

Funding for Growth

RURAL ELECTRIFICATION CORPORATION LIMITED

42ND ANNUAL REPORT 2010-11



आर ई सी
REC

असीमित ऊर्जा, अनन्त संभावनाएं
Endless energy. Infinite possibilities.

Company Information

CORPORATE OFFICE

FUNCTIONAL DIRECTORS

Shri H. D. Khunteta Chairman & Managing Director	Shri H. D. Khunteta Director (Finance)	Shri Prakash Thakkar Director (Technical)
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CHIEF VIGILANCE OFFICER

Shri B. P. Pandey (From 10.01.2011)	Shri Rajesh Verma (Upto 10.01.2011)
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EXECUTIVE DIRECTORS

Shri Vinod Behari Executive Director (CC/Training/CSR)	Shri B.P. Yadav Executive Director (IT/Estate)	Shri Puneet Kumar Goel Executive Director (RGGVY/CP/GEN.)	Shri Kamal Dayani Executive Director	Shri V. K. Arora Executive Director (Finance)
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GENERAL MANAGERS

Shri D. S. Ahluwalia General Manager (Finance)	Shri Ajeet Kumar Agarwal General Manager (Finance)	Shri Ashok Awasthi General Manager (IC & D/Admn./RE)	Shri Sanjiv Garg General Manager (Generation)
Shri Sunil Kumar General Manager (RGGVY)	Shri S. N. Gaikwad General Manager (Generation)	Shri R. K. Mittal General Manager (Law)	Shri S. K. Gupta General Manager (T&D)
Shri Rakesh Kumar Arora General Manager (F&A) & Company Secretary		Shri T. S. C. Bosh General Manager (RGGVY/STD/QC)	

ZONAL MANAGERS

Western Zone, Mumbai Shri M. K. Mittal Zonal Manager	Eastern Zone, Kolkata Shri S. Ghosh Dastidar Zonal Manager	Northern Zone, Panchkula Shri G. S. Bhati Zonal Manager
Southern Zone, Hyderabad Shri P. S. Hariharan Zonal Manager	East Central Zone, Patna Shri N. K. Maurya Zonal Manager (In-charge)	

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

Shri Rakesh Kumar Arora

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.karvy.com

SHARES LISTED AT

National Stock Exchange of India Limited	Bombay Stock Exchange Limited
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DEPOSITORIES

National Securities Depository Limited	Central Depository Services (India) Limited
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JOINT STATUTORY AUDITORS

K. G. Somani & Co. Chartered Accountants	Bansal & Co. Chartered Accountants
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SECRETARIAL AUDITOR

Chandrasekhran Associates, Company Secretaries

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 IndusInd Bank Bank of India Axis Bank	Yes Bank Union Bank of India
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SUBSIDIARY COMPANIES OF REC

REC Transmission Projects Company Limited
REC Power Distribution Company Limited
Vemagiri Transmission Systems Limited
(A wholly owned subsidiary of REC Transmission Projects Company Limited)

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Performance Highlights

CONSISTENT GROWTH OVER 10 YEARS

Particulars	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02
RESOURCES										
(at the end of the year)										
Equity Capital (₹ Lacs)	98746	98746	85866	85866	78060	78060	78060	78060	78060	78060
BORROWINGS (₹ Lacs)										
From Govt. of India	3613	4942	6474	8192	10048	11997	14017	118336	220341	480947
By issue of bonds	5119525	4086101	3263148	2408962	2248372	1675724	1360591	1197511	1049404	671927
From LIC	285000	320000	335000	350000	350000	350000	350000	150000	----	----
Foreign currency borrowings	758332	207637	149368	104845	87209	----	----	----	----	----
Commercial Papers	Nil	245000	129500	----	----	----	----	----	----	----
Other Banks	646914	644143	610105	556280	332471	366200	213200	44000	20000	21000
Reserves & Surplus (Net)	1180116	1009288	533142	450904	323211	341773	299830	248377	208105	168570
From IIFCL	187000	87000	----	----	----	----	----	----	----	----
FINANCING OPERATIONS										
(During the year) (₹ Lacs)										
Number of projects approved	658	492	506	881	748	661	1523	1322	1060	979
Financial assistance sanctioned	*6641998	*4535736	*4074584	*4676976	*2862985	*1659689	1631636	1597791	1212534	676394
Disbursements	2851711	2712714	2227786	1630370	1373299	800658	788509	601704	660664	472193
Repayments by borrowers	877258	580654	511936	560024	403444	350646	468324	358732	471594	266998
Outstanding at the end of the year	8172545	6597875	5065281	3861483	3126218	2456368	2106218	1830470	1593565	1418534
ACHIEVEMENTS										
Villages electrified										
During the year	**95293	^53370	^^48533	#38262	*40233	181	765	122	----	207
Upto the end of the year	581701	486408	433038	384505	*346243	306010	305829	305064	304942	304942
Pumpsets energised										
During the year	318176	240020	188743	181244	174750	182239	175772	132914	134583	139917
Upto the end of the year	9668426	9350250	9110230	8921487	8740243	8565493	8383254	8207482	8074568	7939985
Working Results										
(For the year) (₹ Lacs)										
Total income	849527	670760	493128	353766	285399	224506	230209	199671	205389	166466
Personnel & Admn. Expenses	16436	14467	10924	11110	6416	5770	4434	4659	5866	4972
Interest on borrowings	478092	389120	288735	206365	174089	133913	120475	114220	120274	109879
Depreciation	304	216	136	139	113	110	115	103	104	151
Profit Before Tax	347663	264919	192011	131242	100619	82983	103665	80154	76663	50120
Provision for Tax	90670	64778	64803	45228	34593	19232	23590	18915	18811	11355
Profit After Tax	256993	200142	127208	86014	66026	63751	80075	61239	57852	38765
Dividend on Equity	74059	60321	38640	25760	17700	19126	23450	18300	17400	12000
Net Worth	1278862	1108033	619008	536771	401271	419833	377890	326437	286165	246630

* Excluding subsidy under RGGVY.

** The number of villages where electrification works completed during the year 2010-11 under RGGVY. This includes intensive electrification of 76987 villages.

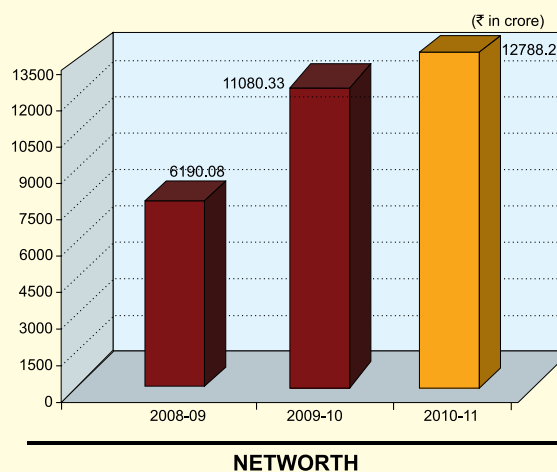
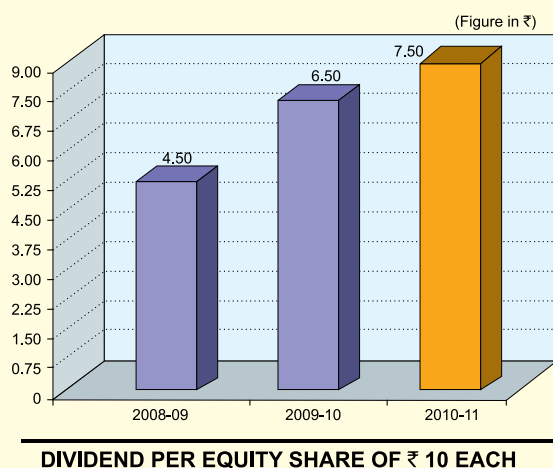
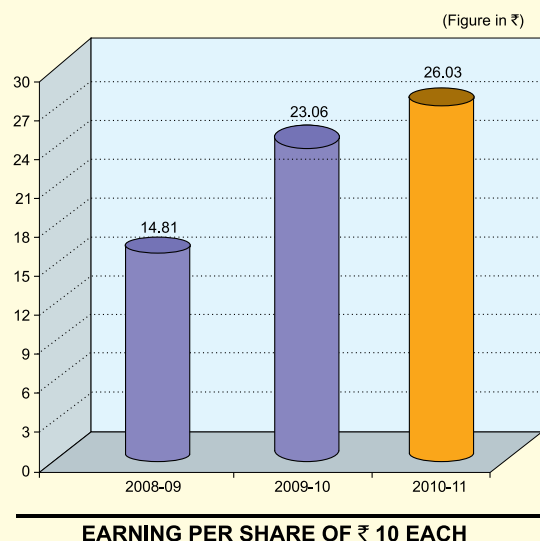
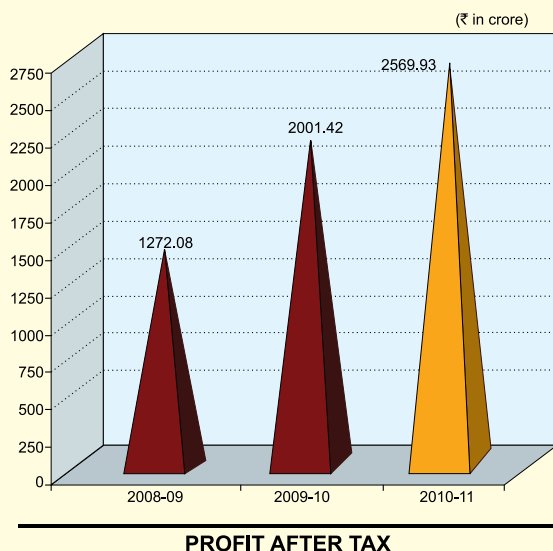
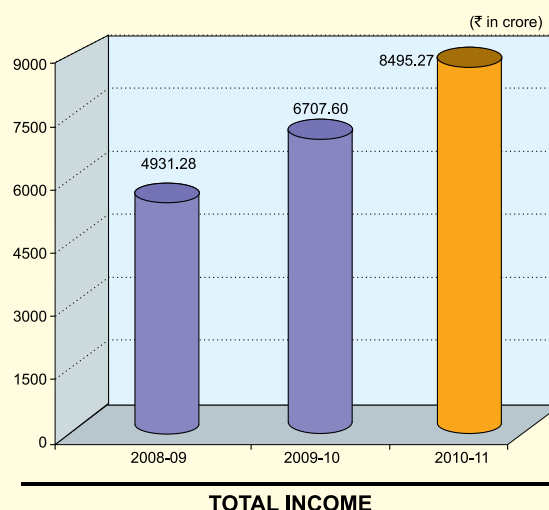
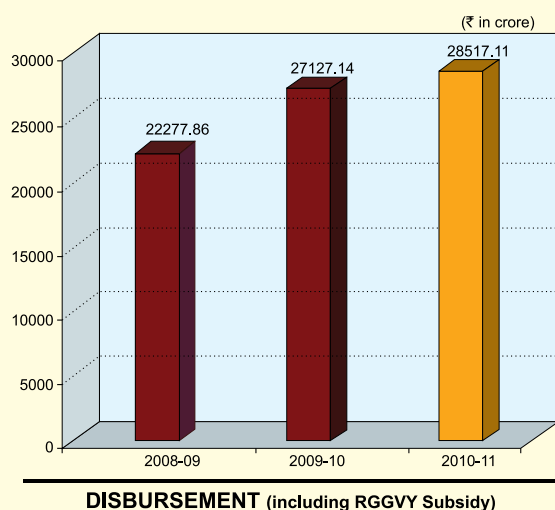
^ The number of villages where electrification works completed during the year 2009-10 under RGGVY. This includes intensive electrification of 34996 villages.

^^ The number of villages where electrification works completed during the year 2008-09 under RGGVY. This includes intensive electrification of 36477 villages.

The number of villages where electrification 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.



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 organization 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 listed below :

- 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 Gramin 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 decentralized power generation projects, use of new and renewable energy sources, consultancy services, transmission, sub-transmission and distribution systems, renovation, modernization & 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 mobilize funds from various sources including raising of funds from domestic and international agencies and sanction loans to the State Electricity Boards, Power Utilities, State Government, Rural Electric Cooperatives, Non-Government Organizations (NGOs) and private power developers.
- To optimize 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 organization 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.

Chairman's Letter to Shareholders



H. D. Khunteta
Chairman & Managing Director

“This is the 17th year in succession that REC has received “Excellent” rating since the year 1993-94 when the first MoU was signed with the Government. For the Financial Year 2010-11 also, the performance of the Company is poised to receive “Excellent” rating.”

Ladies and Gentlemen,

It gives me immense pleasure to welcome you on the occasion of the 42nd Annual General Meeting of your Company.

I am privileged to be heading a “Navratna” Company which has established a record of excellent all-round performance, consistent growth and profitability, especially over the last five years. From a humble beginning in 1969, when the company financed mainly pumpset energisation and village electrification schemes, your Company today has become one of the leading public financial institutions in the country, catering to financing needs of almost the entire power infrastructure space in India.

The company's annual report and audited accounts for the year ended 31st March, 2011 have been with you for some time now and with your permission, I shall take these as read. I take this opportunity to share my views on the economic scenario and to present the performance highlights of your Company.

OUTLOOK ON ECONOMY

The year gone by has seen several developments in the economic landscape in India and abroad. At the same time, continuing efforts for consolidation of fiscal position of countries in Europe, events in the Middle East and North Africa, rising oil prices and emerging inflation trends in many countries have emerged as challenges impacting the global growth outlook. The coordinated efforts of respective governments and central banks across the nations in fiscal and monetary policy calling for vigilant financial discipline have shown gradual improvement in the state of world economy. However, the latest data from IMF indicates that global economic growth is likely to moderate from 5% in 2010 to 4.4% in 2011. Growth is projected to decelerate in advanced economies due to the waning impact of fiscal stimuli, high oil and commodities prices.

During 2010-11 Indian economy registered growth of 8.5% compared to a growth of 8% achieved in the financial year 2009-10. The growth for the current financial year 2011-12 is expected to moderate due to higher inflationary pressures and high level of interest rates, which may further get augmented due to slow down in the capital expansion plans of corporates due to higher borrowing costs. Reserve Bank of India (RBI), in its policy announcement in July 2011, has raised the repo and reverse repo rates by a further 50 basis points to 8% and 7% respectively, making for an increase of 325 basis points in key policy rates over the last 17 months. While the impact of these changes may create periodic volatility in the short term, we expect Indian economy to sustain high growth rates over the medium and long term on the back of its strong fundamentals.

OUTLOOK ON POWER SECTOR

The Power Sector, being the key infrastructure area, will be at the centre stage driving India on a higher economic growth path. The power generation capacity has increased substantially in recent years.

The installed generation capacity of the country at the end of fiscal 2011 stands at 173.6 GW. During the first four years of the XI Plan, 34,462 MW of capacity was added against the Eleventh Plan Mid Term Appraisal target of 62,374 MW. Delays/slippages of long term coal linkages to the projects identified and failure to achieve planned targets from captive coal mine blocks has to some extent affected the generation capacity addition plan. These bottlenecks have resulted in slippage of planned capacity addition targets and increased dependence of generating companies on imported coal, thereby having a cascading effect on cost of production.

According to the report of the Working Group on Power for XI Plan of the Government of India, the overall requirement of funds for the power sector has been estimated at ₹10,31,600 crore. For the XII Plan period, CEA estimates that in order to meet the projected demand requirement by 2017, capacity addition of 100,000 MW would be required and including additions required in commensurate transmission and distribution network expansion, the total fund requirement for the plan period would be about ₹11,00,000 crore.

Further, the distribution system, which happens to be the weakest link in the entire power value chain and mostly falling in the ambit of State Discoms, needs to be augmented, upgraded and strengthened to match with the anticipated growth in generation and transmission capacities on one hand, and the need to bring down high AT&C losses on the other. The total fund requirement for sub-transmission and distribution system development for urban and rural areas, during the XI Plan period is estimated at ₹2,87,000 crore inclusive of APDRP and RGGVY schemes. Further, CEA estimates that for the XII Plan period, the total fund requirement for the distribution sector would be about ₹3,71,000 crore. The Restructured APDRP (R-APDRP) scheme of Government of India seeks to address the twin issues of the SEBs /Discoms, namely limited resource availability and conventional technology. Implementation of HVDS, feeder separation, smart grid technologies, IT intervention and use of energy efficient equipments are being taken up vigorously for better and efficient management of the distribution system. The performance orientation built into the R-APDRP is expected to bring investments as well as improvement in this sector. Ongoing implementation of RGGVY on the other hand has led to creation of massive Rural

Electricity Distribution Backbone infrastructure for enabling access of power for one and all and immensely contributing to inclusive development of the country. Government of India has also set up India Smart Grid Task Force to evolve a road map for modernizing the existing electricity T&D grid of the country with information, communication and automation technology to provide quality and reliable power to meet the need of 21st century new age society.

During the recent Power Ministers' conference, the Hon'ble Union Power Minister, Shri Sushilkumar Shinde, called upon the states to take effective steps to ameliorate the poor financial condition of power distribution utilities and also urged the State Power Ministers to take stock of the situation in their states, devise a utility-wise turnaround plan and monitor its implementation at the highest level before the situation becomes "unsustainable". Besides the fuel including transport supply constraints, environment issues may also impact the growth of power sector if concurrent policy related steps are not taken in time. Further, the Shunglu Committee, which is reviewing the financial position of the country's power distribution utilities, is also expected to submit its report by September, 2011.

PERFORMANCE HIGHLIGHTS OF FISCAL 2011

Your Company continued to register higher growth and record performance for the year 2010-11, in key areas of Disbursements of Loans, Recoveries, Operating Income and Profits. A total sum of ₹24,519 crore (excluding subsidy under RGGVY) was disbursed during the year 2010-11, up by 16%, as against ₹21,132 crore disbursed in the previous year. A sum of ₹16,951.31 crore was recovered towards principal and interest, during the year as against ₹12,496.12 crore in the previous year. The Gross Non-Performing Assets (NPAs) were negligible and stood at ₹19.54 crore (i.e. 0.02% of Gross Loan Assets) at the end of the year. The Operating Income went up to ₹8,256.91 crore, up by 26%, from ₹6,549.76 crore in the previous year. The Profit after Tax increased to ₹2,569.93 crore, up by 28%, from ₹2,001.42 crore for the previous year. The earning per share (EPS) increased to ₹26.30, up by 14% from ₹23.06 in the previous year.

Your Company mobilized ₹25,855.35 crore from the market during the year 2010-11. This includes loans from Commercial Banks, issue of Capital Gain Tax Exemption Bonds, Infrastructure Bonds, Non-Priority Sector Bonds and Commercial Paper, External Commercial Borrowings, Official Development Assistance (ODA), Loans from KfW Germany and Japan International Cooperation Agency (JICA). During FY 2010-11, Company mobilized USD 1170 million

(₹5308.87 crore) from International market at very competitive rates. Out of this, USD 500 million was raised through Reg S Bond and USD 670 million through syndicated Term Loan facilities. These bonds are listed on the Singapore Stock Exchange (SGX).

Your Company constantly reviews and revises its lending and operation policies/ procedures to suitably align with market requirements as also with its corporate objectives. In spite of growing competition in the market as well as concerns on account of factors like high government borrowings, increase in RBI policy rates and rise in inflation, your Company has been able to maintain healthy spreads, with the help of judicious mix of diverse sources of borrowing including the External Commercial Borrowings (ECB), helping in balancing its objectives of business growth and profitability during the year.

Your Company has been funding power generation, transmission and distribution projects besides electrification of villages and pumpset energisation.

During the year 2010-11, the Company sanctioned 34 nos. of generation loans including additional loan assistance with total financial outlay of ₹40,101 crore, including consortium financing with other financial institutions. Since 2002-03 and up to 31.03.2011, REC has sanctioned cumulative financial assistance of ₹1,43,904.76 crore for generation projects.

Your Company continued to play an active role in creating new infrastructure and improving the existing ones under the transmission and distribution network in the country. During the year 2010 - 11, the company sanctioned a total sum of ₹22,207.68 crore and disbursed a total sum of ₹9,235.70 crore for transmission and distribution projects.

The Government of India is according topmost priority to rural electrification to realise the objectives of "Power to all villages" and "Power for all" through its flagship programme Rajiv Gandhi Gramin Vidyutikaran Yojna (RGGVY). Under the scheme 90% capital subsidy is being provided by Govt. of India for overall cost of the projects. Under this RGGVY programme, cumulatively up to 31.03.2011, works in 96,562 un-electrified villages have been completed and connections to 159.80 lacs BPL households have been released. During the year 2010-11, your Company disbursed a total sum of ₹4,415.49 crore (including Government Subsidy of ₹3,997.83 crore).

INFRASTRUCTURE FINANCE COMPANY (IFC) STATUS

In a significant development, RBI, vide its letter dated 17th September, 2010 has categorized your Company as an Infrastructure

Finance Company (IFC). As an IFC, your Company is inter alia allowed to have additional exposure for lending purposes. In addition, your Company is now eligible for issuance of Infrastructure Bonds and raising funds up to US \$ 500 million through External Commercial Borrowing (ECB) in a year under automatic route.

OTHER INITIATIVES

Your Company has an outstanding team of power professionals. In order to sustain the strong work ethics and professionalism, your Company is taking a number of initiatives to further improve the entry level talent quality to establish a strong talent pool. Your Company has also implemented pay scale revision for its employees, which include provision for performance related pay linked to performance of individual employee. During the year, many CSR initiatives were undertaken. One of such initiative was through the Homi Bhabha Centre for Science education, TIFR, Mumbai, wherein all the Olympiad winner students were awarded scholarships to promote education and excellence in these fields. Further, your Company for the Financial Year 2011-12 has allocated an amount equivalent to 0.5% of Profit after Tax for implementation of programmes as per the CSR Policy. Another important initiative taken this year was voluntarily getting the Secretarial Audit conducted by Practicing Company Secretaries for the year 2010-11.

MoU RATINGS, ACCOLADES AND AWARDS

This is the 17th year in succession that REC has received "Excellent" rating since the year 1993-94 when the first MoU was signed with the Government. For the Financial Year 2010-11 also, the performance of the Company is poised to receive "Excellent" rating.

Your Company's performance has also been well recognised and the same is reflected in various awards and accolades received during the year. REC received **India Pride Award 2010 for being adjudged "The Best NBFC"** and also **Third DSIJ Award 2010-11- "Speed King" for fastest growing PSUs across Maharatnas, Navratnas & Miniratnas. Your Company also featured in Dun & Bradstreet's India's Top PSUs 2011.** One more feather in the cap was added when the Company was included in the Morgan Stanley Capital International (MSCI) Emerging Market Index.

RATINGS

Excellence in performance of your Company is also reflected in consistently obtaining the highest MoU rating i.e Excellent from

the Government of India since 1993-94. REC's International Credit rating has been pegged at that of "Sovereign" by leading overseas credit rating agencies such as Moody's and Fitch. On the domestic front, your Company got the highest rating AAA from reputed agencies like CRISIL, CARE, Fitch & ICRA for its specific resource mobilization programme. Consistently high ratings bear testimony to REC's stature as an institution with strong fundamentals and inherent financial strength.

CORPORATE GOVERNANCE

As a listed entity, your Company has been complying with the requirements of Corporate Governance as stipulated in the Listing Agreement and also the provisions notified by the Department of Public Enterprises, Government of India in this regard. As a part of Green Initiative in Corporate Governance, the Ministry of Corporate Affairs has also allowed Companies to send official notices/ documents to their shareholders electronically. Your Company, as a responsible corporate citizen, has also taken initiative by seeking consent of its shareholders for electronic delivery of documents such as Notice of AGM, Annual Report by e-mail. The response has been overwhelming. Accordingly, Annual Report 2010-11 is being sent to these shareholders by e-mail. I compliment and thank all shareholders, and hope that many more will join in our Green endeavour in the coming years.

REC has implemented Quality Management Systems as per ISO 9001:2008 standards in six major Divisions of Corporate Office and all Zonal / Project Offices across the country.

Further, REC Data Centre along with support functions comprising of IT, HR, Legal, Administration and Finance has been certified the global ISO/IEC 27001:2005 security standard, by BSI Management Systems India Private Limited.

SUBSIDIARY COMPANIES & JOINT VENTURE

As on date, your Company has three Subsidiary Companies (1) REC Transmission Projects Company Limited (RECTPCL); (2) REC Power Distribution Company Limited (RECPDCL); (3) Vemagiri Transmission System Limited (VTSL) (a wholly owned subsidiary of RECTPCL).

RECTPCL, in its role as Bid Process Coordinator entrusted by Ministry of Power, Government of India, successfully completed the Bid Process for Raichur-Sholapur 765 kV single circuit Line - I. During the year, the SPV of the above project namely Raichur Sholapur Transmission Company Limited (RSTCL) (a wholly owned subsidiary of RECTPCL) was successfully transferred to a Consortium of M/s Patel Engineering Limited, M/s Simplex Infrastructures Limited and M/s BS TransComm Limited on 07.01.2011. After successful

completion of three projects by RECTPCL, Government of India has further entrusted it three more transmission projects for selection of developer on Competitive Bidding route. Vemagiri Transmission System Limited (a wholly owned subsidiary of RECTPCL) has been incorporated on 21st April, 2011 in respect of Transmission System associated with IPPs of Vemagiri Area: Package A. In response to global notification for Request for Qualification (RFQ) for said project, RECTPCL has received responses from 28 bidders which include foreign bidders also. With the Government notification providing for procurement of all transmission services through competitive bidding route after 05.01.2011, RECTPCL is poised to see huge emerging business in terms of fee based professional consultancy services.

Further, your Company along with three other PSUs namely NTPC, Powergrid and PFC as equal partners, **had formed a Joint Venture Company by the name of Energy Efficiency Services Limited (EESL)** on December 10, 2009. The total equity requirement for EESL is ₹190 crore to be shared equally by the four PSUs. EESL shall take a lead in implementing energy efficiency projects, play a market creation role in promoting usage of energy efficient appliances, promote the concept of Energy Service Companies (ESCOs) and performance contracting, manage a partial risk guarantee fund to provide risk mitigation to ESCOs etc, besides taking over the current commercial roles being discharged by the Bureau of Energy Efficiency (BEE).

FUTURE STRATEGY

To accelerate growth of your Company, we are focussing on expanding the business of financing power sector projects to include projects having backward and forward linkages to power projects. Besides, we are also developing new opportunities to have fee based income from other allied business eg. consultancy. The thrust of the Government of India on the renewable energy sector, and several policy initiatives on this front including the mandatory renewable energy purchase obligations imposed on the distribution companies are creating a favourable climate for this sector. Currently, the untapped potential in these technologies including hydro and biomass/ cogeneration is huge and a gradual shift to renewable energy source is imminent. Your Company would like to build up capabilities of financing such projects and steps have been taken in this regard.

Your company is also **exploring the possibilities of financing equipment manufacturers, power purchase/sale through the India Energy Exchange and taking up the work of underwriting/ syndication of Terms Loans for generation projects of private sectors borrowers.**