mine blocks, inability to ramp up indigenous coal and gas production, rising imported fuel prices, land acquisition, R & R and environmental issues etc.

The Government of India has, in the last one year, taken a slew of proactive initiatives, notably allocation of coal mines through a transparent auction route, giving breather to gas-based stranded projects and private sector projects operating at less than 30 % PLF on domestic gas supply through subsidized imported gas supply supported by a Power System Development Fund (PSDF), efforts to takeover sick units under operation of State utilities, steps for augmenting indigenous coal production, special focus on clean energy with enhanced stress on development of solar energy capacity, effecting enablers for development of self-sustaining solar energy installation model on Government sites *viz.*, Railways, Defence etc., Green Power Fund allocation, revision of Standard Bidding Guidelines pertaining to Case-I and Case-II bidding process, revisiting Electricity Act, facilitating developers for getting speedy clearances and fuel linkages, augmenting existing indigenous manufacturing capacity and encouraging latest technology interventions.

In order to reduce the reliance on coal as primary fuel for Power Plant Generation, lower auxiliary consumption and losses, extract higher efficiency and improve carbon footprint, most of the projects in the XIII five year plan are planned to be based on supercritical technology.

To support economic growth in the XII five year plan, the NITI Aayog has projected that about 88.5 GW of generation capacity needs to be added up by 2017. Further, to maintain a sustained economic growth of 8 % through to Fiscal 2032, as per the NITI Aayog, India needs to increase its electricity generation several times over for which the power generation capacity must increase to around 8,00,000 MW by Fiscal 2032.

Transmission and Distribution

Transmission

Till the recent past, Transmission system planning was based on the premise of establishing a power system capable of safely withstanding a contingency without generation rescheduling or load-shedding. However, due to various reasons such as spatial development of load in the network, non-commissioning of originally planned load centre generating units and deficit in reactive compensation, certain pockets in the power system could not safely operate even under normal conditions which led to backing down and redundancy. Transmission planning has therefore moved away from the earlier generation evacuation system planning to integrated system planning, keeping in view the long term power perspective.

In India, the transmission and distribution system is a three-tier structure comprising of regional grids, state grids and distribution networks. The five regional grids, configured on a geographical contiguity basis, enable transfer of power from a power surplus State to a power deficit State. The regional grids also facilitate the optimal scheduling of maintenance outages and better co-ordination between power plants. Presently, these regional grids are operating as an integrated unit of National Grid with an inter-regional transfer capacity of more than 32,000 MW, whereby surplus power from a region could be redirected to another region facing power deficits, thus allowing an optimal utilization of the national generating capacity. The inter-regional grid connectivity has lent flexibility and brought resilience to the system. The National Grid in the country is now one of the largest operating synchronous grids in the world.

All measures are being taken to provide unconstrained inter-regional power transfer, open access availability and adopt new EHV and HVDC technologies. Further, proper checks and balances are being put in place to strengthen the grid discipline to

avoid any major grid collapse. Efforts are on for making suitable amendments in the Electricity Act, 2003 thereby endowing special powers to RLDCs and NLDC for regulating the grid which may also include legal provisions for their empowerment. The RLDCs would then have the power to disconnect load to States not adhering to grid discipline.

At the end of Fiscal 2015, the total length of transmission lines aggregated to about 3.13 lakh cKm as compared to about 2.91 lakh cKm at the end of the previous year. A total of 22,101 cKms were added to the transmission capacity in the Fiscal 2015 which was around 32% higher than the transmission capacity added in the previous fiscal. The transmission capacity added during the past fiscal has been the highest ever.

The breakup of installed transmission line system is as per the following table:

Transmission Lines	As on March 31, 2015 (cKm)	As on March 31, 2014 (cKm)	Increase (cKm)
765 kV	18,644	11,096	7,548
400 kV	1,35,949	1,25,957	9,992
220 kV	1,49,412	1,44,851	4,561
+/- 500 kV HVDC	9,432	9,432	0
Total	**3,13,437**	**2,91,336**	**22,101**

At the end of Fiscal 2015, the aggregated substation transformation capacity at 765 kV, 400 kV and 220 kV level stood at 5.95 lakh MVA. The aggregated capacity was 5.30 lakh MVA at the end of Fiscal 2014. The sub-station capacity addition of around 65,000 MVA is the highest jump in sub-station capacity addition in a year. Plans for bidding of transmission lines worth rupees one lakh crore are already in the process. Also the idea of setting up of a SAARC dedicated Transmission Grid for boosting the transmission capacity between the SAARC region is also being looked in to actively.

As per the NITI Aayog estimates for the XII five year plan, the funds requirement for transmission system development would be about ₹ 2-3 lakh crore including Central and State Sector share. The aim is to build a robust integrated grid network that will allow large transfers of power from one part of the country to another.

Distribution

Distribution Sector, the revenue generating link in the Generation-Transmission-Distribution chain is clearly the weakest link in the power sector value chain and is threatening to derail the entire process of power sector reforms as also jeopardize India's growth story. While the power generation sector in the country is struggling to meet the rising demand, the Distribution Sector has been reeling under losses and has been in focus with various measures being taken by the Government of India to make the State DISCOMs/utilities viable.

The issues pertaining to the Distribution sector are not similar to Generation and Transmission sectors. Distribution provides the crucial last mile connectivity and has disparate, numerous and varied consumers. Though most of the SEBs have been unbundled, distribution is still largely under the control of Government utilities. Post unbundling, their operations on sound commercial principles under the regulatory supervision has not yielded the desired results. The ever widening gap between their Average Cost of Supply (ACS) and Average Revenue Realized (ARR) is resulting in further erosion of the net worth of these utilities.

In order to enable the turnaround of the State DISCOMs and ensure their long term viability, a financial restructuring scheme for the State owned DISCOMs *viz.*, Transitional Finance Mechanism (TFM) was formulated by the Government of India. The mechanism includes measures such as revision of tariff, release of subsidies only to State Government to be later adjusted in the ARR and posting of Audited Accounts on regular basis. Incentivization through technology interventions in Restructured Accelerated Power Development and Reforms Programme (R-APDRP) and National Electricity Fund (NEF), devising utility-wise turnaround plan and monitoring its implementation at the highest level are other important initiatives. Therefore, it is necessary that all the interventions are dovetailed and integrated to overcome the major challenges like exorbitantly high transmission and distribution losses, suboptimal internal functioning of regulatory institutions, mismatch in tariffs, etc., so as to help turnaround the power distribution sector.

On the policy front, an integrated rating methodology has been developed covering the State Power Distribution utilities. The objective is to rate all utilities on the basis of their performance and their ability to sustain commercially viable operations in the long run. The mechanism focuses on ranking and incentivizing/dis-incentivizing the entities in order to stimulate and improve their operational & financial performance and is expected to facilitate Banks/FIs to adopt a uniform and realistic assessment of the risks associated with funding needs of different utilities. It would also enable funding with appropriate loan covenants for stimulating and enhancing operational, financial and managerial performance.

To help power utilities access funds, the policy of subsidizing the interest on loans taken by them for cutting distribution losses as well as to incentivize investment in improvement of distribution infrastructure in the country, National Electricity Fund (NEF) was launched in financial year 2012-13. The utilities/DISCOMs shall be eligible for discount on interest rates depending on performance.

To strengthen the power supply and availability, improve reach and accounting in the rural and urban areas, the Government of India has recently introduced implementation of Deendayal Upadhyaya Gram Jyoti Yojana (DDUGJY) for rural areas; and Integrated Power Development Scheme (IPDS) for urban areas. The initiative would go a long way in the Government of India (GoI)'s resolve of providing 24X7 power by 2019.

Technical interventions such as implementation of Feeder Separation Scheme, High Voltage Distribution Systems (HVDS) in the distribution network, installation of Smart Energy Meters such as Automatic Meter Reading (AMRs) with 100% coverage having two-way real-time digital communication and facility of remote metering, usage of information technology in operation & maintenance coupled with harnessing best management practices are the measures being undertaken, to ensure safe and reliable delivery of power with minimal losses and at reduced costs.

Harnessing intelligent smart-grid technologies for providing two way communications between the consumer and the utility would completely change the way electricity is used and delivered. Since Indian distribution sector is a weak link in the power value chain, the Smart-Grid projects to be implemented by the utilities for efficient, reliable and delivery of quality power would be a long term business opportunity.

To improve and turn around the power distribution sector in the country, the Company in coordination with MoP, GoI has initiated major initiatives by its involvement in programmes like NEF, DDUGJY, IPDS, Smart Grid Task Force etc. With all these major interventions, your Company is optimistic of a better and improved distribution scenario when the results and effect of these programmes in conjunction with the reform measures taken by the respective States start trickling in and transform the entire landscape of distribution.

For the XII five year plan, the NITI Aayog estimates investment of ₹ 3.14 lakh crore inclusive of investments planned towards Demand Side Management (DSM) and energy efficiency for the sector.

Power Sector Policy Environment

In past few years, owing to persistent power shortages, coal availability crisis and given the estimated rate of increase in demand for electricity in India, the GoI has taken significant measures to restructure the power sector, increase capacity, improve transmission, and sub-transmission & distribution network.

The advent of the Electricity Act, 2003 brought sweeping changes to legal framework governing the Electricity sector, enabling capital arrangement, thereby making possible to set up large power projects. The Act replaced the multiple legislations that previously governed the Indian electricity sector and introduced a multi-buyer and a multi-seller system. Furthermore, it granted more autonomy to the regulatory regime in determination of tariffs, without being constrained by rate-of-return regulations. This was followed by the notification of National Electricity Policy. Subsequently, National Tariff Policy, RE Policy, National Hydro Policy and Mega Power Policy were notified. However, the Electricity Act may require revisiting evolving business climate.

In order to bring the economies of scale to large generation capacities based at a single location, utilization of super critical technology for reducing emissions and tariff-based international competitive bidding process for developing large capacity power projects in India, the concept of Ultra Mega Power Projects (UMPPs) involving each contracted capacity of 3,500 MW or above, was introduced by creating Special Purpose Vehicle (SPVs).

A tariff based competitive bidding process is also in place for Independent Power Transmission Companies (IPTCs) for the development of inter state and intra state transmission systems on similar lines to that followed for UMPPs. The IPTCs aim to evacuate power from generating stations and transmit the power from pooling stations to other grid stations, resulting in system strengthening across India. A number of transmission projects have been transferred to the developers in last few years. The Standard Bidding Guidelines pertaining to Case-I and Case-II bidding process have been revised recently.

In a bid to attract private funds in the development of hydroelectric projects, the Hydro Power Policy was implemented in the year 2008. The policy aimed at attracting private funds by encouraging joint ventures with private developers and the use of the IPP model, in addition to promoting power trading and speeding up the availability of statutory clearances. The policy provides guidelines for accelerated development of the hydropower industry in India, particularly in the Himalayan States.

However, the country has not been able to exploit the huge potential of hydro power in the last few years as most of the hydro projects are stuck up owing to environmental issues and court rulings causing long delays and stoppage of work at site. Despite being the cheapest source of power, the traction has been relatively low as the investors in hydro power sector are keeping away because of uncertainties.

National Electricity Fund (NEF)

National Electricity Fund (Interest Subsidy) scheme was set up by Ministry of Power to promote the capital investment in the distribution sector. The scheme Provides interest subsidy on achievement of pre-defined reform linked parameters on loans disbursed to the State Power utilities, Distribution Companies (DISCOMs) - both in public and private sector. Your Company as Nodal agency, is designated to operationalize the scheme for channelizing the interest subsidy amounts to the utilities in the entire country.

Renewable Energy Sources

To mitigate the challenges posed on climate, National Action Plan for Climate Change (NAPCC) was announced in June 2008. The effort was to increase the share of renewable energy in total electricity consumption in the country. To bring momentum to the initiative, purchase obligation of Renewable Energy Certificates (RECs) was made mandatory on the State utilities. The mechanism enables sale and purchase of renewable energy component across the State boundaries without being linked to carbon credits.

With the depleting fossil fuels and the attendant environmental hazards associated with coal-fired Thermal Power Plants, priority is shifting towards harnessing Renewable Energy sources. Mechanisms are being devised for utilizing Renewable Energy sources with special thrust on development of solar energy. A ₹ 38,000-crore Green Energy Corridor is planned to transmit Renewable Energy. The Green Energy Corridor project would enable the grid stability by way of evacuating Renewable Power from the generation points to load centres with creation of additional and adequate transmission capacity. The Union Budget plans for raising Renewable Energy capacity to 1,75,000 MW by 2022 are on the anvil which is more than five times the present capacity. Of 1,75,000 MW capacity, the share of Solar, Wind, Biomass and Small Hydro projects are 100,000 MW, 60,000 MW, 10,000 MW and 5,000 MW respectively.

National Solar Mission

Development of clean energy through renewed thrust on solar capacity enhancement has lent a new dimension to the existing Jawaharlal Nehru National Solar Mission, by plans to scale up the solar capacity to 1,00,000 MW from the earlier envisaged target of 20,000 MW by the year 2022. The present solar capacity of India at present is 3,000 MW. Efforts are on to establish an investor-friendly mechanism, providing an attractive, predictable and adequate tariff for growth of solar power.

Development of Solar Parks is an effort in this direction. To prioritize it, 25 Solar Parks of 100 MW each have been planned. Also the "Off Grid and Decentralized Solar Applications" is seen as huge area towards self-reliance. Roof-top solar installation is being propagated in a big way and means of making it financially attractive are being explored. Also, large Government Installations *viz*., Railways, Defence etc. may be encouraged to harness their land for dedicated use of solar energy which could also reduce their dependence on grid for lighting loads locally. Also, promoting solar power by way of Renewable Purchase Obligation (RPO) with a specific solar component is one of the key drivers.

Integrated Power Development Scheme (IPDS)

The Government of India approved a scheme called "Integrated Power Development Scheme (IPDS)" vide Office Memorandum dated December 3, 2014 which primarily aims at improvement in sub-distribution and distribution networks of urban areas comprising (i) Strengthening of sub-transmission and distribution networks (ii) Metering of Distribution Transformers / Feeders / Consumers and (iii) IT enablement of distribution sector and strengthening of distribution network for completion of the targets laid down under R-APDRP for XII and XIII plans by carrying forward the approved outlay for R-APDRP to IPDS programme as a separate component. For this purpose, the earlier existing scheme of R-APDRP and its targets have been subsumed in IPDS.

The scheme envisages 60 % of the project cost from Government of India as grant to States other than special category States (85 % for the Special Category States i.e. all North Eastern States including Sikkim, J&K, Himachal Pradesh, Uttarakhand) with a minimum 10 % (5 % for Special Category States) contribution from State Government/State Power utility through their own sources and the balance 30 % (10 % for Special Category States) may be arranged through loan by

the State Government/State Power utility. Additional grant upto 15 % (5 % in case of Special Category States) by conversion of 50 % of loan component will be provided by Government of India on achievement of prescribed milestones such as timely completion, reduction in AT&C losses & upfront release of revenue subsidy based on metered consumption, if any, by State Government.

In this regard, the earlier existing scheme of R-APDRP and its targets have been subsumed in IPDS as a separate component relating to IT enablement of Distribution sector and strengthening of distribution network (as (iii) above) at an approved scheme cost of ₹ 44,011 crore with a budgetary support of ₹ 22,727 crore, in addition to an estimated outlay of ₹ 32,612 crore including a budgetary support of ₹ 25,354 crore for strengthening of sub-transmission & distribution networks in urban areas and Metering of Distribution Transformers / Feeders / Consumers in the urban areas.

The aim of implementing IPDS is to attain reliable and verifiable baseline data of revenue and energy over an IT platform in its project areas and AT&C loss reduction on a sustained basis thus making it more financially attractive and performance oriented.

Deendayal Upadhyaya Gram Jyoti Yojana (DDUGJY)

The Rural Electrification Policy was notified in August 2006, with the objective of improving access and quality of electricity supply in rural areas to ensure rapid economic development by providing electricity as an input for productive uses in agriculture, rural industries etc.

The Government of India approved a new scheme "Deendayal Upadhyaya Gram Jyoti Yojana" (DDUGJY) vide Office Memorandum dated December 3, 2014. The objective of the policy is 24X7 power supply for non-agricultural consumers and adequate power supply for agricultural consumers by separation of agriculture and non-agriculture feeders, strengthening and augmentation of sub-transmission & distribution infrastructure in rural areas, including metering, reduction of AT&C losses and providing access to all rural households. For this purpose, the RGGVY scheme and its targets for XII & XIII plan have been subsumed in DDUGJY.

The financing pattern of the scheme is similar as that applicable for IPDS scheme and stated above. Out of the approved layout of ₹ 43,033 crore, Government of India shall provide a budgetary support of ₹ 33,453 crore. REC is the Nodal agency for DDUGJY scheme.

Besides the above policies/initiatives, some of the other initiatives by Government of India towards improving power sector are Demand Side Management initiatives like National Mission for Enhanced Energy Efficiency (NMEEE); Perform, Achieve and Trade (PAT) Scheme; and Energy Conservation Building Code (ECBC), etc. Plans are on for large scale substitution of existing Lighting Loads with Light Emitting Diode (LED) lighting devices. Being highly energy efficient as compared to conventional lighting devices (filament and incandescent bulbs, CFLs), the effort could save as much as 10,000 MW during peak hours.

In an attempt to tide over severe fuel shortage as well as funding issues hurting the power sector, a slew of steps for fast tracking the solution of issues obstructing the project progress as well as commissioning have been undertaken.

These major policy initiatives taken by Government of India in past one year would help in enabling and redefining the power sector, thus making it an attractive investment destination.

3. OPPORTUNITIES

The investments in the power sector are estimated at around ₹ 14 lakh crore in the XII five year plan period (2012-2017) covering a capacity addition of 88,537 MW with associated transmission and distribution network. An addition of almost 94,000 MW in generation capacity with back-to-back expansion in T&D network for handling the increased capacity is envisaged in the XIII five year plan. In addition, capacity addition by way of green energy to the extent of 30,000 MW in each of the XII plan and XIII plan has been further enhanced by planning to add 1,75,000 MW by the year 2022. The idea of creating a Green Corridor exclusively for green energy projects with major stress on promoting solar energy projects on a large scale throws a whole gamut of business opportunity in the near future. With the increasing stress on deploying clean energy in wake of ecological and environmental hazards from fossil fuels, the share of green energy is bound to increase substantially diluting reliance on depleting fossil fuel resources. As a Nodal agency for monitoring and channelizing funds under the DDUGJY programme, the Company continues to take up the socio-economic responsibility of rural electrification. Therefore the power sector is expected to attract significant investment opportunities in future also.

4. THREATS, RISKS AND CONCERNS

The power sector financing industry has become increasingly competitive and broad based with entry of new players and banks giving tough challenge to the Company.

Financing infrastructure projects especially power is not bereft of risks, rather the risks are high as the time horizon associated are long, the various policy aspects in the dynamic business environment. Despite the restructuring efforts taken, the condition of State Electricity Boards and State Power utilities across the country continue to present a grave picture on the financial front as most of them are reeling under severe financial stress, barring a few. The failure of the entities in meeting their debt related obligations may adversely impact the Company's ability to mobilize low cost funds. Since the Company has significant exposure to these State Electricity Boards and State Power utilities, the risk perception for the Company is high.

The Company is concerned about prevailing exposure norms, limit constraint of raising money from Tax Saving Bonds, financial position of State Distribution utilities, entry of new players and competition from Banks/Multilateral Agencies, uncertain business environment, fluctuation in rupee and likely increase in cost of capital due to volatile market conditions/ large requirement of funds.

The state of business and policy environment having cascading effect on interest-rate regime, statutory regulations and policies, cost and availability of raw materials, long gestation periods, large capital outlay, other key inputs and general economic conditions may also have a direct bearing on the projects' viability, affecting the borrowers' capacity of servicing the loans.

Therefore, judicious raising of resources at a low cost and ensuring most productive deployment of these funds would be the key factor for the Company's profitability and growth.

5. SEGMENT-WISE OR PRODUCT-WISE PERFORMANCE

The principal products of REC as a leading Public Financial Institution are interest bearing loans to SEBs, State Power utilities / State Power Departments and Private sector for all segments of Power infrastructure. Your Company does not have any separate reportable segment.

During the financial year 2014-15, the Company sanctioned loan assistance of ₹ 61,421.37 crore, excluding sanctions under DDUGJY-RE and DDG. This included sanction of loans of ₹ 22,178.31 crore for the Generation Sector, ₹ 547.92 crore for Renewable Energy Sector, ₹ 25,031.14 crore for Transmission & Distribution Sector, and ₹ 13,664.00 crore for Short Term & other Loans.

Aggregate disbursement of ₹ 46,446.82 crore was achieved during the financial year 2014-15 including subsidy under DDUGJY-RE and DDG, as against ₹ 37,969.99 crore disbursed in the previous financial year. This included ₹ 13,828.07 crore disbursed under Generation projects, ₹ 295.25 crore disbursed under Renewable Energy projects, ₹ 16,335.06 crore under T&D schemes, ₹ 2,250.00 crore under Short Term Loans, ₹ 9,735.72 crore under other Loans such as TFL and MTL and ₹ 4,002.73 crore under DDUGJY (including subsidy of ₹ 3,605.72 crore under RE component of DDUGJY and ₹ 22.64 crore under DDG subsidy).

6. OUTLOOK

Considering the continued shortages in electricity generation in the country, low levels of per capita energy consumption, significant growth projections for the Indian economy over the long term and Government efforts to inch closer to developed economy, it is felt that the power infrastructure sector will be a significant beneficiary. Estimated aggregate capacity addition of 180 GW during the XII and XIII five year plans put together (2012-2022) with estimated investments of over ₹ 34 lakh crore will continue to drive the prospects of power sector in the country. Thrust in rural electrification, renewable energy with special focus on Solar Energy and Decentralized Distributed Generation (DDG) will, *inter-alia*, increase the penetration of electricity in the country thereby driving the demand further. With the timely interventions by the Government of India in addressing the issues affecting the power industry adversely, the outlook for the sector is quite optimistic with ample market opportunities available for financial products.

Demand, supply and consumption trends will be key in defining the future of Indian power sector and the current fall in power demand could be a short term issue, mainly arising from the industrial slowdown, lack of power procurement by utilities and seasonal fluctuations. The long-term outlook for power demand remains strong. Low per capita consumption and expected growth of economy are pointers to the long-term energy requirement.

India ranks among the top countries in terms of electricity generation and lags China in generation by almost 5 times within the BRICS countries. However, India has the lowest per capita electricity consumption among the BRICS nations. The low

per capita electricity consumption suggests a large latent demand in the country. With the exception of past two fiscals, the energy deficits and peak deficits during the past 10 years have remained generally in the range of 5% to 17%.

Further, the low per capita consumption of electricity in India compared to the world average presents significant potential for sustainable growth in the demand for electric power in India. With the country poised for a long term growth prospect, the total energy consumption in India is estimated to grow rapidly creating huge potential for investments in energy sector in India.

The enormous capital expenditure, development of equally huge operational infrastructure combining ample potential for future expansion in the distribution sector creates a very optimistic business outlook for the Company. Also the performance orientation built into the DDUGJY and IPDS is expected to attract and accelerate investments in distribution infrastructure, thus resulting in faster accomplishment of loss reduction, better realization of revenue and automation goals.

7. MoU RATING & AWARDS

The performance of your Company in terms of MoU signed with the Ministry of Power, Government of India for the financial year 2013-14 has been rated as "Excellent". This is the 21st year in succession that REC has received "Excellent" rating since the year 1993-94 when the first MoU was signed with the Government. For the financial year 2014-15 also, the Company is poised to receive "Excellent" rating. During the year, your Company received "Company of the Year" award for 'Operational Performance Excellence' under PSE Excellence Awards 2014. Your Company also received Award for "Excellence in Financial Services" under India Pride Awards 2014-15 from Dainik Bhaskar & DNA.

8. INTERNAL CONTROL SYSTEM AND THEIR ADEQUACY

The Company maintains an adequate system of Internal Control including suitable monitoring procedures which ensures accurate and timely financial reporting of various transactions, efficiency of operations and compliance with statutory laws, regulations and Company policies. Suitable delegations of power and guidelines for accounting have been issued for uniform compliance. In order to ensure that adequate checks and balances are in place and internal control systems are in order, regular and exhaustive Internal Audit of various Divisions / offices are conducted by in-house Internal Audit Division and for some selected Project Offices by experienced firms of Chartered Accountants. The Internal Audit Division covers all the major areas of operations including identified critical/risk areas as per the Annual Internal Audit Programme. Audit Committee of Board of Directors periodically reviews the significant findings of different Audits as prescribed in the Companies Act and in the Listing Agreement.

9. FINANCIAL AND OPERATIONAL PERFORMANCE

The loans sanctioned during the financial year 2014-15 was ₹ 61,421.37 crore as compared to ₹ 70,739.48 crore during the previous financial year 2013-14 (excluding sanctions under DDUGJY-RE and DDG). The disbursement during the financial year 2014-15 was ₹ 46,446.82 crore as compared to ₹ 37,969.99 crore during the previous financial year 2013-14 (including subsidy under DDUGJY-RE and DDG).

The amount due for recovery including interest during the financial year 2014-15 was ₹ 32,759.07 crore as compared to ₹ 31,312.57 crore during the previous year. The overdues from defaulting borrowers as on March 31, 2015 were ₹ 1,549.18 crore. The Company recovered a total sum of ₹ 32,005.56 crore during the year 2014-15 as against ₹ 30,755.36 crore during the previous year.

During the financial year, on standalone basis the Company registered an increase of ₹ 3,211.55 crore in Operating Income which went up to ₹ 20,229.53 crore, from ₹ 17,017.98 crore during the financial year 2013-14. Profit Before Tax was at ₹ 7,427.04 crore in 2014-15 in comparison to ₹ 6,531.12 crore in 2013-14. Net Profit of the Company in financial year 2014-15 was ₹ 5,259.87 crore, i.e., an increase of ₹ 576.17 crore over the previous year. Net Worth of the Company as on March 31, 2015 has increased by 20% to ₹ 24,857.03 crore from ₹ 20,669.46 crore in the previous year.

10. HUMAN RESOURCES / INDUSTRIAL RELATIONS

In order to professionalize the Executive Cadre of REC and also to infuse fresh blood, 24 Executives were appointed during the financial year. The total manpower of the Company as on March 31, 2015 was 601 employees which includes 427 Executives and 174 Non-executives.

In order to equip the employees professionally, the Company sponsored 380 employees to various training programmes, workshops etc. within the country and abroad. In addition, three training programmes were conducted in-house which were attended by around 60 employees. Taken together, these initiatives enabled the Company to achieve 1,083 training man days and also achieve an 'Excellent' rating on the MoU target for this parameter. 24 Officers were deputed for programmes in countries like USA, Japan, Taiwan, France, China, Singapore and Australia, etc.

11. CORPORATE SOCIAL RESPONSIBILITY & SUSTAINABLE DEVELOPMENT

Corporate Social Responsibility and Sustainable Development (CSR & SD) initiatives were pursued actively. Accordingly, CSR budget (@ 2% of average net profit for previous three financial years, calculated in accordance with the provisions of Section 198 of the Companies Act, 2013) was allocated for the financial year 2014-15, amounting to ₹ 103.25 crore. During the year, the Company has undertaken various CSR initiatives in the fields of skill development programmes, education, environmental sustainability, promotion of health care including for elderly persons and persons with disabilities, drinking water and sanitation facilities including participation in 'Swachh Vidyalaya Abhiyaan', LED based solar street lights in select un-electrified / poorly electrified villages etc. During the financial year 2014-15, financial assistance aggregating to ₹ 251.22 crore was sanctioned for various projects under Corporate Social Responsibility, including ₹ 190 crore for construction of toilets in schools under 'Swachh Vidyalaya Abhiyaan', out of which ₹ 67 crore is against allocation for financial year 2014-15 and ₹ 123 crore is against allocation for financial year 2015-16. Further, during the financial year 2014-15, REC has incurred expenditure for an amount of ₹ 103.25 crore (including ₹ 57.21 crore provided for in the books of accounts) towards approved CSR projects under implementation during the financial year. This amount of ₹ 57.21 crore provided for during the financial year 2014-15 has since been paid during the financial year 2015-16.

Cautionary Note

Certain statements in "Management Discussion and Analysis" section may be forward looking and are stated as required by applicable laws and regulations. Many factors may affect the actual results, which could be different from what the Management envisages in terms of future performance and outlook.