

46TH ANNUAL REPORT 2014-15



Funding Power...
For Growth...



आरईसी
REC

असीमित ऊर्जा, अनन्त संभावनाएं
Endless energy. Infinite possibilities.

MISSION/VISION & OBJECTIVES

MISSION/VISION

- (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 Deendayal Upadhyaya Gram Jyoti 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 Governments, 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.

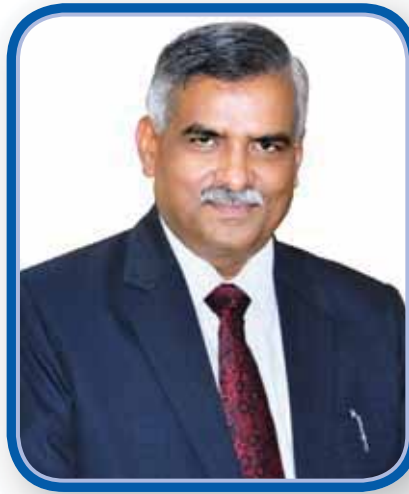
CONTENTS

1. Company Information	2
2. Board of Directors	3
3. Performance Highlights	4
4. Chairman's Letter to Shareholders	6
5. Notice	13
6. Directors' Profile	21
7. Board's Report	23
8. Management Discussion & Analysis Report	57
9. Report on Corporate Governance	66
10. Auditors' Certificate on Corporate Governance	90
11. Business Responsibility Report	91
12. Secretarial Audit Report	104
13. Annual Report on CSR activities	107
14. Extract of Annual Return	118
15. Particulars of Contracts or Arrangements with Related Parties	125
16. Details of Debenture Trustees	126
17. Balance Sheet	128
18. Statement of Profit & Loss	129
19. Significant Accounting Policies	130
20. Notes to Accounts	134
21. Cash Flow Statement	171
22. Independent Auditors' Report on Standalone Financial Statements	175
23. Non-Banking Financial Companies Auditors' Report	180
24. Comments of C&AG of India on Standalone Financial Statements	181
25. Consolidated Financial Statements	182
26. Independent Auditors' Report on Consolidated Financial Statements	230
27. Comments of C&AG of India on Consolidated Financial Statements	234
28. Management Team	235
29. Address of REC offices	237

COMPANY INFORMATION

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 Ashok Awasthi Executive Director (Admn./Ren. & SD/Estate & CEO-RECTPCL)	Dr. Dinesh Arora Executive Director (DDUGJY/DDG & CEO-RECPDCL)	Shri Sanjiv Garg Executive Director (Loans & Recovery/ALM/Taxation)	
	Shri Sunil Kumar Executive Director (DDUGJY/DDG/IT)	Shri S. K. Gupta Executive Director (T&D/NEF/DDUGJY)	Shri Rakesh Kumar Arora Executive Director (Resources/CA/CP/CSR/Banking)	
General Managers	Shri T. S. C. Bosh General Manager (DDUGJY)	Shri Dinesh Kumar General Manager (Renewable Energy)	Shri G. S. Bhati General Manager (DDUGJY/DDG)	Shri C. P. Bhatia General Manager (Finance & CSR)
	Shri L. M. Verma General Manager (Loans & Recovery)	Smt. Kalpana Kaul General Manager (HR/CC & PR/Rajbhasha)	Shri J. S. Amitabh General Manager & Company Secretary	Shri S. L. Batta General Manager (Law)/PIO-RTI
	Shri G. V. Mahendar General Manager (Entity Appraisal)	Shri Ajoy Choudhary General Manager (Financial Concurrence & Policy)	Shri V. K. Singh General Manager (Generation)	Shri Fuzail Ahmed General Manager (PMG)
	Shri R. P. Vaishnav General Manager (Internal Audit)	Shri Rakesh Sareen General Manager (Finance) & In-charge - Northern Zone		
Registered Office	Core-4, SCOPE Complex, 7, Lodhi Road, New Delhi-110003, India. Tel: 91-11-24365161, Fax: 91-11-24360644, E-mail: reccorp@recl.nic.in Website: www.recindia.gov.in			
Corporate Identification Number (CIN)	L40101DL1969GOI005095			
Company Secretary	Shri J. S. Amitabh			
Registrar & Share Transfer Agent	Karvy Computershare Private Limited Karvy Selenium Tower-B, Plot 31-32, Gachibowli Financial District, Nanakramguda, Hyderabad- 500032, India. Tel: 91-40-67161500, Fax: 91-40-23420814, E-mail: einward.ris@karvy.com , raju.sv@karvy.com , balaji.reddy@karvy.com Website: www.karvycomputershare.com			
Shares Listed At	National Stock Exchange of India Limited BSE Limited			
Depositories	National Securities Depository Limited Central Depository Services (India) Limited			
Joint Statutory Auditors	P. K. Chopra & Co. Chartered Accountants	Raj Har Gopal & Co. Chartered Accountants		
Secretarial Auditor	Chandrasekaran Associates, Practicing 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 RBL Bank	Yes Bank Union Bank of India Axis Bank Honkong & Shanghai Banking Corporation Limited

BOARD OF DIRECTORS



SHRI RAJEEV SHARMA
Chairman & Managing Director



SHRI PRAKASH THAKKAR
Director (Technical)



SHRI AJEET KUMAR AGARWAL
Director (Finance)



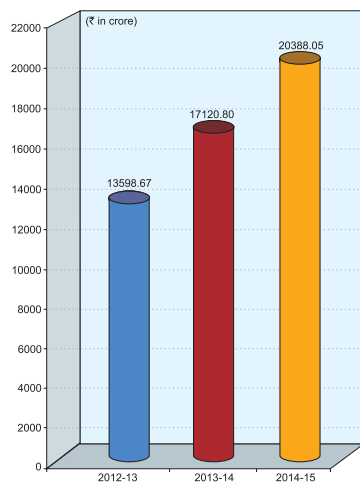
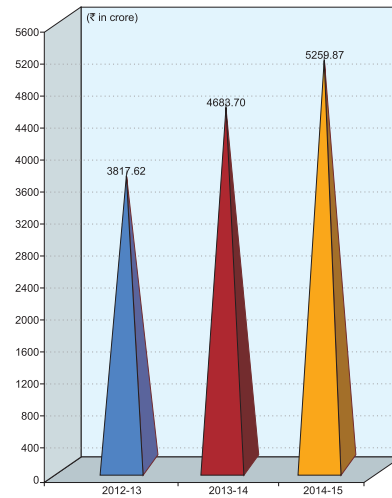
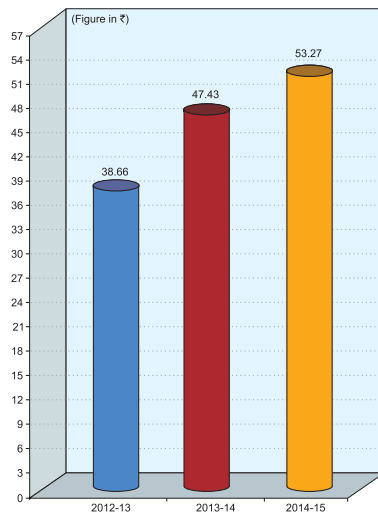
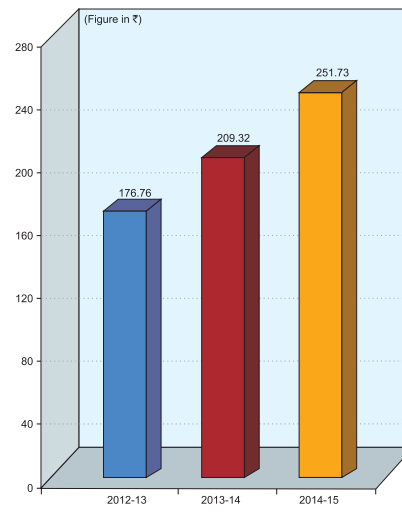
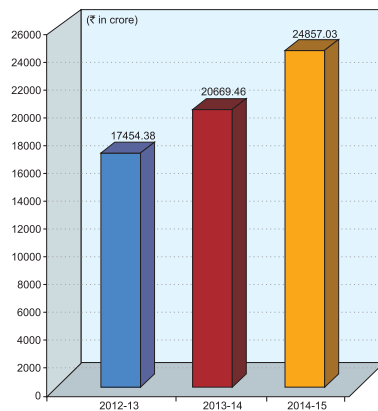
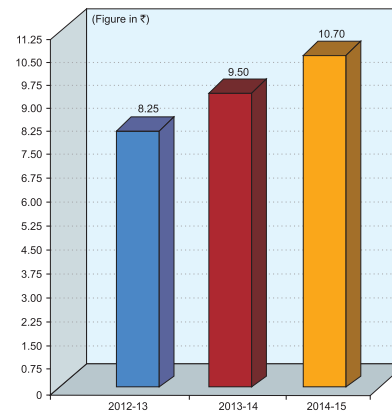
SHRI B. N. SHARMA
Government Nominee Director

PERFORMANCE HIGHLIGHTS

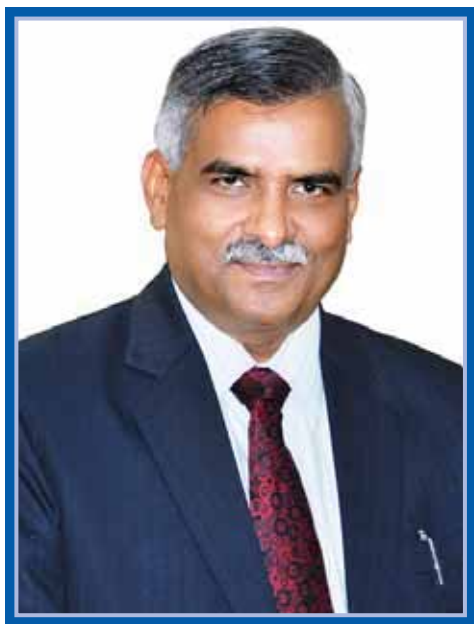
CONSISTENT GROWTH OVER 10 YEARS

Particulars	2014-15	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06
SHAREHOLDERS' FUND (at the end of the year) (₹ in Lakh)										
Equity Share Capital	98746	98746	98746	98746	98746	98746	85866	85866	78060	78060
Reserves & Surplus	2386957	1968200	1646692	1357558	1180116	1009288	533142	450905	323211	341773
Net Worth	2485703	2066946	1745438	1456304	1278862	1108034	619008	536771	401271	419833
BORROWINGS (₹ in Lakh)										
From Government of India	307	793	1514	2464	3613	4942	6474	8192	10048	11997
Bonds/Debentures	12468385	10280671	8524904	7137220	5120853	4085714	3263148	2408961	2161163	1675724
From Financial Institutions	145000	299500	402000	437000	472000	407000	335000	350000	350000	350000
Foreign Currency Borrowings	2402820	1762115	1523819	1069809	760590	207637	149367	104845	87209	-
Term Loans from Banks	85900	26940	78880	109154	646914	581143	480105	443480	379680	315700
Commercial Papers	-	254000	98000	-	-	245000	129500	-	-	-
Short-term/Demand Loans	-	-	150000	250000	-	63000	130000	112800	40000	50500
Total	15102412	12624019	10779117	9005647	7003970	5594436	4493594	3428278	3028100	2403921
FINANCING OPERATIONS (During the year) (₹ in Lakh)										
Number of projects approved	609	1035	1031	1091	658	492	506	881	748	661
Financial assistance sanctioned	*6142137	*7073948	*7947049	*5129677	*6641998	*4535736	*4074584	*4676976	*2862985	*1659689
Disbursements	4644682	3796999	4018306	3059330	2851711	2712714	2227786	1630370	1373299	800658
Repayments by borrowers	1181263	1426045	1334592	811969	877258	580654	511936	560024	403444	350646
Outstanding at the end of the year	17964694	14864110	12735552	10142626	8172545	6597875	5065281	3861483	3126218	2456368
ACHIEVEMENTS (in Nos.)										
Electrification of un-electrified villages										
During the year	1405	1197	2587	7934	18306	18374	12056	9301	28706	9819
Upto end of the year	109524	108280	107083	104496	96562	78256	59882	47826	38525	9819
Release of free Electricity Connections to BPL Households										
During the year	759377	961730	1296541	3444902	5883355	4718468	3084788	1621182	655773	16815
Upto end of the year	21833995	21683554	20721824	19425283	15980381	10097026	5378558	2293770	672588	16815
Pumpsets energised										
During the year	256026	264165	254993	329022	318176	240020	188743	181244	174750	182239
Upto end of the year	10772632	10516606	10252441	9997448	9668426	9350250	9110230	8921487	8740243	8565493
WORKING RESULTS (₹ in Lakh)										
Total income	2038805	1712080	1359867	1050907	849526	670760	493128	353766	285400	224506
Finance Costs	1184461	1003846	808376	643135	485101	391285	289870	207275	176478	135577
Provisions for Loan Assets	80296	31202	13068	5227	22	22	237	3999	2105	-
Other Expenses	30668	23499	21653	22932	16472	14527	11217	11111	6085	5836
Depreciation	676	421	375	327	303	215	136	139	113	110
Profit Before Tax	742704	653112	516395	379286	347628	264711	191668	131242	100619	82983
Provision for Taxation	216717	184742	134633	97583	90635	64569	64460	45227	34593	19232
Profit After Tax	525987	468370	381762	281703	256993	200142	127208	86015	66026	63751
Dividend on Equity	105658	93809	81465	74059	74059	60321	38640	25760	17700	19126

* Excluding sanctions under DDUGJY-RE and DDG

**TOTAL INCOME****PROFIT AFTER TAX****EARNING PER SHARE OF ₹ 10/- EACH****BOOK VALUE PER SHARE****NETWORTH****DIVIDEND PER EQUITY SHARE OF ₹ 10/- EACH**

CHAIRMAN'S LETTER TO SHAREHOLDERS



Dear Shareholders

It is my privilege to present to you the 46th Annual Report of your Company. REC has added another successful year to its journey of consistent all-round performance from inception till now. The year 2014-15 was a year of optimism for the Indian economy. A stable government at the Centre has kickstarted the process of reforms and policy measures aimed at inclusive development. The year saw a steady acceleration in services and manufacturing growth, declined inflation, increased foreign-portfolio flows and stabilization of rupee. The Government's emphasis on ease-of-doing business is visible in initiatives like Make in India, Digital India, streamlining forest and environment clearances, labour reforms and auction of coal blocks. Daunting challenges are still there, and it will take some more time for the results to show on the economy as a whole. Nevertheless, a beginning has been made, which augurs well.

On the global front, the economic recovery on the whole has not come out of the woods barring a few exceptions. The financial condition of major developed economies is still a major cause of concern. Among the developed economies, only US has shown signs of promise, while the ongoing recession in Europe in past few years has added Greece as a new member after Portugal and Italy to the financial contagion. Japan has resorted to quantitative easing for stemming the subdued growth and China is witnessing decreased economic activity of late. The prevailing situation has posed challenges before emerging and developing economies owing to subdued external demand from these markets.

As far as India is concerned, the economy has bucked the global trends and shown clear signs of uptick in growth in financial year 2014-15. As per Central Statistical Office data, the Indian economy grew at 7.3 % in 2014-15 due to improvement in the performance of both services and manufacturing sectors. Further, the economy is expected to grow at a rate of 7.5 % in financial year 2015-16, which is even faster than the predicted growth rate of China as per the International Monetary Fund (IMF) estimates.

At present, the country is relatively better placed in terms of Current Account Deficit (CAD) and Balance of Payments (BoP). A major reason for this has been steep decline of crude price because of excess production of Shale gas in US, thereby drastically cutting down its crude requirement and subdued economic activity in Eurozone and Japan. The rise of crude price again is expected to be limited with the recent lifting of sanctions on Iran. The decrease in oil prices has brought the inflation down sharply from 8.3 % in March 2014 to 5.2 % in March 2015. Other important determinants viz., key economic indicators showing signs of recovery, exchange rates inching towards stabilization and reduced inflation, has helped RBI cut policy rates by 75 bps since January 2015 and ease liquidity.

POWER SECTOR

The tangible improvement in the overall growth of the core sectors, including growth in Coal and Electricity sectors during Fiscal 2015, is a positive indicator for development of Power Sector in the coming years. The financial year 2014-15 saw the highest capacity addition of 22,566 MW in a year, which is a 26.6 % rise on year-on-year basis. The actual electric energy generation during the Fiscal 2015 was 1,048 BUs against the generation of 967 BUs in the previous fiscal. For the XIII five year plan period, NITI Aayog 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 in transmission and distribution systems. Further, to maintain a sustained economic growth of 8 % through to Fiscal 2032, as per the NITI Aayog, India needs to increase its electricity generation several times over for which the power generation capacity must increase to around 8,00,000 MW by Fiscal 2032.

The installed Generation capacity has increased, but the Generation sector is still to come out of the whirl gig of policy imbroglio which adversely affected the Power Sector development in the past 4-5 years. The major bottlenecks have been slippages of long-term coal linkages to the projects identified, failure to achieve planned targets from captive coal mine blocks, inability to ramp up indigenous coal and gas production, rising imported fuel prices, land acquisition, R & R and environmental issues etc. The Government of India has, in the last one year, taken a slew of proactive initiatives, notably allocation of coal mines through a transparent auction route, giving breather to gas-based stranded projects and private sector projects operating at less than 30 % PLF on domestic gas supply through subsidized imported gas supply supported by a Power System Development Fund (PSDF), efforts to takeover sick units under operation of State utilities, steps for augmenting indigenous coal production; and special focus on clean energy with enhanced stress on development of solar energy capacity, to name a few.

The transmission and distribution system in India is a three-tier structure comprising of regional grids, state grids and distribution networks. Presently, these regional grids are operating as an integrated unit of national grid with an inter-regional transfer capacity of more than 32,000 MW, whereby surplus power from a region could be redirected to another region facing power deficits, thus allowing an optimal utilization of the national generating capacity. The inter-regional grid connectivity has lent flexibility and brought resilience to the system. The National Grid in the country is now one of the largest operating synchronous grids in the world. During the financial year 2014-15, a total of 22,101 cKms were added to the transmission capacity, which was around 32 % higher than the transmission capacity added in the previous fiscal.

The Distribution Sector, which provides the crucial last mile connectivity and has disparate, numerous and varied consumers, is the weakest link in the power sector value chain of Generation-Transmission-Distribution. The Distribution Sector is facing problems like exorbitant losses, suboptimal internal functioning of regulatory institutions, mismatch in tariffs, etc. The Government of India has taken various measures to make the State DISCOMs/utilities viable, like Transitional Finance Mechanism (TFM), incentivization through technology interventions in R-APDRP and NEF, devising utility-wise turnaround plan and monitoring its implementation at the highest level. It is necessary that all such interventions are dovetailed and integrated to help turn-around the power distribution sector.

To strengthen the power supply and availability, improve reach and accounting in the rural and urban areas, the Government of India has recently introduced implementation of Deendayal Upadhyaya Gram Jyoti Yojana (DDUGJY) for rural areas and Integrated Power Development Scheme (IPDS) for urban areas. The initiative would go a long way in the Government of India (GoI)'s resolve of providing 24X7 power by 2019.

In terms of hydro-power development, the country has not been able to exploit the huge potential of hydro power in the last few years as most of the hydro projects are stuck up owing to environmental issues and court rulings, causing long delays and stoppage of work at site. Despite being the cheapest source of power, the traction has been relatively low as the investors in hydro power sector are keeping away because of uncertainties. On the other hand, Renewable Energy has seen an unprecedented growth and its share, as planned in future, is itself an indication of major shift imminent in the fuel mix for generation sources in the country. Plans are afoot to raise the capacity of Renewable Energy to 175,000 MW by year 2022.

PERFORMANCE HIGHLIGHTS

Your Company continued to register growth on key fronts of Loan Disbursements, Recoveries, Operating Income and Profits. During the financial year 2014-15, the disbursements were ₹ 46,446.82 crore (including subsidy under DDUGJY-RE and DDG), as against ₹ 37,969.99 crore in the previous financial year. On standalone basis, the total operating income of the Company for the financial year 2014-15 increased by 19 % to ₹ 20,229.53 crore from ₹ 17,017.98 crore during the previous year. The profit after tax increased by 12 % to ₹ 5,259.87 crore from ₹ 4,683.70 crore in the previous year. The Loan Asset book of the Company as on March 31, 2015 has increased by a healthy 21 % to reach a historic high of ₹ 1,79,647 crore from ₹ 1,48,641 crore in the previous year. The Company achieved recovery rate of 97.70 % for the financial year 2014-15. The Company's Non-Performing Assets (NPAs) continue to be at low levels. As on March 31, 2015, the Gross NPAs of the Company was ₹ 1,335.38 crore, which is 0.74 % of Gross Loan Assets as on March 31, 2015.

The Company mobilized ₹ 41,189.82 crore from the market during the financial year 2014-15, which included ₹ 5,337.78 crore by way of Capital Gain Tax Exemption Bonds, ₹ 29,200 crore by way of non-priority sector bonds, ₹ 6,409.03 crore from External Commercial Borrowings (ECB) and ₹ 243.01 crore by way of Official Development Assistance (ODA) loan from KfW, Germany and Japan International Cooperation Agency (JICA), Japan. Further, an amount of ₹ 5,894.25 crore was also raised through Commercial Paper (CP). At the close of the financial year 2014-15, the total resources of the Company stood at ₹ 1,83,175.03 crore.

The domestic debt instruments of REC continued to enjoy "AAA" rating - the highest rating assigned by CRISIL, CARE, India Ratings & Research and ICRA Credit Rating Agencies. The Company enjoys international credit rating equivalent to sovereign rating of India from International Credit Rating Agencies like Moody's and Fitch which are "Baa3" and "BBB-" respectively. The overall weighted average annualized cost of borrowing for the funds raised during the financial year 2014-15 was 8.07 % p.a. and Interest Coverage Ratio was 1.63. As a result, the Company was able to deliver debt financing at competitive rates.

DIVIDEND

In addition to interim dividend of ₹ 8.00 (Rupees Eight only) per share paid on February 27, 2015, the Board of Directors of the Company has recommended a final dividend of ₹ 2.70 (Rupees Two and Seventy Paise only) per share on the face value of ₹ 10/- each for the financial year 2014-15, which is subject to approval of the Shareholders in the 46th Annual General Meeting. Accordingly, the total dividend for the financial year 2014-15 will work out to ₹ 10.70 (Rupees Ten and Seventy Paise only) per share on the face value of ₹ 10/- each, representing 107 % of the paid-up share capital of the Company, as against

₹ 9.50 (Rupees Nine and Fifty Paise only) per share, representing 95 % of the paid-up share capital of the Company in the previous financial year. The total dividend pay-out for the financial year 2014-15 will amount to ₹ 1,056.58 crore (excluding dividend distribution tax of ₹ 212.17 crore).

FINANCING POWER PROJECTS

The Company has been providing funding assistance for power generation, transmission & distribution projects besides for electrification of villages. The Company continued to play an active role in creation of new infrastructure and improvement of the existing ones under the transmission and distribution network in the country under its T&D portfolio. In line with the Government of India's objective to provide power for all by creation of infrastructure and also to reduce the AT&C losses, the Company has been financing schemes for expansion and strengthening of the transmission network and more importantly, modernizing the distribution system.

FINANCING GENERATION PROJECTS

During the financial year 2014-15, the Company sanctioned 34 nos. of Generation/R&M loans including 22 nos. of additional loan assistance with total financial outlay of ₹ 22,178.31 crore including consortium financing with other financial institutions and has disbursed ₹ 13,828.07 crore against the ongoing generation projects.

FINANCING TRANSMISSION & DISTRIBUTION PROJECTS

During the financial year 2014-15, the Company sanctioned 552 nos. of Transmission and Distribution schemes involving a total loan assistance of ₹ 25,031.14 crore. This includes primary power evacuation schemes associated with generating plants, system improvement schemes including R-APDRP projects, feeder segregation schemes, bulk loan schemes, intensive electrification schemes and pumpset energization schemes. The total disbursement under T&D schemes was ₹ 16,335.06 crore.

FINANCING RENEWABLE ENERGY AND OTHER PROJECTS

During the financial year 2014-15, the Company sanctioned loan assistance of ₹ 547.92 crore to 8 new grid-connected Renewable Energy projects with installed generation capacity aggregating to 193.86 MW which included 6 Solar photo-voltaic projects of 173.06 MW; and 2 Wind projects aggregating to 20.8 MW. The total cost of these projects aggregates to ₹ 1,768.19 crore. Further, during the financial year 2014-15, total disbursement under renewable energy projects was ₹ 295.25 crore.

DEENDAYAL UPADHYAYA GRAM JYOTI YOJANA (DDUGJY)

The Government of India had launched the "Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) scheme of Rural Electricity Infrastructure and Household Electrification" in year 2005, for providing access to electricity to all rural households. REC was the Nodal agency for implementation of the Scheme. Subsequently, RGGVY scheme has been subsumed in the new 'Deendayal Upadhyaya Gram Jyoti Yojana' (DDUGJY) scheme approved by the Government of India in year 2014. REC is the Nodal agency for implementation of the DDUGJY Scheme. The main objectives of the DDUGJY scheme are to provide access to all rural households and reduction of AT&C losses as per trajectory (DISCOM-wise) finalized in consultation with States by the Ministry of Power, so as to achieve 24x7 power supply for non-agricultural consumers and adequate power supply for agricultural consumers through defined project components. During the financial year, an amount of ₹ 4,002.73 crore (including subsidy of ₹ 3,605.72 crore under RE component of DDUGJY and ₹ 22.64 crore under DDG subsidy) has been disbursed. Cumulatively upto March 31, 2015, works in 1,09,524 un-electrified villages & intensive electrification of 3,14,958 villages have been completed and electricity connections to 2.18 crore BPL households have been provided under the scheme.

SUBSIDIARY COMPANIES & JOINT VENTURE

The Company has two wholly-owned subsidiaries (WOS), to focus on additional business of consultancy in the areas of distribution, transmission etc., namely:

- (i) REC Power Distribution Company Limited; and
- (ii) REC Transmission Projects Company Limited

During the financial year 2014-15, REC Power Distribution Company Limited (RECPDCL) has excelled in the area of Third Party Inspection (TPI) and also set its quality benchmark in preparation of Detailed Project Reports (DPRs) through Global Positioning System (GPS) based field survey. During the financial year 2014-15, RECPDCL has prepared 61 DPRs under DDUGJY-RE XII five year plan and 11 DPRs under RE works for Jharkhand DISCOMs and carried out TPI for various schemes. Further, RECPDCL has been engaged as the Project Implementing and Monitoring Agency by REC, for construction of toilets in schools under the 'Swachh Vidyalaya Abhiyaan' in Uttar Pradesh, Madhya Pradesh, Bihar, Telangana, Rajasthan and Punjab, under REC's CSR initiative.

The financial performance of RECPDCL is also on the growth path. During the financial year 2014-15, RECPDCL's total revenue has increased by 16.75 % to ₹ 87.76 crore compared to the previous year income of ₹ 75.16 crore. The Profit Before Tax (PBT)