

Nov 29, 2016



QUARTERLY BASKET

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Buy Around: 138.5

SL: 129

Target: 155

Upside: 11.90%

Horizon: 3 Month

VALUE PARAMETERS

Current Mkt.Price (Rs.)	136.00
Face Value (Rs.)	10.00
52 Week High/Low	140.95/76.25
M.Cap (Rs. in Cr.)	26858.88
EPS (Rs.)	27.07
P/E Ratio (times)	5.02
P/B Ratio (times)	0.93
Dividend Yield (%)	6.29
Stock Exchange	BSE

STOCK DATA

BSE Code	532955
NSE Symbol	REC LTD
Reuters	RURL.BO
Bloomberg	RECL IN

SHAREHOLDING PATTERN

(As on 30 Sep 2016)	% Of Holding
Foreign	16.79
Institutions	11.80
Non corporate corp. holding	2.69
Promoters	60.64
Public & Others	8.08

According to the company, its cost of borrowing is declining and there is ample scope of reducing lending rates, while maintaining margins. Moreover, as far as its restructured books are concerned, there is a growth of around 7 percent with reference to the previous quarter and there has been no new addition to the restructured loan book. Further, the company does not anticipate any new loans to be restructured in the next half of the current financial year. The management of the company aims to increase presence in emerging areas like de-centralized distributed generation (DDG) projects, and new and renewable energy sources to reach remote and difficult terrains not connected by power grid network.

Business Profile

Rural Electrification Corporation (REC), a Navratna Central Public Sector Enterprise under Ministry of Power, provides financial assistance to state electricity boards, state government departments and rural electric co-operatives for rural electrification projects. As per shareholding pattern, Government of India holds 60.64% stake in the firm as on 30 Sep 2016. REC finances all types of Power Generation projects including Thermal, Hydel, Renewable Energy, etc. without limit on size or location.

Investment Rationale

- REC has reported 8% increase in the net profit to Rs 1751.27 crore for the quarter ended September 2016 (Q2FY2017). The Net Interest Income (NII) rose at moderate pace of 1% to Rs 2330.38 crore, impacted by subdued loan growth of 1%.
- However, the company has improved Net Interest Margin (NIM) in Q2FY2017. The other income of the company jumped more than three and half times boosting the revenue growth in Q2FY2017. The company exhibited marginal improvement in asset quality in Q2FY2017, after consistent deterioration for last four sequential quarters.
- Regarding the shifting of NPA recognition norms to 90 days overdue basis from existing 180 days overdue basis, the company would continue to recognize NPAs on 180 days overdue basis. However, it would shift to 90 days overdue basis NPA recognition in FY2018. Meanwhile, the company is requesting to the RBI for exclusion of state sector project loans from 90 days overdue NPA recognition norms. The company has invested Rs 1500 crore in Tier I bonds of three banks - Syndicate Bank, Indian Bank, and Vijaya Bank at Rs 500 crore each.
- Its loan book growth of 1% is only on account of the Ujwal DISCOM Assurance Yojana (UDAY) funds. Almost Rs 30,000 crore has been received under the UDAY scheme. Otherwise its loan book would have shown a steady increase of 12-15 percent.



We recommend a buy in the stock of REC LTD for a short-term perspective. The stock is trading at its good support level with good fundamental records and is expected to move up from this level. It made a 52 week low Rs. 76.25 and 52 week high of Rs 140.95. Buy around at 138.50 with a closing below stop loss of Rs. 129 levels for the target of Rs. 155.

Note: Follow Strict Stop Loss.



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