

15th MAY 2024

REC Ltd. – BUY

CMP :Rs.530.0
Target Price :Rs.720.0
Upside : 30%+
Stop Loss : Rs.450.0 (Closing basis)

Investment Thesis

- REC Ltd, formerly known as Rural Electrification Corporation Limited, is a prominent public sector company under the Ministry of Power in India. Established in 1969, REC plays a crucial role in the power sector by financing and promoting rural electrification projects across the country.
- The company provides loans to various entities such as Central/State Sector Power Utilities, State Electricity Boards, Rural Electric Cooperatives, NGOs, and Private Power Developers. REC's activities include consultancy services, fee-based services, and financial assistance for power infrastructure projects in rural and urban areas.
- REC has diversified its operations into non-power infrastructure sectors like roads, expressways, metro rail, airports, and more. The company is involved in financing projects across the power sector value chain, from generation to distribution, and has expanded its mandate to cover renewable energy projects and new technologies like Electric Vehicles, Battery Storage, Green Hydrogen, among others.
- REC's commitment to sustainable development is evident through its initiatives to increase the share of green energy in its loan portfolio to 30% by 2030.
- REC has signed an MoU with the Government of Rajasthan to provide loans of up to 20,000 crore annually for the next six years for projects related to metros, roads & highways, airports, IT infrastructure, oil refineries, steel infrastructure, ports & waterways, fiber optics, telecom, health sector, tourism infrastructure, agriculture, and other infrastructure projects.

Financials

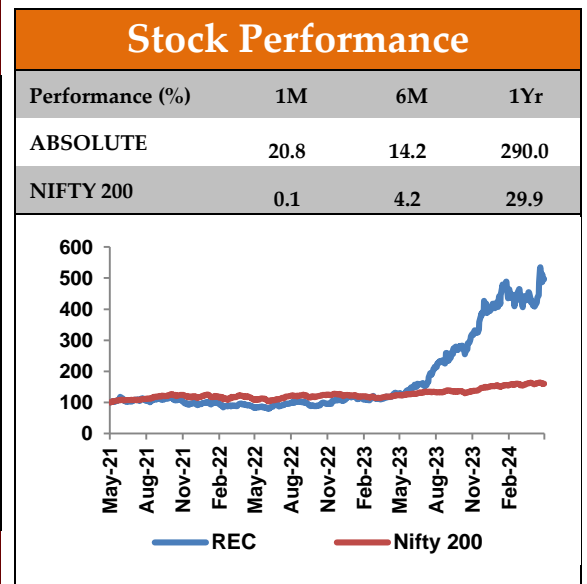
- The company's revenue has shown a consistent growth trajectory, increasing from Rs. 39,276 crore in FY22 to Rs. 47,505 crore in FY24 and further estimating it at Rs. 71,851 crore in FY26E. This indicates a strong demand for the company's services and its ability to capture market share.

Consl. (Rs.Cr)	FY22	FY23	FY24	FY25E	FY26E
Revenue	39,276	39,486	47,505	57,481	71,851
EBITDA	12,387	13,895	17,917	25,533	37,356
EBITDA Margin (%)	31.54	35.19	37.72	44.42	51.99
PAT	10,036	11,167	14,145	16,691	19,195
EPS (Rs.)	38	42	54	63.5	73.0
P/E (x)	13.6	12.3	9.7	10.5	9.9
RoE (%)	19.6%	19.2%	20.4%	22.3%	23.9%

Stock Data	
Market Cap (Rs. Cr)	1,39,798
Market Cap (\$ Bn)	16.58
Shares O/S (in Cr)	263
Avg. Volume (3 month)	2,78,60,033
52-Week Range (Rs.)	567 / 127

Shareholding Pattern	
Promoters	52.63%
FII's	19.91%
Institutions	15.44%
Others (incl. body corporate)	12.00%

Key Ratios	
Div Yield	2.44%
TTM PE	9.95x
ROE	22.2%
TTM EPS (Rs.)	53.7/-



- The EBITDA has also been growing steadily, from Rs. 12,387 crore in FY22 to an estimated Rs. 37,356 crore in FY26E. This suggests that the company has been able to effectively manage its operating costs and maintain profitability.
- The EBITDA margin, which represents the company's operating efficiency, has shown a consistent improvement, increasing from 31.54% in FY22 to an estimated 51.99% in FY26E. This indicates that the company has been able to generate higher profits from its revenue, likely due to its operational efficiencies
- The PAT, which represents the company's net income, has also been growing steadily, from Rs. 10,036 crore in FY22 to an estimated Rs. 19,195 crore in FY26E. This reflects the company's ability to generate substantial profits for its shareholders.
- The P/E ratio, has been declining from 13.6x in FY22 to an estimated 9.9x in FY26E. This could suggest that the company's shares may be undervalued compared to its earnings growth potential.

Key Business Highlights

- REC has strategically diversified its loan portfolio beyond the conventional power sector into non-power infrastructure and logistics sectors, such as railways, airports and ports. This diversification mitigates concentration risk and provides exposure to India's broader infrastructure growth story.
- REC has been appointed as the overall program implementation agency for the Rooftop Solar Mission, positioning itself as a key player in the rapidly growing renewable energy sector in India. This aligns with the government's push towards clean energy and sustainable development goals.
- As a 'Maharatna' company and a public sector undertaking under the Ministry of Power, REC enjoys government backing and plays a strategic role in the Indian Power, Infrastructure, and Logistics sectors. This support and strategic importance provide stability and growth opportunities.
- India's infrastructure and power sectors are witnessing significant investments and development, driven by the government's focus on infrastructure development, renewable energy, and economic growth. REC is well-positioned to capitalize on these favorable industry dynamics.
- REC's total project sanctions have increased by 69% year-on-year, indicating robust growth in its lending activities. Additionally, the company's asset under management is expected to cross Rs. 5 lakh crore in the current financial year and reach around Rs. 6 lakh crore by the end of FY 2025.
- REC has demonstrated strong financial performance with a compound annual growth rate of 19.3% in net profits over the past five years. The company's net profit is expected to surpass the Rs. 40,000-crore mark in the next three to four years, driven by a projected 29.7% net profit compounded annual growth rate.

Valuation

While the stock is trading at TTM P/E of 9.95x with an EPS of Rs.53.7 which is considered to be undervalued when compared to the Industry average of 23.6x. Revenue is expected to grow by 25-30% led by developments made in renewable power sector and infrastructure sector backed by government. We expect it to trade around 9.9 P/E with an FY26 EPS of Rs. 73.

We expect a target price of Rs.720 , an upside of 30%.

Risk & Concern

- REC is exposed to risks arising from fluctuations in foreign exchange rates, given its sizeable foreign currency denominated borrowings
- REC Ltd include exposure to environmental and regulatory risks, which could translate into credit risks for the company due to its lending business
- Operational risks, including project delays, cost overruns, and technological challenges in implementing renewable energy projects, can affect the company's project portfolio and revenue streams.

Graphs & Charts

Figure 1: Net Sales Trend

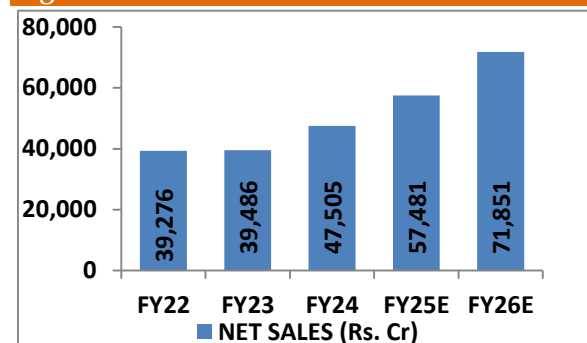


Figure 2: EBITDA & EBITDA Margin Trend

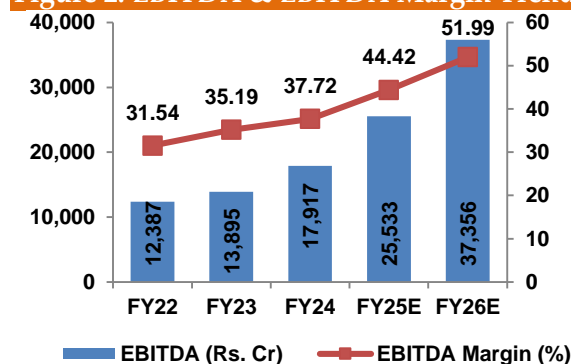


Figure 3: PAT Trend

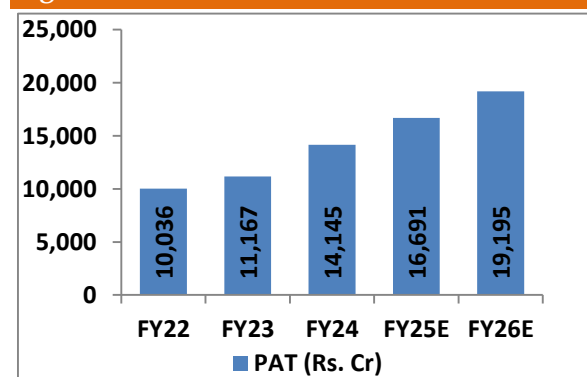
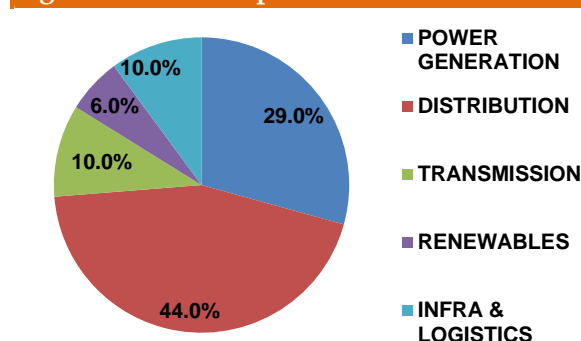


Figure 4: Loan Composition (H1FY24)



Name

Designation

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