

REC Limited

October 16, 2020

Ratings

Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Market Borrowing Programme (FY21)	1,00,000.00*	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Long Term Perpetual Debt	3,000.00 [^]	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Assigned

*The overall market borrowing programme (MBP) for FY 21 at Rs.1,00,000 crore.

[^]Long Term Perpetual Debt of upto Rs.3,000 crore that has been carved out of MBP FY21 of Rs.1,00,000 crore and assigned a rating of CARE AA+; Stable

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has assigned '**CARE AA+; Stable**' to the perpetual debt issue of REC Limited and reaffirmed the ratings at 'CARE AAA; Stable' for the market borrowing programme of FY21. The rating factors in REC's parentage as well as its strategic importance to Government of India (GoI) in the development of power sector in India. The rating also draws comfort from REC's quasi-sovereign status that allows it to have a diversified resource profile, adequate profitability and comfortable capitalization levels. However the rating factors in risks associated with weakness in REC's asset quality in exposure to private sector, high exposure to weak state power utilities and high sector-wise as well as borrower concentration risk.

With respect to the acquisition of Government of India's (GoI) existing 52.63% equity shareholding in REC Limited by Power Finance Corporation Limited (PFC; rated CARE AAA; Stable/ A1+), the acquisition transaction was completed on March 28, 2019. PFC is majority owned by GoI. Post the transaction, REC becomes a subsidiary of PFC. CARE expects REC's strategic importance to GoI and its role in development of power sector to continue as earlier. CARE will closely monitor the developments in this regard and continue to assess any impact on credit & financial profile of REC. The transaction is not expected to impact financial profile of REC, but given that the majority ownership of REC is transferred from GoI to PFC, REC's credit profile has now greater linkages with that of PFC. Ratings on borrowing programmes of PFC and REC factor in sovereign ownership/economic interest and hence an expectation of continued strong support from GoI given their strategic importance. Going forward, continued sovereign ownership (indirectly through PFC) and support from GoI in maintaining comfortable capital structure and asset quality will remain key rating sensitivities.

Rating Sensitivities

Going forward, any material change in the shareholding pattern leading to reduced support from PFC is a key rating sensitivity.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Any major change in the shareholding pattern and/or expectation of reduced support from the Government of India (indirectly through PFC)
- Deterioration in the standalone credit profile of REC thereby adversely affecting financial metrics
- Weakness in asset quality profile

Detailed description of the key rating drivers

Key Rating Strengths

Parentage and status of nodal agency: REC plays a pivotal role in financing power projects from both the state and private sector, thereby being instrumental in strengthening the power infrastructure of the country. REC has been designated as the nodal agency by the Ministry of Power (MoP), GoI for implementing the Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY), [formerly known as Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY)], National Electricity Fund (Nodal Agency), Financial Restructuring Plan (FRP), Smart Grid task force etc. The company was conferred the Navratna status in 2008-09.

As on June 30, 2020 PFC had a majority shareholding owning 52.63% of the stock. This was, after GoI's share was transferred to PFC in March 2019. However CARE expects REC's strategic importance to GoI and its role in development of power sector to continue as earlier. CARE will closely monitor the developments in this regard and continue to assess any impact on credit

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

& financial profile of REC. While the ownership change is not expected to impact the financial profile of REC, but given that majority ownership of REC will transfer from Gol to PFC, REC's credit profile will also have linkages with that of PFC.

Diversified resource profile: As a quasi-sovereign financial institution, REC is able to manage a well-diversified resource profile and can mobilize funds at cost effective rates from various sources such as external commercial borrowings (ECB), domestic financial institutions, long-term bonds, bank loans, commercial paper, capital gains tax exemption bonds, infrastructure bonds and tax free bonds. After getting the status of Infrastructure Finance Company in September 2010, REC has become eligible for issuance of infrastructure bonds and for raising funds up to USD 750 million through ECB in a year under automatic route.

REC's total borrowing stood at Rs 280,116 crore as on March 31, 2020, up about 17% Y-o-Y. Of the total borrowings, the share of bonds (institutional, subordinate and zero coupon bonds) remains high at 61%, followed by another 18% via foreign currency borrowings. The company reported overall weighted average annualized interest rate of borrowing raised during the financial year 2019-20 and for the borrowings outstanding as on March 31, 2020, excluding other finance charges, was 6.73% and 7.32% respectively. During FY 20, REC raised Rs 84,358.12 crore which included Rs 9,725.0 crore via term loans from banks, Rs 2,750.0 crore as short-term loans from banks, Rs 5,000.0 crore as term loan from National Small Saving Fund, Rs 6,159.32 crore as Capital Gains Tax Exemption Bonds and Rs 42,713.10 crore by way of institutional bonds. REC also mobilized Rs 18,010.7 crore from ECBs (equivalent to USD 2,551.95 million). In addition to above, Rs 6,249.64 crore of CP were raised during the year. In March 2020, RBI permitted all lending institutions to allow a moratorium of three months on payment of installments in respect of all term loans outstanding as on March 1, 2020 (further extended till August 31, 2020). In that respect, REC has not availed any moratorium from any of its lenders

Adequate capitalization: REC had comfortable capitalization marked by healthy Tier I capital adequacy ratio (CAR) due to large networth base and comfortable internal accruals. End fiscal 2020, the Tier 1 and total CAR stood at 13.17% and 16.06% respectively slightly down from tier 1 and total CAR of 14.44% and 17.77% respectively an year ago. End June 2020, the tier 1 and total CAR stood at 13.39% and 16.91% respectively. The decline in capitalization since fiscal 2018 was mainly on account of adoption of IndAS in Q1 FY19 that caused the REC's net worth to decline by around Rs.3,000 crore. End fiscal 2020, the company networth stood at Rs 35,077 crore translating into gearing ratio of 8.0 times, up from 7.6 times previous fiscal

Stable profitability metrics: For the year ended March 31, 2020, the company reported 15% Y-o-Y decline in net profit to Rs 4886 crore underpinned by more than three-fold rise in provisions to Rs 890 crore as against 240 crore an year ago and sharp rise in notional losses such as currency fluctuation/translation losses due to INR depreciation against USD seen in FY 20. As per IndAS, the entire currency losses have to be accounted in same year instead of amortizing it over longer term. While the book registered healthy growth, the net interest margins (CARE adjusted and on average total assets) compressed by 17 bp Y-o-Y to 3.32% as the rise in borrowing costs outpaced that of rise in yields. The re-pricing of loans happens once every three years (20% of book to be re-priced this year) while the funding costs are expected to decline as company focuses of external commercial borrowings as well and hence the margins may improve going forward. While the net interest income grew by 14.3% Y-o-Y, the bottom line was adversely impacted by sharp rise in provisions and exchange losses.

End Q1 FY 2021, REC reported net profit of Rs 1838 crore on total income (net of interest expenses) of Rs 3222 crore as against net profit of Rs 1501 crore on total income (net of interest expense) of Rs 2410 crore. On an annual basis, the company reported strong 14% Y-o-Y rise in loans while on a sequential basis, the growth was 3% Q-o-Q.

Key Rating Weaknesses

Growth in credit portfolio though borrower wise concentration remains high: REC is the nodal agency engaged in financing projects in the complete power sector value chain. The product portfolio of REC includes financial products and services such as project term loan, short-term loan, equipment lease financing and consultancy services, etc, for various power projects in generation, transmission and distribution sector. REC's clients mainly include state power utilities, private power sector utilities (including independent power producers), joint sector power utilities and power equipment manufacturers. End June 2020, REC's gross loans and advances stood at Rs 330,788 crore, up 14% Y-o-Y or 3% Q-o-Q with strong growth registered across all of its segments. Transmission and Distribution (T&D) constituting 52% of loans grew by 14% Y-o-Y (or 3% Q-o-Q), while generation loans forming another 43% of book were up 15% Y-o-Y (2% Q-o-Q). The share of renewable energy segment continues to remain unchanged at around 5% and grew by 17% Y-o-Y basis. This is line with REC's stance of focusing on very selective private sector renewable energy projects. Additionally in June 2020, Gol, as a part of its Covid-19 relief package, had announced liquidity injection of Rs 90,000 crore to the State discoms in the form of State Government guaranteed loans through REC and PFC to clear the outstanding dues of Power Generation and Transmission Companies. REC has already sanctioned amounts of more than Rs 30,000 crores till 31 July 2020 as part of this liquidity package to discoms.

In respect of Central/State Government entities, RBI dated 16 June 2016 had exempted REC from applicability of RBI's concentration of credit/investment norms till 31st March, 2022. In view of the above, REC's maximum credit exposure limits to Central and State power Utilities continue to vary from 50% to 250% of owned funds, depending upon entity appraisal. Subsequently REC continues to remain exposed to high sector and borrower concentration risk as it caters only to the power sector with approximately 82% of the total advances as on June 30, 2020 towards State power utilities (SPUs), up from 75% in fiscal 2017. The share of private sector exposure has been coming down and stood at 11% end June 2020 as against 14% two years ago. Furthermore the single borrower concentration continues to remain high with top 10 borrowers constituting 39% of the loan book and 349% of networth end June 2020 with the largest borrower Maharashtra State Electricity Distribution Company Limited accounting for 7.2% of the book as on June 30, 2020, up from 6.7% end fiscal 2020. The share of top 10 borrowers has been on a rise from 36% of loans outstanding end June 2018.

Moderate asset quality metrics: The reported asset quality metrics of REC, though improving, continue to remain weak with reported GNPA and NNPA at 6.59% and 3.3% respectively as on March 31, 2020 as against 7.24% and 3.79% respectively previous fiscal. End fiscal 2020, the absolute gross NPA stood at Rs 21256 crore, up 4.5% Y-o-Y, on the other hand the absolute net NPA remained flat at Rs 10,703 crore leading to CARE adjusted PCR stood at 50%, almost unchanged from previous year. REC's higher NPAs are primarily on account of very high NPAs in lending to private sector projects (IPPs); IPPs accounted for about 12% of REC's loan book and NPAs in IPP segment constituted 100% of total NPA as on date. The government sector exposures (which are ~82% of REC's loan book as on Mar-20 and June 20) have witnessed robust asset quality with nil NPAs. In line with RBI's notification, REC has put in place a board approved policy framework according to which the borrowers can avail maximum of three month moratorium on the payment of interest and or principal on term loans falling due between 1st March and 31st May 2020 that was extended to further Aug 31, 2020. In pursuance of the moratorium policy, an amount of Rs 13,621 crores falling due till 31st August 2020 (including the amount pertaining to the first moratorium period) has been deferred. For all such accounts where the moratorium is granted, the moratorium period has been excluded from the number of days past-due for asset classification.

Liquidity: Adequate

The liquidity profile of REC is expected to remain comfortable with REC' strong financial flexibility; arising from sovereign ownership and diversified funding profile as well as undrawn sanctioned bank lines. As per provisional Asset Liability Maturity (ALM) statement as on June 30, 2020, REC had positive cumulative mismatches upto 3 months in its ALM maturity buckets. However, REC's ability to mobilize resources from diversified sources and financial flexibility arising from GoI ownership provides cushion to the liquidity profile. Total undrawn bank lines as on Sep 30, 2020 stood at Rs.10,027 crore while cash and bank balance on the same date was Rs. 1567 crore.

Covid-19 impact

In line with RBI's notification, REC has put in place a board approved policy framework according to which the borrowers can avail maximum of three month moratorium on the payment of interest and or principal on term loans falling due between 1st March and 31st May 2020 that was extended to further Aug 31, 2020. In pursuance of the moratorium policy, an amount of Rs 13,621 crores falling due till 30th August 2020 (including the amount pertaining to the first moratorium period) has been deferred. For all such accounts where the moratorium has been granted, the moratorium period has been excluded from the number of days past-due for asset classification.

Additionally in June 2020, GoI, as a part of its Covid-19 relief package, had announced liquidity injection of Rs 90,000 crore to the State discoms in the form of State Government guaranteed loans through REC and PFC to clear the outstanding dues of Power Generation and Transmission Companies. REC has already sanctioned amounts of more than Rs 30,000 crores till 31-July 2020 as part of this liquidity package to discoms.

Analytical approach: Standalone, factoring in timely support from Government of India given REC will continue to be indirectly majority owned by GoI and continue to play strategic role in power sector financing and development in India

Applicable Criteria

[Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[CARE Methodology for Non-Banking Financial Companies](#)

[Financial Sector –Financial Ratios](#)

[Consolidation and Factoring Linkages in Ratings](#)

About the Company

REC was established in 1969 under the Companies Act, 1956, in pursuance of the recommendations of the All India Rural Credit Review Committee constituted by the Reserve Bank of India. It was declared a Public Financial Institution in 1992 under Sec. 4A of the Companies Act and also registered as “systemically important” Non-Banking Financial Company under Sec. 45- IA of the RBI Act in 1998. The company received from RBI the status of an Infrastructure Finance Company (NBFC-ND-IFC) in September, 2010. REC plays an important role in partnering with Ministry of Power (MoP), GoI in their major initiatives to improve the power distribution sector in the country, by its involvement in programmes like Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY) (Nodal Agency) [formerly known as Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY)], National Electricity Fund (Nodal Agency), Financial Restructuring Plan (FRP), Smart Grid task force etc. The company was conferred the Navratna status in 2008-09. The product portfolio of REC includes financial products and services like project term loan, short-term loan, equipment lease financing and consultancy services, etc., for various power projects in generation, transmission and distribution sector. REC’s clients mainly include state power utilities, private power sector utilities (including independent power producers), joint sector power utilities and power equipment manufacturers.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	25,341	29,829
PAT	5764	4,886
Interest coverage (times)	1.52	1.37
Total Assets	297,717	346,488
Net NPA (%)	3.79%	3.32%
ROTA (%)	2.16%	1.5%

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr)	Rating assigned along with Rating Outlook
195	INE020B08CT9	22-04-2020	6.92%	22-04-2023	2,985.00	CARE AAA; Stable
197	INE020B08CU7	11-05-2020	7.55%	11-05-2030	3,740.00	CARE AAA; Stable
198A	INE020B08CV5	21-05-2020	6.60%	21-03-2022	2,596.00	CARE AAA; Stable
198B	INE020B08CW3	21-05-2020	7.79%	21-05-2030	1,569.00	CARE AAA; Stable
199	INE020B08CX1	08-06-2020	7.96%	15-06-2030	1,999.50	CARE AAA; Stable
201-A	INE020B08CZ6	30-07-2020	5.90%	31-03-2025	900	CARE AAA; Stable
201-B	INE020B08DA7	30-07-2020	6.90%	31-03-2031	1,300.00	CARE AAA; Stable
202-A	INE020B08DB5	28-08-2020	7.25%	30-09-2030	3500	CARE AAA; Stable
202-B	INE020B08DC3	28-08-2020	5.69%	30-09-2023	2474	CARE AAA; Stable
54EC CGTE Bonds	INE020B07LS4	30-04-2020	5.75%	30-04-2025	52.22	CARE AAA; Stable
54EC CGTE Bonds	INE020B07LT2	31-05-2020	5.75%	31-05-2025	202.4	CARE AAA; Stable
54EC CGTE Bonds	INE020B07LU0	30-06-2020	5.75%	30-06-2025	564.2	CARE AAA; Stable
54EC CGTE Bonds	INE020B07LV8	31-07-2020	5.75%	31-07-2025	414.5	CARE AAA; Stable
54EC CGTE Bonds	INE020B07LW6	31-08-2020	5.75%	31-08-2025	77.6	CARE AAA; Stable
Perpetual Bonds	Proposed				3,000.00	CARE AA+; Stable
Proposed					74,625.58	CARE AAA; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Borrowings-Unsecured Long Term	LT	-	-	-	-	1)Withdrawn (03-Oct-18)	1)CARE AAA; Stable (09-Oct-17)
2.	Borrowings-Secured Long Term Borrowings	LT	-	-	1)Withdrawn (21-Sep-20)	1)CARE AAA; Stable (24-Sep-19)	1)CARE AAA; Stable (13-Dec-18) 2)CARE AAA; Stable (03-Oct-18)	1)CARE AAA; Stable (09-Oct-17)
3.	Borrowings-Secured Long Term Borrowings	LT	-	-	1)Withdrawn (21-Sep-20)	1)CARE AAA; Stable (24-Sep-19)	1)CARE AAA; Stable (13-Dec-18) 2)CARE AAA; Stable (03-Oct-18)	1)CARE AAA; Stable (09-Oct-17)
4.	Borrowings-Secured Long Term Borrowings	LT	9969.78	CARE AAA; Stable	1)CARE AAA; Stable (21-Sep-20)	1)CARE AAA; Stable (24-Sep-19)	1)CARE AAA; Stable (13-Dec-18) 2)CARE AAA; Stable (03-Oct-18)	1)CARE AAA; Stable (09-Oct-17)
5.	Borrowings-Unsecured Long Term	LT	-	-	-	-	-	1)Withdrawn (09-Oct-17)
6.	Borrowings-Market Borrowing Programme	LT	8623.50	CARE AAA; Stable	1)CARE AAA; Stable (21-Sep-20)	1)CARE AAA; Stable (24-Sep-19)	1)CARE AAA; Stable (13-Dec-18) 2)CARE AAA; Stable (03-Oct-18)	1)CARE AAA; Stable (09-Oct-17)
7.	Borrowings-Market Borrowing Programme	LT	4589.40	CARE AAA; Stable	1)CARE AAA; Stable (21-Sep-20)	1)CARE AAA; Stable (24-Sep-19)	1)CARE AAA; Stable (13-Dec-18) 2)CARE AAA; Stable (03-Oct-18)	1)CARE AAA; Stable (09-Oct-17)
8.	Borrowings-Market Borrowing Programme	LT	7250.00	CARE AAA; Stable	1)CARE AAA; Stable (21-Sep-20)	1)CARE AAA; Stable (24-Sep-19)	1)CARE AAA; Stable (13-Dec-18) 2)CARE AAA; Stable (03-Oct-18)	1)CARE AAA; Stable (09-Oct-17)
9.	Borrowings-Market Borrowing Programme	LT	14505.00	CARE AAA; Stable	1)CARE AAA; Stable (21-Sep-20)	1)CARE AAA; Stable (24-Sep-19)	1)CARE AAA; Stable (13-Dec-18) 2)CARE AAA; Stable (03-Oct-18)	1)CARE AAA; Stable (09-Oct-17)
10.	Borrowings-Market Borrowing Programme	LT	7731.00	CARE AAA; Stable	1)CARE AAA; Stable (21-Sep-20)	1)CARE AAA; Stable (24-Sep-19)	1)CARE AAA; Stable (13-Dec-18)	1)CARE AAA; Stable (09-Oct-17)

							2)CARE AAA; Stable (03-Oct-18)	
11.	Borrowings-Market Borrowing Programme	LT	16125.00	CARE AAA; Stable	1)CARE AAA; Stable (21-Sep-20)	1)CARE AAA; Stable (24-Sep-19)	1)CARE AAA; Stable (13-Dec-18) 2)CARE AAA; Stable (03-Oct-18)	1)CARE AAA; Stable (09-Oct-17)
12.	Short Term Instruments-Short Term Borrowing	ST	-	-	-	-	-	1)Withdrawn (09-Oct-17)
13.	Borrowings-Market Borrowing Programme	LT/ST	55000.00	CARE AAA; Stable / CARE A1+	1)CARE AAA; Stable / CARE A1+ (21-Sep-20)	1)CARE AAA; Stable / CARE A1+ (24-Sep-19)	1)CARE AAA; Stable / CARE A1+ (13-Dec-18) 2)CARE AAA; Stable / CARE A1+ (03-Oct-18)	1)CARE AAA; Stable / CARE A1+ (09-Oct-17) 2)CARE AAA; Stable / CARE A1+ (11-Apr-17)
14.	Borrowings-Market Borrowing Programme	LT/ST	85000.00	CARE AAA; Stable / CARE A1+	1)CARE AAA; Stable / CARE A1+ (21-Sep-20)	1)CARE AAA; Stable / CARE A1+ (24-Sep-19) 2)CARE AAA; Stable / CARE A1+ (01-Apr-19)	1)CARE AAA; Stable / CARE A1+ (26-Feb-19) 2)CARE AAA; Stable / CARE A1+ (13-Dec-18) 3)CARE AAA; Stable / CARE A1+ (03-Oct-18) 4)CARE AAA; Stable / CARE A1+ (05-Apr-18)	-
15.	Bonds	LT	15000.00	CARE AAA; Stable	1)CARE AAA; Stable (21-Sep-20)	1)CARE AAA; Stable (24-Sep-19)	1)CARE AAA; Stable (31-Jan-19)	-
16.	Borrowings-Market Borrowing Programme	LT/ST	94000.00	CARE AAA; Stable / CARE A1+	1)CARE AAA; Stable / CARE A1+ (21-Sep-20)	1)CARE AAA; Stable / CARE A1+ (28-Mar-20) 2)CARE AAA; Stable / CARE A1+ (24-Sep-19) 3)CARE AAA; Stable / CARE A1+ (01-Apr-19)	-	-
17.	Borrowings-Market Borrowing Programme	LT	97000.00	CARE AAA; Stable	1)CARE AAA; Stable (21-Sep-20)	1)CARE AAA; Stable (28-Mar-20)	-	-
18.	Short Term Instruments-Short Term Borrowing	ST	6000.00	CARE A1+	1)CARE A1+ (21-Sep-20)	1)CARE A1+ (28-Mar-20)	-	-
19.	Commercial Paper- Commercial Paper (Standalone)	ST	4000.00	CARE A1+	1)CARE A1+ (21-Sep-20)	1)CARE A1+ (28-Mar-20)	-	-
20.	Bonds-Perpetual Bonds	LT	3000.00	CARE AA+; Stable	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Borrowings-Market Borrowing Programme	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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