

Power Finance Corporation

India | Diversified Financials | Result Update



22 May 2025

Rerating catalysts dissipate

While Power Finance Corporation (PFC IN) concluded FY25 on a steady note, Q4FY25 earnings stood mixed. Healthy 13% YoY loan growth and recoveries from KSK Mahanadi resolution of ~INR 11.9bn bolstered PAT; provisions stood elevated due to NPA recognition of Gensol Engineering with INR 2.6bn exposure and provisions of INR 9bn toward 13 DISCOMS that saw ratings downgrade. Excluding one-off recoveries, NII would have been flat, resulting in a sequential decline in PAT. Given the 10-11% YoY growth outlook, reduced spread expectations at 2.5% (vs 2.6% earlier), and slowing chunky resolutions, POWF's rerating triggers appear to be dissipating. Against this backdrop, we trim our price target to INR 508. We reiterate **Buy** on attractive valuation.

Recoveries bolster PAT; lackluster EPS CAGR likely: POWF reported a PAT of INR 51.1bn, beating estimates of INR 42.6bn, up 23.0% QoQ and 23.5% YoY, driven by a strong NII of INR 59.1bn, up 25.9% QoQ & 39.5%YoY and robust Other income of INR 12.2bn, up 92.4% QoQ and 61.8% YoY. This was largely attributable to KSK Mahanadi recoveries of INR 12bn. While yields rose 52bp on a sequential basis due to one-offs, exclusive of same, yield declined 39bp QoQ and NIM dipped 17bp QoQ to stabilize at 3.6% for the quarter. Management's expectations of 2.5% spread underpinned by repayment of 25% of high cost liabilities and 10-11% growth guidance implies a 11% EPS CAGR during FY25-28E.

Growth expectations moderate: AUM at INR 5.4tn, up 7.8% QoQ and 12.8% YoY, was healthy, driven by renewables, up 16.7% QoQ and 34.6% YoY, distribution, up 8.6% QoQ and 14% YoY, and non-power segment, up 52% YoY and 27% QoQ. While generation loans was flat both YoY and QoQ, generation disbursements was strong, up 177.4% QoQ and 147.2% YoY alongside distribution, up 64.6% QoQ & 26.1% YoY; invariably, these could be medium-term growth levers for POWF. Moreover, another INR 390bn sanctions toward the distribution segment and continued renewables traction (levers: GoI impetus, the largest financier) is likely to drive growth. The infrastructure sector is expected to grow gradually. Led by scalability constraints, growth is expected to moderate to 10-11% YoY vs 13-14% for the past three years.

Fraud account recognition, DISCOM provisions offset positives from resolutions: Asset quality improvement with GNPA declining 74bp QoQ due to resolution of KSK Mahanadi of INR 33bn exposure with recovery of full principal and ~INR 11.9bn interest, resulting in a write-back of ~INR 18.2bn. However, full provisioning toward Gensol Engineering of ~INR 2.6bn, with ~INR 0.4bn already recovered and INR 9bn provisions toward 13 downgraded DISCOM projects offset the positives from write-backs. Total stress pool stands at INR 105.2bn, comprising assets, such as TRN Energy (INR 11.4bn, 50% PCR), Shiga Energy (~INR 5.2bn, 31% PCR), Sinnar (~INR 30.0bn, 80% PCR), and India Power Corp (~INR 9.6bn, 50% PCR). We expect a NPA decline to 1.7% by FY27E and 1.5% by FY28E.

Reiterate Buy with a lower TP of INR 508: We raise our estimates by 2.9% for FY26 but trim by 1% for FY27E, which are still on the conservative side. We introduce FY28 estimates. With 10-11% YoY growth expected, POWF is set to lag 12-13% systemic growth for FY26E. Moreover, reduced spread at 2.5% from 2.6%, and slowing chunky resolutions indicate dissipating re-rating catalysts. We lower our SOTP-based TP of INR 508 from INR 569 based on 1.5x (from 1.6x) FY27E P/ABV. We reiterate **Buy** on 0.7x FY27E PABV adjusted to sub and 3% ROA and 16% RoE during FY27-28E.

Key financials

YE March	FY24	FY25	FY26E	FY27E	FY28E
NII (INR mn)	156,274	193,411	215,889	236,838	264,313
YoY (%)	8.8	23.8	11.6	9.7	11.6
PPoP (INR mn)	174,545	216,295	242,272	265,732	298,200
YoY (%)	25.8	23.9	12.0	9.7	12.2
PAT (INR mn)	143,670	173,522	179,556	195,375	218,287
YoY (%)	23.8	20.8	3.5	8.8	11.7
EPS (INR)	44	53	54	59	66
Core RoE (%)	19.5	20.4	18.0	16.5	15.7
RoA (%)	3.2	3.4	3.1	3.1	3.1
P/E (x)	9.5	7.9	7.6	7.0	6.2
P/ABV (x)	1.3	1.1	0.9	0.7	0.7

Note: Pricing as on 21 May 2025; Source: Company, Elara Securities Estimate

Rating: **Buy**

Target Price: **INR 508**

Upside: **23%**

CMP: **INR 413**

As on 21 May 2025

Key data

Bloomberg	POWF IN
Reuters Code	PWF.NS
Shares outstanding (mn)	3,300.1
Market cap (INR bn/USD mn)	1,362/15,903
EV (INR bn/USD mn)	10,732/125,311
ADTV 3M (INR mn/USD mn)	3,286/38
52 week high/low	580/357
Free float (%)	44

Note: as on 21 May 2025; Source: Bloomberg

Price chart



Source: Bloomberg

	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25
Shareholding (%)				
Promoter	56.0	56.0	56.0	56.0
% Pledge	0.0	0.0	0.0	0.0
FII	17.9	17.7	18.0	18.8
DII	17.2	17.5	17.2	16.2
Others	8.9	8.8	8.8	9.0

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	8.9	6.3	10.1
Power Finance Corporation	5.9	(9.0)	(12.0)
NSE Mid-cap	9.6	3.6	6.9
NSE Small-cap	11.9	(1.9)	3.6

Source: Bloomberg

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Financials (YE March)

Income statement (INR mn)	FY24	FY25	FY26E	FY27E	FY28E
NII	156,274	193,411	215,889	236,838	264,313
Other income	23,930	32,531	34,163	35,774	41,867
Gross Income	180,203	225,941	250,052	272,611	306,180
Operating expenses	5,658	9,646	7,780	6,879	7,980
PPOP	174,545	216,295	242,272	265,732	298,200
Provisions	(1,712)	4,571	2,320	4,640	6,490
PBT	176,257	211,724	239,952	261,092	291,710
Tax	32,587	38,202	60,396	65,717	73,423
PAT	143,670	173,522	179,556	195,375	218,287
Balance Sheet (INR bn)	FY24	FY25	FY26E	FY27E	FY28E
Capital	33,001	33,001	33,001	33,001	33,001
Reserves and Surplus	759,034	876,368	1,055,924	1,251,298	1,469,585
Net worth	792,035	909,369	1,088,925	1,284,299	1,502,586
Borrowings	4,163,936	4,755,154	4,978,475	5,681,167	6,274,419
Other liabilities	99,860	117,250	270,627	292,581	331,583
Total Liabilities	5,055,830	5,781,773	6,337,837	7,257,859	8,108,399
Fixed assets	873	974	784	878	978
Loans	4,699,284	5,328,183	5,882,505	6,656,605	7,289,492
Net Current Assets	309,567	401,617	412,269	514,067	682,017
Other assets	46,107	51,000	42,279	86,308	135,912
Total Assets	5,055,830	5,781,773	6,337,837	7,257,859	8,108,399
Per Share data & Valuation Ratios	FY24	FY25	FY26E	FY27E	FY28E
EPS- (INR)	43.5	52.6	54.4	59.2	66.1
BVS (INR)	240.0	275.6	330.0	389.2	455.3
ABVS- (INR)	229.9	270.4	324.6	384.0	411.4
ABVPS excl REC (INR)	185.9	226.4	280.7	340.1	367.4
P/E- (x)	9.5	7.9	7.6	7.0	6.2
P/ABV-(x)	1.3	1.1	0.9	0.7	0.7
Yield and Cost (%)					
Yield on advances	10.2	10.4	10.5	10.5	10.7
cost of funds	7.3	7.0	7.3	7.4	7.8
Net Interest Margin (%)	3.5	3.8	3.8	3.7	3.8
Asset Quality (%)					
Gross NPA	3.3	1.9	1.9	1.7	1.5
Net NPA	0.9	0.4	0.4	0.4	0.4
% coverage of NPA	74.4	80.1	77.9	77.9	77.9
credit cost (calc)	(0.0)	0.1	0.0	0.1	0.1
Capital Adequacy					
Tier 1	23.4	22.0	21.0	21.0	21.0
CAR	25.4	24.0	23.0	23.0	23.0
Growth Rates					
Loan growth	14.4	13.4	10.4	13.2	9.5
Earnings growth	23.8	20.8	3.5	8.8	11.7
Business Ratios					
RoAA (%)	3.2	3.4	3.1	3.1	3.1
Core RoE (%)	19.5	20.4	18.0	16.5	15.7
Leverage (x)	6.4	6.4	6.1	5.7	5.5

Note: Pricing as on 21 May 2025; Source: Company, Elara Securities Estimate

Exhibit 1: Q4FY25 earnings

INR mn	Q4FY25	Q4FY24	YoY (%) / bps	Q3FY25	QoQ (%) / bps	Comments
Interest Income	137,215	114,937	19.4	124,172	10.5	
Interest Expenses	78,109	72,564	7.6	77,231	1.1	
Net Interest Income	59,106	42,373	39.5	46,942	25.9	NII of INR 59.1bn beat estimates of INR 48.4bn, up 25.9% QoQ and 39.5% YoY
Other Income	12,222	7,554	61.8	6,353	92.4	Other Income was at INR 12.2bn up 92.4% QoQ and 61.8% YoY
Total Income	71,328	49,927	42.9	53,295	33.8	
Total Operating Expenses	5,867	3,097	89.4	1,757	233.9	
Operating Profit (PPOP)	65,460	46,830	39.8	51,538	27.0	PPoP for the quarter was INR 65.5bn, beat estimates of INR 57.2bn, reflecting a 27.3% QoQ and 39.8% YoY increase
Provisions & Write Offs	4,447	-3,370	(232.0)	745	497.1	Provisions for the quarter stood at INR 4.4bn up 497.1% QoQ, a significant spike
PBT	61,013	50,200	21.5	50,793	20.1	
Tax	9,924	8,845	12.2	9,244	7.4	
Reported Profit	51,090	41,355	23.5	41,549	23.0	PAT of INR 51bn was beat on estimates of INR 42.5bn, reflecting a 23% QoQ and 23.5% YoY growth with healthy NII growth

Balance sheet Details

Disbursement	679,670	486,070	39.8	341,510	99.0	Disbursement improved by 99% QoQ and 39.8% YoY to INR 679.7bn
Loans	5,431,200	4,814,620	12.8	5,038,230	7.8	AUM grew by 7.8% QoQ and 12.8% YoY, reaching INR 5,431bn in line with expectations

Asset Quality

Gross NPAs	105,170	160,730	(34.6)	135,010	(22.1)	Absolute quantum decline in GNPA with major resolutions underway
Gross NPA (%)	1.94%	3.34%	-140 bps	2.7%	-74 bps	GNPA at 1.9% improving by 74bp QoQ and 140bp YoY
Net NPA (%)	0.39%	0.85%	-47 bps	0.71%	-33 bps	
Credit cost	0.3%	-0.3%	63 bps	0.1%	28 bps	Credit cost increased by 28bp QoQ and 63bp YoY
Cost to income (%)	8.2%	6.2%	202 bps	3.3%	493 bps	Cost-income spiked by 493bp QoQ and 202bp YoY

Source: Company, Elara Securities Research

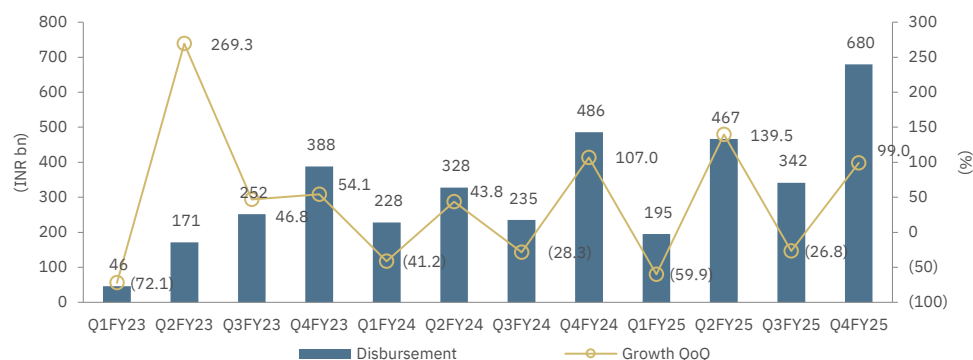
Conference call key takeaways

- ▶ Successfully resolved the KSK Mahanadi project, a 3,600-MW coal-based project. It achieved 100% principal recovery and recorded interest reversals of INR 11.9bn. Furthermore, provisioning coverage ratio (PCR) of 55% on INR 18.5bn has been reversed
- ▶ The Stage 3 book currently stands at INR 105.2bn, spread across 21 projects
- ▶ For TRN Energy (with 50% PCR) and Shiga Energy (loan exposure of INR 5.2bn, 31% PCR), resolution plans have been finalized and documentation is in progress
- ▶ Sinnar Thermal has an exposure of INR 30.0bn with resolution offers received; it has an 80% PCR. India Power Haldia has a loan of INR 9.6bn, and a resolution plan has been filed with the NCLT, with 50% PCR
- ▶ Credit ratings of 13 DISCOM were downgraded, leading to additional provisioning of INR 9.0bn against these accounts
- ▶ In the Gensol Engineering case (INR 3.5bn exposure), 2,700 vehicles were hypothecated. Realization of INR 440mn was made through securities and TRA balances. A 100% PCR was made in Q4 against an NPA of ~INR 2.6bn. This was attributed to a promoter-specific issue and does not signal broader sectoral risks. The company maintains a transparent approach
- ▶ Loan asset growth was recorded at 12.8% YoY in FY25, in line with guidance
- ▶ The renewable energy portfolio grew 35% YoY, maintaining POWF's position as the largest firm in the segment
- ▶ Key growth drivers included the distribution and renewable energy segments
- ▶ For FY26, the loan growth strategy is shaped by FY25 additions of 30GW in renewables. PM Bijlee Yojana also supported green energy goals. Rooftop solar capacity stands at 3GW, while total rooftop installed capacity in India is 17GW. With rising electricity demand, renewables are expected to constitute a growing share. Government focus on battery energy storage, nuclear power, solar, wind, hybrid systems, and integrated renewables will enable scaling. However, grid-scale energy technology remains in its early stages globally
- ▶ On the thermal energy front, the Government of India (GoI) plans to add 80GW of capacity, presenting financing opportunities for the medium term, given longer gestation of such projects
- ▶ For nuclear energy, the development of at least 100GW of installed capacity by 2047 is being envisaged, marking a significant opportunity
- ▶ In the distribution segment, the Revamped Distribution Scheme (RDSS) scheme has INR 390bn of sanctions in hand. The company also continues to fund DISCOM through the Revolving bill payment facilities (RBPF) framework. Progress under the RDSS scheme will be key to monitor
- ▶ Future growth is expected to be broad-based. Infrastructure financing will grow gradually, with an overall loan growth guidance of 10-11% YoY
- ▶ In the foreign currency borrowings (FCB) portfolio, 70% exposure is toward USD, of which 95% is hedged. The entire USD portfolio (100%) is fully hedged
- ▶ Regarding the distribution segment, LIS disbursements are over, Late payment surcharge (LPS) disbursements are nearly completed, with only a few remaining.
- ▶ Land-related issues and delays in signing power purchase agreements (PPA) are not significantly impacting growth
- ▶ Though there were delays under RDSS, work will now progress rapidly and higher disbursements are expected
- ▶ Private sector growth has shown a higher CAGR, primarily driven by distribution and renewable segments. POWF will play a major role in funding green energy, with greater private sector

participation. Earlier, government thermal projects dominated where POWF was the main lender, but there is a shift toward more distribution-related loans

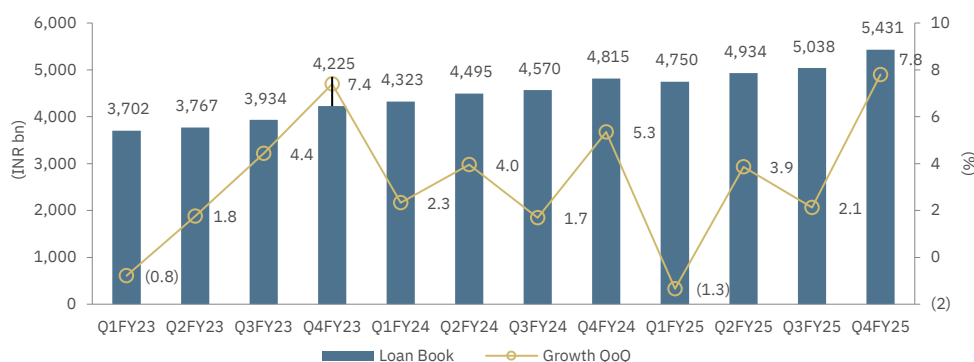
- ▶ About 25% of existing borrowings will be repaid, and new borrowings will be raised at lower interest rates
- ▶ Loan prepayments are a routine part of the business model
- ▶ Although Gensol has been declared an NPA, no major issues or lapses in appraisal have been identified on POWF's part
- ▶ Gradual reforms are being undertaken in the distribution sector
- ▶ The provisioning coverage ratio (PCR) on Stage 1 and Stage 2 assets has been increased. Stage 2 provisioning was raised in accordance with RBI guidance, reflecting a prudent approach by the company
- ▶ Reported spreads exclude the impact from the KSK Mahanadi account

Exhibit 2: Disbursement doubles QoQ to INR 680bn



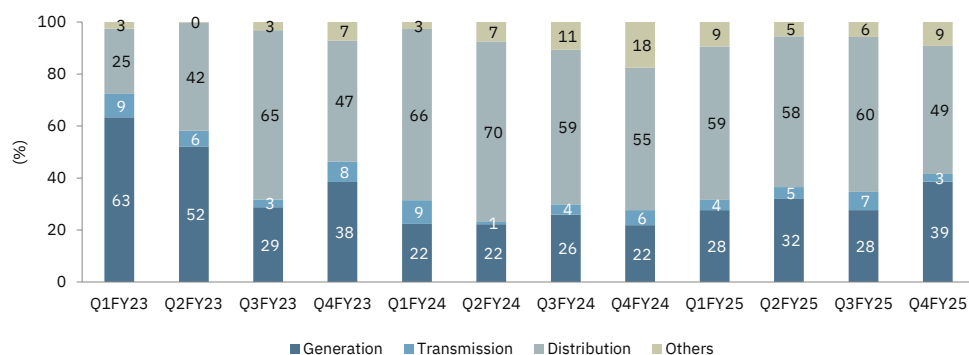
Source: Company, Elara Securities Research

Exhibit 3: Loan book growth picks up pace and grows 7.8% QoQ to reach INR 5,431bn



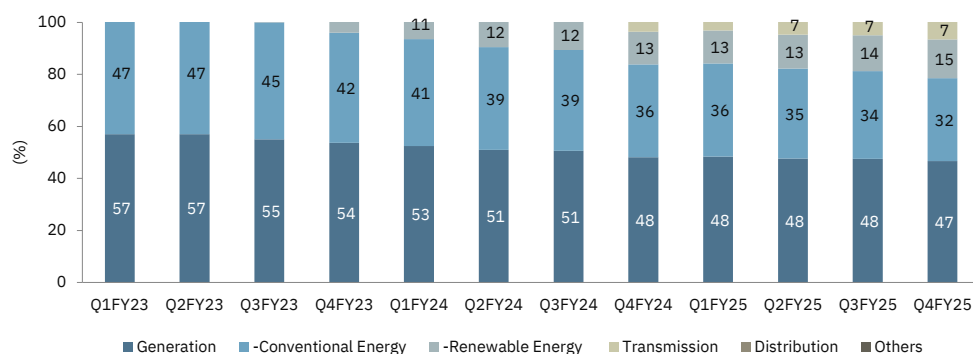
Source: Company, Elara Securities Research

Exhibit 4: Distribution loans at the highest level but see a sharp drop in disbursements mix as generation rises



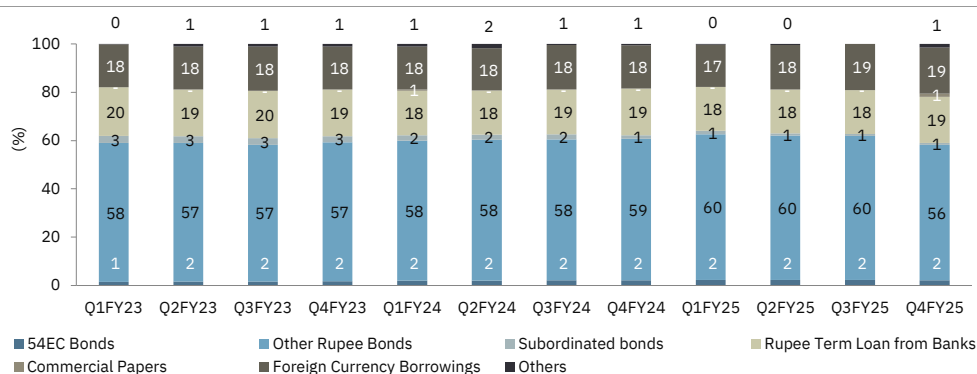
Source: Company, Elara Securities Research

Exhibit 5: Loan mix tilting toward renewables and non-power

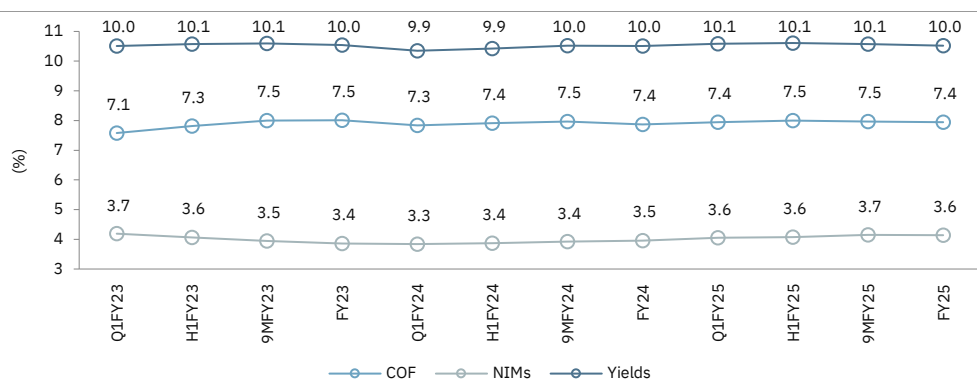


Source: Company, Elara Securities Research

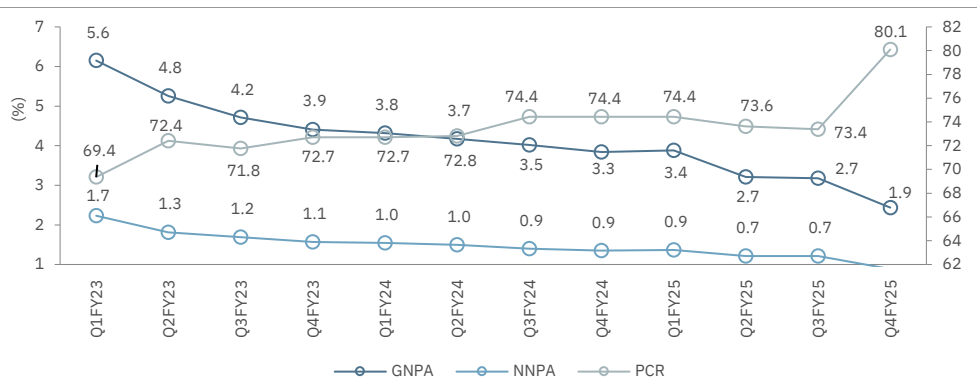
Exhibit 6: Other Rupee bonds lose share in the borrowing mix as FCB inch up higher



Source: Company, Elara Securities Research

Exhibit 7: NIM expands to ~3.7% in FY25 vs ~3.5% in FY24


Source: Company, Elara Securities Research

Exhibit 8: GNPA declines 74bp QoQ and 140bp YoY to ~1.9% with NNPA at a seven-year low of ~0.4%


Source: Company, Elara Securities Research

Exhibit 9: Quarterly asset resolution status

(INR bn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25
Projects under NCLT									
No of Projects	13	13	13	13	13	13	12	11	10
Amount	139,120	139,120	138,990	138,990	138,990	138,990	115,150	115,100	82,090
Provision(%)	77	77	77	77	77	77	78	78	87
Projects Resolved outside NCLT									
No of Projects	9	9	9	8	8	8	6	9	11
Amount	25,900	25,890	25,880	21,740	21,740	21,740	18,610	19,910	23,080
Provision(%)	51	51	52	55	55	55	48	48	56

Source: Company, Elara Securities Research

Exhibit 10: SOTP valuation

Particulars	
PFC FY27E Adj BVPS (INR)	384.0
REC Investment per share (INR)	43.9
FY27E Core Adj BVPS (INR)	340.1
Multiple (x)	1.5
Core value (a)	494
REC current Market cap (INR mn)	105,395
PFC stake in REC (%)	52.6
Stake Value (INR mn)	55,438
Holding Company Discount (%)	18
Net Stake Value (INR mn)	45,459
No of share (mn)	3,300.1
Per share Value (b) (INR)	14
Total Value (a+b)	508
CMP (INR)	413
Upside (%)	23

Note: pricing as on 21. May 2025; Source: Elara Securities Estimate

Exhibit 11: POWF - Core book valuation

Particulars	
Fair price - EVA (INR)	183.0
Fair price - P/ABV (INR)	932.9
Target price (INR)	558
Target P/ABV (x)	1.5
Target P/E (x)	10.3
CMP (INR)	413
Upside (%)	35.1
Dividend yield (%)	3.8
Total return (%)	38.9

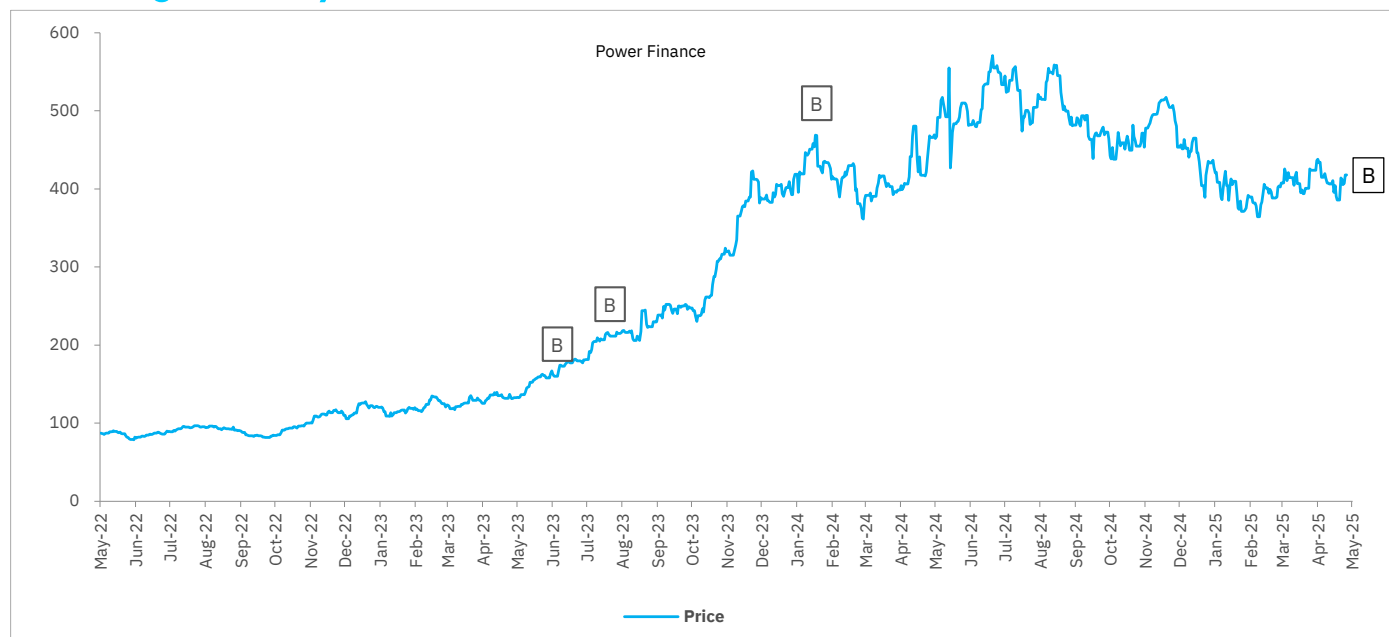
Note: pricing as on 21. May 2025; Source: Elara Securities Estimate

Exhibit 12: Change in estimates

INR mn	Old		Revised		% Change		New
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY28E
Net Interest Income	205,472	220,135	215,889	236,838	5.1	7.6	264,313
Operating Profit	229,621	260,904	242,272	265,732	5.5	1.9	298,200
PAT	174,352	197,467	179,556	195,375	3.0	(1.1)	218,287
EPS (INR)	53	60	54.4	59.2	3.0	(1.0)	66.1
Target Price (INR)		569		508		(10.7)	

Source: Elara Securities Estimate

Coverage History



Date	Rating	Target Price (INR)	Closing Price (INR)
26-Jun-2023	Buy	326	200
11-Aug-2023	Buy	343	264
08-Feb-2024	Buy	569	469
21-May-2025	Buy	508	413

Guide to Research Rating

BUY (B)	Absolute Return >+20%
ACCUMULATE (A)	Absolute Return +5% to +20%
REDUCE (R)	Absolute Return -5% to +5%
SELL (S)	Absolute Return < -5%

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