

REC Limited

Q2FY26 Result Update | Sector: Financial Services

October 30, 2025




BUY

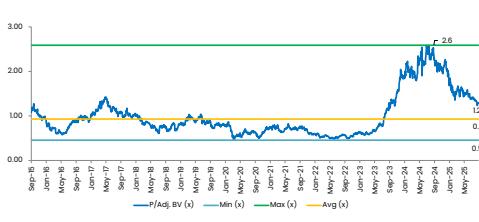
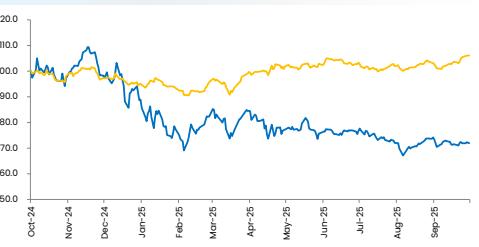
Current Market Price	379
Target Price	466
Upside	23.0%
Nifty	25,905
Sensex	84,509

Key Stock Data

Company Name	REC Limited
BSE Code	532955
NSE Code	RECLTD
Bloomberg	RECL:IN
Shares O/S (Cr)	263.4
M.Cap (Rs.Cr)	99,840
3M Avg Vol	49,45,899
52 week H/L	636/357
FV (Rs)	10.0

Shareholding Pattern

	Mar-25	Jun-25	Sep-25
Promoter	52.6	52.6	52.6
FII	20.5	19.2	18.0
DII	14.7	15.5	15.9
Public	12.2	12.7	13.5

1 Year Forward P/Adj. BV (x)

1 Year Relative Price Chart

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Profitability in line with expectations: REC Limited posted a steady financial performance in Q2FY26 with total income rising 11.5% YoY to Rs. 15,162 crore and net interest income up 15% YoY to Rs. 5,215 crore, supported by growth in its loan book and controlled funding costs. Profit after tax (PAT) stood at Rs. 4,415 crore, reflecting a 10.2% YoY increase despite a slight sequential dip of 1.1%. Total expenses increased by 8.3% YoY to Rs. 9,474 crore, while operating efficiencies helped maintain a strong net interest margin of 3.64%.

Loan book growth was driven by distribution segment: REC's loan book expanded by 7% YoY to Rs. 5.82 lakh crore as of September 30, 2025, bolstered by a 27% YoY jump in half-year disbursements to Rs. 1.15 lakh crore. Disbursement momentum was driven largely by the distribution segment comprising 69% of disbursements, followed by conventional generation (11%) and renewable energy (11%). The company's committed sanction pipeline stands strong at nearly Rs. 2.5 lakh crore, supporting its target loan book growth of 11-12% for FY26. REC remains on track to achieve a Rs. 10 lakh crore loan book by 2030, with renewables projected to account for 30% of the portfolio.

Margins continued to remain stable: REC maintained a resilient net interest margin of 3.64% despite increased foreign currency hedging costs and slightly higher cost of funds at 7.17%. Interest income growth, controlling finance costs, and operating efficiencies supported margins. Management highlighted that the majority of borrowings are fixed cost, and hedging strategy limits currency risks, ensuring margin stability. Return on net worth rose to 22.14%. The company expects margin sustainability with potential improvement in H2 FY26 driven by improved portfolio mix and funding cost management.

Asset quality further improves: Asset quality improved with gross NPA at 1.06% and net NPA at 0.24%, supported by a 52% reduction in stage two stressed assets due to recoveries and prepayments including Rs. 11,400 crore from the Kaleshwaram irrigation project. Provision coverage ratio stood strong at 77%. Management expects major stressed asset cases to be resolved by FY26-end, enabling continued credit cost control. The company is confident that trends in asset quality will remain favorable, supported by prudent risk selection and recovery efforts, thereby maintaining a healthy balance sheet.

Valuation: With robust Q2FY26 execution and clear visibility of growth from renewables and government schemes, REC is well placed to maintain earnings momentum. Improved asset quality and effective funding cost control underwrite margin stability. The company's strong sanction pipeline and diversified portfolio underpin its strategic growth trajectory. We maintain our **Buy** rating with a target price near **Rs. 466**, valuing the stock at about 1.2x FY27E adjusted book value.

Financial Summary - Consolidated

Particulars, INR Cr	FY24	FY25	FY26E	FY27E
Interest Income	46410	55070	61347	69771
Finance Cost	29949	34135	37820	42854
Net interest income	16461	20935	23527	26917
Pre-provisioning operating profit	16422	20879	23431	26809
Profit before Tax	17781	19860	22166	25322
Profit after Tax	14019	15713	17733	20257
EPS (Rs)	53.24	59.67	67.34	76.93
BVPS (Rs.)	261	295	339	389
P/B (x)	1.45	1.29	1.12	0.98
RoE (%)	22.2%	19.5%	21.3%	21.2%
ROA (%)	2.8%	2.7%	2.7%	2.8%

Source : RBL Research

Concall Highlights:

- Margins and Yields:** Margins remained stable with net interest margin at 3.64%, supported by consistent loan yields and prudent cost of funds management. Management expects margins to sustain and potentially improve in H2FY26 due to favorable portfolio mix and controlled borrowing costs.
- Loan Disbursements and Growth:** REC recorded half-year disbursements of Rs. 1.15 lakh crore, a 27% YoY increase, with Q2 disbursements at Rs. 56,000 crore (18% YoY growth). The distribution segment made up 69% of disbursements. Management is confident of achieving an 11-12% loan book growth for FY26, supported by a strong committed sanction pipeline of nearly Rs. 2.5 lakh crore.
- Asset Quality and Credit Costs:** Asset quality improved significantly with gross NPA at 1.06% and net NPA at 0.24%. Stage 2 stressed assets declined by 52%, helped by substantial prepayments including Rs. 11,400 crore from the Kaleshwaram irrigation project. Provision coverage ratio stands robust at 77%. The management expects resolutions of major stressed assets by FY26-end and maintains a sustainable credit cost outlook.
- Capital, Dividend, and Funding:** REC remains well capitalized with a capital adequacy ratio of 23.74%. Borrowings remain well diversified and hedged, and incremental borrowing costs were stable despite minor foreign currency hedging costs. The company declared a second interim dividend of Rs. 4.60 per share for Q2, totaling Rs. 9.20 per share for H1 FY26, emphasizing consistent shareholder returns. Management does not anticipate any immediate equity raise and maintains a disciplined capital allocation strategy.
- Further Guidance:** Management reaffirmed its guidance for 11-12% loan book growth in FY26 despite H1 prepayments of around Rs. 49,000 crore, which they consider largely one-time. Focus remains on strong underwriting, renewal of stressed asset resolutions, diversification into renewables and infrastructure sectors, and leveraging flagship government programs. Outlook for margins, asset quality, and credit costs remains positive, with anticipation of continued operational stability and gradual growth in the second half of FY26.

Quarterly Performance - Consolidated					
Particulars, INR Cr	Q2FY26	Q2FY25	Y-o-Y (%)	Q1FY26	Q-o-Q (%)
Interest Income	14,590	13,474	8.3	14,502	0.6
Dividend Income	1	52	(99.0)	-	-
Fees and Commission Income	474	48	881.7	144	228.6
Other income	98	22	354.7	87	12.3
Total Income	15,162	13,596	11.5	14,734	2.9
Finance Cost	9,131	8,507	7.3	8,935	2.2
Fees and Commission Expenses	1	4	(73.9)	10	(88.5)
Employees Cost	67	59	12.6	57	17.5
Depreciation	6.7	5.9	12.9	6.6	0.6
Loss_Foreign_exchange	79	41	94.9	51	54.4
Misc Expenses	189	83	126.9	644	(70.6)
Pre-Provisioning Operating Profit (PPoP)	5,689	4,896	16.2	5,030	13.1
Impairment on Financial Instruments	139.7	(144.1)	(196.9)	(616.6)	(122.7)
Profit Before Tax (PBT)	5,549	5,040	10.1	5,647	(1.7)
Tax Expense	1,134	1,034	9.7	1,196	(5.2)
Profit After Tax (PAT)	4,415	4,005	10.2	4,451	(0.8)
Total	5,459	4,968	9.89%	5,567	(2)

Gross margins were supported by lower cost of raw materials despite weak volumes.

PAT grew by 10.2% YoY.

Source : RBL Research

Private sector continues to be growth driver.

Business Parameters - Consolidated					
Particulars, INR Cr	Q2FY26	Q2FY25	Y-o-Y (%)	Q1FY26	Q-o-Q (%)
Loan Book	5,82,167	5,46,117	6.6	5,84,568	(0.41)
-State/Joint Sector	4,99,918	4,80,818	4.0	5,07,829	(1.56)
-Private Sector	82,249	65,299	26.0	76,739	7.18
Disbursements	55,962.0	47,303.0	18.3	59,508.0	(5.96)
Yield on Loan Assets (%)	10.1	10.2	-10bps	10.1	-2bps
Cost of Funds (%)	7.2	7.2	-1bps	7.1	5bps
Interest Spread (%)	2.9	3.0	-9bps	3.0	-7bps
Net Interest Margin (%)	3.6	3.7	-2bps	3.7	-10bps
Return on Net Worth (%)	22.1	22.1	8bps	22.6	-49bps
CRAR (%)	23.7	25.3	-157bps	24.0	-24bps

Source : RBL Research

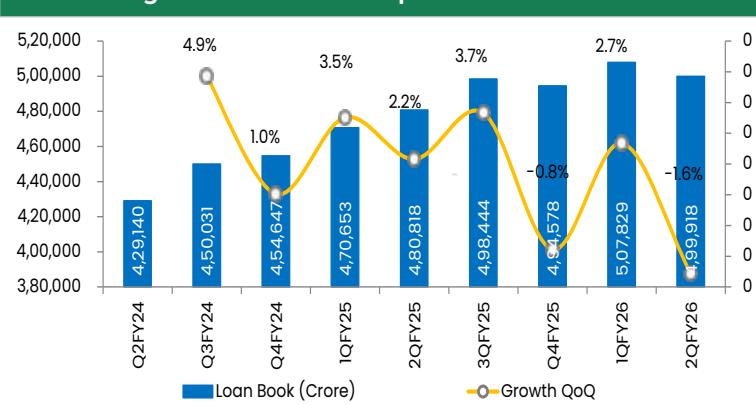
Asset quality remains stable and healthy.

Asset Quality - Consolidated					
Particulars (%)	Q2FY26	Q2FY25	Y-o-Y (%)	Q1FY26	Q-o-Q (%)
Gross Credit Impaired Assets	1.06	2.53	(58.1)	1.05	1.0
Net Credit Impaired Assets	0.24	0.88	(72.7)	0.24	-
Provision Coverage Ratio	77.06	65.12	1194bps	77.05	1bps

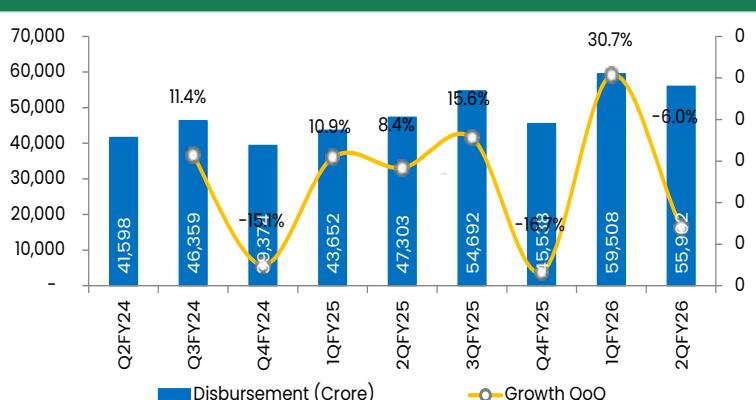
Source : RBL Research

Story in Charts

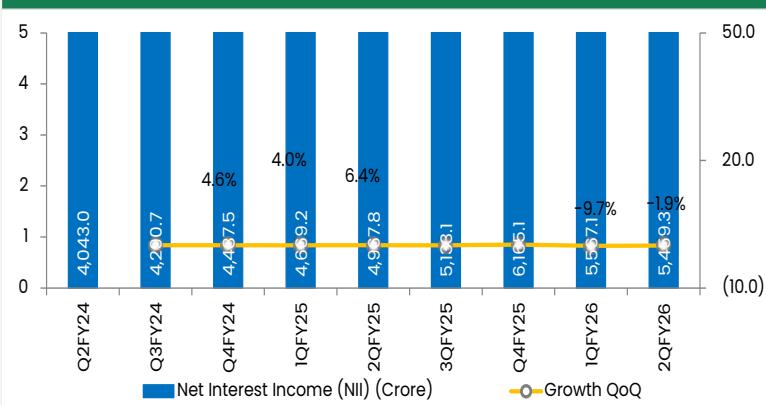
Loan book growth was below expectations



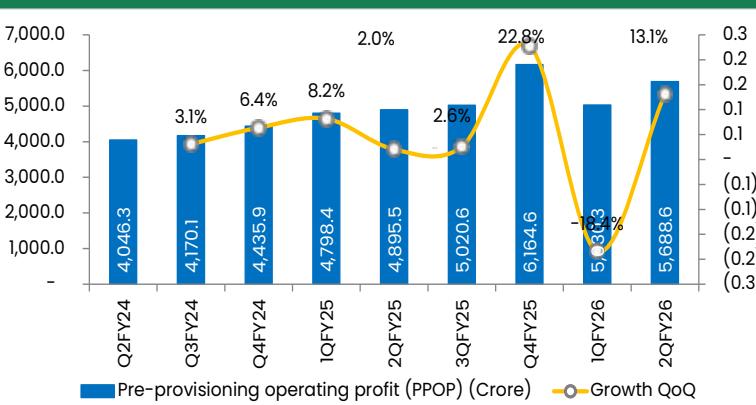
Disbursements were down sequentially



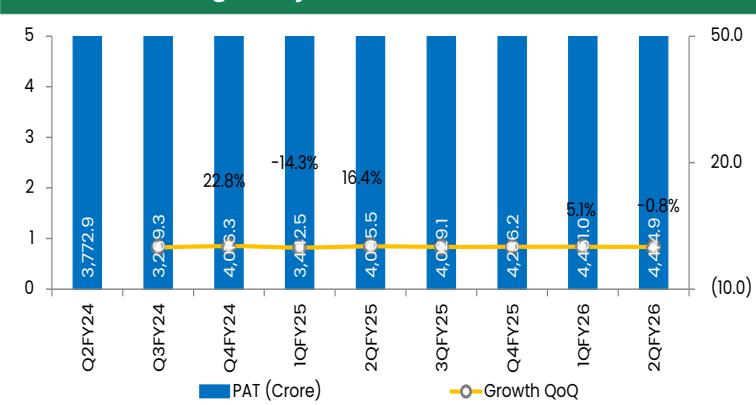
NII were also below expectations



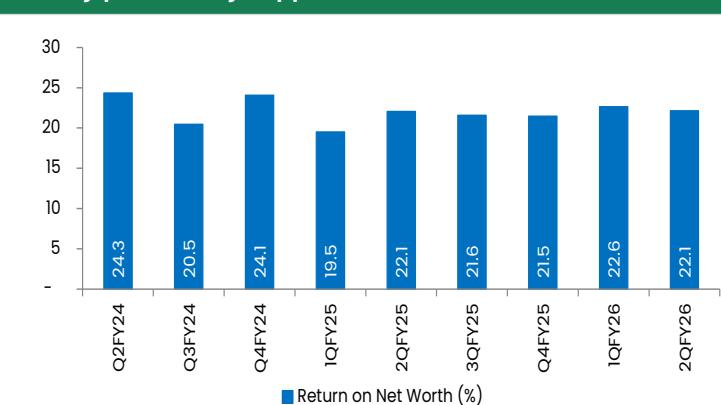
PPoP continue to grew at healthy pace



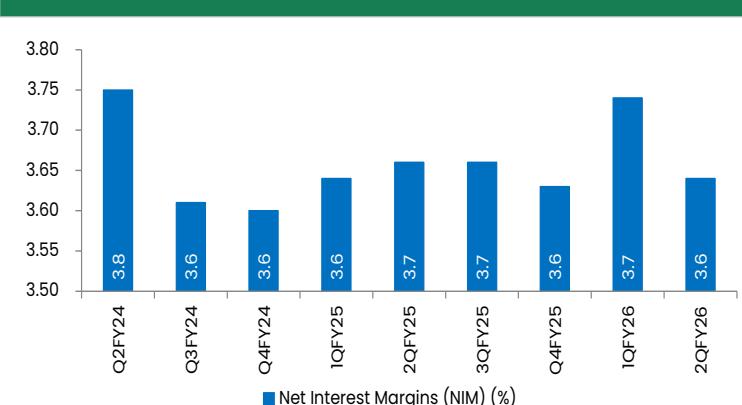
PAT for Q2FY26 grew by 10.2% YoY



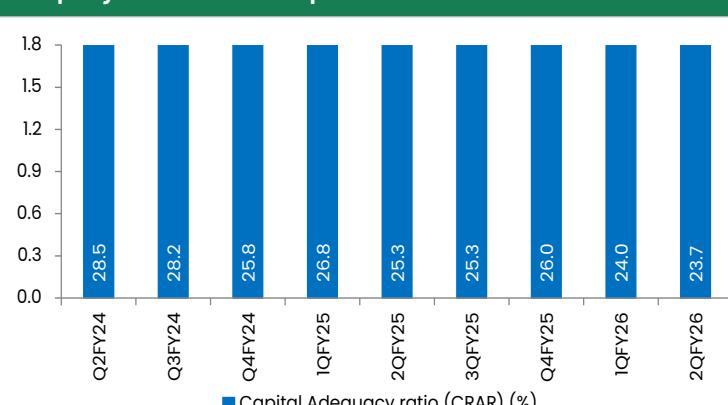
Healthy profitability supported ROE



NIMs for Q2FY26 were at 3.64%



Company remains well capitalised



Profit and Loss Account - Standalone

Particulars, INR Cr	FY24	FY25	FY26E	FY27E
Interest Income	46410	55070	61347	69771
Dividend Income	26	99	126	142
Fees and Commision Income	236	394	443	496
Other Income	542	417	485	543
Total Income	47214	55980	62401	70951
Finance Cost	29949	34135	37820	42854
Fees and Commission Expenses	24	14	32	35
Employees Cost	214	226	253	283
Depreciation	24	24	32	35
Misc Expenses	414	493	601	673
Loss_Foreign_exchange	167	208	233	261
Pre-Provisioning Operating Profit (PPoP)	16422	20879	23431	26809
Impairment on Financial Instruments	-1358	1019	1265	1487
Profit Before Tax (PBT)	17781	19860	22166	25322
Tax Expense	3761	4147	4433	5064
Profit After Tax (PAT)	14019	15713	17733	20257

Source: RBL Research

Balance Sheet - Standalone

Particulars, INR Cr	FY24	FY25	FY26E	FY27E
Financial Assets				
Cash and Cash Equivalents	46	55	63	71
Bank Balance other than Cash and Cash Equivalents	2452	1695	1899	2126
Derivative Financial Instruments - Assets	12485	17434	20919	23429
Loans	499192	559088	626179	701320
Investments	5320	6642	6708	7848
Other Financial Assets	24422	24604	23984	28729
Total Financial Assets	543918	609517	679751	763523
Non Financial Assets				
Current tax assets (net)	294	399	379	436
Deferred Tax Assets (Net)	2485	2853	3167	3800
Property, Plant and Equipment_Gross	630	578	636	712
Other Non-Financial Assets	113	208	210	235
Total Non-Financial Assets	3523	4038	4392	5183
Total Assets	547440	613555	684142	768707
LIABILITIES & EQUITY				
Financial Liabilities				
Derivative Financial Instruments - Liabilities	778.61	1704.66	1870.47	2094.92
Debt Securities	266110	292475	316224	354171
Borrowings (Other than Debt Securities)	172092	194300	221347	247908
Subordinated Liabilities	7412	9514	10751	12041
Other Financial Liabilities	31822	37525	44279	49593
Total Borrowings	477436	533814	592601	663713
Total Financial Liabilities	478215	535519	594471	665808
Non-Financial Liabilities				
Current Tax Liabilities (Net)	67	0	0	0
Provisions	137	137	190	212
Other Non-Financial Liabilities	240	262	317	355
Total Non-Financial Liabilities	443	399	507	568
Total Liabilities	478657	535918	594978	666376
EQUITY				
Share Capital	2633	2633	2633	2633
Other Equity	66150	75005	86531	99698
Total Equity	68783	77638	89164	102331
Total Equity and Liabilities	547440	613555	684142	768707

Source: RBL Research

Key Parameters - Standalone

Particulars, INR Cr	FY24	FY25	FY26E	FY27E
Loan Book O/S	509371	566883	632440	708333
<i>Growth YoY</i>	<i>17.1%</i>	<i>11.3%</i>	<i>11.6%</i>	<i>12.0%</i>
Disbursement	161462	191185	214127.2	239822.464
<i>Growth YoY</i>	<i>66.7%</i>	<i>18.4%</i>	<i>12.0%</i>	<i>12.0%</i>
Net worth	68783	77638	89164	102331
<i>Growth YoY</i>	<i>19.25%</i>	<i>12.87%</i>	<i>14.85%</i>	<i>14.77%</i>
Net Interest Income	16461	20935	23527	26917
<i>Growth YoY</i>	<i>9.0%</i>	<i>27.2%</i>	<i>12.4%</i>	<i>14.4%</i>

Source: RBL Research

Valuation - Standalone

Particulars	FY24	FY25	FY26E	FY27E
BVPS (Rs.)	261	295	339	389
EPS (Rs.)	53.2	59.7	67.3	76.9
P/E (x)	7.1	6.4	5.6	4.9
P/B (x)	1.45	1.29	1.12	0.98
P/Adj. BV (x)	1.45	1.29	1.12	0.98

Source: RBL Research

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Ratings Methodology

Ratings	Upside
Buy	More than 15%
Accumulate	5% - 15%
Hold	0% - 5%
Sell	Below 0%

Note: RBL Investment ratings (All ratings based on absolute return; All ratings and target price refers to 12 month performance horizon, unless mentioned otherwise).

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S No.	Statement	Answer	
		Tick Appropriate	
		Yes	No
1.	I/we or any of my/our relative has any financial interest in the subject company? (If answer is yes, nature of interest is given below this table)		No
2.	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of the research report or date of the public appearance?		No
3.	I/we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of the public appearance?		
4.	I/we have received any compensation from the subject company in the past twelve months?		No
5.	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
6.	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
7.	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
8.	I/we have served as an officer, director or employee of the subject company?		No
9.	I/we have been engaged in market making activity for the subject company?		No

2014 is/are as under:

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Nature of Interest [If answer to f (a) above conflicts is Yes

Name(s) with Signature(s) of RA(s).

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to

S. No.	Name of RA	Signature of RA	Serial Question of question which the signing RA needs to make a separate declaration	Answer	Answer

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