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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**
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Sub: Transcript of Investors Conference call held on May 8, 2024.

Madam/Sir(s),

In continuation of our earlier letter dated May 5, 2024 & May 8, 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 of REC Limited held on May 8, 2024.

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

धन्यवाद,

भवदीय,

Jyoti Shubhra Amitabh

(जे. एस. अमिताभ)
कार्यकारी निदेशक और कंपनी सचिव

संलग्न : ए / ए

"REC Limited

Investor Conference Call"

May 08, 2024

MANAGEMENT:	**MR. VIVEK KUMAR DEWANGAN -- CHAIRMAN AND MANAGING DIRECTOR -- REC LIMITED** **MR. VIJAY KUMAR SINGH -- DIRECTOR OF PROJECTS -- REC LIMITED** **MR. SANJAY KUMAR – EXECUTIVE DIRECTOR -- REC LIMITED** **MR. HARSH BAWEJA– EXECUTIVE DIRECTOR -- REC LIMITED**
MODERATOR:	**MR. SANKET CHHEDA - DAM CAPITAL ADVISORS**

Moderator: Ladies and gentlemen, good day and welcome to REC Limited Investor Conference Call hosted by DAM Capital Advisors Limited. As a reminder, all participants will be in 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 touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sanket Chheda from DAM Capital Advisors. Thank you and over to you, sir.

Sanket Chheda: Thanks, Iya. Hello and very good morning to all of you and thank you for joining this call. We have with us the entire management team of REC today and the call will be driven by: Mr. MD sir, which is Vivek Kumar Dewangan, who is Chairman and Managing Director and also Vijay Kumar Singh, who is Director Projects. Without further ado, I'll hand the call over to Mr. Vivek Kumar Dewangan for his opening remarks on the strategy and the results which just went by. We'll follow that up with Q&A session. So over to you, sir.

Vivek Kumar Dewangan: Thank you, Sanket. Good morning to all the participants from India and good afternoon to all the participants from Southeast Asia. I'm very happy to share with you the fabulous annual results of REC for the financial year 2023-2024.

Our approvals have seen an increase of 34%. We sanctioned projects worth $43 billion in the last financial year, as compared to $32.2 billion which we had sanctioned in FY23. The disbursements have also grown by 67% or total disbursement stood around $19.3 billion last financial year, as compared to $11.6 billion in FY23.

Our loan asset has grown by 17%. In FY23, our loan asset had grown by 13%, now our total asset under management is about $62 billion. Here I would like to make it very clear that REC management and board have decided to have a clear-cut roadmap and we are targeting to double our asset under management to about $125 billion by the year 2030.

And if we are able to sustain this growth of 15% to 20%, in case our growth momentum is more than 70%, we will be able to reach this target of $125 billion asset under management by the year 2029 itself. The interest income on loan asset has grown by 19%. Total interest income on loan asset was about $5.5 billion.

Total income has also grown by 20%. The one significant feature is that our profit after tax has grown by 29%. Our total profit after tax at the end of the financial year was about $2.12 billion -- profit before tax, sorry, profit before tax. And our net profit has seen an increase of 27%. It was about $1.68 billion.

The management has made a very conscious effort to reduce the cost of fund. We were able to bring down our cost of funds by 15 bps from 7.28% in the last financial year to 7.13% in FY '24. The spread has already improved by 41 basis points from 2.45% to 2.86%. The net interest margin has seen an increase of 19 bps from 3.38% to 3.57%. Our return on net worth was about

22.17%. You might have observed that our market capitalization has increased by 290% in the last financial year.

One more distinguishing feature for the last year was our approval for renewable energy projects increased by 533%, and we covered the entire ambit of green hydrogen, green ammonia, pump storage hydro projects, large hydro projects, solar module manufacturing, solar plants, electric mobility, wind turbine manufacturing, wind power generation and hybrid solar and wind.

Going forward, we are targeting to increase our renewable energy portfolio to about 30% to about -- right now, our renewable energy portfolio is about 7% of total asset under management. It is about $4 billion, about $4 billion is our asset under management under renewable projects. We are trying to increase our renewable energy portfolio by 10x to about $40 billion by the end 2030.

Why we are so content that, we have a huge pipeline of projects. Last year, we had sanctioned projects worth INR136,000 crores. And in the current financial year, we have a huge pipeline of projects amounted to more than INR175,000 crores. Since the turnaround time for renewable energy project is higher and it gets commissioned over a period of 2 to 3 years, we see that a lot of disbursement will happen from renewable energy portfolio.

One more thing that Government of India has allowed us to diversify into non-power infrastructure logistics in the month of October 2022. In FY '23, we had sanctioned project worth about $10 billion. And in the last financial year, we had sanctioned project worth $5 billion. Our asset under management under non-power infrastructure logistics is about $6 billion. And we are anticipating that our total asset under management from non-power infrastructure logistics will see fourfold growth to say about $25 billion by the end of 2030.

One more thing has happened that Government of India has decided that this renewable energy is intermittent in nature and we don't have natural gas resources. So the base load will come from coal-based capacity. The additional coal capacity would be required in brownfield projects only or that about 94 gigawatt capacity has been identified to be brought in by year 2032, in the next 8 years, all the approvals for this additional coal-based capacity will happen next 2 to 3 years. There also, we see a huge potential or REC, we'll be able to share at 30% to 40% of the coal base capacity, addition capital would be coming in the next 8 years.

Overall, power sector is on upward Last year, power demand increased by 8%. And in the current financial in the last month in April, power demand has increased by 11%. With the introduction of revamped distribution sector scheme and late payment surcharge rules by the Ministry of Power, a lot of improvement in distribution sector is visible -- clearly visible. The AT&C losses came down by 5% in FY '23, and for FY '24, the final figures would be known by the end of June. We see a huge improvement in AT&C losses. Government department dues are getting paid in time. The Government department dues and subsidies are being paid in equity monthly installments.

So much so that now the current subsidies are being paid by the state governments to the distribution companies quarterly in advance. This is overall increasing the operational and financial efficiency of distribution companies. The dues to the generating companies and transmission companies have become very regular. They are paying and the legacy dues under late payment surcharges, would be clear in the next 2 to 3 years.

After this revamped distribution sector scheme gets over, next 2 to 3 years, there'll be modernization scheme, which is being planned by. And I forgot to tell you that prepaid smart meter, which is part of RDSS is going to play a very significant role in improving the overall financial health of the distribution companies in the country. After RDSS period is over and the modernization is over, in the next 4 to 5 years, country will still require a lot of CapEx for upgrading the infrastructure, because distribution infrastructure all the poles, wires, the distribution transformer is quite old, 40 to 50 years old. So the need for a continuous upgradation of distribution infrastructure.

So we do see a business potential that distribution sector is requiring a good business opportunity in the next 10 to 12 years. Going forward, our vision is very clear by the year 2030, we would like to double our asset under management to about $125 billion, 30% of it will come from renewable energy segment, 15% to 20% will come from non-power infrastructure logistics, and 50% to 55% of asset under management will come from conventional coal-based generation capacity, distribution and transmission sector.

With this opening remark, may I request Sanket to take the discussion forward.

Sanket Chheda: May the operator announce the Q&A.

Moderator: The first question is from the line of from Mahrukh Adajania from Nuvama. Please go ahead.

Mahrukh Adajania: Sir, my first question is on this new RBI draft circular. So basically, I just wanted to know, of course, please do share your comments on the scene, but I had some specific questions which is that of your INR5 trillion of loans, there are some loans to distribution companies, which would be term loans. So they would also qualify under the RBI circular, right? What proportion of your loan book roughly would qualify as being impacted by the RBI circular? And then if at all, you've calculated any rough impact?

And my second question related to the same topic is that, say you have renewable plants, wind solar plants, their tariffs are only 2, 2.5. So even if lenders were to pass on higher rates, how would they sustain? How would they meet their DSCR? And also for these renewable projects, some approvals are always pending at the time of disbursals. So how do you tackle that? Here you are not supposed to disburse till all approvals are in place. And that's never the case in some power and even in some industrial projects. So these are my questions, sir.

Vivek Kumar Dewangan: Thank you, for asking very pertinent question, this is a burning topic as of today. Let me first clarify that it is only draft guideline, which has been issued by RBI. We have sought comments of all the stakeholders by 15th of June. So this would be applicable to all the banks and non-banking finance companies who are involved in project financing.

And these draft guidelines pertain to these projects under construction for which additional provisioning is proposed to be introduced for the project under construction, additional provisioning is supposed to be 5% and those who entered in operational phase, the provisioning is proposed to be 2.5% and those projects who are commissioned and they are having positive net operating cash flow, the provisioning will be limited to 1%.

But it's to be effected in phased manner by 31st March, 2025, only 2% provision has to be done. By 31st March 2026, 3.5% provisioning has to be done. And by 31st March, 2027, 5% crossing has to be done. This will be phased over a period of 3 years.

Now I've stated that, as you are aware that REC is nonbanking finance company and we are following Ind-AS accounting standards. As per RBI's income recognition asset classification norms, with additional provisioning for NBFC following Ind-AS, will not be routed through profit and loss account, but the provision for the same will be done by way of impairment reserves. So our profits are not going to be affected by this stipulation. Our net worth is also not going to be affected.

We have done a detailed analysis. Book value is not going to be changed. Only if it would be on our Tier 1 capital. And we have adequate capital adequacy ratio as per RBI's norm, our minimum capital ratio required is 15%, and we are having about 25.82%. For Tier 1 capital, the RBI statutory minimum requirement is 10%, and we are having to the tune of 23.32%. So it will have impact only on Tier 1 capital. That would also be in a phased manner over a period of 3 years.

As you are aware that we can take exposure to a single project to the tune of about 30% of our Tier 1 capital, which is at within about INR19,800 crores. And for a group of projects, we can take exposure up to 50% of Tier 1 capital. Right now, our exposure to single projects is normally not more than INR15,000 crores actually. So even if this Tier 1 capital gets reduced by say 2,000 to 3,000, it will not impact our approval process.

Now coming to the specific question asked by you that a lot of our loans are supported by the state government guarantees. This RBI guideline would not be applicable to these loans which have been supported by the state government guarantee. About 40% of our loan is supported by the state government guarantee.

Then they are non-CapEx loans like late payment surcharge, liquidity infusion scheme, our RBPF, revolving bill payment facilities. All these loans will not be impacted by this RBI guideline. And distribution sector CapEx, like loss reduction works, etc, they're all supported by the state government guarantees, so that's why they're also not be impacted. The impact will be there in the generation segment, both conventional generation and renewable energy generation.

But we are going to seek -- we are going to give a detailed response to RBI draft guidelines. The interpretation about date of commencement of commercial operation whether this will be applicable only the projects which are delayed because the spirit behind draft RBI guidelines appear to be that the projects which are under construction, of which are getting delayed which requires closer scrutiny by the lenders and closer monitoring.

So that also will seek clarification. Those projects which are under construction, I do appreciate that conventional coal based generation, and these large hydro projects, they somewhat get delayed. They don't get commissioned in time. But there we will have to do this up to 5% provisioning by the end of 31st March 2025. But as far as our renewable energy portfolio is concerned, all of this renewable energy portfolio of about INR35,000 crores, about 80% projects are already commissioned actually.

The new project which we are sanctioning, which will be that, these RBI guidelines would be applicable, it's still early days because we are supposed to give our detailed comment to RBI by 15th of June. But overall, going forward, we see that it is not going to impact adversely. In fact, we welcome this move by RBI because this will lead to closer monitoring and scrutiny of these under-construction projects.

Mahrukh Adajania: What will be the tax implication of taking directly through impairment reserve, no tax deduction?

Sanjay Kumar: There won't be any impact on the tax per se because the tax in any case is on profit before tax. On that, the tax implication will be there, which anyway earlier also was there. So it's only appropriation of the profit. After that, the impairment reserve is created. And it is accounted in the net worth also. It is only a buffer, which is there. It is not a free reserve, but it is there in the networth as such.

Mahrukh Adajania: Got it. But sir, just a follow-up question. So basically 40% is out of the purview of these guidelines, right?

Vijay Kumar Singh: So you asked about how much of the distribution portfolio would attract provisioning requirement. Let me just tell you that the total book size under the distribution segment is close to 25.75 billion, out of which the CapEx which is supposed to attract provisioning requirement is only 9 billion, which is just 35% of total distribution portfolio. So that is the implication of distribution portfolio on 65% of loan, which are non-CapEx, which are in the form of LPS and LIS, which we sanctioned during Covid times will not attract these provisions.

Moderator: Next question is from the line of Avinash Singh from Emkay Global.

Avinash Singh: First question is that assuming this RBI circular was to come in the current form, I mean, will it sort of a lead to change in competitive dynamics in the lending space to the power sector. I'm coming. I mean, yes, I mean, you could be comfortable position, but led to some banks, I mean who currently present kind of withdrawing or so going slow in the power sector loans. So I mean, how will that play out? And the second part, if at all, the sort of the impact that is going to impact -- having impact on your sort of capital and all. Will sort of you be looking to pass on the pump prices or to our capital P&L impact but definitely, it is going to impact your So will there be some kind of some costs that we pass on to the borrower?

Sanjay Kumar: As far as the banks are concerned, they are not following the Ind AS. So entire provisioning which is required, will be routed through the profit and loss account. So there will be hit as far as the banks are concerned. So in our case, it may not be so, but some of that may have to be passed on to the borrower, the impact of that. Whatever the increase is there, what the impairment reserve which we are required to create also, so there are some additional impact there can be by way of the increase in the lending rate.

Avinash Singh: Yes. So in that scenario, do you see sort of benefiting from that competitive dynamics changing? I mean, if at all the banks are passing some period also sort of looking to benefit from that. And if at all the banks are sort of going smooth in the power sector loan will see some uptick.

Vivek Kumar Dewangan: Thank you, for asking this question. Yes, we do see that there we will be a scenario where we get benefited. Some banks may withdraw from this kind of competitive atmosphere. They might not go for project financing.

Moderator: Next question is from the line of Gaurav Agrawal from Nine One Capital.

Gaurav Agrawal: Sir, one part is the existing AUM and I need to ask on the revised guideline. So you called very well on the existing AUM. My question is more related to the incremental book on the generation side. So how do you think the industry players are going to react to it? And also for yourself because accounting treatment for the existing loans can be from the impairment reserve. But what about the incremental loans? What will the accounting happen for the loans which we are going to write from today onwards? On the date this guidance becomes effective?

Sanjay Kumar: For the incremental loans also the same position is there. We have to just create the provision as per the Ind AS and as per the norms of the Reserve Bank of India. So the differential, which is there, a provision which is required as per the IRAC norms and that as per Ind AS, that has to be created by way of impairment reserve by way of appropriation of profits. So as such for the incremental loans also as well as the existing loans also, the same treatment will be there.

Gaurav Agrawal: Okay. Okay. But sir, for the incremental loans will it impacted pricing? Will you be pricing a loan a bit higher just account this change in provision.

Vivek Kumar Dewangan : Yes. We'll see that actually, some newspaper reports also came and banks also making the representation to RBI, trying to request the RBI to reduce this additional provision of 5% to say to 1% to 2%. But we'll have to see the final guidelines actually. But yes, we'll have to pass on some impact of this -- we'll be able to pass on to the borrower. But another -- the silver line of fact is that, our cost of borrowing is going to come down in after Q2, Q3. Once this cost of borrowing comes down, we'll pass on or perhaps balance out actually.

Moderator: Next question is from the line of Shweta from Elara Capital.

Shweta: Sir, thank you for the elaborate explanation. Sir, just my first question is slightly repetitive. So did you mention that 40% of our overall loan book should sort of be kind of impacted by this new circular?

Vivek Kumar Dewangan : No, I did not say like that actually. Only those conventional generation portfolio is about, say, INR145,000 crores. Out of that, 60% projects are already commissioned, actually for that is around 40% of this is INR145,000 crores, roughly about INR60,000 crores, this would be impacted. And renewable energy, I told you that INR35,000 crores, out of that, 80% is already commissioned actually.

And going forward, whatever new sanctions we are giving in respect of renewable energy still get covered. So say, roughly to the tune about maximum INR1 lakh crores portfolio going forward, which will be impacted by this draft RBI guideline. Total asset under management about INR5 lakh crores. Out of that 1 lakh crores, about 20% asset will get impacted.

Shweta: Right. Sir, but you covered only the conventional generation renewable. How about the remaining 15% - 18% of electromagnetic and infra projects, will those also attract this new circular requirement of provisioning?

Vivek Kumar Dewangan: Thank you, Shweta, for asking this pertinent question. This electromagnetic component like MMRDA Metro project, MSRDC, they're all supported by the state government guarantee. It will not be impacted at all.

Shweta: Okay. So you mean to say that, sorry, just sounding repetitive. so we are saying we just say new project, which is to impact will not attract this extra provisioning requirement?

Vijay Kumar Singh: That is what is our initial understanding based on the regulations issued in the current form, I think this -- we hope that this will undergo some change. And we will evaluate whatever issues you mentioned, all those issues will be evaluated and then we'll come out with accurate understanding of these issues.

Vivek Kumar Dewangan: So we had some discussion with RBI earlier actually with regard to the exposure norms. We had detailed discussions with the top management of RBI. And common wisdom which emerged after the interaction is that for exposure as far as the exposure is concerned, they are not going to take into account those loans which are supported by the state government guarantee. Mr. Baweja, you would like to supplement?

Harsh Baweja: No, I just submitting that, in fact, the regulations, which have come in the regulations, which have come recently needs a lot of deliberations and many stakeholders will put forward their views on this. Again, the decisions will take place. And then finally, acceptable data will come for the implementation. So these are the preliminary comments, which are being made by the Company. But let us wait for the final guidelines. We'll also put forward our view on that and some of the things, which may also come for relaxation also in the later part. Let's understand it, and let's wait for the right time.

Moderator: Next question is from the line of Aditi from CD Research.

Aditi: Sir, my first question to you is, given your expertise in assessing non-renewable projects, how well do you think is your strength is equipped for running sanctions of I&L projects?

Vivek Kumar Dewangan: Yes. Let me share with you that government had allowed us to diversify to non-power infra logistics in the month of October 2022. And we have taken a very cautious approach actually. We have ramped up our manpower strength. We have got in experts from different fields, putting to infrastructure logistics.

Now we are very well equipped to appraise this infrastructure and logistic projects. We have a very strong entity appraisal, project appraisal teams. And we do have experts on board. Since we are getting sufficient business from conventional generation, renewable energy, we are going to be choosy about selecting this infrastructure logistics project. Only those infrastructure logistics projects, which are having good asset quality, where entity is strong, where revenue cash flows are assured, only those infrastructure logistics projects will be financed.

Aditi: Okay. Sir, could you please tell me the difference between the expertise required while you assess the renewable and non-renewable projects?

Vivek Kumar Dewangan: Yes. The different kind of expertise required, like conventional generation, how these plants get erected, the balance of plant, this coal evacuation system, ash handing plant. Similarly for renewable energy, different kind of expertise required, the sourcing of the material, the installation, the maintenance is different for renewable energy portfolio.

But for infrastructure logistics, if you are going to sponsor airports, ports, metros, road highway. So we need to have sector experts from this who will be able to understand the nuances. So we have taken conscious efforts and we got in experts from all these wins who help us in appraising these projects.

Harsh Baweja: Those who have already work in these kind of projects.

Vivek Kumar Dewangan: Yes, those people who have already worked in this kind of project, we have taken them on board.

Aditi: Okay, sir. Sir, and my second question to you is, what is your estimate of provisions that we see reversal in the future?

Vivek Kumar Dewangan: Okay. Our gross NPA is about INR13,800 crores. And out of that, about 7 projects are heading towards liquidation that is amounting to INR2,222 crores. For this, we already made 100% provisioning. And some projects have already been resolved like Lanco Amarkantak, Dans Energy, Bhadreshwar, Nagai, that amount to about INR5,000 crores.

For this we had made provisioning of 70%, but we already got some write-backs on these projects, which we already factored it. The remaining amount is about INR7,000 crores. And you see that good resolution coming from this product like Mahanadi is 1 of the best operating assets, which is under NCLT is account is INR10,000 crores.

Admitted claim is about INR29,000 crores. And we hope that -- and we have made provisioning about 58% provisioning we have done for -- sorry 52.4% provisioning we have done. And we expect that it may lead to 100% recovery in KSK because a lot of interest has come, more than 30 interests have been received. Similarly, similar plant in Nashik.

For that, we had made 80% provisioning. For that also, because we are getting more than 11 companies already submitted their expression of interest. There also we see that our would be limited only about 20 to 30, not more than that, there also will get write-back. Then Hiranmaye project is there. There also we see good resolution happening.

And TRN Energy, we've already done restructuring. Entirely in sum total, we can say that we are expecting a write-back to the tune of INR1,500 crores to INR2,000 crores in the financial year FY '25. And we hope that all this asset would get resolved in the current financial year itself and will become net zero NPA company by the end of FY '25.

Moderator: The next question is from the line of Niharika Jain.

Niharika Jain: So again, I want to understand a bit on this RBI provision because you always emphasize that we want our renewable energy at competitive rates, and we almost have 130,000 in the sanction pipeline. So because of these impending norms, do we feel that we will be going slow in the sanctions or we will be revising the sanctions?

Vivek Kumar Dewangan: No, we'll not be revising the sanctions actually. And as you are aware that Government of India is committed to install 500 gigawatt capacity by the year 2030. And so far, the commissioning which was happening was about 12 to 14 gigawatts every per annum. But from this year onwards, they stepped up their ambitions and per annum, they are targeting installation of 50 gigawatt capacities. So these capacities are in the pipeline, and we are quite confident that we will be able to support this renewable energy portfolio -- projects which are coming in a big range. And we have a very diversified portfolio in the RE portfolio also, like let me give a breakout.

Last year, we sanctioned project of INR136,515 crores. Out of this, large hydro projects constitute about INR32,450 crores, pump storage hydro project was about INR28,304 crores; followed by solar, about INR21,000 crores. Then model manufacturing was INR21,565 crores; followed by green hydrogen project, about INR8,000 crores we have sanctioned; electric mobility, about INR8,000 crores; wind-turbine manufacturing about INR3,200 crores, wind projects about INR3,500 crores; and hybrid solar wind been about INR10,098 crores.

So here in this segment, large hydro and pump storage projects, they do take a longer time for execution. So there this additional provisioning we will have to do, whatever final guidelines come actually. And normally, the other solar, wind, hybrid, they do get commissioned in time and a lot of push is there from the Ministry of Renewable Energy and by the entire government of India. So we hope that all the developers will try to adhere timelines, they do commission before time also. There's a lot of projects are coming and getting commission before time.

Niharika Jain: So basically, I have to understand because, again, hydro and pumps, as you said, will take more time and most of the time the DCCO is extended for these projects. And we have already sanctioned this project at a particular rate. So do we feel that we'll need to revise slightly maintain a decent spread for ourselves as a company?

Vivek Kumar Dewangan: Yes. The sanction is done, where we have made provision that interest gets reset every year actually. And plus, we do inspect that going forward, our cost of borrowing will also come down. Perhaps, it will balance out the need for increasing due to additional provision which may not be there if cost of borrowing comes down.

Niharika Jain: And my next question is pertained to that. Only that a recent period is, say, 2 to 3 years. And this comes -- suppose it gets implemented as it is. Again, that's an assumption. So our reset again would take another 2 to 3 years. So we feel that the margins would get compressed because we won't be able to pass it on for another, say, 2 years whenever the reset comes.

Vijay Kumar Singh: So the project that we are lending now, like we have done on 135,000 for renewable. The interest rates are linked with our card rates. And these card rates are subject to change. We keep reviewing these card rates from time to time. And whenever some disbursements happened, that was linked to our card rates. So then linked to our card rates, that is one and the reset is, in all cases, is one. So all new sanctions, what we did in the past was with 3 years also, but these recent sanctions are with 1 year, reset only.

Niharika Jain: I'm talking about the older sanctions only, which is already there in our book in our INR5 lakh crores there would be some like AUM, which we have a reset of 2 to 3 years and 20% of will be subjected to say these norms.

Vivek Kumar Dewangan: I think you missed out actually, I had clarified that out of 5 lakh crores this asset under management, most of them are already commissioned. Only 1 lakh crore of projects are under construction, which will get impacted. And as far as renewable energy projects are concerned, out of INR35,000 crores loan book of renewable energy 80% is already commissioned actually. Only 20% is under construction. About 20% of around INR35,000 crores projects under construction INR 7,000 crores as far as renewable energy projects are under construction. But yes, those where we have sanctioned last year, they'll come into construction phase this year, and we will take about 2 to 3 years.

Niharika Jain: And my last question would be on these IRAC norms, where so are we planning to kind of increase our ECL percentage.

Moderator: Sorry to interrupt, maam, could you please return to the question or follow-up questions, as there several participants waiting for their turn.

Sanjay Kumar: The ECL provision, which you are saying, that is only in respect of stressed assets. That is the Stage 3 assets, not in respect of the standard asset provisioning. So ECL provisioning in any case, we are following for the LGD and PD, which is there and also as per the rating of the borrowers. So that, in any case, will be like that only. So there won't be any impact on that.

Moderator: Next question is from the line of Manuj Jain from Wellington Management.

Manuj Jain: My question might be repeated. Still, I would like to check with you just clarification. So for any new lending to, say, renewable power, can you give me some sense how much the cost will increase for the borrower If the draft guideline is implemented in the current form?

Vivek Kumar Dewangan: Let me be very frank with you. It is not likely to increase any amount actually because like we are planning to raise green bonds, to cater to the green projects only. Green bonds we are raising, we're getting lower interest, we are able to pass on. That's what I am stressing time and again that for renewable energy projects, our borrowing cost is lower actually. And any increase with the additional provision will get offset by the lower cost of borrowing.

Manuj Jain: Clearly, you have a benefit there, even raised green bonds and you might not be able to pass through. But maybe if this green bond is not available to you and you basically raise from funds from the conventional sources and this draft is implemented. Can you give some sense like if this 5% provisioning under-construction stage, how much the cost will increase for a borrower? Is it 50 bps, 100 bps? Like just some sense around that?

Sanjay Kumar: There won't much impact because there is ample funds which are available for the Green financing. It's not only the green bonds, there are a number of lenders who are willing to lend at slightly lower rates as compared to the normal raising, which we are doing, both in domestic market as well as the international market. So there are enough funds which are available, and the differential is about 10 to 15 basis points as compared to the normal borrowing which we are doing for general purposes, for conventional generation also.

So there differentially is already there. And since our cost of borrowing has already come down from 7.28% to 7.13%. And this year, we are anticipating the rate cuts, which are likely to happen, it may come down to about 7%. So as such, we won't reduce the rates, will remain almost stable at which we have landed at present.

Manuj Jain: Okay. Maybe I'll just ask 1 more way. Like given you mentioned like India needs to -- is thinking to implement 50 gigawatt every year of renewable power. Post this draft, do you think there are going to be some slowdown given the cost of funding might go up for some of the developers or will this change will not impact that pipeline at all?

Vivek Kumar Dewangan: I don't see there is any slowdown, but the pace is going to increase actually. You see -- you'll have to wait for the budget, which will be coming in the month of June, July. There will be a major push on this infrastructure sector. We are anticipating that major push there infrastructure, including power sector. The government it is going to be very clear with regard to infrastructure projects.

So I don't see any -- and government is committed to make all enabling provisioning, to facilitate development and are aspiring to become a developed country by the year 2045. Government has to make all the enabling provisions. I don't see any slowing down of the infrastructure projects.

Manuj Jain: All right. And just last confirmation. So this thing will have 0 impact at all on the projects which are already running, right? Which you have, whether you've stayed guaranteed or not is for private developer projects which are already running -- making revenues, cash flows, 0 impact at all because you don't have to change any provisioning at your end, right? Or anybody else?

Sanjay Kumar: Actually, we are having our own card rates, which are quite different from that of the banks. So banks are having the benefit of the CASA. So there, we were giving very competitive rates. So there they may have to increase the rates, but our rates in any case, were almost similar to that. So we have reduced our rate. Now it will be almost at par at whatever card rates are. So there won't be an increase in our lending rates as such, but there won't be much competition from the bank because they may have to increase the rates. As such, our rates will remain stable. There won't be change in that.

Moderator: Next question is from the line of Nishant Shah from MLP.

Nishant Shah: Sir, a couple of questions. You mentioned earlier in the call that government this would be out of the scope of the circular. It was mentioned because we must have missed it, or is this like some local opening that we've taken like just trying to some conviction around the last government guaranteed project being out of the scope of the circular?

Vivek Kumar Dewangan: No, it is not mentioned anywhere. But we had detailed deliberations with RBI last year actually with regard to exposure, there were certain concern about the exposure norms. At that time, we had a detailed discussion with RBI management, and the common understanding, which emerged was that from the exposure, they are taking out the state government guaranteed loans are being kept out of the purview of these exposure norms. This due to RBI guideline, draft RBI guidelines, our Tier 1 capital is going to impact. As for exposure is concerned, we are very clear that state government guaranteed loan are not counted. Yes, out of the purview.

Nishant Shah: Okay. And sir, the second is around the differential accounting between NBFCs and banks in this part like So that you're just seeing RBI are there kind of there be some actions which too much differentiation between large size NBFCs and on banks. So if banks are going to be sort of disproportionately affecting that is the case of less competition for you.

I'm just trying to fathom what happened like if there is something in the back of RBI to kind of like make the content at a giving banks on assumption or because a little looking at how the RBI has been sanctioning off late. It's trying to minimize the difference between banks and NBFCs.

Vivek Kumar Dewangan : Let me tell you that. The spirit behind RBI draft guideline is closer is scrutiny of the under-construction projects. Historically, the under-construction are normally delayed in the country. So, broad focus on this under-construction project. With regard to competition from the banks, Sanjay has already clarified. Sanjay would like to supplement.

Sanjay Kumar: And actually, you are saying about the accounting treatment in case of banks and NBFCs. This was your question, please?

Nishant Shah: So as said just on incremental projects, you can just take the difference between Ind AS provisioning requirement and the prescribed by the circular as an adjustment to the impairment is a banks will not have that leeway. The sense helps in the NBFCs like you NBFCs kind of do better. I'm just trying to a bit more. Is that something – is that interpretation first of all correct from our side?

And second, is there something that like the RBI can do to kind of allow banks for forbearance or like prevent you moving the sin of accounting treatment and passing provisions to P&L or something like that. Understand the competition recent times the RBI kind of like differences. Actually that just a question.

Sanjay Kumar: As far as the accounting treatment is concerned, the Ind AS was followed in case of NBFCs from 2018-19. So banks despite a number of a number of opportunities given to them, RBI didn't implement in case of the bank. So still, it is not being implemented there. Whatever the provisioning they are doing in asset as well as the other provisioning also that is routed to profit and loss accounts.

While in case of NBFCs, the provisioning as standard asset and other assets is concerned, that is done on the basis certain systematic metrology, which is there. Regarding the LGD and PD which is there on that basis, estimated. So the provisioning as far as the standard asset is concerned, it can be even lower than 0.4%, which is required by RBI prior to the circular. So Ind AS, the total provisioning as per the methodology which is there for ECL computation.

So in case of the banks that is not there, they have to pass it through the profit and loss account itself. While in case of the NBFC, it is not like that. So at present also, we have to compare the provisioning, which we are doing in respect of the ECL, with that of the provisioning, which is required as per the IRAC norms, and in case any difference in there, say, in case it is lower than the norm, then an impairment reserve is required to be treated. So same thing will be there going forward also. While in case of banks, it will be routed through the profit and loss account itself.

Actually, why it was not implemented in case of banks, there is a purpose also for that. There is the reason also behind that. While there was too much provisioning which was required. The capital is to be infused by the Government of India in case of the banks. So that is the main reason why the Ind AS was not implemented in case of the banks, while it was implemented in case of the NBFCs.

Moderator: Next question is from the line of Umang Shah from Kotak Mutual Fund.

Umang Shah: I have a couple of them. While I appreciate that on your existing bank book, there might not be a material impact, right, as bulk of the projects are already operational, but don't you really think that the new guidelines does impair our ability to grow in a meaningful way. Where I'm coming from is that in your initial comment, you also allude to the fact that there is a possibility where banks and players like yourself might pass on some of the incremental costs, which will alter the viability of some of the projects that we intend to finance, so although the sanctions pipeline at this point of time is looking fairly good, how much of that eventually gets converted in disbursements? Do you really think is there any risk to that number?

And also as a proportion, currently the share of under-construction projects is relatively lower. But as we keep increasing or keep growing the book, this proportion will eventually increase, right? So to that extent, there will be material impact on our capital ratios as well. Just wanted to hear your thoughts on these points.

Sanjay Kumar: There would not be any impact on the capital ratios. It will only be Tier 1 capital that will be impacted. All other ratios will remain the same. There is no change in that. The net worth will also remain the same. It's only the impairment reserve, which is not a free reserve, which will not be available for distribution purposes or any other general purposes per se.

But otherwise, it's only the Tier 1 capital, which will be impacted, which will have an impact on the exposure that we can take in the of any single borrower or group of borrowers. Otherwise, it won't be impacted as far as profitability is concerned, networth is concerned, book value is concerned, there won't be an impact on any of the figure. And as far as growth is concerned, so we'll have to grow at a faster pace than what we did present.

Vivek Kumar Dewangan : I don't think any slowdown of this project actually already clear, there will be a major push from government also for infrastructure sector. So they will be making all enabling things. Even if cost of funds goes up, it will -- it's not going to slow down this progress of the infrastructure projects.

Umang Shah: Got it. Because, sir, I mean when we are talking to some of the other players within the ecosystem, they are fairly circumspect about the growth prospect either on the infrastructure side or on the power sector side. So I mean, it's quite interesting that you have a view that the growth will not get impacted in a meaningful way. Sure. Sir, the second point, which I wanted, which is more of a clarification at this point, two points which you mentioned, one, that these norms might be applicable only to projects where DCCO extension has happened? Or will it be applicable to all under-construction projects regardless whether they are within the guidelines or not. Is there any clarity on that point as yet?

Vivek Kumar Dewangan: It will be on all under-construction project -- all CapEx projects. So we have made it clear, it will be affecting all the under construction projects despite whether it is DCCO shift or not.

Harsh Baweja: But in our view, it should be applicable to the DCCO funded projects only. For that, we'll make a request to the RBI. Let's let them make an analysis and come back to us.

Vivek Kumar Dewangan: And let me reiterate again that we don't see any growth is not going to be affected. Our growth will continue to be on upward trajectory only.

Sanjay Kumar: We have to go by project by project also. In the standard asset, provisioning of about 0.5%, which we have maintained. Just on individual projects, it may be even 1% also. So depending upon whatever the risk are there in respect to that project, higher provisioning is also there. On total basis, it is 0.5%, but in individual project basis, it may be 0.15%, or 0.25%, 1% also. So as such, depending upon the and all these things, we already take into consideration that, and according to that, provisioning of current asset is also maintained under the Ind AS

Umang Shah: Sure, sure. And sir, just last clarification in extension of previous question asked by the previous assuming that sorry, the regulator has not really distinguished between projects which are guaranteed by state or central government. In that case, how big can be the impact for us versus what we are quantifying currently?

Sanjay Kumar: That is not likely to be the case because in case you see the capital risk factor, which in the state governments guarantee projects is 20% as compared to the other projects, which is 100%. So the different dispensation is given to the state sector projects, which are guaranteed by the state. So for exposure norms also dispensation is given. And earlier up to 2022, even these were outside the ambit of the exposure norms also.

So time to time, differentiation has been given in respect of the state government guaranteed projects. So we assume that it will be, now going forward also, it will be applicable because the risk factor which is there in such projects is much less. Both FSA and PPA is also there, in respect of those projects and they are commissioned in time also.

Vijay Kumar Singh: And more thing we mentioned earlier that 40% of our loan book is secured to a state government guarantee. Out of that 40%, roughly 30%-35% is for non-CapEx funding towards LPS, LIS and RBPF sort of funding. So only 5% to 10% maybe is towards the project, project funding. So what we said, about 40% is not for the project purpose. It was largely for non-project, non-CapEx lendings.

Moderator: Next question is from the line of Rohan Vora from Invision Capital.

Rohan Vora: Sir, my first question was that when you said that on the existing loan book, you've seen you calculated 1 lakh crores kind of a loan book that might be impacted. So would that include the projects we cannot need the operating cash flow and the 20% repayment from the peak rate. So would that be a part of 1 lakh crores?

Vijay Kumar Singh: Yes, that is part of the INR1 lakh crores.

Rohan Vora: Okay. Okay. And those also require lower provisioning. So then this number will be reduced for the 5% limit that we are talking about, correct?

Sanjay Kumar: 5%, 2.5%, 1% depending upon the stage of the project.

Rohan Vora: Okay. So everything is in this INR1 lakh crores?

Sanjay Kumar: Yes.

Rohan Vora: Got it. Sir, and now going forward, the opportunity that you said 94 gigawatts, and we expect to get 35% to 40% share from it. So our project at state government guarantees, how has made the pricing on that? And can you throw some light on that?

Vivek Kumar Dewangan: You might have observed that our lending rate is the highest in respect of coal based capacity only. It varies from 10% to 11% actually. This 94 gigawatt capacity, some additional impact was because additional provisioning some impact would be there, that we'll be able to pass on actually because you see the ecosystem, the competition, as far as competition from other financial institutions is there, is less competition as far as coal based capacity is concerned. So there, we don't see that our business will get affected, even if only some increase in the lending cost is there.

Rohan Vora: Got it. Got it. So basically, we have the capability to pass on into such thermal projects is what I was trying to say?

Vivek Kumar Dewangan: Yes.

Rohan Vora: And sir, just one more question. What would be the current reserve to the impairment is or the provisioning created on our books as on March '24.

Sanjay Kumar: The impairment reserve is required to be created in case the provisioning as per the Ind AS is lower than the IRAC norms. Our provisioning is already higher than the IRAC norms, there is no impairment reserves at present.

Rohan Vora: Got it. Got it. And sir, if I can squeeze one more question. So when we say that to reach INR10 lakh crores or $125 million by FY '30. So the sort of calculation gives me a growth rate of around 12%, 13% on the loan book. And then we also intend to have a higher growth rate. So any clarity on that, I mean, do we see loan book growing faster than 12%, 13% there?

Vivek Kumar Dewangan: Yes. If we are able -- like this year, our asset grew by about 17%. If this 17% growth is continued, then we'll be able to reach this INR10 lakh crores by the year 2029 itself, in next 5 years, not 6 years. So it is more likely actually, but I'm slightly conservative. I'm not giving this bullish figure. But if we are able to maintain this 17% growth, then we'll be able to reach this target in FY '29 itself.

Moderator: Next question is from the line of Shreya Shivani from CLSA.

Shreya Shivani: Most of my questions have been answered. Sir, one question was that during the press meet, you had mentioned that there are about 9 or 7 projects which have to be liquidated this year. These are your bad assets. So what is the approximate size of these out of the INR138 billion Stage 3 we have, what is the size of these? That's my first question.

Second, just going back to the same regulation point only, I had some interaction with some industry experts who said that if these regulations on asset provision lead to lower liquidity availability or in the market or higher lending rates, private CapEx is something that could be impacted.

So that really goes -- I mean, that becomes very counterintuitive to what the government and then what the regulators are trying to do. One is trying to push CapEx and other regulation may end up leading to impairment of private CapEx coming in. Any comments on that? And what kind of feedback are we going to push RBI towards on the same?

Vivek Kumar Dewangan: We respond to your first question. Not 9, 7 projects are getting towards liquidation, total value of INR2,222 crores, for which we already made 100% provisioning. Now I would like to respond to the second question.

Vijay Kumar Singh: Although everything is still in draft stage and we cannot really say with certainty. But what we look at the current draft regulation is that, of course, it may, perhaps, and we are not very sure, impair ability of banks to lend for, infer your understanding is correct. But then that gives us greater opportunity. In any case, we are a very active lender in the power sector space, and we started lending operations in the interest space as well.

So I think the current situation may lead to for REC to capture some high-quality assets where earlier the competition from banks was very severe, maybe that may not be there and those opportunities may be available to REC going forward.

Sanjay Kumar: Actually, banks in any case are not lending for the infra. In case you see the private sector banks, ICICI, HDFC nowhere they are in case of the infra financing. It's only the state sector banks which are there. So they virtually lend to REC. Instead of directly taking exposure in the projects, they lend to REC. And on that basis, REC takes an exposure on the projects because REC has the capability also for the evaluation of these type of projects.

Shreya Shivani: Sir, and just one question. So these -- it's a clarification on the regulations. So the regulation talks about only the project finance. So say, a bank is doing a bridge finance kind of a loan for a renewable project before the project finance comes in. So that bridge finance kind of a loan, even though you're doing it for a CapEx plan, that doesn't get covered under this regulation, right?

Sanjay Kumar: There is a definition of project which is given under these guidelines. So we have to go by that definition. So these type of bridge financing which they are doing or even if we are doing RBPF for this type of funding, so that won't be covered in -- because in any case, DCCO has to be there for these type of project.

Shreya Shivani: Got it. Understood. Understood.

Moderator: Next question is from the line of Saket from India Capital.

Saket: Firstly, for providing a clarity on potential impact. As you said, there's no impact from P&L, book value and networth, only Tier 1 gets impacted. That my question was given our return of net worth as 22% and next year, we're expecting some write-backs for KSK etc, do you think even in case if we get strong growth like 17%, 18%. Still Tier 1 capital should actually improve in the next 2, 3 years, given our net worth return on net worth is going to be much higher than incremental growth correct?

Sanjay Kumar: Next year with the write-backs, which are expected in respect of these stressed assets which are likely to be resolved, so there is not likely to be much impact as far as these provisioning norms are concerned. So there won't be much impact on the Tier 1 capital also in the next year. Going forward also, we have to just see as to how this situation fares on because there will be incremental profits also, which we'll be generating.

Saket: Absolutely. Yes. question like do you think incremental profits will be higher than one more than may come for any kind of from an ongoing basis with the write back and incremental profits will be more than -- we'll provide more buffer to sort of address any potential impact on Tier 1?

Sanjay Kumar: In case you see the last 3 years' profit, they are incrementally increasing year-by-year. We are also going forward and with the return on equity of about more than 20%. So there'll be 70% in any case will be going towards the net worth itself, 30% we have to declare by way of dividend. Remaining will be incrementally going towards the net worth itself.

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

Jigar Jani: Just two. One, have you got or done some calculations on what would be the impact existing on the Tier 1 capital based on this guideline? And secondly, on your target for disbursements next year, what would be our target and how that would be split across the different segments of and the infra? And how much of it would be like greenfield and how much would be refinanced if you have some ballpark figures?

Sanjay Kumar: As far as the first question is concerned, so we have not made any calculation as of now because we'll be representing to the RBI, we have to just see for the final guidelines. So whatever impact will be there in any case, the comments are to be sent by June. So in case they come out with the final guidelines before the first quarterly results, then in any case, we'll be having the impact there in the first quarterly result itself. But in case nothing comes up to the first quarter, then in that case, we will be taking the calculation in second quarter. So as such, we have not made any calculation, but we have to represent to RBI and let's wait for the final guidelines to come.

Vivek Kumar Dewangan: With regard to this mix of the different loan portfolio, right now, share of renewable energy is only 7% of our total assets. It will gradually increase to 30% in the next 5 to 6 years. So every year, we see that incremental growth of 5% to 7% growth will be there as far as renewable energy is concerned. Conventional generation, our total share is our 29%. So this will also increase to say every year, it will increase 2% to 3%. The distribution & transmission is 40%.

Part of transmission that will get green corridor gets covered under this renewable energy portfolio, absolutely. Distribution sector we'll be able to maintain that, because RDSS is going to be the next 2 to 3 years thereafter, as I had told you that there'll be huge CapEx requirements for upgrading distribution infrastructure. Distribution transmission portfolio will remain like that only. And mostly conventional generation renewable will increase, and some part of it will come from non-power infra logistics also.

Going forward, by the end of 2030, I told you that 30% will come from renewable, 15%-20% will come from logistics and 50%-55% will come from conventional generation, distribution and transmission.

Jigar Jani: And any disbursement targets for next year? And how much would be greenfield and how much will make refinancing next year and in businesses?

Vivek Kumar Dewangan: Yes. Last year, you might have observed that our non-CapEx disbursement was quite high actually. It was to the tune of INR151,000 crores. But this year, our CapEx disbursement are going to jump quite substantially. And we are targeting minimum INR175,000 crores. Mr. VK Singh would like to clarify?

Vijay Kumar Singh: So mostly, I mean, we are targeting, as we mentioned, we are targeting 2-3 areas, which off course is generation space, renewable energy projects and, of course, the infrastructure and logistics. Minimum debt disbursement, we believe that can happen based on what we have done already, the remaining INR170,000 crores, INR180,000 crores currently we are targeting.

And this target is likely to go up depending on what sanctions we do in the current financial year. And on your second question on refinancing, we are very, very active in refinancing the space. You might have seen that we did some deals last financial year, particularly in renewable energy space. There are some of the projects -- group of project financed through foreign currency borrowing was refinanced by us. We have currently such proposals at our desk, and we will continue to target this particular space going forward as well.

Moderator: Next question is from the line of Sumeet.

Sumeet: Sir, my question is on this book impact. So you're stating that whatever the provision recovery is going to happen in, say, next 1 or 2 years, in to offset this impact of this provisioning requirement by this regulation. So when we look at like 3 to 4 years sort of a view, considering this which we are incrementally positive about the growth as well as is renewables. How do you see this going to in say like next 3 to 4 years?

Sanjay Kumar: Next 1 or 2 years, there won't be any impact. And subsequently in case any impact is there, our net worth in case will also improve because of the profit which we'll be generating. Since our disbursements are also increasing, loan book is increasing by 17%, in the current year itself it increased by 17%, and we are targeting similar increase in the years to come. So accordingly, there won't be much impact. Whatever the impact of provisioning it will be there, it will be offset by the profits which we'll be generating.

Sumeet: Okay. So like in the next 3 to 4 years also, no meaningful impact you're seeing in the book value?

Sanjay Kumar: Yes.

Sumeet: Okay. And sir, regarding this cost of fund, you are mentioning that is cost of funds going to further reduce going forward. So how we are doing this basically in reducing this cost of fund?

Sanjay Kumar: Only one thing is there. The book value, there won't be any impact at all. So it's not impacting the book value. It's only the Tier 1 capital that is being impacted. So neither in this particular year, neither in the years to come, there will be any impact on the book value.

Vivek Kumar Dewangan: And with regard to the question on cost of funding, you might have seen that our cost of funds has come down by 15 basis points from 7.28% to 7.13%. And the share of our external commercial borrowing has increased from 24% to 29%. We have two cheaper source of fund available. One is 54 EC bonds that is capital gains tax saving instrument, that is about 40,000. That also will increase to more than INR50,000 crores. That's what we are targeting.Collections are going to increase.

Then our foreign currency borrowing is with the innovative hedging techniques that we adopted. We have been able to bring down all-in cost to around 6.6%-6.7%. Right now, external commercial borrowing is more attractive as compared to domestic borrowing. But going forward, there might be a case that domestic borrowing becomes cheaper. So we'll be looking -- we are constantly evaluating the emerging situation, whatever is the cheapest source of fund available, we are targeting those and bring down our cost of funds.

Sumeet: Sure. And sir, lastly, what's your view on the overall power sector for next 5 years?

Vivek Kumar Dewangan: Overall, power sector, I can see tremendous growth actually. You might have heard that power demand has increased by 8% last year. And in the financial year in the month of April, power demand has increased by 11%. So it will touch about two digit. In the next 5 years, power demand is likely to be on upward trajectory, as the power demand increases, and there is improvement in the operational and financial efficiency of distribution company with the introduction of revamped distribution sector scheme and late payment surcharge scheme.

So overall health of the utilities is improving actually. With the improvement in the health of DISCOMs, the consequent result is that the health of the state gencos and transcos are also improved because distribution is a sector from where they get the revenue, and with all state gencos and are getting paid on time nowadays. And going for next 5 years, there is a huge increase in the renewable energy portfolio, but this challenge that since renewable energy is intermittent in nature, we need to have commercially viable storage solution.

So that is a technological challenge. I hope that a lot of research and development work is going on. And if there's some breakthrough there in fuel cell technology then perhaps we might not have to go that aggressively for coal-based based generation capacity. The storage solution becomes a cheaper option. Then green hydro and green ammonia is going to come in a big way. Ministry of New and Renewable Energy has already set up green hydrogen mission and government - amendment in Energy Conservation Act has already been affected, which has the Government of India can lay down the of the consumption norms of the different green energy.

For green energy consumption, the trajectory is being rolled out actually, but to start with from refining and fertilizer sector, they will be gradually increasing the consumption of green hydro thereafter, steel sector would also be covered. Decarbonization economy we can see that all the ministries are taking very proactive step. Overall, I see that with huge growth potential in two digits, as far as power sector is concerned.

Sumeet: Sure, sir. And sir, lastly, on the asset quality front, do you see any part of the segment we're going to get season, say, next 2, 3 years, with thermal or renewable?

Vivek Kumar Dewangan: As I have told you that we are willing to take hit on our margin, but we are not going to compromise on the asset quality. That is the clearcut reason which our company is having. So there is no compromise on asset quality, be it conventional generation or renewable energy or infrastructure logistics.

We are not going to compromise on asset quality. We are also targeting only good entities. And you might have observed that last 9 quarters, not a single new NPA has been added into our kitty. We hope to maintain this track record. And since we are targeting to become net NPA zero company by FY '25 like that to maintain the good asset quality and no new NPA should be added into our kitty.

Moderator: Next question is from the line of Sandeep Jain from Baroda BNP Paribas.

Sandeep Jain: Just one kind of data keeping. What is the cost advantage if we raise in green bond as compared to your book cost of? I think in the you have raised some green bonds also, right? What is the incremental cost of that?

Sanjay Kumar: The all hedge cost of the green bond, which is raised in April of 750 million was 7.01%.

Sandeep Jain: And normal will be somewhere.

Sanjay Kumar: Domestically in case we were raising the funds at that point of time, it above 7.7% to 7.75%. But there was a differential of about 75 basis points. While in case we go for the term loans, that's even cheaper, but they are on a floating basis and these were on a fixed basis.

Sandeep Jain: Surely. So in a way, we can understand there is a 40, 50 basis point kind of arbitrage is available.

Sanjay Kumar: Not 40, 50, more than that. And in case of the yen bonds which we had raised, that was at about 6.48%. So it depends upon the currency also, we are raising the funds in different currencies. And we are swapping some of the USD term loans or bonds, which we are raising to different currencies that is Swiss frac or Euro or JPY, so as to have the arbitrage there. And there also, we are able to get a differential of what we could say of 50- 60 basis points. Roughly, you can see from domestic cost of borrowing, it's roughly 100 basis points cheaper.

Sandeep Jain: So on question on the earlier answer, when you have said when you are lending to the renewal guys, right, the cost of this draft regulation, say, if it is coming at that point, whatever it is the return in the draft regulation, it will come. So what you are trying to say is that when we will lend to the renewable or green energy, the reduction in the cost of benefit will be available so that the provision cost will not impact the overall PAT loan. So we can assume that the increase in the impact would be around 50, 60 basis points because of this provision?

Sanjay Kumar: Impact at present we cannot say. But whatever the impact will be there, we can maintain the same lending rate without increasing. In case we can bring down the cost of borrowing, say by 10 to 15 basis points, so that instead of passing it on, we can maintain the same lending rates. Whatever the impact is there, that can in any case, can be absorbed by that itself. So there won't be any impact.

Yes, the viability of the project is ascertain on a long-term basis, not on a short-term basis. So we have assessed the viability of the project on the lending rate as of now. So in case, we are able to maintain that also the viability of the project in a case will be there. There won't be any impact on that.

Harsh Baweja: It also submitted while apprising the project, we do the sensitivity analysis also. So thereby, if we take into account of any increases is there in the near term that we take in to account and if the DSCR is maintained then only the project is financed. Say for example, if we are funding right now at 10%, we take into account the analysis to 11%. So even if it goes up to 11%, the project still becomes viable. So we have no problem at don't need to worry.

Sandeep Jain: Okay. So you are saying the project IRR would be more than enough even if the current rate or if we increase the rate kind of thing. So the project owner will make a definite IRR even at the higher rates also.

Harsh Baweja: Yes, correct.

Moderator: Next question is from the line of Vipul Kumar Shah Investment.

Vipul Kumar Shah: Sir, I'm referring to your presentation on Slide 17, where major borrowers -- 10 major borrowers you mentioned and the amount is to like INR202,000 crores. So what percentage of these loans are guaranteed by the state government?

Vivek Kumar Dewangan: About 40%, roughly 40%.

Vipul Kumar Shah: So my question is balance 60%, what is the road to repayment because their losses are coming down, but still they are making losses. And if they don't generate sufficient cash, what is the roadmap to the repayment?

Vivek Kumar Dewangan: RDSS has made a provision for the trajectory to bring down AT&C losses, the difference between average cost of supply and average revenue realized, the trajectory has been committed by the distribution companies based on the state resolution, the support by the state government. So that we are quite sure that in order to avail Govt of India grant, they'll be able to maintain that trajectory. Otherwise, this INR90,000 crores government grant is there for INR3 lakh crores scheme of RDSS. That is acting as incentive to adhere to the reforms being carried out by the state government, and they will be able to maintain this trajectory of bringing down the AT&C losses and the difference between ACS and ARR.

Vijay Kumar Singh: And also the -- because of these RDSS perform, all the utilities across the country have started taking measure and we have started seeing the outcomes also the AT&C loss, which was 22% 2 years back, came down to roughly 16.5% and then it has now further come down to 15.5%. So as a matter of fact, with the interventions that government of India has introduced through RDSS, we are seeing this particular loss trajectory coming down.

Moderator: Next question is from the line of Avinash Singh from Emkay Global.

Avinash Singh: My question here is what the sort you also highlighted that a lot of government forms and initiatives, our are helping -- help to get better. Now of course, on the growth side, I see and I agree with you that opportunity also coming with us conventional generation CapEx plans and, of course, the opportunity renewables and of course, of is.

But when it comes to this financial health improvement, it's happening as per the plan. and it becomes better. Will not you see on your spread or yield because will be far better 5 year down the line from where over 2 years back. So when do you sort of -- how do you see, I mean, the spreads playing out particularly to the loan given to the state utilities?

Vivek Kumar Dewangan: Yes, on spread because I've seen that, that some of utilities have improved from C category to B, their rating has improved. So their interest rates comes down because for A categories, B categories some interest differential is there. So that impact on spread would be made up by our increase in the volume, the kind of growth that you are seeing, there'll be with the improvement in the rating of the utilities, the spread would be slightly affected, but that we'll be able to meet through increase in the volume of the loan book.

Avinash Singh: I mean on the sort of that your NII side, I can understand or agree with comments, but my question on structurally not today the medium term, 2, 3 years down the line, on your spread. So again, I am not going to be smarter, but if I look at the fact by annual trend, if you today operate at the 2.7%, 2.8% at actually, you see the spread coming under comes over the 2, 3, 4 years kind of.

Vivek Kumar Dewangan: No, no, no. In fact, spread is going to improve actually. As I told you that coal-based generation capacity 94 gigawatts and we are targeting business share about -- minimum 40% business will come to us. So the margins are much better as far as coal-based capacity is there large hydro also, we have good margins, pump storage projects, then non-power infrastructure projects also we have good margins. So we do hope that our spread is going to improve further, not going to come down. It may go up to 3% actually, from 2.8% it may increase to 3% actually.

Moderator: Thank you. Ladies and gentlemen that was the last question of the day. I now hand the conference over management to for closing comments.

Vivek Kumar Dewangan: On behalf of REC, I would like to thank all the participants for asking inquisitive questions and hope that we have been able to answer your queries and on the various issues to your satisfaction. And we hope to have continuous interaction with you and will have more of such interactive sessions so that if there are any questions on your part, we should be able to give proper reasoning for those queries and we hope to have collaborative efforts with all our investors. Thank you so much.

Moderator: Thank you. On behalf of DAM Capital Advisors Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.