

Expanding horizons generating growth

39TH ANNUAL REPORT 2007-08

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Rural Electrification Corporation Limited
A Government of India Enterprise

“Every horizon,
upon being reached,
reveals another
beckoning in the distance...”

COMPANY INFORMATION

CORPORATE OFFICE	Shri P. Uma Shankar Chairman & Managing Director	Shri B.R. Raghunandan General Manager (Law) & CS	Shri Ajeet Kumar Agarwal General Manager (Finance)
	Shri H.D. Khunteta Director (Finance)	Shri Guljit Kapur General Manager (T & D)	Shri Ashok Awasthi General Manager (IC & D/CP/BD/P&C)
	Shri Bal Mukand Director (Technical)	Shri P.J. Thakkar General Manager (RGGVY)	Shri Sanjiv Garg General Manager (Generation)
	Shri Arun Kumar Chief Vigilance Officer	Shri B.P. Yadav General Manager (IA / IT)	Shri Sunil Kumar General Manager (RGGVY)
	Shri Rama Raman Executive Director (T&D/RGGVY/Admn./IT)	Shri Subodh Garg General Manager (DDG)	
	Shri Vinod Behari Executive Director (HR)	Shri D.S. Ahluwalia General Manager (Finance)	
ZONAL OFFICES	Southern Zone, Hyderabad Shri J. Kalyana Chakravarty Zonal Manager	Western Zone, Mumbai Shri Rakesh Arora Zonal Manager	Eastern Zone, Kolkata Shri Ghosh Dastidar Zonal Manager
	Central Zone, Jabalpur Shri T.S.C. Bosh Zonal Manager	Northern Zone, Panchkula Shri V.K. Sharma Zonal Manager	East Central Zone, Lucknow Shri K.D. Chaudhary Zonal Manager
REGISTERED OFFICE	Core-4 SCOPE Complex, 7, Lodhi Road, New Delhi-110003 Tel: 91 11 24365161, Fax: 91 11 24360644, E-mail: reccorp@recl.nic.in Website: www.recindia.nic.in		
COMPANY SECRETARY	B.R. Raghunandan		
REGISTRAR & SHARE TRANSFER AGENT	Karvy Computershare Private Limited Plot 17 to 24, Vittalrao Nagar, Madhapur, Hyderabad - 500081, India, Tel: 91 40 23420815-824 Fax: 91 40 23420814, E-mail: einward.ris@karvy.com, Website: www.karvycomputershare.com		
SHARES LISTED AT	National Stock Exchange of India Limited		Bombay Stock Exchange Limited
DEPOSITORIES	National Securities Depository Limited		Central Depository Services (India) Limited
STATUTORY AUDITORS	G.S. Mathur & Co. Chartered Accountants		
BANKERS	Reserve Bank of India State Bank of India State Bank of Hyderabad Vijaya Bank	Dena Bank Corporation Bank HDFC Bank ICICI Bank	IDBI Bank Syndicate Bank Bank of India Standard Chartered Bank Axis Bank Kotak Mahindra Bank
SUBSIDIARY COMPANIES OF REC	REC Transmission Projects Company Limited REC Power Distribution Company Limited North Karanpura Transmission Company Limited Talcher II Transmission Company Limited		

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PERFORMANCE HIGHLIGHTS

CONSISTENT GROWTH OVER 10 YEARS

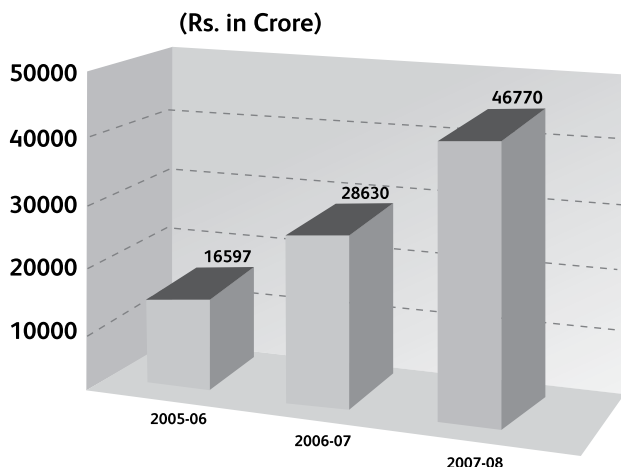
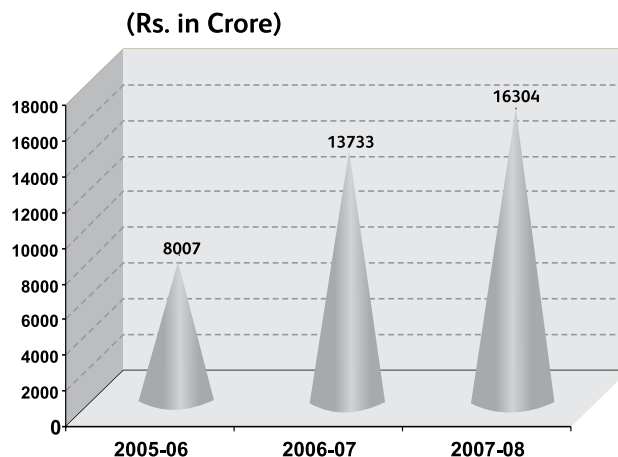
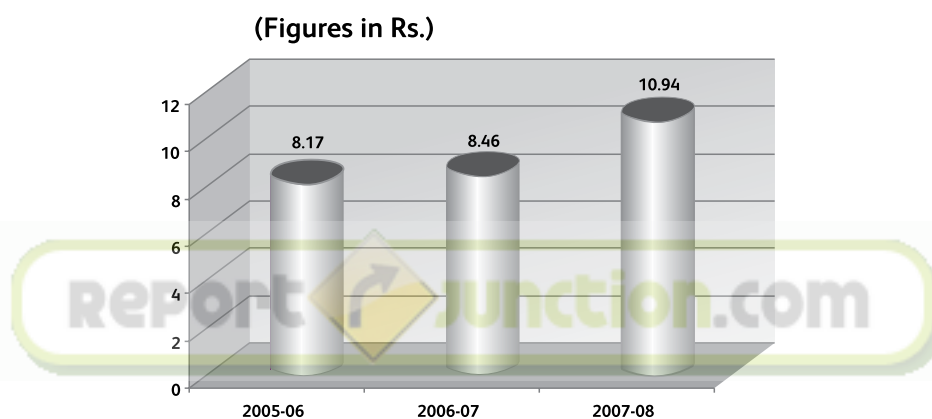
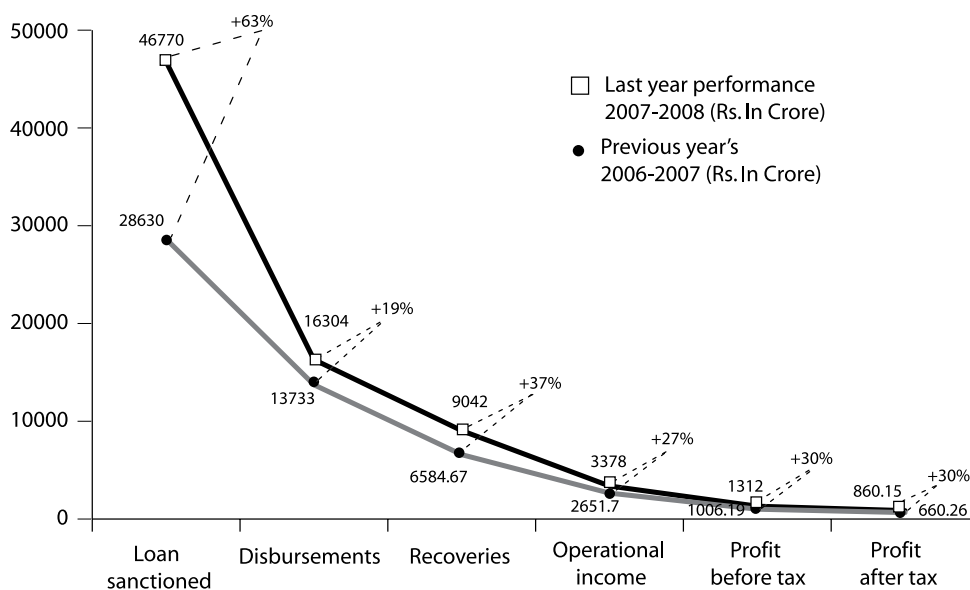
Particulars	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01	1999-00	1998-99
RESOURCES										
(at the end of the year)										
Equity Capital (Rs. Lacs)	85866	78060	78060	78060	78060	78060	78060	73060	68060	68060
BORROWINGS (Rs. Lacs)										
From Govt. of India	8192	10048	11997	14017	118336	220341	480947	566779	559894	501749
By issue of bonds	2408962	2248372	1675724	1360591	1197511	1049404	671927	372068	277573	209102
From LIC	350000	350000	350000	350000	150000	—	—	—	—	—
Foreign currency borrowings	104845	87209	--	--	--	--	--	--	--	--
Other Banks	556230	332471	366200	213200	44000	20000	21000	—	—	—
Reserves & Surplus (Net)	450904	323211	341773	299830	248377	208105	168570	141769	121105	89827
FINANCING OPERATIONS										
(During the year) (Rs. Lacs)										
Number of projects approved	881	748	661	1523	1322	1060	979	1301	1379	14681
Financial assistance sanctioned	*4676976	*2862985	*1659689	1631636	1597791	1212534	676394	630809	467820	287873
Disbursements	1630370	1373299	800658	788509	601704	660664	472193	410922	305105	220260
Repayments by borrowers	606987	403444	350646	468324	358732	471594	266998	216262	155259	111024
Outstanding at the end of the year	3861483	3126218	2456368	2106218	1830470	1593565	1418534	1218919	1029368	884231
ACHIEVEMENTS										
Villages electrified										
During the year	*38262	*40233	181	765	122	—	207	581	1996	2502
Upto the end of the year	394674	^356412	306010	305829	305064	304942	304942	304735	304154	302158
Pumpsets energised										
During the year	181244	174750	182239	175772	132914	134583	139917	206071	252877	279201
Upto the end of the year	8921487	8740243	8565493	8383254	8207482	8074568	7939985	7800068	7593997	7341120
Working Results										
(For the year) (Rs. Lacs)										
Total income	353766	285399	224506	230209	199671	205389	166466	141961	129401	113631
Personnel & Admn. Expenses	11112	6416	5770	4434	4659	5866	4972	3141	2544	2400
Interest on borrowings	206272	174089	133913	120475	114220	120274	109879	93216	79189	69372
Depreciation	138	113	110	115	103	104	151	621	623	607
Profit Before Tax	131242	100619	82983	103665	80154	76663	50120	44647	41936	38454
Provision for Tax	45227	34593	19232	23590	18915	18811	11355	10958	10502	8530
Profit Af ter Tax	86014	66026	63751	80075	61239	57852	38765	33690	31434	29924
Dividend on Equity	25759	17700	19126	23450	18300	17400	12000	6700	5000	5000
Net Worth	536771	401271	419833	377890	326437	286165	246630	214829	189165	157887

* Excluding grants under RGGVY.

The number of villages where electricity works completed during the year 2007-08 under RGGVY. This includes intensive electrification of 28961 villages.

+ The no. of villages where electrification works completed during the year 2006-07 under RGGVY. This includes intensive electrification of 11,527 villages.

^ During 2005-06, works in 10,169 villages (including intensive electrification in 350 electrified villages) completed under RGGVY, are also included.

**LOAN SANCTIONED****DISBURSEMENT****EARNING PER SHARE****PERFORMANCE HIGHLIGHTS**

MISSION & OBJECTIVES

MISSION

- To facilitate availability of electricity for accelerated growth and for enrichment of quality of life of rural and urban population.
- To act as a competitive, client-friendly and development oriented organisation for financing and promoting projects covering power generation, power conservation, power transmission and power distribution network in the country.

OBJECTIVES

In furtherance of the Mission, the main objectives to be achieved by the Corporation are:

- To promote and finance projects aimed at integrated system improvement, power generation, promotion of decentralized and non-conventional energy sources, energy conservation, renovation and maintenance, power distribution with focus on pumpset energisation, implementation of Rajiv Gandhi Grameen Vidyutikaran Yojana, a Government of India scheme for rural electricity infrastructure and household electrification.
- To expand and diversify into other related areas and activities like financing of decentralised power generation projects, use of new and renewable energy sources, consultancy services, transmission, sub-transmission and distribution systems, renovation, modernisation & maintenance etc. for optimization of reliability of power supply to rural and urban areas including remote, hill, desert, tribal, riverine and other difficult/remote areas.
- To mobilise funds from various sources including raising of funds from domestic and international agencies and sanction loans to the State Electricity Boards, Power Utilities, State Governments, Rural Electric Cooperatives, Non-Government Organisations (NGOs) and private power developers.
- To optimise the rate of economic and financial returns for its operations while fulfilling the corporate goals viz
 - (i) laying of power infrastructure;
 - (ii) power load development;
 - (iii) rapid socio-economic development of rural and urban areas, and
 - (iv) technology up-gradation.
- To ensure client satisfaction and safeguard customers' interests through mutual trust and self respect within the organisation as well as with business partners by effecting continuous improvement in operations and providing the requisite services.
- To assist State Electricity Boards/Power Utilities/State Governments, Rural Electric Cooperatives and other loanees by providing technical guidance, consultancy services and training facilities for formulation of economically and financially viable schemes and for accelerating the growth of rural and urban India.

LETTER TO SHAREHOLDERS



Ladies and Gentlemen,

I extend a very warm welcome to all the shareholders on the occasion of the Thirtieth Annual General Meeting of the Company.

INITIAL PUBLIC OFFER (IPO)

The financial year 2007-08 has been a landmark year in the history of Rural Electrification Corporation Limited (REC). The Company went for a maiden Public Offer of 15,61,20,000 Equity Shares in February 2008, which comprised fresh issue of 7,80,60,000 Equity Shares by the Company and an Offer for Sale of another equal number of Shares by the President of India. The Initial Public Offer (IPO) got a phenomenal response and was oversubscribed by about 27 times. REC raised a total amount of Rs. 819.63 crore through the IPO to meet its expanding funding operations. The total number of Shareholders including the President of India which was only 8 before IPO increased to 5,05,267 after IPO, and the Shareholding of the Government of India has reduced from 100% to 81.82%, the balance 18.18% being held by the public. In the process of the IPO, many employees of your Company have also become proud owners by subscribing to the shares of the Company.

The Company was listed on the National Stock Exchange of India Ltd. and the Bombay Stock Exchange Ltd. on 12th March 2008.

Such an overwhelming response to the IPO would not have been possible without your unstinted support and I express the Company's gratitude to all the enlightened investing community, including the Qualified Institutional Buyers and the High Networth Individuals, in recognising the consistent growth record, profitability and the strong fundamentals of the Company, and reposing confidence in its future growth potential too, especially at a time when the capital market was passing through a very vulnerable and volatile phase. Your Company has now transformed into a Global Player with a large number of investors in India and abroad.

NAVRATNA STATUS

There was yet another historic achievement for your Company in May 2008 when it was conferred "Navratna" Status by the Government of India. This is the highest recognition for any Central Public Sector Enterprise (CPSE) and only a few selected CPSEs in the country enjoy this elite status.

REC IN RETROSPECT

I joined your Company as Chairman and Managing Director on 1st March 2008, just after the successful completion of the IPO process. It is a matter of great pride and honour to be steering your Company at a time when it has achieved several landmarks in its historic and eventful journey of 39 years since its inception. Set up in July 1969 primarily to finance rural electrification schemes in the country to accelerate the pace of rural electrification in the overall context of planned programmes for increased agricultural production, your Company has come a long way by expanding its mandate of financing to power generation, transmission and distribution projects, without any territorial or other restrictions. The Company has recorded exponential growth over the years, by sanctioning cumulatively Rs. 1,79,526 crore and disbursing Rs. 75,243 crore upto 31st March 2008. I can imagine and sense the efforts and energy which would have gone into, in arriving at this colossal milestone. This should indeed be a matter of great satisfaction not only to the Government of India, but also to several of my predecessors, who steered the organisation over the years with great vision and missionary zeal with persistent support from the employees of the Company, and to all its stake holders.

SECTORAL OUTLOOK

At the macro level, the economy has grown consistently around 9 per cent with an expectation of similar growth in the coming years. There is a tremendous upswing in the power sector, with huge generation capacity addition of 78,577 MW planned in the Eleventh Plan period. Corresponding transmission and distribution capacities are also to be added. This means that massive funding of over Rs.10,316 billion would be required. Of this, REC plans to lend about Rs. 1,000 billion and has geared itself for extending loans of this magnitude, which involves greater amount of work and challenges. Your Company expects the power sector to continue to remain bullish despite the immediate challenges due to inflationary pressures, rising interest rates and liquidity constraints.

REC'S EXPANDING ROLE

Changes in economic scenario, although challenging, are also perceived as opportunities by your Company to take stock and review its past strategies and make appropriate changes wherever necessary. Your Company has already taken steps to diversify its business by floating wholly owned subsidiary companies to explore and participate in the growth opportunities emerging in the transmission and distribution sectors. REC is also exploring the joint venture route through public private partnership with the twin objective of capitalising on its rich and specialised experience acquired over the years in formulating and financing electrification schemes, especially in rural and semi-urban areas, and join hands with private sector to share the enormous synergy and infrastructure required, in creating alternative and self-sustainable models of distribution across the country by effecting cost-effective measures and controlling AT & C losses.

RGGVY

The other challenge is the Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY), launched by the Government of India in April 2005, for the attainment of the National Common Minimum Programme goal of providing access to electricity to all households in five years. The RGGVY programme aims at electrification of 1.15 lakh unelectrified villages and providing free connections to 2.34 crore rural below poverty line (BPL) households. REC is the nodal agency appointed by the Government of India for overseeing this ambitious programme wherein the Government funds 90 percent of the programme by way of grant and the remaining 10 percent is provided by REC as loan.

PERFORMANCE HIGHLIGHTS

It is heartening to note that during the year 2007-08 under review, your Company has registered robust performance, creating an all-time record in all key operational parameters. The amount of loans sanctioned increased by 63 % over the previous year to Rs. 46,770 crore from Rs. 28,630 crore, excluding Grants under RGGVY. The amount of disbursements increased by 19 % to Rs. 16,304 crore from Rs. 13,733 crore, which included Grants under RGGVY. The recoveries increased by 37 % to Rs. 9,042 crore from Rs. 6,585 crore. The operating income increased by 27 % to Rs. 3,378 crore from Rs. 2,652 crore. The Profit before tax increased by 30 % to Rs. 1,312.42 crore from Rs. 1,006.19 crore. Similarly, the Profit after tax also increased by 30 % to Rs. 860.15 crore from Rs. 660.26 crore.

DIVIDEND

After making necessary appropriations towards statutory reserves, your directors have recommended payment of dividend @ 30 % (i.e. Rs. 3 per equity share of Rs. 10 each) with a total dividend pay-out of Rs. 257.59 crore for the year 2007-08, against Rs. 177 crore for the previous year.

RESOURCE MOBILISATION

Besides raising Rs. 819.63 crore from the Public Issue of shares, the Company mobilised Rs. 8,377.23 crore from the market during the year 2007-08 to meet its funding operations. This included Rs. 3,402.74 crore by way of Capital Gain Tax Exemption Bonds and Rs. 178.19 crore by way of Official Development Assistance (ODA) loan from Kreditanstalt für Wiederaufbau (KfW), Germany and Japan Bank for International Cooperation (JBIC). The domestic debt instruments of REC continued to enjoy "AAA" rating i.e. the highest rating assigned by CRISIL, CARE, FITCH and ICRA – Credit Rating Agencies. REC also enjoys international credit rating equivalent to sovereign rating of India from International Credit Rating Agencies such as Moody's and FITCH. For the year 2007-08, since your Company continued to be eligible to raise money through Capital Gain Tax Exemption Bonds under Section 54 EC of the Income Tax Act, 1961, it helped the Company in keeping the cost of borrowing at a comparatively low level and deliver debt financing at competitive rates.

FINANCING T & D

In the conventional areas of financing, REC has ramped up its level of involvement, in the recent years, in creating new infrastructure and improving the power transmission and distribution networks. In addition, loan assistance to power utilities under system improvement portfolio have helped strengthen and improve Transmission, Sub-transmission and Distribution Systems in the country, reduce A T & C losses, improve voltage profile and bring down instances of failure of Distribution transformers leading to improved reliability and quality of power supply to consumers. The Company's bulk financing schemes have enabled power utilities to take up large scale installation / replacement of meters in order to meet the target of 100 % metering set by the Government. Your Company has thus been fully supporting the state power utilities under its various loan portfolios to achieve the country's objectives of (a) providing power for all by the year 2012, (b) reducing the A T & C losses, (c) expanding and strengthening the transmission network, and (d) modernising the distribution system.

FINANCING GENERATION

From the year 2002, REC has diversified into financing of Generation projects for creation of new generation capacity. REC currently finances Thermal energy power generation projects, Hydro energy power generation projects as well as Renovation, Modernisation and Life extension schemes in the public sector, joint sector and private sector. Cumulatively upto the end of the year 2007-08, your Company has sanctioned 23 Hydro projects with a total loan outlay of Rs. 8,102 crore for total capacity addition of 6,000 MW, 50 Thermal projects with a total loan outlay of Rs. 47,894 crore for total capacity addition of 22,559 MW, and 26 R & M projects with a total loan outlay of Rs. 1,269 crore. Cumulatively, the Company has sanctioned till the end of the year 2007-08 Rs. 57,265 crore which involves capacity addition of 28,559 MW of power.

TRANSMISSION SUBSIDIARY

In the year 2006-07, the Government of India initiated a scheme that involved inviting private sector investment in major transmission projects. The scheme entailed private developers eventually becoming transmission service providers on a "Build, Own and Operate" basis. Out of the 14 projects identified under this scheme, a subsidiary company of REC was appointed as Bid Process Coordinator for 2 of the projects i.e. North Karanpura Transmission System and Talcher Augmentation Transmission System. REC set up a separate subsidiary company by name "REC Transmission Projects Company Limited" for this purpose. This company, in turn, has established two project-specific subsidiary companies.

DISTRIBUTION SUBSIDIARY

REC has also established another Subsidiary Company by name "REC Power Distribution Company Limited". The main objective of this Company is to promote, develop, construct, own, operate, distribute and maintain 66 KV and below voltage class Electrification/Distribution Electric supply lines distribution system and manage Decentralized Distributed Generation and associated distribution system, besides offering consultancy services in the above areas for other agencies and Government bodies. This Company aims to capitalize on the emerging needs and demands of power sector, and diversify the business activities. Although this Subsidiary Company was incorporated only recently on 12th July 2007, it has already bagged a few major high value contracts from Jodhpur Vidyut Vitran Nigam Ltd., Punjab State Electricity Board and Ajmer Vidyut Vitran Nigam Ltd. which cover quality monitoring, supervision and inspection of the village electrification work awarded on turnkey basis under Rajiv Gandhi Grameen Vidyutikaran Yojana, and consultancy services for selection of developers through International Competitive Bidding Process for supply of 1,800 MW 10 % power on tariff based bidding to PSEB. In the first year of operation itself, this Company has registered a profit after tax of Rs. 1.78 crore from its operations.

PRUDENTIAL NORMS AND LENDING POLICY

Your Company believes in adopting prudent management and lending practices matching with other similar organisations. Although as a Government owned Non-Banking Finance Company (NBFC), REC is exempt from the applicability of the Prudential Norms prescribed by RBI for other NBFCs, your Company has formulated and adopted its own Prudential Norms. The Company has also a Risk Management Policy which covers inter alia Asset Liability Management, Derivatives and Investment of Surplus Funds. As prescribed by RBI, your Company has also formulated a Fair Practices Code for putting in place Fair Lending Practices by the Company which also includes Grievance Redressal Mechanism.

CORPORATE GOVERNANCE

As a listed Company, REC complies with all the requirements of Corporate Governance as stipulated in the Listing Agreement as well as the provisions notified by the Department of Public Enterprises, Government of India, in this regard.

MOU WITH MINISTRY OF POWER

Your Company's performance has been rated as "Excellent", in terms of annual MOUs signed with the Government of India in the Ministry of Power, for the 14th year in succession for the financial year 2006-07. For the year 2007-08 also, the Company has reached new milestones in sanctions and disbursements and it is poised again for "Excellent" rating.

ERP

REC has initiated implementation of Company-wide ERP based Integrated Information System to increase the efficiency and effectiveness of the functional processes and to create a robust MIS system with seamless flow of data from various offices of the Company and to provide management support at all levels. The ERP system has reached advanced stage and is expected to become operational during the current financial year 2008-09. REC has also implemented Quality Management Systems as per ISO 9001:2000 standards in six major Divisions in Corporate Office and nine Project Offices across the country.

CORPORATE SOCIAL RESPONSIBILITY

The concept of Corporate Social Responsibility (CSR) has acquired significance at the national as well as international level as a strategic tool for sustainable development. Your Company has recently formulated a Policy on CSR and allocated specific budget provision for its implementation. The Company would be drawing an action plan to identify specific areas / projects where the money allocated for CSR Projects can be spent.

National Foundation for Communal Harmony (NFCH), an autonomous organisation of the Government of India, is engaged in promoting and undertaking activities for fostering communal harmony and national integration and brotherhood in the country. Considering the cause undertaken by NFCH and its national status, your Company has contributed a sum of Rs.10 lakh during the year 2007-08 as a part of Corporate Social Responsibility.

WAY FORWARD

The power sector will continue to provide one of the biggest avenues to participate in the development of India's infrastructure. The demand for power and the associated transmission and distribution systems is likely to be higher than what most current estimates show. Many traditional as well as non-traditional opportunities will emerge across the entire value chain. Winning in the sector will require crafting business models tailored to meet the emerging opportunities. Our efforts in this direction will not only contribute to the wellbeing of more than One billion of our countrymen but in the process pave the way for your Company to become one of the largest financing companies in the world, adding value to the investors who have reposed immense confidence in us.

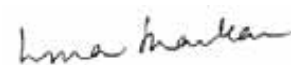
ACKNOWLEDGEMENTS

I am deeply grateful to the immense support received for the Company from the Hon'ble Minister for Power, the Hon'ble Minister of State for Power, the Secretary (Power), the Joint Secretary (Rural Electrification) and other officers in the Ministry of Power, the officers in the Ministry of Finance, Planning Commission and the Reserve Bank of India, the Comptroller & Auditor General of India and the Statutory Auditors for all their support and guidance extended in ensuring smooth operations of the Company. I take this opportunity to express my special thanks to my predecessor, who steered the Company for major period during the year 2007-08, and to my colleagues on the Board for their valuable guidance and support in enabling such excellent around performance of the Company.

The continued excellent performance of the Company year after year, the resounding success in the IPO, the conferring of Navratna status to your Company by the Government of India – all these accolades stand testimony to the hard work, dedication and commitment by the entire family of REC at all levels, which I feel proud to place on record.

I convey my special thanks to all the other stakeholders of the Company for extending their valuable support and cooperation.

With best wishes,



(P. Uma Shankar)

Chairman & Managing Director