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REC Limited
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Interview

With

MERCOM

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clean energy insights

REC to Increase Renewable Energy Loan Portfolio from 6% to 30% by FY30: Interview

The company has approved ₹499.29 billion in loans for the first half of FY 2023-24

In an exclusive interview with Mercom India, V K Singh, Technical Director at REC Limited, discusses the role the government-owned infrastructure finance company aims to play in achieving India's ambitious 500 GW renewable energy target.

He elaborated on the opportunities and challenges in funding renewable energy projects and the way ahead.

Here are the excerpts from the interview.-

Is REC Limited looking to be a one-stop debt solution for renewable energy projects in India? How will you achieve this?

REC is a one-stop solution addressing debt requirements in the renewable energy sector, encompassing project development, letter of credit requirements, and even manufacturing facilities for renewable components. We can take significantly large lending exposure for a single entity/project, sufficient to cater to a project's complete debt requirement, eliminating the need for borrowers to go to a consortium of banks. We offer significantly wider loan tenure for 15–20 years. REC has been introducing new loan products based on emerging requirements in the sector and is committed to providing all forms of financial assistance that may be required for the sector's growth.

What is the share of renewable energy financing in REC's loan portfolio? Have you set any targets to increase the size of the renewables loan book?

REC's loan book in the renewable energy space has grown from ₹75.06 billion (~$900.71 million), i.e., 3% of REC's loan book of ₹2.39 trillion (~$28.68 billion) in the financial year (FY) 2017-18 to ₹298.33 billion (~$3.58 billion), i.e., 6% of REC loan book of ₹4.74 trillion (~$56.88 billion) in FY 2022-23. This figure is expected to increase exponentially owing to approvals of ₹499.29 billion (~$5.99 billion) in the first half of FY 2023-24, and we target to increase our renewable energy portfolio to 30% of the loan book by FY 2030. We are striving towards realizing the above target and are currently on track to be one of the largest lenders for the renewable energy sector.

REC has financed solar, wind, and hybrid power projects. Given that energy storage, green hydrogen, and green mobility are gaining traction, what plans does REC have for these technologies?

In addition to conventional, renewable energy projects like solar and wind, REC has ventured into financing projects with multiple technologies such as hybrid power, pumped storage projects, energy storage, electric vehicles, manufacturing of solar modules/wind turbines, and commercial and industrial projects.

With multiple technologies supplementing one another, hybrid power projects have various advantages, including better grid stability and higher capacity utilization factor. REC has sanctioned financial assistance to hybrid projects and is keen to finance more such projects.

Pumped storage projects are increasingly becoming an attractive option to efficiently utilize electricity generation and consumption gaps. REC has sanctioned several such projects recently. We offer better interest rates and terms compared to conventional hydroelectric projects, considering the risk profile associated with them.

The government of India's progressive policy framework promoting e-mobility has led to the EV market witnessing a lot of traction. REC has been one of the first movers to provide financial assistance to E-bus projects.

REC is aggressively exploring financing of sunrise sectors like green hydrogen, green ammonia projects, round-the-clock power projects involving bundling renewable projects with thermal power, and other similar opportunities.

REC is taking all steps to bring out the required solutions for the funding requirements that are in tune with the dynamic developments in the space.

What is the ROI when it comes to renewable energy financing? What are the unique risks that RE projects pose from a financing perspective? Also, many developers feel that financing renewables is expensive and comes with many conditions. Your thoughts?

Solar and wind renewable energy projects offer the lowest tariffs in the current market environment, indicating lower construction and operation costs than conventional generation. Developers consider returns while quoting tariffs in the bidding for power purchase agreements based on their internal expectations.

Due to the short completion period of these projects, delays of any kind affect financial planning, and another risk could be due to gaps in site selection, which may result in lower-than-expected energy generation. However, with the scale of investment in the sector, these risks are mitigated to a large extent with the development of better know-how.

Regarding the query on financing options, I would like to reiterate that REC offers one of the better financing options. We have deliberately kept significantly lower margins on renewable energy financing and offer very competitive low-cost rates to these borrowers. Renewable energy projects command lower interest rates than conventional generation projects, so the apprehension that financing for the renewable energy sector is expensive must be seen in comparative light with other electricity generation sources.

For someone with a ringside view of the renewable energy landscape, what are the opportunities and challenges for the sector going forward?

During the last few years, India has witnessed a remarkable increase in renewable energy capacity, elevating its position as one of the global leaders in clean energy adoption. Today, India stands fourth globally for installed renewable energy capacity (including large hydro), fourth in wind power capacity, and fourth in solar power capacity.

In terms of investment, India has attracted substantial funds in the renewable energy sector. Investment in renewable energy touched a record $14.5 billion (~$174 million) in FY 2021-22, an increase of 125% over FY 2020-21 and 72% more than the pre-pandemic year of FY 2019-20. This represents a substantial increase from previous years and demonstrates the growing confidence of investors in India's renewable energy market. The investments have come from domestic and international sources, including private equity firms, venture capital funds, and multinational corporations.

To achieve India's ambitious target of 500 GW by 2030, the country must add 50 GW of renewable energy capacity annually for the next eight years. This would require an investment of around ₹15-20 trillion (~$180-240 billion) by 2030.

Several factors have contributed to the increased investment in India's renewable energy sector. These include favorable policy interventions, initiatives to drive clean energy, and incentives such as tax benefits, subsidies, and low-cost financing options. Technological advancements and cost reductions have further propelled investments. The falling prices of solar panels, wind turbines, and energy storage systems have made renewable energy projects more economically viable. This has attracted diverse investors who see the sector as a financially attractive opportunity.

Furthermore, the government has actively encouraged foreign investment in the sector. It has implemented measures such as 100% foreign direct investment in renewable energy generation and allowed investments in debt instruments like bonds. These steps have facilitated greater participation of foreign investors in India's clean energy market.

The challenges involve matching capacity increases with transmission infrastructure and identifying avenues to utilize generated electricity efficiently while ensuring grid stability.

Transmission infrastructure plays a big part in ensuring energy security. Can you elaborate on REC's role in developing transmission infrastructure in the country?

Over the years, REC has supported the establishment of transmission systems across the country by providing financial assistance for such projects, and currently, ₹483.93 billion (~$5.81 billion) of REC's loan book is towards the transmission sector.

REC Power Development and Consultancy Limited (RECPDCL), a wholly owned subsidiary of REC, is rendering expert and value-added consultancy services to power utilities across the country to select developers for constructing transmission projects through tariff-based competitive bidding.

In September 2023, RECPDCL handed over the project-specific special-purpose vehicle formed to construct the Beawar Transmission to Sterlite Grid 27. On April 20, RECPDCL handed over KPS1 Transmission to Megha Engineering & Infrastructures.

REC has gone international by financing a green hydrogen project in Oman. How do you see the scope for REC in global green financing? Which geographies are you targeting and why?

In our loan book of ₹4.75 trillion (~$56.99 billion), renewable energy stands at around 6% of our outstanding loan book. This is where a major change will happen. We are going to play a significant part as far as energy transition is concerned. We want to increase our total loan book size to about ₹10 trillion (~$119.99 billion) by the end of 2030. We target 30% of it from green projects, including e-mobility projects. A paradigm shift will happen there, and our loan book from green projects will increase substantially from 6% to 30%. However, largely, the exposure will remain within Indian territory.

REC published its Green Finance Framework earlier this year. With India's energy transition goals in place, will REC phase out financing for coal and other fossil fuel projects? Have you set any targets and timelines to achieve this?

As part of a sustainable financing initiative, REC has established this Green Finance Framework as the basis for issuing green bonds, loans, and other financial instruments used to finance and refinance eligible green projects that conform to the green finance principles.

However, thermal power still forms the base load of the country's power sector, and we continue to provide funding to those thermal projects that conform to all ESG guidelines. Our country is growing rapidly, and energy demand is rising quickly, which needs to be met. For this reason, various states are also taking up new thermal projects. REC, the largest lender in the country's power sector, will consider financing them, provided these projects meet our appraisal/viability requirements.

Satish Shetty

Story Link - [REC to Increase Renewable Energy Loan Portfolio from 6% to 30% by FY30: Interview (mercomindia.com)]

Thank You

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