

REC Limited Media Coverage 08 July 2024

Director Finance Interview with INFORMIST



INTERVIEW

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REC finance head says capital gains tax tweaks may aid company

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- REC Baweja: High mop-up from capital gain bonds may cut borrow cost
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- REC Baweja: More taxpayers may buy capital gain bonds to save tax
- REC Baweja: Raised 21.56 bln rupees from capital gain bonds Apr-Jun
- REC Baweja: Raised 114 bln rupees from capital gains bonds in FY24
- REC Baweja: To explore more foreign mkts to avail cheaper funds
- REC Baweja: Held roadshows in Singapore, US to raise funds
- REC Baweja: Held roadshows in Hong Kong, UK to raise funds
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- REC Baweja: See FY25 borrow cost around 7% if mkt condition unch
- REC Baweja: See loan book growing 15-17% in FY25

By Priyasmita Dutta and Sagar Sen

NEW DELHI – State-owned REC Ltd may become the unintended beneficiary of the government's move to restructure capital gains tax. With long-term capital gains tax going up, more investors may look to invest in 54EC bonds, also known as capital gain bonds, to save on tax. Higher collection of 54EC bonds will help reduce the company's borrowing cost, according to REC Director Finance Harsh Baweja.

"It (Section 54EC bond) is the cheapest source of borrowing. As such, any incremental collection will help our borrowing costs positively," Baweja told Informist in an interview.

Investors making capital gains on the sale of immovable property can invest in 54EC bonds to save on long-term capital gains tax. These are special bonds issued by infrastructure companies like REC, Power Finance Corp Ltd, National Highways Authority of India, and Indian Railway Finance Corp Ltd.

Though the bonds offer a lower rate of interest at 5.25%, investors benefit from the tax exemption enjoyed by these instruments. Investors can invest up to 5 mln rupees in a financial year in these bonds, which have a lock-in period of five years.

In the Budget, the government changed tax treatment for capital gains. Under the new regime, long-term capital gains on all financial and non-financial assets will attract a uniform 12.5%. Earlier, the long-term capital gains tax was 10% for listed shares and equity-oriented mutual fund units and 20% with indexation benefits for other assets.

"In case of high capital gain tax (for any taxpayer), many people may go for 54EC bonds to save on taxes," said Baweja. "But we have to wait for a year or so before the actual picture comes out regarding the impact of the changes in the Income Tax Act on our collections. We have been getting the largest quantum of mobilisation towards 54EC bonds for the last many years."

REC raised 114.21 bln rupees through 54EC bonds in 2023-24 (Apr-Mar) and 21.56 bln rupees in Apr-Jun this year. The non-banking finance company lends to state electricity boards, state-owned power utilities, rural electricity cooperatives, and independent power producers. At 0931 IST, shares of REC traded 0.9% lower at 639.50 rupees on the National Stock Exchange.

Edited excerpts from the interview follow:

Q. The change in capital gains tax will have an unintended benefit for REC, as it may boost the sale of 54EC bonds. How do you view this situation?

A. If you look at past records across the market, 54EC has a very limited kitty. And out of all the eligible entities, REC enjoys the maximum share of that. In the case of high capital gains tax for any taxpayer, since investors have limited options, many people go for 54EC to save more taxes, especially since the indexation benefit has also been taken away. We expect our collection to be a little more, but we have to wait a year or so before the actual picture comes out. We have been the eligible entity for mobilising funds from 54EC bonds for the last many years. In 2023-24, we raised 11,421 crore (114.21 bln) rupees through 54EC bonds. In Apr-Jun, we raised 2,156 crore (21.56 bln) rupees.

Q. Do you also plan to promote this?

A. Since the bonds are issued on a private placement basis, we cannot go for public announcements as per the guidelines.

Q. What sort of impact do you see this having on the borrowing rate?

A. It is the cheapest source of borrowing. As such, any incremental collection will help reduce our borrowing costs.

Q. Are you still looking at the Tokyo market, or are there other markets you are looking at to raise funds?

A. We are open to any currency which gives us the lowest cost, the cheapest cost on a hedged basis. Previously, we raised some funds through the Japanese yen because that was cheaper and continues to be low-cost. Ultimately, our objective is to get cheaper funds. If it is cheaper than the domestic market, then we'll go for the external commercial borrowings funding.

Q. Are you holding any roadshows in any of the overseas markets?

A. Yes. We have recently been to Singapore, Hong Kong, the US and London to explore the US bond issuance.

Q. Could you give us some idea about the next 3-6 months, which market will you be tapping for green bonds or normal bonds?

A. That depends entirely on the markets. The rates outlook is changing every day with the markets expecting rate cuts. We continue to keep track of the domestic and global markets and whatever source provides us the most cost-efficient funding, we go for that.

Q. So would you take a pause for 3-6 months to gauge how interest rates are faring before taking a call on overseas borrowing?

A. REC has a regular funding requirement that is met through borrowing from domestic and international funding sources. We keep analysing the markets on a regular basis. So the type of funding depends on the time we negotiate the loan.

Q. In the last few months, you have borrowed from a Deutsche Bank subsidiary in GIFT City and an Italy-based funding agency. Are any more such fund-raising plans in the pipeline?

A. Yes, we are in discussions with many such agencies and are exploring different currencies also. But everything depends on the cost vis-a-vis the domestic market.

Q. REC opened a subsidiary in GIFT City. When can we expect it to be operational?

A. The approval from RBI (Reserve Bank of India) is already in place, but some of the other approvals are still in the pipeline. Once we get those, we will set up the subsidiary.

Q. You have said that you plan to borrow 1.6 trln rupees in 2024-25. Is there a possibility that you may need more funds than that?

A. As of now, our plan is this. The rest will depend upon our future business and how the disbursements take place during the year. We don't want to keep any money idle.

Q. We are already one month into the second quarter. How is it looking so far?

A. So far it is going on the track.

Q. Currently, REC's net interest margin is at 3.64%. By the end of 2024-25, where do you see it?

A. We expect that with the future outlook on the interest rate scenario, whereby the rates are likely to soften in the near future, we should be able to maintain the NIM at around these levels.

Q. Your cost of borrowing is at 7.05% currently. By the end of the year, where do you see it?

A. It should be maintained at similar levels, provided the economic outlook fares up in the near future as anticipated, the central banks take their policies forward on expected lines, and there are no surprises.

Q. The Budget has been putting a lot of trust on capital expenditure, especially in the power and roads sectors. How do you see that translating into your loan book?

A. You can well understand that India is a power-deficit country and our average consumption per capita is around 1,330 units, which is around one-third of the world average. The developed countries consume around 10,000 units plus. Thus, there is huge scope for capital expenditure in the power sector. There are 500 GW of renewable generation that the government is aiming at and to become net-zero by 2070. Similarly, for infrastructure, other than power, including roads, there is a lot of push by the government for infrastructure development. So, we expect a good pie of this converting into REC's business. That is why we have set a loan book target of 10 trillion rupees by the end of 2030.

Q. Have you set any aim for disbursements and sanctions for the current fiscal year?

A. We will maintain a loan-book growth of 15-17% year-on-year. That will be reflected in sanctions and disbursements as well. End

Full Story Link - <https://www.informistmedia.com/CommodityWire/INTERVIEW--REC-finance-head-says-capital-gains-tax-tweaks-may-aid-company>
