

REC Limited Media Coverage 07 November 2024

CMD Interview with Informist



BFSI SUMMIT

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Plan to raise another INR 50 bln-INR 100 bln via zero-coupon bonds, says REC CMD

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By Priyasmita Dutta

MUMBAI – After a rejoicing response from investors on the zero-coupon bonds with tax benefits, power sector financier REC Ltd. is mulling the launch of a second round of the instrument to raise up to INR 50 billion-INR 100 billion, Chairman and Managing Director Vivek Kumar Dewangan said Wednesday. "We are holding internal discussions and may reach out to the Central Board of Direct Taxes next month," Dewangan told Informist at the sidelines of Business Standard BFSI Summit.



In October, REC had raised INR 50 billion through a zero-coupon bond, which saw a tremendous response and was oversubscribed almost 10 times. Non-interest-bearing bonds, or zero-coupon bonds as they are popularly known, sell at a discount and do not offer any interest. The return on these bonds comes to investors through capital gains when they are redeemed at face value. In the full Budget for 2024-25 (Apr-Mar), the long-term capital gains tax was revised to 12.5%. Earlier, the long-term capital gains tax on these assets was 20% but had indexation benefits, which were adjusted for inflation.

This special instrument made a comeback in the market after a long gap of 13 years. Owing to the tax benefits, it requires the approval from the finance ministry's tax department. Regarding when the bonds are expected to hit the market, Dewangan said, "CBDT takes some time to give the necessary approval." The yield on REC's last paper was over 60 basis points lower than that on a 10-year government security, drawing major demand from long-term investors, ultra-high net worth individuals, and large corporates.

The investor appetite was so high that market participants have been anticipating other public sector entities to also explore this type of bond offering. Meanwhile, National Bank for Agriculture and Rural Development Chairman Shaji K.V. had told Informist on Oct. 23 that the lender was "seriously considering" the option to raise funds through this instrument.

REC, formerly called Rural Electrification Corp. Ltd., is a non-banking financial company under the power ministry, and it lends to state electricity boards, state-owned power utilities, rural electric cooperatives, and independent power producers. On the National Stock Exchange, shares of the company closed 1.3% higher at INR 532.80 rupees on Wednesday.

REC has been ahead of its peers in experimenting with fund-raising plans--both in domestic and international markets. As a pioneer, it has forayed into the Tokyo market internationally to take advantage of the lower hedging costs. This is part of the company's INR 1.60-trillion borrowing plan for FY25.

Dewangan said that the company will stick to the INR 1.60 trillion fund-raising plan as an expected disbursement of INR 1.90 trillion for the current financial year will only need that much. "The rest can be taken care of by repayments," he said. REC's total disbursements in Apr-Sept amounted to INR 909.55 billion, 20% higher on year. This is the highest ever half-yearly disbursement so far for the company, it noted in an investor presentation. End

Edited by Tanima Banerjee

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