

## RESULT UPDATE

### LARGE CAP

#### Share Data

Reuters code	RECLBO
Bloomberg code	RECLIN
Market cap. (US\$ mn)	4,811
6M avg. daily turnover (US\$ mn)	6.8
Issued shares (mn)	859
Target price (Rs)	283

Performance (%)	1M	3M	12M
Absolute	2	26	231
Relative	(1)	23	71

#### Valuation ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	19.7	23.6
+/- (%)	32.8	20.1
ABV (Rs)	107.4	123.1
+/- (%)	58.0	14.6
PER (x)	13.0	10.8
PABV (x)	2.4	2.1
Dividend/Yield (%)	2.0	2.1

#### Major shareholders (%)

Promoters	82
FII's	6
MF's	5
BFSI's	1
Public & Others	6

#### Financial highlights

(Rs mn)	3QFY09	3QFY10	YoY (%)	9MFY09	9MFY10	YoY (%)	FY09	FY10E	YoY (%)	FY11E	YoY (%)
Interest Earned	12,465	16,717	34.1	33,603	47,162	40.3	47,572	64,811	36.2	82,300	27.0
Interest Expended	7,878	10,279	30.5	20,410	28,427	39.3	28,972	39,390	36.0	51,527	30.8
<b>Net Interest Income</b>	<b>4,588</b>	<b>6,438</b>	<b>40.3</b>	<b>13,194</b>	<b>18,735</b>	<b>42.0</b>	<b>18,600</b>	<b>25,422</b>	<b>36.7</b>	<b>30,773</b>	<b>21.0</b>
Other Income	289	345	19.3	909	1,219	34.0	1,740	1,724	(0.9)	1,841	6.8
Total Income	12,754	17,062	33.8	34,513	48,380	40.2	49,312	66,535	34.9	84,141	26.5
<b>Total Net Income</b>	<b>4,877</b>	<b>6,783</b>	<b>39.1</b>	<b>14,104</b>	<b>19,954</b>	<b>41.5</b>	<b>20,340</b>	<b>27,146</b>	<b>33.5</b>	<b>32,614</b>	<b>20.1</b>
Staff Expenses	221	265	19.8	700	798	14.0	872	1,056	21.0	1,238	17.3
Other operating exp.	59	73	24.3	223	190	(14.6)	244	264	8.0	297	12.7
<b>Operating Profit</b>	<b>4,597</b>	<b>6,445</b>	<b>40.2</b>	<b>13,182</b>	<b>18,965</b>	<b>43.9</b>	<b>19,224</b>	<b>25,826</b>	<b>34.3</b>	<b>31,079</b>	<b>20.3</b>
Prov. & Contingencies	(146)	-	NA	(341)	2	NA	24	18	(25.6)	71	303.6
Provision for tax	1,556	1,705	9.6	4,680	4,560	(2.5)	6,480	6,375	(1.6)	7,659	20.1
<b>Reported Profit</b>	<b>3,187</b>	<b>4,741</b>	<b>48.8</b>	<b>8,843</b>	<b>14,403</b>	<b>62.9</b>	<b>12,720</b>	<b>19,434</b>	<b>52.8</b>	<b>23,349</b>	<b>20.1</b>

## Rural Electrification Corporation Maintain BUY

Price: Rs 256

BSE Index: 17,510

13 January 2010

### 3QFY10 Result – Consistent performance

- **Rural Electrification Corporation (REC) continued its strong core performance in 3QFY10 with NII growth of 40.3% YoY to Rs 6.4 bn with healthy margins of ~4.2%. The net profit rose by 48.8% YoY to Rs 4.74 bn.**
- **Impressive NII growth was supported by consistent higher interest spreads at ~3.4-3.5%. Spreads have likely improved on sequential basis due to benefit arising out of loan re-pricing.**
- **The sanctions grew robustly by 68.3% YoY to Rs 105.2 bn against slow disbursement growth of ~12% YoY to Rs 60 bn. For 9MFY10, REC has sanctions and disbursement of ~Rs 420 bn and ~Rs 150 bn, respectively. REC is likely to disburse Rs 210-220 bn for FY10E.**
- **REC's FPO is likely to happen by January 2010-end and we are building in capital issuances of ~Rs 32.2 bn (15% dilution) in our estimates on basis of CMP. GoI will be divesting 5% of its stake and 15% fresh equity raising. Post equity dilution GoI's stake will come down to 68.2% (81.8%).**

### Outlook

REC continues to be the one of the biggest beneficiary from the growth of the power sector in the country. In the last couple of years, REC has built strong sanctions' pipeline (~Rs 700-800 bn), which provides strong loan growth outlook for the coming years. We expect REC to maintain 23-25% disbursement growth, coupled with healthy NIMs for FY10E due to dilution impact and low wholesale borrowing costs, however, expect margins to decline 15-20 bps in FY11E. Asset quality continues to remain impressive with gross NPAs below 0.1% levels. We remain positive about REC's performance. We have revised our earnings' estimates upwards by 5.1% for FY10E and 6.9% for FY11E. We maintain Buy with a revised target price of Rs 283.

**Income Statement**

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Interest income	33,782	47,572	64,811	82,300
Interest expended	20,728	28,971	39,390	51,527
<b>Net interest income</b>	<b>13,055</b>	<b>18,600</b>	<b>25,422</b>	<b>30,773</b>
<i>Growth (%)</i>	<i>43.6</i>	<i>42.5</i>	<i>36.7</i>	<i>21.0</i>
Other Income	1,594	1,741	1,724	1,841
<b>Total net income</b>	<b>14,649</b>	<b>20,341</b>	<b>27,146</b>	<b>32,614</b>
<i>Growth (%)</i>	<i>31.8</i>	<i>38.9</i>	<i>33.5</i>	<i>20.1</i>
Staff expenses	923	872	1,056	1,238
Other expenses	196	238	264	297
Operating Profit	13,530	19,231	25,826	31,079
Provisions and contingencies	400	34	18	71
Profit before tax & extraordinary items	13,130	19,197	25,809	31,008
<i>Growth (%)</i>	<i>28.1</i>	<i>46.2</i>	<i>34.4</i>	<i>20.1</i>
Tax (current + deferred)	4,523	6,480	6,375	7,659
Tax rate (%)	34.4	33.8	24.7	24.7
<b>Net profit after tax &amp; before extraordinary Items</b>	<b>8,607</b>	<b>12,717</b>	<b>19,434</b>	<b>23,349</b>
<i>Growth (%)</i>	<i>26.8</i>	<i>47.7</i>	<i>52.8</i>	<i>20.1</i>
Extraordinary Items net of taxes	(6)	4	0	0
<b>Reported net profit</b>	<b>8,601</b>	<b>12,721</b>	<b>19,434</b>	<b>23,349</b>
<i>Growth (%)</i>	<i>26.1</i>	<i>47.9</i>	<i>52.8</i>	<i>20.1</i>

**Balance Sheet**

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Fixed assets	779	809	908	987
Net Advances	393,165	513,814	672,786	824,921
Investments	11,474	10,049	9,093	8,621
Current Assets, Loans and advances	23,725	34,892	39,378	43,772
<b>Total assets</b>	<b>429,144</b>	<b>559,564</b>	<b>722,165</b>	<b>878,301</b>
Loans	342,828	449,360	575,180	707,472
Current Liab. & Prov.	24,468	38,737	36,100	42,719
Deferred Tax Liability	8,171	9,567	0	0
<b>Total liabilities</b>	<b>375,466</b>	<b>497,663</b>	<b>611,280</b>	<b>750,190</b>
Share capital	8,587	8,587	9,875	9,875
Reserves & surplus	45,090	53,314	101,010	118,236
<b>Networth</b>	<b>53,677</b>	<b>61,901</b>	<b>110,885</b>	<b>128,111</b>
<b>Total equity &amp; liabilities</b>	<b>429,144</b>	<b>559,564</b>	<b>722,165</b>	<b>878,301</b>

**Key Ratios**

Yr end 31 Mar	FY08	FY09	FY10E	FY11E
<b>Operational &amp; financial ratios (Rs)</b>				
EPS	10.0	14.8	19.7	23.6
Book Value	59.4	68.1	107.5	123.4
Adjusted Book Value	57.6	67.9	107.4	123.1
DPS	3.0	4.5	5.0	5.3
<b>Profitability ratios (%)</b>				
Yield on advances	9.7	10.7	11.1	11.1
Cost of Funds	6.4	7.3	7.7	8.0
Gross Spread	3.3	3.4	3.4	3.1
Net interest margin	3.8	4.2	4.4	4.2
<b>Performance ratios (%)</b>				
RoAA	2.2	2.6	3.0	2.9
RoAE	19.3	23.2	23.6	20.5
Core RoAA	2.2	2.6	3.0	2.9
Core RoAE	19.3	23.2	23.6	20.5
<b>Asset quality ratios (%)</b>				
Gross NPLs	0.8	0.1	0.1	0.2
Net NPLs	0.6	0.0	0.0	0.1
Net NPLs/Assets	0.5	0.0	0.0	0.1
Net NPLs/Net worth	4.6	0.4	0.2	0.4
Provision Coverage	25.9	69.8	70.0	70.0
<b>Capitalisation ratios (%)</b>				
Equity/Assets	11.3	11.1	12.8	14.2
Loans/Assets	91.6	91.8	93.2	93.9
<b>Efficiency ratios (%)</b>				
Cost/Income	8.3	5.9	5.3	5.1
Cost/Assets	0.3	0.2	0.2	0.2
<b>Productivity ratios (Rs mn)</b>				
Disbursements/Employee	179.6	251.9	309.0	371.0
Advances/Employee	552.4	743.8	975.5	1,198.1
Assets/Employee	613.9	821.7	1,060.4	1,289.7
Core Net Profit/Employee	12.3	18.7	28.5	34.3
<b>Valuation ratios (x)</b>				
PER	25.6	17.3	13.0	10.8
Price/Book value	4.3	3.8	2.4	2.1
Price/Adjusted book	4.4	3.8	2.4	2.1
Yield (%)	1.2	1.8	2.0	2.1

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**Analyst Declaration:** We, Tejas Mehta & Dhaval Gala, hereby certify that the views expressed in this report accurately reflect our personal views about the subject securities and issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendation or view expressed in this report.

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1. **BUY:** Potential upside of > +25% (absolute returns)
  2. **OUTPERFORMER:** 0 to +25%
  3. **UNDERPERFORMER:** 0 to -25%
  4. **SELL:** Potential downside of < -25% (absolute returns)
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