



## Power Finance Corporation

## ACCUMULATE

CMP: Rs. 280

Target price: Rs. 333

Industry: Finance-NBFC

Stock Info	
Market Capital	Rs.32138 cr
Equity Capital	Rs. 1147.8 cr
Avg Trading Vol.	428608 (Qtly)
52 WK High/Low	296/180
Face Value	Rs. 10

BSE Group	A
BSE Code	532810
NSE Symbol	PFC
Bloomberg	PFC IN
Reuters	PFC.BO
BSE Sensex	16022
NSE Nifty	4807

Shareholding Pattern (As on 31 <sup>st</sup> March, 2010)	
Government	89.8%
Domestic Institutions	3.2%
Foreign	3.9%
Corporate	1.6%
Public & Others	1.6%

FY10 bottomline of Power Finance Corporation (PFC) was nearly 6% better than our estimation due the better than expected savings in cost of deposits and tax reversal benefit. A clear growth visibility, stable asset quality and power to pass on the interest rate hike make PFC a risk free bet. On top of that impending IFC status, capital raising and new ventures will allow it to increase margins with good volume growth and considering none of these in our estimates we expect the net profits to grow at a CAGR of 15% over the next two years and the RoE to stabilise to 20% levels. **We remain positive on the Co and give it a target price of Rs 333 over next 12 months.** At this price the stock would be at 2.6x its FY11E BV and 14.3x its FY11EPS.

## Result Highlights

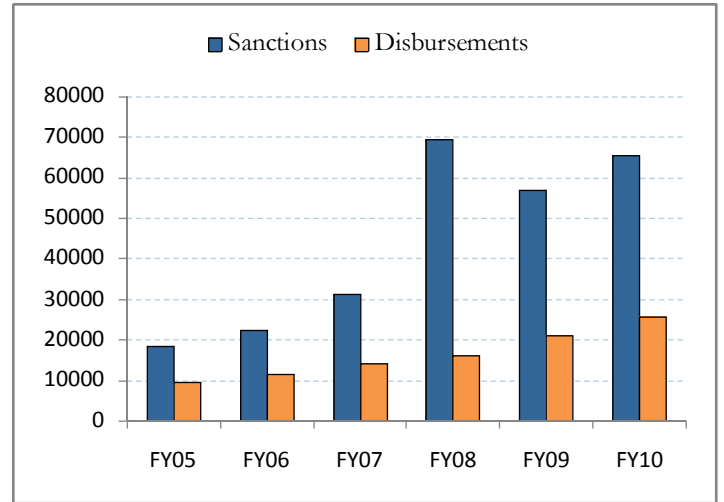
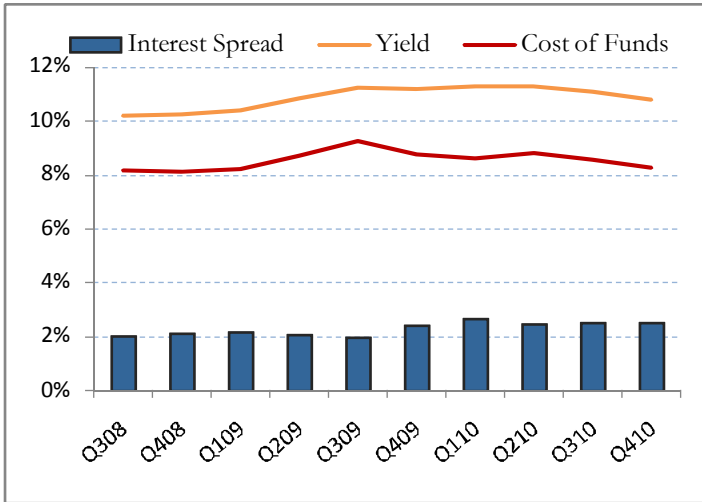
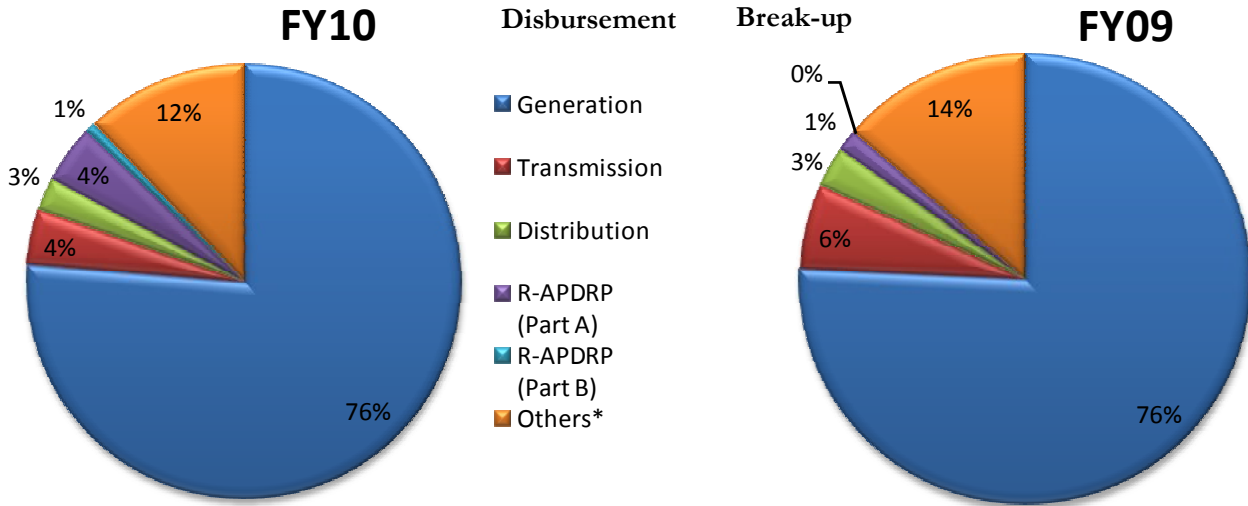
- Normalised Profit Up by 26% in Q410 and 32% in FY10** –PFC reported net profit of Rs 598 cr in the fourth quarter and Rs 2355 cr for FY10. After normalising one-off transactions in last year as well as current year, the de-growth of 40% in Q410 improves to a growth of 26% and the annual profit of 20% converts to a profit growth of 32%. The major one off includes deferred tax write back in last year followed by income tax refund and interest thereon in the current year.
- Improved Returns and Margins** – The falling interest rates helped the Co improve its FY10 spread to 2.61%. However Q410 saw a sharp decline in yield on assets from 11.08% in Q310 to 10.8% which lowered the margins and spread for the last quarter. This we believe happened due to an accelerated growth in advances. As the interest rates are expected to rise in future we expect the spreads to decline marginally to 2.45% by FY12E due to rise in borrowing costs, though the company has little to worry as the lending rates are flexible and decided only at the time of disbursement with a 3- year reset clause.
- Accelerated Business Growth in Q410** – Last quarter saw accelerated sanctions and disbursements with growth of nearly 100% and 50% respectively. The disbursements crossed the Rs 25,000 cr mark while the outstanding sanctions stood at Rs 141800 cr which is more than 5 times the current disbursement giving the Co a good growth visibility for coming 2 to 4 years. We expect the loans to grow at a CAGR of 25% over FY10-12E. This however does not include the new avenues planned to be explored by PFC like development of coal projects, solar power etc. These initiatives can provide major upside to the business growth.
- Asset Quality Stable** –The asset quality continues to be very healthy and stable. The Gross NPA as well as net NPA remained same in absolute terms and at percentage terms. The gross NPA was 0.02% of the loan assets.
- Capital Raising and Funding** – State government guarantees reduced the risk weight and the capital adequacy of PFC at present is comfortable at > 19%. As the Co is trying to seek an Infrastructure Finance Co (IFC) status, the minimum CAR requirement will rise to 15% as against 12% now. Also with the expected loan growth of 25%, Co is planning to tap capital market in the next year to maintain its CAR. However we have not built the same into our projections till a clear picture emerges. PFC has also requested RBI to allow it to borrow USD 1bn from overseas market. The Company has estimated that it will require more than Rs 27000 cr in the FY11 to support a disbursement of Rs 29500 cr.
- Real Estate Investment** – PFC has accumulated reserves on bad and doubtful debts amounting to ~Rs 800 cr which it now plans to invest in real estate for building things like residential colony for employees, training centers etc.
- IFC Status** – The Co is keenly awaiting IFC status for itself which will allow it many benefits like increase its exposure limits, easy access to overseas as well as domestic borrowing etc.
- Improving Standards** – A very well managed Co, in contrast to the general image of a PSU, PFC has taken various initiatives to improve its standard further. This includes ISO 9000-2008 for the entire company, incentives for its employees and ongoing ERP implementation across the Co.

- **All Round Development** – A nodal agency for Govt for various power initiatives, PFC is expecting good growth in margins from new areas like –
  - Equity participation in projects through its Equity Investment Group
  - Likely nodal agency for National Electricity Fund
  - International foray (Begun in countries like Nepal and Bhutan)
  - Finance for the development of fuel supply sources like coal, oil, gas etc
  - Likely JV with NPCIL for nuclear power financing
  - Facilitation of energy efficient companies

## Financial Information

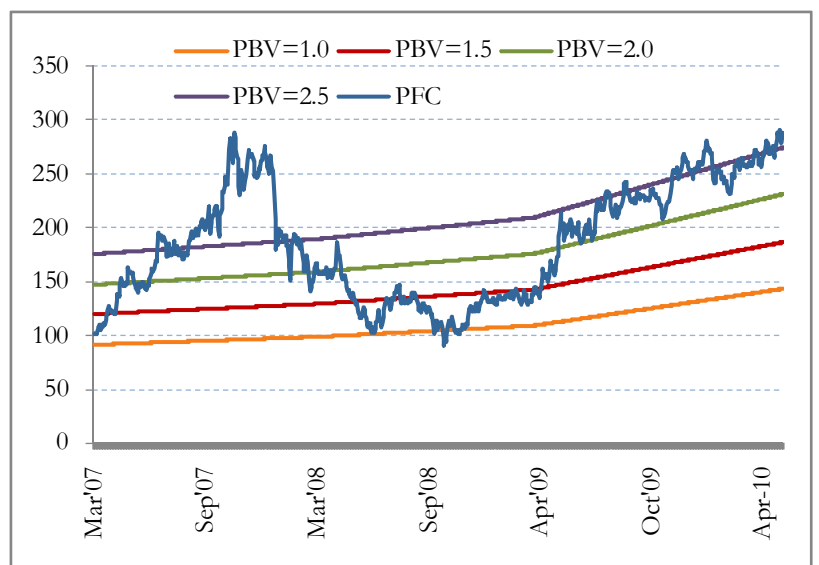
Reported Quarterly and Cumulative Results						
For the Period (Rs in Cr)	Q410	Q409	YoY	FY10	FY09	YoY
Interest Earned	2,083	1767	18%	7,860	6,396	23%
Interest Expended	1,326	1131	17%	4,937	4,145	19%
<b>NII</b>	<b>757</b>	<b>636</b>	<b>19%</b>	<b>2,923</b>	<b>2,251</b>	<b>30%</b>
Other Income	-11	24	-146%	88	67	31%
<b>Operating Income</b>	<b>746</b>	<b>660</b>	<b>13%</b>	<b>3,011</b>	<b>2,318</b>	<b>30%</b>
Operating Expenses	40	27	48%	107	91	18%
<b>Profit before Provision</b>	<b>706</b>	<b>633</b>	<b>12%</b>	<b>2,904</b>	<b>2,227</b>	<b>30%</b>
Provisions	-1	1	-200%	-2	4	-150%
<b>Profit before tax</b>	<b>707</b>	<b>632</b>	<b>12%</b>	<b>2,906</b>	<b>2,223</b>	<b>31%</b>
Extra-Ordinary Items	28.5	-40	-171%	107	-223	-148%
Tax Provision	139	-67	-307%	-664	-460	44%
DTL	-3	480	-101%	7	440	-98%
<b>Net Profit</b>	<b>599</b>	<b>1005</b>	<b>-40%</b>	<b>2,355</b>	<b>1,970</b>	<b>20%</b>
EPS (Annualised)	20.9	35.0		20.5	17.2	
<b>Comparable Profit</b>						
Reported PAT	599	1005		2355	1970	
Adjustments (post-tax) -						
Deferred Tax Write back		-593			-483	
Prior period IT	-72	-3		-176	-46	
Nodal Agency Fees Reversed	32	-13		13	-13	
Translation Gain/Loss	-21	29		-79	177	
<b>Comparable PAT</b>	<b>538</b>	<b>425</b>	<b>27%</b>	<b>2113</b>	<b>1605</b>	<b>32%</b>

Other Reported Numbers	Q4 FY10	Q4 FY09		FY10	FY09	
Sanctions (Rs. cr)	28,256	14,255	98%	65,466	57,030	15%
Disbursements (Rs. cr)	10,453	6,954	50%	25,808	21,054	23%
Yield on Assets	10.8%	11.2%		10.8%	10.9%	
Cost of Funds	8.3%	8.8%		8.1%	8.7%	
Interest Spread	2.5%	2.4%		2.6%	2.2%	
Net Interest Margin	3.9%	4.0%		4.0%	3.8%	
RoE	19.1%	39.5%		20.1%	20.2%	
RoE (before exchange gain/loss)	18.5%	40.3%		19.4%	21.8%	
Leverage	6.5	6.5		6.5	6.3	
Capital Adequacy Ratio	19.3%	17.2%		19.3%	17.2%	
EPS (before exchange gain/loss)	20.1	36.1		19.8	18.7	



**About Power Finance Corporation**

A navratna PSU, PFC began its operations in March 1988 with a mission to function as the prime development financial institution dedicated to the growth and overall development of the power sector. PFC is one of the leading power sector public financial institutions and provides fund as well as non fund based finances for entire gamut of power related activities. Apart from this it also provides technical and management advisory and consultancy services in the power sector. PFC has more than 20% share in the power financing business of the country. The borrower-portfolio of PFC comprises the State Electricity Boards, State Generation Corporations, Municipal run power utilities besides the central and private sector power utilities. It occupies a key position in government plans for the growth and development of the Indian power sector and acts as nodal agency of various policies and programmes of the Government. Its ratings are at par with Indian sovereign rating.



## Annual Standalone Financials

<b>Income Statement</b>				
Year to 31st March (Rs. Cr)	FY09	FY10P	FY11E	FY12E
Interest Income	6,451	8,002	10,040	12,633
- growth %	31	24	25	26
Interest Expended	4,165	5,059	6,622	8,596
<b>Net Interest Income</b>	<b>2287</b>	<b>2943</b>	<b>3419</b>	<b>4038</b>
- growth %	27	29	16	18
Non- interest Income	123	74	140	183
<b>Operating Income</b>	<b>2410</b>	<b>3017</b>	<b>3559</b>	<b>4220</b>
Operating Expenses	172	107	128	145
<b>Gross Profits</b>	<b>2238</b>	<b>2910</b>	<b>3431</b>	<b>4075</b>
- growth %	25	30	18	19
- margin %	33	36	33	31
Provisions	4	2	2	2
<b>Profit Before Taxes</b>	<b>2234</b>	<b>2908</b>	<b>3429</b>	<b>4073</b>
Taxes	20	657	857	1,018
<b>Profit After tax</b>	<b>2215</b>	<b>2251</b>	<b>2572</b>	<b>3055</b>
Extraordinary	(244)	104	100	50
<b>Net Profit</b>	<b>1971</b>	<b>2355</b>	<b>2672</b>	<b>3105</b>
- growth %	63	19	13	16
- margin %	29	29	26	24
EPS	<b>17.2</b>	<b>20.5</b>	<b>23.3</b>	<b>27.1</b>

<b>Statement of Affairs</b>				
As on 31st March (Rs. Cr)	FY09	FY10P	FY11E	FY12E
Capital	1,148	1,148	1,148	1,148
Reserves & Surplus	10,360	12,312	14,380	16,880
<b>Net worth</b>	<b>11,508</b>	<b>13,460</b>	<b>15,528</b>	<b>18,028</b>
- growth %	23	17	15	16
Loan Funds	52,160	67,108	84,070	1,05,634
- growth %	28	29	25	26
R-APDRP Fund from GoI			365	160
Net DTL	55	48	43	48
Interest Subsidy Fund from GOI	909	664	604	562
<b>TOTAL LIABILITIES</b>	<b>64,632</b>	<b>81,280</b>	<b>1,00,610</b>	<b>1,24,431</b>
Fixed Assets	75	74	77	81
Investments	36	31	37	41
Loans	64,429	79,856	99,438	123,178
- growth %	25	24	25	24
Net Current Assets	92	1,319	1,058	1,132
<b>TOTAL ASSETS</b>	<b>64,632</b>	<b>81,280</b>	<b>1,00,610</b>	<b>1,24,431</b>
- growth %	24	24	24	24

<b>Ratio Analysis</b>				
Year to 31st March	FY09	FY10P	FY11E	FY12E
<b>Primary Ratio (Rs.)</b>				
EPS	17.2	20.5	23.3	27.1
Book Value per share	94.0	109.9	126.8	147.4
Adjusted Book Value	94.5	109.9	126.8	147.4
Dividend per share	4.0	4.5	4.5	4.5
<b>Margin analysis (%)</b>				
Yield on Earning Assets	10.9	10.6	10.9	11.0
Cost of funds	8.4	8.5	8.6	8.9
NIM	3.9	4.1	3.8	3.6
Spread	2.1	2.6	2.6	2.5
<b>Valuation ratios (x)</b>				
P/E	16.4	13.7	12.1	10.4
P/BV	3.0	2.6	2.2	1.9
P/ABV	3.0	2.6	2.2	1.9

<b>Ratio Analysis</b>				
Year to 31st March	FY09	FY10P	FY11E	FY12E
<b>Profitability ratios (%)</b>				
RoAE	14.4	20.2	19.7	19.7
RoAA	2.5	3.4	2.9	2.8
Operating Profit Margin	33.4	36.0	33.2	31.4
Net Profit Margin	29.4	29.2	25.9	23.9
<b>Asset Quality (%)</b>				
Gross NPAs	0.03	0.02	0.02	0.02
Net NPAs	0.01	0.01	0.01	0.01
NPA Coverage	66.7	50.0	59.0	59.0
<b>Other Ratios (%)</b>				
Loan growth	24.9	23.9	24.5	23.9
Debt to Equity (x)	4.5	5.0	5.4	5.9
Leverage	6.3	6.5	7.0	7.5
Cost to Income	4.5	3.8	3.6	3.4

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**Stock Rating Scale**

	<b>Absolute Return</b>
BUY	: >20%
ACCUMULATE	: 12-20%
HOLD	: 5-12%
REDUCE	: <5%

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