

RESULT UPDATE

LARGE CAP

Share Data

Reuters code	PFC.BO
Bloomberg code	POWF IN
Market cap. (US\$ mn)	5,546
6M avg. daily turnover (US\$ mn)	5.0
Issued shares (mn)	1,148
Target price (Rs)	263

Performance (%)	1M	3M	12M
Absolute	(2)	4	150
Relative	1	(3)	30

Valuation ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	19.5	22.1
+/- (%)	13.5	13.4
ABV (Rs)	111.3	131.3
+/- (%)	18.5	17.9
PER (x)	11.7	10.3
PABV (x)	2.0	1.7
Dividend/Yield (%)	1.9	2.0

Major shareholders (%)

Promoters	90
FII's	4
MF's	2
BFSI's	1
Public & Others	3

Financial highlights

(R mn)	2QFY09	2QFY10	YoY (%)	1HFY09	1HFY10	YoY (%)	FY09	FY10E	YoY (%)	FY11E	YoY (%)
Interest Earned	15,426	19,350	25.4	29,476	37,930	28.7	64,781	81,809	26.3	100,017	22.3
Interest Expended	10,014	12,150	21.3	18,924	23,730	25.4	42,182	52,575	24.6	65,114	23.8
Net Interest Income	5,412	7,200	33.0	10,552	14,200	34.6	22,599	29,234	29.4	34,903	19.4
Other Income	240	810	237.5	320	870	171.9	1,055	1,648	56.2	1,959	18.9
Total Income	15,666	20,160	28.7	29,796	38,800	30.2	65,836	83,457	26.8	101,976	22.2
Total Net Income	5,652	8,010	41.7	10,872	15,070	38.6	23,653	30,882	30.6	36,862	19.4
Staff Expenses	108	147	36.2	108	268	147.9	424	501	18.3	592	18.2
Other operating expenses	123	93	(24.0)	293	152	(48.1)	1,035	1,028	(0.6)	1,026	(0.2)
Operating Profit	5,421	7,769	43.3	10,471	14,650	39.9	22,195	29,353	32.2	35,245	20.1
Provision & Contingencies	50	(10)	NA	110	(10)	NA	(39)	136	NA	186	37.2
Provision for tax	1,278	1,266	(1.0)	2,728	3,221	18.1	205	7,366	3,491.6	9,204	24.9
Net Profit	4,093	6,514	59.1	7,633	11,438	49.8	22,030	21,851	(0.8)	25,854	18.3
Extraordinary forex gain/loss	(800)	(130)	NA	(1,376)	501	NA	(2,330)	500	NA	(500)	NA
Reported profit	3,293	6,384	93.8	6,257	11,939	90.8	19,700	22,351	13.5	25,354	13.4

Power Finance Corporation

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Price: Rs 227

BSE Index: 16,353

27 October 2009

2QFY10 Result – Strong core income, disbursements to pick-up in 2HFY10

- **PFC reported a 94% YoY growth in net profit to Rs 6.4 bn; however, excluding the extraordinary translation loss on forex liabilities, the net profit grew by 59.1% YoY to Rs 6.5 bn.**
- **In 2QFY10, PFC maintained its business momentum with loan book growth of 18.6% YoY to Rs 686.6 bn. Sanctions growth was steady at 16.5% YoY to Rs 162 bn; however, disbursements declined by 11.3% YoY to Rs 45 bn.**
- **NII grew by 33% YoY, supported by consistent higher interest spreads at 2.46%. Spreads were a tad lower than 1QFY10 due to 19 bps QoQ increase in cost of funds to 8.83%, while yields remained flat at 11.3%. NIMs stood at 4.2%.**
- **Other income was higher by 237.5% YoY at Rs 810 mn due to interest on income tax refund (Rs 320 mn), fee income of Rs 150 mn booked on awarding Tilaya UMPP and Rs 200 mn on R-APDRP fees.**
- **PFC maintains a healthy capital adequacy ratio at 17.76% (entirely Tier-I) with equity leverage of ~6.3x.**

Outlook

PFC continues to enjoy strong growth visibility with significant build-up in sanctions pipeline at Rs 1.4 bn. We expect PFC to continue to deliver on growth and profitability as it is one of the major beneficiaries of the 11th Five Year Plan. We expect PFC's loan book to post a CAGR of ~22% over FY09-11E, with disbursements growing at ~12%. PFC's AAA rated status has helped it to source funds at competitive rates, which has helped it to maintain high margins. We expect PFC's margins at ~4.1% for FY10 and have built-in 10-15 bps decline in margins for FY11E. We are revising our earnings' estimates upwards by 8.3% and 11.8% for FY10E and FY11E, respectively. We maintain Buy with a revised target price of Rs 263.

Key highlights

- **Strong growth visibility, disbursement to pick up in 2HFY10:** PFC maintained stable business momentum, whereby the loan book grew by 18.6% YoY to Rs 686.6 bn. For 2QFY10, the sanctions showed steady growth of 16.5% YoY to Rs 162 bn, however, the disbursements growth contracted by 11.3% to Rs 45 bn. PFC has built a strong sanctions' pipeline (over Rs 1.4 trn) over the past two years, which provides strong visibility on its growth. We believe the disbursement growth to pick up in 2HFY10 with management indicating bidding process to start for three of the large UMPP projects in coming months. We expect its loan book to grow at about ~22% YoY over FY09-11E, with disbursements growing at ~12% CAGR.

Sanctions and disbursements

(Rs mn)	2QFY10	2QFY09	YoY (%)	1HFY10	1HFY09	YoY (%)
Sanctions	161,670	138,740	16.5	348,280	289,840	20.2
Disbursements	45,170	50,900	(11.3)	88,620	98,230	(9.8)

- **Lower funding cost helps margins expansion:** In 2QFY10, PFC improved its spreads by 37 bps YoY to 2.46%. Likewise, NIMs improved by 40 bps YoY to 4.2% in 2QFY10. However, on sequential basis the spreads have come down 20 bps and NIMs has declined by 6 bps as PFC passed on the benefits of lower costs to its clients. We expect PFC's margins at ~4.1% for FY10 and have built-in 10-15 bps decline in margins for FY11E. Re-pricing of advances has helped maintain its yield on advances to 11.29% in 2QFY10.
- **Impressive fee income:** Other income grew by 237.5% YoY to Rs 810 mn. Surge in other income was mainly driven by fee income booked on Tilaiya project (Rs 150 mn), interest on IT refund (Rs 320 mn) and fee-income from R-ADPRP sanctions to tune of Rs 200 mn. Though such high non-interest income is non-recurring in nature, but fee-income from R-ADPRP and other commissioning income on UMPP projects will continue to support PFC's other income.

Other key highlights

- In 2QFY10, PFC incurred an extraordinary translation loss of Rs 130 mn on its unhedged forex liabilities, the translation losses were booked at ~US\$ 48.5.
- Asset quality continues to remain one of PFC's strong points with the gross NPA ratio of 0.02%.
- As of 2QFY10-end, PFC maintained healthy capital adequacy ratio at 17.5%, implying a leverage of 6.28x.
- PFC looking to start two subsidiaries companies in April 2010 one focused on consortium lending and second on renewable energy lending.
- PFC will be starting new product-line by which they will be investing in equity of the power projects at construction (start-up) phase, thereby intending to earn higher spreads.

Income Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Interest income	49,316	64,781	81,809	100,017
Other operating Income	1,286	1,055	1,648	1,959
Total Income	50,603	65,836	83,457	101,976
<i>Growth (%)</i>	32.3	30.1	26.8	22.2
Interest and other charges	31,707	42,182	52,575	65,114
Staff expenses	498	424	501	592
Other expenses	371	995	1,164	1,212
Total operating & other expenses	32,575	43,601	54,240	66,918
<i>Growth (%)</i>	34.8	33.8	24.4	23.4
Profit before tax & extraordinary items	18,027	22,235	29,218	35,058
<i>Growth (%)</i>	27.9	23.3	31.4	20.0
Tax (current + deferred) tax rate (%)	5,809	205	7,366	9,204
Net profit after tax & before extraordinary Items	12,218	22,030	21,851	25,854
<i>Growth (%)</i>	38.1	80.3	(0.8)	18.3
Extraordinary Items net of taxes	(150)	(2,330)	500	(500)
Reported net profit	12,068	19,700	22,351	25,354
<i>Growth (%)</i>	22.4	63.2	13.5	13.4

Balance Sheet

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Loans & Advances	515,683	644,290	775,409	941,334
Investments	656	359	412	474
Current Assets, Loans & advances	29,896	36,686	41,453	46,982
Fixed assets (Net block)	770	752	546	405
Total assets	547,005	682,086	817,820	989,195
Loans	406,478	521,602	640,296	783,533
Current Liabilities & provisions	24,158	35,762	31,791	35,860
Deferred Tax Liability & int subsidy	23,070	9,644	10,344	11,103
Total liabilities	453,706	567,008	682,431	830,495
Share capital	11,478	11,478	11,478	11,478
Reserves & surplus	81,821	103,601	123,912	147,223
Networth	93,299	115,078	135,389	158,701
Total equity & liabilities	547,005	682,086	817,820	989,195

Key Ratios

Yr end 31 Mar	FY08	FY09	FY10E	FY11E
Operational & financial ratios (Rs)				
EPS	10.5	17.2	19.5	22.1
Book Value	75.7	94.0	111.4	131.4
Adjusted Book Value	75.7	94.0	111.3	131.3
DPS	3.5	4.0	4.2	4.5
Profitability ratios (%)				
Yield on advances	10.0	10.9	11.3	11.4
Cost of Funds	8.0	8.6	8.7	8.8
Spread	2.0	2.3	2.6	2.6
NIM	3.6	3.9	4.1	4.0
Performance ratios (%)				
RoAA	2.4	3.2	3.0	2.8
RoAE	13.4	18.9	17.8	17.2
Core RoAA	2.4	3.6	2.9	2.9
Core RoAE	13.6	21.1	17.4	17.6
Asset quality ratios (%)				
Net NPLs/Net worth	0.1	0.1	0.1	0.1
Capitalisation ratios (%)				
Equity/Total assets	17.1	16.9	16.6	16.0
Loans/Assets	94.3	94.5	94.8	95.2
Efficiency ratios (%)				
Cost/Income	9.5	10.7	9.1	8.1
Cost/Assets	0.4	0.4	0.4	0.3
Productivity ratios (Rs mn)				
Staff cost per employee	1.6	1.4	1.5	1.8
Assets per employee	1,764.5	2,200.3	2,478.2	2,997.6
Optg revenue per employee	63.7	80.5	97.8	116.3
Optg expense per employee	6.1	8.6	8.9	9.5
Adjusted net profit per employee	38.8	63.5	67.7	76.8
Valuation ratios (x)				
PER	21.7	13.2	11.7	10.3
Price/ Book value	3.0	2.4	2.0	1.7
Price/Adjusted book	3.0	2.4	2.0	1.7
Yield (%)	1.5	1.8	1.9	2.0

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