

September 17, 2012

POWER FINANCE CORPORATION

BSE Code: 532810 NSE Code: PFC Reuters Code: PWFC.BO Bloomberg Code: POWF:IN

Power finance corporation Ltd., (PFC) was set up in 16th July 1986 as a financial Institution dedicated to power sector financing and committed to the integrated development of the power and associated sectors. PFC's product portfolio comprise of financial products and services for various power projects. It has been designated as the nodal agency by Ministry of Power (MoP), Government of India (GoI), for development of Ultra Mega Power Projects (UMPPs).

Investor's Rationale

Strong Q1FY'13 performance

PFC posted a 41.5% YoY robust rise in its Q1FY'13 net profit at ₹9.7 billion while net interest income (NII) growth was recorded at 40.8% YoY at ₹13.9 billion. PFC's outstanding loan sanctions stood at ₹1,589 billion. Further, the company's disbursement rose by 29.0% YoY to ₹78.8 billion while NIM and interest spread grew 34bps and 35bps on YoY basis. The company anticipates loan disbursements of ₹430 billion in FY'13 as against ₹410 billion in FY'12. PFC has an adequate earning profile supported by its ability to borrow funds at competitive rates and low credit and intermediation costs.

Healthy asset quality in Q1FY'13

The company's asset quality remains healthy on account of increasing weights of lower risk mortgage assets as both gross NPA have marginally come down from 1.04% in Q4FY'12 to 1.02% in Q1FY'13 primarily because of increase in the loan assets and also the net NPA declined by 2bps QoQ to 0.91% in Q1FY'13. PFC's loan assets increased by 29.0% YoY from ₹1,041 billion to currently ₹1,344 billion, without adding any NPA in Q1FY'13.

Expects spreads to improve in the coming quarter

The capital adequacy ratio of the company stood at 18.6% at the end of Q1FY'13 as against 16.3% at the end of Q4FY'12, primarily because the Reserve Bank of India (RBI) has agreed to reduce the risk weight for already commissioned projects and with satisfactory operation for one year from 100% to 50%. Going forward, PFC expects its spreads to improve further in the coming quarter, as the RBI signalled to keep the interest rates stable.

Act as a nodal agency to develop 16 UMPP

PFC is appointed as a nodal agency by the Government of India (GoI) to develop 16 Ultra Mega Power Projects (UMPP's). As on June 30, 2012, the generation, distribution, transmission and others projects constituted around 85%, 4%, 7% and 4% of PFC's loan book. Besides, PFC is also considering an offer to provide a cumulative transitional loan of over ₹170 billion to six ailing state electricity distribution utilities against specific projects.

Market Data

CMP (₹)	181.4	
Target Price	220	
Stop Loss	158	
Duration	Short-term	
52-week High-Low (₹)	223.8/131.1	
Rise from 52WL (%)	38.2	
Correction from 52WH (%)	19.2	
Beta	1.6	
1 year Average Volume (mn)	3.1	
	3M	7.8
Stock Return (%)	6M-	(2.7)
	9M-	21.2
Market Cap (₹bn)	239.4	
Enterprise Value (₹bn)	1,340.4	

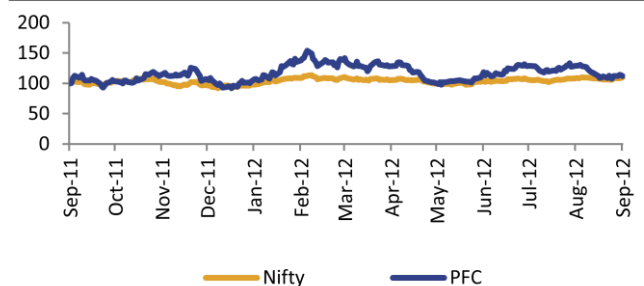
Shareholding Pattern

	Jun'12	Mar'11	Chg
Promoters (%)	73.7	73.7	-
FII (%)	9.8	9.9	(0.1)
DII (%)	9.5	8.7	0.8
Public & Others (%)	7.0	7.7	(0.7)

Quarterly Performance (Standalone)

(₹ bn)	Q4 FY'12	Q4 FY'11	Q3 FY'12	YoY Change(%)	QoQ Change(%)
Total income	39.5	29.2	36.8	34.9	7.1
Op. expense	0.3	0.3	0.4	-	(25.0)
Net profit	9.7	6.9	8.2	41.5	18.7
NII	13.9	9.9	12.3	40.8	13.4
NIM (%)	4.2	3.9	3.9	34bps	31bps
Gross NPA (%)	1.02	0.23	1.04	79bps	(2bps)
EPS(₹)	7.4	5.6	6.2	30.7	18.7

One Year Price Chart





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