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Interview with Vivek Kumar Dewangan: “REC is transitioning to become a renewable energy-focused company”

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In an interview with *Power Line*, Vivek Kumar Dewangan, Chairman and Managing Director, REC Limited, shared his views on the state of the power sector and the outlook for the future. He discussed the performance of the distribution sector and the measures needed for renewable energy expansion. He also spoke about REC's key business developments, future plans and priority areas. Edited excerpts...

What is your assessment of the current state of the power sector?

Over the past two years, power demand has risen consistently by 8-9 per cent annually, and in the first four months of this year alone, demand surged by approximately 11 per cent. As India aspires to become a developed nation by 2047, it is essential to note that at present the country's per capita electricity consumption is only one-third of the global average. In contrast, developed nations such as the US have per capita consumption rates that are 10 to 12 times higher than the world average. As we work towards developing the nation, India's per capita electricity consumption is expected to rise significantly, eventually exceeding the global average over the next 20-25 years. This increase in electricity demand is a critical indicator of development.

Secondly, I would like to highlight that the Government, through the Ministry of Power (MoP), has introduced comprehensive reform measures across the entire power sector ecosystem. Following the successful implementation of universal access to electricity under the Deendayal Gram Jyoti Yojana, which achieved 100 per cent village electrification, as well as the Saubhagya scheme for household electrification, the next target is to provide 24x7 reliable, quality and affordable electricity to all consumers.

In July 2021, the Revamped Distribution Sector Scheme (RDSS) was launched as a reform-linked initiative. State governments are required to commit to specific targets, including reducing aggregate technical and commercial (AT&C) losses during the 2021-2026 period. They are developing strategies to liquidate the dues owed by Government Departments as well as Legacy subsidy dues and they have made significant progress in liquidating their dues, which are incorporated into the detailed project reports under the RDSS.

A key initiative by the MoP was the introduction of the late payment surcharge rule in June 2022. Under this, Discoms have committed to clearing their dues to generating companies and transmission companies in a maximum of 48 monthly instalments. Some Discoms have already settled their dues over the past two years, and we are optimistic that all outstanding payments will be cleared by March 2026. The current bills are being paid on time. If a generating or transmission company does not receive payment, they can report their dues on the PRAAPTI portal managed by the MoP. In case a Discom fails to pay the current dues within 75 days, its power supply gets regulated, which enhances discipline and improves the operational and financial health of companies across the sector.

Another important aspect is the Government's ambition for the energy transition. By 2030, India aims to install 500 GW of electric capacity from non-fossil fuel sources. Currently, around 200 GW has been achieved, leaving 300 GW still to be installed. This presents a significant challenge, especially given the intermittent nature of renewable energy. To maintain grid stability as we integrate more renewable sources, effective and commercially viable storage solutions will be essential. Without commercially viable storage options, the reliance on coal-based power plants to meet base load demand will continue. Furthermore, increasing renewable energy integration will require the flexible operation of these coal-based plants. The MoP has implemented a technical minimum operation threshold of 55 per cent for coal-based power plants, which may need to be reduced to around 40 per cent as renewable energy's share in the energy mix increases, depending on the integration rate.

Overall, the outlook for the power sector is promising, as evidenced by the improved market capitalisation of public sector undertakings in the power sector over the past two years. This trend reflects a positive trajectory for the industry.

What is your outlook for the generation segment in light of the country's energy security and energy transition goals?

The Central Electricity Authority (CEA), the technical arm of the MoP, has projected an optimal generation mix for the country by 2032. These projections are based on the assumption that India will meet its commitment to install 500 GW of renewable energy capacity by 2030. According to the CEA, a total capacity of about 892 GW will be needed by 2032. To balance the load, additional coal-based generation capacity will still be required. However, this necessity may be mitigated if commercially viable storage solutions are developed. As of now, the CEA's projections indicate that over 80 GW of additional coal-based capacity will be necessary. Most of this additional capacity will come from brownfield projects, involving the replacement of older, retiring plants with new units, rather than from greenfield projects. The new installations will adhere to current pollution control measures.

What are the key bottlenecks in expanding renewable energy capacity, and how can these be resolved?

Firstly, addressing the intermittency of renewable energy sources such as solar and wind is crucial. Solar energy is available only during daylight hours, while wind energy varies with wind speed, and neither can provide continuous 24x7 power on its own. The technical challenge lies in developing commercially viable storage technologies. Battery energy storage is a potential solution, but reliance on imported lithium-ion batteries poses a risk. Therefore, pumped storage hydro projects emerge as a viable option. The MoP has already devised a detailed plan, and the Government of India has recently approved financial assistance of Rs 12,461 crore outlay to support the development of 31,350 MW of hydropower projects over the next eight years. Another storage solution is hydrogen fuel cell technology. However, it is currently not commercially viable. Future advancements in this technology could potentially make it a game changer. Additionally, renewable energy projects are often located in isolated areas. Effective evacuation of this energy through transmission infrastructure, such as green energy corridors, must be properly planned. The availability of land for solar installations is also a key consideration. Lastly, green hydrogen and green ammonia pose their own set of challenges. The National Green Hydrogen Mission, launched by the Ministry of New and Renewable Energy (MNRE), aims to address these issues. A recent meeting with the MNRE highlighted that the cost of producing green hydrogen in India is currently around \$5-\$6 per kg. To achieve exponential growth, technological solutions must be developed to improve electrolyser technology and reduce production costs to about \$1-\$2 per kg.

What is your perspective on the financial health of power Discoms? How do you evaluate the progress under the RDSS so far?

Over the past year, AT&C losses have decreased from 22 per cent to 15.8 per cent, reflecting significant progress. Additionally, 95-97 per cent of Discoms have met their targets set under the RDSS. This scheme includes a result evaluation framework where Discoms must secure a minimum mark of 60 out of 100 to qualify for government grants. The RDSS was slowed down due to Covid, but now progress has resumed. The introduction of prepaid smart meters, a key component of the RDSS, is poised to be a major game-changer. The country requires approximately 250 million prepaid smart meters, with approximately 140-150 million already awarded by Discoms and an additional 100 million expected to be awarded soon. Prepaid smart meters will enhance billing and collection efficiency for Discoms by ensuring advance payments. Currently, companies often need to pursue payments 45 to 60 days after billing. With prepaid meters, payments are received in advance, and consumers are informed of their balance usage. This system will likely encourage consumers to manage their electricity consumption more effectively and reduce wasteful expenditure.

What has been REC's experience in managing bids for transmission projects?

Our subsidiary, REC Power Development and Consultancy Limited (RECPDCL), functions as the bid process coordinator (BPC) for tariff-based competitive bidding (TBCB) projects, which are awarded on a competitive bidding basis. Both government and private transmission companies participate in this process, which has levelled the playing field. This has decreased bid costs, making them more reflective. Previously, cost overruns were higher, but with increased competition, the number of participants has grown, ultimately benefiting consumers. Reducing transmission costs translates into lower expenses for consumers. The TBCB process has thus enabled a reduction in transmission tariffs, which, in turn, lowers the cost of electricity for consumers.

What have been REC's key achievements over the past year?

REC has implemented a clear business strategy to expand its assets under management (AUM). In financial year 2022-23, the AUM grew by 13 per cent, increasing from Rs 3.85 trillion to Rs 4.35 trillion. In the previous financial year, which was a pivotal year for REC, we revised our approach. Previously, sanctions and disbursements were concentrated in the third and fourth quarters. However, we made a strategic decision to initiate efforts in the first quarter. This proactive approach resulted in a 17 per cent increase in the AUM, rising from Rs 4.35 trillion to Rs 5.09 trillion. We have maintained this 17 per cent growth trajectory into the current financial year, with a 17 per cent growth observed in the first quarter. If we continue on this path, even with a 15 per cent growth rate, we expect to double our AUM by 2030. As of March 31, 2024, our AUM stood at Rs 5.09 trillion, and by the end of the quarter, it had surpassed Rs 5.30 trillion. We are confident that we will achieve our target of doubling our AUM to approximately Rs 10 trillion ahead of the 2030 deadline.

Currently, our lending is predominantly directed towards State utilities, accounting for an approximately 89 per cent share, while private sector lending constitutes 11 per cent. This distribution is set to change significantly as we aggressively pursue renewable energy projects. We are covering a broad spectrum of renewable energy areas, including solar, wind, hybrid solar-wind, solar module manufacturing, battery storage, pumped storage, hydro projects, electric vehicle mobility and charging infrastructure, large hydro projects, wind turbine manufacturing, and green hydrogen and green ammonia. Last year, we signed MoUs worth Rs 2.86 trillion at the Goa Green Finance Summit, partnering with multiple stakeholders. Out of this, we have sanctioned projects worth Rs 1.36 trillion for green projects last year. In the current financial year so far, we have already sanctioned projects totalling approximately Rs 537 billion.

Currently, REC's green financing component constitutes only 8 per cent of its AUM, which amounts to approximately Rs 424 billion. This is expected to increase substantially to 30 per cent of AUM by the end of 2030, growing to about Rs 3 trillion of the Rs 10 trillion AUM target. This represents a significant shift from 8 per cent to 30 per cent in green financing.

Additionally, the Ministry of Power has permitted us to diversify into the non-power infrastructure and logistics sectors. We have begun financing airports, ports, metro projects, expressways, highways, electro-mechanical components of refineries, and steel plants and IT infrastructure. Currently, non-power logistics infrastructure accounts for about 11 per cent of our AUM and is projected to rise to around 15-20 per cent by the end of 2030. Thus, by 2030, 30 per cent of our AUM will be allocated to green projects, 15-20 per cent to non-power infrastructure and logistics, and the remaining 50-55 per cent to conventional generation, transmission and distribution. At present, 89 per cent of our lending is directed towards the state sector. This is anticipated to shift, with lending to the private sector increasing from 11 per cent to 30 per cent, and lending to state utilities decreasing from 89 per cent to approximately 70 per cent. These changes will mark a significant evolution over the next five to six years.

What are your key priorities for REC, and what new opportunities is the company pursuing?

REC, previously known as the Rural Electrification Corporation, is transitioning to become a renewable energy-focused company, marking a significant shift. Our renewable energy portfolio is set to increase from 8 per cent of the AUM to 30 per cent. Our board has adopted environmental, social and governance (ESG) policies, and we are committed to following ESG norms as per international standards. We have begun reporting carbon emission reductions in our annual report under these ESG policies. Additionally, we have successfully reduced our cost of funding, a key aspect of our growth strategy. In FY 2023, the cost of funding was 7.28 per cent; and last year, in FY 2024, it dropped to 7.13 per cent, which further decreased to 7.05 per cent by the end of the first quarter in FY 2025. We are making a concerted effort to lower our funding costs to pass on the benefits to our borrowers and support more infrastructure development. We are committed to playing a significant role in the growth of both the power and renewable energy sectors, as well as in non-power infrastructure and logistics. REC is poised to play an instrumental role in the country's sustainable development efforts as we strive towards becoming a developed nation (Viksit Bharat) by the year 2047.

Could you tell us about REC's upcoming subsidiary in GIFT City? How does this align with its overall business strategy?

We have received a no objection certificate (NOC) from the Reserve Bank of India (RBI). Initially, we intended to open a branch, as many banks have done in GIFT City. However, the RBI advised against opening a branch and instead suggested exploring the possibility of opening a subsidiary. After obtaining concurrence from the Ministry of Power, we requested for the RBI's NoC for a subsidiary in GIFT City, which it granted. We are now awaiting approvals from NITI Aayog and the Department of Investment and Public Asset Management (DIPAM). The MoP has taken up the matter with DIPAM because it involves capital restructuring. The objective is to establish this as an offshore subsidiary in GIFT City. This would enable us to borrow and lend in foreign currency, which would eliminate the need for hedging costs. This is particularly important for sectors such as green hydrogen and green ammonia.

What is your outlook for the power sector going forward?

The outlook for the power sector is quite optimistic. The per capita electricity consumption in the country is bound to increase substantially as we are striving to become a developed nation by 2047. An increase in per capita electricity consumption indicates a rise in overall power demand, necessitating the development of generation, distribution and transmission infrastructure. Thus, I anticipate significant growth in the power sector over the next 20 to 25 years.

Full Story Link - <https://powerline.net.in/2024/10/18/interview-with-vivek-kumar-dewangan-rec-is-transitioning-to-become-a-renewable-energy-focused-company/>
