



आर ई सी लिमिटेड | REC Limited

(Formerly Rural Electrification Corporation Limited)

(भारत सरकार का उद्यम) / (A Government of India Enterprise)

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Dated: July 3, 2020

Listing Department, National Stock Exchange of India Limited Exchange Plaza, Bandra Kurla Complex, Bandra (East), <u>Mumbai – 400 051.</u>	Corporate Relationship Department BSE Limited 1 st Floor, Phiroze Jeejeebhoy Towers Dalal Street, Fort, <u>Mumbai – 400 001.</u>
Scrip Code—RECLTD	Scrip Code—532955

Sub: Transcript of Investor Call of REC Limited held on June 23, 2020.

Dear Sir(s),

In continuation of our earlier letter dated June 22, 2020, please find enclosed the Transcript of Investor Call of REC Limited held on June 23, 2020, for review of financial results for the quarter and year ended March 31, 2020 and other business updates.

This is for your kind information and dissemination.

Thanking you,

Yours faithfully,

(J.S. Amitabh)

Executive Director & Company Secretary

Encl: a/a

Regional Offices: Bangalore, Bhopal, Bhubaneswar, Chennai, Guwahati, Hyderabad, Imphal, Jaipur, Jammu, Kolkata, Lucknow, Mumbai, Panchkula, Patna, Raipur, Ranchi, Thiruvananthapuram & Vijayawada

State Offices : Dehradun, Itanagar, Shillong, Shimla, Vadodara & Varanasi

Training Centre : REC Institute of Power Management & Training (RECIPMT), Hyderabad



**“REC Limited Q4 FY2020
Earnings Conference Call”**

June 23, 2020



ANALYST: MR. KUNAL SHAH – ICICI SECURITIES LIMITED

**MANAGEMENT: MR. SANJEEV KUMAR GUPTA – CHAIRMAN AND
MANAGING DIRECTOR AND DIRECTOR TECHNICAL
– REC LIMITED**

**MR. AJOY CHOUDHURY - DIRECTOR FINANCE –
REC LIMITED**

**MR. V.K. SINGH – EXECUTIVE DIRECTOR
TECHNICAL – REC LIMITED**

**MR. R LAKSHMANAN, EXECUTIVE DIRECTOR - REC
LIMITED**

**MR. SANJAY BANSAL – EXECUTIVE DIRECTOR
FINANCE – REC LIMITED**



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- Moderator:** Ladies and gentlemen, good day and welcome to the REC Limited Q4 FY2020 earnings Conference Call. 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. Please note that this conference is being recorded. I now hand the conference over to Mr. Kunal Shah from ICICI Securities. Thank you and over to you Sir!
- Kunal Shah:** Thank you Ayesha and good evening all of you. This is Kunal Shah from ICICI Securities. We have with us Mr. Sanjeev Kumar Gupta – Chairman and Managing Director and Director Technical, Mr. Ajoy Choudhury - Director Finance, Mr. V.K. Singh – Executive Director Technical and Mr. Sanjay Bansal – Executive Director Finance from REC to discuss the developments in the power sector, to review the FY2020 earnings and also to let us know what is the status on the resolution of the stressed assets as well as the progress on special long term COVID transitional loans to DISCOMS. So over to you Sir!
- Company Speaker:** Mr. Kunal, Mr. Lakshmanan is also there. He is an Executive Director looking after the stressed assets. He is also here along with the other team. CMD is starting with the conference call please. He will be giving a brief overview of REC.
- Sanjeev Gupta:** Thank you very much and welcome to this conference call. It is my privilege to be before you and interacting with you on REC and its results. Just at the outset before we discuss the salient point of our financial results, I would just like to give an overview of the power sector in the context of REC, how various issues have influenced our operations and how we have adopted and coped up with the situation going forward. As you know that Indian power sector over last few years, five-seven years have undergone a massive transformation. While we have a very adequate generation capacity, capacity of 370 GW and our peak load is close to 180 GW and particularly in last three to four years we can see that in the country we have energy shortage or the peak shortage less than 1%. So as far as availability of power is concerned, this is a changed scenario where power is available. Generation segment and transmission segment have played reasonably well but of course there have been issues of some stressed assets in the private sector that we will discuss. Distribution sector has seen a massive intervention from central government also, power being a concurrent subject, central government keeps hand in hand with the state government because almost 90% power distribution in the country is still in the hands of State enterprises and over the years we can see that there has been massive aids, grants through centrally sponsored schemes to particularly improve the power distribution, which is normally considered as a weak element, it is basically a fulcrum and cash box of the power sector. There are various schemes to improve the distribution infrastructure and operational performance of the sector in the urban



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and rural areas. I am very happy to tell you that apart from our universe of being a power infra financier, we are also nodal agency for various government programs. REC fits in the Government of India scheme of things to oversee implementation of these government sponsored program, so while on one point of time we take pride in meeting almost 20% of power infra investment requirement of the country, on the other side we have been very socially responsible to partner with Government of India to assure access of power to all the villages and households in the country. As of today, all villages and household of the country stands electrified. I mean to say that now with all the power generating, transmission and distribution infrastructure in place as access to the power is available, India, as a country is poised to develop forward. You can very well see our per capita electric consumption today, to be precise, comes out to be 1,182 kwh as against the world average of around 3000 kwh with that view each and every one of you can appreciate that we have to go miles away and have just started. Things are quite well in place and still works to further modernize systems are in progress since we are one of the largest power generating nations and going forward to assure this reliable, quality, affordable power to the country. This is a all the more required that transmission grids have to be modernized and there has to be adequate investment in the distribution infrastructure as well as transmission sector.

On the generation front as the global energy transitions are occurring, basically the conventional power is giving a shift towards renewable power. India is one of the largest, the fastest growing country as far as renewable power is concerned, particularly solar and wind. With that perspective, REC also has aligned its business needs with reference to these developments, particularly this 2019-20, as you can see that our results also exhibit the same. I will say those results are excellent, but for certain issues because of the global pandemic, like all others, have influenced us also. With this perspective, we have to see that even for coping up with this particular event which has influenced our operations in the sense that it has affected, basically, a very critical element of power value chain that is distribution. At the end of the financial year there was a national lockdown which continued for another one and a half months, then there was a moratorium on the payment by RBI so definitely the recovery from the consumer to the DISCOMS was affected. DISCOMS are supposed to pay transmission companies and generators in complete, when this value chain was disturbed because on one side the supply side and demand also went low because industrial and commercial activities was not there. Second thing, it was only a domestic demand and because of the lower tariff structure for this category in this country you can see that DISCOMS total receivables suffered a huge setback. But again government has intervened and made efforts to introduce liquidity into the system so that all elements of this value chain function smoothly. Government of India has introduced this Rs 90,000 Crores fund liquidity into this sector so that all the DISCOMS which were influenced because of non-recovery



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from the consumer or low recovery from the consumer, could pay to all the Generators including renewable energy generators IPP, transmission companies etc. and ultimately it is a chain so this thing should go on. I am again pleased to inform you that REC happens to be one of the agencies which has been entrusted with this task. We are going on well in this area and adequate progress has been made. We have no liquidity problems as of now and as per the targets entrusted to us we will fulfill these responsibilities.

I would comment with reference to COVID as to how the things have changed. As far as REC is concerned whether it is COVID or no COVID, our operations have not been much influenced because we are IT enabled technologically advanced company. We did not take time to ensure seamless operations even during COVID times when there was a national lockdown and lockdown in various states, all our operations continued. We are capable and we adopted to work, every one of us from our home or from anywhere. So basically, all our banking operations, all our disbursements, all normal meetings, all interactions everything went on very, very smoothly and there is no issue. Still now while we work from our offices, we still are taking safe guards to protect our work force but as far as our operations are concerned they are seamlessly working and moving on uninhibited without any hindrance or obstruction.

Going forward with the business, I see again with a hope, I see again with an opportunity, apart from this 90,000 cr liquidity where 50% of these funds will flow through REC. Second, we have started thinking, not now but for the last two to three years of late beyond our power business, for some of the business we have started looking at other avenues also. And I am happy to share with you that we have begun with our share in financing other irrigation related power infrastructure also, you can see this electrical and electro mechanical infrastructure for large pumping units which are directly state owned projects where in our funding goes with. So as I was just mentioning that this is one area wherein we have taken it as a major diversification initiative and even in the last year, we had financed good number of projects to the state of Telangana and to Andhra Pradesh and going forward we will be looking to fund the state of Chhattisgarh and Madhya Pradesh so I mean we have taken initiative where we are having very, very good assets totally guaranteed by the state government, the repayment through state budgets and also the security of our assets, so basically this is one area we have begun and at the same time I think I can give you statistics of last year and previous we have financed close to 41,000 Crores of these major projects of state owned irrigation departments. Again it is a government account but fully state government guarantee, so this was one area. Moreover in this area we have our obligation towards clean power to reduce greenhouse gas emissions in line with our obligation in the Paris protocol wherein we have embarked on a very massive program for 175 GW of this



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renewable power, REC has taken a marked initiative to take a large share in this renewable energy segment going forward and in 2020-2021 will see that we will pick up a good number of projects. Our focus has been always for good developers and even in 2020-21 we have almost sanctioned close to 6,000 Crores of renewable projects and the developers had been very good developers with global standing like SoftBank, Engie, GreenCo and even noted Indian developers like Adani, the Avadha, so REC has taken these exposures to very, very good developers and we are very, very interested to have these quality assets adding to our portfolio. At the same time, we are playing an important role now, we have started financing green mobility, particularly electrical buses we have started financing, we have begun with a project of some 350 Crores till now to finance these electrical transportations and particularly in this area going forward there will be a number of projects. We have made a policy and accordingly this is also one area which is going to be our niche area going forward and not only this we will also be covering the entire eco system including all storage systems, charging infrastructure etc. and I hope that particularly may be even 8% to 10% of our new business in REC we would like it should be from new diversification and these sources going forward and major thrust on such renewable projects. Apart from the normal business of generation, transmission, distribution, renewable, smart grids, normal business from the power conventional sector would always be there. Definitely we had some stressed accounts and our team has worked tirelessly, relentlessly to resolve certain accounts and we have resolved some of them, may be when we discuss details here we will be giving the final figure and by far as you have seen our results we have been able to maintain those stressed asset levels to bare minimum, almost we have been able to arrest them to industry's lowest level.

Apart from this I would just take this opportunity to just narrate certain achievements of our financial results for the year March 31, 2020. You can see the disbursement this time was all time high of Rs.75,667 Crores it was 5% higher than last year. Our loan book had grown by 15% reaching Rs.3.22 lakh Crores as on March 31, 2020. Our total income has increased by 18% to Rs.29,855 Crores, net interest income increased by 15% to Rs.10,425 Crores. The interest spread has increased by 2 bps to 3.26%. As I mentioned COVID-19 lockdown did not impact the operations as the company leveraged its IT capabilities to undertake disbursements and service of borrowing obligations. There was an option in moratorium policy allowed by the company to its borrowers in view of our RBI advisories but I would inform you that particularly principal and interest dues of only 5,171 Crores have been deferred so far on account of moratorium. In spite of moratorium allowed by the company, company has already recovered more than 78% of the total recoveries due for March 2020 amounting to Rs.9,500 Crores. Our company has access to diverse source of borrowings including corporate bonds, 54EC bonds, term loans from banks, external commercial



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borrowings. More than 20,000 Crores has been raised post March 31 including Rs.14,000 Crores from domestic markets and Rs.6,000 Crores in international market including US \$500 million raised through USD bonds where in REC became the first Indian company to successfully raise such bonds during COVID-19 pandemic on May 12, 2020.

In addition, it also raised US \$300 million from New development bank for a tenure of 10 years at most competitive rates out of that US \$240 million is already hedged. REC has comfortable liquidity position as of now with balance of Rs.14,500 Crores and already tied up term loans from different banks of Rs.6,000 Crores. This will enable REC comfortably to meet its committed liabilities and the disbursement for a month. Capital adequacy ratio was at 16.06% as on March 31, 2020, the companies has also raised Rs.2,000 Crore sub debt to cushion its regulatory capital by around 90 bps. The situation has been under close watch by the management to take prompt action in the best interest of the company and stakeholders in an optimized manner. In financial year 2019-2020, the USD and Indian rupees depreciated at 2.92% till February 2020, but in March 2020 depreciated by 5.35%. Thus in entire year it depreciated by 8.30% . Currency has been impacted adversely due to this pandemic COVID-19. However, since March 2020 to June 2020 the USD-INR is stable in the range of 75.50 to 76.

Before the implementation of Ind-AS before April 1, 2018, the forex gain loss was used to be amortized over the tenure of the loan on unhedged loans and hedged loans were not to be reinstated till they were hedged and the liability fixed. In case the same policy was adopted the profit before tax would have been higher by Rs.1145 Crores. Further in case of reverse swap of Rs.5,147 Crores the all in all cost is coming to 5.55% as against domestic bonds cost of 8.82% with average breaking point of US-INR of Rs.99 mark-to-market losses, again that are only notional.

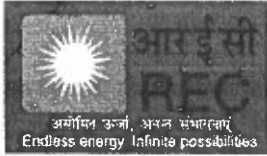
The net stage 3 assets as on March 31, 2020 stand at Rs.10,704 Crores which is 3.32% of loan book. The provision coverage ratio against that stands at approximately 50%. So this is regarding the salient points of our financial results which are already in the public domain and some associated comments which I wanted to mention before this August body of investors.

Now I would welcome you for questions. I have my team headed by our Director finance and they are quite eager and quite keen to answer all your queries on any subject you feel like, you are welcome.



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- Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Sankalp Jain from SBI Life. Please go ahead.
- Sankalp Jain:** Thanks for taking the question. My first question is that what percentage of total assets borrowings would be hedged?
- Ajoy Choudhury:** 60% of our external commercial borrowings are hedged & 40% are unhedged.
- Sankalp Jain:** Okay and will that be particular tenure over which or under which we kind of hedge or not hedge?
- Ajoy Choudhury:** No, there is no particular tenure but generally long tenure borrowings are unhedged and the short tenures are all hedged. Actually, RBI guidelines stipulates that only up to 3 years borrowings are required to be fully hedged. So up to that 100% we have hedged and beyond 3 years and upto 5 years only 70% are required to be hedged and beyond 5 years, there is no hedging requirement from RBI. However, we have hedged beyond that also as per the policy which we are having. In respect of the asset liability management and the risk management policy which we are having, we are hedging other borrowings also which are more than 5 years. Today itself we hedged a borrowing of 10 years, 80% of that 300 million which we have raised, that we have hedged ourselves. So we keep on seeing the market levels and depending upon the correct time we just keep on hedging whatever funds we are borrowing.
- Sankalp Jain:** Okay. Thanks, my second question is that how has the annual borrowing plan got impacted due to special DISCOM package of close to 90,000 Crores?
- Sanjeev Gupta:** As of now, we are keeping our annual borrowing program at the same level because in the initial months we expect that the capex programs will be somewhat impacted and our disbursement will be slow in such capex program and of this 90,000 Crores also 45,000 Crores will be share of REC, will make for part of it, but going forward we will see and review the position. In our view there will not be so much of incremental increase in our borrowing program this year, it will remain at the same levels.
- Sankalp Jain:** Alright and finally have you received any kind of special line of finance from the government specially for this DISCOM package say from LIC, EPFO or NSS Fund?
- Sanjeev Gupta:** Not so far. Though we have written to them for allowing us some access of such funds but so far there has not been any such thing.



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- Ajoy Choudhury:** But only thing is that RBI is considering to increase the exposure of the REC and PFC they are considering not to consider us a group so to that extent exposure might go up. We are in constant touch with LIC, EPFO and NSS fund and there might be some assistance from them in so far as lending to REC.
- Sankalp Jain:** Okay and will the private Sector also benefit from the scheme because it might not be easy for them to get a state guarantee to get fund release from REC or PFC?
- Ajoy Choudhury:** Private genco would indirectly benefit because basically the liquidity package primarily mandates the use of this funds by the DISCOMS and the scheme also envisages that these loans would be directly dispersed to the IPP and the CPSU, so whatever are the IPP dues which are lying with the DISCOMS as of March 31, 2020, most of it we are expecting would get benefit by this scheme.
- Sankalp Jain:** Alright and just last question from my side how do you see the share of power and non-power in the loan book changing in the long term?
- Sanjeev Gupta:** I just told you that ultimately when you say power, normally, I said that even our diversification, and diversification means we are changing the sector from power infrastructure to say irrigation infrastructure sector, but even in that infrastructure sector also we have restricted our role only to the power components and these electro mechanical components though do not directly belong to power utility, it is for other infrastructure segment, but that is all aligned with power.
- Sankalp Jain:** Alright. Thanks a lot. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Subrat Dwibedy from SBI Life. Please go ahead.
- Subrat Dwibedy:** Thanks for taking my question. I have couple of questions related to disbursement and borrowing plan, so you mentioned 1.1 lakh Crores would be total borrowing plan for the year out of that how much would be through bonds and what is the timing in first half, second half if you could give some indication?
- Ajoy Choudhury:** Generally our borrowing mix is that domestic bonds constitute close to 60% of our borrowing so we do not see any change in that and around 50,000 Crores, \$2 billion USD will be from overseas market apart from that 50 Crores EC bonds and the domestic loans and external commercial borrowing loans will constitute another 20%-25%, so the mix that we already have will continue this year.



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Subrat Dwibedy: If 60,000 Crores is roughly what you are targeting for raising through domestic bonds then will the second half be very heavy because in Q1 only around 13,000 Crores have been raised through bonds but roughly around 20% of a total borrowing requirement?

Ajoy Choudhury: Going forward we will have to see how the market behaves so we have sanctions from the banks to the extent of around 20,000 Crores, so it depends on how the market behaves. We might as well lower our borrowings from the bond market if we find it is not to our liking but we believe that given the kind of liquidity that is available today we should be able to raise around 60,000 Crores from the bond market this year.

Subrat Dwibedy: Okay now on the disbursement side this entire 45,000 Crores DISCOM relief will be disbursed this year itself or some of it might go to next year because there is some reform related disbursement also for the second phase?

Sanjeev Gupta: I think this 45,000 Crores which is our share in this 90,000 Crores liquidity induction we will be able to disburse this amount within this financial year.

Subrat Dwibedy: Okay so that means that since your borrowing is increasing by 20% so your advances this year could be in the range, the disbursements will be around 90,000 Crores, 20% over last year out of which 45,000 you are saying would be for the DISCOMS relief so for the capex projects it will be only 45,000 Crores this year, is it?

Sanjeev Gupta: You see that basically particularly these are little uncertain times as far as disbursements are concerned. The pipeline for our capital projects is full and we have huge undisbursed commitment, but going forward as we have seen in this particular quarter, we see that the capex progress is very, very slow this time because of the movement of the labour and all those things and I think the entire country is suffering as far as this part is concerned for the capital expenditure projects too. Going forward we hope that situation improves and we find no reason why it should not improve, and accordingly, our capex will also progress because it is all in line, all our projects and everything is lined up so we are just estimating that this slowdown in our capex will be substantially made good by this 45,000 Crores liquidity and we may have our targets for having this disbursement, and it may so happen that we may, if the situation improves in the days to come, As far as disbursement program is concerned it is intact, it is only the slowdown that has interrupted because of this COVID situation. 45,000 injection which we are doing is basically making good the disbursement which we otherwise would have made through our capex program, that I think will be ensured in this financial year particularly for these two quarters from this liquidity because capex we are anticipating to be slow in at least these first two quarters of the year.



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- Subrat Dwibedy:** Okay and just one last thing from my side, you mentioned that going ahead renewable and non-power, new sources of disbursement could form a significant portion of your overall disbursements, so over a period of time will private sector share go up because this renewable and other sources will be primarily to the private sector?
- Sanjeev Gupta:** Normally you see that as far as this renewable part is concerned, we will definitely do much better this year. I think the disbursement last year we had close to Rs.5,800 Crores and our sanctions were to the tune of some Rs.7,500 Crores. You can see, that were our sanctions last year for the entire year, this year we already have sanctions close to Rs.9,000 Crores, so going forward definitely we anticipate increasing the share at least two to three times. So, this year, and I say it is all in power, , so I will not say its power or non-power, only thing is that some conversion to renewable segment because of the normal focus of the country and thrust in this thing. We will be taking our fair share into this fight.
- Subrat Dwibedy:** No Sir I wanted to know the renewable disbursements will mostly be to the private sector right not government sector?
- Sanjeev Gupta:** Mostly it will be to the private sector but there are pretty good number projects even in the state sector also.
- Subrat Dwibedy:** Okay thank you Sir.
- Moderator:** Thank you. The next question is from the line of Gourav Kochar from Mirae Asset. Please go ahead.
- Gourav Kochar:** Good evening Sir. Thank you for taking my question. A couple of questions from my side firstly, since the repricing of loans happens once in three years and with the funding cost also coming down for us on an incremental basis, what is the outlook on FY2021 margin?
- Sanjeev Gupta:** FY2021 should be much better year, we do not expect that the currency to depreciate further and we have very healthy loan book with the incremental disbursement to the tune of almost Rs.75,000 Crores- Rs.80,000 Crores. So, that should give us a fair increase in our margins and we expect much better return on our net worth.
- Gourav Kochar:** Sir, what percentage of your book would be coming for repricing in this year?
- Sanjeev Gupta:** Around 20% of our book will be repriced this year.
- Gourav Kochar:** Okay and since given that this will happen after three years there could be some materials in terms of the delta the revision could be say anywhere between 30 to 40 bps if that is right on the yield front?
- Sanjeev Gupta:** I do not think so. Our card rates have so far not revised going forward we will see.



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- Gourav Kochar:** Is it repricing linked to something external or it is your own something like an MCL or the internal calculated rate?
- Sanjeev Gupta:** Internal card rate.
- Gourav Kochar:** Okay. Sir on the hedging bid you mentioned that we hedge around 60% of the extended borrowings so in FY2020 we have seen that the currency has depreciated at least in three quarters and as a result we have had some unhedged losses. So, just in context of this had we been better off with the hedge or had we hedged it 100% what would have been the MTM on that versus the current loss. Just to get a sense on whether we are better off hedging entirely or keeping some bid open for currency non-fluctuation?
- Ajoy Choudhury:** If we had hedged our portfolio 100% then obviously the currency loss would have been lower but you see it is not the hedging or not hedging, the difference this year has come because now under the Ind-AS scheme we have to account for the entire currency loss in a single year, earlier we were able to amortize our currency losses and apart from the currency loss there is also the derivative valuation on the Ind-AS, it mandates to account that what is the price that we will get upon unwinding. We do not have any intent of unwinding our derivative position, it is a kind of insurance that we have taken against currency. But because of the forward movement and the MCV that they calculate, the banks and all value them at a much lower rate than what we are covered with. So, that is why these are certain notional losses that have come about. All hedged loans are held up to maturity now. That we are hedging till one year or three years, it is till maturity we are doing our hedging. So, the impact has come because we are now having to account for it in the same period under the new accounting standards.
- Gourav Kochar:** Sure, I understand Sir but just in the context of remaining unhedged had we been better off had we hedged 100% currency in this year versus what we are currently. Just wanted some comments around that if you could?
- Sanjeev Gupta:** Yes, probably this year the losses would have been a little lower but over the tenure of the loan it not has made much difference, but this is also true that the cost of hedging is substantial. If you see over a period 10 years, the depreciation in Rupee is about 3.5%-4% and that is also the cost of hedging. So, over a long tenure it does not really make so much of difference, some times in between periods some difference will make impact, but overall, it does not make so much of difference.
- Gaurav Kochar:** Right sure Sir, in terms of the business mix currently we would be anywhere close to 83-17 or 82-18 government and private. Going forward as a strategy would like to maintain this mix or probably you would hedge somewhere in favor of non-government book?
- Ajoy Choudhury:** It is going to be the same at least for this year.



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- Gaurav Kochar:** Okay sure, and coming to the asset quality Sir what is the impact on the ongoing project with this COVID thing because of some labor issues, because of supply chain disruption do you see some of the projects getting delayed or getting stressed?
- Sanjeev Gupta:** You see that as far as these projects are concerned of course there will be delay and that delay will be controlled in the sense because RBI has also acknowledged this thing. Because once we have a lock down and these projects are all labor intensive projects, because of the re-location and dislocation of these labors and all that, entire capital intensive infra projects have suffered, but I think some kind of exemption like RBI given moratorium in certain cases, may be given, I think shift in COD or the date of commissioning of these projects, we are hoping that going forward there will be some relaxation on this commissioning date or like that, accounting for this kind of unavoidable disruption.
- Gaurav Kochar:** Sure, and do you foresee any sort of NPA coming from on account of this or do you say deferring the date would probably solve?
- Sanjeev Gupta:** Can you please repeat the question?
- Gaurav Kochar:** Yes, do you see any NPA coming out of this because to this lockdown extension or anything of that sort that fear may be in this year?
- Sanjeev Gupta:** There is no given fear as far as that is concerned.
- Gaurav Kochar:** No major casualties.
- Lakshmanan:** No major casualties. Three or four projects have been identified which could carry forward that but then, we are closely monitoring and working with them and we hope they will not get into any issue.
- Gaurav Kochar:** Sure Sir, if you can quantify what could be that total quantum of that to our account?
- Sanjeev Gupta:** We have roughly four to five operating assets in which our total exposure is 6000 to 7000 Crores but those have adequate PPA, we have adequate tie up of those and they are operating very optimally as of now and we do not really see any risk coming in these particular projects.
- Lakshmanan:** Only issue could be the delay in payment by the DISCOMS but that I think the total liquidity package is helping the DISCOMS so we are hoping that the cash flow will flow back to the DISCOMS which will help them handle their cash flows issue.
- Moderator:** Thank you. The next question is from the line of Ateet Bansal from Nippon Mutual Funds. Please go ahead.
- Ateet Bansal:** Sir, just wanted to check we have quite large plans for disbursement this year, so we have already raised Rs.2000 Crores as tier 2 bonds is that understanding correct in the first quarter?
- Sanjeev Gupta:** Yes, that is right.



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- Ateet Bansal:** And do you have any plans to raise further equity to shore up our capital adequacy given we have aggressive plans of disbursements because our debt equity ratios are also at 8X as of March so given the aggressive disbursement plans we could have higher number over there?
- Ajoy Choudhury:** We believe that going forward the results will be good, this year has been impacted by this forex loss so the internals accruals should be sufficient to take care of the debt equity ratio to some extent and of course we are rigorously pursuing the resolution of NPAs and once we are able to make some impact there, definitely our debt equity ratio and the CRAR will definitely improve.
- Ateet Bansal:** Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Anand Ladha from HDFC Mutual Fund. Please go ahead.
- Anand Ladha:** Sir just wanted to understand on the resolution of NPA in terms of any large exposure like even few exposures which were supposed to get resolved in coming quarters. So, if you can give some color in the next two to three quarters what sort of resolution one can expect to happen?
- Lakshmanan:** Overall the gross NPA stands at Rs.21,256 Crores and we have net NPA after positioning Rs.10,704 as of 31st March 2020. So, roughly our NPA's are covered by provisioning to the extent of 50% and in the last year close to 13 projects have been either completely resolved or the resolution has been approved and it is under implementation. These 13 projects account for Rs.10,221 Crores. So, to give a break up, out of these five projects which have been completely resolved, that accounts for close to Rs.2400 Crores, in which three projects Lanco Anpara, Prakash Industries and Everest Power we have got 100% recovery and in couple of other projects Ratan India and Lanco Teesta we have got a recovery in the region of 50%-55% and going forward, resolutions which have been approved and are under implementation account for close to Rs.6,000 Crores. These are five projects in which Essar Power transmission we have resolved such that there is a 100% recovery plus we are expecting that the account could be upgraded very shortly while we have close to Rs.1100 Crores of exposure and then like FACOR Power this has been resolved under the IBC process where Vedanta is the successful bidder. So, they are in the process of taking over the assets where we are expecting a 75% recovery and we are expecting close to Rs.350 Crores of recovery in these asset and Hiranmayi Energy, that again has been approved while there is a 70% recovery and Indbharat Utkal and R. K. M Powergen have also been restructured. So, there also the recovery is close to 50% and apart from this Rs.1,840 Crores worth of three projects accounting for that are under liquidation where the bids have been received and it is in the process of NCLT approvals, we are hoping that that should be done over the course of next three to four months. So, this is roughly like 50% of NPA account that are either resolved or



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they are in the advanced stages of recovery and apart from that we are pursuing close to Rs 4,923 Crores worth of five projects where we are working outside the NCLT process in terms of restructuring. So, in that we have projects like GATI, Dans Energy and Ratan India Nasik and TRN power. These are also close to resolution and from all these projects we do not foresee any haircut except in Ratan India Nasik where that could be an issue and rest of the other projects we see 100% recovery and apart from that there are balance projects, there are 12 projects which are under IBC out of which nine have been admitted under IBC and they are in various stages of expression of interest and bids have been received for approvals and another three projects which have been recently filed with NCLB which are pending admission. So, that is the overview for the stressed assets.

Anand Ladha: Perfect Sir. Thank you for giving such a breakup. Sir there are few exposures if you can quantify where they are in terms of resolution process like KSK Mahanadi which has admitted to NCLT if you can clarify like where they are in terms of the resolution process. IPCL Haldia and Essar Mahan?

Lakshmanan: IPCL Haldia we have approved the resolution plan; it is in the rating process. We are working with the rating agencies where, as per the RBI, 2 ratings are required. So, we are working with the rating agencies for the rating so once it is done, I think we will look forward on the documentation and KSK Mahanadi the RP has been appointed and they are in the process of going with the expression of interest and third project which you asked?

Anand Ladha: Essar Mahan.

Ajoy Choudhury: Essar Mahan recently we have filed with NCLT, I believe ICICI is there, so they have filed on behalf of the lender and parallelly there are a couple of other companies which are interested in this asset. So, in the lenders forum we are discussing with them as well and we are also exploring debt settlement under section 230 of the companies act also. So, actively we are pursuing both the portions so that is where we stand today.

Anand Ladha: Okay, Sir if I have to look at our provision coverage is approximately 50% odd do we anticipate any more provisions requirement in FY2021 for these existing assets?

Ajoy Choudhury: No, in fact we regularly review all our stress assets and this year also if you see we have increased our provision coverage in some of the assets. So, the assessment that we have made is in consultation with that. So, I was explaining about the provisions of rate so as of now we think that our provisional coverage is adequate, going forward we will continuously review and see what has to be done.

Anand Ladha: Okay, Sir based on the bid we have or the resolution plan we have for different assets do we expect some more provisioning need on those assets?



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- Sanjeev Gupta:** No in fact some of the projects like Essar transmission we are expecting write back. As of now we do not see any project where addition provisional will be required but it is a continuous process as I said and we will continue to review the position, take opinions from external specialists and if required we will definitely make additional provisions, if needed.
- Lakshmanan** Just to supplement in fact most of the resolutions we had claimed before these recoveries are either 100% or it is in the region of 50%-55% and 70% whereas, if you see our overall provisioning are 50%. So, to that extent we are expecting quite a few of these assets during the current year there could be write back in terms of provisioning and every quarter we do a detailed review in terms of the expected credit-loss mechanism based on the different parameters like each asset is evaluated and if need be like we alter provisioning.
- Anand Ladha:** Perfect, and Sir if you can say on this NPA book of Rs.21,000 odd Crores are we accruing any interest or the fact that as when the assets get resolved we will start getting accruing interest in some of these exposures?
- Ajoy Choudhury:** No, we are accounting for these on cash basis, on receipt basis but in some of the projects we are receiving revenues. For example, as I said Essar Power Transmission, we are receiving 100% but because of the RBI norms, which stipulates cooling off period so it has not been upgraded. Similarly, in case of Some other projects, we are receiving some money and accounting for them on receipt basis like KSK Mahanadi..
- Lakshmanan** There are couple of other projects there is a Dans Energy is there, GAT1 is there, these assets are regularly servicing their interest and there is a very marginal deficit in the interest but accounting is on cash basis we do not recognize on a accrual basis.
- Anand Ladha:** Okay, Sir as and when there is assets get resolved do we expect our margin to improve further from the current level Sir?
- Sanjeev Gupta:** Yes, definitely.
- Anand Ladha:** And Sir lastly on the special Discom package of Rs.90,000 Crores which the government has given is there any methodology in terms how much spread we can expect to earn those lending?
- Sanjeev Gupta:** I think we should have a competitive spread because overall the borrowing mix we have is cost of fund and the rate at which we are lending this special transition plan has two-three components, one where we are lending against the government receivables which has certain concessional rates but that is covered by 100% state government guarantee so that gives us a better leverage in terms of this asset and the other window is under the working capital limits which are available. So, that we are lending at that normal card rate and there are certain other states where they need a relaxation for their limit for which the Union Ministry is going to the cabinet. So, over all we expect the margins to remain healthy.



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- Anand Ladha:** Okay, is it fair to assume spread will remain in the range of 200 plus basis is for this in committal new lending also?
- Ajoy Choudhury:** Sorry?
- Anand Ladha:** Is it fair to assume spread of 200 basis point plus for this new DISCOM lending?
- Ajoy Choudhury:** No, this is a special package and with government guarantees we expect spread of around 150 basis point to 200 basis point.
- Anand Ladha:** Okay, thank you.
- Moderator:** Thank you. The next question is from the line of Vikas Garg from Invesco Mutual Fund. Please go ahead.
- Vikas Garg:** Thank you for taking my question. Just two of them, one is on the SEB package of Rs.45,000 Crores and how much has been disbursed already to SEB's from your side and second question is if you can throw some light on the SEB's financial health now when there was an announcement by the Finance Minister regarding the Rs 94,000 Crores receivables at the SEB level for which Rs.90,000 Crores package was announced though PFC and REC that was made somewhere in the second week of May and since then the lock down has been extended till May end and even now there is a partial lock down. So, how the situation at the SEB levels now from your assessment and is there any possibility of increasing this financial package from Rs.90,000 Crores of current number?
- Sanjeev Gupta** Your first question was on the disbursement and under the special package, you mentioned Rs.2,500 Crores as the first loan under this package which we are expecting the disbursement could happen over the next few days and another Rs.15,000 Crores worth of loans are under sanction which we are expecting should be done before 30th of June and out of that Rs.15,000 Crores is the first tranche close to Rs.7,500 Crores we are expecting disbursement could happen before 30th of June so that is the present status.
- Vikas Garg:** I just miss a first term which you said what number has been disbursed already?
- Ajoy Choudhury:** No, loan of Rs.2,500 Crores has been sanctioned which we are expecting disbursement could happen over the next few days and another Rs.15,000 Crores worth of loan are under sanction and out of that 50% is the first tranche disbursement Rs.7,500 Crores that is expected to happen before 30th of June.
- Vikas Garg:** Okay.
- Lakshmanan** And overall we have got a expression of interest in terms of the Discoms intention to take loan is close to Rs.93,000 Crores both REC and PFC put together. So, the original package size was anticipated as Rs.90,000 Crores and we are having interest from DISCOMS and states which is also approximately in that region. So, as of now we do not anticipate this



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package going up. We will have to wait and see for further response but as we stand today we do not anticipate this going up significantly and third thing in terms of the SEB's financial position, yes, April and May the collection efficiency of the DISCOMS went down by 25% to 30% and over all the revenues dipped by 40% to 30% in different states. But from June onwards we are seeing the revenues coming back to close to normal level, they are probably close to 80%-85% and may be going forward in the Q2 we are expecting the revenues of DISCOMS be stabilized.

Vikas Garg: Okay, so which means the recoveries have not been made from the short fall which happened in the month of April and May where the revenues would have fallen short by almost 40%. So, in the month of June whether recoveries has been happening on that or that 80% which you said is the June collection short fall as of now even there?

Ajoy Choudhury: It is a mix of both, at our level it might be very difficult to exactly comment on this point but as we understand on qualitative basis there is a mix both of recovery and some of the state electricity regulators and governments they have given some relief to the industries and to domestic consumers in terms of installments also. So, the recovery could happen over the next three to four months.

Vikas Garg: Okay thank you and Sir just one follow up question on the first part, as of now nothing has been disbursed for the SEB under that special package though the sanctions are there while you have already raised the bonds upon Rs.13,000 Crores in Q1 and through some other means as well that you raised. So, is it good to understand that the borrowing that you have done so far is for your normal of business routine aspect and when you start disbursing for the SEB package then you have to hit the market again for the incremental borrowing?

Lakshmanan It is a combination, not that all the funds have been really raised, certain things have been tied up where we can draw as when we need and these borrowings which have already been raised, it is meeting our regular disbursement as well as the disbursement which are lined up which is to the tune of close to Rs.8,000 Crores to Rs.10,000 Crores over the next 10-15 days and apart from that our own repayment commitments are also there. So, it is a combination of these three, so that is being actively managed as the situation emerges.

Vikas Garg: Right and Sir it was indicated that the entire Rs. 45,000 Crores will get disbursed in this financial year itself but will it be safe to assume that it would be quite front ended and possibly over next two-three months the entire package may be disbursed because we have already received intent of Rs.93,000 Crores combined for PFC and REC?

Lakshmanan It might not happen in next two to three months because the policy has two tranches. So, first tranche would go as per the applications because each state has to do their own internal processes, accruals from their own competent authority which could be the finance department or the state cabinet and there is one more element where the Union cabinet



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approval is required for Uday limit relaxation also. So, some portion of this release will be tied up to these factors also. So, may be like close to Rs.60,000 Crores is claimed, that is encumbrances are not there. So, we are expecting may be if the first tranche could get disbursed within Q2, Q1 is coming to an end where we are expecting to close Rs.10,000 Crores and may be another Rs.15,000 to Rs.20,000 Crores could happen in Q2 and the rest could spill over to Q3 and may be some in to early Q4.

Vikas Garg:

Okay and Sir just one last question if I can slip in, it is on the asset quality of the loans which are made to the government agencies, the state government agencies either DISCOMS or gencos or what so ever and we have had 0% NPA's over there. Now Sir, some of those loans are guaranteed by the state government and some of them are in fact I would majority of them are not guaranteed. So, just two things over there Sir from your risk assessment perspective, does it really matter to you whether the state government guarantees there for those loans because any ways we have 0% NPA thus from a spread perspective we should be indifferent whether the state guarantee is there or not there so that is first question, and second question is from do you see any asset quality issues are cropping up in that state agency exposures because some bit of evident problems are being seen at all the level and will be just kind of very difficult situation to continue to maintain that we have 0% NPA on the state sponsored agency?

Lakshmanan

Basically, for state sector borrowing also we have a detailed appraisal procedure and we follow certain prudential norms and our own policies. So, normally, when we do lending, we follow those provisions. So, in such cases we do not insist on the state government guarantee, but whereas this is a special package where we are relaxing certain norms and we are going beyond the normal levels so, state government guarantee is being taken as a part of this policy as a additional security and second this state government security we have a significant advantage in terms of our capital adequacy in terms of the risk weighted asset. So, that is significant advantage, we have a combination in terms of state sector lending where we take state guarantee and where we do not take.

Vikas Garg:

Okay and Sir, on the situation of 0% NPA as of now which is on state agency paper is it expected to be similar going forward as such?

Sanjeev Gupta:

We expect to have 0% slippages on the state sector projects. We expect the same going forward.

Vikas Garg:

Okay thank you very much.

Moderator:

Thank you. The next question is from the line of Saket Yadav from India Capital. Please go ahead.



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- Saket Yadav:** Thank you Sir. Just wanted to understand on stage three assets as you mentioned earlier that there are four accounts of about Rs.6000 Crores which we are tracking closely but at the same time there also about Rs.10,000 Crores worth of projects which may see an upgrade. So, is it fair to expect that over the next three quarters the gross NPA's from Rs.21,250 Crores should actually come down rather than increase even despite whole COVID related problems?
- Lakshmanan:** The asset upgrade goes by the RBI policy where we have resolved or settled, where it is OTS and immediately gets squared off. In the case of restructuring there is a monitoring period after which the asset is upgraded. So, couple of assets we expect to be upgraded in this financial year which could be in the region of Rs.2000 Crores but the rest of the assets have a slightly longer monitoring period in terms of the 10% recovery which the RBI circular mandates. On the stage three assets are all NPA so that is part of the Rs.10,000 Crores.
- Saket Yadav:** Right and Sir these four assets which you mentioned which we are monitoring closely those are all private assets and they are not problematic as of now is the understanding with this monitoring them closely if any issues come up?
- Lakshmanan:** Rs.6000 Crores account which we are closely monitoring as of now they do not have any stress but given the current scenario, we are concerned that these are the accounts which should be closely monitored so we are closely working with the borrowers and tracking these accounts.
- Saket Yadav:** I understood, Sir just one more thing on the tax rate bit this quarter our tax rate actually seem high on the PBT bit from next quarter I understand may be transitioning into the new tax now so our tax rate should around 22%-23% is that understanding is correct?
- Ajoy Choudhury:** Yes, our tax amount should go down going forward. This year of course there was an impact of deferred tax as well as write back because we had made provisions and on that we had created deferred tax asset but because of the decrease in rates we had to reduce our deferred tax assets as well. So, going forward definitely the reduction in the tax rate will give us the benefit of reduced tax amount.
- Saket Yadav:** Sir what the applicable rate could be if one wants to get a sense. In the past we were around 29% so just wanted to understand now what will be the normal rate going forward for us?
- Ajoy Choudhury:** It should be between 20% to 22%.
- Saket Yadav:** Understood. Sir, just one final question from my side, can you also help us understand the slippage that we have seen this quarter on the stage three asset I think till last quarter we were about at Rs.19,500 Crores and this quarter we have gone to about Rs.21,200 Crores so the slippage which happened was it before the moratorium was applicable and hence it slipped or what led to the slippage?



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- Lakshmanan** Basically one number is added that is basically because of certain payment issues with the DISCOMS where it is before the state regulators, but we are hopeful that these claims are legitimate and we are also working with the Discom. So, hopefully once the payment issue with the DISCOM is settled in the thermal generator we are hopeful that the asset could be resolved very quickly.
- Saket Yadav:** Understood. Thank you.
- Moderator:** Thank you. The next question is from the line of Andrew Venteicher from **(inaudible) 1:10:32** Partnership. Please go ahead.
- Andrew Venteicher:** I was wondering how your relationship with the PFC given the ownership of you and has changed anything in strategy or your operations?
- Sanjeev Gupta:** I think the relationship is as how it has started out last year 2019 we are working as a standalone company of course PFC is holding company and we are subsidiary company except that there is no change other than one PFC nominee director is on the board of REC that had been the only change and management control is through Ministry of Power Government of India.
- Andrew Veteicher:** Do you think this affects competition in the sector at all?
- Sanjeev Gupta:** If you see our results and our performance we do not think so. We have not found any such thing in our operations in our experience.
- Andrew Venteicher:** Historically before the tie up did you compete more with PFC?
- Sanjeev Gupta:** Pardon please?
- Andrew Venteicher:** Did you compete more with PFC historically before the tie-up with PFC? before PFC brought stake in REC?
- Sanjeev Gupta:** You are talking about merger, are you?
- Andrew Venteicher:** Just before PFC took the stake in REC was there more competition with PFC?
- Sanjeev Gupta:** Yes, we were very independent company at that time, that competition was there after that also it is going on as it is, nothing has changed till that.
- Ajoy Choudhury:** Just to add that there is so much of business in the power sector that from competition anyway is not very significant our course, we are able to get sanctions, both the companies are able to manage sanctions and disbursement. So, there is a bit of competition as our Chairman has said but as it was before now also there is some bit of competition but the business is huge.
- Moderator:** Thank you. The next question is from the line of Bhavik Dave from Nippon India Mutual Fund. Please go ahead.



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- Bhavik Dave:** Hi good evening Sir. One question is regarding the dividend payment that we will make in FY2021, will the number be similar or because of this COVID issue and RBI not very comfortable with financial entities giving out dividends to their shareholders, will that affect REC as well?
- Sanjeev Gupta:** No, we do not think it will affect in fact we are going forward, we expect better results because this was one of a case of exchange forex loss and there was lot of notional derivative losses that came in this year, we think our business will be good and our margins will be better going.
- Bhavik Dave:** One data point, on the card rate that you have, what was the card rate maybe last revised care rate that we had for discoms and private sector, at what yields are we lending?
- Sanjeev Gupta:** So, it is different for different category.
- Bhavik Dave:** But broadly ranged?
- Ajoy Choudhury:** Our yield this year has been 10.59% and a spread of 3.24%.
- Bhavik Dave:** Lastly you mentioned that you expect reasonable amount of recoveries of that Rs 20,000 odd Crores, Rs 2,000 Crores can get upgraded and the remaining Rs 8,000 can get restructured so what proportion of this Rs 20,000 odd Crores where you will see 100% kind of recovery, I missed that explanation that you gave to one of the previous participants. So, which are the accounts where you expect 100% recovery?
- Lakshmanan:** These figures like approximately we can say 40% of the account I think we should be expecting close to 100% recovery.
- Bhavik Dave:** That, quantum will be in Crores?
- Lakshmanan:** You can say close to Rs.7,000 Crores to Rs 8,000 Crores.
- Bhavik Dave:** Okay and most of these will be restructured, so it will not be upgraded?
- Lakshmanan:** Yes, most of it will be restructured.
- Bhavik Dave:** The Rs.2000 Crore upgrade there you will not have to take any additional provisions because you will already be at 50% to 60% provisioning on those.
- Lakshmanan:** Yes, there is no additional provisioning in fact those accounts have already cleared off their dues and they are in surplus.
- Bhavik Dave:** Okay and this Rs.6,000 Crores that you mentioned are under stress are stage 2 and they are monitoring them closely before they slip into NPAs?
- Lakshmanan:** That is right, that 6000 Crores, they are in stage where we are following regular risk management policy, we keep monitoring those accounts.



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- Bhavik Dave:** How many accounts and which will be these accounts if there are any in sizable reasonable accounts?
- V. K. Singh:** These are all private sectors generating stations account and they largely like Everest Power etc so these are the assets.
- Bhavik Dave:** Okay Sir. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Ravi Agarwal from UTI Asset Management. Please go ahead.
- Ravi Agarwal:** So, your target is 45,000 to be disbursed in this year so my understanding is that there are two tranches and there is a condition which is supposed to be completed before the disbursement of tanch 2s, what do you think about this whether the SEBs and the electricity boards will be able to meet the conditions for disbursement of tranche 1, there are the conditions about the meters to be put in this smart metering the billing efficiencies and all those things so, is it not quite a less time to complete all these formalities?
- Lakshmanan** Just to clarify, actually tranche 1 conditions all the SEBs the distribution companies whom we are in touch with, they are quite comfortable in meeting this stage 1 pre disbursement condition. In smart meter, they have to submit a plan, they do not have actually install smart meter, they do not have to complete it so they will have to give action plan which is credible and in stage 2 they will have to submit, the main requirement is the loss reduction plan which they will have to submit. So, that also they are in the process of preparing that so between stage 1 and stage 2 that is tranche 1 and tranche 2 we expect to normally have a two months to three months gap in the meanwhile I think they should be able to in consultation with MOP satisfy the stage 2 tranche condition as well. So, really do not foresee any hold up with these conditions.
- Ravi Agarwal:** So, alright. What I understood that they have to show that these all work has been done and not just the promising things that we are doing this because that was the case with Uday bonds also so there were also some similar conditions about the pre-conditions, pre-disbursement conditions which is supposed to be made but they were never done and completed in that manner so basically this is again the case happening so this is my understanding, now how much are you expecting to be borrowed in the coming quarter from the domestic bond market?
- Sanjay Bansal** Around Rs.10,000 Crores to Rs.15,000 Crores we will take from the domestic bond market during this quarter.
- Ravi Agarwal:** What has been the total borrowing for the first quarter from the domestic bond market?
- Sanjay Bansal:** Around 18,000 we have borrowed from the domestic bond market so far.
- Ravi Agarwal:** 18,000?



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- Sanjay Bansal:** Yes, 18,000.
- Ravi Agarwal:** My other question, just be a repetition of what already has been answered so just a consolidated number, what is the total amount of number which is in the NCLT process and which has been dealt outside the NCLT process just a broad number?
- Lakshmanan:** Like it is close to Rs.10,750 Crores that is under NCLT process and rest Rs.11,000 Crores odd is outside the NCLT process.
- Ravi Agarwal:** Okay and my last question would be around, how much is moratorium availed and what is the current status of the entire moratorium part of this loan book?
- Ajoy Choudhury** In the first quarter, the moratorium was availed for Rs.5,170 Crores, in the next quarter we expect around Rs.6,000 Crores to Rs.7,000 Crores of moratorium will be availed of out of our total recoveries of around Rs.10,000 Crores.
- Ravi Agarwal:** I could not get the last part sorry?
- Ajoy Choudhury** In the first quarter there was a total amount of Rs.5,171 Crores of dues which was around 30% of the total dues where moratorium was allowed and in the second quarter we expect that this amount will be around Rs.7,000 Crores that will be around 70% of the dues for the second quarter.
- Ravi Agarwal:** Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Andrew Venteicher from **(inaudible) 1:22:28**. Please go ahead.
- Andrew Venteicher:** I just wanted the follow-up on the forex questions I notice that other comprehensive income loss had a few items related provided to their rupee, could you explain this?
- Ajoy Choudhury** See the forex loss has been to the tune of Rs.23,00 Crores this year but as I said that now with the new accounting standards we have to account for the entire forex loss for the same period so that has impacted our bottom line, but overall there are certain derivative valuation also which are somewhat notional in nature so those valuations has also impacted adversely.
- Andrew Venteicher:** But separately there would be other comprehensive income and losses, that in turn can affect the cash flow hedges and cost hedging reserve?
- Ajoy Choudhury:** Other comprehensive income losses include Rs.575 Crores that is because of the derivative transactions which are notional in nature, we are already hedged and these derivative valuations are below the cover that we have already taken so that OCI includes Rs.575 Crores of that amount, we have adopted the hedge accounting and under that accounting this Rs.575 Crores is coming. Apart from that OCI includes some investment related profits and gains



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those are minor, but largely this is the amount of Rs.575 Crores of lower valuation of derivatives.

Andrew Venteicher: Okay, that is related to the hedge accounting but then the item to be and in your result release the net transaction exchange loss that part is not related to hedge accounting?

Sanjeev Gupta: Yes that is right.

Andrew Venteicher: Okay and in the part that is hedge accounting, can you split how much of your hedging follows hedge accounting versus is not hedge accounting?

Sanjay Bansal: Roughly around 60% of our total foreign currency borrowing is hedged so we have to check the amount of hedge at every quarter, at the end of every quarter. So, in case of those hedges whereby the options are undertaken so not effective hedging there we take it as a foreign currency loss otherwise it has taken other comprehensive income so whatever the effective hedges are there that is taken into the other comprehensive income because that is only notional loss which we are having otherwise their hedged up to the maturity as such we do not have to incur any loss in respect to that because our liability in any case is covered so for that purpose itself it is taken into the other comprehensive income and not shown above the line.

Andrew Venteicher: Okay and is that offset by maybe the derivatives fair value being higher or what is the offset of the losses and other comprehensive income line?

Sanjay Bansal: Actually these MTM losses are there which have shown as the other comprehensive income so they are virtually by the end when the few commercial borrowings whatever the hedges are there, there is absolutely maturity, they will be zero so as such they will keep on reducing as the loan approaches the maturity period so that is the reason it has shown in the other comprehensive income because it is not going to affect the profitability as such it is only the notional loss which we are with.

Moderator: Thank you. The last question is from the line of Vikas Garg from Invesco Mutual Fund. Please go ahead.

Vikas Garg: Sir, just a follow up question of the earlier question, which was asked by some gentlemen, what I gather is that there is some collection of close to Rs. 15,000 Crores to Rs. 16,000 Crores on a quarterly basis and then there was some 30% and then 70% moratorium in the quarter that you said, how would be the run rate of your repayments of the debt on a quarterly basis, just putting in the perspective of that Rs. 15,000 Crores of collection which happens on a quarterly basis, against that how much would be the run rate for debt repayments?

Ajoy Choudhury: Yes, we have around Rs. 15,000 Crores to Rs. 16,000 Cores of recoveries every quarter so almost our borrowing liabilities are slightly higher than this so if you see the average maturity



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of our assets is around 6.24 years and the average maturity of our borrowing is 3.99 years so the borrowing liability is slightly higher as compared to our receivables.

Vikas Garg: So, just putting both the things together and also the earlier response that now Rs.13,000 Crores to Rs.14,000 Crores of bonds have been raised so far in the Q1, so it looks like most of these bonds which would have been raised would have been actually utilized to bridge the cash flow mismatch because of the moratorium that has been taken by the underlying borrowers and possibly when the disbursement on the SEB loan starts under the special package that would be the incremental borrowing that would be done in next few days or it is a Rs.10,000 Crores on end June and possibly Rs.15,000 Crores in the month of July, is what you kind of indicating?

Ajoy Choudhury: So, moratorium our Borrowers have taken only to the extent of 30% of our recoveries so to that extent our cash flows have been alright so that plus the borrowing actually takes care of our disbursement plus our repayment commitments and still we have certain credit lines which have been tied up and it can be drawn as and when we actually meet the disbursement.

Vikas Garg: Okay. Thank you, Sir.

Moderator: Thank you. The last question is from the line of Rahul Marathe from ICICI Prudential Pension Fund. Please go ahead.

Rahul Marathe: Thank you Sir for taking my question. So, this was regarding the forex impact which we saw in Q4 so if you could just tell us, what would have been the profitability had this dollar appreciation would have not occurred?

Ajoy Choudhury: If this dollar appreciation had not happened in the month of March, we would have made an additional profit of around Rs.1200 Crores.

Rahul Marathe: Okay and also follow-up on that only, so you are saying as per Ind-AS we have to record all the losses and profits on our forex positions in P&L, so where does the offsetting hedge position takes place, does it go directly into the balance sheet?

Ajoy Choudhury: Yes, it goes into the balance sheet. Actually now what Ind-AS says is that you price entire foreign currency borrowing at the current rate and then value the derivatives separately. So, when we value the entire currency and the derivative is valued separately, what happens is the derivatives valuation is somewhat lower than the cover that we have taken. Earlier, what we were doing was that we were valuing the unhedged currency at a current rate and the hedged currency at the hedge rate but now the derivative valuation has come up where derivative is separately valued and the valuation comes from the banks which they have taken where the valuation is lower than that cover that we have taken so therefore there is an element of notional loss which actually going forward as we approach the tenure of the loan it will be squared off.



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- Rahul Marathe:** So, will we see reverse is going forward?
- Sanjeev Gupta:** Yes, as we approach over a period of time.
- Rahul Marathe:** So, I just wanted to know whether this Rs. 1200 Crores of higher profitability which we would have had not for this appreciation, will we see reverse over a period of time that we will recognize this Rs. 1200 Crores till the maturity of our loans?
- Sanjay Bansal:** It will be reversible and in this particular quarter itself you will see the reversal if the dollar is not appreciated to that extent it is in the range of 75.50 to 76 so in this particular quarter itself there will be some reversal both on account of MTN as well as the derivatives valuation.
- Vikas Garg:** Okay. Thank you.
- Moderator:** Thank you. I would now like to hand the conference over to the management for closing comments.
- Sanjeev Gupta:** So, thank you very much. It has been really wonderful interaction with each and every one of you. We have noted your all points and appreciate all the questions which I hope that our team members and experts have been successfully able to deliver to your satisfaction and thank you very much.
- Moderator:** Thank you. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.