

Profitability, asset quality impress; growth as expected

BFSI - NBFCs ▶ Result Update ▶ July 25, 2025

CMP (Rs): 405 | TP (Rs): 525

REC reported a good set of numbers in Q1FY26. NIM at 3.74% and RoNW at 22% improved YoY and came in ahead of our estimates. The gross loan book grew ~10% YoY to Rs5.84trn; adjusting for ~RS 77bn NPAs resolved over the past 12 months, growth stands at ~12% YoY. A Rs 2.92 bn provision write-back from the TRN Energy resolution and reversals on standard asset provisioning due to SEB upgrades led to a negative credit cost of Rs 6.17 bn, partially offset by Rs 5.76 bn losses on hedging derivatives. Asset quality improved further, with GS3 and NS3 ratios falling to 1.05% and 0.24%, respectively. REC's Q1 results were solid across most parameters. Currently trading at ~1x FY27E P/B, REC offers sustainable ~18-19% RoE, ~11-12% AUM growth, and ~5% dividend yield. We reiterate BUY with a Jun-26E TP of Rs 525.

Profitability and asset quality impress

In Q1FY26, REC reported +2bps YoY improvement in interest spread to 2.96%, 10bps YoY improvement in NIM to 3.74% and 3.12ppts YoY improvement in Return on Net Worth to 22.63%. Q1FY26 credit cost was negative Rs 6.17bn (or ~-43bps), driven by an ECL provision reversal of Rs 2.92bn on TRN Energy NPA (Rs 15bn) resolution, partial reversals in standard asset provisions on account of rating upgrades of some state utilities, and potential loan upgrades from Stage 2 to Stage 1 for certain state utilities. However, the hedging-related MTM losses of Rs5.76bn in the quarter nearly offset the benefit from the negative credit cost. Sustained NPA resolutions and absence of new slippages ensured that asset quality continued to improve with GS3/NS3 hitting a new low of 1.05%/0.24% (11 accounts with Rs 61.5bn outstanding and 77% PCR).

NPA resolution makes growth look optically weaker

At ~10.5% YoY, the gross loan growth appears less impressive. Seasonality, delayed execution of government schemes, expected completion of some government schemes, and slower revival in conventional generation explain the temporary growth slowdown versus ~12-13% medium-term guidance. Several NPA resolutions in the last 12 months explain ~Rs 77bn reduction in gross loans and adjusted loan growth is ~12% YoY. Sanctions/disbursements had seasonal effects.

Risk-reward favorable; reiterate BUY

With loan growth moderation, RECL shares have materially underperformed the broader market (RECL: -33% vs NIFTY50: +3%) in the last year on the back of loan book growth moderation. Even in a moderate growth scenario (~11-12% loan growth), the company is well-positioned to deliver ~18-19% RoE (building in normalized credit cost and some NIM compression) and ~5% dividend yield (on current prices). With these return metrics, asset quality position, and strong outlook, the risk reward is favorable with RECL shares trading at FY27E P/B of ~1x. We reiterate BUY with Jun-26E TP of Rs525.

Target Price – 12M	Jun-26
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	29.6

Stock Data	RECL IN
52-week High (Rs)	651
52-week Low (Rs)	357
Shares outstanding (mn)	2,633.2
Market-cap (Rs bn)	1,066
Market-cap (USD mn)	12,339
Net-debt, FY26E (Rs mn)	NA
ADTV-3M (mn shares)	9
ADTV-3M (Rs mn)	3,612.2
ADTV-3M (USD mn)	41.8
Free float (%)	47.2
Nifty-50	25,062.1
INR/USD	86.4

Shareholding, Jun-25

Promoters (%)	52.6
FPIs/MFs (%)	19.2/15.5

Price Performance

(%)	1M	3M	12M
Absolute	1.6	(8.0)	(33.0)
Rel. to Nifty	2.3	(11.7)	(34.8)

1-Year share price trend (Rs)



REC: Financial Snapshot (Standalone)

Y/E March (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Net profits	137,110	155,730	167,058	177,260	195,975
AUM growth (%)	17.1	11.3	11.5	12.5	12.5
NII growth (%)	6.2	26.7	9.6	11.4	12.3
NIMs (%)	3.6	3.6	3.5	3.6	3.6
PPOP growth (%)	8.0	28.7	3.8	9.9	12.3
Adj. EPS (Rs)	53.2	59.7	62.4	66.5	74.4
Adj. EPS growth (%)	25.7	12.1	4.6	6.5	11.9
Adj. BV (INR)	261.2	302.9	346.6	393.1	445.2
Adj. BVPS growth (%)	19.2	15.9	14.4	13.4	13.2
RoA (%)	2.8	2.7	2.5	2.4	2.4
RoE (%)	22.2	21.2	19.2	18.0	17.7
P/E (x)	7.6	6.8	6.5	6.1	5.4
P/ABV (x)	1.5	1.3	1.2	1.0	0.9

Source: Company, Emkay Research

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Exhibit 1: Actual vs Estimate

REC (Rs mn)	Q1FY25A	Q2FY25A	Q3FY25A	Q4FY25A	Q1FY26E	QoQ	YoY	Q4FY25E	variation	Consensus	variation
NII	44,740	46,800	49,300	58,760	52,572	-10.5%	17.5%	53,291.4	-1%		
Total Income	47,250	50,920	52,490	64,210	57,987	-9.7%	22.7%	55,594.0	4%		
Opex	(730)	1,960	2,280	2,560	7,684	200.2%	-1152.6%	4,099.6	87%		
PPoP	47,980	48,960	50,210	61,650	50,303	-18.4%	4.8%	51,494.4	-2%	54,822	-8%
Provisions	4,730	(1,440)	(890)	7,800	(6,166)	-179.1%	-230.4%	1,434.0	-530%	3,641	-269%
PBT	43,250	50,400	51,100	53,850	56,469	4.9%	30.6%	50,060.3	13%	51,181	10%
PAT	34,420	40,050	40,290	42,365	44,510	5.1%	29.3%	39,547.7	13%	39,330	13%
AUM	5,297,390	5,461,170	5,656,210	5,668,830	5,845,678	3.1%	10.4%	5,803,557	1%		
NIMs	3.44%	3.48%	3.55%	4.15%	3.65%	-50bps	21bps	3.72%	-6bps		
Credit cost	0.37%	-0.11%	-0.07%	0.56%	-0.43%	-99bps	-80bps	0.10%	-53bps		
GS3	2.61%	2.54%	1.96%	1.36%	1.05%	-31bps	-156bps	1.29%	-24bps		
NS3	0.82%	0.88%	0.75%	0.38%	0.24%	-14bps	-58bps	0.36%	-12bps		

Source: Company, Emkay Research

Exhibit 2: Valuation matrix

REC	CMP/TP (Rs/sh)	Upside	Mkt Cap (Rs bn)	P/BV (x)			P/E (x)			RoA (%)			RoE (%)			Book Value (Rs/sh)			Adj. EPS (Rs)		
				FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
At current market price	405	29.7%	1,066	1.2	1.0	0.9	6.5	6.1	5.4	2.5%	2.4%	2.4%	19.2%	18.0%	17.7%	347	393	445	62.4	66.5	74.4
At target price	525			1.5	1.3	1.2	8.4	7.9	7.1							347	393	445	62.4	66.5	74.4

Source: Company, Emkay Research

Exhibit 3: Quarterly earning snapshot

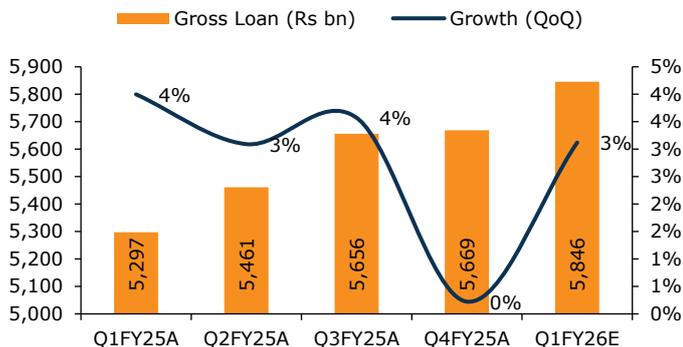
Result update	Q1FY25A	Q2FY25A	Q3FY25A	Q4FY25A	Q1FY26E	QoQ chg	YoY chg
Net Interest Income	44,740	46,800	49,300	58,760	52,572	-11%	18%
Other Income	2,510	4,120	3,190	5,450	5,415	-1%	116%
Total Income	47,250	50,920	52,490	64,210	57,987	-10%	23%
Operating Expenses (total)	(730)	1,960	2,280	2,560	7,684	200%	-1153%
Operating Profit	47,980	48,960	50,210	61,650	50,303	-18%	5%
Provisions	4,730	(1,440)	(890)	7,800	(6,166)	-179%	-230%
Credit costs	0.4%	-0.1%	-0.1%	0.6%	-0.43%	-99bps	-80bps
PBT	43,250	50,400	51,100	53,850	56,469	5%	31%
Tax	8,830	10,350	10,810	11,485	11,959	4%	35%
Tax rate	20.4%	20.5%	21.2%	21.3%	21.2%	-15bps	76bps
PAT	34,420	40,050	40,290	42,365	44,510	5%	29%
Disbursements	436,520	473,030	546,920	455,380	595,080	31%	36%
Total AUM	5,297,390	5,461,170	5,656,210	5,668,830	5,845,680	3%	10%
Net Worth	723,510	728,920	765,020	776,380	796,870	3%	10%
ROA	2.46%	2.74%	2.67%	2.77%	2.85%	9bps	40bps
ROE	19.51%	22.06%	21.58%	21.99%	22.63%	64bps	312bps
GS3	2.61%	2.54%	1.96%	1.36%	1.05%	-31bps	-156bps
NS3	0.82%	0.88%	0.75%	0.38%	0.24%	-14bps	-58bps
PCR	68.48%	65.13%	61.88%	71.74%	77.05%	531bps	857bps

Source: Company, Emkay Research

This report is intended for Team White Marquee Solutions (team.emkay@whitemarquesolutions)

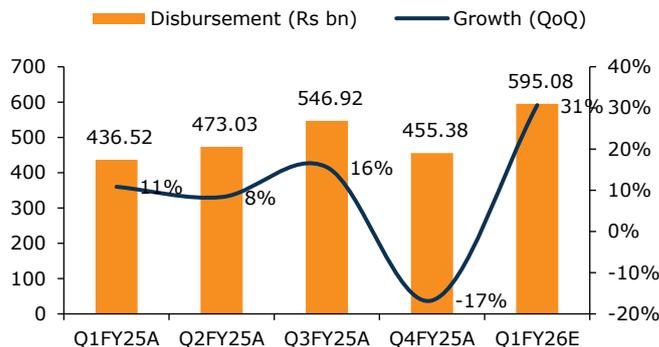
Results in charts

Exhibit 4: AUM grew by ~10% on a YoY basis



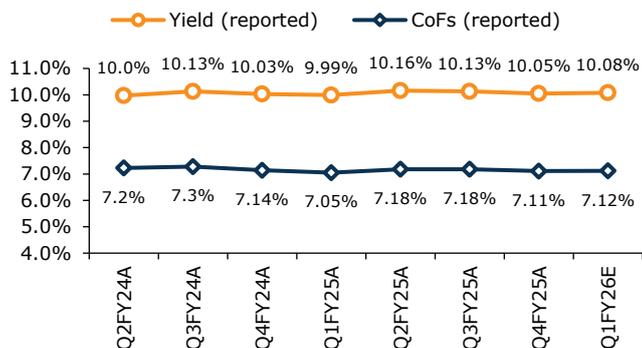
Source: Company, Emkay Research

Exhibit 5: Strong disbursement growth



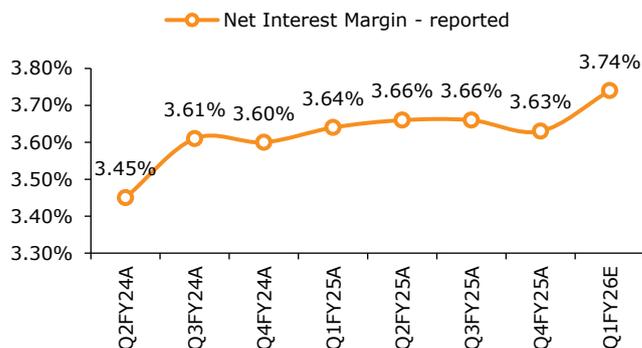
Source: Company, Emkay Research

Exhibit 6: Yield improved marginally



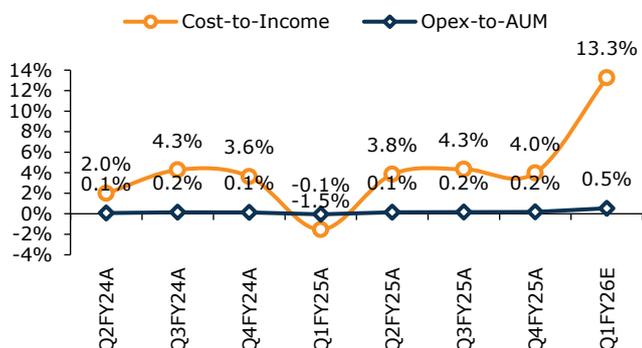
Source: Company, Emkay Research

Exhibit 7: NIM expanded by 11bps sequentially



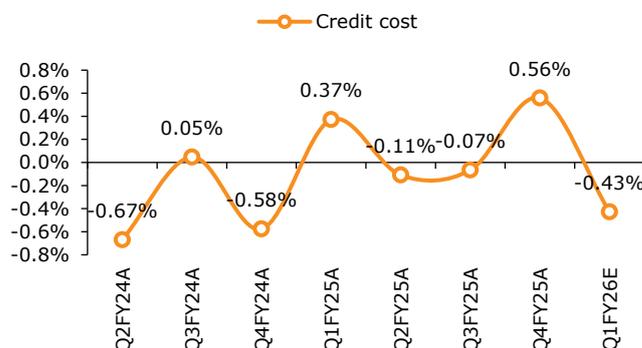
Source: Company, Emkay Research

Exhibit 8: Opex was elevated on account of higher forex charges



Source: Company, Emkay Research

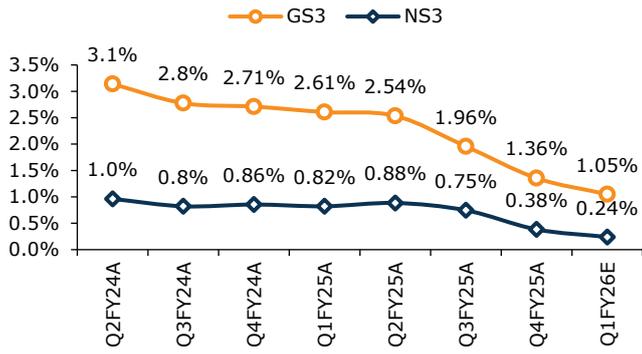
Exhibit 9: Provision reversal resulting in negative credit cost



Source: Company, Emkay Research

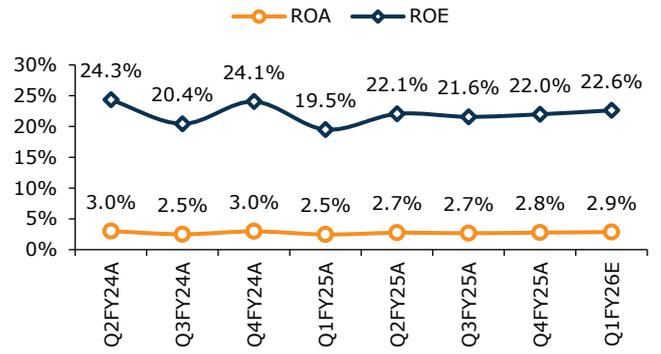
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Exhibit 10: Asset quality continues to improve



Source: Company, Emkay Research

Exhibit 11: RoA/RoE expansion driven by provision reversal



Source: Company, Emkay Research

This report is intended for Team White Marque Solutions (team.emkay@whitemarquesolutions)

REC: Standalone Financials and Valuations

Profit & Loss					
Y/E March (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	456,580	540,260	581,550	648,636	725,997
Interest Expense	299,740	341,480	363,628	405,772	453,256
Net interest income	156,840	198,780	217,922	242,865	272,742
NII growth (%)	6.2	26.7	9.6	11.4	12.3
Non interest income	10,810	16,050	10,233	8,045	8,948
Total income	167,650	214,830	228,156	250,909	281,689
Operating expenses	6,510	7,440	12,970	14,518	16,256
PPOP	161,140	207,390	215,185	236,391	265,434
PPOP growth (%)	8.0	28.7	3.8	9.9	12.3
Provisions & contingencies	(13,580)	10,190	4,435	12,605	17,394
PBT	174,720	197,200	210,751	223,786	248,040
Extraordinary items	3,070	1,400	(2,690)	(2,233)	(113)
Tax expense	37,610	41,470	43,693	46,526	52,065
Minority interest	-	-	-	-	-
Income from JV/Associates	-	-	-	-	-
Reported PAT	140,180	157,130	164,368	175,027	195,862
PAT growth (%)	26.8	12.1	4.6	6.5	11.9
Adjusted PAT	137,110	155,730	167,058	177,260	195,975
Diluted EPS (Rs)	53.2	59.7	62.4	66.5	74.4
Diluted EPS growth (%)	25.7	12.1	4.6	6.5	11.9
DPS (Rs)	16.0	18.0	18.7	19.9	22.3
Dividend payout (%)	30.1	30.2	30.0	30.0	30.0
Effective tax rate (%)	0.2	0.2	0.2	0.2	0.2
Net interest margins (%)	3.6	3.6	3.5	3.6	3.6
Cost-income ratio (%)	3.9	3.5	5.7	5.8	5.8
PAT/PPOP (%)	87.0	75.8	76.4	74.0	73.8
Shares outstanding (mn)	2,633.0	2,633.2	2,633.2	2,633.2	2,633.2

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E March (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Asset quality					
GNPL - Stage 3	138,100	76,527	68,527	70,527	74,527
NNPL - Stage 3	43,560	21,627	13,705	14,105	14,905
GNPL ratio - Stage 3 (%)	2.7	1.4	1.1	1.0	0.9
NNPL ratio - Stage 3 (%)	0.9	0.4	0.2	0.2	0.2
ECL coverage - Stage 3 (%)	68.5	71.7	80.0	80.0	80.0
ECL coverage - 1 & 2 (%)	-	-	-	-	-
Gross slippage - Stage 3	-	-	-	-	-
Gross slippage ratio (%)	-	-	-	-	-
Write-off ratio (%)	-	-	-	-	-
Total credit costs (%)	(0.3)	0.2	0.1	0.2	0.2
NNPA to networth (%)	6.3	2.7	1.5	1.4	1.3
Capital adequacy					
Total CAR (%)	25.7	26.0	25.4	24.6	23.8
Tier-1 (%)	23.2	23.8	23.2	22.3	21.6
Miscellaneous					
Total income growth (%)	8.4	28.1	6.2	10.0	12.3
Opex growth (%)	21.5	14.3	74.3	11.9	12.0
PPOP margin (%)	3.4	3.9	3.6	3.5	3.5
Credit costs-to-PPOP (%)	(8.4)	4.9	2.1	5.3	6.6
Loan-to-Assets (%)	91.3	91.1	90.8	91.3	91.7
Yield on loans (%)	10.0	10.1	9.9	9.8	9.8
Cost of funds (%)	7.1	7.1	7.1	7.1	7.0
Spread (%)	2.9	3.0	2.8	2.8	2.8

Source: Company, Emkay Research

Balance Sheet					
Y/E March (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Share capital	26,330	26,332	26,332	26,332	26,332
Reserves & surplus	661,500	771,235	886,292	1,008,811	1,145,915
Net worth	687,830	797,567	912,624	1,035,143	1,172,247
Borrowings	4,379,440	4,867,751	5,427,542	6,105,985	6,869,233
Other liabilities & prov.	407,130	470,233	524,294	543,768	564,110
Total liabilities & equity	5,474,400	6,135,550	6,864,461	7,684,896	8,605,591
Net loans	4,999,170	5,590,880	6,233,831	7,013,060	7,889,693
Investments	53,200	66,410	71,884	77,810	84,224
Cash, other balances	24,990	17,500	34,322	38,424	43,028
Interest earning assets	5,077,360	5,674,790	6,340,038	7,129,294	8,016,945
Fixed assets	6,550	7,040	7,182	7,327	7,474
Other assets	390,490	453,720	517,241	548,275	581,172
Total assets	5,474,400	6,135,550	6,864,461	7,684,896	8,605,591
BVPS (Rs)	261.2	302.9	346.6	393.1	445.2
Adj. BVPS (INR)	261.2	302.9	346.6	393.1	445.2
Gross loans	5,093,710	5,645,780	6,288,652	7,069,481	7,949,314
Total AUM	5,093,710	5,668,830	6,321,939	7,112,182	8,001,205
On balance sheet	5,093,710	5,668,830	6,321,939	7,112,182	8,001,205
Off balance sheet	0	0	0	0	0
Disbursements	-	-	-	-	-
Disbursements growth (%)	0	0	0	0	0
Loan growth (%)	17.8	11.8	11.5	12.5	12.5
AUM growth (%)	17.1	11.3	11.5	12.5	12.5
Borrowings growth (%)	16.9	11.2	11.5	12.5	12.5
Book value growth (%)	19.2	15.9	14.4	13.4	13.2

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E March	FY24	FY25	FY26E	FY27E	FY28E
P/E (x)	7.6	6.8	6.5	6.1	5.4
P/B (x)	1.5	1.3	1.2	1.0	0.9
P/ABV (x)	1.5	1.3	1.2	1.0	0.9
P/PPOP (x)	0.0	0.0	0.0	0.0	0.0
Dividend yield (%)	4.0	4.4	4.6	4.9	5.5
Dupont-RoE split (%)					
NII/avg AUM	3.3	3.7	3.6	3.6	3.6
Other income	0.2	0.3	0.2	0.1	0.1
Securitization income	-	-	-	-	-
Opex	0.1	0.1	0.2	0.2	0.2
Employee expense	-	-	-	-	-
PPOP	3.4	3.9	3.6	3.5	3.5
Provisions	(0.3)	0.2	0.1	0.2	0.2
Tax expense	3.7	3.7	3.5	3.3	3.3
RoAUM (%)	2.9	2.9	2.8	2.6	2.6
Leverage ratio (x)	7.5	7.2	7.0	6.9	6.8
RoE (%)	22.2	21.2	19.2	18.0	17.7

Quarterly data					
Rs mn, Y/E Mar	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26
NII	44,740	46,800	49,300	58,760	52,572
NIM (%)	3.6	3.7	3.7	3.6	3.7
PPOP	45,730	49,400	49,970	62,300	50,303
PAT	34,420	40,050	40,290	42,365	44,510
EPS (Rs)	13.07	15.21	15.30	16.09	16.90

Source: Company, Emkay Research

This report is intended for Team White Marque Solutions (team.emkay@whitemarqueresolutions)

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
07-Jul-25	392	525	Buy	Avinash Singh
20-Jun-25	394	525	Buy	Avinash Singh
05-Jun-25	403	525	Buy	Avinash Singh
15-May-25	394	525	Buy	Avinash Singh
10-Apr-25	389	600	Buy	Avinash Singh
03-Apr-25	425	600	Buy	Avinash Singh
27-Feb-25	379	600	Buy	Avinash Singh
11-Feb-25	410	600	Buy	Avinash Singh
06-Jan-25	513	650	Buy	Avinash Singh
03-Dec-24	540	650	Buy	Avinash Singh

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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