

## SIGNIFICANT ACCOUNTING POLICIES

### 1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS.

- (a) **Accounting Convention:** - The financial statements are prepared under the historical cost convention on accrual basis and in accordance with generally accepted accounting principles and accounting standards as applicable under Section 133 of the Companies Act, 2013 read with MCA General Circular No. 15/2013 dated 13<sup>th</sup> September 2013. The financial statements adhere to the relevant presentational requirement of the Companies Act, 2013.
- (b) **Use of Estimates:** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumption that affect the reported amounts of assets and liabilities and disclosure thereof at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Difference between the actual results and estimates are recognized in the period in which results materialize.

### 2. INCOME RECOGNITION, ASSET CLASSIFICATION AND PROVISIONING.

The Company is following regulatory norms/ guidelines as prescribed by Reserve Bank of India (RBI) from time to time. However, RBI has allowed certain specific relaxations in respect of non-applicability of reduced period for NPA recognition in case of loans sanctioned on or before March 31, 2015 and exemption for certain projects from applicability of Restructuring norms of RBI and allowed the Company to continue to be regulated by the existing REC's prudential norms. The salient features in respect of Income Recognition, Asset classification and Provisioning are as under:

#### 2.1. Income Recognition

- a. Income on Non Performing Assets is recognized as and when received and appropriated. Any such income recognized before the asset becomes non-performing and remaining unrealized is reversed.
- Unless otherwise agreed, the recoveries from the borrowers are appropriated in the order of (i) costs and expenses of REC (ii) penal interest including interest tax, if any (iii) overdue interest including interest tax, if any and (iv) repayment of principal, the oldest being adjusted first.
- In respect of standard loans including those whose terms are renegotiated/rescheduled/restructured and retained as Standard Loans, income is recognized on accrual basis.
- b. Income of fee of DDUGJY Schemes is recognized on the basis of the services rendered and amount of fee sanctioned by the Ministry of Power.
- c. Income of service charges of NEF (Interest Subsidy) Scheme is recognized on the basis of the services rendered and amount of service charges sanctioned by the Ministry of Power.
- d. Income under the head processing fee, upfront fee, lead fee, fees/ charges received under the mutatis-mutandis clause and pre-payment premium is accounted for in the year in which it is received by the company.
- e. Income from investments
- (1) Income from dividend on shares of corporate bodies and units of mutual funds shall be taken into account on accrual basis when REC's right to receive payment is established.
- Provided that in case of final dividend, right to receive payment shall be considered as established only upon approval of the dividend by the shareholders in Annual General Meeting.
- (2) Income from bonds and debentures of corporate bodies and from Government securities/bonds shall be taken into account on accrual basis.
- Provided that the interest rate on these instruments is pre-determined and interest is serviced regularly and is not in arrears.
- (3) Income on securities of corporate bodies or public sector undertakings, the payment of interest and repayment of principal of which have been guaranteed by Central Government or a State Government shall be taken into account on accrual basis.

#### 2.2 Assets Classification

Loans and advances are classified as standard assets and non- performing assets, based on the guidelines issued by the RBI.

- (1) **Standard Assets:** 'Standard asset' means an asset which is not an NPA and in respect of which no default in repayment of principal or payment of interest is perceived and which does not disclose any problem or carry more than normal risk attached to the business.

In view of relaxation given by RBI vide letter dated June 11, 2015, for Transmission & Distribution, Renovation & Modernization and Life Extension projects and also the Hydro projects in Himalayan region or affected by natural disasters, the rescheduling or restructuring or renegotiation of a standard infrastructure loan asset shall not cause it to be reclassified if the revised project is found to be viable by the competent authority.

- (2) **Non performing Assets (NPA):** A Loan asset shall become NPA:-

- (a) if interest and/ or instalment of principal remains overdue for a period of two quarters or more.

The above period of two quarters shall be 5 months for the financial year ending March 31, 2016, 4 months for the financial year ending March 31, 2017 and 3 months for the financial year ending March 31, 2018 and thereafter. However, RBI vide letter dated October 5, 2015 has permitted that the existing loans of the company i.e. loans

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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.

- (b) In case of under implementation Generation Projects other than Hydro projects in Himalayan region or affected by natural disasters, the loan Asset shall also be classified as NPA if it fails to commence commercial operations within 2 years or upto 3/4 years (subject to certain conditions) from the original DCCO as the case may be depending upon the reasons of such delay.

NPAs are classified into Sub-Standard, Doubtful and Loss Assets, based on the following criteria.

- (i) **Sub-Standard Assets:** 'Sub-standard asset' means an asset which has been classified as non-performing asset for a period not exceeding 16 months' for the financial year ending March 31, 2016; 'not exceeding 14 months' for the financial year ending March 31, 2017; and 'not exceeding 12 months' for the financial year ending March 31, 2018 and thereafter.

An asset which has been renegotiated or rescheduled or restructured shall be a sub-standard asset or continue to remain in the same category in which it was prior to its renegotiation or re-schedulement or restructuring, as a doubtful asset or a loss asset as the case may be. Such asset may be upgraded only when all the outstanding loan/ facilities in the account perform satisfactorily during the period up to one year from the commencement of the first payment of interest or principal whichever is later on the credit facility with longest period of moratorium under the terms of restructuring package. Necessary provision is required to be made as applicable to such asset till it is upgraded.

- (ii) **Doubtful Assets:** Doubtful asset means an asset which remains a substandard asset for a period 'exceeding 16 months' for the financial year ended March 31, 2016; 'exceeding 14 months' for the financial year ending March 31, 2017 and 'exceeding 12 months' for the financial year ending March 31, 2018 and thereafter.

- (iii) **Loss Assets:** Loss asset means –

- An asset which has been identified as loss asset by REC or its internal or external auditor or by RBI, to the extent it is not written off by REC, and
- An asset which is adversely affected by a potential threat of non-recoverability due to either erosion in the value of security or non availability of security or due to any fraudulent act or omission on the part of the borrower.

For the purpose of classification of assets into standard, sub-standard, doubtful and loss categories, facilities shall be classified borrower wise with the following exception:

Government Sector loans, where cash flows from each project are separately identifiable and applied to the same project, REC shall classify such loans on project wise basis.

### 2.3 Provisioning against Loans

The provisioning requirement in respect of loans, advances and other credit facilities including bills purchased and discounted shall be as under:

- (i) **Loss assets** – The entire asset shall be written off. If the assets are permitted to remain in the books for any reason, 100% of the outstanding shall be provided for:

- (ii) **Doubtful assets** –

- 100% provision to the extent to which the advance is not covered by the realizable value of the security to which REC has a valid recourse shall be made. The realizable value is to be estimated on a realistic basis; Loans covered by Central/State Govt. guarantee or loans to any State Govt. shall be treated as secured;
- In addition to item(a) above, depending upon the period for which the asset has remained doubtful, provision to the extent of 20% to 50% of the secured portion (i.e. estimated realizable value of the outstanding) shall be made on the following basis :-

Period for which the asset has been considered as doubtful	% of provision
Up to one year	20%
1 to 3 years	30%
More than 3 years	50%

- (iii) **Sub-standard assets** - A provision of 10% shall be made.

- (iv) **Standard assets** - Provision in respect of Standard Assets is made as below:

Particulars	Provisioning Requirement
For Restructured Loans other than under Transmission & Distribution, Renovation & Modernisation and Life Extension projects as also the hydro projects in Himalayan region or affected by natural disasters, if the original DCCO prescribed at the time of financial closure is extended beyond 2 years and upto:	In respect of the stock of outstanding loans as on 31 <sup>st</sup> March, 2015, provisioning requirement shall be as below: <ul style="list-style-type: none"> <li>2.75% with effect from 31<sup>st</sup> March, 2015</li> <li>3.50% with effect from 31<sup>st</sup> March, 2016 (spread over 4 quarters of 2015-16)</li> <li>4.25% with effect from 31<sup>st</sup> March, 2017 (spread over 4 quarters of 2016-17)</li> <li>5.00% with effect from 31<sup>st</sup> March, 2018 (spread over 4 quarters of 2017-18)</li> </ul>

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Particulars	Provisioning Requirement
a. 4 years in case the reason for extension of DCCO is arbitration proceedings or a court case.	The above provision is required from the date of restructuring till the revised DCCO or 2 years from the date of restructuring whichever is later.
b. 3 years in case the reason for extension of DCCO is beyond the control of promoters (other than court cases).	In respect of new projects loans restructured with effect from 1 <sup>st</sup> April, 2015, the provisioning requirement would be 5.00% from the date of such restructuring till the revised DCCO or 2 years from the date of restructuring whichever is later.
For Standard Assets other than specified above	In respect of the stock of outstanding loans as on 31 <sup>st</sup> March, 2015, provisioning requirement is as below: <ul style="list-style-type: none"> <li>· 0.25% by 31<sup>st</sup> March, 2015</li> <li>· 0.30% by 31<sup>st</sup> March, 2016</li> <li>· 0.35% by 31<sup>st</sup> March, 2017</li> <li>· 0.40% by 31<sup>st</sup> March, 2018.</li> </ul> For incremental loans during the financial year 2015-16, 2016-17 and 2017-18, the provisioning shall be made @ 0.30%, 0.35% and 0.40% respectively and shall be further increased in a phased manner so as to make it equal to 0.40% by 31 <sup>st</sup> March, 2018.

### 2.4 Treatment of Provisions held

The provisions in respect of Non Performing Assets (NPAs) is reversed only after the complete recovery of the outstanding/regularization of the account.

- 2.5 For restructured/ rescheduled assets, provisions are made in accordance the guidelines (subject to specific relaxations) issued by RBI, which requires that the difference between the fair value of the loan assets before and after restructuring is provided for, in addition to provision for the respective loan assets.

### 3. FIXED ASSETS.

Fixed Assets are shown at historical cost less accumulated depreciation. The cost includes any cost attributable of bringing the assets to its working condition for its intended use.

### 4. DEPRECIATION.

- 4.1. Depreciation on assets is provided on straight-line method in accordance with the useful lives prescribed under Schedule II to the Companies Act, 2013.
- 4.2. Depreciation on assets purchased / sold during the year is charged for the full month if the asset is in use for more than 15 days, instead of charging the same on pro-rata basis from the date of purchase/sale.
- 4.3. Depreciation on assets purchased during the year up to ₹ 5,000/- is provided @ 100%.
- 4.4. Leasehold land is amortized over the lease period.

### 5. INTANGIBLE ASSETS.

An Intangible Asset is recognized where it is probable that the future economic benefits attributable to the assets will flow to the company. The depreciable amount of an intangible asset is allocated on straight line basis over the best estimate of its useful life. Management estimates useful life of intangible assets to be 5 years.

### 6. INVESTMENTS.

Long term investments are carried at cost. However, provision for diminution is made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. Quoted current investments are carried individually at the cost or market value whichever is lower. Unquoted current investments are carried individually at the cost or fair value whichever is lower.

### 7. CURRENT TAX AND DEFERRED TAX.

Income Tax expense comprises current Income Tax (Amount of tax for the period determined in accordance with the income tax law) and deferred tax charge or credit (reflecting the tax effects of timing differences between accounting income and taxable income for the period) is determined in accordance with Accounting Standard - 22. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognized using the tax rates that have been enacted or substantially established by the Balance Sheet date. Deferred Tax Assets are recognized and carry forward to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such Deferred Tax Assets can be realized.

### 8. IMPAIRMENT OF ASSETS.

At each balance sheet date, the Company reviews the carrying amounts of its fixed assets to determine whether there is any indication that those assets suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss. Recoverable amount is the higher of assets net selling prices and value in use.

### 9. PROVISIONS

A provision is recognized when the company has a present obligation as a result of past event and it is probable that an outflow of resources will be required to settle the obligation and reliable estimate of amount of the obligation can be made.

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Provisions are determined based on management estimate required to settle the obligation at the Balance Sheet date. These are reviewed at each Balance Sheet date and adjusted to reflect the current management estimates.

### 10. BOND / DEBT ISSUE.

- 10.1. Expenditure on raising of funds by way of bonds is charged to revenue in the year of issue of such bonds.
- 10.2. The Corporation discharges its obligation towards payment of principal and interest relating to bonds by depositing the amount in the designated Bank Accounts. Accordingly, the payments are treated as final payments and these amounts are not exhibited in the books till the validity of the instruments but reconciliation thereof is carried out.
- 10.3. Expenditure incurred on raising of funds is charged to the Statement of Profit & Loss in the year in which it is incurred except the discount/interest on the Commercial Papers/ Reg-S-Bonds (External Commercial Borrowings), which is amortized proportionately over the period of its tenure.

### 11. CASH FLOW STATEMENT

- 11.1. Cash flows are reported using the indirect method, whereby profit before tax is adjusted for the effects of transactions of a non-cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flows from regular operating, financing and investing activities of the Company are segregated.
- 11.2. Cash comprises cash on hand, demand deposits with banks, imprest with postal authorities and cheques / drafts / pay orders in hand. The Company considers cash equivalents as all short term balances (with an original maturity of three months or less from the date of acquisition), highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

### 12. PRIOR PERIOD/ PREPAID ADJUSTMENTS

- 12.1. Considering the nature of business, interest income/expenditure for the earlier years ascertained and determined during the year is accounted for in the year in which it is so ascertained/determined.
- 12.2. Other items not exceeding ₹ 5,00,000/- in each case are accounted for under natural heads of account.

### 13. EMPLOYEES BENEFITS

- 13.1 The liability for employees benefit in respect of Gratuity ascertained on actuarial valuation is provided and funded to a separate trust.
- 13.2 Post employment and other long term employee benefits are recognized as an expense in the Statement of Profit & Loss for the year in which the employee has rendered services. The expense is recognized at the present value of the amounts payable determined using actuarial valuation techniques. Actuarial gains and losses in respect of post employment and other long term benefits are charged to the Statement of Profit & Loss.

### 14. TRANSACTION IN FOREIGN CURRENCY

- 14.1 Foreign Currency transactions are initially recorded at the exchange rate prevailing on the date of transaction.

In respect of accounting periods commencing on or after the 1<sup>st</sup> April, 2011, the exchange differences arising on reporting of long-term foreign currency monetary items (having a term of twelve months or more at the date of origination) at RBI reference rates prevailing at the end of each reporting period or where the RBI reference rate is not available for any currency, the closing rate for the same date quoted on Bloomberg, different from those at which they were initially recorded during the period, or reported in previous financial statements, are accumulated in a "Foreign Currency Monetary Item Translation Difference Account" and amortized over the balance period of such long term monetary item, by recognition as income or expense in each of such periods.

Short-term foreign currency monetary items (having a term of less than twelve months at the date of origination) are translated at RBI reference rates prevailing at the end of each reporting period or where the RBI reference rate is not available for any currency, the closing rate for the same date quoted on Bloomberg. The resultant exchange fluctuation is recognized as income or expense in each of such periods.

- 14.2 The portion of Foreign Currency loans swapped into Indian rupees is stated at the rate fixed in the swap transaction, and not translated at the year end rate.

### 15. GRANTS/FUNDS FROM GOVERNMENT

Un-disbursed funds of grant received for further disbursements are classified as current liabilities. Interest wherever earned on such funds is credited to respective grant account.

### 16. DERIVATIVE TRANSACTIONS

- 16.1 Derivative transactions include forwards, interest rate swaps, cross currency swaps and currency and cross currency options to hedge assets and liabilities.
- 16.2 These derivative transactions are done for hedging purpose and not for trading or speculative purpose. These are accounted for on accrual basis and are not marked to market.