

Conference Call Transcript

Rural Electrification Corporation Q4FY18 Results

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Corporate Participants

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Chairman & Managing Director

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Director (Finance)

Questions and Answers

Moderator: Ladies and gentlemen, good day and welcome to the Rural Electrification Corporation Q4 FY2018 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 Aniket and good day everyone. We have with us, Dr. P.V. Ramesh, Chairman & Managing Director and Mr. Ajeet Kumar Agarwal, Director of Finance from Rural Electrification Corporation to discuss their FY2018 earnings. Over to you Sir!

P.V. Ramesh: Friends, a very good day to all of you and thank you so much for taking your time off to be with us. Greetings to you all. As you are aware, on May 28, 2018, the Board of Directors of REC has approved the audited and financial results for Q4 and also for FY2018 and the board has recommended a final dividend of Rs.1.75 per share. This is in addition to Rs.7.40, paid as an interim dividend earlier and which brings the total to Rs.9.15.

Just to give you a brief overview of the highlights this year - we had sanctioned projects valued at over Rs.1,07,534 Crores. This is compared to the earlier is a growth of 28%, which was about Rs.83871 Crores and the disbursements the FY2018 was about Rs.61712 Crores, registering a growth of about 6% from the earlier.

The total income for the year was Rs.22400 Crores, a marginal dip from the earlier year of Rs.23800 Crores and profit before tax was Rs.6852 Crores and profit after tax was Rs.4647 Crores and the profit after tax the earlier year, which was highest was Rs.6246 Crores and we had a loan sanctioned growth of 28% and a loan book growth of about 19% and compared to the earlier year, it now stands around Rs.240000 Crores compared to Rs.200000 Crores a year earlier.

Now I would like to say two things about the power sector and also mention about the NPAs about which many of us are concerned. Now let me first mention that the power sector in India is going through a major transformation as well as a transition. We as you know that the installed capacity in India now is about 344 gigawatts. This is primarily about 78% is in thermal sector.

Now the demand is about 170 gigawatts to 180 gigawatts, the peak demand. This demand is increasing. The government has initiated two major programs. One for systems strengthening in the distribution segment and the other is the electrification of villages and the households and a nodal agency for the Government of India major power sector development programs, I am happy to

inform all of you that India has electrified all its villages by April 28, 2018 and is poised to electrify all households, which is almost about 40 million before the end of this year. Of this already about 7 million have already been electrified of the 40 million. Now this is likely to have a major impact in terms of phenomenal demand increase for power, which is one of the major reasons also why there is a stress in the power sector. Now you are aware that about 40000 megawatts of assets in the power sector mainly thermal are under different stages of stress. Many of them are commissioned and are operational but are yielding suboptimal revenues or have problems with the fuel supply or the power purchase agreements, which is really responsible for this segment and REC has relatively less exposure to the private sector. Our total private sector exposure is about 14% of the loan book because our principle financing has been to the state utilities where there has been no stress whatsoever.

Coming now to the issue of the Reserve Bank of India's February 12, 2018 framework for resolution of the stressed assets, which makes no distinction between different sectors it applies uniformly across, which gives 180 days to the lenders to find a resolution plan. It has extinguished all the earlier formulations for resolution of the stressed assets like the restructuring, debt restructuring and strategic restructuring 5x25 and flexible structuring of the long-term project loans S4A, etc., and also it abolish the joint lenders forum, which was the platform for a joint decision making by the lenders, so it basically gives 180 days, which started on March 1, 2018.

Though this framework is not extended to non-banking financial company like REC we are a member of a consortium that have lent to these projects and you are well aware that the REC is not the sole lender except in minor projects and in all these things we are part of a larger consortium and primarily comprising of various commercial banks, so we have followed the same provisioning norms that are prescribed in the February 12, 2018 circular of RBI, which is essentially responsible for the NPA apparent increase to gross of 7.15% and net of 5.68% and had it not been for the RBI circular, we would remained at a gross of 3.14% and a net of 2.07%, so we are working with all the lenders and with government to find a sustainable mechanism for resolution of these stressed assets.

We have several proposals in the pipeline, which we hope would enable us to resolve these assets and also would like to say that we have been proactive in terms of provisioning. We do not believe that there would be further increase. In fact, we expect at least four assets to become standard in the Q1 or latest in the Q2. In addition, we have declared a dividend of Rs.9.15 per share of face value of Rs.10.

Friends looking ahead, I think this has been the outcome, which has been sort of force strong by the circumstances and I think the bad phase is behind us. We are looking forward to a very optimistic and robust growth and I say this with all responsibility that we would continue to sustain this growth momentum. We have the sanctions of increase of 28% also in an indicator to the robust pipeline of the business for the future. We have signed memorandum of agreement with

several state utilities essentially laying down the pathway and milestones for next five year financing for the power sector development in the state and this again spreads across the value chain.

The second important thing is our footprint in the renewable segment is expanding. A sanction of about 7% and the disbursement of about 9% indicate that our presence in the renewable segment is expanding and it remains at about 1% of the total loan book. It is likely to grow in the coming days and there could be some concerns about a marginal decline in the NIMs and the yields, but I must also say that we still are the best in the league.

Number two the NIMs continue to be closer to 4% and the yields are higher than 3% and this is by virtue of the adjustments, which had to be made and response to the markets, but in the coming days, so we are confident that we will continue to remain profitable. We will continue to have much larger volume of business and much more importantly we will continue to retain our strategic edge vis-à-vis the power utilities both in the public and the private sector and also in the renewable segment.

So these are some of the broader issues I wanted to present before you and then request Mr. Ajeet Agarwal, our Director of Finance to supplement me and then we are open to questions and answers. Thank you. Thank you very much.

Ajeet Kumar Agarwal: Kunal why do not we go to Q&A straightaway because Chairman Sir has already covered the broader issues.

Kunal Shah: Sure. We will do that. Aniket we can start with Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Shiv Kumar from Unifi Capital. Please go ahead.

Shiv Kumar: Thank you for the opportunity. Sir can you give us the number for our restructured standalone assets, the breakup between public and private and the respective provisions?

Ajeet Kumar Agarwal: The provisions made out in our books on terms of the NPAs all pertain to the private sector. There is no project in terms of the state sector being declared as NPA till date, so whatever NPA figures have been given, which is approximately Rs.17000 Crores all belong to the IPPs.

Shiv Kumar: Sir but I am referring to the restructured standalone assets, which were 21200 in Q3, so what is the number at Q4 Sir?

Ajeet Kumar Agarwal: The restructured book is approximately remaining to be around Rs.3800 Crores as against the figure we reported earlier. All the standard assets on the state sector, which was shown as 10000, there is one project still under restructured standard asset of 1500, which is a Bharat distributor joint sector project being taken by NTPC and railways and in terms of the private sector, we have two projects under execution, which is Nagai and in Indo Petro Chemical and Haldia. The total exposure in these two projects are approximately Rs.2000 Crores, so this makes a total roughly around Rs.3800

Crores, but as regards the figure furnished to you in the accounts, it covers the RKM, which is also being shown as a restructured standard asset due to the subjudice matter in the court of law, but the project otherwise stands commissioned and we are awaiting the final go ahead in terms of the commencement of operations of RKM and out of these NPAs, which we have declared of Rs.9500 Crores, Rs.8000 Crores worth of assets have been taken out of the restructured books of the private sector, which involves four major projects of Lanco Babandh, Lanco Amarkantak, Nasik and Amravati. These are the four projects and four small projects have been taken out from the categories of SDR and S4A, which are smaller in nature, which has an exposure of Rs.1400 Crores to Rs.1500 Crores in which involves Das Energy, Gati, and VS Lignite. This just makes a total of Rs.9591 Crores, which has been declared as NPA in lines of the February 12, 2018.

Shiv Kumar: Basically to summarize from the restructured standard book has come down from 21200 to around 3800 at Q4?

Ajeet Kumar Agarwal: That is right. That is outstanding yes.

Shiv Kumar: Ramesh Sir was referring to recovery of four assets worth if I am not wrong Rs.400 Crores in the morning interview, so what is the confident, which is driving that this recovery will happen over Q1 and Q2?

Ajeet Kumar Agarwal: I will just give you a little bit of an idea of these assets. The assets are the set of power where we are the sole lender. We are in last stages of negotiation were a onetime settlement and hopefully it should get resolved and we should be able to recover the whole amount of debt in this asset. The second project, which we have been referring to Lanco Anpara, which is already, a commissioned project and it has been running for the last five years. This has resulted into the NPA category due to the non-settlement of the dues by the UPA Government. The issue has been taken up with them and the kind of response, which has been shown by the change of management, we hope that our debt component in this project shall remain intact and we will not be able to take any haircut in this regard.

The third project, which was referred, is the Prakash Industries, which we have an exposure of Rs.300 Crores, which has already put in this standard category. The provisions will stand reverse next year because we have to still pass the restructured standard asset after the project is there for more than one year. Two projects, which we are looking very keenly is the Das Energy and the Gati. Both have already been restructured under SDR successfully implemented and these projects were not having the PPA visibility for both these projects, which is hydro project of 100-megawatt and have been successfully running over the last two to three years and they have been able to negotiate a PPA at very good terms around Rs.4 plus with the utilities of Haryana, so there our exposure is almost totaling to Rs.800 Crores, so with these four projects are having a low hanging fruits kind of issue and we hope if everything goes well as planned out, we should be able to see these assets go back to the standard category may be six to nine months from now.

Shiv Kumar: Sir can you repeat the outstanding for the first two projects Sir?

Ajeet Kumar Agarwal: The first two projects the Facor is Rs.511 Crores and the Lanco Anpara is Rs.1250 Crores.

Shiv Kumar: Got it and any comments on the yields coming down do you think is the trump in terms of the yields coming down and from now on it should only improve both the spreads and the yields?

Ajeet Kumar Agarwal: The yields have come down this particular year because the combination of two factors first of all the lending rates have been quite competitive in the market due to the banks participating in the past and secondly there have been some reversal of income due to the declaration of the NPLs in our books of accounts in line with February 12, 2018 circular and to large extent this has been compensated by the reduction in the cost of borrowing as you must have seen from the presentation that we have been able to reduce our cost of borrowing by 60 basis points on our overall outstanding so as a result this has a net impact of 40 to 50 basis points on the yields. Going forward considering the market dynamics as of today and there is not much of a competition in market, we hope that we should be able to pass on the lending rates over borrowers in the coming time and though all of us will be made to see our cost of borrowings still remains at a most competitive level and we are quite confident that we should from year now onwards the yields must show an increasing front.

Shiv Kumar: Thank you Sir.

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

Amit Rane: Thank you for the opportunity. Sir, continuation of the previous answer, how much was the pressure on yield on advances due to interest reversal for the year as a whole if you can quantify that?

Ajeet Kumar Agarwal: Yes, for the whole year we have reversed income to the tune of 1465 Crores.

Amit Rane: Sir, going forward, how do you see because of the interest reversal part alone, how much yields can improve going forward?

Ajeet Kumar Agarwal: The yields must improve by 50 basis points at least going forward.

Amit Rane: That is it from my side. Thank you.

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

Rajat Setiya: Thanks for giving me the opportunity. Sir, out of the total private book of 33000 Crores how much of them are actually servicing the loans properly and there is no stress whatsoever?

Ajeet Kumar Agarwal: The balance 15000 is servicing our interest on due time and we do not anticipate any stress as of today in this.

Rajat Setiya: But do you think there could be any stress at all going forward in

them?

Ajeet Kumar Agarwal: As of thing stands today we do not anticipate any further stress in this.

Rajat Setiya: Alright and Sir in Q2 of FY2017 we used to give a slide in our presentation where we used to talk about the provisions across all types of categories of asset like standard, restructured and bad and doubtful debts, what could be that number for FY2018 now?

Ajeet Kumar Agarwal: No, we have those numbers with us. The total provision is made out in terms of the contingent provision on a standard assets and I am talking of the year as a whole is 281 Crores and the provision for bad and doubtful debts, which we have created is 1881, our provision on loans converted under the SDR guidelines is Rs. 29 Crores and we have made our provisioning because some of the assets, which have been shifted from the restructured standard asset in line of the February 12, 2018 circular we had existing provisioning and reversal of some of the assets, which have been restated as standard after completion in time of 777 Crores has been reversed in line of the guidelines, so the net provisioning if you can see is 1415 Crores.

Rajat Setiya: Sir, this is the slow number for the current year, what could be the stock number of provisions the total of all these kind of categories of provisions?

Ajeet Kumar Agarwal: The total provisioning as of today you can roughly says 3600 Crores.

Rajat Setiya: Actually by the Q2 of 2017 it used to be more than 5000 Crores?

Ajeet Kumar Agarwal: No, you are talking of the reserves under 36(1)(viii), yes if you take that it will be still more than 6000 Crores. That figure I will give you in five minutes time that the total provisioning made under 36(1)(viii) and other things we do have the figure so that must be plus 6500 or so. This 36(1)(viii) is the total provisioning made on these books in terms of the NPA classification. On top of it we have special reserves created in terms of provision for doubtful debts and other provisions as per in terms of the requirement of the Reserve Bank of India, so if you take those as a provision coverage ratio it will be much higher those figures we should be able to give you in five minutes time.

Rajat Setiya: Sir, there was another provision some reserves created under section 38?

Ajeet Kumar Agarwal: The figure, which you have been referring to 5000 includes the provisioning under 36(1)(viii).

Rajat Setiya: Aright sir. I will joint back in the queue. Thanks.

Moderator: Thank you. The next question is from the line of Shekar Singh from Excelsior Advisors. Please go ahead.

Shekar Singh: Just on this 86% of your book, which is with the state utilities can there be a possibility of some NPAs coming from that book?

Ajeet Kumar Agarwal: No, I do not anticipate any such eventuality. We have been in this business for almost 50 years and we have been sanctioning projects and taking place in the power sector utility is owned by the state government and you must have looked in the past that Uday Scheme has recently been implemented, so wherever some stress has been talked up by the investors now there should be yields that is why that under the Uday REC itself has got 43000 Crores of its outstanding with the DISCOMs back and lot of discussions are taking place and DISCOMs are showing a positive sign in terms of the Uday implementation in terms of the financial saving of 16000 Crores on a total utilities that spread across India and the kind of loss adjective they have entered into the state government under the Ministry of Power at center, we hope that there is stress, which we were witnessing five years back, which was a concern of the investor is no longer as of today available in this system, so going forward we do not anticipate any stress lending to the state sector utilities.

Shekar Singh: So, basically if I understood Uday properly like any power sector utility will actually carry a state government guarantee?

P.V. Ramesh: No, not really, I think less than 5% of our loans are guaranteed by the government. The utility is rated on its own strength on its own financials and balance sheet, so depending on that we decide on the project financing, so none of the utilities have defaulted and actually overall if you scan the horizon across the country because we operate in all the states and union territories and work closely with all the utilities, their overall financial situation is improving, may be the borrowing few exceptions where they may be delayed payment to the power suppliers, but as far as our debt servicing is concerned overall it is much more positive. Just to give a snapshot of what it is the overall debt servicing burden of the interest loan is reduced by about 16000 Crores as Mr. Agarwal has said and the ACS-ARR gap on an average of all the utilities has come down from what used to be 48 paisa to 28 paisa now. The collection efficiency has increased to 94%, billing efficiency has increased to 84% and AT&C losses have gone down from 24% to 19.8%, this is at an aggregate level. It is quite possible that there are some, which are lagging behind, but none have defaulted and we have seen no reason at all and the power purchase cost also is going down and all the utilities are following the merit order dispatch so I mean I think there is a lot of positive things that are happening and this if you coupled with the investment of 1 lakh Crores that is being made under Deendayal Upadhyaya in distribution system strengthening and this is not counting the money that is being drawn from us as loan, I think the overall investment in the distribution infrastructure and transmission infrastructure should really address many of the dissonance that we see between the supply and demand gap and also the latent demand should get expressed, so I do not believe that the state utilities would have any problems.

Shekar Singh: Lastly, this private sector exposure of yours total is 33000 Crores of which 17000 Crores is basically something, which is classified right now as NPA, so in the previous question you are trying to explain like what

percentage of debt has already been provided for the 17000 Crores how much you have already provided?

P.V. Ramesh: I will give you the figures now. If you look at our accounts as of today already an NPA provisioning of Rs. 3516 crores has been provided for, in terms of the provision for doubtful debts, which is for the income tax that Rs. 3618 crores and Rs. 3617 crores, we have already made a provisioning of Rs. 2761 crores, this adds up to a total of Rs. 6277 crores then we have a standard asset provisioning of 0.4% is 889 and balance still remaining in the restructured standard asset some of the projects, which are still continuing we have a provision of Rs. 464 Crores, so this makes a total of Rs. 7630 Crores. All the provisioning on this account is Rs. 7630 crores.

Shekar Singh: And what you mentioned was at Lanco project, Prakash project and the other one?

Ajeet Kumar Agarwal: Facor power.

Shekar Singh: Yes, all three put together that was totaling to almost like Rs. 2000 Crores?

Ajeet Kumar Agarwal: Yes.

Shekar Singh: So, roughly like that is something, which you are expecting will come back in Q1 or Q2?

Ajeet Kumar Agarwal: We are driving the whole process and we are quite optimistic we should be able to resolve. One is already resolved, the provision shall get reverse next year. Facor we are in the advanced stages of negotiating settlement and the Lanco Anpara we do not anticipate any kind of haircut has been already 10% has already been provided for Lanco Anpara also by declaring this NPA because the issues of the payment and is lying in the APTEL by the UPPCL, but nothing comes to then we might approach to NCLT in the Lanco Anpara case and we are quite hopeful we should be able to recover that component.

Shekar Singh: Lastly Sir, in terms of dividend the rate at which the dividend has been given currently going forward since we are expecting performance improvement do you expect some improvement in the dividend or the same level?

Ajeet Kumar Agarwal: We will try to maximize the stakeholders wealth and we will work in that direction and we will continue to go in those directions and hopefully yes there could be some additions in the dividend going forward.

Shekar Singh: Thank a lot Sir.

Moderator: Thank you. The next question is from the line of Sneha Ganatra from Subhkam Ventures. Please go ahead.

Sneha Ganatra: Sir, my first question is on what is the outlook on the growth front for the next fiscal and the margins?

Ajeet Kumar Agarwal: Could you please repeat the question?

Sneha Ganatra: What is the outlook on the growth front, how do you see the

disbursement and overall loan book growth for the next year?

Ajeet Kumar Agarwal: Madam, as we just mentioned the kind of order pipelines we have in place and we have been showing a growth of 19% and we are now working at a pace of 239000 to be precise, so going forward we are targeting 10% to 15% both on incremental base and the larger base and the NIMs and the yields what we are trying to see that we will try to improve those because there have been certain setbacks in terms of reversal of income and considering the fact that we will be worked on a larger base there is every chance of the NIMs and the spreads getting improved.

Sneha Ganatra: And going forward, how do you see your credit cost panning out?

Ajeet Kumar Agarwal: I think as far as the credit cost is concerned we have already provided for the chunk of these kinds of assets and we shall be complying to all those provisioning norms in terms of the Reserve Bank of India guidelines so wherever the incremental provisioning required to be made we will continue to provide and this year also in total we have made a provisioning of 2000 Crores on the books of accounts and I do not think there will be any need to book. Even if we continue to provide the same level of provisioning going forward, our other parameter should improve.

Sneha Ganatra: My last question is on the asset quality, you have mentioned that around 2000 Crores recovery is expected in Q1, but how do you see for the full year by ending FY2019 where do you see gross and net NPA settling considering the recovery from other private sectors also?

Ajeet Kumar Agarwal: Madam, most of the projects are likely where we do not have the majority stake in the lending and we are not the lead financiers in most of these projects, so ultimately it depends on the resolution plan the bankers put in place and for that the deadline is August 31, 2018. Lot of projects are like in the KSK is already in the open auction route and hopefully the quote should be received by June this year and going forward the resolution plans are not in place and it has to be taken to NCLT route, but most of these projects are already commissioned and become NPAs and because of the nonavailability of full PP and the plant load factor, so in terms of those lenders expectations there may not be very deep haircut in these things, so it all depends how the resolution plans move ahead and how the demand supply situation in the country improves, so it is a difficult thing to answer right now to make an assessment. Yes we can make an assessment on those projects where we have the lead and we have the things are moving in the right direction, so that is the reason that we have given you a figure between 3000 Crores to 4000 Crores of assets could be revised very soon because they are in the final stages of negotiations.

Sneha Ganatra: Just revision of this Rs. 3000 crores to Rs. 4000 crores could be expected in Q1 or it can move to go ahead also?

Ajeet Kumar Agarwal: We are taking a minimum six months' time because we know all those legal issues, so hopefully by the second quarter or third quarter

there we can see some positive response in this.

Sneha Ganatra: All the best.

Moderator: Thank you. The next question is from the line of Harshit Toshniwal from Jefferies. Please go ahead.

Harshit Toshniwal: Good afternoon. Couple of questions. First as you mentioned that because of the RBI circular within the six months one day one default case or something, which you need to recover, so can you let us know the quantum of that asset for your overall book?

Ajeet Kumar Agarwal: As per the February 12, 2018 circular we have provided Rs. 9591 crores in terms of those guidelines, if any resolution plan takes place in these assets then only the question of one day recovery shall come in, if these assets might be either put to NCLT cases or can see the resolution plan before August 31, 2018.

Harshit Toshniwal: True Sir, but these are the ones, which have slipped from restructured category, but even those which are not restructured, but if they default by more than one day, so then also you need to keep a watch on it and recover it within the 180 days?

Ajeet Kumar Agarwal: No, I do not anticipate any further stress on this account in our books of account other than the borrowing those, which we have declared.

Harshit Toshniwal: There are no assets apart from this which have defaulted for more than a day?

Ajeet Kumar Agarwal: Yes.

Harshit Toshniwal: You said KSK and few of the NIMs?

Ajeet Kumar Agarwal: Yes.

Harshit Toshniwal: So, there must be some assets?

Ajeet Kumar Agarwal: KSK is already classified as NPLs in our books, all those Rs. 8000 crores, Rs. 9591 Crores, which we have referred Rs. 8000 crores come from the restructured book and the balance come from those things, which are already implemented by S4 and SDR, so that makes the total, so these are the assets, which are under stress by us.

Harshit Toshniwal: So, beyond the current NPL and the restructured part 3500 odd Crores, which you said there are no assets, which have defaulted even for a single day at this particular moment?

Ajeet Kumar Agarwal: Yes.

Harshit Toshniwal: Thanks a lot.

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

Amit Premchandani: Good afternoon Sir. Thanks for the opportunity. This August 31, 2018 deadline can you explain what exactly is this and this deadline pertains to NPL assets or restructured assets or one day default assets and have

the banks who are leading these assets already declared it as NPL?

Ajeet Kumar Agarwal: If you look at the circular February 12, 2018 as they have withdrawn all those case, which you are, most of these assets who are having a standstill period under those schemes either they were done S4A or SDR, so since they were not servicing the loans the Reserve Bank of India has come out with the guidelines on March 1, 2018 these all assets will be taken stocked by the lenders and if they are not making the payment they will be all calcified as NPLs in the books of the lenders. Now, they further have added that you have 180 days starting from March 1, 2018 where the lenders can put in a resolution plan on their own. In terms of those that time limit of 180 days we are counting for March 1, 2018 that will be ending on August 31, 2018, so this window is available to all the lenders to discuss among themselves and agree to a resolution plan. If the lenders fail to agree to a resolution plan, which is not to be supported by 100% of the lenders considering the fact that GLF has already been discontinued and all the lenders, which are the part of consortium lending have to agree to resolution plan being put in place and if this should be completed before August 31, 2018. If any of these assets, which have been now classified as NPL and no resolution plan is put in place before August 31, 2018 by lenders among themselves then within 15 days from August 31, 2018 that is September 15, 2018 the lenders have no choice, but to refer it to NCLT. So it does put a lot of pressures on the lenders and the borrowers. To avoid the NCLT route they would definitely be agreeing certain resolution plan mainly consisting of a sustainable debt. If all the lenders agree yes it could be put in place, otherwise we go to NCLT.

Amit Premchandani: What is the quantum of loans, which are to be provided for resolution plan till August 31, 2018 from a sector point of view?

Ajeet Kumar Agarwal: We do not have right now a figure from the sectors point of view though all the lenders have been meeting very regularly in this direction and the whole owners lies on the lead of each of these projects. The lead is to organize a lenders meet deciding the proposal if any proposal is in hand either from the borrowers perspective or from any other borrowers in the market. This is discussed there because these projects as we mentioned REC is not leading many of these projects barring the first three we have mentioned Lanco Anpara, Facor and Prakash Industries, otherwise REC is just in the consortium partner with all of the lenders, so we do not have that kind though we do participate, but most of these assets are being discussed under resolution plan. You must have heard of the SBI has come out with some other plan we have talked to all the lenders and 10 to 12 assets have been identified by SBI where they have a sizable amount of exposure. All other lenders do have an exposure and things have started moving the RP for, the ratings are being worked out in order to establish what kind of sustainable debt these projects may have. Based on the sustainable fortune the lenders might agree to a particular plan of action, so it is in a very initial stage of discussion and we are quite optimistic and some of the projects, which have a good PPA and FSA visibility in terms could see some resolution plan by the lenders.

Amit Premchandani: Sir, just to understand what is your exposure in this deadline related resolution plans?

Ajeet Kumar Agarwal: Close to Rs. 7000 Crores.

Amit Premchandani: So, you have your understanding of the 7000 Crores exposure who are the other bankers in this 7000 Crores exposure so if you add up all the bankers in these assets, what would be the overall system exposure of the Rs. 7000 Crores?

Ajeet Kumar Agarwal: The 7000 Crores different lenders are the lead like, in some cases the Lanco Amarkantak if you look at is PFC is the lead and as a transmission as per Essar Mahan ICICI is the lead.

Amit Premchandani: Sorry to interrupt you Sir, what I was trying to understand is the 7000 is your exposure, what is the system level exposure of this loan because you will have the exposure of the entire asset right?

Ajeet Kumar Agarwal: In the Rs. 7000 crores you can say RECs exposure is ranging 10% to 15% on a ballpark figure you can take it as around 50000 Crores of exposure all put together.

Amit Premchandani: Thank you Sir, that was very useful. I was trying to understand that only and most of this is classified as NPL in your books?

Ajeet Kumar Agarwal: Yes, all are classified.

Amit Premchandani: Thank you Sir.

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

Rajat Setiya: Is it possible to name the accounts, which are private accounts, which are servicing properly?

Ajeet Kumar Agarwal: Yes, we can give you a list if you just wait for a minute or we will come back to you, you can ask other questions will read out those not an issue.

Rajat Setiya: I just have one more question, bad book of around 17000 Crores on a ballpark basis what would be the haircut that you would expect in the next couple of years while you are resolving all the issues?

Ajeet Kumar Agarwal: As I told you this is a very difficult estimate to be made at this juncture because some of projects which we referred 3500 Crores kind of assets, which we are looking at and if these materialize the way the plan is going on as of today, we feel that these assets, which have already been provided to the extent of 20% and 25% in some cases 10%, 30%, we do not see any kind of further provision required as far as these assets are concerned. On the rest of the assets it all depends on a project of parameter, so it is difficult to read out and give you a complete brief as of now because all those projects are in different stages of desk, most of them are completed, some have part PPA, some have FSAs, some are banking on the coal procured from the open auction, so it all depends which level these projects are placed, some are captive power plants like Essar Mahan was suppose to supply its steel to Essar

Steel, but it is a commission project, a very well good project of major lender for REC, PFC, ICIC. If you name Lanco Anpara we did name. There is KSK energy, which has four units almost commissioned and has a good PPA visibility of Rs.5 plus and all FSA availability. Only the question of downsizing was there, which we could not get it through from the Reserve Bank as of today because the project was suppose to be six unit, so if you look at the four unit done by us, so we hope that they should catch a very good value in the market even if today if we are in the open auction process. All these projects and wherever we see the visibility is not there REC has already provided accelerated provisioning like corporate power 90% is already there, the Ind Barath Madras is there, Facor is 40%. If Facor gets resolved we will reverse this income in this provisioning, so these things can be discussed next time when we have one-to-one meeting we have all the details with us, but it may take us almost two hours to give you a complete brief on each of these projects, so we can come to Mumbai next time in the investors meet with all those details and on a one-to-one basis on a group of people those are interested could be shared with you the latest update on these projects. As your first question that you said what are the projects, which are servicing our dues, which as we have mentioned the Prakash Industry, Alaknanda Hydro, SEPC, Nagai power, Sasan project, Emmbi Power, Bhubaneshwar Power, Everest, IPACHL, OPGS, so all those assets are performing totaling to around 8000 Crores to 9000 Crores and the balance exposure in renewables, which all are performing and the gas energy is also performing in terms of those guidelines, Gati is also performing, so barring two, three, four, five major projects we have the exposure is to the tune of 7000 Crores to 8000 Crores are in the different stages of provision. Barring those smaller projects, which have been completed and have a PPA and FSA visibility we hope that this could be revived and some of them are still having a lesser exposure of less than 2000 Crores, so there we need not to refer to NCLT also.

Rajat Setiya: Alright, do you think would there be any fresh funding requirement for you in the eminent future?

Ajeet Kumar Agarwal: No, fresh funding in terms of borrowing?

Rajat Setiya: Equity.

Ajeet Kumar Agarwal: No, equity we do not anticipate any initial requirement for the next two to three years. Today, we are having a capital adequacy of 19.5% where we have around 17% as Tier 1 and 3% as Tier 2 and the kind of growth projections we have done it 15% to 20% though going forward let us say 15% the kind of loan book and the net worth we have I do not think the next three years we are requiring any further equity infusion.

Rajat Setiya: So, what is the debt equity you think?

Ajeet Kumar Agarwal: Debt equity presently we were working at 5.6 and we are permitted to go by 10 times with the Reserve Bank, but we have never crossed the limit of 7%, 7.5% to 8%.

Rajat Setiya: Alright. Thank you so much.

Moderator: Thank you. The next question is from the line of Mahrukh Adajania

from IDFC Securities. Please go ahead.

Mahrukh Adajania: Sir, you mentioned some Samadhaan scheme of SBI, bits and pieces about it in the newspaper can you give some more colour?

Ajeet Kumar Agarwal: Madam, as far as we just understand though we are not much in those projects, which have been referred to under Samadhaan. The gist of the Samadhaan scheme runs like that. The assets, which as we say the project parameters in terms of the PPA and FSA linkages available and they have all commissioned first of they are all commissioned projects number one. Secondly they are not able to service the loan in terms of the part PPA visibility, so where the bankers and the lenders mainly the bankers have come forward to work out, this is basically S4A scheme. It is to work out a sustainable debt in terms of the revised guidelines of February 12, 2018 the minimum rating to be assigned is RP4, which needs to be done by the independent credit rating agencies. All the lenders where SB and other bankers including REC and PFC have an exposure and all commissioned projects what is referred by the lead in these such cases to the rating agencies to get the sustainable debt established first. Based on the RP4 rating, which gives you an indication, whatever sustainable debt based on that the valuation would be decided for. Assuming the sustainable debt is much lower than the expectation of the lenders as of today in terms of the guidelines then there could be a different issue either should we refer it to NCLT or what are options. Luckily our REC is not in any of the Lanco Anpara, which we are taking care of otherwise, so based on those ratings but it was shared up when we attend the meeting in the next 15 to 20 days from now, we should have a fair idea of what kind of sustainable debt the lenders are comfortably placed with.

Mahrukh Adajania: Sir Anpara is there and Essar Mahan and all are not there in this is it?

Ajeet Kumar Agarwal: No it is not there.

Mahrukh Adajania: So would you have a list of accounts, which are there in the Samadhaan Scheme or just a few big names?

Ajeet Kumar Agarwal: We are not there, but we can give some references not to be quoted by you. SKS Power, Avantha Power, Lanco Anpara we are tackling ourselves, Ideal Energy, Jindal, JITPL, Jaiprakash, KSK, Prayagraj and RKM.

Mahrukh Adajania: Sorry JITPL?

Ajeet Kumar Agarwal: Jaiprakash, KSK, Prayagraj and RKM.

Mahrukh Adajania: Sir Jaiprakash is which one?

Ajeet Kumar Agarwal: Jaiprakash Power Ventures.

Mahrukh Adajania: JPVL. Thank you so much. That was very helpful.

Moderator: Thank you. The next question is from the line of Devika Malik from India Ratings and Research Private Limited. Please go ahead.

Devika Malik: Good afternoon. Sir if you could give us a flavour on repayment that happened in FY2018?

Ajeet Kumar Agarwal: Madam there has not been many repayments in FY2018 for us. Barring one or two smaller projects in the renewables because they are changing hands so there some repayments have come to us because we understand the Hindustan Power has sold out their renewable assets to we understand to Macquarie, so we had certain exposure in that some of those projects. There some small repayments have come in and not to a large extent.

Devika Malik: This number would be under control in FY2019 as well?

Ajeet Kumar Agarwal: I do not anticipate any prepayment in terms of how the things are placed today, so these small repayments have done due to the merger acquisitions under the renewable energy segment.

Devika Malik: Sir my next question is pertaining to the funding required in the sector to meet the energy requirement by FY2022, so if you could give us some light as where REC would be standing and how would RECs share in the overall lending in power sector would look like by FY2022?

Ajeet Kumar Agarwal: What is the question?

Devika Malik: We understand that there is a huge funding requirement to meet the infrastructure required for the power sector by FY2022 and to meet an urgent demand by FY2022, Sir where do you see REC standing in terms of meeting the funding requirement for the power sector, how much share do you see REC accounting for the funding?

P.V. Ramesh: We should be a significant player because let me say two to three things. One is the major investment need is in the distribution and the transmission segment and that is where we have a large market share. We are the major players and we almost have an 80% share in the distribution segment and we have a substantial stake in the transmission, so we would have anywhere between 60% to 70% there and in the generation segment again the what CEA has projected is that between 2018 and 2026 the investment need in the generation segment would be to the tune of Rs.18.5 lakh Crores and obviously the substantial requirement would be in the renewable segment and the renewable segment would be almost about Rs.10 lakh Crores and that is again where we have a substantial presence. Even if you consider on a conservative estimate at 30% one third share in the generation segment and 60% in the P&D segment and you get a sense of what it is like.

Devika Malik: Sir do we see the share of private sector growing in RECs loan book?

P.V. Ramesh: No I think it may diminish because there are no new IPPs coming in at the moment except in the renewable segment and certainly the proportion of the renewable segment would grow on absolute terms as you can see from FY2018 because the sanctions were 7% of the total sanctions and about 9% disbursement in the renewable segment, but as you see as the loan book grows as a proportion of the overall loan book it may go up to about 3% to 4% and we hope that it would be 6% to 8% in the longer term, so overall the private sector proportion is unlikely to grow. Actually it is likely to diminish as part of the overall loan book and particularly since bigger investments are being

made in the distribution segment both as a counterpart financing to the government programs and as an overall investment per se because in order to reach out to these new villages, new households and the new demands that are emerging both in the urban and the rural areas there would be a lot more investment flowing in there.

Devika Malik: Sir my third question is pertaining to decommissioning. The provision coverage ratio has come down in FY2018 we understand because of the February circular? In the last quarter there were lot of assets recognized as NPA, but do we see accelerated provisioning happening on these accounts in FY2019?

P.V. Ramesh: It depends on the case to case basis. As a matter of prudence we have been providing an accelerated provisioning in the past and wherever the requirement is considered to be providing for an accelerated provisioning depending on the status of each of the projects management would definitely be taking care of these provisioning requirements and as of today if the provisioning cover as we just mentioned we still have a total provisioning of Rs.7630 odd Crores against the Rs.17000 Crores today in terms of the total assets provisioning though I am not talking of simply the NPA provisioning. The other kind of provisioning, the restructured, the statistics one, which could be utilized for these purposes, so we are still 40% otherwise, but going forward as your question is for specific to NPA provisioning yes definitely we shall be considering on a case to case basis wherever required an accelerated provisioning, but then what is required.

Devika Malik: Because this number has come down to about 20.5% in FY2018 as high as 33% to 34%?

P.V. Ramesh: There are two reasons for it. Number one this aging analysis. If we have declared an NPL to them as of March 31, 2018, so as per the RBI norms we have to provide for 10%. In other cases where the NPL if they continue to be let us say another one year or so then this provisioning is going to be 20% and we do provide to unsecured portions based on the valuation of the other things and we are not hiding anything in terms of the provisioning requirement numbers and secondly these assets like some of the assets do carry 90% provisioning and some do carry 50% and 30%. Since these are the new additions to the NPAs in terms of the February 12, 2018 circular and considering those assets have now been classified as NPL as we just mentioned for the benefit of all we will be reviewing these projects on an individual basis and wherever we feel there is a need for providing an accelerated provisioning we shall definitely provide for it.

Devika Malik: Thank you.

Moderator: Thank you. The next question is from the line of Sangam Iyer from Subhkam Ventures. Please go ahead.

Sangam Iyer: Sir just wanted to get your view on the NIMs that you said that you would look to improve the NIMs from here on adjusted for the reversals that happened in Q4 given the way the interest rates are moving up how easy

would it be to retain the NIMs at current levels?

P.V. Ramesh: We hope that considering the rates are going up on both the side it is not only the cost of borrowing and we have been in the past been adopting all kind of strategies we have in order to reduce our cost of borrowing and you could see from the results declared that REC still has the lowest cost of borrowing as compared to PS and this of course will continue to be made by us in times to come also. As regards the lending part yes we used to feel some competition from other lending institutions mainly from the bank and as of today since REC has been predominately in power and we have been in this business for almost five decades, the major chunk comes from the state utilities also and we hope that some of the lending side we should be able to pass on to our borrowers, which we could not do in the last one year or so.

Sangam Iyer: What percentage?

Moderator: Sorry to interrupt Mr. Sangam Iyer, but we need to move on to the next question. The next question is from the line of Meghna Luthra from Daiwa Capital. Please go ahead.

Meghna Luthra: Good afternoon Sir. Thank you. How has been the competition from banks in terms of maintaining your spread?

P.V. Ramesh: Madam as just mentioned post demonetisation there was initially felt liquidity in the market and as the things has progressed and the banks have felt the heat in the power sector and other infrastructure lending and they as a matter of fact have decided to keep themselves away for the time being in the power sector. I am not talking simply the IPPs, but traditionally as you have seen our loan book comes from 85% to 90% from the state utilities where we have never felt any stress and we have been in the direct touch with these utilities. We know the ins and outs of those businesses and we are quite comfortable that fortune of 90% will show a robust growth going forward and we are there to support them and we are also trying to educate and talk to them one to one that this is what the market is, how the rates and the cost of borrowing does behave and the similar thing has to be passed onto them, so we hope that considering 90% book is on the state sector we should be able to improve our margins going forward.

Meghna Luthra: Thank you. Can I squeeze in another question, it is okay.

Moderator: Actually we need to move to the next question. Thank you. The next question is a followup from the line of Shiv Kumar from Unifi Capital. Please go ahead.

Shiv Kumar: Thank you for the opportunity. Sir regarding the restructured standard assets from the public sector of about Rs.8556 Crores at Q3, so it looks like you upgraded this entire quantum, so what is the rationale for that upgrade Sir?

P.V. Ramesh: This 8500 crores, which has been restructured, I think the provisioning, which we have reversed is around Rs.333 Crores and this is in line with the guidelines, so Rs.300 Crores of provisioning, which was existing in

these projects to be precise Rs.323 Crores have since been reversed.

Shiv Kumar: Only in restructured assets of only 1500?

P.V. Ramesh: There is one other project, which is under execution, which we call Bharat Bijlee and there is still one year's time to complete and we are quite optimistic that it should be completed within that time, so that 5% provisioning, which is still around Rs.100 Crores or so Rs.70 Crores to Rs.80 Crores shall stand reversed may be hopefully by the close of this financial year. In Q4, it will be commissioned and it may be because of provisioning it could be next year yes.

Shiv Kumar: Thank you.

Moderator: Thank you. The next question is from the line of Jai Shah from Ohm Group. Please go ahead.

Jai Shah: Sir sometime back you talked about lending to railways and other sectors any progress on that area?

P.V. Ramesh: Lending to railways, we are engaged in discussions with various entities not only in railways, but also in other agencies, so this is an ongoing process.

Jai Shah: Sir would we see any diversification in FY2019 or this could take longer time in terms of diversification out of the power sector?

P.V. Ramesh: We certainly hope there would be diversification. We are working continuously on this basis. I hope our portfolio would get much diversified. We would have a much larger client base and larger partnership and that is the whole purpose. The purpose is really to diversify our project portfolio.

Jai Shah: Thank you Sir.

Moderator: Thank you.

P.V. Ramesh: If I may just to sort of supplement just to clarify there are new initiatives that are emerging from different states and also from the center like the energy of solarization of the irrigation pump sets, energy efficiency devices not only at the domestic and the industrial front, but also in the irrigation sector, so these are areas where we are really at the forefront of supporting that and then the dedicated green corridor for evacuation of the power from the renewable segment is another area where we are working closely with our partners and the state governments and the state utilities. We are also having a plan for strengthening the capacity of the distribution companies. We have the National Institute for Power Management and Training in Hyderabad. We are strengthening that institute in order to strengthen the state utilities. We are also partnering with multilateral and bilateral agencies like KFW, World Bank and Asian Development Bank for both parallel financing and also counterpart financing to the state governments, so these are some of those areas going beyond and then there are new technologies electric vehicle, which some of the states particularly the transport companies are promoting in the urban areas and some of the metropolitan cities and the charging infrastructure. These are areas where we are continuously exploring new business opportunities.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, we will be taking the last question from the line of Sangam Iyer from Subhkam Ventures. Please go ahead.

Sangam Iyer: Sir if you could give us some clarity in terms of what could be the incremental stress that would still remain in the books?

P.V. Ramesh: As of today we do not anticipate any further stress. I think we have provided for all, which are under stress and going forward as we just mentioned the rest of the assets, which are in our portfolio are servicing their dues on time and they are all commissioned projects and the restructured books they simply indicates only two projects, which have also been under control and units have been commissioned and we have been reviewing them like the IPCL and the Nagai. These are the two projects, which should be commissioned from now, so as things stand today based on our input from the field we do not anticipate any further stress on the ongoing projects.

Ajeet Kumar Agarwal: Let me also supplement this because there is an impression that we have put out all the information out in the public domain whatever and then we have made provisioning for everything and these are assets one needs to clarify that unlike in the other sectors many of these assets are already commissioned projects, many of them are functioning, but however it is suboptimal level either the revenue stream is suboptimal, so they are not able to service the debt or there is no PPA or no FSA or there is a partial PPA or a partial FSA. Each one of these is unique. What we are doing in our REC is we have set up a stress management unit, we have engaged the services of experts, we have taken asset by asset analysis, we have worked out a resolution potential and proposal for each one of them, we are working with our counterparts as it is well known is that our stake in each of these is less than 15% of the total. There are many other lenders from the same segment, so we do not believe that these things could go any worse than what they are at the moment. They can only get better and we are working on a sustained basis and there is an entire expert team, which is working on this to see how to really retrieve them and salvage them. We are also working on a plan with the other financial institutions and the Government of India for alternate model for resolution and revitalization of these assets and if that works and that would open up a new vista for quicker resolution of these assets, so these things can get only better. I think the worst is behind us.

Sangam Iyer: Sir so basically if we are saying that we are looking at Rs.4000 odd Crores of upgradation happening in this financial year may be Q3 or so what is the percentage of provisioning that we are carrying for that and where do we see the net NPA by the closure of this year?

P.V. Ramesh: It depends on a project to project basis like the Prakash, which we have talked. Still part of it has been reversed back in the books and the 10% will stand reversed may be another Rs.25 Crores. If the Facor already at 30% provisioning has been made out in our books, which is around Rs.170 Crores. If that proposal goes through then we should be recovering our principle plus reversal of kind of the provisioning of Rs.170 Crores on account of Facor. As of

today, Anpara we have made a provisioning of 10%, so assuming that everything goes well then there will be no requirement of incremental provisioning and this stands reversed, which is approximately Rs.125 Crores. Other Rs.800 Crores to Rs.900 Crores of assets this is I think 20% provisioning is already made 20 to 25, all put together in this 3500 source of assets minimum 20% provisioning on an aggregate basis exists in our portfolio.

Sangam Iyer: Basically we are saying that we could exit FY2019 with a net NPA less than Rs.10000 odd Crores assuming the provision remains at the same levels as FY2018?

P.V. Ramesh: That is our target is because these are opportunities, which we are talking with certain entities that we are the lead and we are having substantial portion on the balance two to three projects. The rest we are not having much of an exposure and we are working in that direction, so hopefully it should be.

Sangam Iyer: Last question from my end. Would the growth that we envisage of 10% to 15% here it is purely from the power sector only right, there is no diversification benefit that is also being factored in here?

P.V. Ramesh: No. When we talk about 12% to 15% growth projection that is at the power sector, but it will be a bonus for the diversification and the expansion.

Sangam Iyer: Great Sir. Thank you Sir.

P.V. Ramesh: Friends in conclusion if any questions anymore?

Moderator r: No Sir. We do not have any questions now.

P.V. Ramesh: I just want to thank each and every one of you have taken your valuable time off to be with us and asking us these incisive probing questions. If there is any still there are doubts left or if there is any clarifications that are required we would be very happy. We have put out every information that is possible. We would put out every information in the public domain that you would like to know. You can get back to us individually either myself, Mr. Agarwal or any of our colleagues Mr. V.K. Singh at any time and thank you very much for your support and we look forward to this continuing dialogue and interaction, which our endeavour is really to improve our self and be more responsible to our shareholders and to collectively get the best both for the shareholders and the country as a whole. Thank you very much.

Kunal Shah: Thanks a lot Sir for your time and thank you all the participants for your participation. Thank you and have a good day.

P.V. Ramesh: Thank you Kunal. Thank you all friends and all the best.

Moderator: Thank you. On behalf of Edelweiss Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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