NSSPL RESEARCH

Power Finance Corporation Ltd

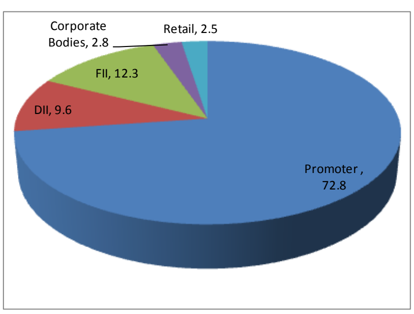
BUY

BSE Code	532810
NSE Code	PFC
Bloomberg Code	POWF:IN
Current Price	270
Target Price	330
Mcap ₹ bn	356
Mcap US$ bn	5.8
52 wk H/L	344 / 151
Face Value	10
2 wk avg vol (000)	2378

Financial Snapshot

₹ mn	FY14	FY15E	FY16E
NII	84,018	95,468	104,920
% ch	32.6	13.6	9.9
PBDT	80,330	92,969	102,014
%ch	32.7	15.7	9.7
PAT	54,178	60,058	68,671
%ch	22.6	10.9	14.3
BV	202.0	235.8	275.0
EPS	41.0	45.5	52.0
P/E	6.6	5.9	5.2
P/BV	1.34	1.15	0.98

Shareholding Pattern



Sameer Dalal
sameer@natverlal.com
91-22-42134444

Attractive valuations due to rising restructured book and OFS overhang.

PFC continues to grow its disbursements in view of achieving its target of loan disbursements for FY15E. During the quarter the loan sanctions grew by 22.7% sequentially while the disbursements grew by22%. The power sector is still facing many hurdles and in view of this the loan off take continues to remain relatively low compared to the past. The total outstanding loans grew by 3% sequentially which could see a big fillip if PFC were to achieve its target for the year. PFC reported a good growth in NII at 2.1% on the back of the growing AUM and a small increase in yields. At the profit level the company posted an increase of 9.5% sequentially due to slightly lower provisioning from the last quarter. Although we don't see a big change in provisioning and is expected to remain at higher levels in view of the RBI requirements of provisioning of 2.75% on all restructured loans by the end of the current financial year. Although we did not see any rise in the NPA's we saw the restructured book increase which although is not a major cause of concern as a large part of this is rescheduling.

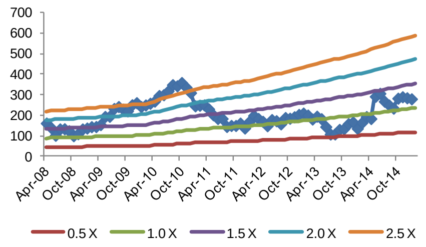
Loan book grows: PFC reported a decent growth in loan books with total disbursements at ₹101.97bn which was higher by 22% over the previous quarter. Fresh sanctions too were higher at ₹278bn up by 22.7% over the previous quarter. The government is taking many steps including auctioning the coal blocks which were cancelled by the government to ensure limited negativity. Further with expectations of some more benefits for investments in the power sector expected in the budget we believe PFC will be able to grow its loan book especially given the extremely large outstanding sanctioned loans.

Interest spreads sustain: The overall interest spreads for the company have been maintained at the same levels as the previous quarter at 3.48% with a marginal increase over the previous year by 4bps. This was even during a period when we saw a small increase in the borrowing cost to 9.03% which was up 70bps sequentially. PFC saw a increase of similar quantum in its loan funds as there was some reprising of lower interest bearing loans to the higher levels. Going forward with interest rates expected to reduce and borrowing costs expected to decline we believe they would be able to sustain their spreads going forward as well.

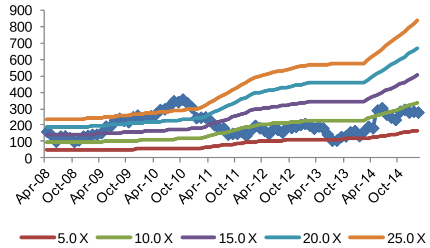
Asset quality concerns emerging: Although PFC has been able to keep its NPA's at comfortable levels of 0.96% and 0.75% at the gross and net levels there has been good quantum of restructuring of loans. Total loans restructured now are to the tune of ₹17.5bn, which is 8.6% of the outstanding loans, for which provisioning would be required. A large part of these restructured loans were done due to rescheduling of commissioning of plants and probably does not mean major problems but with the number being as large it has a negative impact on sentiment.

Provisioning to increase as they comply with RBI guidelines: RBI has now issued a guideline which will be applicable to PFC as well where they need to provide 5% towards any restructured loans. Although this will not be felt in the current financial year itself as they have been given a period of 4 years to achieve this. During FY15E however they would need to provide 2.75% against these restructured loans. This would ensure provisioning during the year remains at higher levels as seen in Q2FY15E.

Forward P/BV



Forward P/E



Overhang of government offering shares through OFS: The government of India the largest shareholder of PFC is looking to raise funds. The government has indicated they would look to raise funds through sale of shares of PFC upto 5% of its holding. Since most OFS done in the past by the government have been below market price this too could be the trend for PFC. This is acting as roof for the stock price even through valuations look attractive.

Valuations:

At the current price PFC is trading at a P/E of 5.9x and 5.2x and a P/BV of 1.15x and 0.98x its FY15E and FY16E respectively. We maintain our 1.2x P/BV multiple which we believe is justified given the growth that would continue for the next couple years. Although the rising NPA's and restructured and rescheduled loan book is a matter of concern in the large scheme of things we think they would be able to manage over the longer term. The economy is showing signs of revival and with government taking many initiatives to get the power sector going we believe a turnaround for the sector is eminent. If fuel for power is made available we believe many of the NPA issues of the power sector would be resolved. We maintain our guidance a little lower as we believe the loan book growth could be a little delayed in view concerns surrounding the power space. Further we keep valuation multiple for the stock lower than most other NBFC as there is a large restructured book. With most NBFC trading at 1.5x we believe the discount is enough and we may revise upwards our target post the OFS and the turnaround in the sector. However at present we maintain our guidance of ₹330 and retain our BUY recommendation with an upside of 22% over the next 12 months.

Financials

Profit & Loss

In Rs million	FY13	FY14	FY15E	FY16E
Interest Income	168,876	209,535	242,880	278,104
% Change	*34.0*	*24.1*	*15.9*	*14.5*
Interest Expense	*105,518*	*125,517*	*147,412*	*173,184*
% Change	*28.2*	*19.0*	*17.4*	*17.5*
Net Interest Income	*63,358*	*84,018*	*95,468*	*104,920*
% Change	*44.9*	*32.6*	*13.6*	*9.9*
Other Income	*3,849*	*5,840*	*5,559*	*5,044*
Payment to & provision	809	796	899	1,001
Bond Issue expenses	973	791	1,214	1,391
Administration expense	496	1,462	1,700	1,391
Other Charges on loans	4,393	6,479	4,245	4,168
Operating expenses	6,672	9,528	8,058	7,950
PBDT	60,536	80,330	92,969	102,014
Depreciation	57	49	54	56
Provisions and contigen	809	4,697	7,118	3,856
PBT	59,670	75,583	85,797	98,102
Total Tax	15,474	21,406	25,739	29,431
PAT	44,196	54,178	60,058	68,671
Prior period adjustment	0	0	0	0
Net Profit	*44,196*	*54,178*	*60,058*	*68,671*

Balance Sheet

In Rs million	FY13	FY14	FY15E	FY16E
Share Capital	13,200	13,200	13,200	13,200
reserves	217,782	253,454	298,068	349,751
Total Shareholders func	230,982	266,654	311,268	362,951
Total debt	1,395,827	1,592,151	1,883,805	2,178,727
Non Current Liabilities	9,218	10,949	13,407	16,803
Current Liabilities	52,578	64,796	69,034	80,924
Total Liabilities	**1,688,605**	**1,934,549**	**2,277,514**	**2,639,405**
Fixed assets	743	706	702	696
Investments	1,910	3,522	3,698	3,883
Loans	1,603,666	1,892,312	2,224,291	2,570,607
Other Non Current asse	3,761	2,097	2,306	2,537
Foreign currency losses	4,780	7,092	4,610	2,121
Cash	47,537	601	1,219	2,849
Other current assets	35,768	42,402	49,907	60,954
Total Assets	**1,698,165**	**1,948,733**	**2,286,733**	**2,643,646**

Key Ratios

	FY13	FY14	FY15E	FY16E
EPS (Rs)	33.5	41.0	45.5	52.0
CEPS (Rs)	34.5	41.5	46.3	53.0
Book value (Rs)	175.0	202.0	235.8	275.0
DPS (Rs)	7.0	9.0	10.0	11.0

Valuation Ratios

	FY13	FY14	FY15E	FY16E
PE (x)	8.1	6.6	5.9	5.2
Cash PE (x)	7.8	6.5	5.8	5.1
Price/book value (x)	1.54	1.34	1.15	0.98
Dividend yield	2.6	3.3	3.7	4.1

Disclaimer

Natverlal & Sons Stockbrokers Pvt Ltd. Fairy Manor, 13 Rustom Sidhwa Marg Fort Mumbai 400001 Tel 91-22-42134444 Email research@natverlal.com