

This meet is today post announcement of our excellent financial results for the year 2016-17. I would request Dr P.V. Ramesh, CMD REC to come on the dais sir, Shri Ajeet Aggarwal, Director Finance and Shri S.K. Gupta, Director Technical.

We are all aware of the business of REC, which is into financing of all segments of power sector. To brief you on the financials, I would request Dr. P.V. Ramesh to please come forward and give us an overview of the operations of the corporation, thereafter, we will get into the nitty-gritty of the financials.

My colleague Directors, friends, ladies and gentlemen, very good evening. Welcome. Welcome to REC. And, thank you very much for taking time to be here with us today. We are happy to share with you the story which you would have seen. What I would like to do is keep the presentation short and basically, place REC in a perspective of the country's growth trajectory, the power sector evolution, the transformation that is taking place in the power sector, and then share with you our performance for 2017-18. And, then will have some time for questions and answers, and I will just take about 10 minutes to introduce my subject and my colleague Ajeet Aggarwal will give you the financial issues.

And, we will just cover how the power sector is in the process of transformation and the strategic direction, the vision that is driving this transformation of the honorable Prime Minister and the government of India, and the role of the states. And, as you know, the installed generation capacity today, I mean I am just giving you an overview of what the power sector is today, has an installed capacity of 327 GW. We have a PLF around 62%. And, when it comes to

transmission, we have the third largest grid in the world. There is a substantial investment that is being created in terms of the transmission of power from one end of the country to another end.

But there is still huge investment that is required in terms of strengthening just the transmission and transformation infrastructure. And, the per capita consumption, at the end of 2016, is about 1000 kilowatt hour per capita, is gone up to now 1140 kilowatt hour or so, averaging growth of about 10%. I mean last year, it has grown about 7% if you also add the power saving that has accrued from the Ujala scheme with 10 crore LED bulbs that are distributed to individuals, institutions, panchayats and municipalities. That saving alone would have added another 3%. So, the power demand is growing and is likely to pick up much higher.

And, as all of you know, two things are happening. One is there is a huge latent demand. We see any part of the country, there are still generators, the diesel generators running. This is because of the bottlenecks in the distribution and the transmission infrastructure, which is precisely where much of the investment is flowing and is likely to flow as you would see. The second important thing is the big push that the government is giving under Deendayal Upadhyay Gram Jyoti Yojana for rural electrification, village electrification, household electrification. As you know, we are a nodal agency for Deendayal Upadhyay Gram Jyoti Yojana as well as UDAY programmes, apart from the financing and power development work that we do.

And, we are likely to, as the honorable Prime Minister has assured the country, one and a half years ago, we are likely to have no village left unelectrified in this country by the end of this financial year. And, that

process will lead to ultimately power reaching the 45 million households that remain without access to formal, access to power which is likely to be realized very soon. If that happens, that would translate into a demand of another 25,000 MW power.

So, this is a huge opportunity for institutions like ours which is waiting to happen. And just compare the India's per capita consumption with the developed world like USA which is 12,000 or our neighbour China which is 4000. So there is a long gap that exists. And, today, it is projected by the CEA that the today peak demand is about 160 GW – 1,60,000 MW, and by 2021-22 it's likely to be about 250 – 2,50,000 MW, a growth of about an averaging to be 6 to 10% in the next 5 years.

Now, this would essentially come also from the renewables, I mean it's expected the growth projection in the next 5 years, I mean you know the big push that is being given to the renewables is expected to add a substantially, the expectation is about 175,000 GW in the next five years. And, so this would require an investment of nearly 10 lakh crores and that is the level of investment that would be required in order for us to reach 2022 peak demand. The additional capacity that needs to be created and much of it in the renewables, hydro, but something in the atomic sector, but something on the thermal as well.

Now, friends, in the transmission capacity, to really create, I mean there is already, all of you are aware that is today a national power exchange where you can buy power in the national exchange, you can move power. However, there are still constraints in terms of the transmission infrastructure. Now substantial investment is being made by the government through the TCBC route, through the Tariff-

based Competitive Bidding Route, through the BOOT model in strengthening inter-state transmission.

There is also investment that's going on in the intra-state transmission, infrastructure. It is estimated a 2,60,000 crores would be required in the transmission infrastructure in the next 5 years. In order for us to keep pace with the expectations of power for all by 2022 that there is an assured, affordable, quality power 24/7 to every citizen, every industry, every farmer in the country. So, that's the level of financing needs that's required. And, similarly, transformation capacity would require another 2,60,000, I mean this really is what would be required in order for us to ensure quality power supply, not just the timely power supply but also the high quality power supply, which will really kick-start the rural industrialization, MSME development and diversification.

Now, this does not take into consideration the massive investment of about another 5 lakh crores that would be required in the distribution infrastructure, because that's the last mile push where major efforts are being made, the government of India alone financed last year 8,000 crores under Deendayal Upadhyay Gram Jyoti Yojana, which involves not just village electrification but also strengthening the distribution, feeder separation, upgradation of transformers, smart metering. So, all this together means, translates into something like 20 lakh crore investment requirements in the power sector in the next 5 years in order for this vision to be realized.

So that is the level of opportunity that exists. And, this is a transformational moment, I mean people despite the cynicism I notice in some quarters, but the power sector, I mean ultimately you all agree

that the power is really the most important infrastructure driver for growth, development, industrialization. And the power really empowers, and it has the transformational potential and that is what is what you are seeing – a clear vision, a clear strategy, a plan and above all a financing plan. So, that's what I just wanted to draw your attention to, and then with regard to the honorable Prime Minister has said time and again that we must create 1,75,000 MW of green energy and 1 lakh MW in the solar, whether it is rooftop or the solar parks or the decentralized solar and similarly the wind, the small hydro, the bio mass. And, if we can keep pace with this, actually we will reach the Paris commitments much ahead of 2030, notwithstanding, what is happening in the US, and we would have been a model actually for the world in really creating a 40% of the energy mix coming from this clean, green energy and with green corridor that really is harmonizing the power from the fossil fuels with the green fuels.

And, all this is involved with the modernization of the distribution, one of the major bottlenecks as we all know is the distribution. So, UDAY, the Ujjwal DISCOM Assurance Yojana, which the government has launched really has brought the states and the state power utilities, specially the distribution companies on the same platform to make a firm sustainable commitment that they would reduce the accumulated transmission, the technical and commercial losses to 15% by March 2019, reduce the gap between the cost of power purchased and the revenue recovery from the current 60 paisa per unit to 0, and increase the power supply from an average of 19 hours to 24 hours and the quality power.

So, this is the universe of the power sector, how it is and how it is unfolding. It is in this context, I would like to situate Rural

Electrification Corporation. You know REC better than I do. I have been here only 4 months, you know, you have been watching, observing, analyzing, talking and advising on REC, I am sure for several years. So, I don't need to tell you much about REC, but nevertheless, let me also just fundamentally touch upon what REC is.

Number 1, we have a 48-year history. We are just on the anvil of celebrating our half century. And, though we call ourselves rural because we started off as a rural, we still work predominantly in rural but we are actually across the value chain, across the power spectrum from one end a generation transmission, distribution to renewables. And much more importantly, upstream activities like financing coal block development and the other activities like electricity equipment manufacturing.

All this whole universe of electrification and electricity is where the REC is situated. You know the REC has been consistently performed, it has strong fundamentals. That's the reason the trust that our investors have reposed, the government of India has reposed, and all of you have reposed in REC, essentially, because you know, our fundamentals are strong, we are well-governed enterprise. We have a close relationship with both the public and the private power players and the renewables. We work closely with all the financial institutions. We also work closely with you. And, more important is we carry on the very important government of India programmes, power for all, UDAY, Deendayal Upadhyay Gram Jyoti Yojana, these are, we are the nodal agency implementing, monitoring, facilitating and supporting the implementation of these programmes.

And, you know that we enjoy the sovereign rating. We are increasingly playing a major role in the renewable segment and then financing the green energy corridor. We are likely to be the facilitator that will ensure that every village and every household in this country has assured, 24/7 power. So, that's what REC is all about and we have gone through 60 years, I mean 48 years of growth where we transformed from a modest beginning to an enterprise of 2,04,000 crore asset-based company. It has a very strong Board, you know, apart from 3 of us, there are Joint Secretary, Ministry of Power and we have 4 independent Directors, Mr Arun Singh who is Chartered Accountant too, Mr Ram Mohan who is the Professor in IIM Ahmedabad, Mr Krishna Kumar, the former Managing Director of SBI, and Mrs Asha Swaroop who was formerly Chief Secretary of Himachal. So, we have a very strong support and then we are supported by a highly talented, experienced professionals both technical, financial and HR services who actually drive, we are a small but we are a very small and efficient organization staffed with 600 core staff and maybe twice as many people working on the project-based, contract based assignments.

You know the shareholding pattern, one year ago government of India held 60.64% and now at the end of the financial year we are talking about 2016-17, we are talking about 58.86. And, soon it is likely to go down to 53.86, so government of India is downsizing but the foreign institutional investors and foreign portfolio investors are upsizing. Their holding a year ago was 18% and now it is 22.3%, so this again shows the international standing and the confidence that REC enjoys, and the trust they believe for the long term that we are a safe and a profitable enterprise to invest. And these are the 10 major investors as you can see, I mean there are Morgan Stanley there, there is East

Bridge there, there is Vanguard Emerging Markets there, so you know, there is European, there is American and Singaporean and there is a lot of interest from the small banks in Japan, in Taiwan.

In fact, when we recently were in Japan and Singapore, an enormous amount of interest from the investors from across Asian continent, and our share price, you know better than I do, has performed very well. It's 76% has been the return on the REC stock this last one year, compared to the 21% of BSE Sensex and the NIFTY 50. So, more importantly, our stock is being included in Morgan Stanley Capital International India Index. This is the latest announcement of 2016, this again shows the international confidence in REC.

And, just to briefly touch upon the operational performance during the financial year that has gone past, we had a total sanctions amounting to 83,800 crores. In fact, whichever was not documented almost about 10,000 crores we have hived off, because we wanted to be upfront and solid. So, the 83,000 projects are those which are documented and on the ground or ready to go. So, of which as you could see, the majority was in the transmission distribution segment. It represents a growth of 28%, year on year, so compared to the previous year, it's grown from 65,000 to 83,000 over this year.

And, some of the major projects as you can see, spread across the country, there is Karnataka, there is Maharashtra, there is Rajasthan, there is Gujarat, there is Tamil Nadu, there is Andhra Pradesh, I mean these are the major projects which are much bigger than the thousand crores. And, with regard to disbursement and I thought it is important, because we have actually disbursed 26% higher during 2016-17 compared to '15-16. I mean we have disbursed 58,000 crores of which

30,000 crores was in the transmission-distribution segment but that does not mean that our presence in generation is any less. It continues to be sizeable and significant.

And, if you look at the customer composition, of course, the state sector continues to drive with 75%. It's almost remained constant compared to the previous years. The private sector has marginally increased compared to the earlier year from 15 to 17% and the joint sector remains around 8%, which is consistent with what we have been doing. And the overall, the share of generation during this year was about 47%. And, just to show you that we have a pan-India presence, every single state, private sector and all the government utilities and the largest, of course, is in the state, we are now here in Maharashtra with 27,000 crores but then we have a big investment in Tamil Nadu, in Uttar Pradesh, in Rajasthan, in Andhra Pradesh, and you know, across the country as you can see, it's all over.

And, our major borrowers again are quite diversified and with again Maharashtra government being the largest, almost constituting about 7%. But 10 states among them have about 37% of the current loan portfolio, but not in, there is no single borrower, what is important is there is no single borrower who has a high exposure, nobody has more than 7% and the biggest Maharashtra has 6.6%, the Maharashtra state power generation company. So, with regard to, I would request my colleague Ajeet Aggarwal to present on the financials, the asset quality and others.

Thank you. Thank you friends.

Thank you sir. Good evening ladies and gentlemen. The presentation has already uploaded on the REC website for the quick reference of all of you. I will just go through the financial parameters.

The non-performing asset as on 31st March, 2017 in terms of percentage is 2.41% as against 2.11% we had on the March '16. There had been slight addition of two small projects during this quarter, one is Ind Barath Madras where we have an exposure of 400 crores and another is Lanco Teesta where the outstanding loan is 237 crores. In terms of the values, we have Gross NPA 4,873 Crores, with the Net NPA 3,237 crores. On the restructured loan assets, our restructured loan assets today stands at 23,000 crores roughly, which includes both public sector as well as private sector. And the public sector we have 10,925 crores of projects which are under restructured. Here I would like to clarify the restructured assets here are those assets which have been delayed in the construction period where the delay has been more than 2 years, but within 4 years. So these projects are under construction with a delay of 2 years and just not within 2 to 4 years, these are the projects.

In the state sector we have around 4 projects and 3 of them have since been completed. There is another project, a small project of 1500 crores which is still under construction, so whatever provisions we have made is a matter of time, we shall be reversing them in our books during the course of time. Among the private sector projects, a 12,571 crores where we have made a provision of 766 crores as of today, as per the RBI norms. The total number of projects are 11, we can share the details whenever requested by ... And we hope this trend is not going to, and we have complete monitoring system in our company. We have a project monitoring division headed by an ED level officer

who does the monitoring of all the projects which have a value of more than 500 crores, all the projects are getting covered. Other than those which the another people does under the consortium funding. So the management has taken a very serious view on this subject that we would be continuously monitoring all our projects through our own team which visits all the projects and it is going to be further strengthened by us by appointing the project management consultants wherever required.

As you all know that we raise our money from the market on commercial terms, as on 31 March 2017, the total outstanding has been to the tune of 1,67,500 crores and we have a product mix where most of our funds come from the taxable Indian rupee bonds, which constitute around 68% of our total borrowings. Then the next portion comes from the international currency borrowings. We raise a lot of ECBs and our total percentage of the product mix is around 13%. Then we raise 54EC bonds which is a special dispensation given to us by the Ministry of Finance and it is a 3-year paper and it carries a low rate of interest. Other than that, the union budgets sometimes do provide us the facility of raising a tax-free bonds, whatever percentage of 12% we have raised is on account of the previous years, this year union budget has not provided any provision for raising tax-free bonds.

These are the numbers which are given absolute numbers, out of 1,67,000, the bond stood at 1,13,000, foreign currency borrowings to the tune of 21,000, capital gains bonds to 19,000 and the tax-free bonds 12,000. With the cost of borrowing of 8.13 on the overall borrowings standing as on 31 March, 2017, our cost of borrowings is one of the lowest in the market as compared to peer companies.

The funds which we raised during the last year was 28,495 crores. As you must have noticed though we have made a disbursement of 58,000 crores during the last year, but our raising has not been to the tune which we have disbursed the money. Last year, we have got around 35,000 crores in terms of the UDAY funds which was received by us and that has since been deployed in the business. So, our long term borrowings during the last year has been slightly less.

The total cost of borrowing for the last year has been to the tune of 6.85% which is one of the lowest. The 28,000 crores which we raised last year, the overall cost of borrowing has been 6.85%.

Our total income for this year has increased approx. by 1%, we have achieved a figure of 24,000. Our PBT has shown an increase of 10%, our PBT stands at 8,861 crores as against 8,045 crores last year. Profit after tax is 6,246 crores, an increase of 11% on year to year basis. Our net worth has shown an increase of 16%, from 28,618 crores, it has gone up to 33,326 crores. The loan book is almost flat but the reason that we have got 42,700 crores from UDAY funds. If we account for the receipts which we have got under UDAY, our loan book would have been a 20% increase on year to year basis. As we just mentioned our Gross NPA stood at 2.41%.

The yields on loan has shown some decline due to the market conditions and the receipt of UDAY funds which were priced at 12% kind of thing. And today our yield is still at 11.38% with a cost of borrowing 8.13%, still (inaudible) giving a good margin of 3.25% in terms of spread and still we are operating at a NIMs of 4.54.

Our interest coverage ratio is at very healthy levels at 1.64. Our debt equity ratio has come down to 5, as we just mentioned due to the

UDAY funds. The capital adequacy ratio, as against 15% prescribed in our case, we are comfortable levels at 21.18%. The tier 1 is still 18% as against 10% prescribed by RBI and tier 2 is 2.75%.

The return on net worth is also at a very good level as compared to the market, a peer companies which have other banking finance companies, still we are operating 20% plus. The earnings per share on a face value of 10 is Rs 31 and today's market price is around 207 at the end of this today's business. Our book value per share is 168 as on 31st March, 2017.

These are the summarized balance sheet where our total balance sheet size is 2,09,000 crores and net worth has gone increase of 16% and total assets by 1%. And, this is the summarized profit and loss account we have already shared with you on the website as well as the... With this I think major parameters on the financial as well as power sector on the company overview has been covered, now we leave it open to the house for Q&A session.

Thank you very much.

Q&A session

Q. Thanks for the opportunity sir, this is Abhishek from Deutsche Bank. Sir just two questions, first on the loan book Guidance, if it could be as you just said in presentation that adjusting for UDAY scheme, actually the loan book would have been 20%. So I wanted to understand that how much of the prepayments under UDAY scheme is now left and for FY18 if you can share your loan book guidance on that. Second is, yesterday like in Power Finance Corporation there was a sharp up-

move in restructured assets, as the transactions to the RBI's credential restructuring norms but it was not seen in REC. So, if you can share the reasons behind that and what is the guidance on that going forward?

A. UDAY part is concerned, we have got in total from March 2016 to this March 2017 is 42,700 crores, during this year itself we have got approximately 34,000 crores and all money has been received in cash and the same has been employed back within the system. And since the scheme is over on 31st of March, so no further repayments are to come under UDAY scheme during the year 2017-18. As far as the second question is concerned, REC you look at it the restructuring norms in terms of the delayed projects which we have just mentioned to you and today we have 23,000 crores worth of projects which have been delayed. And we have been making these provisions the last whenever the RBI dispensation came in. And all, they have been suitably provided for. If you look the cumulative provisions on this account restructuring is to the tune 1241 crores. So, we have been following these norms the day the RBI announced it. So I would not like to comment what the PFC has done because we are not the right people to comment on those things. But if you have any specific query regarding REC we would be willing to do it.

Q. Sir, just one the loan book guidance for 2018?

A. We expect, I mean we are quite optimistic if you see as I suggested that there is a huge demand for investment in the power sector. So the growth could be anywhere between 15 to 20% would be a more realistic estimate because the states, the power utilities and the government of India is very keen to make this reality the dream reality that is quality power for all, 24/7. So, this considering, I mean what I

presented is very clear that the investment needs are so huge, 20 lakh crore investment need across the value chain in the next five years. So that itself is an indicator of what would drive the business of enterprises like REC.

Q. Thank you sir, my name is Veer Bhatia from Pico Capital. My question is regarding something the Accounts, you mentioned the account where the borrower obtained interim order from the high court, so is this leading to the RKM count which you mentioned in a previous con call where I believe that thesome assets or something of that so it was held up?

A. As far as the RKM account is concerned, here the lead is a PFC, the project there are phases, phase 1 and phase 2. Phase 1 has since been commissioned and phase 2 is likely to be commissioned very soon. The borrower has gone to the high court restraining the lenders to treat this account as an NPA and the stay order on this account was issued by the high court of Chennai. And as a result of which we have not been able to classify this an account as NPA in our books. But REC as a matter of prudence during the last year has stopped accounting for the income and till today we have made a provisioning of 9.5%, as an provision we have not made deliberately as 10% as the matter is sub judice. So as far as the REC is concerned, for all practical purposes even if the stay is got vacated and we will review the position but we have made a sufficient provision in our books of accounts.

Q. But, I believe the opinion earlier was that the stay would be vacated soon that's still the opinion right?

A. Yeah, in case it is vacated then it is not going to impact our accounts other than the half a percent which we shall be providing for.

Q. Just two questions, one was that UDAY most of the loans to DISCOMs are been repaid in this UDAY so are we giving working capital loans to them right now, so this has been case with your peer companies that they have been, this particular quarter they have given working capital short term loans to the DISCOMs. So, is that the case with REC also, and if then what is the amount which you have disbursed this quarter?

A. See, there are two-three things, important things. On the specified date, that is 15 September, 2015, the total outstanding dues to the DISCOMs was estimated around 4.2 lakh crores of which 25%, I mean 3.4 lakh crores or so was to what was to be transferred to the state accounts and states were supposed to raise the bonds and then prepay. However, several states like Maharashtra, Gujarat and Karnataka, which thought that the DISCOMs are in good health and then can pay themselves. They did not choose to prepay, they said we will commit ourselves to the operational efficiency, operational parameters. But as far as financial restructuring is concerned that's transfer of 75%, that would remain with the DISCOM.

So, the final amount worked out to be something like 2.4 lakh crores or so, and our exposure as Director Finance had said is about 78,000 crores of which we got back 42,700 crores overall. So, in that sense, the financial part of UDAY is completed but there are many other components to UDAY including technology upgradation, efficiency issues, price of power, AT&C losses, system strengthening. But those will continue, now from our side the remaining 25%, the DISCOMs are supposed to raise bonds or they are supposed to receive concessional grants from the state government so that's between the states and the DISCOMs. For their operational requirements, there are certain

stipulations that the operational needs the DISCOMs cannot borrow beyond a limit. Now, those DISCOMs that come to us, we are essentially in the long term capex creation business.

We by and large, do not see ourselves in providing the short term working capital loans to the distribution companies, or for that matter, any power sector company. So, however, there are cases where the distribution companies or a generation company urgently requires a short term loan. We have a product separately customized for that in the special term loans which after evaluation, but however, that has to be within the parameters of fiscal discipline imposed under UDAY.

So, we are not, I mean as you can see, our presentation is very clear, our what we have given as a term loans, the special term loans to the power utilities is a very small percentage, I think 7-8%, or even less than that of the total disbursement that took place in 2016-17 and that would continue.

Q. And sir, just one more thing, in the renewable space, currently what is the sanctioned outstanding book which is there in the..... And if you can also, is most of that solar energy power or what is it, if breakup can be given?

A. In the renewable energy front, by far, you see that our renewable portfolio was hardly 1 to 1.5 or 2% of our total loan book. But now as we have renewed focus, and renewable being our first area, we have a very ambitious target for this year. We are contemplating close to 10 to 15,000 crores of sanctions and around 5 to 6000 crores of disbursement. And all these constitutes the new solar projects, solar parks, wind power projects, other renewables and also the refinancing. So this will be our niche area to work on.

Q. Sir, currently of the outstanding book, what portion is renewables, as of FY17?

A. Is approximately 1% as of today, we have an outstanding book of around 2000 crores.

Q. We had a reshuffle of about 20,000 crores, can you tell us what is the primary reason of their becoming a restructured loan, which part of the value chain are they stuck in and what are the chances that they will come on track and what will trigger it for it to come on track?

A. I just mentioned there are total 23,000 crores of projects, the state sector account were on 10,000 crores. And there are 4 number of total projects, 3 have since been commissioned well within the time limit of less than 4 years. So there is no problem as far as the state sector is concerned. And the private sector projects, a total list of 11 projects are there, 2 or 3 have since been commissioned within the timelines. A project which is slightly delayed are Lanco Vidarbha and Lanco Babandh, these two projects are likely to be delayed mainly the Lanco Vidarbha. Most of the other projects we feel should be completed within a 4 years time.

Q. Where is it stuck? Why is it stuck?

A. The Lanco Group basically is stuck in terms of equity contribution by the promoter.

Q. When you had financial closure, the equity first comes in or there is more.....?

A. No, when we do the financial closure, it is the concession financing. And when the Lanco Babandh ICICI bank is the lead And Lanco

Vidarbha Punjab National Bank is the lead. When the project is appraised the credit rating of the project is depending on that then the upfront equity provision is provided for, it could range from 40 to 30% upto 50%. And the balance equity is to be brought on a pro rata basis whenever disbursement is due, in such a large kind of projects you can't expect the project developer to bring upfront equity of 2000 crores. So because of the Lanco project group itself having the different, the projections which they have in mind, Lanco Infratech, another things, their all businesses are having under stress. So the projections the cash... which were supposed to be generated by them and being channelized to these projects are under stress.

Q. What would be the, do you think there was any investment in the AT-1 bonds of public sector banks and what is the outstanding?

A. We have invested around 1500 crores with the tier 1 bond of three banks, these banks are Indian banks, Vijaya Bank and syndicate bank and the average interest rate is 11%, which is a very good rate of interest. And we were lucky to have them when initially these banks were facing a problem so on an annual basis we earn an income of 165 crores.

Q. Sir, Ramesh from Mehta and... Very recently the bids for renewable energy both from solar and wind have come in at such ridiculous prices that one of the wind energy company has got a very typical situation that order on hand worth 6 GW were cancelled. Is it not a situation where going forward these projects at these pricing are definitely sure shot to turn into NPAs?

A. You see that these scenarios are not new on the front, I think we have all seen these cases in case of Virgin generation these ultra mega

if you remember some 10 years back. We have seen it very well in the transmission project where the Tariff based competitive biddings are concerned. But you know, also you see that it's a competition, this competition can be constructive, it can be destructive. And we are at REC, while we appraise these projects, we duly take cognizance of all these factors and that is why by far we have been little slow. But now our pace is fast and we are selectively filtering, screening all these projects based on proper due diligence and very very sound appraisal practices we have put in place in the company.

Q. Because, ideally, prevention is better than cure. When we understand that this is suicidal tariff or suicidal rate of bidding obviously, it will lead to NPA?

A. You see that all these low rates each and every case cannot be suicidal and all the even bigger one is not a sure shot guarantee. But it is up to when we appraise this project we have to take a call and we have to decide whether we have to finance or not. Our experience for that matter have not been bad by far, in renewable sectors we are going strong and we are selecting only good projects and we have no problem out of that.

Q. Sir, a second that, not a question but it's a thought. The UDAY scheme transferred the liability of DISCOMs to the state governments, based on the definition the DISCOMs are babies of state governments. Why? Second, the DISCOMs ran up such huge losses as a consequence of T&D losses, or in short power theft. But have we ensured, that going forward, after this UDAY scheme is implemented we prevent these T&D losses of power theft in the DISCOMs because 5 years down the line we will again face the same scenario?

A. You see, let me speak about the UDAY is not just a financial restructuring, just a one fraction of a large programme. The programme looks at revitalization of the DISCOMs and transformation of the distribution system in terms of its efficiency to deliver. So, there are very specific operational parameters that are defined for each state and each state to what is that they need to do. Now for example Himachal wherever AT&C losses are 12.9% in 2016-17, now they already come down to 5%, they have come down by 5%. SO, there is a change that one is noticing in each state. You know, there are very specific operational parameters that are reviewed every month at the highest level in the government, both at the central government, state government, at the utility level. Because ultimately unless there is an improvement in the operational efficiency there is no point freeing the financial space, so it is unburdened, the DISCOMs are unburdened with a view that they would be able to focus on governance, on technology, on technical efficiency. So, reducing AT&C losses, reducing the gap between the cost of purchase of power and the revenue recovery, they are integral part of the UDAY. And then we are seeing very clearly, very very clear progress in that direction.

Now, if you see 24.6% were the cumulative AT&C losses across the country, national average in 2015-16, today they are down to 19.8%. I mean we need to see that there is and these are being measured, the price of power is being measured, the AT&C losses are being measured, the ACSR the gap is being measured. And these are very clearly, now even power, which was 60 paisa per unit, was the gap is come down to 49 paisa. The progress is, I mean nothing is dramatic, it is incremental but it is happening and it will happen. With regard to renewable, I just have a supplement to what my colleague had said, I

mean let's also see the technological transformation that is taking place. There is a huge transition, I mean there is a huge disruption that is taking place in the power technology. So naturally the prices have come down. I mean it's a phenomenal turnaround and who ever thought you would be able to get an electric vehicle at the same price as a petrol vehicle.

So there is a huge turnaround in technology. This is an exponential change and that change will manifest. We are also trying to understand to see how we can work together. So, we are actually partnering with also multilateral agencies like ADB, IFC, to work together to make our appraisal systems more robust in conformity with the international standards, because there is a huge experience internationally with renewables. So we are basically working with our partners who have gone through this process and customize the product. So, obviously, this is a segment that requires very customized financial product for these Otherwise, as you are saying we will have trouble and we are very conscious of that. I mean, that's why I just want to emphasize we have been scrupulous in our adherence to the highest prudential norms.

Q. That is very wonderful to hear. The many initiatives that you have highlighted, at least we have come to an awakening that the need of the hour is not to treat the effect but eliminate the cause because if the cause remains the effect has to recur. That point is very well taken. And you have expounded and encapsulated it extremely well. Sir one last question, the state governments themselves are reeling under very heavy levels of debt, almost they are in debt not nose-deep, but temple-deep. How do you see this situation resolving?

A. I was Principal Finance Secretary for 5 long years. So, in Andhra Pradesh, after the state divided I continued as Additional Chief Secretary of the residuary Andhra Pradesh which got 60% of the population and 47% of the revenues. So, I am very aware of what you are saying, however, let's also face the fact that there is a legislation, the FRBM, it regulates the ceiling beyond which you cannot borrow. It is at 3% and the 14th Financial Commission provided another cushion of 0.5% based on certain special parameters. But that basically meant that you ran your finances efficiently in order to accept, recently, Mr NK Singh Commission has given a special report, the state cannot borrow actually within the budgetary framework, without the permission of government of India. It's constitutionally mandated, for every rupee that the state borrows it has to go to government of India and get its act together.

There are instances of extra budgetary borrowings which are through the state undertakings but state undertakings, again the financial institutions who are lending to them, they ought to keep their eyes and ears open. So, I don't think the states can irresponsibly borrow. In fact, I tried very hard, that's why I am telling you. It's not easy to borrow irresponsibly for a state because you are limited by FRBM No. 1 and more important by the constitution, which mandates every time you want to borrow you have to go back to government of India, Reserve Bank, both have to agree, then only you can raise bonds. Otherwise, everybody would be in the market every day.

The only relaxation and one-time relaxation given is for UDAY, and that was given for a very very specific purpose and for exactly one and a half years. So, it has a very specific timeframe. It's not open-ended. So, I think it's a bit exaggerated to say that the states are debt-ridden.

Certainly, UDAY has shifted the loan book but many of the inefficiencies in the DISCOMs could not have been addressed with this level of loan burden.

Q. Hello sir, for the full year, this UDAY bonds, how much the impact of the net interest margin, because there is a some impact on the overall yield. So could you quantify the impact for the full year?

A. Some impact you have already seen it. We have almost 60 to 70 bips in terms of the yield and this is mainly for UDAY funds. And we hope that in all put together there will be another burden of 30 to 40 bips in the coming year.

Q. Secondly, sir, for the 2017-18, resources raising target?

A. The resource raising programme for 2017-18 we have projected a 55,000 crores of borrowing from the market.

Q. And, scheduled repayment number sir?

A. The repayment in terms of committed borrowing should be to the tune of 20 to 25,000 crores.

Q. Scheduled repayment from the loan book?

A. The loan book is to the tune of 28,000.

Q. This is Alok Aggarwal from Bonds and Equities. Sir, Dr Ramesh who said demand for power is growing exponentially, you have said 15 to 20% loan growth, book growth in REC. Do you see this CAGR earning 4-5 years?

A. I mean given the investment needs and the gap that exists, from what I had presented it is apparent that that should be the pace of

growth not just for this year, but in the foreseeable future, in certainly in the next 5 years. So we are looking at a 5-year horizon, of course, I mean I wish we are actually having a assessment being done for the next 10-15 years, 2030, REC 2030 is something that we are looking at to see what is the likely sort of a power sector scenario, the REC Where we would, how we would reposition ourselves in order for us to address the challenges that are likely to emerge in 2030.

So, but certainly I think it's a fair assessment, given the need and given the drive that the government is placing and also the awareness and the commitment of the state governments. We have seen across the country all state governments have committed themselves irrespective of the political affiliations that they would provide quality, assured power, 24/7 and virtually every state has signed up for power for all. So, that induces the confidence.

What Chairman sahib has said, I will just add the, you see that basically what is our per capita consumption. It is 1100 units per annum. If you see the world average, we are even one-fourth, one-fifth, China – one-third. So we have as far as the work which is going on the ground we are only scratching the surface. Then you see power for all, all the 30 states are on board, it's a commitment, it's the agreement with the government and it's only addressing what each state has to do in terms of his power availability, power generation, power transmission, power distribution. In each state, there are a number of progressive utilities which have already started work on these directions. This will all drive business, in transmission, in distribution, in generation, not only 5 years, it may be even up to 5, up to 10 years. Because still that will take time, the way the Europe, the America where power is taken for granted, the same level of reliability, same

level of availability of power, same level of uninterrupted power that we see, it will take that much time.

So, as CMD sahib has said, that we are looking at 2030, this huge investment will drive this all infrastructure which will be required to meet this purpose of power for all. I will just like to add like UDAY, while it has taken off this all debt liability from the balance sheet of the DISCOMs. If you see the opex part, that will also drive DISCOMs if they want to achieve those objectives to go into again those huge technical interventions and these are not technical interventions, these are high-tech interventions where they will have to use smart metering, they have to augment the infrastructure, they have to go for ICT technology, they have to go to automation if they want to reduce those losses, reduce those gaps, serve the consumers in a 24/7 fashion, attending to their interruptions and all those.

So, if you say UDAY we are only focusing on the this financial part, if you see the opex part it's much more elaborate and each utility, every state has come on board. They have to meet those obligations, they have to invest hugely and all this will drive huge business for REC.

Q. Sir, my second question is, it's easier to lend, I think if you may permit me to say. But how will you control your NPAs, because the way we see, I mean, in our system year after year NPAs seem to be ballooning the way PFC reported. I mean, Mr Aggarwal said that he will not like to comment. But as investors, as analysts, it was so frightening, 12-14% Gross NPAs taking government borrowings in RBI impact. How will you tackle this problem as far as REC is concerned?

A. I will answer and then I would request my colleagues to supplement. Now, you see in our data I mean we have been very scrupulously following the RBI stipulations, all the regulator stipulations, the government of India guidelines and our prudential norms. We are trying to adopt the best practices, not just in India but of global best practices in terms of our financial management, because we are a financial institution. We have to manage our single rupee prudently. Now, that's why our NPAs you can see among all the financial institutions is among the lowest and they have not grown significantly, they have just been a marginalized increase. And then, there are two things, one, of course, is how robust is the appraisal process. No.2 is how effectively one monitors the project implementation, how closely. No. 3 is that if there is a stress, there is a delay in project then how quickly can we intervene. So we have set up a system in our office, in our organization of regular, we have set up a strategy for every single project that we have and we will see that we do not deviate from that path. Ultimately, it's a national asset, we are making an investment. We want it to become productive and then serve the nation. And, so it's not that money that is invested will go wasted, it's basically a management issue and I can assure the ladies and gentlemen here that as far as REC is concerned we will ensure that this is an issue, this is an infection that has to be stemmed in the beginning and we will do that.

A. Just to supplement as our CMD has said, as you would recall that in an NPA there are two types of factors, external and internal. Some of the external factors in terms of the tariffs going down, when you start appraising a project, let's say 2007 and 2008, when the merchant power rates are 8 to 9, today you are getting Rs 2. So these kinds of

projections nobody would have ever imagine of. As a result of which even the RBI has taken cognizance of the fact that the project which have come on the ground with a heavy investment of 5–10,000 crores which is of a national, these are basically national assets. But due to, presently there is no demand but as the industries pick up the demands are going to pick up. Today, they are under stress because project cash flows are not to that extent.

All the project which we have been analyzing in our company, almost 90% projects are all complete, there was no issues as regards the equity contribution is to be brought in. Most of the assets on the ground ready to produce but they are finding it difficult to whatever projections we made and all the lenders made at that point of time, considering those kinds of the things prevalent at that point of time today are not seen. As a result of which just 5:25 restructuring norms which the Reserve Bank of India has come in, so already they have acknowledged the fact there are certain factors beyond the control of the lender as well as of the borrower also.

So you cannot put the blame exactly on lenders as well as the borrowers, the SDR is there. So the only thing where the equity contribution has not come on projected lines, yes. In this case, we have one or two projects of the Lanco group and we all lenders are making all efforts to see these assets are still created. Because once the asset gets created it's a different value, if you leave the projects stranded in-between it has no value per se. So the market is very dynamic, some of the factors, nobody had imagined that this will be the situation still the REC management in consultation with all the lead lenders, the consortium lenders, on a very regular basis reviewing the status of these projects. What best could be done, we are there to do it, the

first and the foremost importance of the REC is to see the assets are created, assets are uncrowned. Then will be the next step whether we can undertake the restructuring part, can we go for 5:25, can we go for SDRs. So these are the second part and we are open for a restructuring wherever we feel the project is capable of generating power, out of two units one is getting generated, we hope that the second will also get generated as the condition in the market improves.

Q. Thank you sir. Just one last. What is the guidance for spread in NIM?

A. Today, we have been working at the spread of 3.25 and the margins is 4.5 and considering the overall scenario, the kind of pressures on the interest rates and other things. Though the cost of borrowing has shown a steady decline which is off-setting the impact on the We hope that something between 2.75 to 3 in times to come and the of around 4 we should be comfortably placed.

Q. Sir, I just had a question, just wanted to understand our current NPA recognition is as per RBI prudential norms or are we still exempt from it?

A. As of today, we are exempt till March 2017, the RBI did bring out the resolution saying that by March 2018 all these have to be 90 days period. We made a special request to the RBI saying that we have been having 80% plus or 85% plus of exposure to the state sector. And the projects which have been sanctioned and we have analyzed their EMI and they should allow payments at the time of the finalization of the common loan agreement. So, the RBI taking the cognizance of all those things have permitted us either to follow from 150-120 and 90, but they said you can continue to follow 180 days till March 2017, if you

wish so. And, otherwise, by March 2018 you have to come down to 90 days. So, from 1st April 2017 onwards we will be following the 90 day period.

Q. So, let's say for example, as per our current reporting if we were to be as per the RBI prudential norms at 120 days, what our NPAs would look like?

A. No, we have made a review there would be no change. Because the point was that we have been sensitizing all our borrowers which the state owned.... The RBI has come out with their 90 days period and considering they have to depend on many factors in terms of the, UDAY was under operational, UDAY has since been implemented and this was the major reason because 31 March 2017 was the deadline for UDAY to be done. So, taking all those parameters into account RBI did permit to us and given option either we continue to follow the RBI norms of 150, 120 or from 1st April 2017 a 90-day period, we don't see there would be any pressure on us even if we follow the 90-day period.

Q. Sir, in terms of, REC has been assisting the Ministry of Power in terms of the implementation of the UDAY. So if you can suggest if few of the state which have actually done very well in terms of financial losses having been reduced for FY17, operationally they have improved and finally we are saying incremental investment demand coming through from any of the state where in we are pretty comfortable?

A. I mean let's be fair to the states, I think everybody is trying, everybody is trying, we need to be fair to them. However some states are doing far better – Himachal, Haryana, Manipur, Rajasthan, Uttarakhand, they have all done very well in terms of, I mean they are

all really made progress, Gujarat, even Bihar in term of AT&C losses. And in terms of reducing the purchase cost, the power purchase cost – Telangana, Andhra Pradesh, Maharashtra, Bihar, Gujarat, they are all showing a very important, they are leading in reducing the cost of power purchase. If you look at the ACS and ARR, the cost of supply and then you realize that gap which is averages to be 60... across the states.

The states that are doing well are Rajasthan, Goa, Chhattisgarh, Himachal, Tamil Nadu, Telangana. Then really if there is some turnaround in terms of DISCOM fiscal health, Gujarat has done very well, Himachal, Chhattisgarh, Assam, so I think there is a I mean you can see from this there are 12 DISCOMs and 7 states, 8 state have reduced substantial subsidy dependence compared to last year. Major improvements have been noticed in states ranging from Andhra Pradesh to UP, and Bihar and so, there is an all round improvement in terms of moving forward in terms of various parameters.

Q. Yeah sir, any of the states wherein we have seen the incremental kickbacks or investment activity picking up?

A. Of course, I mean you see the Deendayal Upadhyay Gram Jyoti Yojana scheme in which government of India actually spent 8000 crores in 2016-17 financial year and likely to step its expenditure maybe to 10,000 during the 2017-18 the current financial year, is 60% is the grant that government of India gives and the rest comes as a loan, either from the state government or the REC chips in that 40%. I mean you are really talking about when I am 8000 crores is 12,000 crore investment. This is what comes to catalyze the capex investment, this is all capex investment. So, this is feeder separation, transformer

upgradation, automation, smart metering, so this is to catalyse capex investment in distribution strengthening, total focus on distribution, village electrification, of course, household electrification also is part of it. But a big part of it really is the strengthening of the distribution infrastructure. And in addition to that, what happens is this is a catalytic process, it is supplemented with loans from REC or maybe PFC but mostly from REC so that they go hand in hand in terms of....

I mean we have seen state after state actually taking a district and then completely transforming their distribution infrastructure. There is a lot that is happening in the country and this level of investment in the capex at the distribution level which had been the biggest bottleneck and, in fact, when people talk about this demand supply dissonance or mismatch, it is really the distribution had been the bottleneck. Of course, I mean there had been a macro transmission issues but mostly it's really the distribution. So, in that sense, we are seeing a big transformation and much more you will see in the coming years.

Q. And out of this 76,000 crores of exposure to UDAY, why it is getting restricted finally in terms of repayment to 43,000, so in many cases we have got 100% back instead of 75%. So, is it like few of the state wherein we have higher exposure, have not participated in UDAY because we thought that numbers could have been somewhere around 58-60,000 crores?

A. No, let me explain, you see, 78,000 is the total exposure or total outstanding debt to the DISCOMs from REC on 15th September, 2015. Now what has happened is, 75% of that was to be prepaid, there are several states like Karnataka, Maharashtra, Gujarat, they said we are not taking over the debt of the DISCOMs, because they are in good

health. They will service the debt normally, as per the repayment schedule, they will not prepay, they will repay. So, they did not repay so there is only few states where prepayment was done. And so obviously, that amounted to be 42,700. So, this was a prepayment to the only thing that we had foregone is that we had foregone the prepayment premium, the penalty that went with that. So, that's a very fair performance.

Q. And finally, last time during the Analyst Meet you were pretty positive in terms of upgrades from the restructure both on the state utility as well as on the private. So now what is our stance in terms of this 22,000 crores of the restructured, when do we see it get into maybe the standards assets. You have highlighted on state utilities 3 projects but what about on the private side and there were like few resolutions even expected on the NPL front. So any visibility, any development either on restructured or NPL?

A. As just I mentioned about the state sector almost all the projects have since been completed so this 10,000 crores is not any subject matter for us to.... The only thing remaining is a 12,000 out of which also we feel that 3 to 4000 crore worth of projects are likely to be completed soon. As we just mentioned, the projects which are really getting delayed is the Lanco Vidarbha and to some extent Lanco Babandh, barring these two projects we hope the rest of the projects will be on line and we should be able to complete them in time.

Q. So, post the completion it will be one-year term for the upgrade from the structures or....?

A. This is basically as per the RBI, it is from the date of COD date and date of provisioning, a two years whichever is later, so a maximum

grade is two years. If you complete a project today, let's say March 2017 and you have made a provision of March 2016, the provisioning will be by March 2019 will be reversed which is two years whichever is later.

And on UDAY funds let me clarify that 42,000 have since been received and the normal prepayments have been coming by us, another 11,000 has come as a normal prepayments of these schemes because the scheme was ongoing. The state of Maharashtra, Karnataka, there is a 12,000 crores of outstanding, they have decided not to pay, so a sum total of just 10,000 crores from the state of Rajasthan, Rajasthan has paid, Punjab, Haryana, these are smaller states they are planning to raise bonds and if they are successful in raising the bonds they can repay to us. So, 42+11, which is a normal prepayment for us plus the 12,000 from the state of Andhra, Karnataka and Maharashtra which they have not participated, so that makes a total almost 75,000 crores. So maybe a 7-8,000 crores are remaining with some of the states, they are awaiting for the bonds to be raised. If they are able to raise they might decide to prepay to us otherwise not.

Q. Sir, this regarding this 75,000 crores UDAY bond, around 42,000 or 46, so remaining sir what is the average yield in the remaining UDAY bonds if you can just give some indication?

A. No, we don't even do UDAY bonds per se.

Q. No, I am saying if you remove 43,000 crores, so the remaining loan which is left what will be the average yield in this?

A. The average yield will be to the tune of 11.5-11.75%.

Q. And in this regard, what has happened with PFC, basically I think you saying that you were not following MOP guidelines, is it correct to say that?

A. No, exactly not the MOP guidelines. Be specific what you want to ask?

Q. Basically I just need to know whether RBI has gone through the entire process which they have done for the REC?

A. No, what kind of provisions are you asking for? Basically the issue was a restructuring provisioning, the PFC has requested to RBI maybe two years back when the provisions came in, we internally decided we will follow it. PFC has a different stand on it, they have been requesting time and again to RBI. RBI, we are not privy to what that correspondence between the RBI and the PFC has been. But only thing that we know by the results declared yesterday they have made a composite provision this quarter. And we have been making this provision the last three years itself.

Q. So, you have been accounting for all the delays?

A. No, we as far as REC is concerned, we have followed whatever the RBI has stipulated. And we continue to follow.

Q. So, what has changed?

A. Nothing has changed as far as we are concerned. So let's talk about REC here, we don't know what the other organizations have done, we have followed and we continue to follow what the RBI prudential norms are.

Q. So, if the COD let's say, gets delayed by let's say 4 years, you will treat it as an NPL?

A. Yes, obviously, we have already done one project of 700 crores Ind Barath Utkal, as NPA, had it been a 50% which has come in after November 2016 if the 50% completion is there two units, we would not have. So, today RBI is again come out, if the two units are there, one is commissioned already still the COD is taken as completed. So we continue to follow. As we just mentioned the market is too dynamic, the regulator is not averse to what is happening to the market. So RBI is also continuously looking into the requirements the request being either from the lenders or the borrowers and is taking a very considered call on the subject.

So, today if the 50% units are getting commissioned, the project is supposed to have been commissioned and you get another one year extension. So, we have already classified one project is NPA, there is a delay of more than 4 years, and will continue to provide them from in our books as NPA if there is a delay of more than 4 years.

A. Yeah, I just want to make this very clear. We follow strictly the prudential norms prescribed by the regulator, that's the RBI. There has never been a deviation and there will never be a deviation.

Q. Sir, the question is, of course, we have been following the guidelines, the risk which comes now is now you have to be always on a COD based guidelines for as an NPL. So, are we seeing in the next 3-4 years the problem because of these guidelines because even if the state governments continue to pay and service the loans and if the projects are delayed then it has to be treated as an NPL. And of course, it's not just on a back basis we can keep seeing this can happen over

next 2-2 years because still lot of projects going on where the CODs can be delayed. So, are you seeing in next couple of years COD delays crossing 4 years, or something like that, or you are saying.....?

A. We have been touching this point for almost one hour and we just mentioned the number of likely projects which can slip into it. So, it's a very dynamic kind of situations and RBI's number of norms coming in. If you complete 50% is commissioned, if you change your promoter you get another two years. So, it will be very difficult for me to say today we are working on a change of promoter on one or two cases. If it happens, you know, Nagai we have been working on the change of promoter, you get additional two years. So, it's not that we can just tell this project is going to be 4 years, there is a continuous monitoring process going on, there is a continuous lenders meet which is going on. The lenders are not sitting simply saying that project is getting delayed and we just see that this project is getting slipped. Ultimately, it's my books getting affected. So, you have to realize all the lenders are really serious to see that first project gets commissioned on time, whatever extra mile we have to go we are going for it. Even we are going for a last mile equity contribution if that is the case the project is going to get completed. So we are not leaving any stone unturned to see the project gets completed well in time even if we may have to go extra mile to do it.

Q. Sir just one question of this credit concentration norms. Of course, you have time, but can you just tell us how many of your borrowers would be over and above the RBI defined?

A. No, if you look at the RBI's norms, we have been permitted 2022 for the state sector, on the private sector we follow the concentration

norms as prescribed by the RBI. Now you look at our net worth today, what we have been talking 5 years hence, the net worth used to be 4000 crores and we have given you a list of the 10 top borrowers we can go back to the presentation, you will find that the maximum is a 12,000 crores a one single unit. Today, we are standing at net worth of 35,000 crores, so even if you look at in terms ofof one single unit 12,000 works out to be almost less than 35%.

So, yes we have got an extension, but we also ...we are very well aware of that, we don't want the credit concentration to happen as far as our borrower list is concerned.

Q. Sir just one last question, this Lanco's how much is the total exposure?

A. The Lanco's total exposure in our books should be to the tune of 4000 crores outstanding which Lanco..... is one of the projects which is already commissioned where we have around 1400 crores of exposure. So that is a commissioned project being serviced on time. If you remove..... yes it is on track our PFC has done the underwriting, the project is going on stream. So, we have already highlighted the two projects which are under stress today – Babandh and Vidarbha. Babandh is likely to get revived, the lenders meet is taking place, we are likely to take another lenders meet for the Lanco Vidarbha also where the PNB happens to be the lead. So these two projects are under stress, Vidarbha is more under stress rather than Babandh, Babandh has all PPA visibility, everything, except that the equity contribution is an issue. So all the lenders are trying to resolve that.

Ok sir, thank you.