MIRAE ASSET Sharekhan

REC Ltd

Healthy return ratios with attractive valuation

NBFC	Sharekhan code: RECLTD

Reco/View: Positive	↔	CMP: **Rs. 362** (as on Nov 27, 2025)	Upside potential: **24%**	↓

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Company details

Market cap:	Rs. 95,000 cr
52-week high/low:	Rs. 573/ 349
NSE volume: (No of shares)	62.0 lakh
BSE code:	532955
NSE code:	RECLTD
Free float: (No of shares)	124 cr

Shareholding (%)

Promoters	52.6
FII	18.0
DII	15.9
Others	13.5

Price chart

Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	-2.9	-0.5	-10.6	-31.2
Relative to Sensex	-4.1	-6.7	-15.7	-38.0

Source: Mirae Asset Sharekhan Research, Bloomberg

Summary

- Management guided for an 11-12% AUM growth for FY26 despite a muted H1FY26. Strong pipeline of sanctions stood at Rs. ~1.5 lakh crore as of Sept-2025.
- AUM to reach Rs. ~8 lakh crore, translating an AUM CAGR of 12.3% over FY25-FY28 driven by investment in the renewable energy space.
- GS-3 and NS-3 reduced significantly over the last five years, at 1.06% and 0.24% as of Sept-25, expected to reduce further in FY26. Hence, benign credit cost.
- We maintain a positive view on REC and revise PT to Rs. 450. Valuation is attractive, given an 18-20% RoE trajectory with a ~5% dividend yield.

REC projects a healthy outlook anchored by the massive push for renewable energy. Despite a muted H1FY26, the management is confident in achieving 11-12% AUM growth for the full year driven by strong pipeline of sanctions, and robust disbursement growth, lower prepayments. This ambitious plan aligns with the national goal of reaching 900 GW capacity by 2030. The management expects NIM between 3.5%-3.75% over FY26-FY27. Besides, REC has hedged 99% foreign borrowing portfolio. We expect PAT to clock CAGR of 10% FY25-FY28 driven by AUM growth, benign credit cost and improvement in asset quality. Crucially, asset quality has seen marked improvement, with GS3/NS3 declining to ~1.06%/0.24% and projected to fall to 0.5%/0.1% by FY27. This operational efficiency will lead to an RoE of over 19% by FY28.

- **Healthy AUM growth eyed:** AUM CAGR is expected at 12.3% over FY25-FY28, targeting a scale of approximately Rs. 8.0 lakh crore by the end of the period, underpinned primarily by significant financing in the renewable energy sector. The management expects to deliver an 11-12% AUM growth for FY26, driven by robust sanction pipelines, increased disbursements, and a normalising prepayment environment. This growth aligns with the country's massive capacity expansion goal to reach 900 GW by FY2030, presenting a substantial long-term investment opportunity. Despite near-term NIM pressure owing to lower interest rates, aggressive competition, margins are expected between 3.5% and 3.75% over the next two years, with cost of borrowing being managed by comprehensive hedging (99%) of foreign loans. Overall, we expect a 10% PAT CAGR over FY25-FY28, resulting in a PAT of Rs. 20,988 crore, supported by rising AUMs, benign credit costs, and improved asset quality.
- **Asset quality outlook is stable:** The company's asset quality outlook remains robust and stable, reflecting a significant improvement from the past, with GS3 and NS3 ratios falling to ~1.06% and 0.24% respectively, as of September 2025, a sharp decline from the ~7.2% and 3.8% recorded in March 2019. Driven by ongoing resolutions and recoveries, alongside positive changes in the regulatory environment, management projects a further decline in these ratios to an expected 0.5% and 0.1% by FY27. Efforts are currently focused on resolving 11 NPA projects, including two specific cases—Hiranmayee Power and Sinnar Thermal—which are in advanced stages and anticipated to be resolved by FY26 end, with ten projects undergoing resolution via NCLT and one outside it. This concerted focus on asset resolution underpins the expectation of a continued benign credit cost for both FY26 and FY27, directly contributing to enhanced profitability.
- **Healthy return ratios:** Return ratios have improved over the last five years. RoA improved from 1.52% in FY20 to 2.74% in FY25. Further, it is likely to be stable between 2.6%-2.7% over FY26-FY28, driven by AUM growth, benign credit cost and improvement in asset quality (recovery of bad dets). RoE is expected at >19% in FY28.

Our Call

Valuation – We expect loan book/PAT CAGRs of ~12.3%/9.6% over FY25-FY28, along with continuous asset quality improvement which is set to deliver healthy profitability metrics with RoA/RoE exceeding >2.6%/>19% by FY28. In the recent past, the stock price has come down more than 10% over the last six months due to underperformance of loan growth on BT/prepayments which we expect to reduce (BT) in H2FY26. Currently, the stock trades at attractive valuation of 1.1x/0.9x its FY26/FY27 book value, along with healthy dividend yield. The risk-reward ratio is compelling post correction of the stock price, affirming our positive stance with a revised PT of Rs. 450.

Key Risks

Slow loan growth due to higher prepayments, margin contraction and slow AUM growth due to aggressive competition, rise in exposure to power projects without PPA.

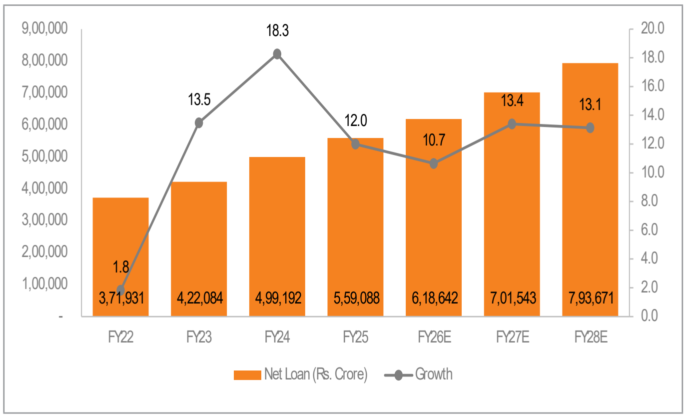
Valuation (Standalone) Rs cr

Particulars	FY24	FY25	FY26	FY27E	FY28E
NII	16,461	20,935	22,116	24,859	27,986
PAT	14,019	15,921	17,541	18,917	20,988
EPS (Rs.)	53.2	60.3	66.5	71.7	79.5
P/E (x)	6.7	6.0	5.4	5.0	4.5
P/BV (x)	1.4	1.2	1.1	0.9	0.8
RoE (%)	22.2	21.8	21.1	19.7	19.1
RoA (%)	2.8	2.7	2.7	2.6	2.6

Source: Company; Mirae Asset Sharekhan estimates

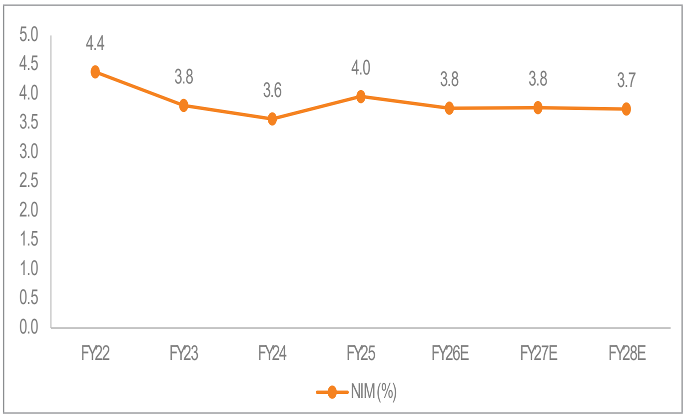
Financials in charts

Net Loan and Growth Trend



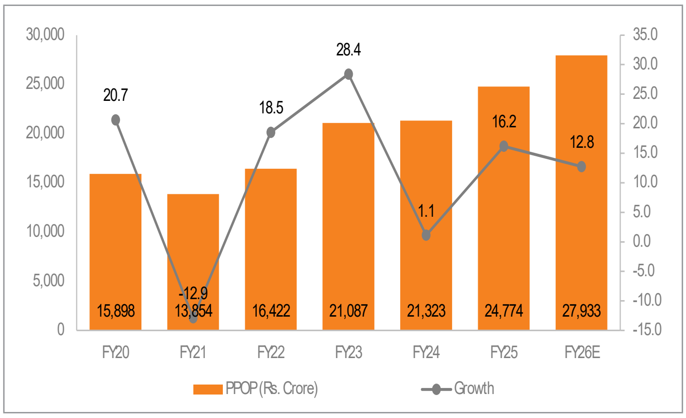
Source: Company; Mirae Asset Sharekhan Research

NIM Trend (Calculated, %)



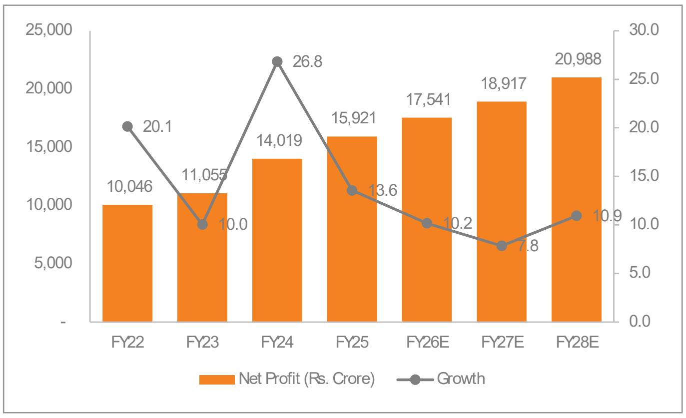
Source: Company; Mirae Asset Sharekhan Research

PPOP and Growth Trend (%)



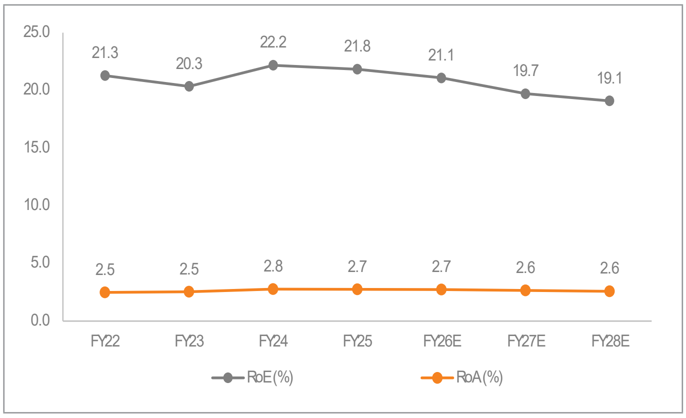
Source: Company; Mirae Asset Sharekhan Research

Net Profit Trend (%)



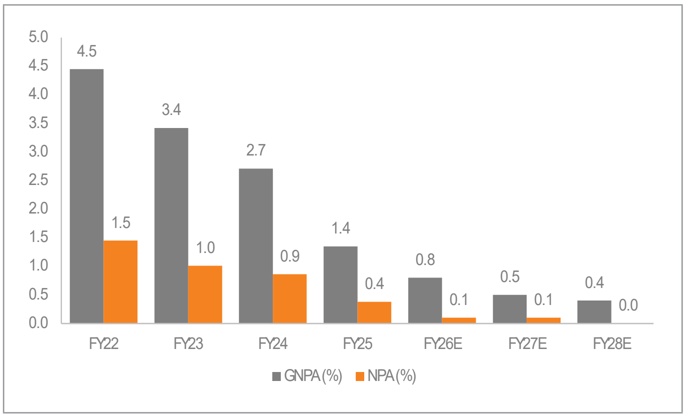
Source: Company; Mirae Asset Sharekhan Research

Return Ratios (%)



Source: Company; Mirae Asset Sharekhan Research

Asset Quality Trend (%)



Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Significant investments on capacity expansion

According to industry reports, India requires a $700 billion investment over the next 10 years to meet the power demand due to rise in per capita power consumption, structural changes to renewable energies, and investment in distribution and in thermal power. The government targets to set up 500 GW installation capacity of renewable energies by FY30. Besides, transmitting such a large capacity will require further investments. Besides, renewable power is intermittent in nature hence the investment also required for thermal based capacities. PFC/REC are nodal agencies for many government schemes, which are likely to capitalise on opportunity, resulting in strong growth over the next 5-7 years. Further, the government would like to resolve the bad assets as these plants can be commercialized for the power production when facing power shortage and can meet out power demand of the country, benefitting PFC/REC. The sector in on the cusp of strong growth, however we are in the declining interest rate scenario. We further expect reduction in the repo rate, hence the company which have high fixed borrowing portfolio will face challenges to reduce interest rates and the banks generally have lower cost of funding will be able to offer lower rates. Hence, companies, which will be able to bring down their funding costs will benefit to acquire the clients and will see lower balance transfers (BT)/prepayments.

■ Company Outlook – Risk-reward favourable

REC is a strategic important entity for the government as it has highly ambitious plans for the investment in the power sector. It is also a nodal agency of the government for many schemes. The company enjoys strong ratings, therefore lower/reasonable cost of fund besides likely to get support from the government whenever required. The company has healthy growth prospectus however it is will face some pressure due to competition as the repo rate has been reduced and further rate cuts are expected. Overall, the company will improv on asset quality and likely to generate high return ratios.

■ Valuation – Maintain positive view with revised a PT of Rs. 450, expect 24% upside

We expect loan book/PAT CAGRs of ~12.3%/9.6% over FY25-FY28, along with continuous asset quality improvement which is set to deliver healthy profitability metrics with RoA/RoE exceeding >2.6%/>19% by FY28. In the recent past, the stock price has come down more than 10% over the last six months due to underperformance of loan growth on BT/prepayments which we expect to reduce (BT) in H2FY26. Currently, the stock trades at attractive valuation of 1.1x/0.9x its FY26/FY27 book value, along with healthy dividend yield. The risk-reward ratio is compelling post correction of the stock price, affirming our positive stance with a revised PT of Rs. 450.

Peer Valuation

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/E(x)		P/BV(x)		RoA (%)		RoE (%)	
			FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
REC	362	95,000	5.4	5.0	1.1	0.9	2.7	2.6	21.1	19.7
PFC	370	120,000	4.1	3.8	0.9	0.7	3.1	3.0	19.4	18.2

Source: Company, Bloomberg, Sharekhan Mirae Asset Research

About company

Rural Electrification Corporation Ltd (RECL) is a Central Public Sector Enterprise under the Ministry of Power in India. It provides financial assistance to State Electricity Boards, State Power utilities, and the private sector for all segments of power infrastructure. Established in 1969, REC has completed over fifty years in the area of its operations and funds projects related to Generation, Transmission, Distribution, and Renewable Energy.

Investment theme

India's power sector requires an investment of $700 billion over the next decade to support the country's commitment to achieving net-zero emissions by 2070, according to industry reports. To meet out the power demand, the GoI is working on structural changes in the power sector to meet emission norms and get cleaner energies therefore targets to reach to 500 GW renewable energies. Besides, investment requires for expansion in thermal power as renewables are intermittent and transmitting and distribution renewable energies. The company is power focused NBFC which will capitalise on opportunities hence likely to grow at healthy rate, generating steady return ratios and trades at attractive valuation.

Key Risks

Regulatory headwinds, asset quality issue, delay in signing of PPAs, incremental stress build up in the Discoms, lower share of government guaranteed loans.

Additional Data

Key management personnel

Name	Designation
Mr Jitendra Shrivastav	CMD
Mr. Harsh Baweja	CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Power Finance Corp Ltd	52.63
2	Life Insurance Corp of India	2.24
3	Vanguard Group Inc/The	2.08
4	Blackrock Inc	1.86
5	ICICI Prudential Asset Management	1.83
6	Dimensional Fund Advisors LP	1.09
7	Nippon Life India Asset Management	0.99
8	Kotak Mahindra Asset Management Co	0.87
9	HDFC Asset Management Co Ltd	0.85
10	SBI Funds Management Ltd	0.71

Source: Bloomberg

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Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

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