



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

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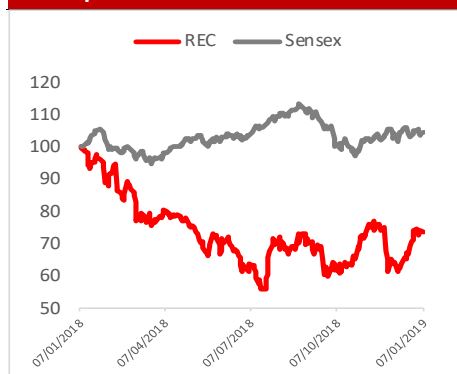
### BUY

Current Price	128
Target Price	160
Upside %	25
52 Week Range	89/165

### Key Share Data

Market Cap (Rs.bn)	253.28
Market Cap (US\$ mn)	3724
No of o/s shares (mn)	1974.9
Face Value	10
Monthly Avg. Vol(BSE+NSE) Nos (Lacs)	5.05
BSE Code	532955
NSE Code	RECLTD
Bloomberg	REC IN

### Price performance



Holding %	Dec-18	Sept-18
Promoter	52.85	57.95
Public	37.29	31.86
Others	9.86	10.15

**Rural Electrification Corporation (REC)** is a leading power sector financier and plays a key role in government growth plans for the sector. Established in 1969 to develop power infrastructure in the rural areas, its mandate has evolved over time to finance all segments of the power sector across the country. REC is promoted by the government of India, which has a 52.85% stake. Foreign and domestic institutional investors owned a 37.29% stake in the company as of December 2018. In December 2018 CCEA gave in-principle approval for the strategic sale of the government of India's (GoI) stake in the total paid-up equity capital of REC Limited to Power Finance Corporation.

**Loan growth revived:** REC's loan growth revived to 19.1% YoY during Q2FY19 driven by strong 76.2% growth in disbursements. Though growth was across segments, it was contributed largely by state sector (23.9% YoY; 79.4% of loans); (b) Generation segment (39% of loans) grew 17.8% YoY, while transmission & distribution segment (45% of loans) grew relatively lower at 13.2% YoY; (c) Growth in renewable segment (8% of loans) grew at 11%. Margin during the quarter improved 29 bps QoQ to 4.1% due to sharp 35 bps QoQ increase in yields to 10.7% and flat QoQ cost of funds at 7.3%.

**Asset quality likely to improve:** REC's asset quality held in good stead in Q2FY19. GNPLs and NNPLs for the company stand at 7.9% and 4.28% respectively. Further, restructured book was also steady at 10.8% in Q2FY19 (11.2% in Q2FY18) with public at INR108bn (INR109bn in Q2FY18) and private at INR125bn (INR122bn in Q2FY18). Management expects upgrades of INR90bn (particularly in state utilities segment) to play through in ensuing quarters, which in our view is a key monitorable. PCR is at 47%. The company also provided Rs1,700cr against standard private exposure. However, with ~60% of private sector marked as stress assets asset quality of REC is expected to improve.

**Samadhan like scheme to reduce stressed assets:** The REC, has drawn up a plan to turnaround assets of stressed power plants by launching a scheme similar to Samadhan scheme launched by SBI. Under this scheme an assessment would be done for sustainable debt of stressed assets, and the remaining debt which is unsustainable would be converted into equity (to be held by the banks) -- 24.5 per cent to be allowed to remain with promoters. This is likely to reduce stressed assets on balancesheet.

**Valuation:** Higher PCR of REC will help the company to make lower incremental provisions. Further, it will continue to generate RoE of 14-15% and RoA of 1.8-1.9%. Ability of REC to raise low cost resources (did an ECB of USD 700 mn through a MTN program @5.25% p.a.) and nodal agency status will help it maintain the historical track record while making electricity available to 600,000 villages across India and aid in development of renewable energy space. The company offers dividend yield of 7% and is available 0.8x FY19E and 0.7x FY20E BV. We are positive on REC and recommend 'BUY' with target price of Rs160.

### Financials (Rs. Mn)

Year	Op. Income	% growth	NIM (%)	PAT	% growth	EPS	P/B	ROE (%)	ROCE (%)
FY15	205441.6	19.2	4%	53445.6	12.7	51.95	1.31	23.3	11.95
FY16	241253.3	17.4	4.8	56919.5	6.5	54.14	0.57	21.09	11.91
FY17	243378.2	0.9	4.9	63126.8	10.9	31.97	1.06	20.18	11.14
FY18	230812.7	-5.2	3.7	46898.5	-25.7	23.75	0.69	13.48	9.37



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