REC Ltd

NBFC- Power Financing

BUY

About the Company

REC Ltd. (REC) is a public sector enterprise in India that supports and finances the power projects and infrastructure assets throughout the country. The company offers financing services across the entire value chain from generation (~28%) to distribution (~40%) and is progressively expanding its portfolio to include non-power infrastructure and logistics, focusing on sectors such as airports, metro, ports, refineries, highways etc. As on 30th September, 2024, the company has an AUM of ~Rs 5.5 Lc Cr with ~88% allocated to state and 12% to the private sector.

Investment Rationale

- **Robust Credit Growth Visibility**: We believe REC remains a key beneficiary of the strong power capex cycle and the increasing thrust and resultantly opportunities in the renewable energy sector. The company's management aims to double its AUM to ~Rs 10 Lc Cr by or before 2030, with the share of renewable energy improving to ~30% of the portfolio mix. This aligns with India's aim of achieving 500 GW of renewable capacity by 2030 and is also likely to drive market share improvement for the company. Additionally, in-line with the Ministry of Power's 80 GW coal-based capacity target by 2032, REC aims at capturing ~20% of the market share in the coal-based power plant business. We believe REC has a strong growth run-way and expect the company to clock a strong AUM growth of ~18% CAGR over FY25-27E.
- **Continuously Improving Asset quality:** While the risk associated with exposure to state government backed entities is perceived to be higher, they have surprisingly been able to manage timely repayments due to government guarantees. Additionally, multiple stressed exposures are in advances stages of resolution. This has worked in favour of REC, with the company witnessing an improvement in the asset quality. Additionally, the company's selective lending approach across segments has contributed to the meaningful improvement in asset quality metrics. We believe slippages over the medium term could remain under control, facilitating a further gradual improvement in asset quality. Thus, credit costs are expected to remain under check driving healthy earnings growth of ~14% CAGR over FY24-27E.
- **Stable Return Ratio Profile:** The shift in focus towards the lower-yielding renewable energy sector could potentially weigh on NIMs. Additionally, a possibility of increased competition from banks and other lenders and expectations of a rate-cut could also weigh on REC's yields. However, this can be partially mitigated by REC's ability to issue the relatively inexpensive 54EC bonds, its AAA credit rating along with a diversified borrowing profile. The management expects to maintain the NIMs in the range of 3.5-3.75% with NIMs in FY25 at ~3.6%. We believe the marginal contraction in NIMs would be off-set by the benign credit costs, thereby enabling REC to deliver steady RoA/RoE of 2.5-2.6%/20-21% over the medium term

Valuation / Analyst recommendation

- The steady growth prospects, gradually improving asset quality along with a strong power capex cycle, warrants further upside for REC from current levels. **We recommend a BUY on the stock with a target price of Rs 530/share, implying an upside of 11% from the CMP.**

Financial Summary

Y/E March	NII (Rs Bn)	PPOP (Rs Bn)	PAT (Rs Bn)	EPS (Rs)	ABV (Rs)	P/ABV (x)	RoA (%)	NNPA (%)
FY24	165	164	140	53.2	244.3	1.9	2.8	0.9
FY25E	196	196	156	59.4	286.2	1.6	2.6	0.7
FY26E	226	226	184	69.9	334.7	1.3	2.6	0.6
FY27E	264	263	206	78.2	388.9	1.2	2.6	0.6

Source: Axis Securities; CMP as on 14th January, 2025

Duration: 3-6 Months

CMP (Rs)	**479**
Target Price (Rs)	**530**
Upside (%)	**11%**

| Why REC Ltd?

- ✓ **Long Growth Runway supported by a strong power capex cycle**
- ✓ **Improving Asset Quality**
- ✓ **Steady Return Ratio Profile**

| Key risks

- ✓ **Slowing down growth momentum**
- ✓ **Shift towards non-power projects**
- ✓ **Asset Quality concerns**
- ✓ **Rising competitive intensity from banks and other lenders**

MARKET DATA

No. of Shares	263.3 Cr
Market Cap	1,26,026 Cr
52-week High / Low	654/408
BSE Code	532955
NSE Code	RECLTD

Dnyanada Vaidya
Research Analyst
dnyanada.vaidya@axissecurities.in

Pranav Nawale
Research Associate
pranav.nawale@axissecurities.in

About Axis PUNCH

| OBJECTIVE

Axis Punch is designed to generate solid return in short to medium term based on High Conviction Stock Ideas for both investors and traders. This fundamental medium-term product targets return of 10% plus with an investment horizon of 3 to 6 months. Recommendations under Axis Punch are driven by various business and economic events, company valuations, market direction, or a mix of these factors.

| Axis PUNCH is strong research based idea based on

Events Based: Our recommendations are based on the following critical factors, providing a comprehensive approach to medium-term investment opportunities:

- **Company-Specific Events:** Recommendations consider significant company-specific events such as new orders, product launches, acquisitions, management changes, and the commissioning of new plants.
- **Commodity Price Fluctuations:** We analyze changes in commodity prices, including metals, cement, chemicals, and pharmaceutical materials.
- **Macro-Economic Events:** Key macroeconomic events such as RBI Monetary Policy, US Fed decisions, inflation rates, GDP figures, budget announcements, and changes in government policies are factored into our recommendations.
- **Sector Developments:** Material developments within sectors, including monthly production and sales numbers in industries like Auto, Cement, and Steel, as well as competitive landscape changes due to business actions or new entrants/exits, are considered.
- **Earnings Surprises:** We identify companies expected to report better-than-anticipated earnings in upcoming quarters.
- **Corporate Actions:** Corporate actions such as mergers and acquisitions, capital raising programs, and regulatory announcements that impact a company or its industry form crucial elements for our recommendations.

Strategic Insights: Benefit from insights based on a blend of critical business events, economic trends, and thorough company valuations.

Informed Decisions: Make well-informed investment decisions backed by the expertise of our dedicated research team.

Medium-term Horizon: Enjoy the medium-term investment strategy, perfectly suited for those looking to optimize returns over 3 to 6 months.

| Why to choose Axis PUNCH

These medium-term recommendations are crafted by the fundamental research team of Axis Securities, ensuring a rigorous analysis of developments around the company. Please note that Axis Punch recommendations may differ from our long-term company recommendations. Key investment rational and risks are clearly highlighted in stock ideas.

AXIS SECURITIES

Disclaimer

Axis Securities Limited is a subsidiary company of Axis Bank Ltd. Axis Bank Ltd. is a listed public company and one of India's largest private sector banks and has its various subsidiaries engaged in businesses of Asset management, NBFC, Merchant Banking, Trusteeship, Venture Capital, Stock Broking, the details in respect of which are available on www.axisbank.com.

Axis Securities Limited, is registered as a
Stock Broker, Depository Participant, Portfolio Manager, Investment Adviser and Research Analyst with Securities and Exchange Board of India
Corporate Agent with Insurance Regulatory and Development Authority of India
Point of Presence with Pension Fund Regulatory and Development Authority
Distributor for Mutual Funds with AMFI

Registration Details:

SEBI Single Reg. No.- NSE, BSE,MSEI, MCX & NCDEX – INZ000161633 | SEBI Depository Participant Reg. No. IN-DP-403-2019 | Portfolio Manager Reg. No.- INP000000654 | Investment Advisor Reg No. INA000000615 | SEBI-Research Analyst Reg. No. INH000000297 | IRDA Corporate Agent (Composite) Reg. No. CA0073| PFRDA – POP Reg. No. POP387122023 | Mutual Fund Distributor ARN- 64610.

Compliance Officer Details: Name – Mr. Maneesh Mathew, Tel No. – 022-68555574, Email id – compliance.officer@axisdirect.in.;

Registered Office Address – Axis Securities Limited, Unit No.002, Building- A, Agastya Corporate Park, Piramal Realty, Kamani Junction, Kurla (W), Mumbai – 400070.

Administrative office address: Aurum Q Parć, Q2 Building, Unit No. 1001, 10th Floor, Level – 6, Plot No. 4/1 TTC, Thane – Belapur Road, Ghansoli, Navi Mumbai, Pin Code – 400710.

In case of any grievances please call us at 022-40508080 or write to us helpdesk@axisdirect.in.

We hereby declare that our activities were neither suspended nor we have defaulted with any stock exchange authority with whom we are registered in last five years. However, SEBI, Exchanges, Clearing Corporations and Depositories etc. have conducted the routine inspection and based on their observations have issued advise/warning/show cause notices/deficiency letters/ or levied penalty or imposed charges for certain deviations observed in inspections or in normal course of business, as a Stock Broker / Depository Participant/Portfolio Manager. We have not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has our certificate of registration been cancelled by SEBI at any point of time.

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.
By referring to any particular sector, Axis Securities does not provide any promise or assurance of favourable view for a particular industry or sector or business group in any manner.

Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk-free return to the investors. Our research should not be considered as an advertisement or advice, professional or otherwise. This research report and its respective content by Axis Securities made available on this page or otherwise do not constitute an offer to sell or purchase or subscribe for any securities or solicitation of any investments or investment services for the residents of Canada and / or USA or any jurisdiction where such an offer or solicitation would be illegal.

Subject company(ies) may have been client during twelve months preceding the date of distribution of the research report. Derivatives are a sophisticated investment device. The investor is requested to take into consideration all the risk factors before actually trading in derivative contracts.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment of its original date of publication by ASL and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments.

The information and opinions in this report have been prepared by Axis Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of Axis Securities. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite, investment objective or the particular circumstances of an individual investor. The investor is requested to take into consideration all the risk factors including their financial condition, suitability to risk return profile and the like and take professional advice before investing.

While we would endeavour to update the information herein on a reasonable basis, Axis Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent Axis Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or Axis Securities policies, in circumstances where Axis Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

AXIS SECURITIES

Disclaimer

NEERAJ CHADAWAR Digitally signed by NEERAJ CHADAWAR
Date: 2025.01.14 16:56:59 +05'30'

This report is based on information obtained in good faith from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Axis Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Axis Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Axis Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months. Axis Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction. Axis Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months. Axis Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. Axis Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither Axis Securities nor Research Analysts and / or their relatives have any material conflict of interest at the time of publication of this report. Please note that Axis Securities has a proprietary trading desk. This desk maintains an arm’s length distance with the Research team and all its activities are segregated from Research activities. The proprietary desk operates independently, potentially leading to investment decisions that may deviate from research views.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

Research Analyst may have served as an officer, director or employee of subject company(ies). Axis Securities or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report. Since associates of Axis Securities and Axis Securities as an entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest in various companies including the subject company/companies mentioned in this report. Axis Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. Certain transactions -including those involving futures, options and other derivatives as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Reports based on technical analysis centres on studying charts of a stock'sprice movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

We and our affiliates/associates, officers, directors, and employees, Research Analyst(including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of Research Report or at the time of public appearance. Axis Securities may have proprietary long/short position in the above mentioned scrip(s) and therefore may be considered as interested. This should not be construed as invitation or solicitation to do business with Axis Securities. Axis Securities is also a Portfolio Manager. Portfolio Management Team (PMS) takes its investment decisions independent of the PCG research and accordingly PMS may have positions contrary to the PCG research recommendation.