Why REC is confident of reaching net zero NPA by '25, AUM target before 2030

ET NOW Last Updated: Aug 22, 2023, 01:39 PM IST

Synopsis
:The overdues of generation and transmission companies have come down by almost half, from Rs 1,40,000 crore to Rs 70,000 crore. All current dues are being paid on time. Subsidies are coming from the government. Tariff revisions are happening. That has given a lot of impetus to the sector and the investors are quite excited about it. These are the things working in favour of power companies like REC."

Ajoy Choudhury, Director (Finance), REC, says the power company has taken a three-pronged approach to eliminate NPAs. "Now we deal with only very strong, generally A-rated players. Secondly, we do not go without our revenue stream tied up in the projects. The third important step that we have taken is monitoring. Now we are engaging specialised monitoring agencies to monitor each and every project and in case of conventional space, we are putting them at the site and they are able to give us first-hand information of all that is happening. Unless they tell us everything is going right, all the statutory clearances are in place, the progress is what we expect, we are actually not disbursing and we are taking timely corrective action. "

There are a couple of factors that are working in favour of the power sector; the power demand has hit a record high in August, the thrust is in power sector capex as well. How does it change the outlook for you? What is the financing opportunity for you at REC?
A few things are happening in the power sector. One is energy transition, which we think will give us a strong growth momentum in the days to come. Recently in Goa, in G20 ministerial summit sidelines, we had discussions with many developers and we signed MOU of close to Rs 2.75 lakh crore. All kinds of renewal projects, solar, wind, hybrid, e-mobility, hydrogen, PSP and whatnot. So that is a space that will give us a very good growth momentum.

The second space is a non-power infra space. Last year, we diversified into non-power infra as well. That is looking very good. We have given sanctions for close to 1 lakh crores of projects, which will convert to disbursements shortly in the days and months to come. So that is a very good space.

Thirdly, a very interesting thing happened. The most important thing is the distribution sector reforms. The efforts of the **Ministry of Power** are finally paying off and we are seeing a sustained improvement in the distribution sector. The overdues of generation and transmission companies have come down by almost half, from Rs 1,40,000 crore to Rs 70,000 crore. All current dues are being paid on time. Subsidies are coming from the government. Tariff revisions are happening. That has given a lot of impetus to the sector and the investors are quite excited about it. These are the things working in favour of power companies like REC.

Do you stand by your 10 trillion rupee AUM target by 2030 or do you hope to achieve it even before that?
I think we should be able to achieve it before that, given the kind of momentum that we are seeing. As of now, we have kept at 10 trillion rupees with at least, 3 trillion coming from the renewal space. But I am sure with the kind of momentum last quarter – we sanctioned around Rs 90,000 crore of projects and our disbursement on a year on year was up 175%. So we may have to soon revise it.

What we understand is that the renewable capex and the non-renewable capex is a big difference. Most of the private companies are not looking at expanding their capacity in the thermal sector. That is where the traditional bulk capex requirement and the funding requirement was growing. How will the contraction of the space affect your business?
There will be some contraction in this space. Renewable energy, of course has huge demand and we should compensate this via a slight moderation in the capex generation space by non-power infra, where we see a lot of opportunities. Further, the distribution and the transmission sectors will also need a lot of upgradation and modernization. There is also the RDSS scheme of the government of India, which has a total capex outlay of $3 trillion, out of which $2 trillion will be by way of equity from the state and largely a loan part, which we shall be looking to tap into.

The moderation in the thermal generation space will not affect so much given the kind of opportunities available in the renewal space, non-power infra and T&D.

In the past, asset quality has been a bit of a concern for REC, but I believe now you are targeting a net zero NPA by 2025. What exactly is driving this confidence? What is it that you are going to be doing differently from what you did earlier that would ensure that your asset quality sustains?
So, earlier there were a few things happening in the thermal space. Many of

the projects did not have the revenue tied up, the PPS were not in place. Then, of course, there was coal block cancellation which impacted some of the projects and some of the entities were not that strong at that time and therefore they could not bring a required equity in case of cost overruns or pull through the projects when they were in difficulty.

Now we deal with only very strong, generally A-rated players. Secondly, we do not go without our revenue stream tied up in the projects. The third important step that we have taken is monitoring. Now we are engaging specialised monitoring agencies to monitor each and every project and in case of conventional space, we are putting them at the site and they are able to give us first-hand information of all that is happening. Unless they tell us everything is going right, all the statutory clearances are in place, the progress is what we expect, we are actually not disbursing and we are taking timely corrective action.

These things have changed and the asset quality has improved. In the last six quarters, we did not have any NPA and we hope, by March '25, we shall be a net NPA zero company.

When do you think the NCLT resolutions,? You have got a long pipeline there. How realistically will they be settled this year?
Yes, the NCLT process has been a little slower than what we expected. But now, we are seeing a lot of traction there. This year, out of our Rs 14,800 crore of stage three assets, we should be able to resolve around Rs 7,000 crore and that includes some of the large projects like TRN Energy. Some will be through the NCLT process and some will be out of NCLT as well. One or two projects will be resolved in the current quarter. Next year we should be in a position to resolve the rest of it.

What are the NPA accounts you are going to resolve now?
One is Meenakshi Energy, where we have close to Rs 700 crore of exposure. The other is DANS Energy, which is the hydro project. It has a PPA tied up and we are getting 100% recovery there. So, the entire provision will have a write back.

What did hit you was, let us say, Meenakshi and other specific plants. Right now, things are looking good. Everybody wants to expand. A similar cycle was at play in 2006 and 2010, where everybody wanted to expand because merchant power prices were strong, demand was high and then a good cycle became a bad cycle. How is the cycle different this time?

Last time, many of the projects we saw failed due to non-tying of the PPAs. This time the growth that is happening is coupled with the distribution sector reforms. So, the distribution companies are becoming stronger. They are having regular tariff revision and that will give a lot of impetus. Today, the generation company, the transmission companies are all getting paid on time. Secondly, the renewal space is attracting a lot of good PE funds, like we have seen KKR, Actis and Macquarie. They are all coming into this space and are very strong players.

With these strong players in place and the reforms in the distribution sector, things will definitely be different. In fact, thermal had a lot of other issues in terms of write-offs, clearances, availability of coal, etc, which are not there in this renewal space in particular and, of course, in the non-power infra.

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