



“Rural Electrification Corporation Q2 FY18 Earnings Conference Call”

November 09, 2017



MANAGEMENT: **DR. P.V. RAMESH – CHAIRMAN AND MANAGING DIRECTOR**
SHRI. AJEET KUMAR AGARWAL – DIRECTOR FINANCE
MR. V.K. SINGH – RURAL ELECTRIFICATION CORPORATION
MR. SANJAY KULSHRESTHA – RURAL ELECTRIFICATION CORPORATION
MR. SANJAY BANSAL – RURAL ELECTRIFICATION CORPORATION
MR. VIJAY KUMAR – RURAL ELECTRIFICATION CORPORATION
MODERATOR: **MR. KUNAL SHAH – EDELWEISS SECURITIES LIMITED**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Rural Electrification Corporation's Q2 FY18 Earnings Conference Call, hosted by Edelweiss Securities. As a reminder, all participant line will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand over the conference over to Mr. Kunal Shah from Edelweiss Securities Limited. Thank you and over to you, sir.

Kunal Shah: Thank you, Janis. Good morning, everyone. This is Kunal Shah from Edelweiss Securities. We have with us today Dr. P.V. Ramesh – Chairman and Managing Director, and Shri Ajeet Kumar Agarwal – Director (Finance) from Rural Electrification Corporation to discuss their Q2 FY18 earnings in particular, and also update on the power sector developments in general. Over to you, sir.

P.V. Ramesh: Thank you. Thank you, Kunal. Good morning to everyone. I am Ramesh, the Chairman and Managing Director of REC Limited. I have with me Mr. Ajeet Kumar Agarwal – the Director (Finance); and four General Managers, including V.K. Singh, Mr. Sanjay Kulshrestha, Mr. Sanjay Bansal, Mr. Vijay Kumar; and also the Chief Program Manager of Maharashtra and Gujarat here with us.

Thank you very much for taking time to join us. I will take about five minutes' time, during which I will cover brief overview of the power sector and the role that REC is playing in the well dynamic context. And then a very specific financial performance will be presented by the Director Finance. And then we will have Q&A.

Friends, as you all know, the Government of India in recent times have initiated a number of measures. The foremost among them is the Saubhagya Scheme which seeks to connect 42 million households in the next 13 months in the rural areas. This would virtually be a major push into the rural areas, to the last mile, and this should translate into an increased amount, even if one takes on a conservative side, about 13,000 additional megawatt requirement and this is likely to have a transformational impact on the rural economy by way of stimulating rural industrialization, commercial activities and irrigation more importantly and agriculture development. So, a whole host of other ancillary benefits of electrification. What it essentially does is it would demand further investment into the distribution segment.

The Central Electricity Authority of India has estimated that the distribution segment would require an investment of almost US\$50 billion to US\$60 billion a year over the next five years in order for us to really reach each and every household. So this is giving a major impetus on the demand side. One of the concerns in the power segment has been that there is a surplus capacity of 330 gigawatts of installed capacity with a peak demand hovering around 165 - 170. So, these bottlenecks, I mean this demand-supply dissonance is really being addressed with additional investment, demand in the distribution segment.

And there are issues relating to coal supplies which have been addressed through the new scheme of Government of India or the Coal Ministry through 'Shakti', which assures supply of coal. There is also now a more transparent streamline supply of coal. On the demand side there are early green shoots of the UDAY initiative, the financial restructuring, it has done two things to several of the DISCOMS and DISCOMS which have traditionally been in the red like Rajasthan, Haryana, Tamil Nadu and even Bihar, there is a better performance, there are greater efficiency, there are reduction in the ATNC losses. So, there is a overall demand for investment.

Now, there is also on the production side, on the generation side there has been series of reviews by the new power minister and power secretary, there is a recognition, there is need to accelerate the addition of the additional generation capacity. And the state sector as well as central PSUs are likely to drive this process. In addition., of course the renewable continues to move ahead. And as you know, there were certain concerns regarding the lowering of tariffs, but those are issues again reflective of the market, reflective of the technology and reflective of the overall demand in this country for additional green power. And there is also a recognition that about 40% of the coal fired thermal stations are more than 25 years to 30 years old, they need to conform to the modern Paris protocols, so obviously there is an investment over there. So I am just trying to present a picture of that, demand is picking up.

Now, one of the major areas of concern has been the areas of stress in the power sector, and particularly in the private segment. And as all of you know, the exposure of REC to the state segment is to the tune of 85%, whereas only 15% of its total portfolio is in the private sector. Now, however, overall for the country as a whole, about 40,000 megawatts of power projects are at different levels of stages of stress. In REC we have been taking very systematic efforts to address this through the Joint Lenders Forum, which the Reserve Bank of India has set up, exercising all the procedures and systems that have been set in place. And as you could see, as a consequence we have set up a stress asset management unit within REC and you could see that actually there has been a marginal decline of the NPAs compared to the first quarter.

And having said this, I also want to flag the matter that the REC occupies a unique position not just in the public sector (Inaudible) 7.25 but also in the Indian corporate segment, because it is not just merely a power financing company, it is a partner, driver and catalyst of a major economic transformation of the national development, because it has a unique blend of being a commercial finance company that is publicly traded, all of you have a stake in its performance and it has been consistently profitable company. On the other hand, we are also the principle nodal agency, in which capacity we drive, we plan, we coordinate, we monitor all the flagship programs of Government of India. And Government of India is investing in the present year and the coming years about Rs. 80,000 crores in terms of through grant financing from government through Deen Dayal Upadhyaya Gram Jyoti Yojana, through Integrated Power Development Scheme and now the Saubhagya scheme. And this year alone we are expecting to disburse about Rs. 16,000 crores as grant and this is just part of the total investment package. So this gives us

advantage position in terms of influencing both policy, programmatic and investment decisions of the governments and the public utilities, it is both professional personal equation that is driving the power sector. So we are positioned in a unique way at the quadric-junction of market, the Government of India, the state governments, the power sector and of course the financing enterprise.

So, I would also like to submit to you that the power sector performance cannot be judged on a month-to-month or a quarter-to-quarter basis because we are not, you know much better than I do that, we are not in the retail financing business, we are investing in long gestations, long-term projects with the yields for the long-term. So, I think one really needs to look at the longer-term health and the robustness and the direction in which the power sector is growing and changing and transforming in this country. I mean, I would like to believe that with a clear vision, with a very clear strategy and the investment plan, I think we are best positioned to drive this transformation in the next five years.

And that having been said, let me come to the current year, current quarter and the current half year of the performance. I mean, as you can see that the sanctions of picked up, it is Rs. 56.168 crores in the first half compared to Rs. 50,000 crores for the corresponding period last year, a growth of 12%. This shows the pipeline is robust, it continues to grow. In fact, I am much more optimistic that in the coming months this is likely to grow, and we are very optimistic that we would cost sanctions more than may be substantially much higher rate than what the first half has shown.

Disbursements, again, there has been a consistency, notwithstanding the fact that there is a certain tepidity within the market for demand and we still have disbursed Rs. 26,530 crores during this period compared to the previous period of Rs. 25,000 crores. So, the increase where we are marginal which is 2%, however, this you would see would grow quite rapidly.

The third is a loan book growth, the loan book growth has registered 10% increase. now this is notwithstanding the fact we had the UDAY prepayment of 43,700 crores which really came almost towards the end of the last financial. Now, the loan book now stands at 250,845 crores. We would like to believe that this will accelerate further. We are likely to see a growth of 16% to 20% range of loan book growth. Now, this net worth of the company now is about Rs. 35,145 crores, a growth of 11% compared to the same period last year.

Now, the income of the company at the end of first half year was about Rs. 11,290 crores. And this is a small decrease compared to the same period last year. But however, you are better aware of the prevailing market circumstances, the market is depressed interest rates, the increase liquidity in the banking sector, the increased competition, not only from the commercial banks for retailing in the power sector but also several of the renewable segments are being financed through the overseas resource mobilization by the promoters.

However, the narrow decline in terms of the NIMs and the yields, we propose to make good by way of increasing volumes. And we also noticed that this trend may be temporary, may be transient.

I would also like to say, just take a minute and brief you on what is being proposed on diversifying and expanding the business. Now, we are working very closely with the other state actors that includes the Indian Railways, the nuclear power, the national hydropower, the Northeast Power Corporation to see that there is a lot of untapped potential. This is apart from the traditional ongoing existing clients.

Number two, we have also had a major step-up in terms of financing renewable. As you could see from the data, both in terms of sanctions and in terms of disbursement compared to last year I am proud to say that we have set up a separate window for green financing, both of the green projects as well as the evacuation infrastructure. And that again is another area we are picking up.

We are also examining neighborhood, we are also examining the financing projects in the other SAARC countries. And to begin with, Nepal and Bhutan, the Arun 3 in Nepal and 0:14:33.4 project in Bhutan, these two are in advance stage of discussions and finalizations, they have some international bilateral discussions that are going on and they are at very advance stage of finalization. We are also through the Ministry of External affairs and also the EXIM Bank of India, we are looking at initial forays into the West Asia and Africa. So, this again is to expand the business. But more importantly, many of you would be concerned about the non-performing asset situation, the stressed assets. And I have always said that we have now taken measures, there is a marginal decrease in terms of the NPAs. And the marginal decrease in terms of profitability is also because we did a proactive measure in terms of actually reversing about Rs. 450 crores of the profit in order to accommodate those assets which are under the strategic restructuring and also going through S4A.

So, overall I am not just optimistic, I am very robust and bullish about the 1) growth of REC business, and 2) the REC as the principle driver of the power sector development at the confluence of the government utilities and the financing, and above all the market interface. So these are some of the initial comments I wanted to make.

So, let us get into Q&A and then I think that would give us a much better opportunity to interact in greater detail in whatever information that you would like to have. Let us get on with the question-and-answers.

Moderator:

Thank you. Ladies and Gentlemen, we will now begin with the question-and-answer session. We have the first question from the line of Bunty Chawla from B&K Securities. Please go ahead.

- Bunty Chawla:** I like to highlight on one query, REC has requested RBI for extension of the T&D and renovation modern projects for the exemption beyond 31st March, 2017. So, have we got that exemption or what is the status on that?
- P.V. Ramesh:** No, as regards the extension is concerned, we have not got that extension because there is no such project which is under execution. If you look at it, the earlier extension which was given to us of 31st of March was basically we were targeting the Teesta project which was going in Northeast, and that project has since been commissioned so there is no requirement of that nature. And number two, our T&D projects are very short gestation projects and we have never noticed any delay in these projects and there have never been any reshuffling in the T&D segment per say. So, we thought that is not much required since there is no such project going under the hydro sector in the Himalayan range. So, as of today the stance is there is no further extension beyond 31st March, 2017.
- Bunty Chawla:** Okay. One more thing on the RBI's NPA norms, are we currently following 180 DPD or we have already moved to 90 DPD?
- Ajeet Kumar Agarwal:** We have already moved to 90 DPD from 1st April, 2017 itself.
- Bunty Chawla:** And lastly on the restructured part. On the restructured assets what will be the moratorium period, is the two year moratorium period completed for that or during this year any restructured assets whose two years moratorium will be completed?
- P.V. Ramesh:** Yes, there will be two projects, one project in Kakatiya is a state sector project which is going to completely two years in December itself. So, as per the RBI guideline we shall we reversing the provision of Rs. 100 crores being provided in this project. And going forward, we have made analysis that by June 2018 we should be reversing almost Rs. 430 crores of provisioning made on the restructured assets. This pertains mainly to the state sector projects, Rs. 9,000 crores worth of projects have since been commissioned, we are just waiting to comply with the RBI guidelines. And in a phased manner it will be starting from December 2017 this year and by June 2018 we shall we reversing almost all provisions made out for the state sector projects.
- Bunty Chawla:** And amount of loans which will be getting upgraded from restructure to standard these which you talked about?
- P.V. Ramesh:** These are Rs. 9,000 crores of project, Rs. 9317 crores, these are three major projects of the state sector which is the State Gencos project in the state of Andhra which is Kakatiya and there are two projects in Chandrapur and Parli. So, sum total of these is Rs. 9,300 crores.
- Bunty Chawla:** Okay. Can you give me some update on the private projects, are we seeing any recovery in that part also?

- P.V. Ramesh:** Yes, as far as the private sector projects are concerned, some of them have been restructured under SDR and S4A, they will continue to be on those restructured lists under different nomenclature. And regarding the private sector projects, we hope that Meenakshi and the Nagai Power which is in place should be getting complete within the four years period.
- Bunty Chawla:** Sir, can you give the amount of loan in Meenakshi and Nagai projects, outstanding loans?
- P.V. Ramesh:** The total is around Rs. 750 crores. And moreover, one of the Prakash Industries project which is around Rs. 250 crores has been re-secured last March and this asset is also performing as per the restructured terms and it continues to perform in next two months. So we shall be upgrading this project also by March itself this year.
- Moderator:** Thank you. We have the next question from the line of Devam Modi from Equirus Securities. Please go ahead.
- Devam Modi:** Sir, first question was basically with regards to the interest that you are reporting. So, while in your presentation you show yield on assets of 11.2%, the calculated yield comes to a much lower level. So, what is the reason for this difference and how much interest reversal have we done and what other sources of difference could be there?
- P.V. Ramesh:** Yes, difference, basically the yields have come down mainly for the reason that we have reversed the income of almost Rs. 395 crores during this quarter. And there are six projects which have been restructured under SDR and S4A. And SDR and S4A as a matter of potency have not accounted for income of these projects and there is a reversal of two quarters. Going forward there will not be this, in fact it will be half. So, basic reason for our decline in yields, as you must have noticed, is on account of decline of income of Rs. 395 crores during this quarter.
- Devam Modi:** So, these projects would be pertaining to what amount of loans, the SDR and S4A projects?
- P.V. Ramesh:** Total number of amount which is working out is Rs. 6500 crores.
- Devam Modi:** And how many accounts are these and if you can mention the top accounts over here?
- P.V. Ramesh:** Yes, we can mention the name of the accounts. If you look for S4A we have gone for Lanco Anpara, Gati Infrastructure, Dans Energy, these are smaller hydro projects, and VS Lignite which is just a very small exposure of Rs. 50 crores, Indiabulls and Amaravati. And on S4A we have Jhabua Power and the Amaravati project. And Ratan India Nasik is on SDR, Lanco Babandh and Ratan India.
- Devam Modi:** So, Lanco Anpara, VS Lignite and Indiabulls Amaravti are SDRs and others ones are S4A?
- P.V. Ramesh:** Indiabulls Nasik is SDR, Indiabulls Amaravati is S4A.

- Devam Modi:** Okay. And so unless these accounts again get restored or they start paying whatever they pay in cash basis, there will be no other income which will be considered from this till they become standard?
- P.V. Ramesh:** Yes, as far as we are concerned, S4A there is no clarity, some of the companies are still accounting for income on S4A. But as a matter of prudence we have not accounted for income S4A, this thing is yet to be implemented, in the sense IEC is yet to work out what is the sustainable portion of debt. But as a matter of prudence REC has not accounted for income even in the S4A projects.
- Devam Modi:** And generally, sir there are talks of lots of reprising going on in the market with regards to the loans which are sort of at a better rating. So, do we see the overall yields of 11.2% probably settling at a slightly lower level once this whole repricing or refinancing exercise goes through in the next couple of years?
- P.V. Ramesh:** We do not anticipate much of a decline in these yields, as you must have appreciated the fact that we have started at a very low base in starting because all these UDAY prepayment which has come to us, and we had a loan base of Rs. 201 crores to start with. Now we are ending up in six months at Rs. 215 crores. And going forward we hope that 16% to 17% loan book increase will be there by March 2018, the loan book should stand somewhere Rs. 230 crores - Rs. 235 crores in between. So, considering the fact and the interest rate scenario which we have been witnessing in the last six months seems to be reversing now and all those factors put together we do not expect much of a pressure on our yields, may be in the range of 11% or so.
- Devam Modi:** And finally sir, what is the amount of undisbursed amount in terms of approved sanctions but undisbursed for the private sector on the generation side?
- P.V. Ramesh:** As far as the private sector generation side, there is not much in the pipeline because we have not sanctions any new per say in the last two to three years. And whatever small disbursement is required to be made are under the projects which are under execution. And to name a few, it is a Meenakshi project, you have KSK and to start with Nagai Power and RKM. So, these are the three, four projects which are under execution, there will be some disbursements out of the sanction limits and it is not a very sizable amount which needs to be disbursed going forward.
- Moderator:** Thank you. We have the next question from the line of Chandana Jha from Principal Mutual Fund. Please go ahead.
- Chandana Jha:** Sir, you mentioned while discussing about the ride back in the scenario of upgrades that our provided RBI permission is given, I did not quite understand why would that require RBI permission if...

- P.V. Ramesh:** No, madam the RBI permission is not required, it is as per the RBI guidelines. The guidelines are very clear and we do follow the RBI guidelines.
- Chandana Jha:** Got it. And my second question, what would be your incremental yields, the rates at which you are lending today?
- P.V. Ramesh:** Madam, the incremental yields are different to different projects, as you must have seen our notified rate of interest, the REC has got internal grading done which starts from A+, A, B and C. So, depending on the project which is being funded and which is asked for a loan from REC, so this is one thing. And secondly, depending on the project profile also we have this discussion to adjust our lending rates, mainly in the state sector projects. And private sector projects also, the post COD rebates have been started by us. And if you look at the yields which we have been lending at the renewable are much lower than the conventional generation. So there is no fixed rate of interest which we have been talking of, it depends on the weighted average yields and the number of projects being sanctioned and disbursed during a particular period of time.
- Moderator:** Thank you. We have the next question from the line of Punit Srivastava from Diver Capital. Please go ahead.
- Puneet Srivastava:** Sir, just a broader question on the competitive landscape now, especially post UDAY. How are you seeing the competition now from the other banks, especially the PSU banks? And if you are facing the pressure on the spreads because of those competition?
- P.V. Ramesh:** Yes, in the past six months there was a little bit of pressure, mainly on the short-term lending. The trend which you have witnessed in the last six months or nine months post UDAY, some of the banks due to the abundance of liquidity post demonetization has started funding these DISCOMS on a short-term horizon of six to nine months. So, some of the state utilities, though they have been incurring the CAPEX but they have been banking on these short-term funding which came to them at very, very competitive rates in terms of MCLR or slightly sometimes lower than MCLR. But considering the fact that the banks are also in the process of consolidation and not exposing themselves to the power sector on a long-term basis, we as a rule of REC is quite important. And REC, as you may be knowing, we have been in the business of CAPEX funding for a long-term horizon of at least 10 years to 15 years time. So, yes, we did face little bit of competition in the last six months in terms of short-term lending by the banks, but hopefully going forward this trend is not likely to continue for a long. And we will be back to the business. And moreover, we have also resorted to a short-term funding within the ambit of UDAY, UDAY does permit us to make a short-term lending up to one year, if your total revenues are 25% of the revenues of the previous year. So, REC for the good discounts and utilities which fall within the ambit of UDAY, yes we are there to do short-term lending to them also.
- Chandana Jha:** Okay. And sir just one more question, especially on the generation side of the projects which have got completed and commissioned. What has been the completion there, are you facing like

PSU banks coming and asking for lower, especially those projects they are asking for lower yields or PSU banks are trying to refinance those projects?

P.V. Ramesh:

No, we do not anticipate any such things happening in power sector now. May be one year prior to that some bankers were showing interest on a takeout financing. But considering the fact that there have been a lot of issues within the banking system, so banks are almost refraining or not coming in a big way to fund any power sector projects. And secondly, you must appreciate the fact, in the state Gencos REC has been a sole lender in most of the projects where we have escrows of more than Rs. 5,000 crores to Rs. 6,000 crores. And we do not anticipate that any such bank would be taking such a large exposure in their books today.

Moderator:

Thank you. We have the next question from the line of Sanket Chheda from IDFC Securities. Please go ahead.

Sanket Chheda:

Sir, I just wanted you to repeat the SDR and S4A accounts, name of accounts?

P.V. Ramesh:

You just note the SDR accounts first. These are Lanco Anpara, Gati Infrastructure, DAS Energy, DAS energy is a small hydro project of 100 megawatt. And VS Lignite is also a very small project whose exposure is just of Rs. 50 crores. Then you have Ratan India Nasik and Lanco Babandh.

Sanket Chheda:

And there was one Indiabulls account also?

P.V. Ramesh:

Yes, Indiabulls Amaravati is S4A and Jhabua Power is S4A. So, among S4A the total is around Rs. 1,075 crores and the balance of Rs. 6,500 crores or Rs. 6,468 crores is on account of SDR. So the sum total is Rs. 6468 crores of these projects.

Sanket Chheda:

Okay. And what were the slippages this quarter, fresh slippages?

P.V. Ramesh:

There is no fresh slippage in this quarter, there is no addition to the NPA.

Sanket Chheda:

Okay. And any accounts on watch list which may slip in next two quarters or something?

P.V. Ramesh:

As of today we do not anticipate any slippages going forward.

Moderator:

Thank you. We have the next question from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.

Anand Laddha:

Sir, you just maintained that incrementally we are also sanctioning loans to renewable sector, if you can give some color at what lending rate we are sanctioning new loans? And also, are these all largely private sector exposure or are government sector also?

- P.V. Ramesh:** It is a mix of both. If you look the solar sector, more of the state Gencos have started setting up solar parks. And in the past we did sanction AP Genco, a 500 megawatt project. And this payment disbursal is yet to start, rather, it is to be finished during this year. So, it is not that exactly we are funding only the private sector, we are targeting the state sector Gencos. In other states most of the solar power parks are coming up and we expect disbursement of Rs. 500 crores in may be next six months. So, we are quite active on the state sector part also. In the private sector, yes the projects are being posed to us and the yields in these power sector which is from the private sector are 10% plus, and going forward 10.5% - 10.25%, depending on the rating of each of the projects.
- Anand Laddha:** Okay. And sir, what could be our incremental borrowing cost, sir?
- P.V. Ramesh:** If you look at the incremental borrowing cost, we have mobilized almost Rs. 22,000 crores during this year at a cost of 5.85. And if this trend continues we hope that we should be ending up the incremental borrowings of let us say Rs. 50,000 crores within the range of almost 6.10%.
- Anand Laddha:** Okay. And if I look at only domestic borrowing cost, what could be that for us we have to raise fund from domestic bond market.
- P.V. Ramesh:** The domestic borrowing cost of Rs. 15,000 crores is at 5.83%, almost 6%. And we have done CPs due to these short-term adjustments, because we have been lending short-term also to some of the utilities, so we have been raising CPs in the range of 6.1% to 6.2%. So, on an average you can take 6% at the weighted average cost of domestic borrowings?
- Anand Laddha:** And sir, how much of our borrowing are likely to get reprised in next six months?
- P.V. Ramesh:** Borrowings are not getting reprised for us, rather it is to our advantage whatever borrowings we do going forward because you are going to borrow at a much competitive pricing as compared to in the past.
- Anand Laddha:** Reprising means some of our bond will come for maturity in six months, so we will raise new bonds. So what sort of maturity can happen?
- P.V. Ramesh:** So, on an average we should be repaying almost Rs. 25,000 crores of borrowings per annum. So, if that trend continues we will stand to benefit in next year at least by 1% on these incremental borrowings, may be 2%, because in 2008 and 2009 we have borrowed certain high cost debt when there was a fall of US kind of thing which is all getting repaid in next year itself.
- Anand Laddha:** And sir lastly, we have done some SDR and S4A this quarter, any more stress which is there where we think finding solution by way of SDR and S4A we can do in coming quarters?

- P.V. Ramesh:** The only project which is under domain as of today is Lanco Amarkantak which most of the lenders, when we had the last lenders meet, have expressed their opinion of going for SDR. We have to finalize and hopefully in the next 15 - 20 days another JLF is being convened to finally resolve this issue of Lanco Amarkantak. Other than this you do not anticipate any restructuring is required to be made by us.
- Moderator:** Thank you. We have the next question from the line of Jay Shah from OHM Group. Please go ahead.
- Jay Shah:** Just on the interest reversal, is my understanding right that you had Rs. 295 crores of interest reversal in this quarter and going forward it would be around Rs. 200 crores?
- P.V. Ramesh:** Yes, exactly, it is 50% of the same. You are right, it will be Rs. 200 crores.
- Jay Shah:** And this will go on till?
- P.V. Ramesh:** This will go no till the resolution or the restructure, the project starts paying in cash at least for a year on the rate when that comes.
- Jay Shah:** Yes, when do we expect that?
- P.V. Ramesh:** In case of S4A projects we are likely to have this everything done by another six months time. So, may be at the earliest we can expect reversal of this trend not less than a year's time from now.
- Jay Shah:** And for SDR it will take longer time?
- P.V. Ramesh:** Yes, it is similar ranked because some of the projects are under advance stage of getting restructured. So, at least on a reasonable basis you can take one year's time from now.
- Jay Shah:** Okay. And secondly on the renewables, we do hear about rates coming off, so is there any risk on any of the projects that you have financed in renewable because of tariff issue between the state Gencos and the bidders?
- P.V. Ramesh:** Not exactly, in our books as of today we have not done any refinancing of any of the existing portfolio in the renewables. Because renewable dynamics are changing on a very fast pace, so we are taking note of all those things happening in the market. And we are very conscious of the fact that unless and until the project viability is established we will not be resorting to refinancing of existing proposals.
- Jay Shah:** So, all the private sector projects that you have financed, there is no dispute on the rate and those are on schedule?

- P.V. Ramesh:** No, there is no dispute on those rates.
- Ajeet Kumar Agarwal:** And I do not think there is dispute in rate, there was some whisper and some talk and I think that was more conversation in the media. No, those states which whisper something they have all gone back, there is a compliance with the contractual obligations across the country, we have been engaging with them. We are not involved with those directly but knowing the terrain, there is no such move at all.
- Jay Shah:** Right, particularly we hear about Karnataka?
- Ajeet Kumar Agarwal:** No, I think Karnataka has fallen in line. We have just visited Karnataka three weeks back, we met with the Power Secretary and all the power officials.
- Moderator:** Thank you. We have the next question from the line of Nikhil Jalan from Barclays. Please go ahead.
- Nikhil Jalan:** Sir, I had a clarification that I wanted to ask. In the annual report you disclosed rescheduled loans during the financial year as well as restructured assets separately. So, just wanted to understand the difference between the rescheduled and restructured from a technical point of view?
- Ajeet Kumar Agarwal:** There are two types of restructured assets we have, one is where there is a delay in COD. So the list which we have been giving to you as Rs. 12,000 crores is a one which has been delay of more than two years but within period of four years. So, these are restructuring provisions of 5% are required to be made on the loans outstanding as per the RBI guidelines. And reschedulement, is basically extension of COD only which no provisioning is required to be made. Because it was within the ambit of two years, suppose assuming project COD is supposed to be there originally at 31st of March 2017, then reschedule the efforts in the sense you extend the COD date within a period two years with no provisioning required.
- Jay Shah:** So, would it be fair to say that the rescheduled asset could in future fall in the restructured category or would that be wrong?
- P.V. Ramesh:** No, we have taken a stock of those assets, we do not anticipate any such assets falling in the restructured assets.
- Ajeet Kumar Agarwal:** In fact, only those which are likely to be commissioned are rescheduled, otherwise they would go into the restructured category.
- Jay Shah:** And the other thing I wanted to check was, you had recently raised green ones about \$450 million which has taken up your foreign currency borrowing to about 13% to 14% of your total

borrowings. So, any plans to hedge the same or is it within the tolerable limit that you have set internally?

P.V. Ramesh:

Yes, the bond which we have raised has a maturity of ten years. Though, as per RBI guidelines it is not mandated for us to do hedging. But we do have hedging policy duly approved by the board and there is risk management committee in the company which supervises and oversees all the open exposures. The amount at which we have raised these bonds are still well within their limit and going forward we hope that the kind of hedging premium we are likely to pay we keep monitoring that, presently it is open and rest of our borrowings which we have done, almost 80% is completely hedged and we do follow the RBI guidelines. And the present bonds which we have been talking have already got converted at almost Rs. 66. So, still the prevailing price is well within the limits of Rs. 66, and if you add the hedging cost which you are likely to pay, so almost Rs. 70, 5% to 6% of hedging cost per annum you have to pay. Considering that, up to Rs. 70 on a year-on-year basis you look at it. So we continue to review these open exposures and see what best could be done. And wherever we feel the threshold limits or benchmarking we have put inside is likely to be breached and we immediately do the hedging by adopting different derivative structures which we have in our kitty.

Moderator:

Thank you. We have the next question from the line of Nishchint Chawathe from Kotak Securities. Please go ahead.

Nishchint Chawathe:

Sir, you have rescheduled loans of around Rs. 12,500 crores in the private sector, so if you can give any details on that that would be good.

P.V. Ramesh:

Yes, there are total eight or nine projects which are in the private sector, to start with is RKM phase 1 and phase 2, RKM Phase 1 is already commissioned, so now it will be reversed in our books of Rs. 392 crores. You have RKM Phase 2, so you must appreciate the fact that this being a subjudice matter in the court, and though we have already stopped accounting income on account of RKM and already made a provision of 10%, assuming this as an NPA in our books. And as per the latest physical progress, the three units have since been commissioned and likely to be commissioned in time. And the joint lenders forum had a discussion on this subject, the moment the project gets commissioned it is likely to get flexible restructuring. So, we see these projects might be getting revised in a period of six months from now. So, this is another project. Lanco Amarkantak we have already discussed which is under consideration by lenders to make an SDR. So, whatever provisions incrementally will be required to be made which will be 2.5% more, we shall be making it, so there is not an issue, already 5% provision on Lanco Amarkantak exists in our books. Lanco Babandh has already made an SDR, an incremental provisioning of 2.5% has still been made. So this is another project. Lanco Vidarbha, already classified as an NPA last quarter, so that is not an issue in this. Nagai is to be completed by December this year, which is within the timelines allocated to that project, so it is out of that. Ratan India has been taken from this restructured, will fall under SDR. So this incremental provision of 12.5% has

been provided for. So, we do not anticipate like list of KSK Mahanadi and Jhabua power is also out of the place. So, all the two projects which remain in this list is India Power Haldia project and the Nagai Power which are on stream and would be completed well within the time of four years. So, there do not appear to be any slippages out of this list.

Moderator:

Thank you. Next question is from the line of Abhishek Saraf from Deutsche Bank. Please go ahead.

Abhishek Saraf:

Sir, I just wanted to understand on the future opportunity in railway financing, specifically railways wants to electrify its network of which REC will be a key financing partner. So, how is company looking about it and if you can share the details in terms of the size and impact on margins that it may have going forward? Just your thoughts on these.

P.V. Ramesh:

As you know the railways are on an accelerated mode, the honorable Minister for Railways has stated that they would like to electrify all electric lines within the shortage period of time and we see this as an opportunity for REC to be partners with Indian Railways. And Indian Railways is a sovereign entity. So we are working with them, the details are being worked out and we will let you know when the final call is made on this. But certainly, we are very proactively engaged with the Indian Railways like we are engaged with the other important entities.

Abhishek Saraf:

So, sir as per one of the media reports it seems that the yield could probably likely at 9%.

P.V. Ramesh:

No, nothing is decided, details are being worked out and the time schedules and all that. The media reports, I mean you will have to ask those who have reported it and the source is certainly not from us.

Moderator:

Thank you. Well, that was the last question. I now hand the floor back to the management for their closing comments.

P.V. Ramesh:

Friends, would like to express our sincere thanks for taking your time for this interaction. We look forward to continued engagement with all of you. Please feel free to connect with us whenever you have any query of question.

Moderator:

Excuse me, sir. Sorry to interrupt you, we have about few questions lined up. Would you want to take that?

P.V. Ramesh:

Sure, why not.

Moderator:

Alright. We take the next question from the line of Punit Srivastava from Diver Capital. Please go ahead.

Puneet Srivastava: Sir, just one more question if I can ask that. I am not sure if it has been taken up, can you just tell us the incremental cost and the incremental yield for this quarter or half year?

P.V. Ramesh: If you look at the incremental borrowing cost we have been doing, I have already covered in the previous quarter, is around 6%. And going forward the incremental yields, we are working in the range of almost 11% on a weighted average basis. We did mention that there different projects are being priced differently by us, depending on the risk parameters of each of the projects the grading internally we carry out. And going forward, our internal guidance seems to be working in those ranges with spread being maintained at almost 3% and the NIM at 4%, that is the internal guidance, unless there is a pressure on the cost of borrowing and otherwise. So the internal guidance going forward would be the similar one. And today the prevailing market the cost of borrowing is quite supportive to us and we have been very, very competitive in raising our resources which is as of today on 30th September is just less than 6% on a weighted average basis. But on an average domestic yields is 6%. And this gives us ample scope of readjusting our lending rates wherever need is felt.

Moderator: Thank you. We have the next question from the line of Amit G from Rare Enterprises. Please go ahead.

Amit G: Sir, I just wanted to ask you a couple of questions. From your opening remarks you said that the total stress in the power sector is about 40,000 megawatt. So what is the government's thinking on this, are they looking at few measures to sort this issue out? And the other thing is, we hear that a lot of states keep saying that we are going to buy power on smart basis, so what is your view on this long-term PPAs which are there, are any coming up? Because we are seeing very, very few signings of long-term PPAs. And some power plants which are up and ready are running at very low capacity whereas there are several power plants which are very, very old, 25 years old. Is there any thinking on this as far as the government is concerned?

P.V. Ramesh: No, I think there is a serious thinking about all these things that you mentioned. Number one, with reference to the last one which you mentioned about the old plant, there is a very serious thinking that some of these plants need to be phased out, replaced with more efficient environment compliant power station. So, that is very much on the card, that is something which will take place both in the state sector and also in the central sector. With reference, I mean, I did not say they are stressed, it is reported about 40,000 megawatts of plants in the private sector are at different stages of completion, not all of them are stressed, some of them are and REC has exposure in few of them, not all of them. And also we are part of a consortium, and in a very few of these projects we are actually late. I think some of the projects where we have been leads have successfully commissioned those projects and they are working, like Lanco, like Teesta Urja. So, what in this context of course we are very actively engaged with our major partners, particularly our other lenders. And then already as details have been given, we have been applying S4A, SDR, 5/25 in all those cases where we have exposure, details have already been

given. And as a policy measure at the national government, they have already introduced Shakti to ensure coal supplies. And there are a number of measures are on the anvil, there is a discussions that are going on at financial institution getting together, we are working on them proactively and we are engaged with the government. But the states picking up the new PPAs, this a continuous process, as the demand picks up, you would have seen Haryana is coming up with some initiatives, the UP is likely to move forward. So there are several states where the demand is increasing. But I think this entire process is being accelerated and telescoped under Saubhagya, because what happens in Saubhagya is as you connect up these 4.2 crores households, by necessity you got to accelerate system strengthening. Your transformation capacity has to be improved, your distribution network has to be updated. So all this put together would basically mean that the demand would pick up, just imagine every village, every household, even it buys one fan, one television, one refrigerator and then the rural enterprises, the commercial activities, particularly we are also seeing great demand for irrigation pumps, electrical pumps which were hitherto with huge potential but were not fully tapped. So, all this I think will transform the rural economy in ways we have not seen and this would certainly drive the demand. I mean, considering that the per capita demand now is about 1100 kilowatts, it should really translate this 4.2 crores means that really that we are talking about 20 crores - 25 crores persons. So just imagine the sort of demand it should generate just in terms of demand for power. So, that is very seriously being thought through in the central government and at the state levels.

Amit G:

Sir, thank you so much. Sir, if I may just push you a little bit more. See, in terms of this phasing out of these old power plants or whatever government is trying to do, when do you see some kind of finality coming about over there?

P.V. Ramesh:

It is a phased manner, because all were not commissioned on one day, they were built over a period of time and they are also at different levels of efficiency. So, obviously those which are less efficient, which are ancient obviously would have to be phased out. But this move across the country we have seen with the states. So, I think this is the trend that will now pickup momentum.

Moderator:

Thank you. Well, that was the last question. I now hand the floor back to the management. Over to you, sir.

P.V. Ramesh:

Friends, I once again convey our sincere thanks on behalf of REC. My colleagues who are here and my colleagues who are across the country, the investors, the well wishers, the Government of India and the state governments and all of our clients, I thank you for your support. We would like to stay engaged with you. Please let us know if you have any queries or questions. We do understand certain concerns and then we hope we have addressed those concerns. If there are further details required, be prepared to provide that information, we are committed to good corporate governance, transparency and providing as much information as possible so that we

*Rural Electrification Corporation Limited
November 09, 2017*

can all work together for the national development of which the power sector occupies a center stage in terms of being both the driver, promoter and catalyzer. So, thank you very much. We look forward to continued engagement with you.

Moderator:

Thank you. Ladies and Gentlemen, on behalf of Edelweiss Securities, that concludes this conference. Thank you for joining us. And you may now disconnect your lines. Thank you.