आरईसी
REC
असीमित ऊर्जा, अनन्त संभावनाएं
Endless energy. Infinite possibilities.
A MAHARATNA COMPANY

REC Limited | आर ई सी लिमिटेड
(भारत सरकार का एक महारत्न उद्यम)/(A Government of India Enterprise)
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CIN : L40101DL1969GOI005095 | GST No.: 06AAACR4512R3Z3

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Dated: November 4, 2024

लिस्टिंग विभाग, नेशनल स्टॉक एक्सचेंज ऑफ इंडिया लिमिटेड एक्सचेंज प्लाजा, बांद्रा कुर्ला कॉम्प्लेक्स, बांद्रा (पूर्व), मुंबई - ४०० ०५१	कॉर्पोरेट संबंध विभाग बीएसई लिमिटेड पहली मंजिल, फीरोज जीजीभोय टावर्स दलाल स्ट्रीट, फोर्ट, मुंबई - ४०० ००१
स्क्रिप कोड—RECLTD	स्क्रिप कोड—532955
Listing Department, National Stock Exchange of India Limited Exchange Plaza, Bandra Kurla Complex, Bandra (East), **Mumbai – 400 051**	**Corporate Relationship Department** BSE Limited 1st Floor, Phiroze Jeejeebhoy Towers Dalal Street, Fort, **Mumbai – 400 001**
Scrip Code—RECLTD	**Scrip Code—532955**

Sub: Transcript of Investors Conference call held on October 28, 2024.

महोदय / महोदया,

In continuation of our earlier letter(s) dated October 23, 2024 & October 28, 2024, and pursuant to Regulation 30 read with Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached herewith transcript of Investors Conference call (Group Meet) of REC Limited held on October 28, 2024.

यह आपकी जानकारी के लिए है। This is for your information.

धन्यवाद,

भवदीय,

Jyoti Shubhra Amitabh

Digitally signed by Jyoti Shubhra Amitabh
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(जे. एस. अमिताभ)
कार्यकारी निदेशक और कंपनी सचिव

संलग्न : ऊपरोक्त अनुसार

"REC Limited

Q2 FY'25 Earnings Conference Call"

October 28, 2024

MANAGEMENT: **MR. VIVEK KUMAR DEWANGAN – IAS, CHAIRMAN AND MANAGING DIRECTOR – REC LIMITED**
MR. VIJAY KUMAR SINGH – DIRECTOR (PROJECTS) – REC LIMITED
MR. HARSH BAWEJA – DIRECTOR (FINANCE) – REC LIMITED
MR. MOHAN LAL KUMAWAT, EXECUTIVE DIRECTOR FINANCE – REC LIMITED

MODERATOR: **MS. SHWETA DAPTARDAR – ELARA SECURITIES PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the REC Limited Q2 FY '25 Earnings Conference Call hosted by Elara Securities Private 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Shweta Daptardar from Elara Securities Private Limited. Thank you, and over to you, ma'am.

Shweta Daptardar: Thank you, Steve. Good morning, everyone. On behalf of Elara Securities, we welcome you all to Q2 FY '25 Earnings Conference Call of REC Limited. From the esteemed management today, we have with us Mr. Vivek Kumar Dewangan:, IAS, Chairman and Managing Director; Mr. Vijay Kumar Singh, Director (Projects); Mr. Harsh Baweja, Director (Finance); Mr. Mohan Lal Kumawat, Executive Director (Finance); and other senior officials.

We express our gratitude towards the management of REC Limited to provide us the opportunity to host this conference call. Without further ado, I now hand over the call to Mr. Vijay Kumar Singh, Director of Projects, for his opening remarks, post which we can open the floor for Q&A. Thank you, and over to you, sir.

Vijay Kumar Singh: Good morning, everyone. I'm Vijay Kumar Singh, Director (Projects). So we have a very brief presentation for our Q2 and half yearly results. We would like to make that quick presentation. And thereafter, our CMD will be giving overall overview of the sector. So please allow us to make this quick presentation to you. Over to my colleague, Mr Supreet Pandya for making the presentation, please.

Supreet Pandya: Good morning, everyone. We'll take you ahead with the investor presentation. We believe investors got an access of the investor presentation on our website. We will take you ahead with this presentation.

We have divided this presentation into five areas, which is REC overview, Operational Performance, Asset Quality, Borrowing Profile and the Financial Highlights. Let's take REC overview first. We see that REC has a journey of more than five decades, wherein we started our journey in 1969 to develop our infrastructure sectors in rural areas. And from there, we have grown ahead in leaps and bounds.

And in the latest year 2024, we have been appointed as National program implementing agency for PM Surya Ghar Muft Bijli Yojana. We also did our Maiden Yen Bond issuance of JPY61.1 billion. And recently in September 2024, we did a USD bond issuance of $500 million, which were raised at the most competitive rates.

REC has multiple key strengths. The first being Maharatna Company and a strategic player in the Indian Power, Infrastructure and Logistics Sector. We have a diversified asset base with robust access to diversified funding sources. We occupy a strategic position in the growth and development of the Power Sector and a major player in Renewable Energy segment and creation of India's Green Energy Corridor. We have a healthy asset quality with adequate provisioning coverage ratio. We have very strong fundamentals and profitable business with stable margins, leading to strong profitability. We have highest domestic credit ratings of AAA, which is awarded by all the four major rating agencies in India. We have international ratings of Baa3 and BBB- from Moody’s & Fitch, respectively, which are at par with the Sovereign rating of India.

We are the nodal agencies for all the major flagship schemes of India. The major being RDSS, Saubhagya, DDUGJY, the latest being Rooftop Solar, etc. We have a highly qualified and experienced management team with sector expertise.

We are a government's trusted arm, wherein we are assisting GOI in multiple schemes being RDSS, Saubhagya, Late Payment Surcharge Scheme, Consumer Services Ratings of DISCOMS on operational matters, Integrated Ratings of DISCOMS on financial matters, DDUGJY, NEF, Rooftop Solar program.

We have been accorded by Coveted Maharatna Status in FY 2023, which is the highest amongst all the ratings assigned to the Central Public Sector undertakings in India. We are amongst the top 14 PSUs, which have been accorded this Maharatna Status in India, out of a total 100 rated entities in India. Apart from Maharatna, the ratings are Navratna, Miniratna I, and Miniratna II. REC holds the highest rating of Maharatna. This Maharatna status gives us various business advantages, wherein we get greater operational and financial autonomy. It allows us strategic investments by incorporating JVs, Subsidiaries, and M&A activities in India and abroad. We have access to accelerated growth and support government's vision for the power sector.

If you come to Slide Number 8, you can see that REC has forayed into Infrastructure Sector for Nation's Accelerated Development, wherein REC has diversified its loan portfolio with a mandate of up to 33% loans in the Infrastructure Sector and Logistics sector. In these sectors, we have sanctioned various projects in Metro, Ports, Waterways, Airport, Oil Refinery, Road & Highways, IT Infra/Fiber Optics, Steel Infra and Health Sector.

If we come on the Slide Number 9 of the PPT, we have given the shareholder outlook. If you see the shareholding pattern of REC as at 30th September 2024, we are majorly owned by Power Finance Corporation, which holds 52.63% in REC, while the Foreign Portfolio Investors and FIIs hold 21.23% in REC. The insurance companies hold 3.93%, Individual, HUF, and NRIs hold 10.78% in REC, the Mutual Funds and AIFs hold 9.48%. The Corporates, Banks and Finance Institutions hold 1.71% and Others hold 0.24%.

The top 10 shareholders as of September 30, 2024, are also given in the slide, wherein PFC hold 52.63%; Government of Singapore hold 1.56%; HDFC Trustee 1.47%; LIC 1.35%; Nippon Life 1.28%; Tata AIG, 0.77%; NPS Trust of Aditya Birla Sunlife Pension Fund 0.77%; SBI PSU Fund 0.71%; SBI Life Insurance Company Limited 0.67%; Vanguard Total International Stock

Index Fund hold 0.66%. So these are the top 10 shareholders of REC as at 30th September 2024. And FIIs and FPIs have always reposed faith in REC, and they have consistently hold more than 20% in REC stock since IPO in 2008.

REC has a strong history of high dividend payouts and in the same context, we have declared the second interim dividend of INR4 per share in Q2 FY '25. This is in addition to the first interim dividend of INR3.5 per share, which was declared in first quarter, making a total dividend payout of INR7.5, which is 75% per share on the face value of INR10. The earnings per share of REC for the half year is INR28.28 i.e. on annualized basis INR56.56, and the book value per share is at INR276.82 as at 30th September 2024.

We have received various Awards and Accolades in our long history. The latest being that we have been awarded the 'Plaque' under Financial Services Sector (Other than Banking and Insurance category) at the ICAI Awards, i.e. Institute of Chartered Accountants of India Awards, for Excellence in Financial Reporting for FY 2022-23. Apart from that, we have received various awards in various areas for Renewable Financing, Risk Management, Green Bond Sustainable Finance and Corporate Governance, etc.

We now come to the operational performance of REC for quarter and half year ended 30th September 2024. In the first half of FY '25, we have sanctioned total projects worth INR188,991 crores, wherein we have sanctioned the highest category of loans in renewable space including Large Hydro of INR60,391 crores, implying sanctions of 32% in renewable energy space out of the total sanctions. So we are on the trajectory of outpassing the last year highest ever sanctions. In the quarter 2 of this year, we have sanctioned projects of INR76,200 crores wherein renewable sanctions stand at INR20,737 crores.

The disbursements during the half year stands at INR90,955 crores, wherein the renewable disbursement stand at INR11,297 crores, making 12% out of the total disbursement portfolio. The total disbursement made in second quarter was INR47,303 crores and out of that, the renewables were INR5,946 crores. This signifies an increase of 20% in the total disbursements from the last half year of FY '24 than in the current half year of FY '25. And there's an increase in the renewable including Large Hydro disbursement of 93% in the current half year of FY '25.

Our loan book during the half year has increased by a robust rate of nearly 15% Y-on-Y and our loan book as of 30th September 2024 stands at INR546,117 crores, out of which state sector stands at 88% of the total book at INR480,818 crores, and the private sector stands at 12% of INR65,299 crores. The renewable book stands at 9% and has grown continuously from 30th September 2023 at INR29,833 crores to INR47,820 crores as at 30th September 2024. Now renewable book stands at 9% of our total loan book.

The generation book is at INR150,937 crores; transmission book is at INR48,592 crores; distribution book is at INR219,990 crores; Infrastructure and Logistics sector in the core area is at INR16,504 crores; and Infrastructure & Logistics Sector Electromagnetic Components at

INR49,308 crores. The STL and MTL stands at INR12,966 crores. So that is the total book of INR546,117 crores.

We have Pan-INDIA presence across all the states in India, wherein we have lending across 28 states of INR480,818 crores and private book of INR65,299 crores, making the total loan book of INR546,117 crores.

On Slide 17 of the presentation, we have given the top 10 major borrowers of REC, which are all in the state sector. The top being Tamil Nadu Generation and Distribution company, then Maharashtra State Electricity Distribution, Tamil Nadu Power Generation, Kaleshwaram Irrigation Project, Uttar Pradesh Power Corporation Limited, Telangana State Power Generation Corporation, Andhra Pradesh Southern Power Distribution Company, Telangana State Southern Power Distribution Company, Jodhpur Vidyut Vitran Nigam Limited, and the Jaipur Vidyut Vitran Nigam Limited.

We have a well-diversified asset portfolio with top 10 borrowers accounting for nearly 36% of the outstanding loans. And none of the top 10 borrowers account for more than 7% of the total loan book, and there are no NPAs in the top 10 accounts ever.

If we come on the asset quality of REC, the asset quality has shown continuous improvement wherein our Gross NPAs have reduced considerably from 3.42% in March '23, to 2.53% in September '24. Our net NPAs have also reduced from 1.01% in March '23 to 0.88% in September '24. The provision coverage ratio stands healthy at 65.12% as at close of September 2024.

On Page 20 of the presentation, we have given the sector-wise breakup of our ECL provisioning, i.e. Expected Credit Loss provisioning of our loan portfolio. If you see out of the total loan outstanding of INR546,117 crores, the total NPAs are at INR13,824 crores, wherein we have made a provisioning of INR9,003 crores, signifying a provision capital ratio of 65.12%. Additionally, we have a provisioning of INR3,705 crores on Stage 1 and Stage 2 assets i.e. standard assets, implying a total provisioning of 0.70% on the standard assets.

The credit impaired assets of REC are at various stages of resolution. Almost 13 projects worth of INR12,296 crores are under NCLT, wherein we have made a provision of 67%. And we are also pursuing 4 projects outside NCLT worth INR1,528 crores with a provisioning of 50%.

We now come to the borrowing profile of REC, wherein we have the highest domestic long-term ratings from CRISIL, ICRA, CARE and India Ratings of AAA. And the international credit ratings of Baa3 from Moody's; BBB- from Fitch Ratings, and BBB+ from Japan Credit Rating Agency, which are at par with Sovereign Rating of India.

On Slide Number 24, we have given breakup of total outstanding borrowings of INR475,832 crores as at 30th September 2024, wherein our External Commercial Borrowings are at INR148,792 crores. Apart from that, we have access to various other areas as well of borrowings, which are Institutional Bonds including subordinated bonds of INR202,776 crores. We have taken loans from banks, financial institutions of INR71,508 crores. We have access to 54EC Capital Gain Tax Exemption Bonds of INR43,753 crores. REC is only amongst the four agencies in India who can issue such kind of bonds. We have tax-free bonds of INR8,999 crores, and we have borrowed a small amount of INR4 crores from Infrastructure Bonds as well. So that is the total portfolio of INR475,832 crores of our borrowings.

During the current period of half year 2025, we have raised total quantum of INR77,759 crores to fund our disbursements. Out of this, INR23,121 crores have been raised from FCNR (B) loans and INR18,105 crores have been raised from foreign currency borrowings. We have also raised INR29,378 crores of Institutional Bonds, INR4,254 crores from Capital Gain Bonds, and we have also taken loans from banks and FI Institutions of INR2,900 crores. And during the current quarter ended September '25, we have raised INR30,928 crores.

Now we come to the financial highlights of REC for the half year ended 2024. We have recorded the highest ever half yearly profit of INR7,448 crores during the half year ended 30th September 2024. Our total income stands at INR26,633 crores versus INR22,571 crores, which signifies an increase of 18% Y-on-Y. The net interest income stands at INR9,723 crores versus INR7,763 crores, that also signifies an increase of 25% Y-on-Y. The net profit for the half year stands at INR7,448 crores, which is an increase of 11% year-on-year from INR6,734 crores in the corresponding half year last year. The loan book has reached INR546,000 crores as at end of September 2024, which is an increase of 15% Y-on-Y. The asset quality has improved with net credit impaired assets at 0.88% against 0.96% year-on-year. The net worth has also increased to INR72,893 crores versus INR63,117 crores, which was an increase of 15% year-on-year. We have a capital adequacy ratio of 25.31% including Tier 1 capital of 22.87% and Tier 2 capital of 2.44%, which is well above the RBI requirement of 15%.

During the half year ended 2024, the yield on loan assets stands at 10.08% and the cost of funds at 7.12%, implying an interest spread of 2.96% and a net interest margin of 3.64%. The return on net worth is at 21.03%. The interest coverage ratio is at 1.57x and the debt equity ratio at 6.47x.

The stand-alone statement of profit and loss is also given on Slide Number 29, wherein we have given the quarterly and the half yearly presentation of the profit and loss. We have attained a Profit After Tax of INR4,005 crore in the quarter ended 30 September 2024, against INR3,773 crores and also the profit for the half year is at INR7,448. The balance sheet position is also given on Slide Number 30, wherein we have given the item-wise distribution of the balance sheet position of assets and liabilities as of 30th September 2024.

With this, we have concluded the presentation.

Vivek Kumar Dewangan: I welcome all the participants today in this con call who are present today. As you have noted that our revenue from operations and income is increasing at the rate of 17% to 18%; and our asset under management has grown by 15% on a half yearly basis.

We'd like to give guidance that our asset under management is likely to increase in the next 3 to 4 years at the rate varying from 15% to 20%. Depending on particular quarter it can go to 15%, in some quarter it may go to 17%, and in some quarters it may go to around 20%. But on an average, we hope to maintain this 17% growth in our asset under management. But even if you take a conservative estimate, even if we grow at the rate of 15%, our asset under management would be double to about INR10 lakh crore by the year 2030. But if we are able to sustain this 17% growth, perhaps we may reach doubling the asset under management by the year 2028-29.

One more significant thing you might have observed that our sanction to the renewable energy sector has increased by about 21% in the first half of the year. We have sanctioned project worth INR60,391 crores in the first half, and disbursements have also gone up by 93% with respect to renewable energy sector.

Going forward, as Ministry of Power has outlined the requirement of 80 gigawatt capacity of coal-based capacity in the next 6 to 7 years by the year 2032, we are targeting a 20% market share in this coal-based power plant business also.

And distribution sector will remain our key focus area because revamped distribution sector scheme is being implemented. And thereafter, also since country's distribution network is quite old, 35-to 50-year old, so the continuous upgradation of distribution infrastructure will still be required. And with the increase in share of renewable energy in the total overall generation profile, the requirement of the storage solution, the evacuation through green energy corridor will be still there. And we are targeting 20% market share in the renewable energy business, which definitely would be more than INR3 lakh crore by the year 2030.

With this, now we are open for questions.

Moderator: Thank you very much sir. We will now begin the question and answer session. Anyone who wishes to ask a question may press star and 1 on their touchtone telephone. If you wish to withdraw yourself from the question queue, you may press star and 2. Participants are requested to use handset while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Shreya Shivani from CLSA.

Shreya Shivani: Congratulations on a good set of numbers. Two questions. First is on the liability cost of funding side. So your cost of fund has inched up. Can you give some outlook for how it's going to be in the future? And which bonds I'm assuming one of those -- which bonds are the one which has caused the spike and how much price hike have we done for borrowers? And which segment, renewable, etcetera, in which segment did we hike the prices?

Second question is on some of these media articles had these news items about lending to some of these groups like say, Vadhavan Port was mentioned a couple of weeks back in the media articles. Sir, can you help us understand given Vadhavan Port is owned by JNPA. Will our loan have a government guarantee over there from an explicit government guarantee as a collateral over there?

And also, there was a news article about lending to company called Azure in the renewable sector. I wanted to understand the thought process behind lending to that company, given that there have been whistleblower issues with them. The CEO changed within 2 years -- 2 months or so, stuff like that has happened in the past? And yes, those are my two questions.

Vivek Kumar Dewangan: Let me respond to those questions. The cost of fund is likely to come down by the end of year -- by Q4, as you might have observed that Reserve Bank of India, although are holding this rate cut, but there is likelihood that the rates may come down in Q4.

We have kept a diversified portfolio of our borrowing. You might have observed that our FCNR loan and External Commercial Borrowing has increased to about 31% of our total borrowing. That is there that our cost of fund is much less than 7% actually. And our 54EC bond is the cheapest source of fund available that gives us 5.25%.

Going forward, we are not planning to increase the burden on the borrowers because the cost of funds, we will be able to contain.

With regard to your queries about lending to non-power infrastructure and logistic sector. Let me clarify that our hands are full with our core sectors proposals, conventional generation, transmission, distribution and with a renewed focus on energy transition from the renewable energy segment and entire green project. We have a huge pipeline of projects from these, our core competency areas. So we are slowing focus on non-power infrastructure and logistic at this stage. And as I had already indicated that with regard to renewable energy projects, we have recently signed MOUs worth INR112,000 crores when we had participated in RE-INVEST Summit in Gandhinagar and in last year, we had signed MOUs worth INR285,000 crores. So we have a huge pipeline of projects on renewable energy sectors and conventional generation, transmission and distribution also. We'll be selective in financing non-power infrastructure and logistics. Only where the asset quality is good, revenue cash flows are ensured, only those sectors will be the focus.

With regard to Vadhavan Port, you might have learned that it has already been approved by the Cabinet Committee of Economic Affairs. Government of India. This is being taken up by the JNPA but the execution will take time for Vadhavan Port. This execution will commence from the year 2027 only. By that time, it's likely cash flows would become clearer, that point of time we'll take a call. But we do feel that there is absolutely no concern with regard to funding Vadhavan Port. I'll request our Director Projects to respond on Azure and security feature for Vadhavan Port.

Vijay Kumar Singh: So, on Vadhavan, just to add what CMD sir just now informed is that, we are in close discussions with them. They have confirmed that the entire equity will come upfront. Now, you might be aware, there are two promoters. JNPA is one and Maharashtra Maritime Board is another promoter with 26% stake. Both of them will put 100% equity upfront. Now upfront equity infusion and that too 100% definitely gives us a lot of comfort in terms of project development and subsequently as well. But then we are in discussion in negotiating this loan with them.

With regard to your query on Azure, yes, we are very, very careful, and we are watching the developments in Azure. What we have done in Azure is that we have picked up only the commissioned projects; the commissioned project which have definitive revenues; the projects have secured a very good rating, if I'm correct, it is A- rated projects. So it is all towards refinancing of commissioned projects only. And we are definitely not considering at this point of time any greenfield project. Because we are still not very sure that for greenfield project, the equity would come quite smoothly. But commissioned assets, the equity is complete, the projects are commissioned, they are up and running, and they have very good rating, and therefore, we did that particular transaction.

Shreya Shivani: Got it, sir. Very useful. Can you help us understand in the commission project of Azure? What would be the EBITDA cover?

Vijay Kumar Singh: I don't have that particular number. But in terms of our Debt Service Coverage Ratio, it was close to 1.3. So that's a lot of comfort.

Moderator: The next question is from the line of Manish Agarwalla from PhillipCapital.

Manish Agarwalla: So taking the similar discussion forward, what's your take on telecom sector? Is company open to provide loan assistance to likes of MTNL or Voda? Your views will be very useful, and I have a few more.

Vivek Kumar Dewangan: Yes. At this point of time, we feel that we are not going to finance telecom sector. Because as I have already mentioned, our hands are full with conventional generation, transmission, distribution and with regard to renewable energy sector. Telecom sector, as of now, we are not considering to finance.

Manish Agarwalla: Okay, sir. That's useful. Second question was on repayment rates. So this quarter, the repayment rates were slightly high. Is there any prepayments you are witnessing? Or are there some short-term loans which we disbursed earlier which are coming back? If you can comment on that?

Harsh Baweja: Actually REC is into a financing business. And you can well expect that some of the prepayments will always come in. During the quarter itself, we have received prepayments of around INR7,000 crores, which has impacted our loan book also. But that is a continuous feature, and it will keep on coming in the year and in the quarter, next quarters also.

Manish Agarwalla: So there's nothing called refinancing by other entities, correct?

Harsh Baweja: No, it is nothing like that. It is just that there is cash surplus with the borrowing agency and they have prepaid the amount to us.

Manish Agarwalla: Okay. And sir, finally on Lanco. So I understand the status quo is maintained. There is no money received. So if you can update on that? And also on the related point, so we have seen our coverage on Stage 3 is coming down. So your take on that, why are we bringing down the coverage on Stage 3? That's it from my side.

Vivek Kumar Dewangan: Lanco Amarkantak is in the NCLT and it has passed the orders, but there were some operational creditors. They have approached NCLAT about the distribution of this profit. That matter is pending. So that's why some amount has been kept. Once this matter is disposed off, the remaining amount would also get disbursed to all the lenders. Second question was ...

Manish Agarwalla: On coverage, Stage 3 coverage ratio.

Harsh Baweja: Actually, there was some amount which was received and against which we have reversed some ECL provisions. So that is why our Provision coverage has changed. And as soon as we get the full amount, the full settlement is there, the gross NPA will also come down.

Moderator: The next question is from the line of Alok Srivastava from UBS.

Alok Srivastava: Sir, on the previous participant's question, could you mention which asset is this, where this provision reversal has happened?

Harsh Baweja: It is regarding the KSK Mahanadi project, which is under advanced stage of resolution, bids have already been received; some amount out of the dues we have received, that the amount which we have received out of the due amount, we have reversed ECL provision for that. Our management considers that the value as of now, which has been bidded by the prospective investors is much more than what we have already made a provision under ECL. So whatever was the safer side, we have reversed to that extent. And for that, the money has already been received.

Vivek Kumar Dewangan: In fact, NCLT allowed distribution of the money lying in TRA to the lenders. That's how we got some receipt. And the resolution of KSK Mahanadi is in advanced stage. We have got very good bids, and our recovery is going to be more than 100% with regard to KSK Mahanadi.

Alok Srivastava: Sure, sir. And sir, we have been reading that on Hiranmaye project, DVC has emerged as the highest bidder. So sir, what is our exposure there? And do we expect any write-back on that one?

Vivek Kumar Dewangan: Yes. Yes, we are expecting a recovery of more than 80% from the Hiranmaye asset. And we had made provisioning about 50%. So we'll get some write-backs. Our total write-back that we are expecting from three assets KSK Mahanadi, Hiranmaye, and Sinnar project in Nasik, our total write-backs are expected to be about INR1,500 crores.

Alok Srivastava: Okay, sir. And sir, one more question I had about the TANGEDCO, which is also your biggest borrower. There, this bifurcation is going on between the generation, distribution and the renewable entity. So sir, is there enough clarity now that where the guarantees will sit and your exposures, are they all guaranteed over there. Is there any risk post the trifurcation that happens?

Vivek Kumar Dewangan: Thank you so much, Alok, for asking this very pertinent question. The trifurcation of TANGEDCO has already happened and the three companies have become functional. And I'll request Director Projects to comment on our exposure within the limit and we have got sufficient space for all the three utilities.

Vijay Kumar Singh: So what was happening that especially in the case of Tamil Nadu, the generation company and the distribution company work together called TANGEDCO. You might notice that in a state like UP, we have 5 DISCOMs. In Tamil Nadu, we had only 1 DISCOM. And then that DISCOM was also clubbed with Gen Co, Generation Company. And therefore, we were experiencing a great difficulty in terms of our exposure limits.

Now since this trifurcation has happened. Earlier also, the entire loan was for a specific purpose, specific scheme for generation, transmission and distribution. So likewise, the loan separation has happened with respect to the scheme that we had sanctioned. So now we have separate loan amount, which is in generation, transmission and distribution.

Whatever loan was guaranteed by the government continues to remain guaranteed by the government even after the trifurcation. Now the biggest relief that we have got is that we are no way close to the exposure limit for any of the utilities with respect to generation, transmission and distribution.

Alok Srivastava: Okay. Got it, sir. So sir, here, there is a possibility that there could be a rating upgrade of some of these entities and you can have write-backs also at a later point? Because if I'm not wrong, TANGEDCO had a C- rating?

Vijay Kumar Singh: Overall rating, there will obviously be impact, and they'll be rerated again. All these three utilities will be rerated again. And you may note that distribution utility rating is dependent on the rating being done by the Ministry of Power. I'm sure their rating will go up and similarly for Genco also. Some of the assets have recently paid to their lender, we were not the lender for those projects. This will also improve the overall financials of the generation company. So our understanding is that all the three companies will have improved rating going forward.

Harsh Baweja: Once the improved rating is there, and you have rightly mentioned that, that will impact our ECL provisioning also that will also, to some extent, develop.

Moderator: The next question is from the line of Suraj Das from Sundaram Asset Managers.

Suraj Das: Congratulations on a good set of result. Sir, on your Slide 20, where you gave your loan portfolio and ECL provision. If I see the longer-term trained on that thing. Just wanted to understand two things. One, sir, on the private sector side, in the generation and renewables, your PCR coverage on Stage 1 and 2 is continuously coming down. So for example, in March '23, it was something like more than 100 basis points, which is now 60 basis points. Similarly, on renewable, it is something like 230, 240 basis points. Now it has come down to 60 basis points.

So just wanted to understand what is the rationale behind this? Is this -- I mean, and at the same time, you are growing the renewable book also. So is it because your ECL PD assumptions are lower, because you don't have any significant delinquency over the past few years? Or is it a conscious choice?

Harsh Baweja: Sir, can you please repeat the question? I'm not able to hear you perfectly, sir?

Suraj Das: Yes. Sir, I'll repeat it. So if I see the Stage 1 and Stage 2 provision for the private sector in Generation and Renewables segment, it is now 60 and 62 basis points, respectively, this quarter. This number, let us say, in March '23, 4, 5 quarters back, it was something like 100 and 230 basis points. So this number is continuously coming down. So just wanted to understand what is the rationale behind this? Because we are also growing the renewable book. And you are also reducing the Stage 1 and 2 provision on both the segments. So what is the rationale, sir?

Vijay Kumar Singh: So I think you might have seen that our renewable book is growing quarter-on-quarter, year-on-year basis. Now there are some projects which are under construction, have not achieved COD. Also, there are projects which have achieved COD and there are some refinancing projects also, which we mentioned during the earlier answers.

So during the construction stage, the provisioning remains high, which is close to 1% as per the ECL methodology. And once the project achieves the COD, the ECL provision comes down by 40 bps. So as the projects continue to achieve COD, this provisioning will also come down.

But then, if there's addition of under construction project, there will be change in this particular provisioning. So all will depend on the mix of the under construction and commission project, which will get reflected in overall provisioning in the renewable energy sector.

Harsh Baweja: Number two, the PD of these projects of renewable sector have also been improved, so which has resulted in lesser ECL provisioning also.

Suraj Das: Understood, sir. Very clear. And the second question, similarly on the infrastructure sector, both core and E&M, your provision on the Stage 1 and 2 is only 8 basis points. So should not it be higher sales because, I mean, at least 40, 50 basis points would be the initial provision to begin with or...

Vijay Kumar Singh: Actually, what happens that, in case of infrastructure project, most of our funding is to the government sector. And out of this, the maximum are against the state government guarantee. So as per our ECL approved policy, the weightage of the PD and LGD is lesser than in case of the project is secured by the government guarantee. So that may be the reason what you are mentioning here, why it is in case of I&L, it is less.

Suraj Das: Okay. Sure. So for private sector also, you have government guarantee. Is that what you were implying?

Harsh Baweja: No, no, no. That is not the case, sir. Private sector is on the basis of the outstanding figure. As regards to the provisioning on the private sector, it is absolutely based on the ECL model for which we have the PD and LGD, which is done by independent third party ICRA.

Suraj Das: Sure, sir. Got it. And last question is, sir, if I see the first half, your disbursement has been something like INR90,000 crores. What is the disbursement that you are expecting in the second half?

Vivek Kumar Dewangan: Yes. Last year, you might have noticed that our total disbursement was around INR161,000 crores. This year, our disbursement may go up to INR190,000 crores. Another INR1 lakh crore disbursement is expected in H2.

Moderator: The next question is from the line of Shreepal Doshi from Equirus.

Shreepal Doshi: Congratulations on a decent quarter. So my first question was on sanction pipeline. So what is the cumulative sanction pipeline in the Renewable Energy and in the Infrastructure Project segment?

Vivek Kumar Dewangan: Let me first cover the Renewable sector. Last year, our total sanction was INR136,000 crores. And this year, we have sanctioned more than INR60,000 crores. Another projects of more than INR80,000 crores are there which we'll be considering for sanction in the H2.

With regard to Infrastructure and Logistics, as I have clarified that we are going slow on Infrastructure and Logistics sector because our hands are full with conventional generation, transmission and distribution as well as the renewable sector. We'll finance only those Infrastructure and Logistics sector where revenue cash flows are assured, asset quality is good, entity is good. So last year, in first year of 2022-23, when government has allowed us to diversify into non-power infrastructure and logistics, that year, we sanctioned projects worth INR85,000 crores. But last year, it came down to INR40,000 crores. And this year, we will be able to maintain the same at the rate of INR40,000 crores to INR50,000 crores in the current financial year.

Shreepal Doshi: Got it. Got it, sir. That's helpful. Sir, the other question was, last quarter, we had highlighted about this account in Andhra Pradesh, which was seeing some issue. So is the cash flow now back to normalcy? Or have you seen any improvement there?

Vivek Kumar Dewangan: Yes. A lot of improvement has happened with regard to repayment coming out of the overdues from Andhra Pradesh utilities.

Harsh Baweja: They have made some good amount of payments in the month of October itself. So things are coming on track.

Vivek Kumar Dewangan: And by November or by December, all the dues will start getting paid.

Shreepal Doshi: Okay. Okay. So we'll see complete normalcy for that account or even on provisioning side by December?

Moderator: Ladies and gentlemen, sorry to interrupt, the management line has been disconnected. Ladies and gentlemen, thank you for patiently holding. The management line has been connected. Mr. Shreepal, please go ahead with your question.

Shreepal Doshi: So I was just asking that since that account has started repaying. And by December, you expect complete repayment for the dues. So will we see the reversal on the provision side as well for this account by December?

Vivek Kumar Dewangan: Naturally, there will be reversal of more than INR100 crores.

Shreepal Doshi: Got it, sir. And then, just one last question, which was like on the growth side. So while repayment rates are a little higher. So despite that, our growth guidance on loan book side will remain in the range of 15% to 17% or there could be some downside as well because of the higher repayment?

Vivek Kumar Dewangan: No. Now in Q3, Q4, it is going to be about 17% and may go up to 20% also.

Moderator: The next question is from the line of Preethi from UTI Mutual Funds.

Preethi: So my question is on the market share comment that you made. So could you help us understand the current market size and how the split right now between NBFC, banks and bonds? And follow-up to that is, do you expect the competitive intensity for the sector go up given the healthy asset qualities and also the structural power sector value chain that we've seen the structural trends that we've seen in the power sector value chain. That's my question.

Vivek Kumar Dewangan: The question pertaining to market share, let me first answer that. In power sector, conventional generation, transmission, distribution, as you might have noticed that our loan portfolio is mainly in conventional generation, transmission, distribution and only 9% is there in the renewable sector and infrastructure and logistics, about 11%. About 80% is in conventional transmission and distribution and generation sector. The market share of REC and PFC is about 20% each and remaining 60% is with other financial institutions.

The same market share, we will be able to hold on to the renewable energy space also. There is the total requirement for achieving 500 gigawatt of installed capacity from renewable energy. We already achieved 200 gigwatt and another 300 gigawatt capacity will come.

For the renewable energy installation of 300 gigawatt additional capacity, roughly INR15 lakh crore will be required. Then associated transmission line in the form of green energy corridor and storage solution is also required. Out of this total requirement of about INR15 lakh crore to INR20 lakh crores, we are targeting a humble pie of 20% of INR15 lakh crores, which we are estimating on conservative basis, i.e. at least INR3 lakh crores will come from to our renewable energy portfolio. But it can go up if the sanctions gets faster and accordingly it might go up to more than 20% also, but minimum 20% we will be able to capture of renewable sector business.

With regard to power sector overall, you might have seen that power demand has been increasing at the rate of 8% to 9% from the last 2 years. And this trend is going to continue, as India is trying to become a developed country by year 2047 i.e. in next 23 to 24 years.

The power demand will keep increasing. As you might have noticed the per capita consumption of electricity in India is only 1/3rd of the world average. When we are trying to become a developed country, per capita consumption of electricity is bound to grow and to be more than the world average like developed countries such as U.S.A., other countries, where the per capita consumption of electricity is about 11x to 12x of the world average. But we have followed a sustainable path. Right now, per capita emission of carbon dioxide is also 1/3rd of the world average.

But as we pursue to become a developed country, our per capita consumption of electricity is bound to grow, and it will be reaching about 4x to 5x of the world average. But per capita emission of carbon dioxide will not grow to that extent, and we'll be able to maintain 1/3rd of the world average only with regard to the emission of carbon dioxide.

Any other questions, Preethi?

Preethi: Yes. My question was on the competitive intensity from banks or the debt market banks.

Vivek Kumar Dewangan: Yes, competition from banks will be there, particularly renewable energy sector. Because a lot of financial institutions are there. But even then, we'll be able to hold on because the advantage with respect to REC is that we can give longer tenure loan. Our tenure of the loan can go up to 85% of the project's life.

So normally, if the project life is about 20, 25 years, and then tenure of loan can go up to 18 to 20 years. While banks typically give loans for a tenure 10 to 12 years only. And that we can take a larger expose in a single project 30% of our Tier 1 capital, i.e. about INR20,000 crores. We can do sole lending to the tune of INR20,000 crores. That is the inherent advantage which is there with REC as compared to other banks.

Moderator: The next question is from the line of Sanket Chheda from DAM Capital.

Sanket Chheda: Yes. Good quarter. Just to check on the recovery spent. Now in case of KSK Mahanadi, we already know and I think that it did to be over and above 30% that's first? And second, one Hiranmaye and Sinnar, while we say more than 50%, but what's the sense on recovery? Can it be more than 70%, 80% the way we have seen this change in KSK Mahanadi? So yes.

Vivek Kumar Dewangan: For KSK Mahanadi, let me first clarify it. NCLT has already allowed disbursement of the funds lying in the trust and retention account to all the lenders. About INR12,000 crores are already there in the trust and retention account. About INR6500 crores has already been allowed to be distributed among the lenders. And based on the bids for KSK Mahanadi, the recovery is going to be more than 100% with regard to outstanding admitted claims, more than 100% we are getting actually.

In Sinnar, our exposure is INR2,231 crores, and we had made provisioning of 80%. The Admitted claim in Sinnar is INR15,909 crores.

Harsh Baweja: In Sinnar, we are expecting a recovery of around 55%, which is more than the ECL already provided. And as regards the Hiranmaye is concerned, we are expecting a recovery of around 82%, and we have made a provision of 50%. So on ECL provisioning, we will be getting a reversal for that.

Vivek Kumar Dewangan: As I have mentioned, the overall reversal that we are expecting more than INR1,500 crores from these three projects.

Sanket Chheda: Okay. sir. And there was a less accretion in AUM this quarter. I understand it was due to higher repayment from LIS LPL than in the same quarter last year. But from here on, the accretion to AUM should be normalized, right? And while we guide for 15%, 20%, is 17%, 18% right number to go with as far as expectation is concerned?

Vivek Kumar Dewangan: Yes, Sanket, this I have already replied. I mentioned that the range will be 15% to 20%. Some quarter, it will be 15%, some quarter, it will be 17%, some quarter it will be 20%. On an average, we are expecting that growth in AUM would be around 17% to 18%.

Moderator: The next question is from the line of Nikhil Nigania from Bernstein.

Nikhil Nigania: Just one question. This is regarding the Rooftop Solar scheme, which REC is used to be part of. I wanted to understand what is the role REC will play? And what is the loan security mechanism for these loans?

Vivek Kumar Dewangan: Nikhil, REC has been given the task of National Program Implementation Agency. Our main job is to coordinate with the various stakeholders like consumers, distribution companies, vendors and the banks. We are not into retail financing.

The retail financing for the Rooftop Solar is being done by the public sector banks at the rate of 7% interest rate, they are giving the loan. We are not targeting to finance this retail business of Rooftop Solar. However, if some aggregators, vendors or PSUs are there, who are going to implement this Rooftop Solar on large scale, there, we are going to finance those aggregated vendors.

Moderator: The next question is from the line of Jigar Jani from B&K Securities.

Jigar Jani: Just one on the margins, given assuming that the interest rates cuts do not happen very soon, how confident are we of maintaining the current margin of about 3.6%. Is there a range that we should kind of maintain over the rest of the year?

Vivek Kumar Dewangan: Yes, Jigar, let me assure you that, we'll be able to hold on the net interest margin of more than 3.6%. The broad range is 3.5% to 3.75%, but it is definitely going to be more than 3.6%. Because we are getting more of coal-based thermal capacity addition that is going to happen, and there our margins are quite good. And in fact, in renewable sector also our average interest rate is more than 9.5%. While in respect of this conventional generation, it is more than 10.5%. Thus, we'll be able to hold on to our net interest margin of more than 3.6%.

Jigar Jani: Right, sir. And just lastly on, there was one special loan disbursement of about INR8,000 crores this quarter. Could you just throw some light what is that special loan?

Vijay Kumar Singh: Of course, some of the agencies actually need this special loan for a long-term tenure or not long term, but rather medium term for 5 to 7 years. These loans are advanced to very few utilities for multiple purposes. Like Punjab, for example, is not availing CapEx loan for very small scheme. They have taken a special loan, and that could be deployed for the CapEx purposes only. And they are taking only for 6, 7, 8 years. So such loans constitute especially loan for us.

Jigar Jani: So these are not short term, right, like RBPF?

Vijay Kumar Singh: Yes, these are not short term. These are relatively medium-term loans.

Moderator: Ladies and gentlemen, that was the last question for today's conference call. I would now like to hand the conference over to the management for their closing comments.

Vivek Kumar Dewangan: I would like to thank all the participants for asking very pertinent questions. And hopefully, we have been able to address all the questions. And let me assure all of you that, we will be able to sustain the growth rate of minimum17% in the next 3 to 4 years to come. And our asset under management is definitely going to be more than INR10 lakh crore and it is likely to be earlier than 2030. That's what I can assure you. Thank you so much, and happy Diwali to all of you.

Moderator: Thank you. On behalf of Elara Securities Private Limited, that concludes the conference call. Thank you for joining us, and you may now disconnect your lines. Thank you.