

REC Limited

April 01, 2019

Ratings

Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Market borrowing programme for FY20 – LT/ST	90,000.00# (Ninety thousand crore only)	CARE AAA; Stable/CARE A1+ (Triple A; Outlook:Stable/A One Plus)	Assigned

##Including ST market borrowing programme of Rs.12,000 cr as a sublimit of total MBP of Rs.90,000 cr for FY20
 Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the market borrowing programme of REC Limited factors in REC's parentage as well as its strategic importance to Gol in the development of power sector in India. The rating also draws comfort from REC's diversified resource profile, adequate profitability and comfortable capitalization levels. The rating also factor in risks associated with weakness in REC's asset quality in exposure to private sector, high exposure to weak state power utilities and high sectoral as well as borrower concentration risk.

With respect to the acquisition of Government of India's (Gol) existing 52.63% equity shareholding in REC Limited by Power Finance Corporation Limited (PFC), the acquisition transaction was completed on March 28, 2019. PFC is majority owned by Gol. Post the transaction, REC becomes a subsidiary of PFC. CARE expects REC's strategic importance to Gol 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 majority ownership of REC is transferred from Gol to PFC, REC's credit profile will also have linkages with credit profile of PFC. Ratings assigned to borrowing programmes of PFC and REC factor in majority sovereign ownership/economic interest and hence an expectation of continued strong support from Gol given their strategic importance.

Going forward, continued sovereign ownership (indirectly through PFC) and support from Gol and maintaining comfortable capital structure and asset quality are key rating sensitivities.

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), Government of India (Gol), for implementing the DDUGJY scheme and National Electricity Fund (NEF). The Gol is the major shareholder with ownership of 52.85% equity shares of REC as of December 31, 2018. With respect to the acquisition of Government of India's (Gol) existing 52.63% of total paid up equity shareholding in REC by PFC, the acquisition transaction was completed on March 28, 2019. Post the transaction, REC becomes a subsidiary of PFC. However, given that PFC is majority owned by Gol and thus Gol indirectly owns majority shareholding in REC as well. CARE expects REC's strategic importance to Gol 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. 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 credit profile of PFC.

Diversified resource profile: REC has a well-diversified resource profile, as it has mobilized funds at cost-effective rates from various sources, with borrowings as long-term bonds, capital gain bonds, tax-free bonds, infrastructure bonds, foreign currency loans, bank loans and, commercial paper. REC's total borrowing as on March 31, 2018 was Rs.1,98,791 crore (Rs.1,67,517 crore as on March 31, 2017), which mainly included bonds (83% of the total borrowing as on March 31, 2018), foreign currency borrowings (15%) and short term borrowings (2%).

Adequate capitalization: As on March 31, 2018, REC had comfortable capitalization profile with overall CAR of 19.39% and Tier I CAR of 16.84%. REC has followed Ind-AS accounting norms first time starting from Q1, FY19; and on adoption of Ind-AS, REC's net worth has declined from levels seen in Mar-18 (Under Indian GAAP) primarily on account of expected credit loss (ECL) provisioning requirement and as a result REC's CAR and Tier 1 capital ratios declined from 19.39% and 16.84% as on March 31, 2018 to 16.84% and 14.62% as on December 31, 2018, though the ratios remains well above minimum regulatory requirement. At the same time, on account of higher provisioning under ECL, REC's provision cover

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

increased from Q1, FY19 and stands at 47.68% for stage-3 assets as on December 31, 2018 and consequently net NPAs % declined from 5.68% as on Mar-18 to 3.96% as on Dec-18.

Adequate profitability: During FY18, REC reported PAT of Rs.4,647 crore vs. Rs.6,246 crore in FY17. Profitability during FY18 was adequate despite moderation in REC's interest spreads and NIMs, primarily due to significantly lower provisioning during FY18 vs. FY17. REC's interest spread has reduced to 2.68% in FY18 as compared to 3.19% in FY17. Also, the Net Interest Margins in FY18 declined to 3.56% as compared to 4.49% in FY17.

REC reported PAT of Rs.4,508 crore in 9M, FY19. REC has improved provision cover to around 47.68% on stage-3 assets under ECL.

Adequate Liquidity: REC's liquidity profile is expected to remain comfortable with no negative cumulative mismatches in up to six months bucket, although some mismatches exist in 6-12 months bucket. The liquidity profile is expected to remain comfortable with REC's strong financial flexibility; arising from its quasi-sovereign ownership and diversified funding profile as well as undrawn sanctioned bank lines. As on Feb 28, 2019, REC had undrawn sanctioned bank lines of Rs.10,173 crore which supports its liquidity profile.

Growth in credit portfolio with moderation in asset quality: The Gross loan portfolio of REC had registered a growth of around 17% in FY18 (increased from Rs. 2,01,929 crore as on March 31, 2017 to Rs.2,39,449 cr as on March 31, 2018). The loan portfolio of the company further grew to Rs.2,69,170 cr as on December 31, 2018. REC's loan book comprised exposure to state power utilities (78% of total portfolio as on March 31, 2018), Joint sector entities (8%) and private sector (14%).

REC's GNPA% and NNPA% increased from 2.41% and 1.60% respectively as on March 31, 2017 to 7.15% and 5.68% respectively as on March 31, 2018; As on December 31, 2018, GNPA and NNPA stands at 7.57% and 3.96% respectively. REC's higher gross NPAs are primarily on account of its exposure to private sector power projects (IPPs). Out of REC's total private sector exposure of Rs.33,119 crore (12% of total book as on Dec-18), Rs.20,387 crore is classified as stressed (Stage-3 assets).

REC has made total provisions of Rs.9,721 cr on stage 3 assets (provision cover of 47.68% as on Dec-18) and hence its net NPAs declined from 5.68% as on Mar-18 to 3.96% as on Dec-18. The Net NPA/Tangible Net worth was 38.35% as on March 31, 2018 vs. 9.71% as on March 31, 2017.

REC lends exclusively to the power sector, exposing it to the sectoral concentration risk. Furthermore, REC's top 10 borrowers accounted for 37% of the total loans outstanding as on March 31, 2018, thereby exposing the company to high customer concentration risk.

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

Applicable Criteria

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

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

[CARE's methodology for Short-term Instruments](#)

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

[Financial Ratios \(Financial Sector\)](#)

[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), Gol 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)], Restructured Accelerated Power Development and Reforms Programme (R-APDRP), 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)	FY17 (A)	FY18(A)
Total operating income	24,096	22,440
PAT	6,246	4,647
Interest coverage (times)	1.64	1.50
Total Assets	209,234	2,46,478
Net NPA (%)	1.60	5.68
ROTA (%)	3.00%	2.10

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

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

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Borrowings-Market Borrowing Programme		Proposed		90000.00	CARE AAA; Stable / CARE A1+

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Borrowings-Unsecured Long Term	LT	-	-	1)Withdrawn (03-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (21-Dec-16) 2)CARE AAA (14-Oct-16)	1)CARE AAA (30-Oct-15)
2.	Borrowings-Secured Long Term Borrowings	LT	3646.20	CARE AAA; Stable	1)CARE AAA; Stable (13-Dec-18) 2)CARE AAA; Stable (03-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (21-Dec-16) 2)CARE AAA (14-Oct-16)	1)CARE AAA (30-Oct-15)
3.	Borrowings-Secured Long Term Borrowings	LT	5849.40	CARE AAA; Stable	1)CARE AAA; Stable (13-Dec-18) 2)CARE AAA; Stable (03-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (21-Dec-16) 2)CARE AAA (14-Oct-16)	1)CARE AAA (30-Oct-15)
4.	Borrowings-Secured Long Term Borrowings	LT	10169.78	CARE AAA; Stable	1)CARE AAA; Stable (13-Dec-18) 2)CARE AAA; Stable (03-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (21-Dec-16) 2)CARE AAA (14-Oct-16)	1)CARE AAA (30-Oct-15)
5.	Borrowings-Secured Long Term Borrowings	LT	0.00	CARE AAA; Stable	-	-	1)CARE AAA; Stable (21-Dec-16) 2)CARE AAA (14-Oct-16)	1)CARE AAA (30-Oct-15)
6.	Borrowings-Unsecured Long Term	LT	0.00	CARE AAA; Stable	-	-	1)CARE AAA; Stable (21-Dec-16) 2)CARE AAA (14-Oct-16)	1)CARE AAA (30-Oct-15)
7.	Borrowings-Unsecured Long Term	LT	-	-	-	1)Withdrawn (09-Oct-17)	1)CARE AAA; Stable (21-Dec-16) 2)CARE AAA (14-Oct-16)	1)CARE AAA (30-Oct-15)
8.	Borrowings-Market Borrowing Programme	LT	8623.50	CARE AAA; Stable	1)CARE AAA; Stable (13-Dec-18) 2)CARE AAA; Stable (03-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (21-Dec-16) 2)CARE AAA (14-Oct-16)	1)CARE AAA (30-Oct-15)
9.	Borrowings-Market Borrowing Programme	LT	7544.20	CARE AAA; Stable	1)CARE AAA; Stable (13-Dec-18) 2)CARE AAA; Stable (03-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (21-Dec-16) 2)CARE AAA (14-Oct-16)	1)CARE AAA (30-Oct-15)
10.	Borrowings-Market Borrowing	LT	14723.00	CARE AAA; Stable	1)CARE AAA; Stable	1)CARE AAA; Stable	1)CARE AAA; Stable	1)CARE AAA (30-Oct-15)

	Programme			Stable	(13-Dec-18) 2)CARE AAA; Stable (03-Oct-18)	(09-Oct-17)	(21-Dec-16) 2)CARE AAA (14-Oct-16)	
11.	Borrowings-Market Borrowing Programme	LT	20905.00	CARE AAA; Stable	1)CARE AAA; Stable (13-Dec-18) 2)CARE AAA; Stable (03-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (21-Dec-16) 2)CARE AAA (14-Oct-16)	1)CARE AAA / CARE A1+ (30-Oct-15)
12.	Borrowings-Market Borrowing Programme	LT	12631.00	CARE AAA; Stable	1)CARE AAA; Stable (13-Dec-18) 2)CARE AAA; Stable (03-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (21-Dec-16) 2)CARE AAA (14-Oct-16)	1)CARE AAA (12-Feb-16) 2)CARE AAA (30-Oct-15) 3)CARE AAA (16-Apr-15)
13.	Short Term Instruments-Short Term Borrowing	ST	-	-	-	-	1)Withdrawn (14-Oct-16)	1)CARE A1+ (12-Feb-16) 2)CARE A1+ (30-Oct-15) 3)CARE A1+ (16-Apr-15)
14.	Commercial Paper- CP/STD	ST	-	-	-	-	-	1)Withdrawn (30-Oct-15)
15.	Borrowings-Market Borrowing Programme	LT	18600.00	CARE AAA; Stable	1)CARE AAA; Stable (13-Dec-18) 2)CARE AAA; Stable (03-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (09-Feb-17) 2)CARE AAA; Stable (31-Jan-17) 3)CARE AAA; Stable (21-Dec-16) 4)CARE AAA (14-Oct-16) 5)CARE AAA (12-May-16)	-
16.	Short Term Instruments-Short Term Borrowing	ST	-	-	-	1)Withdrawn (09-Oct-17)	1)CARE A1+ (09-Feb-17) 2)CARE A1+ (31-Jan-17) 3)CARE A1+ (21-Dec-16) 4)CARE A1+ (14-Oct-16) 5)CARE A1+ (12-May-16)	-
17.	Borrowings-Market Borrowing Programme	LT/ST	55000.00	CARE AAA; Stable / CARE A1+	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)	-	-
18.	Borrowings-Market Borrowing Programme	LT/ST	85000.00	CARE AAA; Stable / CARE	1)CARE AAA; Stable / CARE A1+ (06-Mar-19)	-	-	-

				A1+	2)CARE AAA; Stable / CARE A1+ (26-Feb-19) 3)CARE AAA; Stable / CARE A1+ (13-Dec-18) 4)CARE AAA; Stable / CARE A1+ (03-Oct-18) 5)CARE AAA; Stable / CARE A1+ (05-Apr-18)			
19.	Bonds	LT	15000.00	CARE AAA; Stable	1)CARE AAA; Stable (31-Jan-19)	-	-	-
20.	Borrowings-Market Borrowing Programme	LT/ST	90000.00	CARE AAA; Stable / CARE A1+	-	-	-	-

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