

Powering India... Transforming Lives... Moving Forward...



44TH ANNUAL REPORT 2012 - 13



आरईसी
REC
असीमित ऊर्जा, अनन्त संभावनाएँ
Endless energy. Infinite possibilities.

MISSION & OBJECTIVES

MISSION

- (i) To facilitate availability of electricity for accelerated growth and for enrichment of quality of life of rural and urban population.
- (ii) 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:-

1. 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.
2. 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.
3. 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.
4. 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.
5. 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.
6. To assist State Electricity Boards/Power Utilities/State Governments, Rural Electric Cooperatives and other loanes 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.

CONTENTS

1. Company Information.....	2
2. Board of Directors.....	3
3. Performance Highlights.....	4
4. Chairman's Letter to Shareholders.....	6
5. Notice of AGM	12
6. Directors' Profile.....	17
7. Directors' Report.....	20
8. Management Discussion and Analysis Report.....	47
9. Report on Corporate Governance.....	53
10. Business Responsibility Report	73
11. Statement Pursuant to Section 212 (1) (e) of Companies Act, 1956.....	82
12. Secretarial Audit Report.....	83
13. Auditors' Certificate on Corporate Governance	85
14. Balance Sheet	86
15. Statement of Profit & Loss	87
16. Significant Accounting Policies.....	88
17. Notes to Accounts	91
18. Cash Flow Statement	121
19. Independent Auditors' Report on Standalone Financial Statements.....	125
20. Non-Banking Financial Companies Auditors' Report.....	128
21. Comments of C & AG of India.....	129
22. Consolidated Financial Statements	130
23. Auditors' Report on Consolidated Financial Statements	167
24. Statement Pursuant to Section 212 (8) of Companies Act, 1956	168
25. Management Team	169
26. Addresses of REC Offices	171

Company Information

CORPORATE OFFICE

FUNCTIONAL DIRECTORS

Shri Rajeev Sharma Chairman & Managing Director	Shri Prakash Thakkar Director (Technical)	Shri Ajeet Kumar Agarwal Director (Finance)
---	---	---

CHIEF VIGILANCE OFFICER

Smt. Abha Anand Kishore

EXECUTIVE DIRECTORS

Shri Vinod Behari Executive Director (HR & CC)	Shri V. K. Arora Executive Director (Finance)	Shri Sushil Kumar Lohani Executive Director (RGGVY & CEO-RECPDCL)	Shri D. S. Ahluwalia Executive Director (Finance)	Shri Ashok Awasthi Executive Director (Admn./REN. & SD/ IT/Estate/PM)
---	--	---	--	---

GENERAL MANAGERS

Shri Sanjiv Garg General Manager (Generation)	Shri Sunil Kumar General Manager (RGGVY)	Shri S. N. Gaikwad General Manager (PM)	Shri S. K. Gupta General Manager (T&D) & CEO-RECTPCL)
Shri Rakesh Kumar Arora General Manager (Resource/CP/CSR)	Shri T. S. C. Bosh General Manager (RGGVY)	Shri Dinesh Kumar General Manager (REN)	Shri M. K. Mittal General Manager (EAP/CA&T/ALM)
Shri G. S. Bhati General Manager (RGGVY)	Shri V. K. Govil General Manager (Generation)	Shri L. M. Verma General Manager (Vigilance)	Smt. Kalpana Kaul General Manager (HR & CC)
			Shri J. S. Amitabh General Manager & Company Secretary

ZONAL MANAGERS

Western Zone, Mumbai C. P. Bhatia Zonal Manager	Eastern Zone, Kolkata Shri Jai Dev Banerjee Zonal Manager	Northern Zone, Panchkula Shri Rakesh Sareen Zonal Manager
Southern Zone, Hyderabad Shri P. S. Hariharan Zonal Manager	East Central Zone, Patna Shri N. K. Maurya 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.gov.in

COMPANY SECRETARY

Shri J. S. Amitabh

REGISTRAR & SHARE TRANSFER AGENT

Karvy Computershare Private Limited
Plot 17 to 24, Vittalrao Nagar, Madhapur, Hyderabad - 500081, India, Tel: 91 40 44655000
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
--	-------------------------------

DEPOSITORIES

National Securities Depository Limited	Central Depository Services (India) Limited
--	---

JOINT STATUTORY AUDITORS

Bansal & Co. Chartered Accountants	P. K. Chopra & Co. Chartered Accountants
--	--

SECRETARIAL AUDITOR

Grover Ahuja & 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 Indus Ind Bank Bank of India Ratnakar Bank	Yes Bank Union Bank of India Axis Bank
--	--	---	--

Board of Directors



SHRI RAJEEV SHARMA
Chairman & Managing Director



SHRI PRAKASH THAKKAR
Director (Technical)



SHRI AJEET KUMAR AGARWAL
Director (Finance)



SHRI B. N. SHARMA
Government Nominee Director



DR. DEVI SINGH
Part-time Non-official Independent
Director



SHRI V. SUBRAMANIAN
Part-time Non-official Independent
Director



DR. SUNIL KUMAR GUPTA
Part-time Non-official Independent
Director

PERFORMANCE HIGHLIGHTS

CONSISTENT GROWTH OVER 10 YEARS

Particulars	2012-13	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04
SHAREHOLDERS' FUND										
(at the end of the year)										
Equity Capital (₹ Lacs)	98746	98746	98746	98746	85866	85866	78060	78060	78060	78060
Reserves & Surplus (Net)	1646692	1375746	1180116	1009288	533142	450904	323211	341773	299830	248377
Net Worth	1745438	1474492	1278862	1108033	619008	536771	401271	419833	377890	326437
BORROWINGS (₹ Lacs)										
From Govt. of India	1514	2464	3613	4942	6474	8192	10048	11997	14017	118336
By issue of bonds	8524904	7137220	5119525	4086101	3263148	2408962	2248372	1675724	1360591	1197511
From LIC	215000	250000	285000	320000	335000	350000	350000	350000	350000	150000
Foreign currency borrowings	1523819	1069809	758332	207637	149368	104845	87209	–	–	–
Commercial Papers	98000	–	–	245000	129500	–	–	–	–	–
Other Banks	78880	109154	646914	644143	610105	556280	332471	366200	213200	44000
From IIFCL	187000	187000	187000	87000	–	–	–	–	–	–
Working Capital Drawal Limit from Banks	–	250000	–	–	–	–	–	–	–	–
FINANCING OPERATIONS										
(During the year) (₹ Lacs)										
Number of projects approved	1031	1091	658	492	506	881	748	661	1523	1322
Financial assistance sanctioned	*7947049	*5129677	*6641998	*4535736	*4074584	*4676976	*2862985	*1659689	1631636	1597791
Disbursements	4018306	3059330	2851711	2712714	2227786	1630370	1373299	800658	788509	601704
Repayments by borrowers	1334592	811969	877258	580654	511936	560024	403444	350646	468324	358732
Outstanding at the end of the year	12735552	10142626	8172545	6597875	5065281	3861483	3126218	2456368	2106218	1830470
ACHIEVEMENTS										
Villages electrified										
During the year	+44171	**66898	@95293	^53370	^^48533	#38262	*40233	181	765	122
Upto the end of the year	692770	648599	581701	486408	433038	384505	^346243	306010	305829	305064
Pumpsets energised										
During the year	254993	329022	318176	240020	188743	181244	174750	182239	175772	132914
Upto the end of the year	10252441	9997448	9668426	9350250	9110230	8921487	8740243	8565493	8383254	8207482
Working Results										
(For the year) (₹ Lacs)										
Total income	1359867	1050907	849527	670760	493128	353766	285399	224506	230209	199671
Personnel & Admn. Expenses	21653	22932	16436	14467	10924	11110	6416	5770	4434	4659
Interest on borrowings	787725	626879	478092	389120	288735	206365	174089	133913	120475	114220
Depreciation	375	327	304	216	136	139	113	110	115	103
Profit Before Tax	516395	379286	347663	264919	192011	131242	100619	82983	103665	80154
Provision for Tax	134633	97583	90670	64778	64803	45228	34593	19232	23590	18915
Profit After Tax	381762	281703	256993	200142	127208	86014	66026	63751	80075	61239
Dividend on Equity	81465	74059	74059	60321	38640	25760	17700	19126	23450	18300

* Excluding sanctions under RGGVY.

+ This includes electrification of 2587 un-electrified villages and intensive electrification of 41584 partially electrified villages under RGGVY.

** This includes electrification of 7934 un-electrified villages and intensive electrification of 58964 partially electrified villages under RGGVY.

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

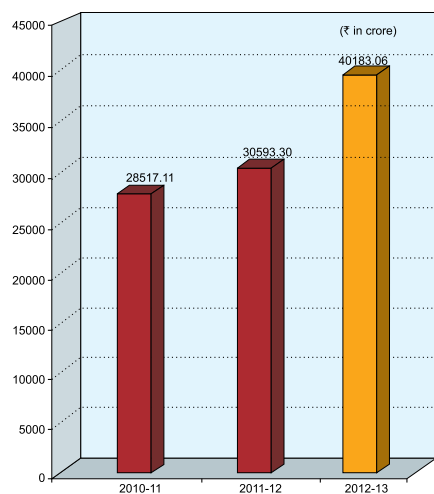
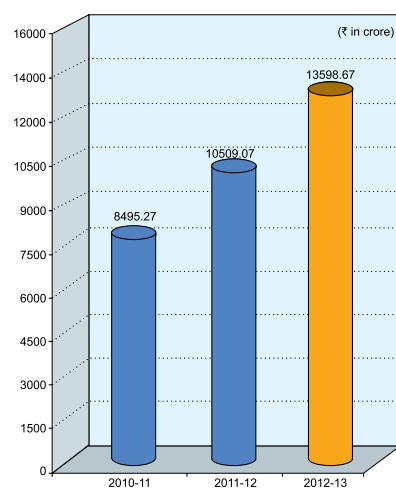
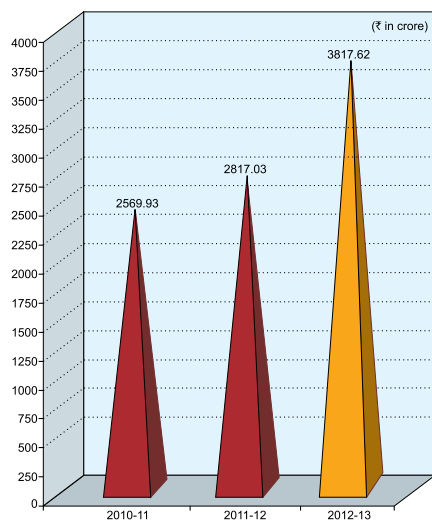
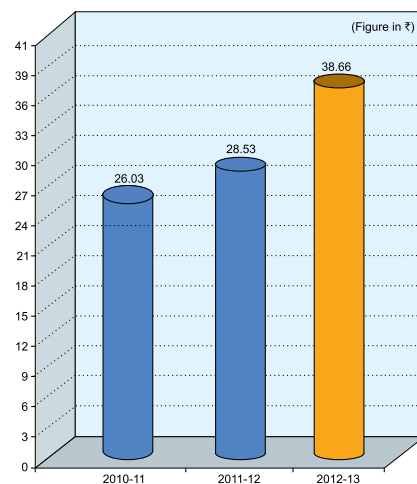
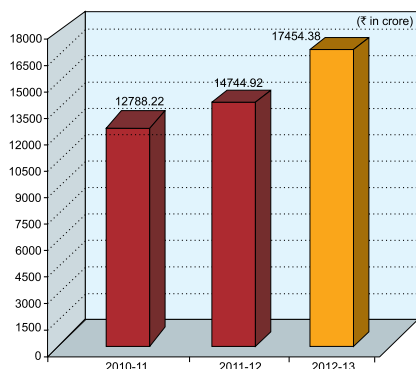
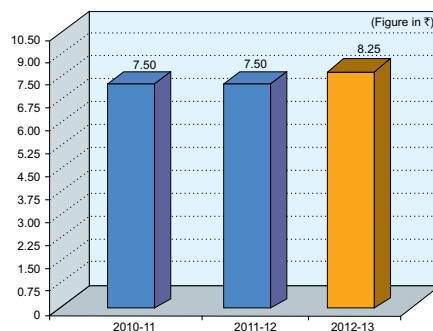
^ The number of villages where electrification works completed during the year 2009-10 under RGGVY. This includes intensive electrification of 34996 villages.

^^ 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.


DISBURSEMENT (including RGGVY Subsidy)

TOTAL INCOME

PROFIT AFTER TAX

EARNING PER SHARE OF ₹ 10 EACH

NETWORK

DIVIDEND PER EQUITY SHARE OF ₹ 10 EACH

CHAIRMAN'S LETTER TO SHAREHOLDERS



Ladies and Gentlemen,

On behalf of the Board of Directors of Rural Electrification Corporation Limited (REC) and on my own behalf, I am pleased to welcome you on the occasion of the Forty Fourth Annual General Meeting of the Company.

I am privileged to head a "Navratna" Company having a consistent record of excellent all-round performance, growth and profitability over the last decade. From the formative years beginning in 1969 when the Company financed mainly pumpset Energisation and village electrification schemes, your Company has come a long way and today it is one of the leading public financial institutions in the country, funding almost all needs of entire Power Infrastructure space.

I take this opportunity to share my views on the economic scenario and to present the performance highlights of the Company.

ECONOMIC ENVIRONMENT

The Global economy is still reeling under the effect of recession with marked slowdown in the Industrial activity. The European economy crisis combined with the turmoil in the oil producing Middle East countries has further precipitated the growth prospects and continue to remain uncertain. The green shoots of improvement in US economy have started and the efforts of ECB to mitigate the immediate pressures on the financial markets in the euro area have been made by injecting the liquidity. Still, the recovery in

the euro zone has not shown sustained signals of economy stabilisation. As a result, fiscal concerns have been a matter of worry around the Globe. The coordinated efforts of respective governments and central banks across the nations in fiscal and monetary policy calling for vigilant financial discipline have shown the improvement in the state of world economy.

The Indian economy has not been spared either by the cascading effect of global turmoil with GDP growth slipping to sub six levels in the financial year 2012-13 after a run of good growth in the last few years. The long term fundamentals like rising incomes, increasing consumption base, favourable demographics and huge infrastructural growth coupled with Indian economy pattern of consumption nature continue to be broadly intact and expected to be sustained over medium to long term. The growth is primarily being driven by domestic investment and consumption with positive impact of rising rural economic activity. However, concerns like containing inflationary pressures on the back of rising food prices and commodities have been the top priority of the Government. Based on strong fundamentals and the mitigative measures taken by the Government of India, we expect Indian economy to sustain high growth rate over medium to long term overcoming the impact of such periodic volatility in the short term.

POWER SECTOR

Power Sector forms one of the key constituents of Infrastructure and driver of economic activity and growth. Despite the visible signs of stagflation affecting the core sector growth, the performance of the Power Sector stood out during the fiscal 2013. A record 20,623 MW was added to the installed capacity in the financial year 2012-13 against a capacity addition target of 17,956 MW witnessing a growth of 15%. The majority addition came from thermal stream accounting for around 98% of the total capacity addition during the fiscal of which capacity addition from Private sector was 11188 MW. At the end of first year of XII Five Year Plan period, the total installed generation capacity stands at 223.34 GW which was 11.7% increase over that at the end of XI Plan. Renewable energy has seen an unprecedented growth towards the end of the XI Plan. The share of renewable energy is itself an indication of major shift imminent in the fuel mix for generation sources in the Country.

But for the major challenges faced by the Indian Power Sector currently viz. slippages of long term Coal linkages to the projects identified, failure to achieve planned targets from captive coal mine blocks, rising imported fuel prices, land acquisition, R & R, Environment and water related issues, shortage of qualified BOP suppliers and Delay in Financial Closure etc, the capacity addition would have been much higher.

The XII Five Year Plan targets for power envisage capacity addition of 88,425 MW. The overall funds requirement for the power sector for XII Five Year Plan period has been estimated at around ₹ 14 lakh crore. For the XIII Plan period, Planning Commission estimates that in order to meet the projected demand requirement by 2022 at a GDP growth rate of 9%, capacity addition of 94,000 MW would be required along with matching expansion required in transmission and distribution systems.

The Power generation has grossly suffered owing to shortage of Coal and failure to achieve planned targets from captive coal mine blocks. Shortage of coal is likely to the tune of 238 MT out of the total estimated coal requirement of 842 MT in the XII Plan. The share of coal based generation is planned to be around 80 % of the projected capacity addition programme. To mitigate the coal problem, use of state of the art technology for mining with competent manpower, improved coal beneficiation techniques, R&R policy for coal mining companies, task force creation for ironing out problems relating to land acquisition, forest clearance, progress monitoring of coal mining projects and fixing new linkages for higher efficiency projects are being looked into by GoI. These bottlenecks have resulted in slipping planned capacity addition targets and increased dependence of generating companies on imported coal having a cascading effect on production cost of electricity.

Distribution Sector, the revenue generating link in the Generation - Transmission-Distribution chain is clearly the weakest link in the power sector value chain and is threatening to derail the entire process of power sector reforms as also jeopardize the India's growth story. While the power generation sector in the Country is struggling to meet burgeoning demand, the Distribution Sector has been reeling under losses and has been in focus with various measures being taken by the Govt. of India to make the State DISCOMs/Utilities viable.

Though most of the SEBs have been unbundled, distribution is still largely under the control of Government Utilities. Post unbundling, their operations on sound commercial principles under the regulatory supervision has not yielded the desired results. Worsening financial condition of power distribution utilities owing to high Aggregate Technical & Commercial (AT&C) losses, inability to revise tariffs strictly in principle and spirit despite respective ERCs directive for revision in most of the states since long, increasing Subsidy burden, cross subsidization by the industry to domestic consumer and farmers, billing inefficiencies and more importantly need to buy expensive power to tide over short-term deficits are eating away the benefits of the policy initiatives. The combined annual losses of all SEBs add up to about ₹ 1.9 lakh crore.

To turnaround State DISCOMs and ensure their long term viability, a financial restructuring scheme for the State owned DISCOMs viz Transitional Finance Mechanism (TFM) has been formulated by the Government of India. The mechanism includes measures such as approval of Financial restructuring plan (FRP) from State Govt. and the respective State Electricity Regulatory Commission (SERC), revision of tariff, thereby reducing the gap between Average revenue Realised (ARR) and Average Cost of Supply (ACS), release of subsidies only to State Govt. to be later adjusted in the ARR, posting of Audited Accounts on regular basis, incentivisation through technology interventions in R-APDRP and NEF, devising utility wise turnaround plan and monitoring its implementation at the highest level.

Further, Ministry of Power has developed an integrated rating methodology covering the State Power Distribution Utilities with the objective to rate all utilities based on their performance and ability to sustain commercially viable operations in the long run. The focus is on ranking and incentivizing/dis-incentivising the entities for stimulating and improving their operational & financial performance. This is expected to facilitate Banks/FIs adopt a uniform and realistic assessment of the risks associated with funding needs of different Utilities and enable funding with appropriate loan covenants for stimulating and enhancing operational, financial and managerial performance.

For the XII Five Year Plan, the Planning Commission estimates investment of ₹ 3.14 lakh crore for the sector inclusive of Restructured Accelerated Power Development and Reforms Programme (R-APDRP) and Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) schemes. The focus of the R-APDRP is on actual, demonstrable performance in terms of sustained loss reduction, establishment of reliable and automated systems for sustained collection of accurate base line data and the adoption of Information Technology in the areas of energy accounting. RGGVY Scheme seeks Rural Electricity Infrastructure and Household Electrification for providing access to electricity to all rural households. Under the scheme, 90 % capital subsidy is being provided by Government of India for overall cost of the projects. REC is the Nodal Agency for overseeing the implementation of the Programme. The performance orientation built into the R-APDRP and NEF is expected to attract and accelerate investments in distribution infrastructure, thus resulting in faster accomplishment of loss reduction goals.

The power sector is thus poised to remain vibrant and attract significant investments in the future.

PERFORMANCE HIGHLIGHTS

Your Company continued to register higher growth and record performance for the financial year 2012-13, in key areas of Disbursements of Loans, Recoveries, Operating Income and Profits. A total sum of ₹ 40,183 crore (including TFL component of ₹ 9,570 crore and subsidy of ₹ 907.89 crore under RGGVY) was disbursed during the financial year 2012-13 as against ₹ 30,593.30 crore in the previous year. Your Company's Non-performing Assets (NPAs) continued to be at low levels. The total Operating Income of your Company for the financial year 2012-13 increased by 30 % to ₹ 13,518.86 crore from ₹ 10,423.75 crore during the previous year. The profit after tax increased to ₹ 3,817.62 crore, up by 36 %, from ₹ 2,817.03 crore for the previous year.

Your Company enjoys international credit rating from International Credit Rating Agencies Moody's and Fitch and the same are "Baa3" and "BBB-" respectively equivalent to sovereign rating of India. "Baa3" rated obligations denote moderate credit risk and "BBB-" rated obligations denote that expectations of default risk are currently low. Further, during the financial year 2012-13 also, your Company continued to get the highest rating AAA from domestic rating agencies like CRISIL, CARE, India Ratings & Research and ICRA for its specific Resource Mobilization programme. Consistent high ratings bear testimony to REC's stature as an institution with strong fundamentals and inherent financial strength.

Your Company mobilized ₹ 30759.16 crore from the market during the financial year 2012-13 for its operational requirements. This includes ₹ 4903.25 crore raised by way of Capital Gains Tax Exemption Secured Redeemable Non-convertible Taxable Bonds, under Section 54EC of the Income Tax Act, 1961, ₹ 2648.41 crore raised by way of Tax Free Secured Redeemable Non-convertible Bond u/s 10(15)(iv)(h) of the Income Tax Act, 1961, out of which ₹ 500 crore raised through private placement and remaining raised through public issue in two tranches in line with terms of notification, ₹ 2117.18 crore through Commercial Paper (CP), ₹ 16378.90 crore through issue of Institutional Bonds, ₹ 4464.40 crore by way of External Commercial Borrowings and ₹ 247.02 crore by way of Official Development Assistance (ODA) loan from KfW, Germany and Japan International Cooperation Agency (JICA), Japan.

DIVIDEND

In addition to interim dividend of ₹ 6.75 per share paid in February, 2013, Directors of your Company have recommended a final dividend of ₹ 1.50 per share for the financial year 2012-13, which is subject to your approval. The total dividend for the financial year 2012-13 will work out to ₹ 8.25 per share of ₹ 10/- representing 82.50 % of the paid up capital of the Company and 21.34 % of Profit After Tax, against 75 % of the paid up capital of the Company and 26.29 % of Profit After Tax paid in the previous year. The total dividend pay-out for the financial year will amount to ₹ 814.65 crore (excluding dividend tax).

FINANCING POWER PROJECTS

The Company has been funding power generation, transmission and distribution projects besides electrification of villages and pumpset energisation. It continued to play an active role in creating new infrastructure and improving the existing ones under the transmission and distribution network in the country. In line with the country's objective of Bharat Nirman to provide "Power for all" and also reduce the AT&C losses, the Company has been laying special thrust in expansion and strengthening of existing transmission network and more importantly modernising of the distribution system by financing investment in transformers, meters, capacitors etc. and for conversion of Low Voltage Distribution to High Voltage Distribution System (HVDS).

FINANCING GENERATION PROJECTS

During the financial year 2012-13, your Company sanctioned 41 nos. of generation / R&M loans including 13 no. of additional loan assistance with total financial outlay of ₹ 26,854.79 crore including consortium financing with other financial institutions and has disbursed ₹ 12,496.87 crore against the ongoing generation projects.

FINANCING TRANSMISSION & DISTRIBUTION 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. In line with the national objective of providing power for all by the year 2012 and also reduce the AT&C losses, your Company has been financing schemes for expansion and strengthening of the transmission network and more importantly, modernising of the distribution system. During the financial year 2012-13, the company sanctioned a total sum of ₹ 47,845.64 crore and disbursed a total sum of ₹ 22,287.16 crore for transmission and distribution projects.

FINANCING RENEWABLE ENERGY AND OTHER PROJECTS

During the financial year 2012-13, besides financing to Generation and T&D projects, your Company has also sanctioned loan assistance of ₹ 580.06 crore for 11 grid-connected Renewable Energy projects with installed generation capacity aggregating 126.60 MW and sanctioned Short Term Loan (STL) of ₹ 4190 crore to various state power utilities.

RAJIV GANDHI GRAMEEN VIDYUTIKARAN YOJANA (RGGVY)

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 Grameen Vidyutikaran Yojana (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 31.03.2013, works in 107083 un-electrified villages have been completed and connections to 2.07 crore BPL households have been released. During the financial year 2012-13, the Company disbursed a total sum of ₹ 980.03 crore (including Government Subsidy of ₹ 907.89 crore).