

NON-BANKING FINANCIAL COMPANIES AUDITORS' REPORT FOR THE YEAR ENDED 31ST MARCH 2016

The Board of Directors,
Rural Electrification Corporation Limited,
Core-4, SCOPE Complex,
7, Lodhi Road
New Delhi – 110003

As required by the Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2008 issued by Reserve Bank of India (RBI) on the matters specified in Para 3 and 4 of the said Directions to the extent applicable to the Rural Electrification Corporation Limited (REC) and according to the information and explanations given to us for the purpose of audit, we report that:

1. The Company had applied for registration as provided in section 45-IA of the Reserve Bank of India Act, 1934 (2 of 1934) and has been granted certificate of registration by Reserve Bank of India on 10th February, 1998 having Registration No. 14.000011. RBI issued Certificate dated 17th September, 2010 in lieu of earlier certificate having categorized REC as an Infrastructure Finance Company in terms of instructions contained in RBI Circular CC No. 168 dated 12th February, 2010. Further, that company is entitled to continue to hold such registration in terms of its asset/income pattern as on 31st March, 2016.
2. As per Para 2 (v) of RBI Circular No. DNBR (PD) CC.No.052/03.10.119/2015-16 dated 1st July, 2015, Sections 45-IB and 45-IC of the Reserve Bank of India Act, 1934 on Maintenance of Percentage of Assets and Reserve Fund; paragraphs 4 to 7 of the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 and Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998 (since repealed by Prudential Norms Directions Notification No 192 dated February 22, 2007), except paragraph 13A of the said directions relating to submission of information to Reserve Bank in regard to change of address, directors, auditors, etc. shall not apply to any non-banking financial company as defined in Section 45-I(f) of the Reserve Bank of India Act, 1934 (2 of 1934) being a Government Company as defined in Section 617 of the Companies Act, 1956.
3. According to the information and explanations given to us, the RBI Directions as to deposits are not applicable to the Company. Therefore, the Board of Directors of the Company has not passed a resolution for non acceptance of any public deposits.
4. The Company has not accepted any public deposits during the year 2015-16.
5. As per RBI's Master Circular dated 1st July, 2015, REC, being a Government Company, continues to be exempt from the applicability of "Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015". Further, RBI, vide letters dated 25th July, 2013 and 4th April, 2014, has conveyed to REC to comply with the prudential norms of RBI by 31st March, 2016. Regarding restructuring of assets, RBI vide its letter dated 11th June, 2014 has allowed exemption to the Company from RBI restructuring norms till 31st March, 2017 for Transmission & Distribution, Renovation & Modernisation and Life Extension projects and also the Hydro projects in Himalayan region or affected by natural disasters. Further for new project loans to generating companies restructured w.e.f 01st April 2015, the provisioning requirement would be 5% and for stock of loans as on 31st March 2015 of such projects, the provisioning shall commence with a provision of 2.75% w.e.f 31st March 2015 and reaching 5% by 31st March 2018. Further, RBI vide letter dated 5th October, 2015 has permitted that the existing loans of the company i.e. loans sanctioned on or before March 31, 2015 are permitted to be regulated under the REC's existing asset classification norms (180 days) till March 31, 2017.

For the financial year ended 31st March, 2016, the Company has complied with the prudential norms relating to income recognition, accounting standards, asset classification and provisioning for bad and doubtful debts as applicable to it in terms of "Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015" subject to the exemptions granted to the Company as above.

6. In terms of RBI Circular No. DNBS.PD/ CC.No. 93/03.05.002 /2006-07 dated 27th April, 2007, REC being a Government Company, is exempt from submitting NBS-7 to the Reserve Bank of India. Being an Infrastructure Finance Company (IFC), the Company is required to maintain a Capital to Risk Weighted Assets Ratio (CRAR) of 15% (with a minimum Tier I Capital of 10%). According to the information and explanation given to us, the Company is in compliance with the minimum CRAR prescribed.

For Raj Har Gopal & Co.
Chartered Accountants
Firm Regn. No. 002074N

Gopal Krishan
Partner
M. No. 081085

For A.R. & Co.
Chartered Accountants
Firm Regn. No. 002744C

Pawan K Goel
Partner
M. No. 072209

Place : New Delhi
Date : 27th May, 2016