

REC Ltd. (RECL IN)

FUNDAMENTAL VIEW ¹

As of 17 Jun 2025

- Rural Electrification Corp Ltd (REC) is an important public sector enterprise as it is the government's key strategic partner for driving reforms and developments in the power sector, and providing financing to weaker players (particularly distribution companies or "discoms") to prevent liquidity disruptions to the sector, similar to its parent Power Finance Corp's (PFC) mandate.
- We view REC's credit profile as underpinned by strong state support due to its majority 52.63% ownership by PFC, which is in turn 55.99% owned by the government of India (GoI), as well as the key role that it plays in an essential sector of the country.
- REC is rated in line with both its parent, PFC, and the Indian sovereign at the international credit rating agencies.

RISKS & CATALYSTS

As of 17 Jun 2025

- Given its mandate, REC has concentrated loan exposure to the power sector which is also chunky in nature; power generation projects typically involve large upfront borrowing and have long gestation periods before the projects become operational. Resolutions of stressed exposures have been with delays due to India's slow moving Insolvency & Bankruptcy Code (IBC) regime despite the ongoing NCLT reforms. REC has a conservative reserving policy; lumpy provisioning and reversals is the result.
- Asset quality risk is also mitigated by a majority public sector exposure; while many state government discoms are in poor health, REC can get funds meant for the states through the GoI/RBI if payments are overdue.
- Like most NBFCs, REC is reliant on the confidence sensitive wholesale market for funding. However, its quasi-government status enables it to have diversified funding sources (onshore and offshore) at costs that are close to the sovereign.

CREDIT QUALITY SCORE (CQS) ²

As of 27 Jun 2025

CURRENT CQS

53

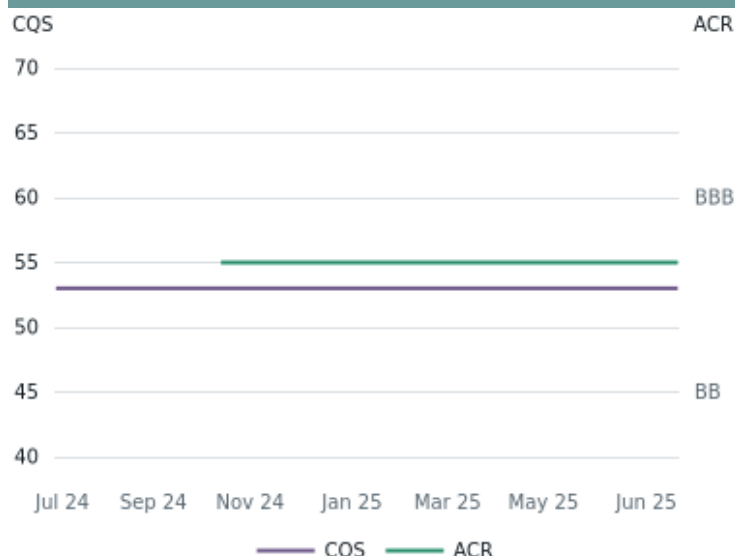
CQS OUTLOOK ³

NEGATIVE

STABLE

POSITIVE

HISTORICAL RATINGS: AVERAGE AGENCY RATING (ACR) ⁴ VS CQS



KEY METRICS

As of 17 Jun 2025

INR MN	FY21	FY22	FY23	FY24	FY25
NIM	3.72%	4.07%	3.38%	3.57%	3.63%
PPP ROAA	3.27%	3.91%	3.17%	3.24%	3.60%
ROAA	2.08%	2.47%	2.53%	2.77%	2.71%
ROE (Reported)	21.3%	21.3%	20.4%	22.2%	21.5%
Total Equity/Total Assets	10.78%	12.42%	12.41%	12.56%	12.65%
Tier 1 Ratio	16.3%	19.6%	22.8%	23.3%	23.8%
Total Capital Ratio	19.7%	23.6%	25.8%	25.8%	26.0%
Gross NPA Ratio	4.84%	4.45%	3.42%	2.71%	1.35%
Provisions/Avg Loans	0.64%	0.91%	0.03%	(0.29%)	0.19%

BUSINESS DESCRIPTION

As of 17 Jun 2025

- Established in 1969, Rural Electrification Corp Ltd (REC) is an important public sector enterprise of the Government of India (GoI) due to its mandate of helping to support the country's power sector initiatives. It has been designated as a systematically important NBFC by the Reserve Bank of India (RBI).
- REC went public on the Indian stock exchanges in 2008 but continued to be majority owned by the GoI until March 2019, where the GoI sold its 52.63% shareholding in REC to Power Finance Corp (PFC) for INR 145 bn as part of the GoI's efforts to monetise its shareholding in different public sector enterprises; PFC is in turn 56% owned by the GoI. REC's non-PFC shareholding is broadly similar to that of its parent, with a 20% share of foreign portfolio investors, 12% individuals, 9% mutual funds, and 6% others.
- REC has continued to be run as a standalone institution despite PFC's majority ownership in the entity.
- Similar to its parent, REC primarily provides funding to the public sector (~88% of its loan book) while the private sector is ~12%. By segment, Transmission & Distribution (T&D) is the largest part of the loan asset mix at 47%, followed by conventional and renewable energy generation at 28% and 10% respectively, while Infrastructure (12%) and Others (3%) round up the rest.

GLOSSARY

¹ The **Fundamental View** is our current assessment of credit quality and our expectation of how credit quality will trend over the next year or longer.

² The **Credit Quality Score (CQS)** is a number between 5 and 100. It is a medium-term credit score for corporates and financial institutions that utilizes a combination of sector fundamental scores and equity market signals. Values of CQS above 50 generally indicate investment grade credit quality.

³ The **Credit Quality Score (CQS) Outlook** is the near-term (3 month) outlook for the CQS, based on its trend, volatility and distance from the adjacent CQS risk bucket.

⁴ The **Agency Composite Rating (ACR)** is the average senior unsecured rating from one or more major rating agencies.

Quantitative scores provided by CreditSights Analytics, LLC. Scores are shown are for the lesser of (1) 2 years and (2) date of CreditSights inception of quantitative coverage.

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