



RURAL ELECTRIFICATION CORPORATION LIMITED *(A Government of India Undertaking)*

HIGHLIGHTS OF TAX BENEFITS

- **Interest from these Bonds do not form part of Total Income as per provisions under section 10 (15) (iv) (h) of Income Tax Act, 1961.**
- **Since the interest Income on these bonds is exempt from tax, no Tax Deduction at Source is required.**
- **Wealth Tax is not levied on investment in Bonds under section 2(ea) of the Wealth-tax Act, 1957.**

COMPANY PROFILE

- Notified as a Public Financial Institution under Section 4A of the Companies Act, 1956
- Engaged in the financing and promotion of transmission, distribution and generation projects throughout India
- REC is one of only 14 Indian public sector undertakings to be granted “*Navratna*” status by the Department of Public Enterprise by virtue of its operational efficiency and financial strength
- GoI has rated RECs performance as “Excellent” continuously since Fiscal 1994.
- Registered as a Non Deposit taking NBFC with Reserve Bank of India. RBI has further categorized REC as an IFC (Infrastructure Finance Company)
- 66.80% shareholding held by Government of India as on December 31, 2013
- “CRISIL AAA/Stable” by CRISIL Limited, “CARE AAA” by Credit Analysis & Research Limited (“CARE”), “IND AAA” by India Ratings and Research Private Limited (“IRRPL”) and “[ICRA] AAA” by ICRA Limited.
- REC’s loan assets have grown at a CAGR of 25.92% from Rs 50,652.80 crores in Fiscal 2009 to Rs 127,355.54 crores in Fiscal 2013 as per its standalone financial statements.
- REC’s loan sanctions and loan disbursements have grown from Rs 40,653.94 crores and Rs 17,157.34 crores in Fiscal 2009 to Rs 79,470.49 crores and Rs 39,275.17 crores in Fiscal 2013
- As on March 31, 2013, REC had total loan assets of Rs 127,355.54 crores and a net worth of Rs 17,454.38 crores as per its standalone financial statement.
- REC’s profit after tax as per its standalone financial statements for Fiscal 2009, 2010, 2011, 2012 and 2013 was Rs 1,272.08 crores, Rs 2,001.42 crores, Rs 2,569.93 crores, Rs 2,817.03 crores and Rs 3,817.62 crores respectively.

Source: Shelf Prospectus dated August 26, 2013 & Prospectus Tranche -II dated February 24, 2014

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SALIENT FEATURES OF THE PROPOSED TAX FREE BONDS

- In exercise of power conferred by item (h) of sub clause (iv) of clause (15) of Section 10 of the Income Tax Act, 1961 (43 of 1961) the CBDT vide Notification dated 8th August, 2013 has authorized Rural Electrification Corporation Limited to issue through a Public/Private Issue, during the Financial year 2013-14, tax free, secured, redeemable, non-convertible bonds for the aggregate amount not exceeding Rs. 5,000 crore subject to the conditions as prescribed in the said notification.
- Tax benefits u/s 10 (15) (iv) (h) of the Income Tax Act, 1961 – interest on these Bonds shall not form part of Total Income.
- Credit Ratings of “CRISIL AAA/Stable” by CRISIL, “CARE AAA” by CARE , “[ICRA] AAA” by ICRA Limited & “IND AAA” by India Ratings and Research Private Limited (“IRRPL”) indicating **Highest Degree of Safety** in terms of timely servicing of financial obligations.
- Bonds to be allotted in dematerialized form as well as in physical form but traded in dematerialized form only.
- Bonds are proposed to be listed on the BSE.

Strengths

- ***REC's financial position is strong and the business is profitable***

As on March 31, 2013, REC had a net worth of Rs. 17,454.38 Crores and annualized return on average net worth for March 31, 2013 was 23.84% as per its standalone financial statement. Further with company's ability to raise funds at competitive costs (7.52% p.a. during fiscal 2013) and with a diversified loan asset portfolio, the Net Interest Margins increased from 3.96% in fiscal 2009 to 4.70% in fiscal 2013. The company has operated its financing business profitably for fifteen consecutive years.

- ***Uniquely positioned to access and appraise borrowers in the Indian power sector***

REC has been involved in Indian power sector finance since 1969 and was the first financial institution to exclusively focus on financing the Indian power sector. With a network of 18 project offices and 2 sub offices spread across India, REC's project offices play a critical role in the development of relationship with its clients, operation and promotion of its business and loan appraisal, loan sanctioning and post sanction monitoring processes.

- ***Occupies a key strategic position in the GoI's plans for growth of the power sector***

REC is one of the limited numbers of government-owned companies that focus exclusively on financing the development of the power sector in India. The company has consistently benefited from the GoI's power infrastructure plans since 1969 and the GoI has ensured REC's mandate has evolved in accordance with the development priorities.

- ***Experienced management team with sector expertise***

The company is managed by a team of experienced and highly qualified professionals. REC's key managerial personnel have an established track record in managing public financial institutions in India and bear a considerable knowledge of the power sector in India with most of its key managerial personnel having over 30 years of relevant experience in India and have been employed with prominent companies in the power sector.

Source: Shelf Prospectus dated August 26, 2013 & Prospectus Tranche -II dated February 24, 2014

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Issue Structure

| | |
|--|---|
| Issuer | Rural Electrification Corporation Limited |
| Issue of Bonds | <p>Public Issue by Rural Electrification Corporation Limited ("REC" or "Issuer" or the "Company") of Tax Free Secured Redeemable Non Convertible Bonds of Face Value of Rs 1,000 each in the nature of debentures having tax benefits under Section 10 (15)(iv)(h) of the Income Tax Act, 1961, as amended ("Bonds") for an amount of Rs 250 crores with an option to retain oversubscription upto Rs 809.3958 crores aggregating upto Rs 1,059.3958 crores ("Residual Shelf Limit"). This Tranche is being offered by way of this Prospectus Tranche - II, containing inter alia, the terms and conditions of the Tranche – II Issue which should be read together with the Shelf Prospectus dated August 26, 2013 and amendment to the Shelf Prospectus dated February 24, 2014 filed with the RoC, Stock Exchanges and SEBI.</p> <p><i>* Pursuant to the CBDT Notification (as defined below), our Company is authorised to raise a minimum of 70% of the Shelf Limit by way of various tranche(s) of public issue and during the process of the public issue(s), the Company may also, at its discretion, raise Bonds through private placement route for an amount not exceeding 30% of the Shelf Limit. Accordingly, the Company has raised an amount of Rs 3,440.6042 crores by way of Tranche – I Issue and also raised an amount aggregating to Rs 1,500 crores through two private placements of bonds vide disclosure documents dated August 26, 2013 and October 08, 2013. The Company shall ensure that Bonds issued through public issue route and private placement route in the Fiscal 2014 shall together not exceed the Shelf Limit. In case the Company raises funds through private placement route during the process of the present Issue, the Residual Shelf Limit for the Issue shall get reduced by such amount raised and the same shall be disclosed in the respective Tranche Prospectus(es).</i></p> |
| Nature of Instrument | Secured |
| Mode of Issue | Public Issue |
| Listing | BSE. The Bonds are proposed to be listed within 12 Working Day from the respective Tranche Issue Closing Date. |
| Credit Ratings | "CRISIL AAA/Stable" by CRISIL, "CARE AAA" by CARE "IND AAA" by India Ratings and Research Private Limited ("IRRPL") ; "[ICRA] AAA" by ICRA Limited. |
| Step up/ step down Coupon rate | For details see heading titled as "Terms and Conditions in connection with the Bonds" on page 41 of the Prospectus Tranche – II. |
| Interest payment date | The First Interest Payment Date is December 1, 2014 and subsequently, December 1 of every year until the Maturity Date/Redemption Date of the respective Series of Bonds |
| Lead Managers to the Issue | A.K. Capital Services Limited, Axis Capital Limited, ICICI Securities Limited, Edelweiss Financial Services Limited |
| Interest on Application Money used towards allotment of bonds | at the rate of 8.19% p.a., 8.63% p.a. and 8.61% p.a. on Tranche II Series 1A, Tranche II Series 2A and Tranche II Series 3A respectively for Allottees under Category I, Category II and Category III Portion, and at the rate of 8.44% p.a., 8.88% p.a. and 8.86% p.a. on Tranche II Series 1B, Tranche II Series 2B and Tranche II Series 3B respectively for Allottees under Category IV Portion. |
| Interest on Application monies received which are liable to be refunded | @ 5% p.a. other than to ASBA Applicants, subject to deduction of income tax under the provisions of the Income Tax Act as applicable, to any Applicants to whom Bonds are Allotted pursuant to the Issue from the date of realization of the Application money through cheque(s)/demand draft(s)/any other mode upto one day prior to the Deemed Date of Allotment, |
| Issue Price | Rs. 1,000 per Bond. |
| Put/Call Option | There is no put/call option for the Bonds. |
| Minimum Application Size | 5 Bonds (Rs. 5000). |
| Tranche Issue Opening Date | February 28, 2014 |
| Tranche Issue Closing Date | March 14, 2014. The subscription list for the Issue shall remain open for subscription, from 10:00 A.M. to 5:00 P.M during the period indicated above, with an option for early closure or extension as may be decided by the Board of Directors or the Bond Committee. In the event of such early closure or extension of the subscription list of the Issue, our Company shall ensure that public notice of such early closure or extension is published on or before the day of such early date of closure or the Tranche Issue Closing Date, as the case may be, through advertisement/s in at least one leading national daily newspaper. |
| Mode of Allotment | In dematerialised form to all Applicants and in physical form, at the option of Applicants other than eligible FPIs. |
| Depositories | NSDL and CDSL |
| Trustee | SBI Cap Trustee Company Ltd. |

Source: Shelf Prospectus dated August 26, 2013 & Prospectus Tranche II dated February 24, 2014

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Bond Particulars

| Series of Bonds* | | For Category I, II & III [#] | | |
|-------------------------------|--------|---|---|---|
| Options | | Tranche II Series 1 A | Tranche II Series 2 A | Tranche III Series 3A |
| Coupon rate (%) p.a. | | 8.19 | 8.63 | 8.61 |
| Annualised yield (%) p.a. | | 8.19 | 8.63 | 8.61 |
| Options | | For Category IV only [#] | | |
| | | Tranche I Series 1 B | Tranche I Series 2 B | Tranche I Series 3 B |
| Coupon rate (%) p.a. | | 8.44 | 8.88 | 8.86 |
| Annualised yield (%) p.a. | | 8.44 | 8.88 | 8.86 |
| | | For Category I, II, III and IV [#] | | |
| Frequency of interest payment | | Annual | Annual | Annual |
| Minimum Application size | | 5 bonds (Rs. 5000) , across all Series of Bonds | | |
| In multiples of | | 1 bond (Rs. 1000) , across all Series of Bonds | | |
| Face value | | Rs. 1,000 per Bond. | Rs. 1,000 per Bond. | Rs. 1,000 per Bond. |
| Issue price | | Rs. 1,000 per Bond. | Rs. 1,000 per Bond. | Rs. 1,000 per Bond. |
| Tenor | | 10 years. | 15 years. | 20 years. |
| Coupon Type | | Fixed coupon rate | Fixed coupon rate | Fixed coupon rate |
| Redemption Date | | 10 years from the Deemed Date of Allotment. | 15 years from the Deemed Date of Allotment. | 20 years from the Deemed Date of Allotment. |
| Redemption | Amount | Repayment of the face value along with any interest that may have accrued at the Redemption Date. | Repayment of the face value along with any interest that may have accrued at the Redemption Date. | Repayment of the face value along with any interest that may have accrued at the Redemption Date. |
| (Rs./Bond) | | | | |

* The Company shall allocate and allot Tranche II Series 1A/ Series 1B (depending upon the category of applicants) to all valid applications, wherein the Applicants have not indicated their choice of the relevant Series of Bond.

[#] In pursuance of CBDT Notification and for avoidance of doubts, it is clarified as under:

- The coupon rates indicated under Tranche II Series 1B, Tranche II Series 2B and Tranche II Series 3B shall be payable only on the Portion of Bonds allotted to RIIs in the Issue. Such coupon is payable only if on the Record Date for payment of interest, the Bonds are held by investors falling under RII Category viz Category IV.
- In case the Bonds allotted against Tranche II Series 1B, Tranche II Series 2B and Tranche II Series 3B are transferred by RIIs to Non-RIIs viz, Institutions, Corporates and/or High Networth Individuals, the coupon rate on such Bonds shall stand at par with coupon rate applicable on Tranche II Series 1A, Tranche II Series 2A and Tranche II Series 3A respectively.
- If the Bonds allotted against Tranche II Series 1B, Tranche II Series 2B and Tranche II Series 3B are sold/ transferred by the RIIs to investor(s) who fall under the RII category as on the Record Date for payment of interest, then the coupon rates on such Bonds shall remain unchanged;
- Bonds allotted against Tranche II Series 1B, Tranche II Series 2B and Tranche II Series 3B shall continue to carry the specified coupon rate if on the Record Date for payment of interest, such Bonds are held by investors falling under RII Category;
- If on any Record Date, the original RII allottee(s)/ transferee(s) hold the Bonds under Tranche II Series 1B, Tranche II Series 2B, Tranche II Series 3B, Tranche II Series 1A, Tranche II Series 2A and Tranche II Series 3A for an aggregate face value amount of over ` 10 lacs, then the coupon rate applicable to such RII allottee(s)/transferee(s) on Bonds under Tranche II Series 1B, Tranche II Series 2B, Tranche II Series 3B shall stand at par with coupon rate applicable on Tranche II Series 1A, Tranche II Series 2A and Tranche II Series 3A respectively;
- Bonds allotted under Tranche II Series 1A, Tranche II Series 2A and Tranche II Series 3A shall carry coupon rates indicated above till the respective maturity of Bonds irrespective of Category of holder(s) of such Bonds;
- For the purpose of classification and verification of status of the RII Category of Bondholders, the aggregate face value of Bonds held by the Bondholders in all the Series of Bonds allotted under the Tranche – II Issue shall be clubbed and taken together on the basis of PAN.

Source: Shelf Prospectus dated August 26, 2013 & Prospectus Tranche -II dated February 24, 2014

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Who can apply?

| Category I Institutions* | Category II Corporates* | Category III High Net worth Individuals ("HNIs") | Category IV Retail Individual Investors ("RIIs") |
|---|---|--|--|
| <ul style="list-style-type: none"> Foreign Portfolio Investors (other than Category III FPIs) including Sovereign Wealth Funds, Pension and Gratuity Funds registered with SEBI as Foreign Portfolio Investor; Public Financial Institutions, scheduled commercial banks, multilateral and bilateral development financial institutions, state industrial development corporations, which are authorised to invest in the Bonds; Provident funds and pension funds with minimum corpus of ₹ 25 crores, which are authorised to invest in the Bonds; Insurance companies registered with the IRDA; National Investment Fund set up by resolution no. F. No. 2/3/2005-DDII dated November 23, 2005 of the Government of India published in the Gazette of India; Insurance funds set up and managed by the army, navy or air force of the Union of India or set up and managed by the Department of Posts, India; Mutual funds registered with SEBI; and Alternative Investment Funds, subject to investment conditions applicable to them under the Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012. | <ul style="list-style-type: none"> Companies within the meaning of sub-section 20 of Section 2 of the Companies Act, 2013; Statutory bodies/corporations; Cooperative banks; Trusts including Public/ private charitable/religious trusts; Limited liability partnerships; Partnership firms; Regional rural banks; Category III FPIs; Societies registered under the applicable law in India and authorized to invest in Bonds; and Other legal entities, subject to compliance with their respective applicable legislations. | <ul style="list-style-type: none"> The following Investors applying for an amount aggregating to above Rs 10 lakhs across all Series of Bonds in this Tranche – II Issue: Resident Indian individuals; Hindu Undivided Families through the Karta; Non Resident Indians on repatriation as well as non-repatriation basis; and Eligible FPIs being an individual. | <ul style="list-style-type: none"> The following Investors applying for an amount aggregating upto and including Rs 10 lakhs across all Series of Bonds in this Tranche – II Issue: Resident Indian individuals; Hindu Undivided Families through the Karta; Non Resident Indians on repatriation as well as non-repatriation basis; and Eligible FPIs being an individual. |

****With regard to Section 372A(3) of the Companies Act, 1956, kindly refer to General Circular No. 6/ 2013, dated March 14th, 2013 Ministry of Corporate Affairs, GoI clarifying that in cases where the effective yield on tax free bonds is greater than the prevailing bank rate, there shall be no violation of Section 372A(3) of the Companies Act, 1956.***

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Applications cannot be made by:

- a) Minors without a guardian name (A guardian may apply on behalf of a minor. However, Applications by minors must be made through Application Forms that contain the names of both the minor Applicant and the guardian);
- b) Foreign nationals, other than eligible FPIs and except as may be permissible under the CBDT Notification or under all applicable laws including but not limited to RBI or SEBI laws;
- c) Non resident investors including NRIs, FPIs who are (i) based in the USA, and/or, (ii) domiciled in the USA, and/or, (iii) residents/citizens of the USA, and/or, (iv) subject to any taxation laws of the USA;
- d) Venture Capital Fund and Foreign Venture Capital Investor;
- e) Overseas Corporate Bodies; and
- f) Person ineligible to contract under applicable statutory/regulatory requirements.

Basis of Allotment

| Particulars | Institutions | Corporates | High Networth Individuals ("HNIs") | Retail Individual Investors ("RIIs") |
|------------------|----------------------------------|----------------------------------|---------------------------------------|---|
| Portion | Institutional Portion | Corporate Portion | HNI Portion | Retail Portion |
| Size in % | 10% of the Overall Issue Size | 25% of the Overall Issue Size | 25% of the Overall Issue Size | 40% of the Overall Issue Size |

SUBMISSION OF COMPLETED APPLICATION FORMS

| Mode of Submission of Application Forms | To whom the Application Form has to be submitted |
|---|--|
| ASBA Applications | (i) If using physical Application Form, (a) to the Members of the Syndicate or Trading Members of the stock exchange(s) only at the Specified Cities ("Syndicate ASBA"), or (b) to the Designated Branches of the SCSBs where the ASBA Account is maintained; or (ii) If using online Application Form, to the SCSBs, electronically through internet banking facility, if available. |
| Non-ASBA Applications | The Members of the Syndicate or Trading Members of the stock exchange(s) at the centres mentioned in the Application Form. |

Note: Application for allotment of physical form can be made only using Non-ASBA Applications

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FINANCIAL HIGHLIGHTS

| As on/For the year (Rs. Crs) | 31-Mar-09 | 31-Mar-10 | 31-Mar-11 | 31-Mar-12 | 31-Mar-13 |
|--|-----------|-----------|-----------|-----------|-------------|
| Shareholder's Fund | 6,190.08 | 11,080.34 | 12,788.62 | 14,563.04 | 17,454.38 |
| Long-term Borrowings | 31,860.91 | 45,834.75 | 61,173.02 | 76,553.68 | 90,960.38 |
| Short-term Borrowings | 2,595.00 | 3,080.00 | 375.00 | 2,500.00 | 2,480.00 |
| Long-term Loans & Advances | 45,544.08 | 58,931.50 | 73,206.57 | 89,985.31 | 1,14,574.53 |
| Cash & Cash Equivalents | 1,886.04 | 1,390.31 | 2,831.89 | 5,311.48 | 1,484.26 |
| Short-term Loans & Advances | 4.44 | 1,757.58 | 1,215.17 | 2,972.75 | 1,915.95 |
| Revenue from Operations | 4,794.36 | 6,570.12 | 8,301.67 | 10,423.59 | 13,518.86 |
| Total Expenses | 3,014.99 | 4,060.39 | 5,015.75 | 6,716.21 | 8,434.72 |
| Profit before Prior Period Items & Tax | 1,916.29 | 2,647.21 | 3,479.51 | 3,792.86 | 5,163.95 |
| Profit before Tax | 1,916.68 | 2,647.11 | 3,476.28 | 3,792.86 | 5,163.95 |
| Profit for the period from Continuing Operations | 1,272.08 | 2,001.42 | 2,569.93 | 2,817.03 | 3,817.62 |
| Gross NPA | - | - | 0.020% | 0.480% | 0.390% |
| Net NPA | - | 0.003% | 0.002% | 0.420% | 0.320% |
| Return on Net worth (average) | 22.01% | 23.18% | 21.53% | 20.60% | 23.85% |
| Net interest margin | - | | 4.480% | 4.320% | 4.700% |

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