



“Rural Electrification Corporation Q1 FY2019 Earnings Conference Call”

September 18, 2018



ANALYST: MR. KUNAL SHAH – EDELWEISS SECURITIES

**MANAGEMENT: DR. P.V. RAMESH – CHAIRMAN & MANAGING
DIRECTOR – RURAL ELECTRIFICATION CORPORATION
LIMITED**

**MR. AJEET KUMAR AGARWAL – DIRECTOR (FINANCE)
– RURAL ELECTRIFICATION CORPORATION**

Moderator: Ladies and gentlemen, good day and welcome to the Rural Electrification Corporation Q1 FY2019 Earnings Conference Call, hosted by Edelweiss Securities Limited. As a reminder, all participant lines' 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 “*” then “0” on your touchtone phone. I now hand the conference over to Mr. Kunal Shah from Edelweiss Securities. Thank you and over to you Mr. Shah!

Kunal Shah: Thank you and good morning all of you. We have with us, today on the call, Dr. P.V. Ramesh, Chairman & Managing Director and Mr. Ajeet Kumar Agarwal, Director of Finance from Rural Electrification Corporation particularly to discuss the Q1 FY2019 earnings as well as to share their perspective on the developments in the power sector. Over to you Sir!

P.V. Ramesh: Thank you Kunal. Friends this is Dr. P.V. Ramesh here. A very good morning thank you so much for taking your time to be with us today this morning. I will just take five minutes to highlight some of the key elements of today's presentation and then we will have an opportunity to interact and we will make it as interactive as possible and before I get into the specifics, let me highlight some important factors, which sets the context.

Number one what we are noticing is an increase in the demand for power is going up and it is for the first time month-on-month, it has gone up about 8% and last Thursday night the peak demand in the country for the first time touched 172 gigawatts and the increase in demand in Maharashtra State alone is to the tune of 22% compared to the same period last year. So overall we are seeing an increase in the demand for power and we expect it to accelerate and I am happy to report that under Saubhagya we have already electrified 14 million households. We have another 17.5 million to go before December 31, we have on an average electrifying about 150000 households everyday and all this should translate into an additional demand and a big push at the same time big investment is taking place in infrastructure strengthening in the rural areas, in the urban areas and this should again even out, those infrastructure bottlenecks for a long time held back the development of the rural areas and increased demand for power.

Now in this we have also noticing a significant increase in the renewable energy push, several states in the country have come up with policies for both promoting renewable energies and more importantly the e-mobility and the new technologies in this and the fact

*Rural Electrification Corporation Limited
September 18, 2018*

that our overall loan book 4% of the total loan book is for renewables is an indication of the growth in this segment. At the same time, we are also noticing a significant improvement in the overall governance and operational efficiency of the DISCOMs and which again should augur well in the coming days and this is of course is let me qualify this may not be even across the country but there are several parts of the country, several DISCOMs we are seeing a much better performance.

Friends this is the sort of a background in which I thought I would set the RECs performance for the first quarter. You would agree with me when I say that REC by its very business model really in the long-term power infrastructure development so it is not always appropriate to judge the quarter-to-quarter performance. Nevertheless, I am happy to report to you that the company has adopted the Indian accounting standard for the first quarter and accordingly we had aligned all our reporting in accordance with the Indian Accounting Standard system.

If you see the overall loan book has grown by about 17% compared to the last year first quarter end when we were 2.8 lakh Crores now we stand at 2.42 lakh Crore. Our total income has increased by 12% during the first quarter compared to the first quarter of last year. The net profit has increased by 37% again comparable with the last year. The earnings per share has increased to Rs.7.44 compared to the Rs.5.45 last year.

The loan book of course has annually covered around 17%. This year this quarter we have raised notwithstanding the fact of the cost the interest rates have gone up, the bond rates have gone up we have been able to maintain our borrowing at 7.28%.

Now friends the most important thing of course is that I am happy to report that there is no credit impairment in the public sector loans, which constitute about 86% of our loan book and I am also happy to report that as I said our renewable disbursement has been quite significant to about 18% of the total disbursement and 15% of the total sanctions during this quarter and much more importantly is the provisioning that we have made for the current quarter.

We have made a provision of almost about 47.4%, which is the highest now we expect a trend for improvement in number of assets again becoming standard and we will discuss specifics during the presentation. Overall, we believe that we are set on a faster growth trajectory. The performance till today when we look at is fast on a fast track. With reference to the stressed assets we are moving forwards with the Parivartan ARC the power asset

revival through warehousing and revitalization, which has received a strong support from the Parliamentary committee on Energy as well as the Reserve Bank of India and its submission to the Department for Financial Services in the Allahabad High Court and also in our discussions so we are taking measures in that direction as well and then we are working with the other lenders to find amiable resolution for the other assets.

So overall I would like to end this brief presentation on an extremely positive note both for the power sector and above all for your company. Thank you.

Kunal Shah: Yes so we can start with the Q&A session.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Aayushi Mohta from CD Equisearch. Please go ahead.

Aayushi Mohta: Good morning Sir. Sir why has your impairment losses on financial assets come down this quarter?

Ajeet Kumar Agarwal: Madam if you look at that the REC has now adopted the Ind-AS from this quarter itself.

Aayushi Mohta: But sir previous quarters they were have been restated according to Ind-AS right.

Ajeet Kumar Agarwal: Madam that is all the if you look at there has not been an increase in the NPS, which has been reported on March 31, 2018. What has happened with the adoption of Ind-AS the incremental provisioning has gone up because earlier we have been providing with the reference to the IR Act which is the Income Recognition Asset Class Norms of Reserve Bank of India, which has tabulated certain norms in terms of the ageing of this particular NPL. When you switch over to the new method of calculating this on a fair value concept and this implementation is to be done from 01.04.2017 onwards and accordingly whatever assets were reported under stressed or reported as NPLs during that particular year, they have all been incrementally provided for during those periods and their accounts have been recasted as you must have seen when we have presented this quarter accounts we have also presented the June 2017 accounts indicating therein what has been the impact had it been recasted based on the Ind-AS what we have adopted now. So what happened there have not been any increments in the NPAs, no incremental NPAs and just the incremental provisioning we have made it out as per the new requirements. So the gross NPAs if you have seen must have been at 8.12%, which was already, reported 7.7%. One another project of IPC and Haldia because of the new norms we have to restructured these projects and once you restructured a project, which is a performing project also you have to classify

there is an NPL till the specified period which is a one year in case of NBFCs so that is all incremental, which has been reported and accordingly the provisioning and we have appointed an outside agency called Fitch Ratings they have done the old methodology where the assets were kind of the incremental provisioning are required to be done and accordingly the company has made those kinds of provisioning.

Aayushi Mohta: Sir because of that your impairment losses have come down to 131 Crores from 732 Crores?

P.V. Ramesh: This is because of the new assets, which we have just discussed and we as a matter of prudence have provided some incremental provisioning in that asset.

Aayushi Mohta: Sir your losses have come down impairment losses?

Ajeet Kumar Agarwal: Madam the impairment losses mean these are the existing assets. If you let us say at by provisioning coverage ratio as of March 31 was just 20% because we have adopted so motto the implementation of February 12th circular and as a result of which, we have classified certain of the asset which are under stress as NPLs and till March 31, 2018 we have been providing for the provisioning as per the Reserve Bank of India guidelines. Now since we have made a provisioning as per the Ind-AS standards as against 3500 Crores of the provisioning, which was existing as on March 31, 2018 has gone as high as 9300 odd figure. So that is why our provisioning coverage ratio is almost 50% on the NPLs, which have been reported till March 31, 2018.

Aayushi Mohta: Sir what are the factors driving growth in your T&D business?

P.V. Ramesh: There are two. With reference to the distribution segment there are three important initiatives flagship programs of Government of India, the Deen Dayal Upadhyaya Gram Jyoti Yojana, the Saubhagya and the Integrated Power Development Scheme. Now these are actually catalytic investments. They provide the nuclear for leveraging much larger investment into capital system strengthening. Now that is exactly what the DISCOMs are doing and DISCOMs have committed themselves through UDAY for improving their operational efficiency and achieving power for all by within a specified timeframe and which specifically includes bringing down the transmission and commercial losses to less than 15% by end of this financial year. Now this would require a substantial investment in upgrading the distribution for structure, which the DISCOMs are now currently undertaking it is estimated they would require about 150000 Crores of investments collectively of the 54

DISCOMs every year annually in order for them to keep pace with the new increase in demand and particularly now that all villages have been electrified and another 40 million households are being connected to the grid system so that is one area where there continues to be grow but more significantly in the transmission segment for the first time both intrastate and interstate the substantial investment is being done and quite through the tariff based competitive bidding route and almost this amounts to a lakh of Crores, which originally started in interstate segment to create a national grid. Now the same is being done by several states we have Jharkhand, we have Maharashtra, we have UP you have Madhya Pradesh and several of the states. So part of it is through private sector participation and part of it is the PowerGrid Corporation. So we are quite active in financing those entities in this segment so we continue to foresee much higher investments in the strengthening the capital assets both in the distribution and the transmission segments in the coming years.

Aayushi Mohta:

Sir how much growth is coming from refinancing in generation business?

P.V. Ramesh:

Generation we are not refinancing. Let me make it clear that in the pure thermal or hydro there is only a state sector or the central state joint sector new projects that are coming up in the generation segment there are no IPPs in the traditional fossil fuel based power projects. Now where the additional growth in the generation segment is coming is essentially from the state and the central PSUs and also there is now growing demand for the FGD infrastructure in order to comply with the Paris protocols incrementally the states are coming forward for these additional retrofitting their plants with these infrastructures. The growth really is coming in the renewable segments where new capacities are being generated and where as you know that we were the first Indian company to have raised nearly \$450 million and the green bonds and then we have set up a green fund, we have a loan pipeline of €200 Euros from the KfW and apart from our own resources which we are raising in the domestic market. So our major activity is now been creating additional capacity in the renewable segment, we have also setup a small technical assistance fund with KfW jointly with about €2 million, which is we are using essentially to develop a funding financing pipeline to look at the financing models and look at the technologies that are appropriate so that our asset quality are remains higher so there is no refinancing as such. We are looking at new assets, creating new capacities and their orders in that business not us.

Aayushi Mohta:

Sir is the refinancing in T&D business?

P.V. Ramesh:

Pardon me.

- Aayushi Mohta:** Refinancing in T&D business?
- P.V. Ramesh:** Refinancing, no not at all I mean T&D business there is no refinancing potentially at T&D. We are the only one is there in the capex in the T&D segment there is no other player who do the refinance the others may give finance in the future.
- Aayushi Mohta:** Sir what sort of loan book growth do you foresee?
- P.V. Ramesh:** We have grown 17% last year to this year. We should sustain at around 12% to 17% this year.
- Aayushi Mohta:** How much Sir sorry?
- P.V. Ramesh:** 12% to 15%.
- Aayushi Mohta:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Bunty Chawla from B&K Securities. Please go ahead.
- Bunty Chawla:** Thank you for giving this opportunity. Sir as on the slide #37, you have given the asset quality and provision coverage numbers. So can you share the stage I, stage II numbers for that?
- Ajeet Kumar Agarwal:** If you look at slide #37, stage I and stage II all put together is 2090 Crores.
- Bunty Chawla:** Yes, Sir can you separate it out for us?
- Ajeet Kumar Agarwal:** Basically if you look at it what we have done is the provisioning on the state sector where if we go to the provisioning norms it is 389 Crores, which basically is all my state sector exposure and on the private sector one or two projects like which are under certain Gencos as we discussed IPCL and one another project of OPG as a matter of prudence we have still accounted for some additional incremental provisioning and one transmission Mahan is a project with us which is under stress so 30% provisioning on that account has been made out so if you look at the private sector, which is stage I and II we have still made a provisioning of 1701 Crores and on the state sector all put together, which is roughly 208000 Crores is the provisioning of approximately 400 Crores so that makes a total of

2090 Crores as stage I and stage II and the balance is the 9316 Crores is stage III, sum total of the provisionings made out is 11043 Crores.

Bunty Chawla: No, I was just referring at how much number out of this will be stage II so can we say all that these private sector because of this higher provisioning you have done all these private sector standard assets should be stage II assets can you tell at that?

Ajeet Kumar Agarwal: 1014 Crores is stage II what you are referring to.

Bunty Chawla: Sir secondly as you said these 19651 these are under private sector, which are currently NPAs so can you share the names of the projects?

Ajeet Kumar Agarwal: Most of the projects are already in public domain. Just to give an idea we have like on the larger size Lanco Amarkantak, Lanco Anpara, Lanco Babandh, KSK Mahanadi, Ratan India Nasik, Ratan India Amravati, these are the major projects there are some smaller projects also.

Bunty Chawla: Sir are you expecting because of this they are undergoing NCLT or other resolution process any haircut assumption you are taking for these projects so because you have done around – sorry?

Ajeet Kumar Agarwal: No, we have made sufficient provisioning in this some of the assets where we are either looking in terms of the resolution process or going through the NCLT. On an average the provisioning in these kind of asset is not less than 50% in many of these cases. So we feel that whatever provisioning has been made out, we should be getting a better resolution plan and as we are witnessing one or two resolution plan, the haircut would be ranging between 35% and 40% so sufficient provisioning in those assets has already been provided for.

Bunty Chawla: Sir during this quarter incrementally what were the slippages can you share that number?

Ajeet Kumar Agarwal: There are two small projects one is IPC and Haldia and other this OPG because of the new guidelines we have restructured these projects. They were under stress. We have extended the repayment period and adjusted the payment schedule but considering the fact that the RBI has provided whenever restructuring is carried out they have to be classified as NPLs and in these two projects and our choice in POC and the so the specified period for NBFC is just a one year and we have already started performing as per restructured terms we hope that going forward after one year they should be standard.

- Bunty Chawla:** Last question Sir during this transition to Ind-AS what was the impact on the network of FY2018 book value?
- Ajeet Kumar Agarwal:** You are talking in terms of gross numbers or in terms of the per value book share?
- Bunty Chawla:** Gross numbers.
- Ajeet Kumar Agarwal:** The total impact on the network is 6000 Crores.
- Bunty Chawla:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Anupam Singh from Florintree Advisors. Please go ahead.
- Anupam Singh:** Sir just a follow-up question in the same slide #37, if you could give us more colour on the generation companies in the private sector out of the 18500 Crores outstanding in the NPA account that amount basically are from plants that are up and running. So we have provisioned half almost half of it so the rest of it what amount is from plants that are up and running?
- Ajeet Kumar Agarwal:** If you look at the plant which are up and running is let us talk out DAS Energy which is an hydro project of 100-megawatt we have recently tied an PPA with Haryana government another Essar MP Mahan, which is also up and running in terms of the captive power supplies being done to Essar Steel. You have a Facor Power where we have already acquired this project under SARFAESI. This is a 70-megawatt project and we have already supplying 40-megawatt to captive ferroalloys. Gati is another project where this is 100 megawatt hydro which is also up and running. Now you come to IPCL Haldia which has just restructured this is another project, which is up, and running today. KSK Mahanadi two units are working. Third is likely to start production very soon so this is also up and running in the KSK Mahanadi. Then is a Lanco Babandh is a classic case where it is due to litigation it has come to a stage of NPLs it is 100% on the 1200 megawatt 85% to 90% PLF only the APTEL has also allowed them the incremental tariff of 16 paisa, we hope that once this is accepted by UP we should be seeing this project coming back to the normal category. The OPG Power, which is the restructured, is also up and running is a captive power project. Ratan India, Amravati is also performing at suboptimal level of 50% to 53% of PPAs. These are the projects, which we have majorly the NPAs one. So most of these projects in our kitty as NPLs are already commissioned ones and are already performing but at a suboptimal level in the sense they are maybe doing a PLF at 50% to 60% and the tariff

if they have bidden out in the past is not that sufficient enough to service the loans. Going forward as the demand is likely to increase and the government of India is taking initiative recently they have tied up the power of 1900-megawatt we had many of these projects is also bidden it out and there is a second out of bidding is likely to take up by the PTC under the aegis of Ministry of Power so some of the options and the Coal linkage under Shakti and other thing we are quite optimistic that going forward in a year or two these projects must be working at an optimal level.

Anupam Singh: Sir the question was actually on the 18500 Crores of generation plant in private sector for these 18500 Crores if you quantify in Crores how many would be up and running plants versus plants which are about any if you can? You can say from the 27500 Crores basically, which are up and running, others are in any case running has just giving a 18000 what are the projects we have which are up and running we will just give you the total idea.

Ajeet Kumar Agarwal: We can move to the next question in the meantime we will give the figures, we are totaling it up and just a matter of another a minute or so.

Anupam Singh: Thank you.

Moderator: Thank you. The next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani: Good morning Sir. Just wanted to understand the status of the power projects, which have come under February 12th circular and the case has gone to the Supreme Court. What is the status of resolution? Is it stalled because of the Supreme Court stay or you are still negotiating with other banks and everybody on the table to negotiate some of these power projects what is the clear status and is the stay only on February 12th circular or does it stay also on any resolution process by banks and NBFCs?

P.V. Ramesh: Let me try to understand, it is the Supreme Court judgment essentially aggregates various petitions pending before different high courts and especially Madras and Allahabad High Court wherein different entities have challenged the February 12th circular so it basically transport those petitions to the Supreme Court so Supreme Court becomes the single arbiter and this is based on the petition filed by Reserve Bank of India and the stay is with reference to those proceedings so it has not stayed the 12th February circular the Supreme Court has not stayed the February 12th circular it has frozen essentially those proceedings that are underway in different courts so it does not preclude the lending agencies from

proceeding with the resolution that is an advance stage and also it does not preclude the lending agencies to file petition before the NCLT. So those processes are underway. There is a consultation was going on between the lenders and we are in the process of taking this forwards.

Amit Premchandani: So any case has been referred to NCLT over the last one month after August 27 when the deadline kind of expired?

P.V. Ramesh: No, none of our projects have gone to NCLT.

Amit Premchandani: So what is the deadline then?

P.V. Ramesh: The deadline was to be August 27; however, because of this order of the Supreme Court, which have been those several of those cases because we have not a lead lender in majority of these projects so the lenders have filed petitions before the NCLT in some cases, some are awaiting admission, very few have been admitted so while the process is on for admission, if there is a viable resolution there is always a provision for implementing that resolution.

Amit Premchandani: If the deadline was August 27 just trying to understand why has no case been referred to after August 27 and what are banks or NBFCs waiting for - are they waiting for the stay in Supreme Court giving them an opportunity for two to three months or they are actually not waiting for them that it is just a procedural issue and over the next say one or two months all the cases would gradually be referred to NCLT?

Ajeet Kumar Agarwal: Now in this regard what is to be done on August 27 onwards is a 15 days window was provided to the lender to take to the NCLT so that deadline was coming to an end on September 11, 2018 from 27th the 15 days period, which was there in order to have those kinds of claim everything to be tied up and to make an application to do NCLT. As you know everybody was aware on that lot of litigation is going on and the Supreme Court the date was already fixed on September 9. It is not that what we are referring to is the power sector projects, which were if some of them were under resolution plan and some are in the process of getting ready to be taken it to the NCLT, so in the 11th itself the judgment has come but whatever the smaller other projects have gone to the NCLT has gone to the NCLT, so what we are referring to the projects which with the REC so that we can take in most of these projects have not been referred to NCLT as of today but some of that our

process where there is no resolution plan is being seen are being in the process to be referred to the NCLT by the respective lead members.

Amit Premchandani: But such 180 days is expired and as of now there is no resolution you can still hold it back and not refer to NCLTs what you are saying?

Ajeet Kumar Agarwal: If you look at the resolution is that first of all the lenders have to agree the overall the broad parameters of the resolution plan then once they agree to a resolution plan it has to be referred to the respective boards or the competent authority where the authority to say yes. So this takes slightly longer time as you must have seen in the newspaper report that the government has also asked additional 80 to 90 days just keeping in mind that this maybe the procedural issues, which the respective lenders maybe required to take it to the respective boards to put a yes on those kind of resolution plan so that was the reason that everybody was asking for sometime as mentioned but some of the plans they are discussions are under resolution, some are not so considering a clarity maybe on November 14, hopefully either whichever to be resolve will be resolved and rest will be referred to the NCLT.

Amit Premchandani: So just to summarize basically what you are saying is in some of the projects where there was a possibility of resolution plan but the deadline was not met for August 27th you will still hold and try to resolve it before November 14th and if they do not get resolved before November 14th it will be based on the judgment of supreme court you will have to move to either NCLT or you have to take a decision so for the next one and a half months you still have one month you still have some leeway in terms of approaching the NCLT that is what the interpretation is?

Ajeet Kumar Agarwal: That is what you are right.

Amit Premchandani: Thank you Sir.

P.V. Ramesh: With reference to the earlier question about how many of them are what is the value of the assets that are currently functioning it is almost 16000 Crores other than the advances, minor ones. Shall we move on to the next one?

Moderator: The next question is from the line of Amit Goela from Rare Enterprises. Please go ahead.

Amit Goela: Good morning. Thank you for the opportunity. Some questions of mine have been answered, but just to repeat going back to the slide of page 37, Sir you are saying that your total NPA like entire credit is like about 30000 Crores in the private sector on which you

provided 9000 Crores, and you are saying that out of this 18000 Crores, 16000 Crores is functional, so you feel that this 10000 Crores is adequate at all and if you provide for another 5000 Crores your NPA problems will be taken care of fully?

Ajeet Kumar Agarwal: No, there is slight confusion. The total NPA is 9651 Crores of which we have provided for 9316 Crores, which roughly works to almost 50% of the provisioning norms. This 50% is not pro-rata adjusted against each of the projects. Some of the projects have been made as higher than what is 50% is all about and some have been in the range of 30% to 40% depending on how we see the reliability of the dues going forward, depending on the project parameter. On an overall basis, it is 50%, so the question which was put is that out of these 19000 Crores how many are running projects. Approximately 10000 Crores of the debt exposure to those projects, which are already running as of today so what we are referring to is out of 19000 Crores 10000 Crores of projects are under operations but they may not be producing enough power or their PPAs are not to that extent that they could be able to service the loans of the lenders, but they are still operating, so the project which are not operating as of today, the bigger ones are the Northern India and Nasik and the Lanco Babandh kind of which are still some of them are nearing completion, some are already completed also, like Northern India, Nasik is the one where we have the maximum exposure of 2300 Crores, which is as of today now it is not operating. So most of the projects are operating, so what we are referring to 19000 Crores approximately 10000 Crores of our exposure to these projects, they are already under operations. Now balance as of today are not under operations.

Amit Goela: Sir, if I may suggest if you look at the Power Finance Corporation on their presentation have given a project wise exposure limit and what is the status, if you could do the same, it will become much easier for us to understand it, Sir.

P.V. Ramesh: Not an issue. We can give it and if you want any specific project, we can give you right now. We have all those readily available. They are not many list in our kitty, so if you have any particular project to be referred to, we can provide what kind of provisioning and what kind of exposure do we have.

Amit Goela: Fair enough Sir. I will get back to you on that one. Thank you Sir.

Moderator: Thank you very much. The next question is from the line of Amit Rane from Quantum Securities. Please go ahead.

Amit Rane: Thank you for the opportunity. Sir, how much is the positive impact of DTA recognition on our results?

Ajeet Kumar Agarwal: 2652.

Amit Rane: 2652 and Sir, in note number 8 in our results release, which says interest income on credit impaired loan assets amounting to 327 Crores is not recognised, so how much is the total amount of pending resolution in stressed assets underlying this 327 Crores?

Ajeet Kumar Agarwal: This is to be provided for all the assets, which are under the opening balance. Suppose whatever provisioning we have made it out, under the ESL mechanism, the income could still be recognised, but as a matter of prudence is most of this ESLs are classified as NPAs or under resolution plan so as a matter of prudence as we have been doing in the past also, when the RBI norms were getting implemented we have not been accounting for an income when the asset is getting classified as an NPLs, but under the new regime of the Ind-AS when you have the credit at loss, the income can still be accounted for and this income was calculated by the company as well as the outside consultant we have employed who grant fund for that purpose and the Fitch Rating who has done the credit loss calculation so they have come out with a version only seven out of all these projects, which we have been referring to as 17 or 18 projects, but ultimately it was decided that as a matter of prudence let us not account for this as an income.

Amit Rane: So, my question is how much is the amount of this 17 or 18 projects? How much is the loan that we have given to this 17 or 18 projects?

Ajeet Kumar Agarwal: We can share this detail with you via email, if you want. You can coordinate with Mr. Kunal and he will forward it to you the details.

Amit Rane: Sir, how much is the amount of stage II assets, total?

Ajeet Kumar Agarwal: Are you referring to the provisioning?

Amit Rane: Stage II assets, total stage II assets for REC?

Ajeet Kumar Agarwal: 1014, we have just referred to you.

Amit Rane: That is only for private sector, right Sir?

Ajeet Kumar Agarwal: There is nothing in the state sector. All those 86% of the exposure is all standard. There is no stress in any of these state run entities either in terms of transmission, distribution or Gencos.

Amit Rane: Sir, how much is the budgeted level of foreign currency borrowings for FY2019 that we are planning?

Ajeet Kumar Agarwal: As per the Reserve Bank of India approval, we have got an approval of \$3 billion to be phased during this year. We have already set up an MTM program of \$3 billion and we are targeting this type for the first time the company is targeting 144A. As of today we have been doing various bonds from Singapore and London markets, and this will be the first, maybe in the next month or so we should and we are planning to tap this US market under Section 144A.

Amit Rane: Thank you. I will come back for followup. Thanks.

Moderator: Thank you. The next question is from the line of Ankit Choudhary from Equirus Securities. Please go ahead.

Ankit Choudhary: Just wanted to know what is the FY2018 networth post the Ind-AS implication?

Ajeet Kumar Agarwal: 32477.

Ankit Choudhary: Thank you.

Moderator: Thank you. The next question is from the line of Sanjeev Gupta, an individual investor. Please go ahead.

Sanjeev Gupta: Good morning Sir. I just wanted to know the impact of rupee devaluation and the rising rate of interest on our bottomline?

Ajeet Kumar Agarwal: Well, if you look at the rate of the interest, the cost of borrowing has shown an increasing trend in the last month or so, but we have been trying to raise the money at the most competitive rate, if the trend continues then our lending rates are one of the lowest in the market today. Considering when the stability comes in the domestic market in terms of raising resources by us, we will definitely be looking in terms of passing a part of it to our lending operations and going forward we do not anticipate much of an impact in either in terms of yield or the cost of borrowing.

Sanjeev Gupta: Sir any impact on us like the rupee devaluation as the rupee has fallen quite a lot for our foreign currency loans?

Ajeet Kumar Agarwal: The foreign currency loan this quarter we have provided for almost 300 Crores of the foreign exchange and not on account of currency valuation and what are the levels you are looking today if it continues to stabilise at let us say 72 to 71.5 we should be ending up the same kind of the losses in those terms in the next quarter, but similarly we should be having the similar kind of gains in our hedged portion. So as of today unhedged portion is not that significant as we have an order book policy of keeping the open exposure which is linked to the network of the company and we can go as high as 35% to the network of the company in terms of open exposure, but as of today, we have an open exposure to the tune of 25% to 26% which is open. These were the recently concluded 10-year bond which is not mandatorily to be held as of today so most of the hedged portion we are having a very sizable gain in terms of the swap.

Sanjeev Gupta: Thank you.

Moderator: Thank you. The next question is from the line of Ishank Kumar from UBS Securities. Please go ahead.

Ishank Kumar: On the tax rate part, what should be our tax rate in Ind-AS regime, because in Ind-AS we do not need to provide for deferred tax?

Ajeet Kumar Agarwal: Deferred tax is to be provided for, so what we are witnessing in this quarter the rate of interest is almost 33% to 34%

Ishank Kumar: And it will stay at this level, because before three or four years back, our tax rate was close to 27% and then we had to provide deferred tax liability, so it went back to 33% to 34% but in Ind-AS we do not need to provide for deferred tax liability then it should go back to 33% to 27% to 28%?

Ajeet Kumar Agarwal: We are providing for both in terms of Ind-AS so hopefully we should be in the range of 32% to 34% going forward.

Ishank Kumar: Okay and in this quarter Sir, you can give some number on what was the income from derivative and on foreign currency liability and then what was the provision in terms of amortisation on forex loans?

Ajeet Kumar Agarwal: The income on our hedged portion on the derivatives is around 570 Crores and the foreign exchange losses we have provided is around 320 Crores or so which is part of the other expenses and this has been created by part of the other income. What the changes we have to make out in the Ind-AS earlier till March 31, whatever the gains and losses were to be done on the foreign exchange transactions were to be amortised over a period of till the remaining maturity of those particular loans, so we have an option whatever loans we have raised till March 31, 2018 we continue to follow the same practice of amortising these gains and losses over the balance remaining maturity of these loans, but going forward from 01.04.2018 whatever the income and the losses are incurred by the company in that particular quarter has to be accounted for. So going forward any further raising done by the company from 01.04.2018 onwards any gain or any losses on the foreign exchange fluctuation shall be provided for in the current quarter itself. So we have to follow the same norms.

Ishank Kumar: On the spread side, our spreads are still close to 3%, which is around 50 basis points higher than BSE, is there any target for our spread, where do we see spread going forward in the next three to four quarters.

Ajeet Kumar Agarwal: No if you look at the first quarter we have not raised much of the borrowings in the first quarter, and it has shown some decline in the cost of borrowings, but going forward we are working internally with the target of 3% as a spread and hopefully we should be able to maintain it. As we just mentioned that we have not adjusted our lending rates in the first quarter, the trend of the cost of borrowing stabilises at these levels, then there is a case to pass on a part of our foreign institutions also. So considering the adjustment in terms of our lending rates vis-à-vis the cost of borrowing the internal target is to maintain in that range of 3%, maybe 5 to 10 paisa here and there.

Ishank Kumar: Last question on the loan side, how much percentage of our loan has a three-year reset?

Ajeet Kumar Agarwal: Almost 90% of our loan book is a three-year reset. Of late some of the renewal part, borrowers have started looking for a one-year reset, but I do not think that the way the things are poised today in the domestic market many people will again switch over to three-year reset.

Ishank Kumar: That is all from my side. Thanks.

Moderator: Thank you. The next question is from the line of Siva Kumar from Unify Capital. Please go ahead.

Siva Kumar: Thank you for the opportunity. Sir, just to confirm as to your restructured asset completely, post that sectoral RBI circular everything has been flown into the gross NPAs, right?

Ajeet Kumar Agarwal: Yes.

Siva Kumar: Sir, and the increase in the provisions from around 3500 Crores to around 9300 Crores, which has been done during the quarter, the asset has been shown in the networth, right, around 6000 Crores.

Ajeet Kumar Agarwal: Yes and the net impact is after adjustment of deferred tax assets is around 3500 Crores, 3013 to be precise.

Siva Kumar: Sir, in the media we read that about seven power estates out of the total 34 stressed power assets were about to be resolved, but somehow the private parties and even NTPC which were interested in bidding for those assets wanted to wait till the assets were dragged to NCLT, can you share what is the current status as to how you will progress in that regard because now you have got additional two months time from Supreme Court?

Ajeet Kumar Agarwal: As regards the NTPC is concerned, we cannot speak on their behalf on what they are looking at but yes there are two to three assets which we have an exposure, which are being discussed among the lenders and outside the NCLT resolution plan, so the broad parameter seems to have agreed by most of the lenders barring one or two smaller issues, which needs to be resolved. I think in this direction, the number of meetings are lined up may be next week the lenders are again waiting to see those two to three projects in specific which could be resolved outside the NCLT and so at this juncture it will not be appropriate for us to comment anything on how it is going forward what will be the reaction on those assets. As regards to NTPC how they look at it, it is their internal matter, so we should not be in a position to comment on their behalf.

Siva Kumar: Got it. Sir, what will be RBIs exposure to those two three assets which are close to resolution, if you can quantify?

Ajeet Kumar Agarwal: We have an exposure in like KSK Mahanadi, we have an exposure in Northern India, Amravati, and Essar MP Mahan, so all put together our exposure in these projects should be around 4000 Crores.

Siva Kumar: Realistically speaking what would be the haircut in case the resolution happens on an IRH basis obviously post this resolution?

Ajeet Kumar Agarwal: If we go by the market indications the haircut seems to be in the range of the 35% to 40%.

Siva Kumar: Sir, it seems even the RBI has sent back your ARC resolution with asking you to make some tweaks to the regulations, so what is the status on that and how will it pan out going forward?

P.V. Ramesh: Actually RBI has supported our proposal. It has said so before its submission before the Department of Financial Services and also in its affidavit before the Allahabad High Court, it said that this is a viable resolution pathway for those assets which are commissioned and to be warehoused and managed till the demand picks up, so in a way RBI both in its written submissions as well as in our discussions have supported. We had earlier requested for certain exemptions and forbearance in the ARC framework, the one being the valuation upfront and then we said that the economic value and the commercial value or the cross led variance precisely because there are no FAS in PPAs for some of these assets and so since it is artificially suppressed on a transitional basis, it would be unfair to value, to set a value on these assets so we proposed that the net book value that is the principal outstanding minus the provisioning ought to be the basis for determining the value upfront for transfer to ARC and second was that we requested for a non-cash transfer without an upfront paying and the Reserve Bank was not in favor of making an exception for power sector alone so accordingly we have now reworked our proposal in harmony with the framework of the RBI, ARC statute. We are now moving forward with the registration and filing the papers before the RBI for registration.

Siva Kumar: Sir, what is the potential amount that will be on-boarded on to this ARC once it is approved? We are already working.

P.V. Ramesh: We estimate this would be about 10000 megawatts should come before this because against sword of an approximate number of projects about 10 to 12 which could be in the horizon for this framework for the Parivartan framework; however, this needs to be again just like any other resolution has to be discussed with all the lenders and then take it forward.

Siva Kumar: REC would be putting in some money for the capital purposes of the ARC or will it be funded by NIES?

- P.V. Ramesh:** No, we have certainly initiated the process since it has been and we have worked on it quite hard taking not just REC centric approach, but the sector wide approach because this is our own as you see from our own reports, we have a limited exposure but our interest had been off the overall power sector and also the fact that the future energy security of the country is so critical for also for, we have an interest in protecting these assets from that perspective, so that is how we worked out this proposal and since it was our initiative we will certainly moving forward and expect others to join, I mean there are several other financial institutions and others who are interested in this and we hope that they will come on-board and that process is on that consultative process is on. So it is not that it will be borne by REC. No that is not the case, but it is being initiated by REC.
- Siva Kumar:** And Sir, there would not be any funding liabilities from REC side for the ARC, right specifically that was my concern?
- Ajeet Kumar Agarwal:** No. We will have to see may be some marginal amount but the substantial funding will come from the other sources.
- Siva Kumar:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Saket Yadav from India Capital. Please go ahead.
- Saket Yadav:** Good morning Sir. Thank you for the opportunity. Sir one thing wanted to understand that going forward given under Ind-AS norms we have already taken the provisioning under the ESL method, so going ahead the provisioning level should be much lower than what we have seen in the past, even in this quarter the provisions were only 130 Crores. Is this the level we should expect going ahead?
- Ajeet Kumar Agarwal:** Hopefully so yes.
- Saket Yadav:** Also, secondly on the NPAs with regards to the 19500 Crores on the private side, do we expect any upgrades, the last quarter on the call we had guided for about 3000 Crores of upgrades that we were expecting over the next six months within this 19500 Crores are we expecting any upgrades in the next few quarters?
- Ajeet Kumar Agarwal:** Yes we are expecting some credit upgrades in this as we have just been discussing that we have entered into a one-time settlement with Tata Power and now let us see how it fluctuates out, Lanco Anpara since the APTELhas already given a very favourable decision

in terms of that the additional tariff has to be paid to the developer is the UPPCL which takes this as a final judgement on their behalf because this is the second time they have approached the APTEL so we see that this asset can easily be a standard asset in the books of all the lenders put together and we are in advanced stages of resolution in terms of Gati and Dans and hopefully since both those projects the PPAs with the government has been signed so we should be looking very aggressively in terms of resolving these assets and Essar Power Transmission is already likely to be commissioned in 10 days time from now and hopefully this asset should be also becoming a standard asset next quarter or so, so these four five assets are in a very advanced stages of getting resolved and being upgraded if everything goes well, and some of the assets where there is a market indications are being taken up outside with the settlement with the developer if those petty issues of some of the developed lenders are getting resolved so these assets can also be taken as resolved with not a very high haircut, but a reasonable amount of haircut, so going forward yes 5000 to 7000 Crores of assets are under the advanced stages of getting resolved either way.

Saket Yadav: Thank you so much.

Moderator: Thank you. The next question is from the line of Rajat Setiya from Vriddhi Capital. Please go ahead.

Rajat Setiya: Do you expect any stress in the standard order books that we have, 13000 Crores?

Ajeet Kumar Agarwal: No, as of today, we do not anticipate any stress in these assets.

Rajat Setiya: Thank you Sir.

Moderator: Thank you. Ladies and gentlemen in the interest of time we will be taking the last question and that is from the line of Vaibhav Badjatya from HNI Investments. Please go ahead.

Vaibhav Badjatya: Thanks for providing me the opportunity. Sir, apart from the provisioning that we have mentioned on slide 37, do we have any other provisions in terms of 45 IC provision or reserve for bad or doubtful debt provision that is there in the balance sheet?

Ajeet Kumar Agarwal: Those normal provisions are already being made out in our books and it will continue to be made out under normal 45 IC, the reserve for bad and doubtful debts, those things are in addition we have been providing for.

Vaibhav Badjatya: What is the amount of those provisions, if I can have the number?

Ajeet Kumar Agarwal: Just give us a minute; we will give you the numbers right now. Meanwhile any other questions?

Vaibhav Badjatya: No, that is it from my side. This is the only number I need.

Ajeet Kumar Agarwal: We will give you the number.

Moderator: Thank you. Sir that was the last question. Sir would you like to add any closing remarks?

Kunal Shah: Thanks all the participants for participating in the call and thanks to the top management of REC for taking their time out and answering most of the questions. Thanks a lot. Have a good day.

P.V. Ramesh: Thank you very much. Thank you for your support. Thank you for your time. We look forward to working with you. If there are any questions, queries, clarifications, please do feel free to write to us. We will get back to you. Thank you very much. Thank you Kunal and thank you to your colleagues too.

Moderator: Thank you. Ladies and gentlemen on behalf of Edelweiss Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.