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(भारत सरकार का उद्यम) / (A Government of India Enterprise)
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SEC-1/187(2)/2023/1394 **Dated: August 23, 2023**

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 Investor conference call held on August 17, 2023

Madam/Sir(s),

In continuation of our earlier letter dated August 11, 2023 and August 17, 2023, 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 Investor/Analyst conference call of REC Limited held on August 17, 2023.

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

धन्यवाद,

भवदीय,

Jyoti Shubhra Amitabh
Digitally signed by Jyoti Shubhra Amitabh
Date: 2023.08.23 16:27:51 +05'30'

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

संलग्न : ए / ए

"REC Limited
Q1 FY2024 Earnings Conference Call"

August 17, 2023

ANALYST: **MR. SHREEPAL DOSHI – EQUIRUS SECURITIES LIMITED**

MANAGEMENT: **MR. VIVEK KUMAR DEWANGAN – CHAIRMAN AND MANAGING DIRECTOR – REC LIMITED**
MR. AJOY CHOUDHURY - DIRECTOR FINANCE – REC LIMITED
MR. V.K. SINGH –DIRECTOR PROJECTS – REC LIMITED
MR. SANJAY KUMAR – EXECUTIVE DIRECTOR – REC LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY2024 Conference Call of REC Limited hosted by Equirus Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Shreepal Doshi. Thank you and over to you Mr. Doshi!

Shreepal Doshi: Thank you Michelle and good morning everyone. I welcome you all to the earnings conference call of REC Limited to discuss the Q1 FY2024 performance of the company, industry trends and outlook. We have the senior management team of REC with us represented by Mr. Vivek Kumar, Chairman and Managing Director, Mr. Ajoy Choudhury - Director (Finance) and Mr. Vijay Kumar Singh – Director (Projects). I would now like to hand over the call to Mr. Vivek for his opening comments post which we can open the floor for question and answer. Over to you sir.

Vivek Kumar Dewangan: Good morning dear friends. I am Vivek Kumar Dewangan, CMD REC Limited. I am joined by my Director (Finance), Mr. Ajoy Choudhury and Director (Projects), Mr. Vijay Kumar Singh. I would like to share with you the fabulous results of quarter one of this current financial year. REC management had taken a conscious decision that from Q1 itself we need to enhance our performance. Over the years what we have found that the trend was that the Q1 and Q2 sanction and disbursement was muted one and substantially increase in Q3 and Q4 both sanction and disbursement. We took a conscious call well in time and the results are in front of all of us. REC continues to growth in its trend and it has shown growth in all the parameters. Compared to corresponding quarter of the previous year, let me share with you that our sanctions have gone up by 52% last year in Q1 our sanction was to the tune of $7.22 billion. This year in Q1 our sanction had increased to $10.94 billion. With regard to disbursements, we have seen a growth of 174%. Last year in Q1, our disbursement was $1.5 billion and in the current financial year in Q1, we achieved a disbursement of $4.11 billion. Our income has seen a growth of 16% from last year's $1.14 billion, our income has grown to $1.32 billion in Q1 of this financial year. Profit before tax have seen a growth of 26%. Last year profit before tax was $354 million, which has come to $447 million in the current financial year Q1. Profit after tax has also seen a growth of 21% from $295 million to $357 million in Q1 of this current financial year. The loan book at the end of quarter one has seen a growth of 17% from last year's $46.73 billion. We have touched the loan book size of $55 billion. Net worth of our company has seen a growth of 15.75% from last year's $6.34 billion, our net worth has increased to $10.33 billion in the current financial year at the end of Q1. The capital adequacy ratio of the company is at a comfortable level of 27.6%. Our gross and net NPA also come down substantially. The net NPA is now 0.97% at the end of Q1. To share with you, company has not added any new NPA for the last six quarters. With this fabulous performance, we are targeting to become a net zero NPA company by the end of 2025. These results were achieved despite some major challenges including increased cost of funds owing to continuing geopolitical events and heightened competition. This makes the performance even more pleasing. The focus of the world and India is today on energy. The five imperatives articulated by our Honorable Prime Minister is set to make India a developed nation by the year 2047, in the next 25 years. With India presiding over G20 summit this year, REC is continuing to pursue its ambition to be a leading finance provider in this segment. The company intends to increase its share of renewable energy to at least 30% of our total loan portfolio. From the current level of $3.6 billion, we intend to increase our renewable energy portfolio to more than $45 billion.

REC has held a Green Finance Conference on the sidelines of G20 Ministerial meeting at Goa last week of July where the company has signed Memorandum of Understanding with about 25 major developers of solar, wind, hybrid power, solar panel manufacturers, electric mobility, electric buses, green hydrogen, green ammonia and home-based storage hydro projects. Our total amount of these projects for which MOUs have been signed were more than $35 billion. As you are aware, REC has expanded its mandate and took shareholders approval for financing in non-power infrastructure and logistics. Last year was the first year when we started this financing non-power infrastructure and logistics and we had sanctioned about $7.5 billion for infrastructure and logistics project and the current financial year also we want to increase this trajectory and we intend that one third of our total sanction will come from non-power infrastructure and logistics where we are going to cover roads, ports, airports, metro projects, healthcare and IT infrastructure. The fundamentals of Power Sector continue to improve and that augurs well for the country. The legacy dues of generation transmission companies stood at about Rs.1.4 lakh Crores as on June 2022 had reduced by almost 50% in one year itself. The AT&C losses have also come down substantially. In one year there was reduction of 5%, AT&C losses had come down from 22% to about 17%. Average cost of supply and average revenue realized gap of ACS-ARR has also come down substantially from 61 paisa per unit to about 15 paisa per unit now. The introduction of Revamped Distribution Sector Schemes, where all the states are taking very proactive steps for reforming their distribution sector. The all current subsidies are being paid by the state governments to DISCOMS and arrears are also being liquidated in a phased manner. Tariff orders of almost all DISCOMS are in place. The measures being taken through the Revamped Distribution Sector Scheme and in particular installation of prepaid smart meters will strengthen the distribution sector allowing investment to flow in the sector. I would like to assure all the investors that REC shall continue to add value to our shareholders in the coming days and months. We are open to question and answers.

Moderator: Thank you very much sir. We will take the first question from the line of Shreya Shivani from CLSA. Please go ahead.

Shreya Shivani: Hi, Thank you for the opportunity and congratulations for a good set of numbers sir. I have three questions over here. First is on the renewable and the infra book. So, sir if you can give us some colour about the book as in how different it will be from the traditional financing in the power sector in terms of what is the average tenure of these two books, what would be the yields, would the yield be lower, would that mean any pressure on spread, some colour around that, that is my first question. Second question is sir on the LPS scheme. Sir in this presentation you have written that 136 billion more sanctions were done in first quarter and basis some calculations that I have done, basis what PFC also reports on sanctions of the consolidated group under LPS. Is it correct, is my number correct that the sanctions of LPS scheme for REC stands at 713 billion as of June 2023 and if you can talk about how many states are covered, are there more sanctions coming in, will all the disbursements be done in FY2024 itself or will it spread over two years, if you can help us understand that. Sir my third question in the last small question is, you mentioned AT&C losses have come down from 22% to 17%. Under 17%, I believe 16.5 is of FY2022. One of the ministers came out and said that the AT&C losses have further reduced to 13 or 14% which is a provisional number for FY2023. Is my understanding correct or the provision number can change significantly when the final number comes out? Those are my questions. Thank you.

Vivek Kumar Dewangan: Thank you Shreya. Let me start with your last question, AT&C losses. AT&C losses came down from 22 to 17% in the year 2021-22. Now you are right that the AT&C losses have come down further. It is around 15% in some of the states. It has gone down below 13% also. The statement by Honorable Minister is quite correct and it is going to be around 15% overall, but some states have done exceedingly well and some of the states are trying to reduce the AT&C losses to single digit that is a very good news. With regard to your question about RE & infra, let me start with renewable energy segment. Now instead of plain vanilla solar or wind, now we are looking for hybrid solution. Solar and wind combination or solar with storage, wind with storage because lot of demand is there for round the clock for power supply and we have also started looking after this green hydrogen and green ammonia, we have sanctioned recently a project in Oman and some more projects are likely to come up in Odisha and state of Tamil Nadu. We also sanctioned this pump storage hydro projects. You are right that the margins in renewable energy segment are not that high, but we are targeting the good asset quality as far as renewable energy segment is concerned. Our margins may not be that high, but would like to compensate it by increasing the volume of renewable energy portfolio. With regard to infrastructure, we were going cautiously actually. Last year was the first year when we started financing non-power infrastructure sector. We had targeted the state utilities with the state government guarantees like metro projects, road projects, IT infrastructure, health infrastructure and those projects we started with the support of the state government guarantee. Now once we gain the confidence, we are in the process of roping in experts from different infrastructure field and gradually we will start financing the private sector also. With regard to late payment surcharge, I will hand over to my director finance.

Ajoy Choudhury: So under LPS we have overall disbursed around 3.6 billion USD. In this current year out of $11 billion, $1.6 billion have gone towards LPS, so LPS will reduce going forward because this is a short-term measure and this overall outstanding currently on LPS is just about $9.8 billion of overall $55 billion. $9.8 billion also includes the liquidity infusion scheme that happened during the COVID times.

Shreya Shivani: Okay sir. Just a clarification so when your presentation says LPS and LIS, but LIS is not a part of LPS, i.e. not under the late payment surcharge scheme that is something going on from before it is?

Ajoy Choudhury: LIS was during COVID time, our government came up with the liquidity infusion scheme so that the power sector could sustain the loss of receivables that happened during the brief period of time, so LIS is that much and LPS is different scheme where the DISCOMS have been allowed to clear their outstanding payables to the generation & transmission companies and with the condition that going forward there will be no delay in payment of dues, so LPS and LIS are quite different.

Shreya Shivani: So sir the $3.6 billion is just LPS, it includes LIS also or is it just LPS, just to clarify this?

Ajoy Choudhury: This quarter sanction is just about LPS.

Shreya Shivani: Okay. Thank you. This was helpful. Thanks a lot.

Moderator: Thank you. We will take the next question from the line of Nihaarika from Aequiitas Investment. Please go ahead.

Nihaarika: Hi, Good Morning. Thank you for the opportunity. My first question would be how REC has hedged itself on interest rate risk, with US interest rates going up, how are we hedging ourselves on interest rate?

Vivek Kumar Dewangan: Yes. Our executive director Mr. Sanjay will explain the hedging methodology adopted by REC.

Sanjay Kumar: Actually 91% of our total exposure is already held up to the maturity. We are hedging for the various options which are available in the market. So the Seagull options, call spread options and the cost which is coming on the hedging basis including the coupon only swap which we entering into is roughly in the range of about 6.8 to 7.0%. So, as compared to the domestic cost of borrowing of about 7.5%, it's about 50 basis points lower. So, 91% of the total exposure is already hedged. As such, we do not have to see any eventuality that may be coming in the future years.

Nihaarika: When you say this exposure, this is currency exposure as well as interest rate, is it 91%.

Sanjay Kumar: Both coupon as well as currency also. Both the things are there. Both the things are hedged.

Nihaarika: We say cash flow repayments towards a loan. So have we hedged only interest payments or it includes interest plus principal?

Sanjay Kumar: Interest plus principal both.

Nihaarika: Okay. That is helpful. And how much of our book as a percentage of our book has a three year reset period. Again, because we would have some refinancing risk over there, so?

Ajoy Choudhury: Close to 80% of our book is on three year reset, but that will gradually come down because nowadays we are disbursing loan on one year reset and the borrower is also taking on one year reset. There used to be almost 90-95%, which is gradually coming down.

Nihaarika: Sir all the new renewable energy loans and infra loans which we are sanctioning and signing MOU for, we plan to do it on one year reset period.

Ajoy Choudhury: That is right, largely on one year reset period and some of them very small, are also quarterly reset basis as well.

Nihaarika: Okay and any rate increases that we have taken say in past two quarters?

Ajoy Choudhury: Yes. We have raised our rates keeping with the increase in the cost of funds, so around 50 basis points have been raised during previous year.

Nihaarika: More has taken in recent quarters, which must be like coming, like it must be coming saying gradually over the next two quarters.

Ajoy Choudhury: That is right, yes.

Nihaarika: The order renewable energy loans and again infra loans, so any kind of brackets that you can give for the spread we plan to get like spreads on these loans?

V.K. Singh: So on renewable, as our chairman sir has said that our spread is lower compared to other segments of our lending. So our spread generally in the renewable segment is around 1.5 to 2% or 2.25% in this range and for the infrastructure, it is anything between 2 to 3%. Largely between 2.5 to 3.0%.

Nihaarika: Okay. That is it from my side. Thank you.

Moderator: Okay, thank you. We will take the next question from the line of Shweta from Elara Securities. Please go ahead.

Shweta: Thank you for the opportunity and congratulations on good quarter. Sir couple of questions. Just taking cue from the previous question so as against the 50 bps rate hike which we took last year, we saw almost 40 bps decline in yields that it is still not reflecting on the yields because of the lag effect?

Ajoy Choudhury: You are right. The effect of the reset of our rates will come after a while but because of our emphasis on asset quality, we have also lowered our margins & spread in many of the cases, so renewal projects particularly and also in some of the good power projects also we have reduce our spread and margins to accommodate good quality assets, that is what it is.

Shweta: Just a follow-up question there, so in renewables as you clearly highlighted the rates will be slightly lower also because the competitive dynamics playing out there on the non power side incrementally we are focusing on state backed assets. So how do you see the yields stacking up over next two years especially post this reset?

Ajoy Choudhury: Our yields are expected to be in the range of 9.5 to 9.8%. That is what we are targeting and we wish we shall hold on to spread of 2.5 and take our NIM to close to 3.5, current rate is 3.28 so we would like to take it to 3.5, our NIM.

Shweta: Sure sir. Noted. Sir my second.

Ajoy Choudhury: Just to add, you know 3.5 is fairly good numbers considering that asset quality is improving and sanctions are improving, disbursements are all time high. So on overall basis these margins are actually market reflective.

Shweta: Right sir. So second question is an asset quality so Q1 for 3.28% GNPA with a stock of Rs.14,900 odd Crores. So what is the impending resolution pipeline now on the immediate basis for FY2024 and vis-a-vis whether you will be seeing recoveries or write back for this particular year?

Vivek Kumar Dewangan: Let me tell you the broad picture. We had about 36 stressed assets. Out of 36 stressed assets, 17 stressed assets had already been resolved. In the current financial year, we are targeting to resolve about 9 assets. That total amount is about $1 billion roughly. There will be write backs as well because what we have seen that our recovery is in the range of 50 to 60% in most of the stressed assets and going forward, we do see some write backs happening in this current financial year and next year we are targeting to resolve the remaining 10 assets which are stressed ones.

Shweta: Thanks sir and sir one last question if I may squeeze in. So I wanted a broader sense on growth in light of, sir look today, we are 90% public sector assets, 10% private sector and we are sort of also growing on non power mix, but then if I look historically or traditionally, the key driver especially for REC and for PFC for both the financials have been the distribution portfolio. So if I look at the overall capex opportunity, overall government outlay, then last part, correct me if I am wrong, Rs.2 lakhs Crores per annum is the kind of opportunity for the sector on the distribution side each year, but then you also highlighted the fact that AT&C losses are coming down and the balance sheet out there are strengthening. So going forward how do you see the growth panning out for the traditional portfolio which is largely driven by generation and distribution segment because I understand that these RDSS and LPS schemes and sanctions that growth should taper off, right I mean beyond say FY2030, could you just highlight mainly the growth from the traditional segments.

Vivek Kumar Dewangan: Let me try to understand your question. You rightly said that 90% portfolio is for state utilities and 10% only in the private sphere, but going forward as we are targeting to cover more of renewable energy projects, the portfolio of private sector is going to increase from 10% to about 30% in the next seven years. With regards to the traditional sectors, distribution sector will still required funding this revamped distribution sector scheme will continue up to March 2026. As you are rightly pointed out that out of Rs.3 lakhs Crores RDSS outlay Rs. 97000 Crores is Government of India grant and Rs. 200000 Crores will come from the state side or by the financing from REC and PFC but you have to appreciate the fact that the distribution network in the country is quite old, about 40 to 50 years, there will be continuous requirement of upgrading the distribution infrastructure, so I don't see any share of distributions reducing and will continue out 30 to 35% in our loan portfolio for next 10 to 15 years.

Shweta: Okay. That is very helpful. I will come back in the queue. Thank you so much.

Vivek Kumar Dewangan: Thank you.

Moderator: Thank you. We will take the next question from the line of Mahesh Bendre from LIC Mutual Fund. Please go ahead.

Mahesh Bendre: Sir, just wanted to understand our role exactly in the funding of renewable projects, I mean over the next two to three years, what kind of opportunities we see in funding of power projects in renewable side and even transmission & distribution side?

Vivek Kumar Dewangan: Renewable energy as you are aware that Government of India has given a target of about 500 GW of installed capacity from non fossil fuel sources by 2030, mostly it will be renewable energy only. Right now our installed capacity is about 177 GW. About 323 GW capacity is going to come in next seven years. As I had already highlighted that now we are not looking for only plain vanilla solar or wind. Now it will be mostly it will be hybrid solar and wind combination, solar with storage, wind with storage and we are also quite gung-ho about the potential for storage solutions because renewable energy is intermittent in nature. To stabilize the grid, we need the storage solution. There are a lot of potential for battery energy storage and pump storage hydro projects also and some of the developers are also trying hydrogen fuel cell storage also, that is also in the pipeline. Green hydrogen, green ammonia, recently Government of India has amended the Energy Conservation Act. With this amendment, Government of India can mandate the consumption of renewable energy in different segments. They are in the process of notifying the consumption of green hydrogen and green ammonia also. We see a huge potential for financing green hydrogen and green ammonia projects as well. And with that associated this evacuation of renewable energy will also require green energy corridors that also has huge potential. By the year 2030, we are expecting that total funding requirement will be about Rs. 15 Lakhs Crores in this energy transition initiative and REC is targeting to capture 20 to 30% of this business potential. Maybe we may Rs. 3 lakhs to Rs.4 lakh Crores will be able to finance this energy transition related initiative in next seven years.

Mahesh Bendre: Sir what proportion will be this for T&D and what will be proportion for power plants, I mean renewables?

Vivek Kumar Dewangan: This distribution I had not included. The energy transition related initiative pertains to this renewable energy generation projects, then storage solutions and evacuation through transmission. With that has Rs.3 lakhs to Rs.4 lakhs Crores potential. The distribution sector as I have told to Nihaarika that our distribution portfolio will be stable to around 30 to 35% of our total portfolio over the next 10 to 15 years because distribution sector will require continuous upgradation of its infrastructure, so it is excluding distribution sector.

Mahesh Bendre: Okay, sure sir. Sir last question. Last year, we did a disbursement of around Rs. 97,000 Crores. So what is the outlook for the current year?

Vivek Kumar Dewangan: Going forward, the trend that in the first quarter itself we have crossed Rs. 34,000 Crores and as on date as we are speaking, our total disbursement stands around Rs. 53,000 Crores. If this trend continues, we should be touching about Rs. 1,50,000 Crores in the current financial year.

Mahesh Bendre: Okay sure sir. Thank you so much sir.

Moderator: Thank you. We will take the next question from the line of Kaitav Shah from Anand Rathi. Please go ahead.

Kaitav Shah: Good morning Sir. Congratulations on good set of numbers. My question are two fold, number one if you can tell us more about the competitive environment in a traditional set of business. Are we seeing any increased competition from banks and so if you can highlight more about that then are you seeing some kind of yield pressure on account of that, given that the sector itself is seeing some improvement. Second question, if you can highlight more about the structural changes that you are doing on account of lending to non-power segments so is it that you are doing anything different in terms of underwriting there, how do you get some comfort around that underwriting process? Thank you.

Vivek Kumar Dewangan: Let me first address about this competitive environment. With regard to renewable energy projects there is lot of competition there, I fully agree that is why our margins are going to be lower in renewable energy segment. We have competition from banks and other financial institutions also, but one advantage that REC has over the banks is that we give longer tenor loans. We can give 10 years, it could be 15, 20 years also. The banks normally give shorter tenor loans and with the introduction of renewable energy into the grid, the flexible operation of coal based thermal power plants would become very important actually. Right now technical minimum for coal based power plant is about 55% and going forward with more injuction of renewable energy into the grid, we might have to operate coal based thermal power plant toward 40% of PLF. That will require investment for traditional coal based power plant also for enabling their flexible operations. There, banks are not comfortable to finance these coal based thermal power plants because they are not trained or they do not have experience of this kind of flexible operations where we see a huge potential, we will be able to finance these coal based thermal power plants also. With regard to structural changes, we are targeting that our non-power infrastructure logistic sector will be about 1/3rd of our total loan book. Right now our total loan book is about Rs. 4,54,000 Crores and right now the share of this infrastructure, non-power infrastructure is very small only 1% but going forward its share is definitely going to increase. It may not reach 30% in the near future, but by the end of 2030, when we are targeting to take our total loan book size to about Rs.10 lakh Crores at that time, 30% would be coming from renewable energy segment, 30% will be coming from non-power infrastructure and logistics sector. Our Director (Finance) would like to add.

Ajoy Choudhury: About the structural changes last year, we generally sanctioned mostly the government projects backed by the government guarantees. So as we get more hold on the space, we should be financing private sector projects as well and we are also in the process of engaging good consultants to support us in appraisal in our business development and monitoring of these projects. That is the kind of approach we are taking.

Vivek Kumar Dewangan: We are in the process of finalising, roping in and bringing on board the high quality professionals and experts from road and highway sector, railways, airports, ports, IT infrastructure, we will have a strong professional team to appraise this non-power infrastructure and logistic sector.

Kaitav Shah: Got it. Thank you, Sir. Thank you.

Moderator: Thank you. We will take the next question from the line of Saket Yadav from India Capital. Please go ahead.

Saket Yadav: Good morning Sir. Thank you so much. Sir first congratulations on fantastic set of numbers and I also wanted to thank the management for laying out clear sort of path ahead that the company plans take with regards to increase in the share of renewables and also the path on how to company plans its net NPA for the next two years. I had a related question on the net NPA guidance as MD sir has just mentioned that we are planning to resolve nine projects this year which total amount about a billion dollar. Sir if you can give more granular colour around those nine projects and how things have moved, because in first quarter I think no resolutions came through so we are anticipating those nine projects will be resolved in the next nine months. Sir if you can share some more colour that would be very helpful that is my first question.

Vivek Kumar Dewangan: Some projects we are in advance stage of resolution.

Vijay Kumar Singh: So out of the total NPA amount Rs.14000 Crores, we are targeting close to Rs.7500 Crores projects in this year for resolution. This includes projects like Dans energy wherein there are three lenders who have already approved the resolution plan and that resolution plan will be implemented within the second quarter and this was targeted in current quarter. TRN Energy and Classic Global, both are expected to resolve during the current quarter itself. Then we have few more projects lined up for resolution, Meenakshi Energy is one where we got resolution plan under the IBC process and that resolution plan now stands approved by the NCLT. This will also be implemented within the next three months of time and then that resolution we are expecting in Q3, that will be settled. Another one is Lanco Amarkantak, there you will be aware that REC, PFC, SJVN and DVC consortium has bided and won this particular asset and this resolution plan approved by the COC is currently under approval process of NCLT and we are expecting this approval to come very soon and this again we are targeting for resolution in the Q3 that is next quarter. Badhreshwar Vidyut is another project when EOIs have been received. Plans were received but the value was not up to the mark so we had gone for rebidding and we are hoping that will get better resolution plan this time, that again the whole process likely to be completed within Q3. So, these are the major projects lined up for resolution during the current financial year.

Saket Yadav: Thank you so much for those details. Sir my second question is around margins. I think Ajoy sir had mentioned that we are targeting to take the NIM up to 3.5% over a period of time so my understanding is some of the rate hikes that you have taken last year the effect of that will be visible as we go along, if you can give some clarity as to what is the timeline around this, we are currently at 3.3. Are we hoping to touch 3.5 say three to four quarters time if management can give some guidance around that that would be helpful?

Vivek Kumar Dewangan: We are targeting NIM of around 3.5 by the end of this year, so that is what we are targeting at, so the rate hikes which have taken place during the previous year and also one in this year itself that should have effect on our reset of loans as we progress along, so there we hope that our margins would slightly go up. Margin is one thing but we are also very conscious about asset quality so both will go hand in hand so we think that going forward as I said our spread will be around 2.5 and we are targeting a NIM of 3.5 that is what we are looking at.

Saket Yadav: Thank you for that and just one final question from my side is around hedging, so earlier team had mentioned that 95% of cash outflows are hedged. In the past, due to currency movement there has been some volatility in the P&L side, so just wanted to reconfirm that apart from those costs that we incur on a quarterly basis, those are absolutely noncash basis. Is that understanding correct?

Sanjay Kumar: Virtually we are paying the premium which is already accounted for on quarterly basis and normally the premium payment is either upfront in case of this seagull options and in case of call spread, it is on quarterly basis, so premium is already accounted for in the profit and loss account so as such there is no impact over and above that in the financials. This 91 to 95% is already hedged, so both the coupon as well as the principal are hedged, so it is not going to affect in any way adversely the profit and loss account over and above the premium which we are paying which is already accounted for in the profit and loss account.

Saket Yadav: Understood. In the past there are some impact because of MTM on derivative contracts but should not affect P&L going ahead. Is that understanding correct? Previously there used to be some impact because of currency movement or as some of these contracts were mark to market. So just wanted to clarify that?

Sanjay Kumar: If they are hedged and it is not going to affect the profit and loss account, it is only the Other Comprehensive Income. The PAT is not in any way impacted by that for any of the MTM movement which are there. Actually up to last year the percentage hedge portion was about 60%. So this year it is not going to affect adversely the profit and loss account in the coming periods.

Saket Yadav: Understood. Thank you so much for that clarity that just wanted to understand. So the last year it moved from 50 to 91 so that that impact has already taken care of. Thank you so much for the clarification. That is it from my side.

Moderator: We will take the next question from the line of Jigar Jani from B&K Securities. Please go ahead.

Jigar Jani: Thank you so much for taking my question and congratulations on a great set of numbers. Sir. Just two questions, one you mentioned about RDSS now this RDSS disbursements earlier I think you were guiding for end of FY2024 for them to start. So just wanted to get a sense as to when these disbursements will start and what would be the quantum of disbursements we are envisaging under this scheme for FY2024 and FY2025 and the second question is for your guidance of Rs.10 lakhs Crores of loan book by FY2030 that if I just back calculate that ends to about a 12% growth in AUM so is that kind of a conservative guidance as of now because considering the traction and the amount of hope that we have on the renewable side and the infra side, is this is a more conservative guidance from your end because the growth does not look to be very high based on the scope and the opportunity that we have. Those are my two questions.

Vivek Kumar Dewangan: Government of India grant is about Rs.97,000 Crores. The FY2023 disbursement figure stood around Rs. 6000 Crores and in FY2024 disbursement will increase to about 15 to Rs. 20 thousand Crores only because you will have to appreciate that most of the DISCOMS are in the process of awarding this loss reduction work and prepaid smart metering. Only about 20% of work has been awarded, 80% of the work is yet to be awarded. They are in the advanced stages of finalization of the tender, some negotiations are going on. We hope that by the end of October all this contracts will be awarded. Thereafter works will pick up. So most of the disbursement is likely to happen in FY2025 and FY2026. FY2025 we are targeting that about more than Rs. 40,000 Crores would be disbursed and FY2026 remaining about Rs. 40,000 Crores would be disbursed. With regard to our total outstanding loan portfolio of about Rs. 10 lakh Crores by the year 2030, it appears to be really conservative actually, but after this result of Q1 now we are in the process of revising this figure actually. We will have to increase this target, perhaps we will be able to reach this Rs. 10 lakh Crores outstanding loan book size in the year 2027-28 itself. So instead 7 years, we might achieve this target in next 5 years itself. And our Director (Technical) would like to supplement.

Vijay Kumar Singh: Under RDSS, there are two components. One is of course loss reduction, which actually we are talking about. There is another very important component of installation of smart metering and that component is actually being implemented essentially by the private sector players and the total outlay is Rs. 150,000 Crores. So the numbers that our chairman sir gave is about disbursement happening towards loss reduction to the Discoms. They are the implementing agency for loss direction programmes. But for the smart meter implementation programme you may be aware that only 900 per meter grant is coming from the Government of India and remaining investment is being made by the private entities which are called Advanced Metering Infrastructure Service Providers. So there is also a financing opportunity of close to Rs. 1,50,000 Crores under PMI scheme smart meters solution under the RDSS.

Jigar Jani: Yes. So just clarification on this, so we would not be financing this smart metering part of it, we will be financing cost reduction part of it. Is my understanding correct?

Vivek Kumar Dewangan: Let me clarify. The DISCOMS have to pass this result evaluation framework (REF) evaluation they have to clear, only then they are eligible to get Government of India grant. Some of them say they have to score 60 out of 100 evaluation mark. Some of the states have secured about 56 mark, 57 mark that just short of scoring more than 60% mark so that will require bridge financing from REC and PFC. So we will be doing bridge financing to those states which are just about to yet to clear the REF, they may clear this REF evaluation next year, some bridge financing would be required for that also. For both loss reduction as well as for prepaid smart meter the financing requirement would be there. Total outlay for the RAF including prepaid smart meters is Rs.3 lakhs Crores and Rs. 97000 Crores only is being given by Government of India's grant, the remaining Rs. 2 lakh Crores some portion 10% or 20% will come from the state government, remaining about Rs.180000 Crores will come from the financing from REC and PFC only.

Jigar Jani: Okay great sir. Thank you so much for the clarification and lastly for this year considering we have had very strong growth, we could anticipate north of say 16%, 17% kind of full year growth for this year in terms of loan book?

Vivek Kumar Dewangan: It is our ambition.

Jigar Jani: Thank you so much for answering my questions and best of luck.

Moderator: Thank you. We will take the next question from the line of Vipulkumar Shah from Sumangal Investment. Please go ahead.

Vipulkumar Shah: Hi sir. Thanks for the opportunity. So sir my question is regarding your slide #17 list of your major borrowers, they are all state DISCOMS. So these loans, do we have any security against this lending or these are unsecured lending?

Vivek Kumar Dewangan: We do have a state government guarantee pertaining to certain components.

Vijay Kumar Singh: So we are doing essentially all our project financing. So there are underlying project assets as part of security. There are other collaterals also, so hypothecation of all entire assets, mortgage, standard security packages are there in all cases of project financing. This security structure is in place. In addition to that if I just have to give you some sense about additional collateral that we are taking, I think out of 454,000 we have roughly 41% of our financing is backed by the government guarantee. So, that is the additional collateral in addition to the project assets that are available as security to us.

Vipulkumar Shah: No, but sir in the majority of them are DISCOMS so what type of assets they can offer as collateral when I read the list, most of them are DISCOM companies.

Vijay Kumar Singh: DISCOMS also, all the assets that are created out of our financing all those assets are actually mortgaged or hypothecated to us and of course there are for distribution companies, there is some financing related to non-capex but almost entire non-capex financing which does not have underlying asset is backed by the government guarantee.

Vipulkumar Shah: Okay, so if I summarise, so 40% of these loans are guaranteed by state governments over and above the securities which is at the project level, is that understanding correct?

Vijay Kumar Singh: That is correct.

Moderator: Thank you. We will take the next question from the line of Arjun Bhatia from Bowhead Investment Advisors. Please go ahead.

Arjun Bhatia: Thank you for the opportunity. Can you just repeat the disbursement target that you gave for this year just to confirm?

Vivek Kumar Dewangan: Yes Arjun the disbursement target I had mentioned in Q1 we have achieved Rs. 34,000 Crores and as we are speaking today, our disbursement have touched Rs.53,000 Crores. We are expecting that our disbursement would be to the tune of about Rs. 150,000 Crores in the current financial year.

Arjun Bhatia: Rs.150000 Crores?

Vivek Kumar Dewangan: Yes.

Arjun Bhatia: Got it. Thank you so much.

Moderator: Thank you. We will take the next question from the line of Satinder Singh Bedi from Eon Infotech Investments. Please go ahead.

Satinder Singh Bedi: Congratulations on a great set of numbers and also for the investor outreach activities that you stepped up. Sir my question on this loan book only. So you given a long term outlook by 2030, so what would be the indicative outlook for let's say FY2024, FY2025 and

FY2026 given that we have the payment of RDSS while the LPS have been tapered off over time, so if you could help us understand indicative loan book over these, it will help me.

Ajoy Choudhury: So we feel that we can grow safely at a 15% rate in our loan book. This quarter we have achieved 20%. Going forward, definitely we can grow at 15% or even more those opportunities are huge, but on a conservative basis it will be 15% growth.

Satinder Singh Bedi: Great sir. If I could quickly squeeze that what will be two key challenges or concerns that you see as leadership of REC going forward because the results have been very good so what are the challenges or concerns that you see?

Ajoy Choudhury: Right now the outlook for the sector is quite robust and infrastructure where also we are seeing a lot of traction, I mean lot of applications and requests for financing. So the challenge which might come up is on the margins. So there we have to work on that but as I said earlier, the asset quality is of paramount importance to us. So we are prepared to sacrifice a bit of margins for better asset quality so that is the only challenge that are present.

Vivek Kumar Dewangan: Another challenge I can foresee is that cost of green hydrogen has to come down substantially. So some technological breakthrough could happen in next two to three years to bring down the cost of green hydrogen on technology, more improvement is required. Similarly, this battery energy storage cost is quite high, that also needs to be brought down. Some R&D work is going on and we hope that some solution will come through. When solar energy project got started, the cost project of electricity was Rs.16, Rs.17, but now you see that cost had come down to Rs. 2.30 per unit of electricity from solar energy. Similar technological advancement and technological breakthrough are one of the challenges and hopefully all the countries are focusing on digitization some breakthrough will definitely happen.

Satinder Singh Bedi: Thank you sir. Very helpful. I got a few other questions I will come back in the queue in case needed.

Vivek Kumar Dewangan: Thank you Bedi ji. Thank you.

Moderator: Thank you. We will take the next question from the line of Venkatesh from Logictree. Please go ahead.

Venkatesh: Good morning sir. I have two questions. So one is when we are exploring this large opportunity and you laid out a road map for us. What kind of collaboration would there be there with PFC, is that like a unsaid understanding where looking at various projects that you will be able to work together with PFC and they have been declared as some sort of a nodal agency That is number one. My second question is in terms of human resources at the moment PFC, what is our strength in terms of management talent and considering the kind of growth plans, do you plan to add more people with different sets of expertise in the next year?

Vivek Kumar Dewangan: Thank you Venkatesh for asking this very pertinent question. Regarding collaboration with PFC, this conventional coal based generation, we are having a understanding with PFC. We are jointly funding coal based generation project because no other financing agencies are coming forward and they still requirement about 51,000 MW capacity is going to come up next three to four years with regard to conventional coal based generation. With regard to RDSS, Ministry of Power has allocated different states to REC and some states to PFC. REC has been allocated 19 states and union territories covering 32 DISCOMS and PFC has been allotted 14 states with having total 24 DISCOMS. RDSS will be financing distribution sector in state which had been allocated to REC and PFC we will be doing financing fully. We have also entered into collaboration with SBI and Punjab National Bank so that we can take up large infrastructure projects like we had recently taken up Hindustan Petroleum refinery projects in Barmer where total financing requirement was more than Rs. 45,000 Crores. They have joined and PFC is also one of the lenders there. We are also financing this steel sector projects in Odisha, Jindal Steel. There also we have joined hand with SBI. We are in the process of forming collaboration with Punjab National Bank, Bank of Baroda, Canara Bank also to finance large scale projects and with regard to taking experts onboard, we are in the process of finalizing and taking high quality professionals and experts from road and highways, railways, ports, airports and IT infrastructure related. We will have sufficient number of competent professional experts to appraise this non-power infrastructure projects and will also help us in monitoring those projects.

Venkatesh: So first of all, I appreciate your answers that across the board there is great clarity and the way you are going about it in granules, it is very refreshing to listen to you. So thank you so much and just one minor accounting question. Currently what is our total manpower resources at REC and with increased management talent how much would that be over the next say 2 to 3 year?

Vivek Kumar Dewangan: Total manpower strength is 430. We are in the process of recruiting 125 new officials at different levels, some lateral entry is also taking place and we are in the process of finalizing about 28 sector experts on non-power infrastructure sector. Total manpower strength will go up to about 550 or 560 in next three to four months.

Venkatesh: Okay. Thank you so much sir. Really a pleasure talking to you.

Moderator: Thank you. We will move on to the next question which is from the line of Nihaarika from Aequiitas Investment. Please go ahead.

Nihaarika: Thank you for the followup question. Sir this is regarding like we discussed it almost 91% of our exposure is hedged and the major of it should come to OCI and not in P&L but then there is a element of say Rs.250 Crores even this quarter which has come at Net Gains on Fair Value Changes. So what exactly is this is like some level for interest rate like LIBOR or EURIBOR or some other benchmark-linked and that is why this is sitting in the P&L?

Sanjay Kumar: Actually the fair value changes which is there, this is virtually some of the INR loan that we have swapped to JPY and Euro. There is a substantial margin of about 2.5% that is available to us and since we did JPY at the level of about 71. Now it has come down to about 58, so we are gaining in the currency also there. So these are the fair value changes which are favorable to REC as such and going forward also these are likely to favorable, it is only around Rs. 5000 Crores, Rs.2500 Crores against JPY and Rs.2500 Crores against Euro. So these are the fair value changes only in respect of that giving the additional benefit to us by way of reduction in the interest rate.

Nihaarika: Okay. Understood. Thank you and my second question will be like we are looking for more like better asset quality and probably lesser margins, so how do we plan to increase on NIM to 3.5% considering our loan book is moving toward renewable energy and this thread would be like significantly lesser than what we used to get on conventional book?

Ajoy Choudhury: Yes. You are right, I mean. As our Chairman sir already said that the margins in the renewable space is lower because of two reasons one is that yes there is a bit of competition out there and secondly because we also are focusing to build our renewable portfolio much more than what it is today. So there we have around between 1.5 to 2.5% of margin but in the infra space which we are now entering in a quite a big way there the margins are slightly better, the margins are around 2.5 to 3% so that will somewhat make up for the lower margins in the renewable space and the power sector conventional power also will have a place in our portfolio because distribution sector as earlier mentioned that this will need a lot of modernization etc., so there a lot of scope will come, there the margins are okay and in the transmission sector also a lot of opportunities are likely to come and some opportunities will come in the conventional generation stage as well where the margin are of course very good so overall as I said our margins we are targeting a 2.5% of spread and 3.5% of NIM.

Nihaarika: Sir the loans which will be extending towards the RDSS they would have a spread of 2 to 2.5 is it?

V.K. Singh: 2.5% yes. Depending on the kind of borrower, ratings, etc so between 2.25 to 2.5.

Nihaarika: Thank you.

Moderator: Thank you. We will take the next question from the line of Satinder Singh Bedi from Eon Infotech Investments. Please go ahead.

Satinder Singh Bedi: Thanks for the follow-up. Sir keeping up from this last question so we are trying to aim for 2.5 spread and 3.5 NIM and so my issue was that we are currently last quarter we have done about 69-70 bps so far as NIM is concerned over the interest spread. Given that our fee income etc might actually not be as healthy, we had the benefit of prepayments in the past okay so how do we plan to achieve this 100 basis points spread of NIM over the interest spread?

Vivek Kumar Dewangan: Bedi ji. Let me clarify that our cost of financing is about 7.25% and renewable energy we are getting margin at 2% average cost of financing that we are lending for renewable is 9.25% with the margin of 2% there and in infrastructure our margins, we are lending from 9.5 to 10% actually. There our margins are better, it is about 2.5 to 3% and majority of this late payment surcharge loans that we had given there we are having good margin that is about 2.5 to 3.5% margins are there.

Ajoy Choudhury: The incremental cost of funding has also come down inspite of no respite from lowering of repo rate or the benchmark rate, we have been able to bring down our cost of funds. The incremental cost of funds this year has been at the tune of around 6.85% so this will bring down the average cost of funds as well. This has been largely possible due to foreign currency borrowing and of course increased borrowing under 54EC bonds so these two are helping us to lower the cost of funds.

Satinder Singh Bedi: Okay and is there a ROE goal that we set okay kind of for itself like we have got a very healthy return on net worth as of as of date okay but is there a ROE goal that we work towards because normally the investor community does look at that as an important parameter while trying to put an intrinsic value to financial institutions and financial corporations?

Ajoy Choudhury: Last three years if you see our ROE has been in the range of 20%.

Vivek Kumar Dewangan: 20 to 21%.

Ajoy Choudhury: 20 to 21%, so we hope to maintain this in spite of an increased capital base so this 20% we will continue to maintain.

Satinder Singh Bedi: Right sir. The only challenge is that we have benefited from a very low credit costs okay because we say it has been managed and the conservative provisioning that we have done earlier and those benefits might not be available going forward okay so that is one challenge, but I think it is a great show and how do we hope to mitigate while you mentioned okay so you mentioned that the private sector book will go from 10% to 30% over a period of time as we bring more RE into the portfolio okay. Was that understanding correct sir and for over what period is that expected to happen?

Ajoy Choudhury: That is absolutely right. Going forward because most of the renewable projects are coming up in the private sector so our private sector portfolio will definitely increase and also in the infrastructure as we get more hold on the space we shall start to lend to good quality projects developed by the quality borrowers so there also we see some traction in the private sector lending. So it is a fair assessment going forward in the next six to seven years our portfolio of the private sector should go up to 30%.

Satinder Singh Bedi: Key learnings and all our NPAs are in the private sector so that is one potential risk down the road. We understand that you are strengthening your evaluation teams okay but any key learnings that you hopefully incorporate this time?

Ajoy Choudhury: So I would like to clarify this question of NPA. What happened in the past when these NPAs happened there were three reasons. One is that the revenue stream was not tied up, the PPAs were not in place. The second was of course an external reason where the coal blocks were canceled some of the projects whether due to that and thirdly the entities were not so strong so we have taken care now on all these aspects, now we do not finance unless there is a revenue stream already in place. The second is of course entity we are going with A-rated borrowers, we are not going with small-time players and that is the reason why you see some dip in our margins and thirdly the very strong emphasis we have given on monitoring and we have a very strong monitoring framework, particularly in the private sector where we engage specialized agencies to monitor on a day-to-day basis in conventional space we place these agencies at the site at the project site and they give our first stand report on a weekly and monthly basis so these are the changes that we have made and we feel that in spite of our lending increasing in the private space, our NPAs will not go up. In fact we are targeting a zero level of NPA by the end of 2025.

Satinder Singh Bedi: Right sir. Thank you I think that is very reassuring because that as we model now the future growth okay that is one concern that I think will be there with most of the analysts. Okay thank you very much. All the best. Thank you.

Moderator: Thank you. We will take the next question from the line of Naga Raja Rao Somanchi from Sun Corporate Finance Advisory. Please go ahead.

Naga Raja Somanchi: Yes good morning. My question was basically on NPAs only. Since the team has answered most of the questions I just wanted to limit in the last con call if I am right they did mention that six quarter straight without any new NPAs. How are the existing portfolio doing sir, any concerns in between 60 to 90 day over dues?

Ajoy Choudhury: Our stage 2 is around $ 182 million and there is a provisional coverage of 2.26%, but let me tell you that there are generally small cash cap that exists with the utilities or in the government sector where procedural delay takes place. So we have seen that because of procedures we are having this stage two assets for a long time but they have not resulted into NPAs because these are largely from the government sector where there are delays as I said are procedural or because of for a very limited period of cash flow mismatch that is the only reason.

Naga Raja Somanchi: You did mention these are mostly from government sector you are saying, correct sir?

Ajoy Choudhury: Mostly from the government sector.

Naga Raja Somanchi: Okay. Thanks for taking my call.

Moderator: Thank you. We will take the next question from the line of Venkatesh from Logictree. Please go ahead.

Venkatesh: Just a quick follow-up question sir. You had mentioned that we are targeting NIM in the range of 3 to 3.5% over a period of time considering that we are in that line of business over a four year, five year period what is the net NPA target that you are keeping as most optimal for us sir?

Ajoy Choudhury: Yes. As I already clarified, we are targeting that by the end of 2025, our net NPA will become zero.

Venkatesh: Okay great sir. thank you very much.

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

Jai: I heard that you said that most of your loans are on three year reset so just wanted to check if you intent to continue in this pattern or you think because it looks like that most of the banks or other lenders are on one year reset maximum so is there any plan to change that and does this make sense from risk management perspective because there is an interest rate risk involved? Thank you.

Ajoy Choudhury: So we have already stated that we have already changed this three reset arrangement, now all our loans fresh sanctions which we are giving are on one year reset so earlier our three year reset loan book was almost 95% which has come down to 80 and going forward they will all be on one year reset. It will take a while of course.

V.K. Singh: We have given option also to convert three years to one year.

Ajoy Choudhury: We have also given option to many of the borrowers to convert their loans from three years to one year reset and some of them have opted for it so let's see but in going forward all our loans will be on one year reset only.

Jai: Thank you sir.

Moderator: Thank you. Ladies and gentlemen as there are no further questions I would now like to hand the conference over to Mr. Shreepal Doshi for closing comments. Over to you.

Shreepal Doshi: Thank you Michelle. I would like to thank all the participants for being part of the call. A special thanks to the REC management for giving us the opportunity to host this call. Thank you all and have a nice day.

Moderator: Thank you members of the management. Ladies and gentleman on behalf of Equirus Securities that concludes this conference. We thank you for joining us and you may now disconnect your lines. Thank you.