

REC

Indestructible value creation

Optically low PAT given one-offs in Q2; NIM/growth surprise

Barring high one-offs in Q2 (INR 5.2bn with respect to reversals, dividend income), REC's (RECL IN) Q3 earnings were strong on all counts. This was led by: (a) 16bps QoQ NIM uptick, on strong disbursements (up 11%QoQ) and steady CoF at 7.28% sequentially (7.23%: Q2), led by favorable liability mix (~41% borrowings from corporate bonds; 9% from capita gain bonds – amongst only one in four to raise these – being priced favorably); (b) Provision at mere INR 0.6bn with resolutions of three assets; and (c) decadal-high 21% YoY loan growth largely led by renewables, LPS, infra portfolios. RECL is upbeat on growth guidance of 16% YoY, NIM steady at 3.5% and anticipated provision reversal for FY24, which signal strong book value accretion and continued robust upside for the stock.

Renewables, non-power prop loan; sanction pipeline strengthens

RECL saw robust loan growth of 4.9% QoQ/21% YoY, led by infra loans (up 46% QoQ), renewables (up 11.5% QoQ/30.5% YoY). Renewables at 6.7% of assets (~INR 333bn) may climb to INR 3tn by FY30E, led by the recent INR 280bn MoU signage and the government's agenda to take the share to 30% of mix by FY30. Also, Q3 saw 57% of overall sanctions from renewables. RECL continues to prop talent, skillset, effective pricing, focusing on state-backed assets (DISCOMs led by RBPF loans), quality renewable corporates, GoI-led rooftop solar loan (estimated INR 300bn funding opportunity) and high-ticket infra projects, propping business visibility. Expect higher 18% loan CAGR in FY24E-26E.

Sturdy asset resolutions, more to follow; expect write-backs in FY24

NIM may be steady ahead as RECL seeks to contain credit cost (aim is 0% net NPA by FY25). RECL did not see any slippage in past eight quarters. It expects write-back in FY24. Stage 3 assets of 2.78% were at six-year low in Q3. Currently, 16 stressed projects (INR 138bn) are in Stage III, of which for three (INR 15.1bn), resolution is being pursued outside NCLT and for 13 (INR 123bn) within NCLT. Q3 saw three asset resolutions – Meenakshi (INR 7bn), DANS Energy, Classic Global. With more in pipeline (TRN Energy, Badreshwar, Lanco, Nagai), expect 2-2.4% GNPA in FY24E-26E.

Valuations: Maintain BUY; TP raised to INR 582

Despite run-up to ~1.5x FY25E P/ABV, RECL's dream run may continue led by healthy earnings CAGR given high double-digit growth visibility, steady margin in tight funding milieu and sizeable write-back leading to high 18-19% RoE and 2.9% RoAs in FY24-26E. We lift FY24E/25E/26E estimate 5-9% each. Riding on upbeat industry trend and GoI backing, RECL may create further indestructible value for shareholders. BUY – We up TP to INR 582 (from INR 420), on 1.9x FY25E P/ABV (from 1.4x).

Rating: Buy

Target Price: INR 582

Upside: 34%

CMP: INR 435 (as on 23 January 2024)

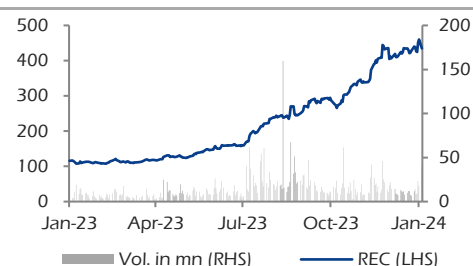
Key data

Bloomberg /Reuters Code	RECL IN/RECM.BO
Current /Dil Shares O/S (mn)	2633/2633
Mkt Cap (INR bn/USD mn)	1,145/13,763
Daily Volume (3M NSE Avg)	14,204,852
Face Value (INR)	10

1 USD = INR 83.2

Note: *as on 23 January 2024; Source: Bloomberg

Price & Volume



Source: Bloomberg

Shareholding (%)	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Promoter	52.6	52.6	52.6	52.6
Institutional Investor	33.4	33.9	34.5	34.8
Other Investor	2.9	2.9	2.8	2.5
General Public	11.1	10.5	10.1	10.1

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	8.7	7.6	17.8
REC	56.2	168.6	249.6

Source: Bloomberg

YE march (INR mn)	Q3FY24	Q3FY23	YoY (%) / bp)	Q2FY24	QoQ (%) / bp)
NII	41,587	35,256	18.0	38,632	7.6
Operating Profit	41,701	32,657	27.7	40,541	2.9
PAT	32,693	28,786	13.6	37,807	(13.5)

Key Financials

YE March	NII (INR mn)	YoY (%)	PPoP (INR mn)	YoY (%)	PAT (INR mn)	YoY (%)	EPS (INR)	Core RoE (%)	RoA (%)	P/E (x)	P/ABV (x)
FY23	150,986	(6.4)	138,537	(12.9)	110,546	10.0	42.0	20.3	2.8	10.3	2.1
FY24E	162,423	7.6	168,105	21.3	133,775	21.0	50.8	21.0	3.0	8.5	1.7
FY25E	198,017	21.9	198,831	18.3	146,129	9.2	55.5	19.0	2.9	7.8	1.4
FY26E	221,566	11.9	222,599	12.0	163,941	12.2	62.3	17.7	2.9	7.0	1.1

Note: Pricing as on 23 January 2024; Source: Company, Elara Securities Estimate

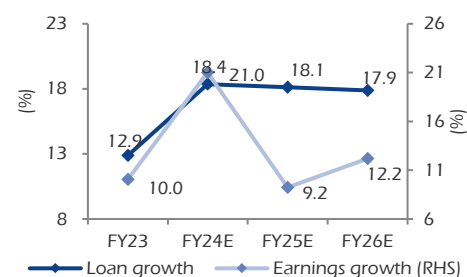
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Financials (YE March)

Income statement (INR mn)	FY23	FY24E	FY25E	FY26E
NII	150,986	162,423	198,017	221,566
Other income	447	557	721	721
Gross Income	155,151	174,978	207,597	233,847
Operating expenses	16,614	6,873	8,767	11,248
PPOP	138,537	168,105	198,831	222,599
Provisions	1,149	(1,465)	3,628	3,603
PBT	137,388	169,570	195,203	218,996
Tax	26,841	35,795	49,074	55,056
PAT	110,546	133,775	146,129	163,941
Balance Sheet (INR bn)	FY23	FY24E	FY25E	FY26E
Capital	26,332	26,332	26,332	26,332
Reserves and Surplus	544,881	665,617	811,745	975,686
Networth	576,797	697,533	843,661	1,007,602
Borrowings	3,808,364	4,370,243	4,748,696	5,163,072
Other liabilities	263,610	263,956	300,479	362,137
Total Liabilities	4,648,771	5,331,732	5,892,836	6,532,811
Fixed assets	6,389	6,605	8,958	14,208
Loans	4,220,839	4,818,051	5,291,667	5,825,833
Net Current Assets	333,819	350,972	383,983	411,862
Other assets	87,724	154,526	206,649	279,329
Total Assets	4,648,771	5,330,154	5,891,257	6,531,232
Per Share data & Valuation Ratios	FY23	FY24E	FY25E	FY26E
EPS- (INR)	42.0	50.8	55.5	62.3
BV (INR)	219.0	264.9	320.4	382.7
ABV- (INR)	205.6	250.5	305.6	382.7
P/E- (x)	10.3	8.5	7.8	7.0
P/ABV-(x)	2.1	1.7	1.4	1.1
Yield and Cost (%)				
Yield on advances	3.6	3.4	3.7	3.8
Interest Income/ Avg. assets	3.2	3.0	3.4	3.4
Net Interest Margin (%)	3.8	3.6	3.9	4.0
Asset Quality (%)				
Gross NPA	3.4	2.5	2.0	2.0
Net NPA	1.0	1.0	0.9	0.9
% coverage of NPA	70.5	62.0	57.3	57.5
credit cost (calc)	0.0	(0.0)	0.1	0.1
Capital Adequacy				
Tier 1	22.8	20.5	22.4	23.3
CAR	25.8	23.4	25.4	26.2
Growth Rates				
Loan growth	12.9	18.4	18.1	17.9
Earnings growth	10.0	21.0	9.2	12.2
Business Ratios				
RoAA (%)	2.8	3.0	2.9	2.9
Core RoE (%)	20.3	21.0	19.0	17.7
Leverage (x)	8.1	7.8	7.3	6.7

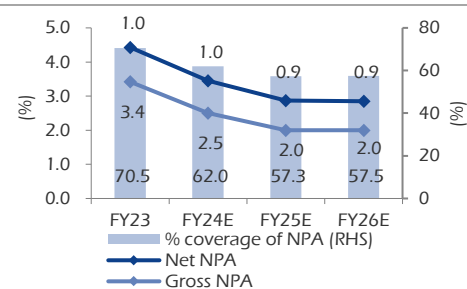
Note: pricing as on 23 January 2024; Source: Company, Elara Securities Estimate

Loan & earnings growth trend



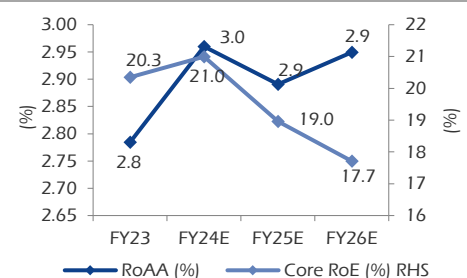
Source: Company, Elara Securities Estimate

Gross and net NPA



Source: Company, Elara Securities Estimate

Return ratios (%)



Source: Company, Elara Securities Estimate

Concall – Takeaways

Business performance

- Last year, AUMs had grown at 13% YoY, but in FY24, these spiked at 20% YoY. Q3 growth was 21% YoY.
- Phenomenal increase in approvals was seen. Last year, sanctions stood at INR 2.6tn (9MFY24: exceeded last year's print; Q3: INR 3.3bn at 69% YoY growth).
- Disbursement in FY23 stood at INR 970bn (9MFY24: exceeded FY23, Q3: INR 1,220bn). RECL is confident of touching INR 1,500bn+ disbursement by FY24-end.
- Capital adequacy ratio was 28.21% and NIM 3.52%.

Asset quality

- In Q3FY24 NNPA stood at 0.82%. In 2018-19 there are 36 stressed assets which comes down to 26 assets in FY23. During the quarter three assets have been resolved and the remaining 16 are at different stages of resolution.
- No new NPAs were added in the past eight quarters, which expects to be maintained.
- Telangana, Tamil Nadu, and Rajasthan were into the top-10 borrowers. Where not seen any slippages in DISCOMS.
- Most resolved assets have seen write backs. By FY24-end, 2-3 more assets may be resolved.
- In Q3FY24 saw reversals of INR 5.1bn (total INR 6.7bn in Q2). Effective PAT was INR 33bn.
- In Q2FY24 INR 6.7bn has seen reversal which was pandemic period standard asset provision and RBI has mandated the prov of 40bps on the standard assets, currently co is above the RBI limit. The company expects the large asset recovery and reversal in Q4.

Yield

- NIM: COF pared slightly. The interest rate scenario may soften a bit. Yields are at 9.98% currently and may remain at a similar level, and RECL is conscious of asset quality so dealing with only A rated companies. The focus is on Renewable Energy

Growth trajectory

- The focus is on renewable project financing. The government of India has launched its rooftop solar project. MNRE has made REC as the nodal agency.
- Expect INR 10tn AUM as at FY30E-end, with renewed focus on renewable portfolio. and sanctioned INR 1,250bn by Q3. The company is targeting the AUM of INR 3tn (i.e., 30% of overall AUM) by FY30.

- On infra side, RECL has already started funding electromagnetic components, MMRDA projects, Mumbai Pune Expressway, Ganga expressway and is looking for financing ports.
- RECL may see 20% AUM growth by FY24.
- FY30 target: INR 10tn asset target may be achieved in FY29 itself. In July, RECL held green financing meetings and signed MoUs with projects developers, OEMs in RE sector as also in the EV ecosystem (INR 2.9tn, out of which already sanctioned the projects of >INR 1tn and remaining amount is expected to sanctioned by the end May 2025; FY24: INR 5,150bn).
- The disbursements of hydro project tenure is 4-5 years, PSP projects 2-3 years, solar projects 1-1.5, wind 1.5-yrs to complete, but major disbursements in next FY25.
- Coal-based thermal power plant will also be financed.
- RECL was cautious on infra sector and hence, supported only state government backed projects (Mumbai metro project was financed initially in the year). RECL raked in experts in roads, railways, ports, refineries, and targeted only good assets in infra/logistics, supported by revenue cash flow.
- FY24 AUM target is INR 5.15tn and FY25 INR 6tn (16% growth).
- Loan growth: RBPF (revolving bill payment facilities) scheme launched by the government for the LPS requirements i.e., (1) legacy dues, (2) continuously clearing bills of GENCOs – for which RBPF was introduced 0 for the period of one year for current bills, and LPS tenure of four years. 48 EMLs
- Disbursement target is INR 1.5tn for the next year. LPS is not significant but renewables may see pick-up in FY25. Result evaluation framework is very tight. So, some states may not be able to fulfil it. And once qualify for REF, disbursement trajectory may be maintained.

Rooftop solar opportunity

- RECL, the project implementation agency: RECL will coordinate with generator and distributor vendors (setting up solar under Resco model). The total investment opportunity is INR 2tn-2.4tn, and the subsidy amount 20-40%. The effect of this project will come under FY25, and there is a funding opportunity of INR 500bn for the 10,000MW i.e., INR 50mn per MW,
- There will be some subsidies available (~INR 300bn opportunity retail finance will be done by banks, targeting GoI establishments, and REC is not targeting retail businesses. REC will work as a

coordinator. Targeting 10mn households up to Mar 2026 with the 40GW installed by Mar 2026 to over 10mn rooftops.

Borrowing

- Japanese yen bond issue: RECL is the first financier to issue these (BBB+ ratings)
- FCB borrowing stood at INR 916bn, 98% of these are hedged.
- Through 9MFY24, INR 1,194bn borrowings were raised.

Distribution

- **Distribution scheme:** 16 states 32 discoms comes under RDSS scheme with an overall outlay of INR 3,000bn, and Govt grant of INR 970bn. Where LPS improved the situation; dues of GENCOS and transmission are paid on time where Govt dues are getting cleared with support of State cabinet, TA & C are losses are down by 5% to 17%.
- Transmission system will be required for renewable energy, so company is quite bullish on the power sector

Other parameters

- The company is committed towards a dividend of 5% of NW, or 30% of PAT whichever is lower. Expect some interim dividend and final dividend.
- RoA was 2.8%
- Government-based NBFCs – RBI norms: RECL is already complying with RBI norms with regard to upper layer i.e., Individual borrower exposure >30% or group borrowers 50%

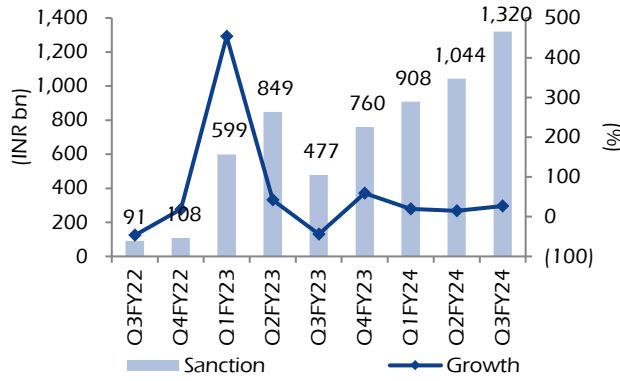
- DANS Energy recovered 100% , is fully restructured, without nay haircuts, excess recovery 13%, Meenakhsi recoveries (INR 7bn) 30%, prov 80% wrote back 710mnClassic Global: only 30mn loans recovered 86%
- Expect three large project resolutions by FY24-end: TRN Energy (INR 15bn), Badreshwar (INR 9bn, some development of Lanco Amarkantak INR 23bn) and INR 5.6bn for Nagai.
- RVNL is implementing rolling stock INR 350bn railway stock, to be implemented in the next three years.
- Discom: Capex funding supported cash flows. LPS and RBPF, largely, are secured by government guarantees. TANGEDCO did not revise tariff for long but is a good project operationally. Tamil Nadu has undertaken to take over all losses every year. Subsidies are on time and tariff revisions are happening in 90% cases – 95% of collections may be assured, smart metering is happening and most DISCOMS may become viable.

Exhibit 1: Q3FY24 results

(INR mn)	Q3FY24	Q3FY23	YoY (%/bps)	Q2FY24	QoQ (%/bps)	Comments
Interest income	118,120	96,606	22.3	112,132	5.3	
Interest expenses	76,533	61,350	24.7	73,500	4.1	
Net interest income	41,587	35,256	18.0	38,632	7.6	NII stood below our estimate of INR 44bn, up 7.6% QoQ led by rising yielding rates
Other income	1,881	517	264.1	3,769	(50.1)	
Total income	43,467	35,773	21.5	42,401	2.5	
Total operating expenses	1,766	3,116	(43.3)	1,860	(5.0)	Opex stood below our estimates of INR 1,992mn, down 5% QoQ
Operating profit (PPOP)	41,701	32,657	27.7	40,541	2.9	PPOP stood below our estimate of INR 46bn, up 3% QoQ led by higher NII
Provisions & write offs	559	(2,938)	(119.0)	(7,604)	NM	Provisions stood below our estimates of INR 3bn on account of recoveries
PBT	41,143	35,595	15.6	48,145	(14.5)	
Tax	8,449	6,809	24.1	10,338	(18.3)	
Reported profit	32,693	28,786	13.6	37,807	(13.5)	PAT stood in-line with our estimates of INR 33.5bn, down 13.5% QoQ on account of higher recoveries in Q2
Balance sheet:						
Disbursement	463,590	296,380	56.4	415,980	11.4	Disbursement traction was strong, with growth of 11% QoQ, led by renewables and non-power sector
Loans	4,974,656	4,111,480	21.0	4,742,750	4.9	Loan traction was healthy, in-line with our estimate of INR 4,932bn, led by renewables and non-power segments
Key ratios:						
Gross NPAs	135,072	149,230	(9.5)	148,920	(9.3)	
Gross NPA (%)	2.78	3.63	(85) bp	3.14	(36) bp	Assets quality improved sequentially, above our estimates of 2.6%
Net NPA (%)	0.82	1.12	(30) bp	0.96	(14) bp	
ROE (%)	20.45	21.26	(81) bp	24.34	(389) bp	
NIM Reported (%)	3.61	3.55	6 bp	3.45	16 bp	NIMs improved sequentially, but were below our estimate of 3.6%, led by increasing yielding rates

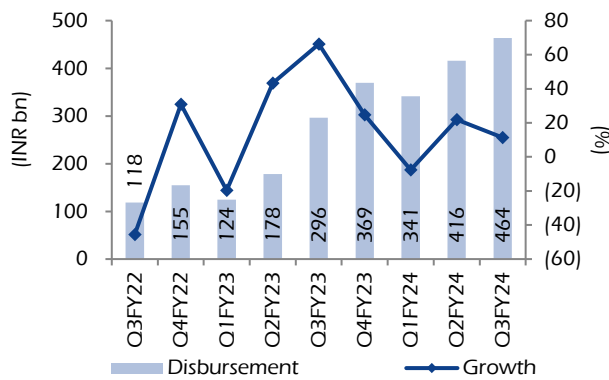
Source: Company, Elara Securities Research

Exhibit 2: Sanctions up 26.5% sequentially to INR 1,320bn



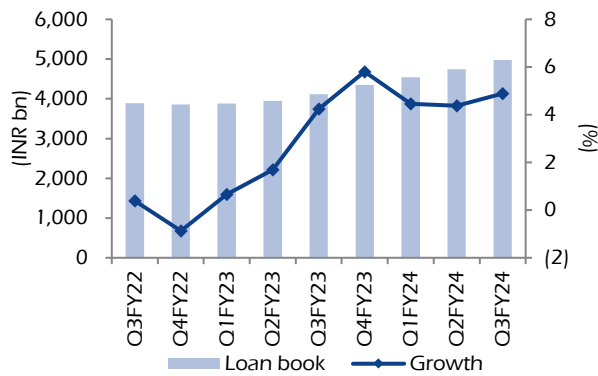
Source: Company, Elara Securities Research

Exhibit 3: Disbursement up 11% QoQ to INR 464bn



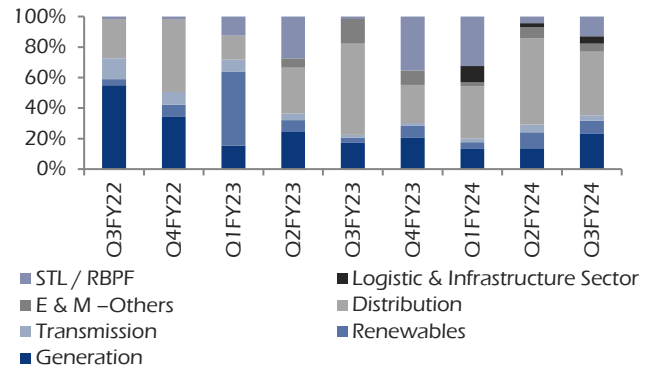
Source: Company, Elara Securities Research

Exhibit 4: Loan book up 4.9% QoQ to INR 4,975bn



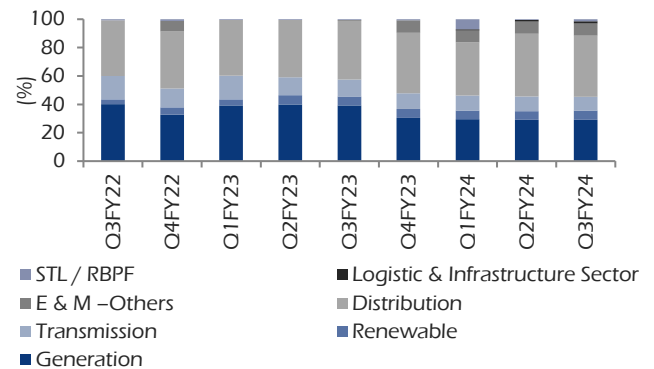
Source: Company, Elara Securities Research

Exhibit 5: Distribution continues to be the highest disbursement segment



Source: Company, Elara Securities Research

Exhibit 6: Loan mix continues to tilt to non-power



Source: Company, Elara Securities Research

Exhibit 7: Outstanding loans to top-10 borrowers

Particulars (%)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Tamil Nadu Generation and Distribution Corporation	369,130	370,640	371,480	374,540	392,330	420,800	437,680	450,180	510,350
% of total loan assets	9.5	9.6	9.6	9.5	9.5	9.7	9.6	9.5	10.3
Uttar Pradesh Power Corporation	212,200	205,610	197,200	198,960	190,050	190,270	200,600	193,280	189,080
% of total loan assets	5.5	5.3	5.1	5.0	4.6	4.4	4.4	4.1	3.8
Telangana State Power Generation Corporation	151,720	158,360	157,890	166,980	170,180	186,100	173,160	177,320	176,560
% of total loan assets	3.9	4.1	4.1	4.2	4.1	4.3	3.8	3.7	3.5
Kaleshwaram Irrigation Project Corporation	NA	127,430	127,430	127,430	161,590	180,090	180,590	180,590	179,720
% of total loan assets	NA	3.3	3.3	3.2	3.9	4.1	4.0	3.8	3.6
Maharashtra State Electricity Distribution Company	209,330	188,270	171,900	160,400	148,040	155,300	192,580	213,230	244,830
% of total loan assets	5.4	4.9	4.4	4.1	3.6	3.6	4.2	4.5	4.9
Maharashtra State Power Generation Company	139,800	136,240	133,110	138,320	141,530	144,270	141,240	138,290	143,330
% of total loan assets	3.6	3.5	3.4	3.5	3.4	3.3	3.1	2.9	2.9
Southern Power Distribution Company of AP	NA	NA	NA	NA	124,630	139,800	121,060	161,810	168,410
% of total loan assets	NA	NA	NA	NA	3.0	3.2	2.7	3.4	3.4
Telangana State Water Resources Infrastructure Development Corporation	121,060	121,950	121,950	120,960	123,550	121,710	119,850	NA	NA
% of total loan assets	3.1	3.2	3.1	3.1	3.0	2.8	2.6	NA	NA
Tamil Nadu Transmission Corporation	122,290	120,630	120,770	120,220	123,050	120,560	NA	NA	NA
% of total loan assets	3.1	3.1	3.1	3.0	3.0	2.8	NA	NA	NA
Jodhpur Vidhyut Vitran Nigam	NA	NA	NA	NA	NA	112,020	119,850	130,180	137,630
% of total loan assets	NA	NA	NA	NA	NA	2.6	2.6	2.7	2.8
Rajasthan Rajya Vidyut Utpadan Nigam	128,520	123,210	121,610	122,410	115,200	NA	NA	NA	NA
% of total loan assets	3.3	3.2	3.1	3.1	2.8	NA	NA	NA	NA
Andhra Pradesh Power Generation Corporation Limited	109,080	109,790	107,700	106,490	NA	NA	151,070	NA	NA
% of total loan assets	2.8	2.8	2.8	2.7	NA	NA	3.3	NA	NA
UP Rajya Vidyut Utpadan Nigam	100,930	NA	NA	NA	NA	NA	NA	NA	NA
% of total loan assets	2.6	NA	NA	NA	NA	NA	NA	NA	NA
Jaipur Vidyut Vitran Nigam	NA	NA	NA	NA	NA	NA	NA	128,920	136,110
% of total loan assets	NA	NA	NA	NA	NA	NA	NA	2.7	2.7
Telangana State Southern Power Distribution Company	NA	NA	NA	NA	NA	NA	NA	126,610	145,250
% of total loan assets	NA	NA	NA	NA	NA	NA	NA	2.7	2.9
Total	1,664,060	1,662,130	1,631,040	1,636,710	1,690,150	1,770,920	1,837,680	1,900,410	2,031,270
% of total loan assets	42.8	43.1	42.0	41.5	41.1	40.7	40.4	40.1	40.8

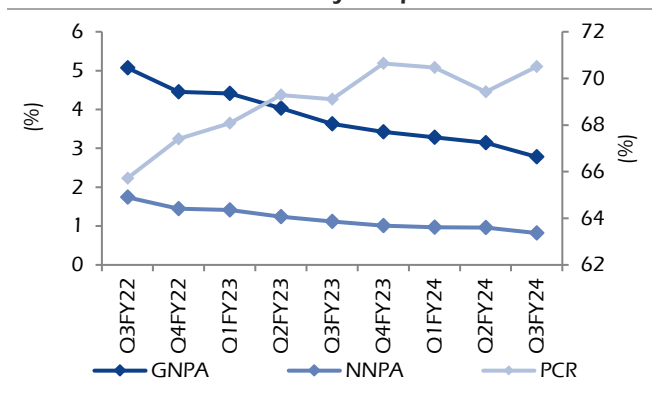
Source: Company, Elara Securities Research

Exhibit 8: Quarterly asset resolution

Particulars	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Under NCLT									
Loan amount (INR bn)	123.65	119.06	95.31	108.69	116.46	116.27	130.08	130.08	122.97
Number of projects	15	13	11	11	12	12	14	14	13
PCR (%)	72	70	73	77	77	77	74	73	74
Outside NCLT	0	0	0	0	0	0	0	0	0
Loan amount (INR bn)	73.5	52.54	75.94	50.1	32.77	32.65	18.84	18.84	15.14
Number of projects	13	12	14	12	9	7	5	5	3
PCR (%)	55	60	63	53	40	47	46	42	50

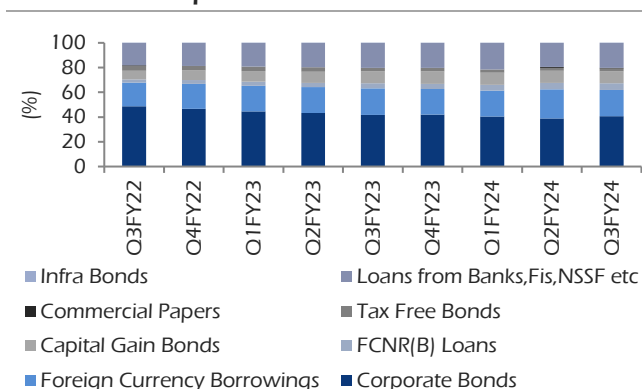
Source: Company, Elara Securities Research

Exhibit 9: GNPA declined by 36bps QoQ to 2.78%



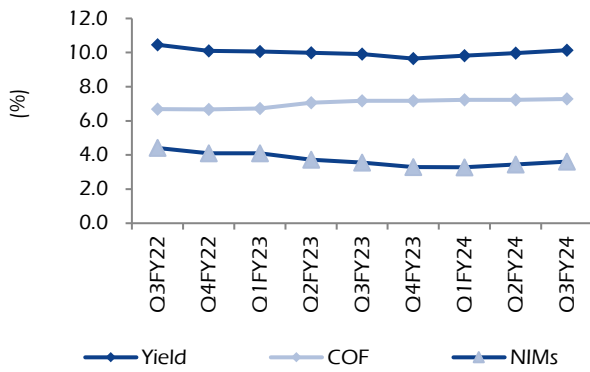
Source: Company, Elara Securities Research

Exhibit 10: Corporate bonds' share in borrowing mix increased 160bps QoQ



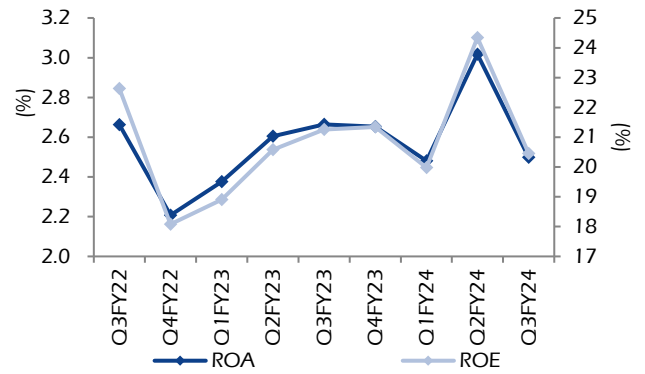
Source: Company, Elara Securities Research

Exhibit 11: NIMs up 16bps QoQ to 3.6%



Source: Company, Elara Securities Research

Exhibit 12: ROA/ROE declined 52bps/389bps QoQ to 2.5%/20.5%



Source: Company, Elara Securities Research

Exhibit 13: Change in estimates

(INR mn)	Earlier			Revised			% change		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Net interest income	156,691	196,567	218,566	162,423	198,017	221,566	3.7	0.7	1.4
Operating profit	159,761	188,432	208,211	168,105	198,831	222,599	5.2	5.5	6.9
Net profit	124,762	138,675	151,284	133,775	146,129	163,941	7.2	5.4	8.4
EPS (INR)	47.00	53.00	57.00	51	55	62	8.1	4.7	9.2
TP (INR)			420			582			38

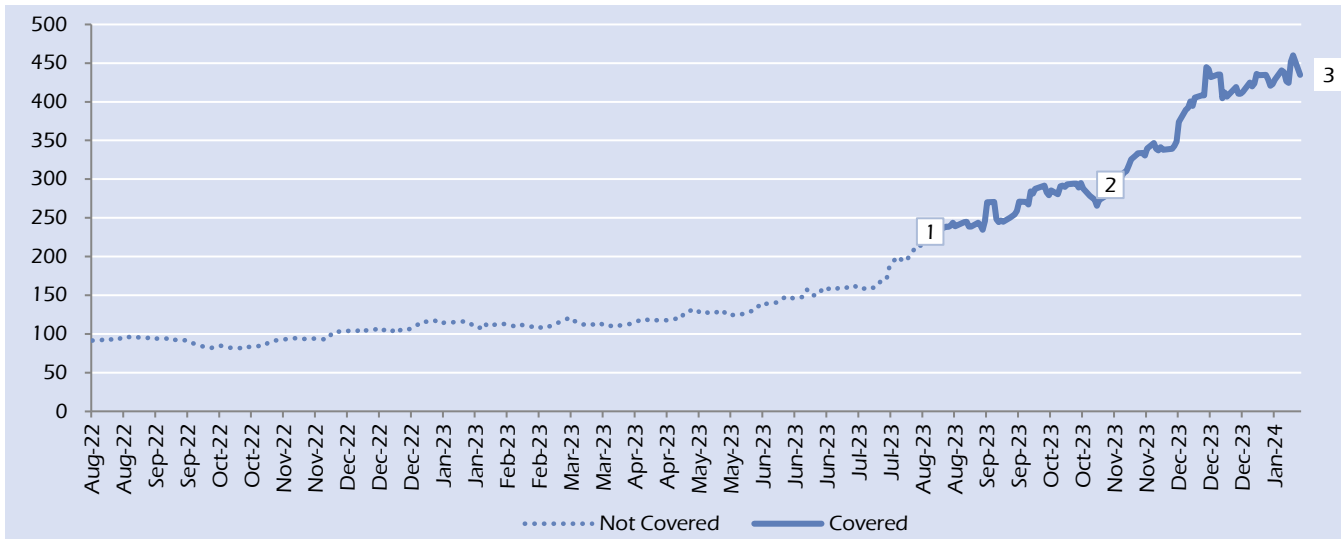
Source: Elara Securities Estimate

Exhibit 14: Valuations

	(INR)
Fair price - EVA (Enterprise value method)	145
Fair price - P/ABV (2-stage Gordon growth model)	1,019
Average of above two (INR)	582
Target P/ABV (x)	1.9
Target P/E (x)	10.5
CMP	434
Upside (%)	34

Note: Pricing as on 23 January 2024; Source: Elara Securities Estimate

Coverage History



	Date	Rating	Target Price	Closing Price
1	14-Aug-2023	Buy	INR 314	INR 222
2	1-Nov-2023	Buy	INR 420	INR 283
3	23-Jan-2024	Buy	INR 582	INR 435

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BUY	Absolute Return >+20%
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