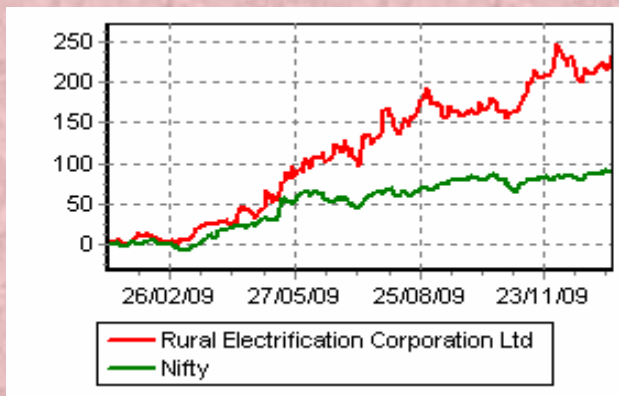
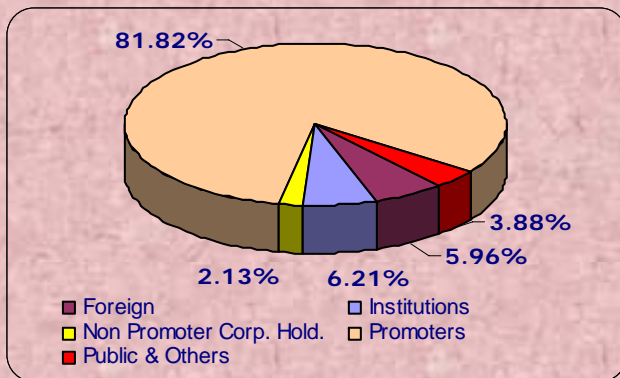


CMP (11/01/10)	252.90
52 WEEK H/L	266/72
MKT CAP (Cr)	21681
CURRENT P/E	12.96
CURRENT EPS (Rs)	19.48
EQUITY	858.66
BV(Rs)	83.34
Div.Yield (%)	1.78

Share Holding Pattern

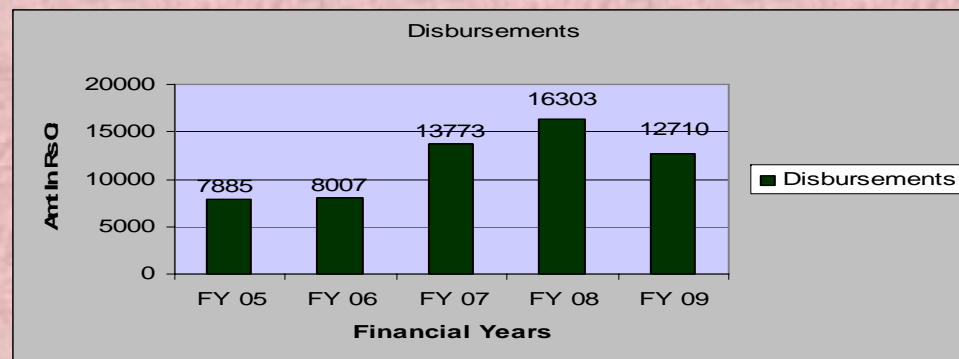


Rural Electrification Corporation

Company Overview:-A public sector company set up in 1969 and has been accorded with a Navratna status in 2008. Already listed on the indices it is going for an FPO (Follow Up On Public Offer) which shall be of 17.13 crore shares of Rs 10 each comprising about 20% of the existing paid up capital of the company from where it expects to mop up at least Rs 4500 Cr. The FPO is likely to open up between Jan 21 and Jan 27, 2010

Government’s role:-With the government’s ambitious plans for rural electrification in the 11th 5 year plan, the company stands to benefit in the times to come. In fact the Union Power Minister has categorically stated that the company shall playing the pivotal role in this arena. The Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) was introduced in March 2005 with an objective to electrify one lakh un-electrified and to provide free electricity connections to 2.34 cr rural BPL households. Subsidy to the tune of 10% shall be provided through the company though loans on soft terms

Activities:-Till 2002, the company was only engaged in financing small power generation projects upto 25 MW capacity. The borrowers include both state as well as private sector power utilities. Till date it has sanctioned projects amounting to about Rs 80,000 Cr. It has now ventured into financing of transmission and distribution networks and has tied up with some renowned international agencies for this purpose



Source: Power Ministry

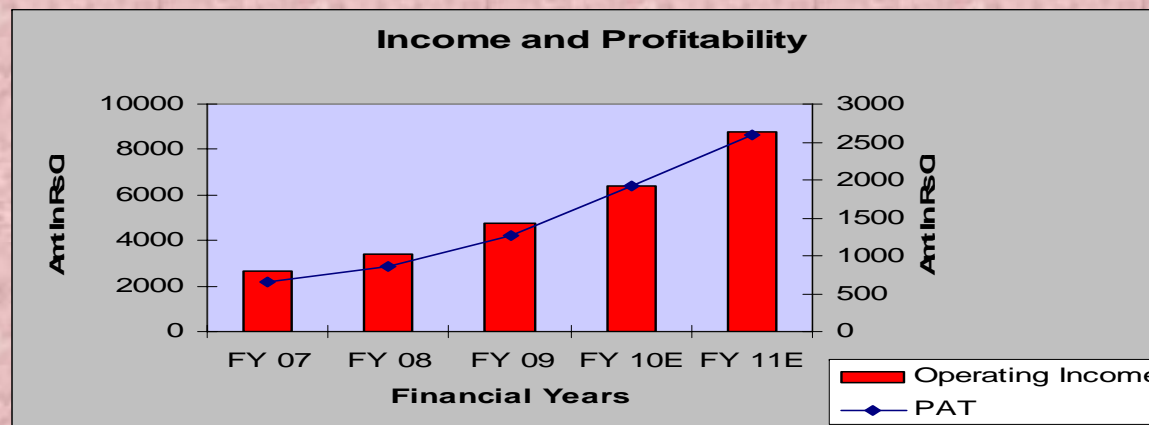
Rationale for Investment

Fundamentally sound:-The company is well managed and fundamentally sound clocking good operating income in the form of interest earned on its loan portfolio as well as profit figures for the last 10 financial years

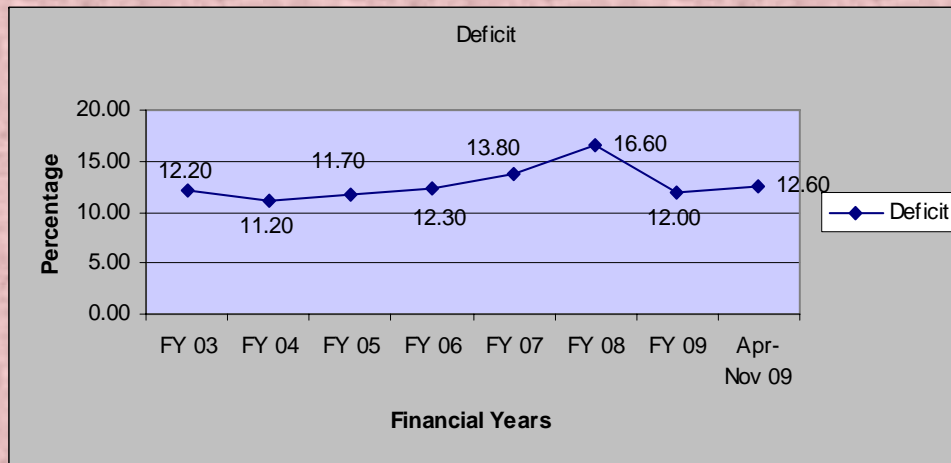
Good returns to investors:-It has always rewarded its investors by paying dividend every Financial Year. It has already announced an interim dividend of Rs 3 per share for the FY 09-10.

Favourable ratio:-Its Loan Turnover Ratio is kept at an average of 10% throughout the last 4 financial years.(The lower this ratio is maintained, the more faster the loan repayment matures thereby allowing the management access to funds to provide for sufficient liquidity and funding of new loans and investments). The company has reported a steady rise in Net interest margins on a quarter to quarter basis also.

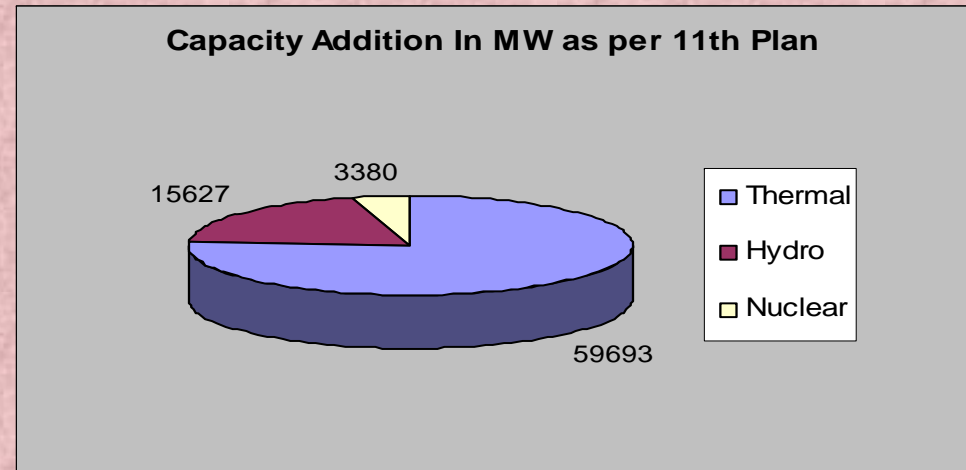
Disinvestment process:-With the upcoming FPO later this month, the stock is expected to start making smart moves from the month of Feb 10.Given the good financial track record of the company, the investors shall stand to benefit by investing in the stock



Growth Potential of the Power Sector as a whole:- The demand supply gap is still wide as depicted in the left graph below and the government has laid down ambitious plans to reduce this by investing in projects both in the rural as urban areas. It plans to bring the deficit down to about 5% by the end of 2011-12.



Source: Power ministry



Source: Power ministry

Earnings Forecast

Rs In Cr

Particulars	FY 08-09	FY 09-10E	FY 10-11E
Income from Operations	4757	6400	8800
Operating Income	4644	6100	8300
Gross profit	1921	2560	3500
Net Profit	1272	1920	2600
EPS	14	19	25

Source:GSL Research

The Operating income in the form of interest earned on its loan has shown a CAGR of 28% over the last 3 Financial Years. The net profit margins are expected to remain intact for the current as well as the next financial year. Given the central government's ambitious projects going ahead, we strongly believe that the actual results shall come close to our line of expectations



Valuations and Target

At the current market price of Rs 253, the stock is trading at a PE multiple of 13.31x FY 09-10E and 10.12x FY 10-11E earnings going forward. The sector shall remain in demand as it is closely linked to the economic and social development of the country as a whole. We anticipate a PE ratio of at least 15x in the coming fiscal given the current industry trends and the corresponding PE ratio of its peer and therefore fix a price target of **Rs 290**. We recommend a **BUY**

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