

Rural Electrification Corp. Ltd.



CMP: 157.80

Nifty	8,963.5
Sensex	29,048.4
Nifty PE	23.27
Sensex PE	22.10

Stock Data

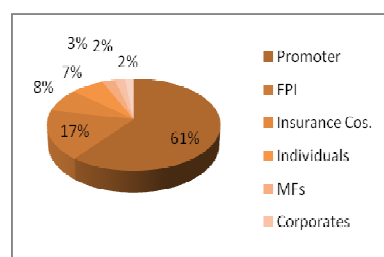
Sector	NBFC
BSE Code	532955
NSE Code	RECLTD
FV	10
Market Cap (Rs. Cr)	31,164
Market Cap (US\$ mn)	4,668.8
Equity Share Cap.	1,974.92

Stock Performance (%)

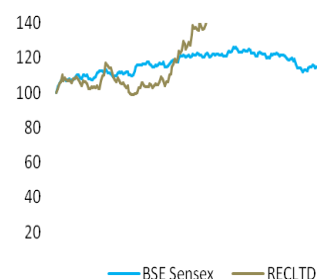
52-week high/low Rs. 160 / 76.40

	1M	6M	12M
Absolute (%)	3.91	28.32	85.87

Shareholding Pattern (%)



Sensex and stock movement



6th March, 2017

- **Rural Electrification Corporation Limited (REC)**, a listed NAVRATNA Public Sector Enterprise under the purview of the **Ministry of Power**, Government of India, was incorporated on July 25, 1969 and currently is **one of the leading public Infrastructure Finance Company in India with a network of 18 project offices** including 5 Zonal and 3 sub offices along with 1 Training centre.
- REC's business model spans across the value chain of **power infrastructure financing** along with **consultancy and advisory for power distribution and transmission projects** catering to large and marquee state run power generation and transmission-distribution companies.
- In 9MFY2017 the company's topline was flat Rs. 17,557 cr (Rs. 17,574 cr), whereas the EBITDA grew by 3.1% to Rs. 17,329 cr (Rs. 16,807 cr) and PAT surged by 10.3% to Rs. 4,927 cr (Rs. 4,468 cr). In FY2016 REC posted consistent results with topline growing 17.4% to Rs. 24,130 cr (Rs. 20,550 cr), EBITDA surging by 15.7% to Rs. 22,449 cr (Rs. 19,400 cr) and PAT grew by 6.5% to Rs. 5,691 cr (Rs. 5,344 cr).
- REC rewarded its shareholders with a very liberal interim dividend of 70% (Rs. 7 per share) in February 2017, the company also declared a bonus of 1:1 in the month of September, 2016. In FY2016 the company bestowed its shareholders with an attractive dividend of 171% (Rs. 17.10 per share).
- REC has a large equity base of Rs. 1974.92 cr but it is well placed in strong hands, with 60.64% held by the Government of India, 32.45% by Mutual Funds, Financial Institutions, Banks, Insurance Companies and FPI, leaving only 6.91% in the hands of the Retail Public Shareholders.
- At CMP of Rs.157.80, the stock is trading at a meagre P/E of 5.08x on FY17E EPS of Rs 31 per share. At such reasonable valuation, the stock is currently available at a huge discount to other NBFC companies like Bajaj Finance (FY17E PE-44x), Shriram City Union Finance (FY17E PE-18x), L&T Financial Holdings (FY17E PE-24x), M&M Fin. Serv (FY17E PE-20x) and the likes. The company looks attractive even when we compare it with S&P BSE Sensex (PE - 22x), S&P BSE 100 (PE - 24x), S&P BSE 500 (PE - 26x) and Nifty Bankex (PE - 30x).
- The company has performed very well consistently and now the power sector reforms being given a full fledged push by the BJP government, the company is in an inflection point. REC consistently rewards its shareholders with healthy dividend, showing that the company is investor friendly with rising profits year after year. *We believe that current valuations leaves a huge scope for a rise.*

Financial Performance

Particulars (Rs./ Cr)	9MFY17	9MFY16	YoY (%)	FY 2016	FY 2015	YoY (%)
Revenue	17,557	17,574	-0.10%	24,130	20,550	17.42%
EBITDA	17,329	16,807	3.11%	22,449	19,400	15.71%
PAT	4,927	4,468	10.27%	5,691	5,344	6.50%
EPS	24.95	22.62		57.64	54.12	
Equity Capital	1,974.92	987.46		987.46	987.46	
Reserves				27,906	24,085	
EBITDA Margins(%)	98%	96%		93%	94%	
PAT Margins(%)	28%	25%		24%	26%	
BVPS				293	254	

I. FINANCIAL PERFORMANCE AT A GLANCE

Particulars (Rs./ Cr)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Total Revenue	8,532	10,554	13,637	17,229	20,550	24,130
EBITDA	8,283	10,208	13,196	16,657	19,400	22,449
PAT	2,585	2,839	3,833	4,741	5,344	5,691
EPS	26.18	28.75	38.81	48.01	54.12	57.64
Equity Capital	987.46	987.46	987.46	987.46	987.46	987.46
Reserves	11,840	13,818	16,542	19,816	24,085	27,906
Networth	12,827	14,805	17,529	20,803	25,072	28,893
Dividend	7.5	7.5	8.3	9.5	10.7	17.1
RATIOS						
EBITDA Margins(%)	97%	97%	97%	97%	94%	93%
PAT Margins(%)	30%	27%	28%	28%	26%	24%
BVPS	130	150	178	211	254	293
Dividend Yield(%)	3%	3.7%	4%	4.2%	6.4%	11.2%
Debt /Equity	5.5	5.3	5.3	5.4	5.3	5
ROA(%)	3.1%	2.6%	2.9%	3.1%	2.9%	2.8%
ROE(%)	20.2%	19.2%	21.9%	22.8%	21.3%	19.7%
NIM (%)	4.2%	4.3%	4.8%	4.9%	5%	4.8%
GNPA (%)		0.48%	0.38%	0.33%	0.74%	2.11%
NNPA (%)		0.42%	0.31%	0.24%	0.54%	1.60%
CAR (%)	19.1%	16%	17.7%	19.4%	19.6%	20.4%
P/ BV	2	1.4	1.2	1.1	0.7	0.5
P/ E	9.7	7.2	5.4	4.8	3	2.7

Exhibit 1- Net Sales

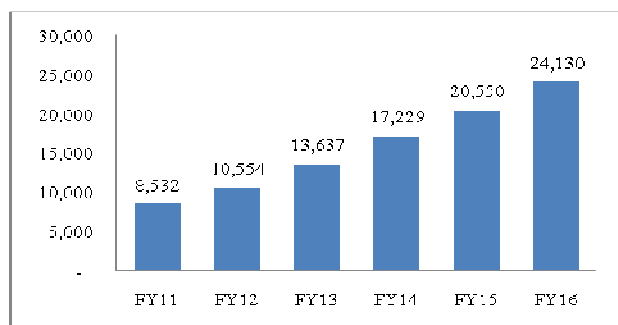


Exhibit 2- EBITDA

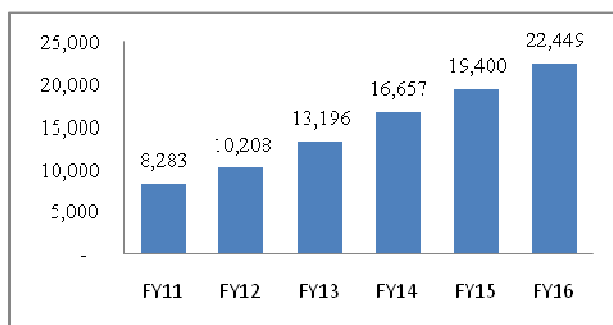


Exhibit 3- PAT

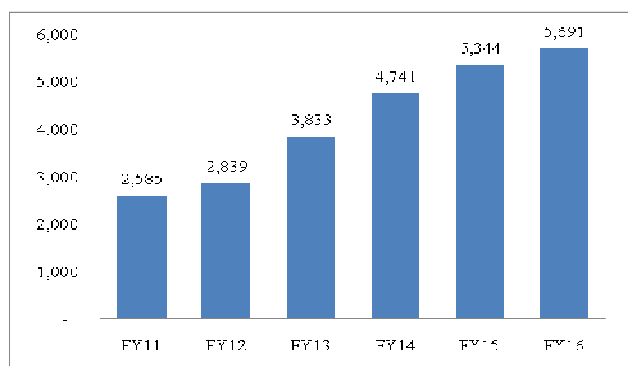
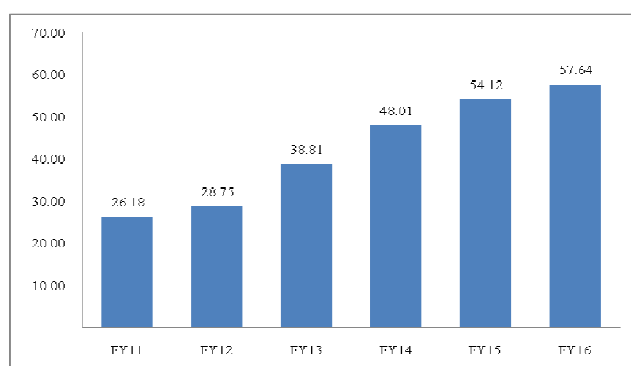


Exhibit 4- EPS



Critical Analysis

- The company's topline grew at a CAGR of 23.11% from Rs. 8,532 cr in FY2011 to Rs. 24,130 cr in FY2016, EBITDA surging at a CAGR of 15.71% from Rs. 8,283 cr in FY2011 to Rs. 22,449 cr in FY2016 and PAT grew at a CAGR of 17.10% from Rs. 2,585 in FY2011 cr to Rs.5,691 cr in FY2016.
- In 9MFY17 Sanctions grew by a whopping 37% YoY to Rs. 67,391 cr (Rs. 49,262 cr) led by Power Generation Projects. Loan disbursement grew by 10.1% to Rs. 37,467 cr (Rs. 34,031 cr). REC has healthy Net Interest Margin of 4.54%. In 9MFY17, Asset quality has seen a healthy improvement of 13 bps with Net NPA at 1.68% (H1FY17- 1.81%). The capital adequacy too has improved for Q3FY 2017 by 28 bps from 21.02% for H1FY2017 to 21.30% for 9MFY2017. REC gives utmost priority to the timely realization of its dues towards principal and interest.

Valuation

- We believe the company is on a fast trajectory of growth as it derives its thrust on uninterrupted supply of electricity which is the main agenda of the present BJP Government led by the honourable Prime Minister of India Shri Narendra Modi. Continued ownership and support by the Government by way of entending favourable policy regime and asset quality would further provide comfort on the stock.
- In Union Budget 2017-18, GOI increased the allocation of Rs. 4,814 cr under DDUGJY with an aim of achieving 100% rural electrification by 1st May 2018 to strengthen the distribution system, availability of power supply and improve reach, thereby boosting the farm sector output and economic activity in rural areas.
- The government has taken many proactive steps and initiatives in the last two years viz., allocation of coal mines through a transparent auction route, domestic supply of gas to the gas-based stranded projects, efforts to takeover sick units under operation of State utilities, steps for augmenting indigenous coal production, facilitating developers for getting speedy clearances and fuel linkages, augmenting existing indigenous manufacturing capacity and encouraging latest technology interventions. These initiatives have had a positive effect on growth and asset quality of REC.
- The company has a comfortable capital adequacy with healthy capitalization levels, diversified resource profile and stable profitability. Also the implementation of the UDAY scheme will provide strong support to the asset quality.
- At CMP of Rs.157.80, the stock is trading at a meagre P/E of 5.08x on FY17E EPS of Rs 31 per share. At such reasonable valuation, the stock is currently available at a huge discount to other NBFC companies like Bajaj Finance (FY17E PE-44x), Shriram City Union Finance (FY17E PE-18x), L&T Financial Holdings (FY17E PE-24x), M&M Fin. Serv(FY17E PE-17x) and the likes. Also when we compare with S&P BSE Sensex (PE - 22x), S&P BSE 100 (PE - 24x) , S&P BSE 500 (PE - 26x) and Nifty Bankex (PE - 30x). *We believe that current valuations leaves a huge scope for a rise and the fears seem to have been discounted.*

Source:

- REC Ltd. Annual Report 2015-16
- REC LTD. Performance Highlights Q3 and 9M FY2017
- www.recindia.nic.in

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