

## INTERVIEW: Hope to ride green energy transition wave, says REC head [Back](#)

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- REC CMD Dewangan: See loan book topping 5 trln rupees by end FY24
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By Priyasmita Dutta and Sagar Sen

NEW DELHI – Aligning with the government's push for transition to green energy, REC Ltd is looking at the renewable energy sector more aggressively, while exploring options to keep its borrowing costs low, says Chairman and Managing Director Vivek Kumar Dewangan.

"We want to increase our total loan book size to about 10 trln rupees by the end of 2030. We are targeting 30% of it to come from green projects, including e-mobility projects, and green energy," Dewangan tells Informist in an interview.

"But in terms of absolute numbers, it will be an increase of 10 times. Our total outstanding loan for the renewable sector is around 300 bln rupees as of today. It will see a tenfold increase to 3 trln rupees by the end of 2030."

REC, a non-banking financial company under the power ministry, lends to state electricity boards, state-owned power utilities, rural electric cooperatives, and independent power producers. Its focus on the renewable energy sector is part of the roadmap to improve revenue from operations to 469 bln rupees in 2023-24 (Apr-Mar) from 395 bln rupees in the preceding year.

On Friday, the company signed a memorandum of understanding with Power Finance Corp Ltd, which holds majority shareholding in the company, committing to a substantial increase in revenue from operations in 2023-24 and 2024-25.

In 2022-23, the power financier's revenue from operations improved only 0.5%.

Dewangan says that a significant improvement in operational income is directly related to disbursements. For 2023-24, disbursements are expected to exceed 1.5 trln rupees, higher than the 1.3-trln-rupee target set earlier in the year, he says. As of Wednesday, disbursements were to the tune of 645 bln rupees, almost double the total amount disbursed in the June quarter, he says.

REC aims to keep borrowing costs under control by avoiding high-cost US dollar-denominated or euro-denominated bonds. Instead, it is looking to tap the Tokyo bond market in October, and the quantum "will depend on the interest from the investor...initially, we had targeted about \$300 mln", Dewangan says.

To avail tax incentives at GIFT City, REC plans to set up a subsidiary there by the end of 2023, he adds.

Following are edited excerpts from the interview:

**Q. What is the amount of loans sanctioned and disbursed so far this financial year?**

A. There has been tremendous growth in our loan book. At the end of March 2022, the size of the loan book was 3.85 trln rupees, which increased to 4.35 trln rupees by the end of March 2023 – in one year, it increased by 500 bln rupees. But in the current financial year, in Apr-Jun itself, there has been an additional 190 bln rupees. Our loan book at the end of June stood at 4.54 bln rupees. If you extrapolate it, the loan book will increase by about 750 bln rupees in the current financial year. From 4.35 trln rupees, it will go up to 5.10 trln rupees if we maintain the same growth trajectory. The way our loan book is increasing, I'm 100% sure we'll be able to exceed 5.0 trln rupees easily in the current financial year.

## Other News.

### Finance ministry defends real GDP growth estimate, calls out critics

Informist, Saturday, Sep 16, 2023 NEW DELHI – The finance ministry compiled a 10-point list of arguments and explanations to defend the issues raised by "certain sections" of people regarding India's GDP data. In a series of posts on X (formerly Twitter), the ministry late on Friday said India's GDP data are not seasonally-adjusted and are revised multiple times before they are finalised [...]

### NABARD to launch maiden social sector bonds on Sep 29, says chairman

Informist, Friday, Sep 15, 2023 –NABARD head: To list social bonds for 30 bln rupees on Sep 29–NABARD head: Green, sustainability bonds to follow social bond–NABARD head: Created arm to focus on climate, sustainability By Narayana Krishna HYDERABAD – National Bank for Agriculture and Rural Development is all set to launch its maiden social sector bonds on Sep 29 to raise 30 bln rupees, Chairman Shaji K.V. told [...]

### TREND:Jewellers cautiously optimistic on demand this festival season

Informist, Friday, Sep 15, 2023 By Sandeep Sinha MUMBAI – A host of factors has seemingly turned jewellers and industry experts cautiously optimistic about gold demand this festival season. Among them are a correction in gold prices, a drop in domestic inflation, and better prospects of farm sector output following a revival in monsoon rains. From the high of [...]

As far as sanctions are concerned, last year we had the highest ever sanctions of 2.68 trln rupees. This year, by the end of September, we would be touching 2 trln rupees. So this year, perhaps our total sanctions will touch about 4 trln rupees and disbursement will be to the tune of 1.5 trln rupees.

**Q. Last week, you received the approval of shareholders to increase the overall borrowing limit to 6 trln rupees from 4.5 trln rupees. How does it impact your borrowing programme for the current fiscal year?**

A. Borrowing is linked to our disbursement. Last year, our disbursement was the highest ever, about 966.87 bln rupees. But the current year, it is going to exceed all expectations. Actually, in Apr-Jun itself, we have disbursed 340 bln rupees and as we are talking today, our disbursement has crossed 645 bln rupees. So, we actually expect that our total disbursement in the current financial year will touch about 1.5 trln rupees. You can assume that it is going to be an increase of more than 54% as far as disbursement is concerned. Then, depending on our disbursement, we have to borrow also. Some repayments do happen; we are factoring in that around 300 bln rupees would come as repayment. We will then require about 1.20 trln rupees of borrowing. So, 1.50 bln rupees will be sufficient to meet our disbursement requirements.

Traditionally, we have seen that Oct-Dec is the best period, but in Apr-Sep, we have picked up. We hope that our disbursement will be phenomenal this financial year, more so because we have taken a very conscious business strategy.

**Q. On Friday, REC signed a memorandum of understanding with PFC, committing to improving revenue from operations substantially in 2023-24 and 2024-25. How do you aim to meet this target?**

A. It has a direct relation with the kind of disbursements. Last year, 960 bln rupees were disbursed. This year, we plan disbursement of 1.5 trln rupees, of which 750 bln rupees will be disbursed by the end of September. These loans will get interest income for the remaining six months. As our disbursement increases, our revenue income also increases. You must have seen that last year, our revenue from operations was in the range of 390 bln rupees. A little increase was there, we had reduced interest rates by 150-200 basis points. But in the current financial year, we started to increase our interest rate, depending on the global scenario. We have already increased by 50-75 bps this fiscal year. The infrastructure logistics projects we are sanctioning, their disbursement is going to increase next year. That is why next year (2024-25), we're targeting 560 bln rupees.

**Q. You had earlier mentioned that you would now focus on the renewable sector. Do you see a rejig in your loan book due to this shift in focus?**

A. In our loan book of 4.54 trln rupees, about 32% is from conventional coal-based generation, and the distribution sector accounts for about 34%. Transmission stands for about 10-12%. Then, we have electro-mechanical components, some irrigation-related projects are there, and some metro projects that we have financed that account for around 10-11%.

Renewable energy stands at around 7% 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 trln rupees by the end of 2030. We are targeting 30% of it to come from green projects, including e-mobility projects, and green energy. There, a paradigm shift will happen.

Our loan book from green projects will increase substantially from 7% to 30%. But in terms of absolute numbers, it will be an increase of 10 times. Our total outstanding loans for renewable are around 300 bln rupees as of today; it will see tenfold increase to 3 trln rupees by the end of 2030. This will be a major paradigm change in our book, as far as green projects are concerned.

The second significant change will be with regard to infrastructure and logistics.

**Q. Will this need tweaking of REC's borrowing programme as well?**

A. Yes. You have to factor in the fact that the gestation period of renewal energy is very short. Solar or wind projects are installed in two-three years. Their repayments are also fast. What are developers doing? They want to exit after they install these renewable projects, they want to monetise them. So, they sell their stake. They take out their equity, and further reinvest. That's how they are growing their wealth. So, the turnaround time for renewal projects is very low. We are also finding that there will be a lot of refinancing opportunities. At some point in time, these renewable energy project developers got funding from external commercial borrowing. At that time, the rate of interest was competitive but now, global interest rates have gone up, and they are finding it difficult. So, they are coming to us for refinancing those projects.

**Q. You issued green bonds earlier this year. Are you looking to issue more this fiscal year?**

A. Actually, yes. When we raised green bonds, the withholding tax was attractive, but after the Budget, the withholding tax has increased. So now, we are planning to set up our subsidiary in GIFT City. If we raise these green bonds through GIFT City, we will get a lower withholding tax. So we are

waiting, our proposal has gone to the Ministry of Power and subsequently, we will seek approval from the Reserve Bank of India to set up a subsidiary of REC in GIFT City. Once that happens, the sky is the limit.

In the meantime, US dollar-denominated and euro-denominated bonds are quite costly. So, we are thinking that we will go for Japanese yen, that is quite competitive. The total all-in cost is less than 7% or at times, less than 6% and also includes all hedging costs, etc. So, we will target Japanese yen bonds in the time our subsidiary comes up in GIFT City. We are trying that in this calendar year itself, we should get a subsidiary in GIFT City, by December, and Japanese yen bonds next month itself.

**Q. What quantum of yen-denominated bonds are you looking to issue?**

A. It will depend on the interest of investors. Initially, we had targeted about \$300 mln.

Our experience with a term loan for foreign currency borrowing is much better. We are getting rather lower interest rates for foreign currency term loans. Right now, we are taking more term loans in foreign currency rather than going for bonds; bonds have become expensive now. We have to ensure that our cost of funds is lower so that we are able to pass on the benefits. Ultimately, it impacts the consumer.

**Q. Is there a plan to issue green bonds domestically?**

A. Actually, after G20, a lot of commitments have come, and we are just waiting. A lot of the ecosystem is in the process of developing. The Reserve Bank of India and the Department of Economic Affairs are in the process of finalising the green taxonomy framework. Right now, there is no clarity – if a coal-based thermal power plant has emission control equipment, will it be considered a green project or not? Green taxonomy will resolve these issues. Once this green taxonomy is in place and a proper framework is there, only then will it be prudent to go for green bonds in the country.

**Q. REC had last come out with a public issuance of bonds in 2012 for 45 bln rupees. Is there any plan to launch a fresh public issue?**

A. The main objective is how to reduce our cost of borrowing. There is no dearth of funds. We have to go for lower cost. So, right now, raising these bonds may not yield good rates. We are making a judicious mix of borrowing so that our cost of funds comes down. That is the feedback we received.

**Q. Your total loan book consists of around 10% of private sector lending. Is there a plan to increase it going ahead?**

A. Right now, our loan portfolio is only 10% for the private sector; the rest 90% are state utilities. Now, 30% of the loan book is going to come from renewable energy, they are mostly coming in the private sector. We are targeting this prepaid smart meter financing, 1.5 trln rupees of total investment will be required. It will entail debt financing of more than 1.2 trln rupees for smart metering itself. This smart metering business, renewable energy business, all of it is coming in the private sector alone. So, our loan portfolio in the private sector is going to increase substantially from 10% to a minimum of 30%, or it may rise to 40% too. But we are very conscious of the fact that we don't want any new non-performing assets because we declared that we want to become a net-zero NPA company by 2025. I am going to be very careful about financing the private sector. We are going for financing only good assets in the private sector where repayments are 100% assured. In the last six quarters, there has been no new NPA. In fact, after 2015, whatever loan has been sanctioned, none of them have become NPAs. Those sanctioned before 2015, they became NPAs.

**Q. This financial year, you tapped the bond market with two perpetual bond issuances, and the last one was scrapped. Do you plan to come up with another perpetual bond issue?**

A. Yes, we will see the market, when it is at an appropriate good rate. It should not be more than 8%. Even if the situation improves, it is not necessary that we will definitely go for it, but we are looking to raise perpetual bonds if there is a likelihood of getting less than 8%. If we get competitive rates, then we can go to 40-50 bln rupees. End

US\$1 = 82.98 rupees

Edited by Avishek Dutta

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