

RESULT UPDATE

LARGE CAP

Share Data

Reuters code	PFC.BO
Bloomberg code	POWF IN
Market cap. (US\$ mn)	9,716
6M avg. daily turnover (US\$ mn)	3.9
Issued shares (mn)	1,148
Target price (Rs)	416

Performance (%)	1M	3M	12M
Absolute	3	16	70
Relative	0	1	33

Valuation Ratios

Yr to 31 Mar	FY11E	FY12E
EPS (Rs)	24.5	30.0
+/- (%)	19.4	22.4
ABV (Rs)	130.0	156.9
+/- (%)	20.1	20.7
PER (x)	15.0	12.3
PABV (x)	2.8	2.3
Dividend/Yield (%)	1.4	1.6

Major shareholders (%)

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

Financial highlights

(Rs mn)	2QFY10	2QFY11	YoY (%)	FY10	FY11E	YoY (%)	FY12E	YoY (%)
Interest Earned	19,350	24,470	26.5	78,523	100,711	28.3	127,714	26.8
Interest Expended	12,150	15,510	27.7	49,180	65,323	32.8	84,173	28.9
Net Interest Income	7,200	8,960	24.4	29,343	35,388	20.6	43,542	23.0
Other Income	810	380	(53.1)	2,246	3,822	70.1	4,294	12.4
Total Income	20,160	24,850	23.3	80,769	104,532	29.4	132,009	26.3
Total Net Income	8,010	9,340	16.6	31,589	39,210	24.1	47,836	22.0
Staff Expenses	147	210	42.3	676	742	9.6	881	18.8
Other operating expenses	93	160	71.6	796	882	10.8	936	6.1
Operating Profit/Profit before tax	7,769	8,970	15.5	30,117	37,586	24.8	46,020	22.4
Provisions and contingencies	(10)	2	(118.0)	(17)	9	(152.4)	12	39.9
Provision for tax	1,266	2,620	107.0	6,562	9,434	43.8	11,552	22.4
Adjusted Profit	6,514	6,348	(2.5)	23,573	28,143	19.4	34,456	22.4
Extraordinary items	(130)	660	(607.7)	-	-	NA	-	NA
Reported Profit	6,384	7,008	9.8	23,573	28,143	19.4	34,456	22.4

Power Finance Corporation

Maintain **BUY**

Price: Rs 368

BSE Index: 20,876

10 November 2010

2QFY11 Result – Strong growth across all segments

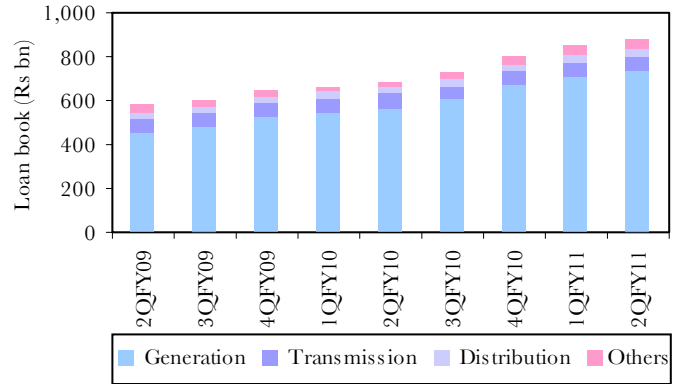
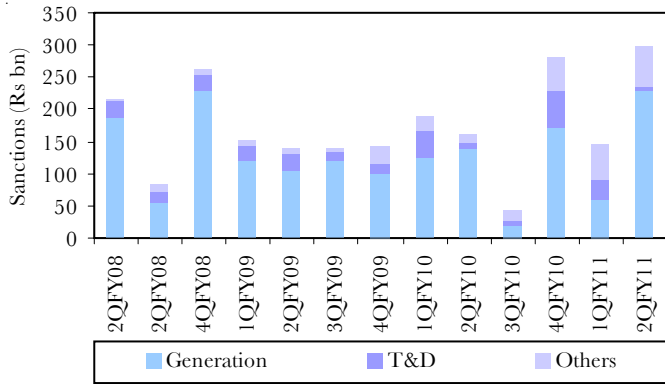
- Power Finance Corporation (PFC) delivered a net profit growth of 9.8% YoY to Rs 7.0 bn, marginally below estimates, due to lower other income and higher tax provisions. NII grew by 24.4% YoY to Rs 9.0 bn.
- Robust disbursements growth of 40.4% YoY to Rs 63.4 bn was mainly driven by T&D segment and disbursements in the R-APDRP (Part B) scheme. State sector accounted for 77.1% of disbursements while private sector accounted for 10.8% of disbursements during the quarter.
- Sanctions increased by 83.7% to Rs 296.9 bn driven by higher sanctions in the generation and R-APDRP segments, taking the total outstanding sanctions to Rs 1.64 trn.
- Spreads improved by 24 bps YoY to 2.7% mainly driven by lower cost of funds at 8.45% in 2QFY11 against 8.83% in 2QFY10. Sequentially, spreads saw a dip of 5 bps due to upfront fees paid for capital raised during the quarter.

Outlook

PFC is well-set to deliver strong disbursements growth of 25%+ over FY11-12E on the back of a robust sanctions pipeline of Rs 1.6 trn. Private sector is expected to be the key growth driver. IFC status will help expand resource base and improve the borrowing profile (ECB, infra bonds, etc.). Moreover with 73% of the loan assets with a 3 year reset clause, we expect spreads to sustain at 2.5%+. With CAR at 17.4% (mandatory CAR of 15% for IFCs), PFC is likely to raise equity capital by 4QFY11, though room for raising tier II capital remains. Other income is likely to remain strong as nodal agency fees for R-APDRP and UMPP accrue. Furthermore, PFC is likely to set up a consortium lending subsidiary, which is expected to generate fee income (fee income of ~Rs 400 mn in FY11E). We maintain Buy with a revised target price of Rs 416 (2.6x FY12E ABV).

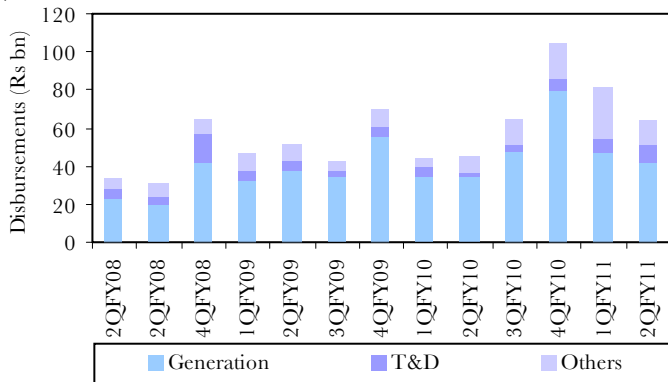
Key highlights

Strong business momentum continues...

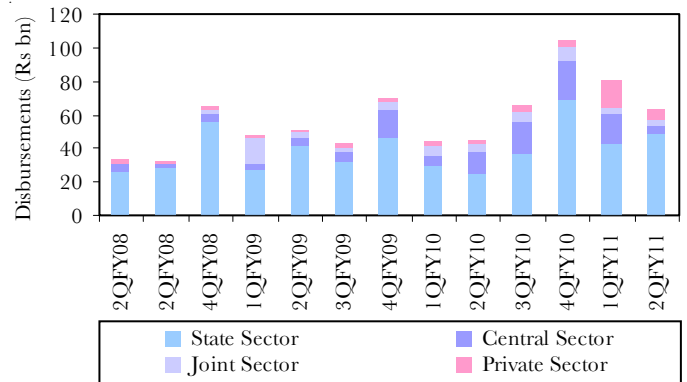


Source: Company, B&K Research

Strong disbursements growth driven by T&D and R-APRDP segment

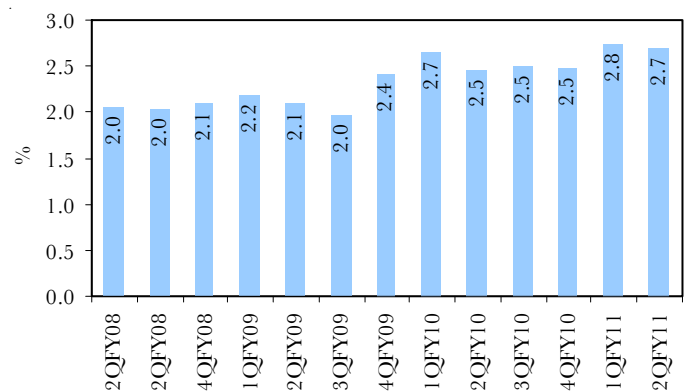
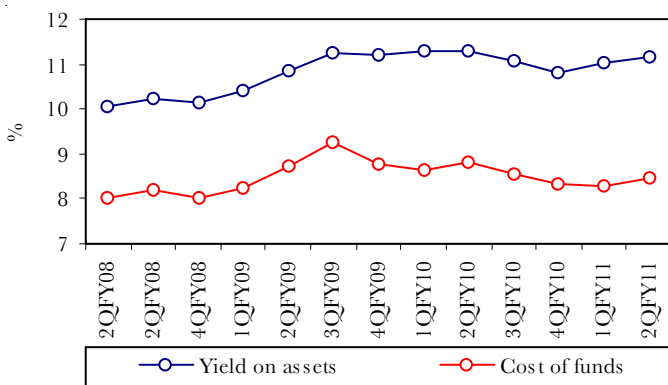


Private sector share increasing



Source: Company, B&K Research

Spreads improve with decline in cost of funds



Source: Company, B&K Research

Income Statement

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Interest income	63,388	78,523	100,711	127,714
Interest expense	40,893	49,180	65,323	84,173
Net Interest Income	22,495	29,343	35,388	43,542
<i>Growth (%)</i>	<i>32.2</i>	<i>30.4</i>	<i>20.6</i>	<i>23.0</i>
Other Income	2,448	2,246	3,822	4,294
Total net income	24,943	31,589	39,210	47,836
<i>Growth (%)</i>	<i>26.3</i>	<i>26.6</i>	<i>24.1</i>	<i>22.0</i>
Staff expenses	424	676	742	881
Other expenses	4,575	796	882	936
Operating Profit	19,944	30,117	37,586	46,020
<i>Growth (%)</i>	<i>11.6</i>	<i>51.0</i>	<i>24.8</i>	<i>22.4</i>
Provisions and contingencies	39	(17)	9	12
Prior period adjustment	0	1	0	0
Profit before tax & extraordinary items	19,905	30,135	37,577	46,008
<i>Growth (%)</i>	<i>10.4</i>	<i>51.4</i>	<i>24.7</i>	<i>22.4</i>
Tax (current+deferred)	205	6,562	9,434	11,552
Tax rate (%)	1.0	21.8	25.1	25.1
Net profit after tax & before extraordinary Items	19,700	23,573	28,143	34,456
<i>Growth (%)</i>	<i>61.2</i>	<i>19.7</i>	<i>19.4</i>	<i>22.4</i>
Reported net profit	19,700	23,573	28,143	34,456
<i>Growth (%)</i>	<i>63.2</i>	<i>19.7</i>	<i>19.4</i>	<i>22.4</i>

Balance Sheet

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Loans & Advances	644,290	798,558	1,003,064	1,257,368
Investments	359	314	361	416
Current Assets, Loans and advances	36,692	48,155	50,589	53,524
Fixed assets (Net block)	752	745	797	837
Total assets	682,092	847,772	1,054,811	1,312,145
Loans	530,691	677,719	860,964	1,081,554
Current Liabilities & prov.	35,768	36,975	35,365	40,732
Deferred Tax Liability & int subsidy	555	470	446	424
Total liabilities	567,013	715,164	896,774	1,122,710
Share capital	11,478	11,478	11,478	11,478
Reserves & surplus	103,601	121,130	146,559	177,957
Networth	115,078	132,608	158,036	189,435
Total equity & liabilities	682,092	847,772	1,054,811	1,312,145

Key Ratios

Yr end 31 Mar	FY09	FY10	FY11E	FY12E
Operational & financial ratios (Rs)				
EPS	17.2	20.5	24.5	30.0
Book Value	94.0	108.2	130.0	157.0
Adjusted Book Value	94.0	108.2	130.0	156.9
DPS	4.0	4.5	5.0	6.0
Profitability ratios (%)				
Yield on advances	10.9	10.9	11.2	11.3
Cost of Funds	8.6	8.1	8.5	8.7
Spread	2.3	2.7	2.7	2.6
NIM	3.9	4.1	3.9	3.9
Performance ratios (%)				
RoAA	3.2	3.1	3.0	2.9
RoAE	18.9	19.0	19.4	19.8
Core RoAA	3.2	3.1	3.0	2.9
Core RoAE	18.9	19.0	19.4	19.8
Asset quality ratios (%)				
Gross NPLs	0.0	0.0	0.0	0.0
Net NPLs	0.0	0.0	0.0	0.0
Net NPLs/Net worth	0.1	0.0	0.0	0.0
Capitalisation ratios (%)				
Equity/Total assets	16.9	15.6	15.0	14.4
Loans/Assets	94.5	94.2	95.1	95.8
Efficiency ratios (%)				
Cost/Income	20.0	4.7	4.1	3.8
Cost/Assets	0.8	0.2	0.2	0.2
Productivity ratios (Rs mn)				
Staff cost per employee	1.4	2.0	2.2	2.5
Assets per employee	2,200	2,569	3,196	3,749
Optg revenue per employee	80	96	119	137
Optg expense per employee	16.1	4.5	4.9	5.2
Adjusted net profit per employee	64	71	85	98
Valuation ratios (x)				
PER	21.4	17.9	15.0	12.3
Price/ Book value	3.9	3.4	2.8	2.3
Price/Adjusted book	3.9	3.4	2.8	2.3
Yield (%)	1.1	1.2	1.4	1.6

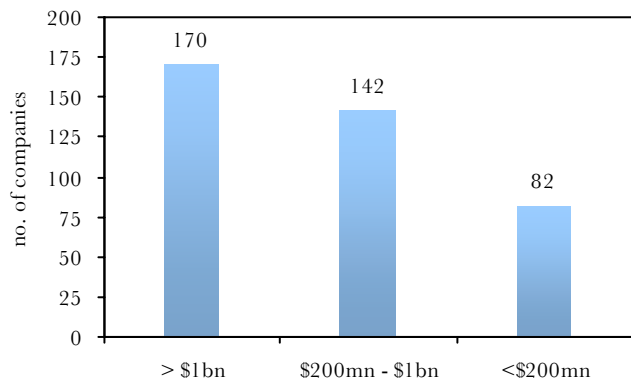
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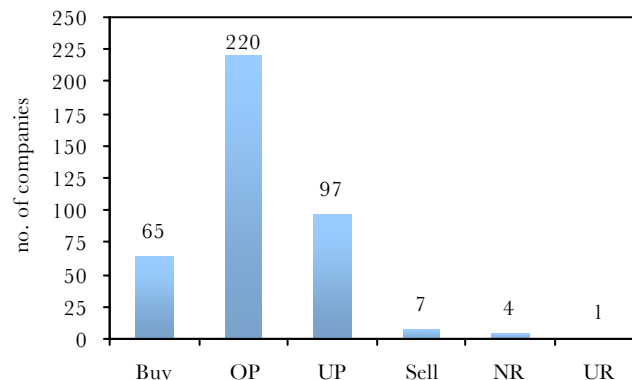
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B&K Universe Profile

By Market Cap (US\$ mn)



By Recommendation



B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.

B&K Investment Ratings:

1. **BUY:** Potential upside of > +25% (absolute returns)
2. **OUTPERFORMER:** 0 to +25%
3. **UNDERPERFORMER:** 0 to -25%
4. **SELL:** Potential downside of < -25% (absolute returns)

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