

# Power Finance Corporation

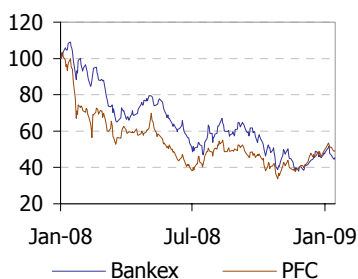
Relative to sector: **Neutral**

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## Relative Performance



Source: Bloomberg, ENAM Research

## Stock data

No. of shares : 1,148mn  
Market cap : Rs 150bn  
52 week high/low : Rs 258/ Rs 86  
Avg. daily vol. (1mth) : 983,000 shares  
Bloomberg code : POWF IB  
Reuters code : PWFC.BO

## Shareholding (%) Dec-08 QoQ chg

Promoters	: 89.8	0.0
FIIIs	: 4.2	(0.2)
MFs / UTI	: 2.3	0.5
Banks / FIs	: 0.8	0.0
Others	: 2.9	(0.3)

## IN LINE WITH EXPECTATIONS

PFC's 21% NII growth to Rs 5.6 bn was primarily led by a 28% increase in loan book. Disbursement growth has slowed, declining sequentially by 16%. Also on YoY basis a 35% growth is lower than 52% YoY jump reported in Q2. Forex loss of Rs 570 mn and a decline in non-interest income led to a subdued PAT growth of 6% YoY. Higher funding costs led to a decline in interest spread at 1.97%, both YoY and sequentially. Asset quality has been maintained with gross and net NPAs at 0.02% and 0.01%, respectively.

## Q3FY09 highlights

- Following RBI approval an outstanding loan amount of Rs 2.74 bn has been allowed to be classified as a standard asset (treated as standard asset in earlier periods also). Consequently, Rs 100 mn provision made during H1 has been reversed in Q3.
- Total overseas borrowings stood at Rs 25.2 bn (USD 523 mn). USD denominated loans account for 85% of the total forex loans.
- Forex borrowings of USD 248 mn (47% of total) are un-hedged. Since, ~85% relates to long-term borrowings, which are to be repaid by the year 2020, the company is unlikely to hedge these in the future, causing volatility in earnings.
- Asset liability mismatch is minimal with average asset duration of 5.4 years and liability duration of 4.5 years.
- ~80% of the loan book is at fixed rate of which 60% has 3 year reset. On the other hand 90% of the liabilities are fixed rate. However, these also include medium term borrowings of 1.5-3 year tenure. The current ALM is expected to add positively to interest spread.

## Valuation

PFC continued to maintain its growth momentum and profitability levels capitalizing on the growth of the power sector in the country. Incremental cost of funding to be lower which will support margins. Healthy asset quality along with a strong capital base to support the company's growth in the near future. Valuations at 1.3x FY10E BV and 10x FY10E earnings are attractive. Maintain our sector **Neutral** rating on the stock.

## Financial Summary

Y/E Mar	PAT (Rs. m)	FDEPS (Rs. m)	EPS chg (%)	P/E (x)	BV (Rs.)	Adj. BV (Rs.)	P/BV (x)	P/Adj. BV (x)	RoE (%)	RoA (%)	Net NPA (%)
2007	8,846	9	-	14	75	75	1.7	1.8	12.7	2.3	0.1
2008	12,068	10	11	12	81	81	1.6	1.6	13.4	2.4	0.0
2009E	13,062	11	9	11	89	89	1.5	1.5	13.4	2.2	0.0
2010E	14,928	13	14	10	98	98	1.3	1.3	13.9	2.1	0.0

Source: Company, ENAM estimates.

**Results update**

(Rs mn)	Quarter ended					12 months ended		
	Dec-08	Dec-07	% Chg	Sep-08	% Chg	Mar-09E	Mar-08	% Chg
Interest Income	16,810	12,636	33	15,426	9	63,068	48,332	30
Interest Expended	11,200	8,004	40	10,014	12	41,760	30,795	36
<b>Net Interest Income</b>	<b>5,610</b>	<b>4,632</b>	<b>21</b>	<b>5,412</b>	<b>4</b>	<b>21,309</b>	<b>17,536</b>	<b>22</b>
Non-Interest Income	110	120	(8)	240	(54)	1,189	2,069	(43)
Forex gain/loss	(570)	30	-	(800)	-	(1,813)	(201)	-
<b>Net Income</b>	<b>5,150</b>	<b>4,782</b>	<b>8</b>	<b>4,852</b>	<b>6</b>	<b>20,685</b>	<b>19,404</b>	<b>7</b>
Operating Expenses	230	220	5	231	(0)	1,504	1,683	(11)
<b>Operating profit</b>	<b>4,920</b>	<b>4,562</b>	<b>8</b>	<b>4,621</b>	<b>6</b>	<b>19,180</b>	<b>17,721</b>	<b>8</b>
Provision & Contingencies	(90)	(140)	-	50	-	62	(157)	-
<b>PBT</b>	<b>5,010</b>	<b>4,702</b>	<b>7</b>	<b>4,571</b>	<b>10</b>	<b>19,118</b>	<b>17,877</b>	<b>7</b>
Tax	1,610	1,500	7	1,278	26	6,056	5,809	4
<b>Net Profit</b>	<b>3,400</b>	<b>3,202</b>	<b>6</b>	<b>3,293</b>	<b>3</b>	<b>13,062</b>	<b>12,068</b>	<b>8</b>
No. of shares (mn)	1,148	1,148	-	1,148	-	1,148	1,148	-
Rep. EPS - non-annualized (Rs.)	3.0	2.8	6	2.9	3	11.4	10.5	8
<b>Yields &amp; Margins (%)</b>								
Yield on advances	11.2	10.2	1.03	10.8	0.41	11.0	10.0	1.0
Cost of funds	9.3	8.2	1.08	8.7	0.53	8.9	8.0	0.9
Net Interest Spread	2.0	2.0	(0.05)	2.1	(0.12)	2.0	2.0	0.1
Net interest margin	3.75	3.74	0.01	3.80	(0.05)	3.6	3.6	0.1
<b>Asset quality</b>								
Gross NPAs (%)	0.02	0.03	-	0.02	-	0.04	0.03	-
Net NPAs (%)	0.01	0.02	-	0.01	-	0.02	0.01	-
<b>Capital (%)</b>								
CAR	16.2	19.1	(2.9)	16.9	(0.65)	15.9	17.2	(1.3)
<b>Balance sheet (Rs. bn)</b>								
Loan book	604	471	28	579	4	616	516	20
Disbursements	43	32	35	51	(16)	203	162	25
Sanctions	138	85	63	140	(1)	-	-	-

Source: Company

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