

October 22, 2008

NA

Price	Target Price
Rs112	NA
Sensex	10,683

Price Performance

(%)	1M	3M	6M	12M
Absolute	(16)	(12)	(30)	(45)
Rel. to Sensex	16	17	14	(6)

Source: Capitaline

Stock Details

Sector	Banks
Reuters	PWFC.BO
Bloomberg	POWF@IN
Equity Capital (Rs mn)	11,478
Face Value	10
No of shares o/s (mn)	1148
52 Week H/L	297/97
Market Cap	Rs125bn/US\$2.6bn
Daily Avg Volume (No of shares)	1.2mn
Daily Avg Turnover (US\$)	3.1 mn

Shareholding Pattern (%)

	S'08	J'08	M'07
Promoters	89.8	89.8	89.8
FII/NRI	4.5	4.2	5.6
Institutions	2.6	2.3	1.7
Private Corp	0.9	1.3	0.9
Public	2.3	2.4	2.1

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Power Finance Corporation

Result
Update

Powered performance continues

Power Finance Corporation's (PFC) adjusted net profit of Rs3.9bn (up 30.2% yoy) for Q2FY09 was in line with our expectations. The growth was driven by a 21.3% yoy growth in NII (in line with our expectations) to Rs5.4bn and higher other income. The growth in NII was outcome of 24% growth in loan assets and stable NIMs of 3.6%.

The liability profile improved further as proportion of bonds as percentage of total borrowings improved to 71.1% compared with 55% last year. The sanctions for the quarter declined by 25.4% yoy. However, the disbursements have grown by 52.4% yoy. The asset quality remained robust with no slippages.

At the current valuations, the stock is quoting at 6.8x FY10E EPS and 1.1x FY10E ABV. Although we do not have rating on the stock we remain positive on the same.

NII growth led by robust asset growth and stable NIMs

PFC's NII grew by 21.3% yoy for Q2FY09 to Rs5.4bn in line with our expectations. The growth was led by 24.3% growth in advances and stable NIMs.

Yield analysis

%	Q2FY09	Q2FY08	Q1FY09	Change in bps	
				yoy	qoq
Yield on total assets #	10.3	9.6	9.9	73	39
Cost of borrowings #	9.0	8.3	8.5	65	49
Cost of funds #	6.7	6.0	6.3	69	40
Spread #	2.0	2.1	2.1	-10	-10
NIM #	3.6	3.6	3.6	4	-1
Spreads (reported)	2.1	2.0	2.2	10	-10
NIM (reported)	3.8	3.8	3.8	-	-

Source: Company, Emkay Research

Note: # Calculated on basis of average quarterly balances

Stable NIMs supported by higher yields

The stable NIMs were supported by a 73bps expansion in the yield on advances as the bank has upped its lending rate by 100bps over last six months. The higher yields would also have been supported by upward revision of lending rates on older loans.

... As also by improving liability profile

The increase in the cost of borrowings was limited to 69bps yoy despite a sharp rise in the systemic interest rates driven by improving liability profile. During the quarter, PFC significantly improved the proportion of own bonds as they constituted 71% of the total borrowings.

Liability profile

As %of total borrowing	Q2FY09	Q2FY08	Q1FY09	Change in bps	
				yoy	qoq
Short Term Loans	3.7	8.1	9.2	-443	-551
Term Loans	25.2	36.9	28.8	-1,167	-356
Bonds	71.1	55.0	62.0	1,610	907
Total	100.0	100.0	100.0		

Source: Company, Emkay Research

Advances growth across all segments

Strong traction was witnessed across all segments viz., generation, transmission and distribution.

Advances mix – usage wise

Rs mn	Q2FY09	Q2FY08	Q1FY09	% yoy chg	% qoq chg	% of total
Generation	451,620	360,630	422,720	25.2	6.8	78.1
Transmission	63,740	54,510	61,620	16.9	3.4	11.0
Distribution	33,740	25,310	33,000	33.3	2.2	5.8
Others	29,030	24,520	28,950	18.4	0.3	5.0
Total	578,130	464,970	546,290	24.3	5.8	100.0

Source: Company, Emkay Research

Advances mix – borrower wise

Rs mn	Q2FY09	Q2FY08	Q1FY09	% yoy chg	% qoq chg	% of total
Central	73,320	62,460	69,520	17.4	5.5	12.7
State	435,210	355,940	411,430	22.3	5.8	75.3
Private	40,410	37,060	39,420	9.0	2.5	7.0
Joint	29,180	9,510	25,920	206.8	12.6	5.0
Total	578,120	464,970	546,290	24.3	5.8	100.0

Source: Company, Emkay Research

Disbursement grows strong, but new sanctions show steep decline

During the quarter the disbursement have grown by a strong 52.4% yoy to Rs50.9bn. However, the total sanctions have declined by 25.5% yoy. We do not see this as a cause of concern as it could be due to lumpiness in the business. However, we need more clarity on the same from management.

Disbursement mix

Rs mn	Q2FY09	Q2FY08	Q1FY09	% yoy chg	% qoq chg	% of total
Generation	37,760	22,712	32,680	66.3	15.5	74.2
Transmission	3,600	4,342	3,680	-17.1	-2.2	7.1
Distribution	1,640	668	1,580	145.5	3.8	3.2
Others	7,890	5,678	9,410	39.0	-16.2	15.5
Total	50,890	33,400	47,350	52.4	7.5	100.0

Source: Company, Emkay Research

Sanction mix

Rs mn	Q2FY09	Q2FY08	Q1FY09	% yoy chg	% qoq chg	% of total
Generation	105,340	218,120	123,100	-51.7	-14.4	75.4
Transmission	20,920	4,362	12,720	379.6	64.5	15.0
Distribution	4,530	10,906	8,100	-58.5	-44.1	3.2
Others	9,000	15,268	9,080	-41.1	-0.9	6.4
Total	139,790	187,583	153,000	-25.5	-8.6	100.0

Source: Company, Emkay Research

Robust asset quality

The asset quality remained robust with GNPA remaining stable at Rs130mn and net NPAs at Rs70mn. As percentage of advances, the gross and net NPAs remained flat at 0.02% and 0.01% respectively.

Leverage remains comfortable

The leverage remained comfortable at 6.1x for the quarter. The total capital adequacy ratio remained comfortable at 16.4%. We expect the capital adequacy to remain comfortable for the company till end of FY10.

Valuation and view

At the current valuations, the stock is quoting at 6.8x FY10E EPS and 1.1x FY10E ABV. Although we do not have rating on the stock we remain positive on the same.

Quarterly results

Rs mn	H1FY09	H1FY08	% yoy chg	Q2FY09	Q2FY08	Q1FY09	% yoy chg	% qoq chg
Net interest income	10,560	8,620	22.5	5,420	4,470	5,140	21.3	5.4
Other Income	320	250	28.2	240	118	80	103.7	200.0
Total Income	10,880	8,870	22.7	5,660	4,588	5,220	23.4	8.4
Total Expenditure	405	273	48.2	231	157	174	47.2	33.2
Pre provision profit	10,475	8,597	21.9	5,429	4,431	5,046	22.5	7.6
Provisions	110	40	175.0	50	0	60	NA	-16.7
Profit before tax and exceptional items	10,365	8,557	21.1	5,379	4,431	4,986	21.4	7.9
Exceptional items	-1,376	180	NA	-800	-230	-576	NA	NA
Profit before tax	8,989	8,737	2.9	4,579	4,201	4,410	9.0	3.8
Total tax	2,727	2,828	-3.6	1,280	1,379	1,447	-7.1	-11.6
Reported Profit After Tax	6,262	5,909	6.0	3,299	2,822	2,963	16.9	11.3
Adjusted profit after tax	7,225	5,784	24.9	3,875	2,977	3,350	30.2	15.7

Valuation table

Y/E March 31	Net income (Rs mn)	Net profit (Rs mn)	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	P/ABV (x)	PE (x)
FY2007	37,770	9,152	8.0	74.9	2.3	11.8	1.5	14.0
FY2008	49,316	12,294	10.7	81.3	2.5	13.7	1.4	10.5
FY2009E	72,868	14,720	12.8	89.4	2.5	15.0	1.3	8.7
FY2010E	92,816	18,846	16.4	100.6	2.5	17.3	1.1	6.8

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