

April 17, 2008

Rating	Market Performer
Price	Rs154
Target Price	Rs190
Implied Upside	23.2%
Sensex	16,481

(Prices as on April 17, 2008)

#### Trading Data

Market Cap. (Rs bn)	177.0
Shares o/s (m)	1147.8
Free Float	10.2%
Avg. Daily Vol ('000)	1,599.1
Avg. Daily Value (Rs m)	279.5

#### Major Shareholders

Government	89.8%
Foreign	5.5%
Domestic Inst.	1.7%
Public & Others	3.0%

#### Stock Performance

(%)	1M	6M	12M
Absolute	9.4	(30.0)	39.9
Relative	(1.9)	(18.0)	18.8

Price Performance (RIC: PWFC.BO, BB: POWF IN)



Source: Bloomberg

## Power Finance Corporation

### Results in line

- **Muted growth in NII:** Power Finance Corporation (PFC) reported muted NII growth of 5% YoY at Rs4.86bn. However, if we adjust for the Rs390m interest subsidy received in Q4FY07, then NII growth during this quarter is a much respectable 15% or so. Spreads improved by 16 bps YoY and 7bps QoQ to 2.09%,
- **Non-interest income growth remains healthy:** Non-interest income (includes consultancy income, lease income and other income) grew by 78% to Rs320m. It includes income received on transfer of the Krishnapattam Ultra Mega Power Project in Andhra Pradesh to Reliance Power.
- **Net profit growth subdued:** PAT for Q4FY08 declined by 20% YoY; however, after adjusting for forex losses and other one-time expense, PAT growth has improved to 20%. Profit for FY08 has however increased by 23% YoY to Rs12.09bn from Rs9.8bn.
- **Stable business growth:** Developments in the power sector led to 123% YoY growth in approvals for FY08 to Rs695bn. However, disbursements during the same period have only increased by 15% to Rs162bn. The loan book witnessed 17% YoY growth to Rs516bn. Going forward, disbursements are likely to pick-up as there is a significant time-lag between sanctioning and disbursement of funds for power projects.
- **Valuation:** At a CMP of Rs154, the stock trades at 1.7x FY09E and 1.5x FY10E book value. We downgrade the stock to a Market Performer rating, with a revised price target of Rs190.

Key financials (Rs m)	FY07	FY08	FY09E	FY10E
Net interest income	14,150	18,110	21,285	24,800
Growth (%)	22.5	28.0	18.0	16.5
Operating profit	13,962	18,010	21,237	24,615
PAT	9,833	12,097	14,292	16,548
EPS (Rs)	8.6	10.5	12.5	14.4
Growth (%)	(9.6)	23.0	18.2	15.8
Net DPS (Rs)	3.5	3.5	3.5	3.5

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08	FY09E	FY10E
NIM (%)	3.7	3.7	3.6	3.5
RoE (%)	13.0	13.3	13.7	13.8
RoAA (%)	2.5	2.5	2.4	2.3
P / BV (x)	2.4	1.9	1.7	1.5
PE (x)	18.0	14.6	12.4	10.7
Net dividend yield (%)	2.3	2.3	2.3	2.3

Source: Company Data; PL Research

Abhijit Majumder  
AbhijitMajumder@PLIndia.com  
+91-22-6632 2236

Bharat Gorasiya  
BharatGorasiya@PLIndia.com  
+91-22-6632 2242



## Forex losses/gains

During the quarter, losses on account of forex amounted to Rs384m as compared to a gain of Rs552m in Q4FY07, which was due to additional income generated through exchange risk management account. The company holds US\$500m (6% of borrowing) of forex loans, of which roughly 20-25% is unhedged, contributing to the fluctuations in the income statement.

## Higher operating cost due to higher employee provision

Operating costs doubled to Rs360m as the company provided for increase in employee expenses to the tune of Rs251m in Q4FY08 as compared to Rs77m in Q4FY07 and Rs118m in Q3FY08 to meet the Sixth Pay Commission recommendations going forward.

### Q4FY08 result overview

*(Rs m)*

Y/e March	Q4FY08	Q4FY07	YoY gr. (%)	Q3FY08	FY07	FY08	YoY gr. (%)
Interest income	13,130	11,004	19.3	12,640	37,170	48,890	31.5
Interest expense	8,280	6,374	29.9	8,000	23,020	30,780	33.7
<b>Net interest income</b>	<b>4,860</b>	<b>4,630</b>	<b>5.0</b>	<b>4,640</b>	<b>14,150</b>	<b>18,110</b>	<b>28.0</b>
Other income	320	180	77.8	120	360	700	94.4
Operating cost	360	180	100.0	220	530	850	60.4
Provisions	-	(100)	NA	(140)	(50)	(100)	NA
<b>PBT &amp; extra-ordinary items</b>	<b>4,820</b>	<b>4,730</b>	<b>1.9</b>	<b>4,680</b>	<b>14,030</b>	<b>18,060</b>	<b>28.7</b>
Extra-ordinary item	380	(1,050)	NA	(30)	(1,090)	170	NA
Tax (current)	1,286	1,445	(11.0)	1,221	3,534	4,823	36.0
Tax (deferred)	176	620	(72.0)	281	1,720	970	(44.0)
<b>PAT</b>	<b>2,978</b>	<b>3,725</b>	<b>(20.0)</b>	<b>3,208</b>	<b>9,866</b>	<b>12,097</b>	<b>23.0</b>
<b>PAT (including deferred tax liability)</b>	<b>3,154</b>	<b>4,345</b>	<b>(27.0)</b>	<b>3,489</b>	<b>11,586</b>	<b>13,067</b>	<b>13.0</b>





Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India.

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

#### PL's Recommendation Nomenclature

<b>BUY</b>	: > 15% Outperformance to BSE Sensex	<b>Outperformer (OP)</b>	: 5 to 15% Outperformance to Sensex
<b>Market Performer (MP)</b>	: -5 to 5% of Sensex Movement	<b>Underperformer (UP)</b>	: -5 to -15% of Underperformance to Sensex
<b>Sell</b>	: <-15% Relative to Sensex		
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt. Ltd. Mumbai, India (PL) and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.