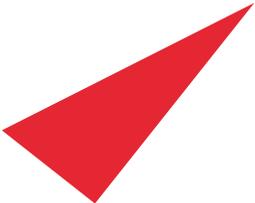


Pick of the Week

REC Ltd.

July 28, 2025



PRIME
RESEARCH
— Empowering decisions —

| Industry | LTP | Recommendation | Base Case Fair Value | Bull Case Fair Value | Time Horizon |
|-------------|--------|---|----------------------|----------------------|--------------|
| BFSI – NBFC | Rs 401 | Buy in Rs 395-405 band & add on dips in Rs 364-370 band | Rs 445 | Rs 485 | 2-3 quarters |

| | |
|------------------------|------------|
| HDFC Scrip Code | RECLTDEQNR |
| BSE Code | 532955 |
| NSE Code | RECLTD |
| Bloomberg | RECL IN |
| CMP Jul 25, 2025 | 400.8 |
| Equity Capital (Rs Cr) | 2633.2 |
| Face Value (Rs) | 10 |
| Equity Share O/S (Cr) | 263.3 |
| Market Cap (Rs Cr) | 105526 |
| Book Value (Rs) | 302.6 |
| Avg. 52 Wk Volumes | 90,81,000 |
| 52 Week High | 650.6 |
| 52 Week Low | 357.4 |

| Share holding Pattern % (Jun 2025) | |
|------------------------------------|-------|
| Promoters | 52.6 |
| Institutions | 34.7 |
| Non Institutions | 12.7 |
| Total | 100.0 |



* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst

Atul Karwa

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Our Take:

Rural Electrification Corporation (REC), like its parent PFC, plays a major role in implementing various power sector schemes of the Government of India. It is the second-largest lender to the sector. In Sep'22 the company was conferred 'Maharatna' status by Government of India, the highest recognition for a public sector company.

India's power sector is experiencing a significant surge in demand, with projections indicating that peak power consumption could reach 400 GW by 2031-32, exceeding the previously projected 384 GW. According to the National Electricity Plan, India's electricity demand is projected to rise sharply to 366 GW by 2031-32, requiring an estimated investment of Rs 14.54 lakh crore by 2027 to expand power generation capacity and modernise infrastructure.

Several initiatives have also been introduced to bring down the Aggregate Technical and Commercial (AT&C) losses of State Discoms. It has been estimated that the funds required for Distribution Infrastructure upgradation during the period 2022-2027 would be Rs 4.28 lakh crore. An additional Rs 2.86 lakh crore investment is further estimated to be required for the 2027-30 period. REC being one of the premier lending agencies in the power sector, has vast lending opportunities in the coming 5-6 years.

The financials of the company are also improving with a sufficient capital adequacy level, diversified resource profile, declining NPAs etc. The company has been paying consistent dividends and it is one of the highest dividend paying companies in the listed space. Further, low valuations as compared to other NBFCs provide a margin of safety.

Valuation & Recommendation:

REC has continued to post good results driven by write-back of provisions in resolved stressed assets. Loan book is also witnessing strong growth and visibility continues to remain durable. Given the asset quality improvement, expanding NIMs and improving RoE we believe the stock is available at an attractive valuation. We have envisaged CAGR growth of 11% for bottom line, while loan book is estimated to grow at 12% CAGR over FY25-27E. RoA is estimated at 2.7% for FY27E.

We believe that investors can buy REC Ltd in Rs 395-405 and add on dips in Rs 364-370 band (0.95x FY27E ABV) for the base case fair value of Rs 445 (1.15x FY27E ABV) and for the bull case fair value of Rs 485 (1.25x FY27E ABV) over the next 2-3 quarters.

Financial Summary:

| Particulars (Rs cr) | Q1FY26 | Q1FY25 | YoY (%) | Q4FY25 | QoQ (%) | FY24 | FY25 | FY26E | FY27E |
|---------------------|--------|--------|---------|--------|---------|-------|-------|-------|-------|
| NII | 5,257 | 4,669 | 12.6 | 5,877 | -10.5 | 15709 | 20935 | 22981 | 25605 |
| PPoP | 4,943 | 4,785 | 3.3 | 6,165 | -19.8 | 16422 | 20879 | 23180 | 25792 |
| APAT | 4,364 | 3,429 | 27.3 | 4,236 | 3.0 | 14019 | 15713 | 17390 | 19345 |
| Diluted EPS (Rs) | | | | | | 53.2 | 59.7 | 66.0 | 73.5 |
| ABV (Rs) | | | | | | 244.7 | 286.6 | 334.4 | 387.8 |
| P/E (x) | | | | | | 7.5 | 6.7 | 6.1 | 5.5 |
| P/ABV (x) | | | | | | 1.6 | 1.4 | 1.2 | 1.0 |
| RoAA (%) | | | | | | 2.8 | 2.7 | 2.7 | 2.7 |

Q1Y26 Result Update

REC reported a robust set of numbers in Q1FY26. Net Interest Income for the quarter came at Rs 5257cr, up 12.6% YoY (-10.5% QoQ) mainly on marginally higher spreads. The yield on advances for the quarter came in at 10.1% (+9 bps YoY), while the cost of funds increased 7 bps to 7.1%. The NIM stood at 3.74% vs 3.64% YoY. Operating profit increased by 3% YoY on account of fair value losses on investments. ~92% of foreign currency exposure with remaining tenure upto 5 years are now hedged till maturity. The improvement in asset quality and resolution of the previously stressed accounts led to write-back of provisions, resulting in an increase in net profit by 27% YoY.

Disbursement remained healthy at Rs 59,508cr driven by distribution loans. The Loan Book has risen by 16%/4% YoY/QoQ to Rs 5.85 lakh crore. Asset quality improved sharply as TRN Energy Pvt. Ltd., with an outstanding of ~Rs 1500cr, was restructured. Consequently, an amount of Rs 392cr was written off and there was reversal an ECL reversal of Rs 272cr. Overall, REC recorded a net reversal of Rs 617cr of provisioning in the quarter. GNPA/NNPA improved 30/14 bps sequentially to 1.05/0.24% and PCR increased to 77%.

The Board of Directors of the Company has declared an interim dividend of Rs 4.6/- per equity share.

Key Triggers

Increasing domestic energy consumption

India has been among the fastest-growing economies for more than a decade, and according to estimates by many organisations, it is likely to remain among the top for the next decade. The fast pace of growth has resulted in increasing energy consumption. The power sector in India has witnessed a major turnaround post-Covid, with power consumption growing at CAGR of about 7.5% from FY20 to FY25 which is expected to continue till 2030.

Consequently, huge investments are required to meet the increasing power demand of the economy. The peak electricity demand has increased by ~39% from 184 GW in FY20 to 250 GW in FY25. The National Electricity Plan, released by the Central Electricity Authority (CEA), has projected an 8.7% increase in peak power demand from 273 GW in 2025 to 297 GW in 2026-27 and a 34% rise to 366 GW by 2031-32.

Power generation projects are capex-heavy and require significant financing. An estimated expenditure of Rs 4.25 lakh crore will be required to implement the additional transmission system from 2022 to 2027, and the plan further estimates an expenditure of Rs 4.90 lakh crore for implementing additional transmission systems, including transmission lines, substations, and reactive compensation, from 2027 to 2032, meet growing energy demand, and achieve ambitious renewable energy targets like reaching 500GW of renewable capacity by 2030.

Renewable energy – rising sector

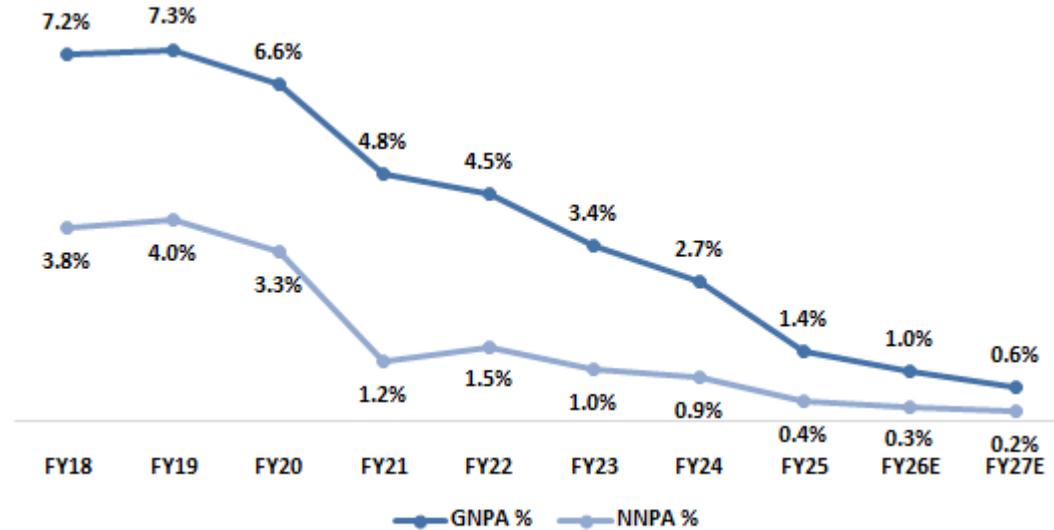
India has made remarkable strides in advancing renewable energy over the past decade, with installed renewable capacity (including large hydro) more than doubling to 226.75 GW as of May 2025. The country has now set ambitious climate targets, aiming for 500 GW of non-fossil fuel power capacity by 2030 and ultimately achieving net-zero emissions by 2070.

To meet these goals, the country will need a rapid scale-up of investments in the renewable energy sector, and the National Electricity Plan estimates this number to be over \$300 billion. Mobilising finance at this ambitious scale requires India to tap into a more diverse range of domestic and international sources across both debt and equity while also addressing the key challenges prevailing in the financing of renewable projects. The government provides financial incentives, tax exemptions, and subsidies to businesses and industries involved in the renewable energy sector. The Indian government has been taking significant steps to encourage investments in the renewable energy sector. One of the key measures is permitting foreign direct investment (FDI) up to 100 per cent under the automatic route

Recoveries to aid profit

Asset quality of REC has been improving for the last 13 quarters as there has been no significant addition to NPA while resolutions in many of the stressed assets have led to reversals of provisioning. Out of 36 stressed assets, 23 stressed assets have already been resolved. As of Q1FY26, REC had 11 projects which were under various stages of resolution. Of these, REC has filed IBC case in 6 projects and it has made 100% provision for the remaining 5 projects. The company expects to resolve all projects by end of FY26 and anticipates recovery of Rs 800-1000cr. in the coming quarters.

Asset quality improving as stressed assets get resolved



(Source: Company, HDFCsec)

Increased share of renewable projects to drive lending

REC occupies a strategic position in the growth and development of the power sector and a major player in renewable energy segment and creation of India's Green Energy corridor. India has demonstrated a firm commitment towards achieving the ambitious energy transition goals announced by the Hon'ble Prime Minister at COP26. These goals include a target to achieve 500 GW of renewable energy and a 50% share from renewable sources by the year 2030.

In line with these goals, India has been increasing its power capacities in the renewable segment. The share of renewable energy in the total installed capacity has increased to 48% in Jun 2025 and ~21% in generation. REC intends to increase its share of renewable energy to at least 30% of its total loan portfolio by 2030. The company has planned to achieve a loan book of Rs 10 trillion, including Rs 3 trillion exposure in renewable energy projects, by 2030. As of Q1FY26 renewable energy accounted for ~64,000cr of loan book (~11%).

Lending to other Infrastructure sectors to aid margin expansion

After getting Maharatna Status, the Government allowed REC to lend to the logistics and non-power infrastructure sectors. In FY24, REC

sanctioned Rs 40,569cr to non-power infrastructure sectors comprising Roads & Expressways, Metro Rail, Airports, IT Communication, Social and Commercial Infrastructure (Educational Institution, Hospitals), Ports and Electro-Mechanical (E&M) works in respect of various other sectors like Steel, Refinery etc. According to Crisil, India is expected to spend approximately Rs 143 lakh crore on infrastructure over the next seven fiscal years through 2030, more than twice the approximately Rs 67 lakh crore spent in the previous seven years, starting from fiscal 2017. The considerable investment potential would enable REC to achieve higher growth and consequently greater profitability.

Infrastructure and logistics loans carry a higher spread as compared to renewable energy projects (due to high competition). Thus, higher lending to infrastructure sector would aid the company in expanding its margins.

Loan Book Composition:

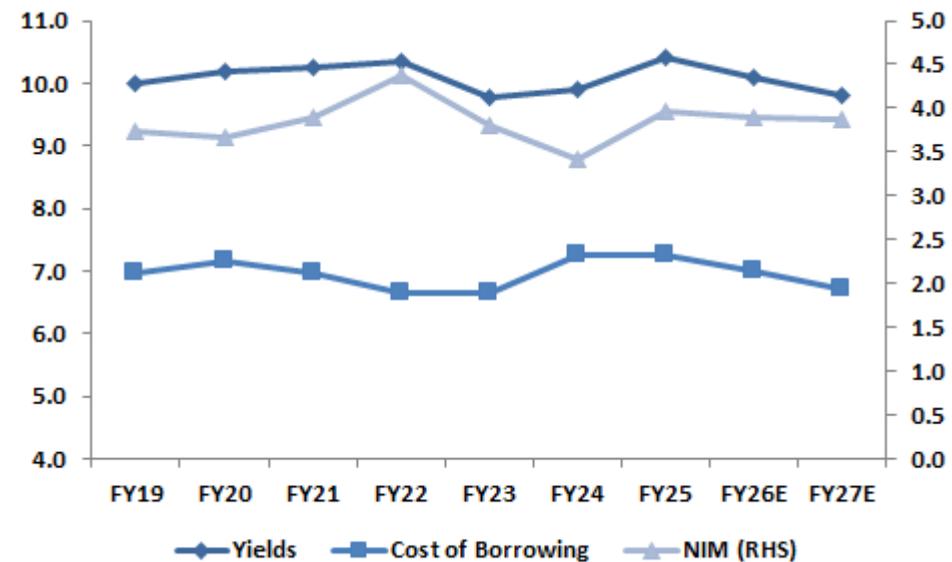
| (Rs cr) | FY24 | | FY25 | | Q1FY26 | |
|--------------|---------------|------------|---------------|------------|---------------|------------|
| | Amount | % | Amount | % | Amount | % |
| State | 454647 | 89 | 494578 | 87 | 507829 | 87 |
| Private | 54724 | 11 | 72305 | 13 | 76739 | 13 |
| Total | 509371 | 100 | 566883 | 100 | 584568 | 100 |
| Generation | 1,45,271 | 29 | 1,55,071 | 28 | 1,50,802 | 26 |
| Renewable | 38,971 | 8 | 57,994 | 10 | 63,850 | 11 |
| Transmission | 48,046 | 9 | 46,743 | 8 | 45,231 | 8 |
| Distribution | 2,14,672 | 42 | 2,20,626 | 39 | 2,36,436 | 40 |
| I&L - Core | 7,676 | 1 | 18,448 | 3 | 18,791 | 3 |
| I&L - E&M | 45,875 | 9 | 50,953 | 9 | 51,290 | 9 |
| STL/MTL | 8,860 | 2 | 17,048 | 3 | 18,168 | 3 |

Lower borrowing costs could drive margin expansion.

REC is among the four companies allowed to mobilise funds by issuing 54EC bonds. These bonds carry a lower coupon rate but are exempt from capital gains tax. The recent changes in real estate taxation are expected to lead to an increase in tax outflow for real estate investment gains. To mitigate this increased tax burden, investors have two primary options: reinvest the capital from the asset sale into another real estate property or invest in special government 54EC bonds. If demand for these bonds rises, it could potentially lower borrowing costs for these two lenders, thereby improving their spreads and RoE. REC Ltd is looking to raise an additional Rs 5,000 crore in the current financial year through the issuance of deep-discount zero-coupon bonds.

The board has also approved raising the borrowing limit in foreign currency to USD 24 billion from USD 20 billion. REC has been increasingly borrowing from overseas as these loans come at a lower rate. ECBs account for 23.7% of the total borrowings as compared to 20.9% at the end of FY24. Almost 99% of the borrowing is hedged. We believe cost of borrowing for the company would compress going forward driving higher NIMs and RoE.

Yield and Cost of Funds trend

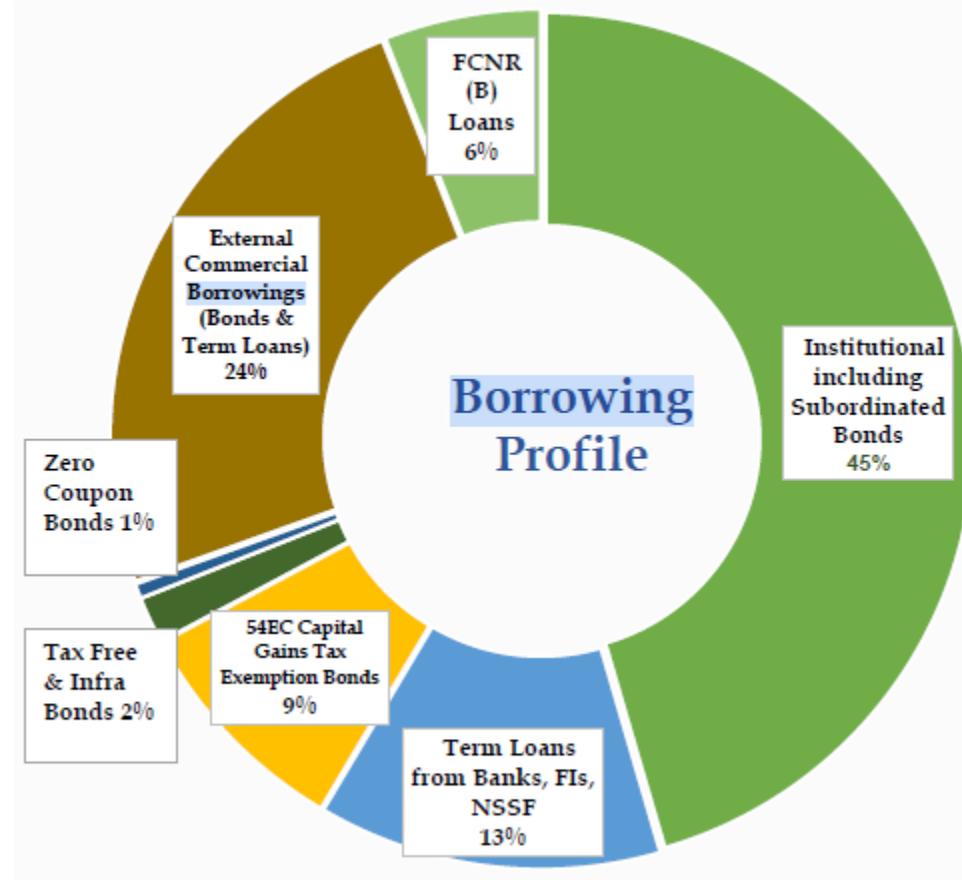


(Source: Company, HDFCsec)

Adequate capitalisation and strong resource profile

The capitalisation level of the company remains adequate, implying ample opportunities to support business growth. As of Q1FY26, the total capital adequacy ratio at 24.0%. Tier 1 capital stood at 21.9%, and Tier 2 capital at 2.0%. Being a Quasi-Government institution, REC has been able to raise funds at a competitive rate from various sources such as external commercial borrowings (ECB), domestic financial institutions, long-term bonds, bank loans, commercial papers, infrastructure bonds, and tax-free bonds, etc. REC has an “AAA” rating from the Domestic Credit Ratings for its long-term borrowings, while BBB- from Fitch.

Borrowing breakup



(Source: Company, HDFCsec)

Risks & Concerns

- A higher-than-expected deterioration in the asset quality could result in the erosion of the Tier I capital. Fresh formation of bad loans could keep provisioning high and return ratios compressed for a longer time. Further, any delay in the recovery, higher than expected haircuts or sharp rise in the slippage could impact the profitability and business growth prospects. This could also impact its ability to payout large dividends.
- Banks' exposure to infrastructure finance companies is fixed at 10% of their capital funds. This may restrict REC's ability to borrow from Banks in future.
- REC has exposure mainly in power which has large ticket size of loans. Also high concentration of exposure towards financially weak state power utilities and the vulnerability of its exposure to private sector borrowers increase the portfolio vulnerability.
- REC portfolio remains impacted by concerns regarding fuel availability, disputed and competitive power sale tariffs, absence of power purchase agreements (PPAs), environmental clearance and land acquisition issues at its borrowers' end.
- The borrowers are from power sector and the credit risk profile of them is weak because of their poor financials. PSUs, especially discoms, are an inherently weak asset class and even the private sector power players have increasingly become more vulnerable to asset quality risks owing to issues such as lack of fuel availability, inability to pass on fuel price increases, and absence of long-term power purchase agreements for assured power offtake.
- Post the approval from power ministry, the company can now lend to sectors such as infrastructure and logistics. This will create new avenue of growth, however, we will remain watchful on the asset quality front as the company does not have past experience in lending to these sectors.
- REC can face competition from Banks (though normally they don't fund such long duration projects) attracted by the high spreads/NIMs.
- Although the trend is declining, the exposure to top 10 borrowers remains high at 40% of the total loan asset portfolio. Any single account becoming non-performing could have a huge impact on the company's financials.

Company Background:

Rural Electrification Corporation (REC), incorporated in 1969 by the Government of India, to finance and promote rural electrification projects in India. It is engaged in financing projects or schemes of power generation (both conventional and renewable energy), transmission, distribution, rural electrification and activities having forward/backward linkage with power projects, in both public and private sectors. Its key products include Long Term, Medium Term and Short Terms Loans etc. for the entire power sector value chain. In addition to this, REC also serves as a nodal agency for implementing various national importance schemes and programs of the Ministry of Power, Government of India (GoI).

It was established by GoI to develop the infrastructure in rural India. Over the last decade, the company has diversified into urban areas and plays a strategic role in GoI's plan to improve the T&D infrastructure in India. REC's clients mainly include state power utilities, private power sector utilities, joint sector power utilities and power equipment manufacturers. PFC now holds a 52.63% stake in the company as a promoter entity, having acquired the stake from the Government of India in March 2019 at Rs 139.50 per share.

REC has a wholly-owned subsidiary company, namely REC Power Development & Consultancy Ltd. (RECPDCL) which acts as the "Bid Process Coordinator" for the selection of Transmission Service Provider through Tariff Based Competitive Bidding (TBCB) process, for independent inter-state and intrastate transmission projects assigned by the Ministry of Power and State Governments from time to time.

REC is now a Maharatna Company

In September 2022, the company was conferred 'Maharatna' status by Government of India, the highest recognition for a public sector company. In last financial year the promoter of the company PFC was also accorded with the status of a 'Maharatna'. This is an endorsement of REC's enhanced stature and an acknowledgement of its sterling role in turning a power deficit country into a power surplus state with universal access to electricity. As per management, Maharatna status will give REC greater operational and financial autonomy and enable diversification of its operations to accelerate its business growth further.

Benefits to Maharatna Status to REC:

- The Board of a 'Maharatna' CPSE can make equity investments to undertake financial joint ventures and wholly-owned subsidiaries and undertake mergers and acquisitions in India and abroad, subject to a ceiling of 15% of the Net Worth of the concerned CPSE, limited to Rs 5,000 Cr in one project.
- The Board can also structure and implement schemes relating to personnel and Human Resource Management and Training.
- REC now can also enter into technology JVs or other strategic alliances among others.

Financials

Income Statement

| (Rs cr) | FY23 | FY24 | FY25 | FY26E | FY27E |
|----------------------------|--------------|--------------|--------------|--------------|--------------|
| Interest Income | 38836 | 45659 | 55070 | 59574 | 64771 |
| Interest Expenses | 23738 | 29949 | 34135 | 36593 | 39166 |
| Net Interest Income | 15099 | 15709 | 20935 | 22981 | 25605 |
| Non interest income | 416 | 1555 | 910 | 1239 | 1322 |
| Operating Income | 15515 | 17265 | 21845 | 24219 | 26926 |
| Operating Expenses | 1661 | 843 | 965 | 1040 | 1134 |
| PPoP | 13854 | 16422 | 20879 | 23180 | 25792 |
| Prov & Cont | 115 | -1358 | 1019 | 885 | 991 |
| Profit Before Tax | 13739 | 17781 | 19860 | 22295 | 24801 |
| Tax | 2684 | 3761 | 4147 | 4905 | 5456 |
| PAT | 11055 | 14019 | 15713 | 17390 | 19345 |

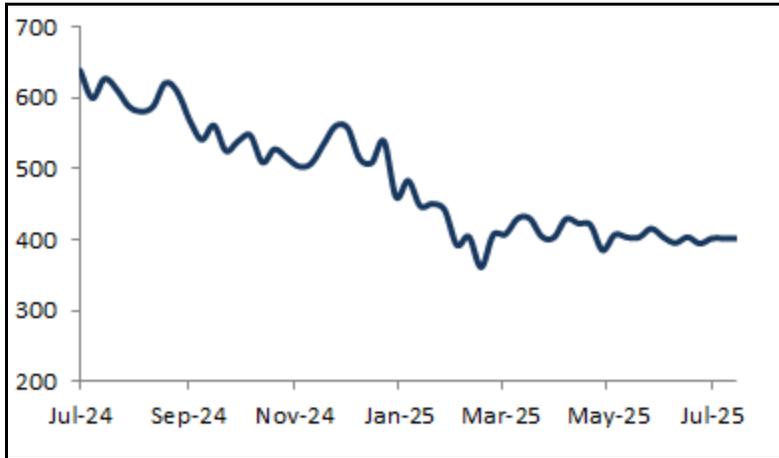
Balance Sheet

| (Rs cr) | FY23 | FY24 | FY25 | FY26E | FY27E |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| Share Capital | 2633 | 2633 | 2633 | 2633 | 2633 |
| Reserves & Surplus | 55046 | 66150 | 75005 | 87128 | 100680 |
| Shareholder funds | 57680 | 68783 | 77638 | 89761 | 103313 |
| Borrowings | 380836 | 445614 | 496289 | 549220 | 619918 |
| Other Liab & Prov. | 26361 | 33043 | 39628 | 41811 | 46889 |
| SOURCES OF FUNDS | 464877 | 547440 | 613555 | 680793 | 770120 |
| Fixed Assets | 643 | 654 | 656 | 629 | 623 |
| Investment | 3138 | 5320 | 6642 | 7757 | 9467 |
| Cash & Bank Balance | 1987 | 2499 | 1750 | 2172 | 2665 |
| Advances | 422084 | 499192 | 559088 | 620588 | 701264 |
| Other Assets | 37025 | 39775 | 45420 | 49647 | 56101 |
| TOTAL ASSETS | 464877 | 547440 | 613555 | 680793 | 770120 |

Ratio Analysis

| Particulars | FY23 | FY24 | FY25 | FY26E | FY27E |
|---------------------------------|--------|-------|-------|-------|-------|
| Return Ratios (%) | | | | | |
| Yield on adv | 9.8% | 9.9% | 10.4% | 10.1% | 9.8% |
| Cost of funds | 6.6% | 7.2% | 7.2% | 7.0% | 6.7% |
| NIM | 3.8% | 3.4% | 4.0% | 3.9% | 3.9% |
| RoAE | 20.3% | 22.2% | 21.5% | 20.8% | 20.0% |
| RoAA | 2.5% | 2.8% | 2.7% | 2.7% | 2.7% |
| Asset Quality Ratios (%) | | | | | |
| GNPA | 3.4% | 2.7% | 1.4% | 1.0% | 0.6% |
| NNPA | 1.0% | 0.9% | 0.4% | 0.3% | 0.2% |
| PCR | 71% | 68% | 72% | 72% | 73% |
| Growth Ratios (%) | | | | | |
| Advances | 13.5% | 18.3% | 12.0% | 11.0% | 13.0% |
| Borrowings | 14.1% | 17.0% | 11.4% | 10.7% | 12.9% |
| NII | -6.4% | 4.0% | 33.3% | 9.8% | 11.4% |
| PPoP | -12.9% | 18.5% | 27.1% | 11.0% | 11.3% |
| PAT | 10.0% | 26.8% | 12.1% | 10.7% | 11.2% |
| Valuation Ratios | | | | | |
| EPS (Rs) | 42.0 | 53.2 | 59.7 | 66.0 | 73.5 |
| P/E (x) | 9.6 | 7.5 | 6.7 | 6.1 | 5.5 |
| Adj. BVPS (Rs) | 202.4 | 244.7 | 286.6 | 334.4 | 387.8 |
| P/ABV (x) | 2.0 | 1.6 | 1.4 | 1.2 | 1.0 |
| Dividend per share (Rs) | 12.6 | 16.0 | 18.0 | 20.0 | 22.0 |
| Dividend Yield (%) | 3.1 | 4.0 | 4.5 | 5.0 | 5.5 |
| Other Ratios | | | | | |
| Cost-Income | 10.7 | 4.9 | 4.4 | 4.3 | 4.2 |
| Leverage | 7.3 | 7.3 | 7.2 | 6.9 | 6.8 |

Price chart



HDFC Sec Prime Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:

I, **Atul Karwa, Research Analyst, MMS**, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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Any holding in stock – Yes

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