

MC Exclusive | PFC-REC merger no longer an option: REC CMD

In the last five quarters, REC has not added any NPA. Its gross NPA has fallen from 4.5% to 3.4% percent now, and its net NPA from 2.3% to 1.01%. REC plans to be a net NPA-zero company in the next two years.

SWETA GOSWAMI | MAY 19, 2023 / 08:36 PM IST



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REC Ltd plans to increase its loan portfolio for renewables from 6.8 percent currently to 25-30 percent. But, the Maharatna category non-banking financial company (NBFC) has decided that its share in the distribution and transmission (T&D) sectors will not be reduced below the current 37 percent and 11 percent respectively. REC Chairman and Managing Director (CMD) Vivek Kumar Dewangan talks to Moneycontrol about the company's performance in the financial year 2022-23 (FY23), and the way forward. Edited excerpts:

Take us through the company's performance in FY23.

Our loan book has grown by 13 percent. Our total outstanding loan stood at around Rs 4.35 lakh crore compared to Rs 3.85 lakh crore in FY22. Similarly, our profit after tax (PAT) has seen a growth of 10 percent. In FY23, our PAT stood at Rs 11,055 crore. In FY22, it was about 10,034 crore. So, REC's performance has been fairly good.

What is the company's outlook for FY24?

We are focusing on the renewable energy (RE) sector because India has embarked on the ambitious journey of energy transition by achieving 500 gigawatts (GW) capacity through renewable energy sources. Right now, the total installed capacity from renewable energy is about 175 GW. So, to get to the target of 500 GW, another 325 GW capacity will be added in the country which will require another Rs 15 lakh crore investment. Of this, REC plans to fund about 20 percent or nearly Rs 3 lakh crore in the renewable energy sphere.

Also, our loan book in the transmission sector may increase a bit because we will fund the upcoming green energy corridors.

So, will you decrease funding for fossil fuel-based power projects? In other countries, this trend has already started.

Not yet actually. Conventional generation will still be required in India for another 20 years. In fact, because of the gas crisis, countries have started going back to coal-based power. Countries like Germany and the UK have been facing problems. So, coal-based power will remain, at least for India, because every country has its own strength. We don't have natural gas. Coal is India's strength. Till the time coal is available, we'll have to use this natural resource which is naturally available to us. And India is one of the very few countries which has been able to adhere to its nationally determined contributions (NDCs). Very few countries have been able to adhere to their NDCs.

Currently, conventional power generation constitutes 39 percent of our total outstanding loan portfolio, which is the highest sector-wise. The distribution sector is the second highest, comprising 37 percent, and we are going to keep it at that.

What is the final decision of the government on merging REC and PFC?

The Ministry of Power has a very clear view of this now. A merger is not good for either of the companies. If we get merged, our lending capacity and borrowing capacity gets limited. Right now, if we are independent companies, we can raise about 20 percent of the net worth of the financing company. Let's take an example of SBI. If they had a net worth of Rs 1 lakh crore, they can lend Rs 20,000 crore each to REC and PFC. The total borrowing then becomes Rs 40,000 crore. But if we become a merged entity, then a merged entity can get only 25 percent. So, instead of Rs 40,000 crore, we will get only 25 percent. A merger limits our borrowing capacity, which in turn restricts our lending capacity. So, a merger is not an option anymore.

Another proposal to sell PFC's stake in REC to another PSU has also been shelved, right?

There is no such proposal now.

How much is the corporate exposure at present?

In our outstanding loan composition, the state sector continues to be our main area of operation. At least 90 percent of our loans are under the state sector, where we don't have any default ever.

The private sector constitutes only 10 percent. But as we foray more and more into renewables, the share of the private sector will also go up.

Does REC have assets that have not yet turned into non-performing assets (NPAs), but are a concern anyway?

One good news is that in the last five quarters consecutively, we have not added a single NPA. Our gross NPAs have come down from about 4.5 percent to about 3.4 percent now and net NPA has come down from about 2.3 percent to 1.01 percent.

In the next two years, REC will become a net NPA zero company.

What about the resolution of overall stressed assets?

Stressed assets are getting resolved through the process of NCLT. NCLT resolution is very transparent and fair, but it takes time. Last year, four stressed assets got resolved and we got an upside. Actually, we had made provisioning of 70 percent, but in two projects we got 100 percent amounts back. So, in the ongoing financial year, we are targeting 10 projects to be resolved.

What is the reason for the decline in the net interest margin?

Our net interest margin has come down a little this year because the average cost of borrowing went up due to the Russia-Ukraine war and other global events. But this year, we think that from now onwards interest rates will stabilise and our net interest margin will improve. The cost of borrowing is already moderating as it has come down below 7 percent.

Our volumes are also increasing. I already mentioned the outstanding loan. Our disbursements in FY23 were also the highest until now at Rs 96,846 crore compared to Rs 64,150 crore in FY22.

I want to make it clear that REC is focusing a lot on improving its asset quality because margins also depend on the kind of projects that you take. We are very conscious of the kinds of projects we take up and the entity that we deal with so that the asset quality becomes healthier. So, we might have to sacrifice the margins a little for better asset quality.

REC Ltd has been the nodal agency for government schemes such as the Revamped Distribution Sector Scheme (RDSS). How much funding is the company providing for such reforms?

The Government of India's (GoI) total outlay for RDSS is Rs 3 lakh crore, of which GoI's grant is only Rs 97,000 crore. The remaining funds have to come from states' shares or through financing.

So, about Rs 1.2 lakh crore will come from financing in the RDS scheme, which REC and PFC are going to finance.

The actual implementation of the scheme is done by the discoms. GoI releases funds through REC and PFC to the state discoms. We have prepared detailed project reports and we help the states in implementing those projects, while also closely monitoring them. We are acting as the project monitoring agency as well. In some states, we are also the project implementing agency, such as the smart meter projects for two discoms in Gujarat.

But have the reforms in the payment mechanism put pressure on the discoms' working capital loans? Are they coming to REC for working capital loans?

There is no pressure. It's helping improve their financial health. The utilities keep coming for short-term loans as per earlier usual practice.