

26<sup>th</sup> July, 2010

Key Data	INR
CMP	316
Target Price	369
Bloomberg Code	POWF IN
Reuters Code	PWFC.BO
BSE Code	532810
NSE Code	PFC
Face Value (INR)	10
Market Cap (INR Bn)	363
52 Week High (INR)	337
52 Week Low (INR)	200
Avg. Daily Volume (6m)	518431
<b>F &amp; O</b>	
Market Lot	1000
Turnover (INR Mn)	300

Shareholding	%
Promoters	89.8
Mutual Funds / Bank/ FI	2.3
Foreign Institutional Investors	3.8
Insurance Companies	0.8
Bodies corporate/Individuals/others	3.4
Total	100.0

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## Power Finance Corporation Ltd

Power Finance Corporation (PFC) has declared results for 1QFY11.

### KEY HIGHLIGHTS:

- PFC's disbursements grew by 87% YoY to INR81.3 billion. A large part of disbursement was made to the generation sector. Also the private sector exposure has gone up from 4% in June 2009 to 21% in June 2010. The company has set a disbursement target of INR295 billion for FY11.
- During 1QFY11, PFC's net interest income rose by 23% and net profit by 18% to reach INR8.6 billion and INR6.5 billion, respectively. Its loan assets increased 29% to INR856 billion and net non-performing assets (NPAs) remained constant at 0.01%.
- During the 1QFY11, NIMs increased to 4.09% versus 3.93% in 4QFY10. The yields improved from 10.81% in 4QFY10 to 11.03% in 1QFY11 mainly due to higher lending to the private sector. Further the cost of borrowings declined marginally from 8.32% in 4QFY10 to 8.28% in 1QFY11.
- PFC has approached RBI for infrastructure finance company status. Management, therefore, indicated that it will tap capital markets in the next 12-18 months to meet CAR requirement of 15% under IFC status.

### Valuation and Recommendation

PFC has reported strong performance in 1QFY11 driven by robust growth in loan book and margin expansion. Going forward, considering the sanctions outstanding we expect PFC to register strong growth in disbursements. We expect a 26% CAGR in PFC's loan book from INR798 billion in FY10 to INR1267 billion in FY12.

We expect PFC's NIM to decline moderately, but it should be able to maintain its target spreads of more than 2%. Further we also expect the fee income to register strong growth as terms of payment of fee under ADPDRP scheme has been finalized and PFC will also be awarding three UMPPS which would further add to fee income. We expect PFC's net profit to record a 23% CAGR from INR21 billion in FY10 to INR32 billion in FY12.

We maintain our "BUY" recommendation on Power Finance Corporation (PFC) and revised our target price to INR369. (2.4x PBV of INR153.9 for FY12E).

### **Robust disbursement growth**

PFC's disbursements grew by 87% YoY to INR81.3 billion. A large part of disbursement was made to the generation sector. Also the private sector exposure has gone up from 4% in June 2009 to 21% in June 2010. The company has set a disbursement target of INR295 billion for FY11.

Outstanding sanctions as on June 2010 was at INR1418.7 billion. Of these ~48% is towards those where projects where documents have been executed and disbursements have commenced and 20% are towards those projects where documents have been executed but disbursements are pending. This is an indication that the disbursement out of the outstanding sanctions would happen at much faster pace than in previous years.

We expect a 26% CAGR in PFC's loan book from INR798 billion in FY10 to INR1267 billion in FY12.

### **Operating Performance**

On the back of strong disbursements, PFC's net interest income grew by 23% YoY to INR7.6 billion. The net profits registered growth of 18% YoY to INR6.5 billion during 1QFY11. However there were extraordinary items reported during the quarter excluding which the net profits registered a growth of 23% to INR6.3 billion.

### **Net Interest Margins**

During the 1QFY11, NIMs increased to 4.09% versus 3.93% in 4QFY10. The yields improved from 10.81% in 4QFY10 to 11.03% in 1QFY11 mainly due to higher lending to the private sector. Further the cost of borrowings declined marginally from 8.32% in 4QFY10 to 8.28% in 1QFY11.

### **Asset quality remains strong**

PFC's asset quality remains robust with net NPAs at 0.01%. NPA's have been at the same levels as last year.

### **Capital adequacy**

Against the minimum Capital Adequacy Ratio (CAR) of 10%, PFC has maintained a CAR of 17.38% as on June 2010. PFC has decided to approach RBI to enable it to be classified as infrastructure financing company. Management has indicated that it will tap capital markets in the next 12- 18 months to meet CAR requirement of 15% under IFC status.

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Interim Results (INR Mn)	1QFY11	1QFY10	% Chng	4QFY10	% Chng
Interest Income	23120	18580		20830	
Interest expended	14540	11580		13260	
<b>Net Interest Income</b>	<b>8580</b>	<b>7000</b>	22.6	<b>7570</b>	13.3
Other Income	650	60		-110	
Operating Income	9230	7060		7460	
Operating Expenses	10	180		400	
Provisions	0	0.5		-10	
Profit Before Tax & Extra-ordinary Items	9220	6880		7070	
Extra-ordinary Items	620	-630		-290	
Tax Provisions	2100	1980		1390	
Provision for DTL	-30	-20		-30	
<b>Net Profit</b>	<b>6530</b>	<b>5550</b>	17.7	<b>6000</b>	8.8
Equity Share capital	1147.8	1147.8		1147.8	
EPS	56.9	48.4		52.3	
<b>Source: Company</b>					

Earnings Summary				INR Mn
Particulars	FY09	FY10	FY11E	FY12E
Interest Income	64046.2	78600.0	100433.8	128865.0
Interest expended	40892.8	49370.0	67167.5	88153.8
<b>Net Interest Income</b>	<b>23153.4</b>	<b>29230.0</b>	<b>33266.3</b>	<b>40711.2</b>
Other Income	1789.2	1941.0	2870.5	3379.9
Operating Income	24942.6	31171.0	36136.8	44091.1
Operating Expenses	5001.5	1068.3	1748.9	2437.9
Pre Provisioning Profits	19941.1	30102.7	34387.9	41653.2
Provisions & contingencies	36.6	-20.0	34.4	41.7
Prior period items	0.2	0.0	0.0	0.0
Profit before Taxes	19904.7	30122.7	34353.5	41611.6
Provisions for taxes	205.1	6560.0	7901.3	9570.7
Profit after Taxes	19699.6	23562.7	26452.2	32040.9
Extraordinary Items	-3522.4	-2420.0	0.0	0.0
<b>Net Profit (including extraordinary items)</b>	<b>16177.2</b>	<b>21142.7</b>	<b>26452.2</b>	<b>32040.9</b>
<i>Source: Company, ACMIIL research</i>				

Sources and Application of Funds				INR Mn
Particulars	FY09	FY10E	FY11E	FY12E
<b>Liabilities</b>				
Capital	11477.7	11477.7	11477.7	11477.7
Reserves & Surplus	103697.8	121508.9	141102.8	165186.1
Networth	115175.5	132986.6	152580.5	176663.8
Borrowings	521601.5	671086.5	864241.0	1095880.5
Deferred Tax Liability	554.8	469.3	469.3	469.3
Interest Subsidy from GOI	9089.4	6634.9	6634.9	6634.9
<b>Total</b>	<b>646421.2</b>	<b>811177.3</b>	<b>1023925.7</b>	<b>1279648.5</b>
<b>Assets</b>				
Fixed assets	751.8	745.7	915.5	1060.0
Investments	350.8	310.0	310.0	310.0
Loans	644289.9	798560.0	1011605.0	1267259.1
Net Current Assets	1028.3	11561.6	11095.2	11019.4
Misc Expenditure	0.4	0.0	0.0	0.0
<b>Total</b>	<b>646421.2</b>	<b>811177.3</b>	<b>1023925.7</b>	<b>1279648.5</b>
<i>Source: Company, ACMIIL research</i>				

Key Ratios	FY09	FY10E	FY11E	FY12E
<b>Spreads</b>				
Cost of Borrowings	8.6%	8.2%	8.7%	8.9%
Yield on Advances	11.0%	10.9%	11.1%	11.3%
Net Interest Income	2.4%	2.7%	2.4%	2.4%
Net interest margins	4.0%	4.1%	3.7%	3.6%
<b>Profitability ratios</b>				
Return On Average Assets (ROAA)	2.8%	2.9%	2.9%	2.8%
Return On Average Net worth (ROANW)	15.5%	17.0%	18.5%	19.5%
<b>Balance sheet ratios</b>				
Loan to borrowings ratio (%)	123.5	119.0	117.1	115.6
Debt/Equity Ratio (Times)	4.5	5.0	5.7	6.2
<b>Growth Ratios</b>				
Borrowings	28.3%	28.7%	28.8%	26.8%
Loans	24.9%	23.9%	26.7%	25.3%
NII Growth	33.1%	26.2%	13.8%	22.4%
Book value	23.4%	15.5%	14.7%	15.8%
EPS	21.9%	30.7%	25.1%	21.1%
<b>Valuation ratios</b>				
EPS (INR.)	14.1	18.4	23.0	27.9
Book value (INR.)	100.3	115.9	132.9	153.9
P/E (X)	-	-	16.0	13.2
P/BV (X)	-	-	2.8	2.4
<b>Source: Company, ACMIIL research</b>				

## Notes

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