

# Power Finance Corporation

## Play on asset quality downcycle

### Healthy topline; elevated opex marred by exchange losses

Power Finance Corporation's (POWF) Q3 PAT at INR 33.8bn was in-line (INR 34.3bn estimated), on healthy NII but QoQ growth pared 12% on lower dividend income, exchange losses and optically higher provisions (due to write-backs/reversals in base quarter). NIMs at 3.4% stood tad higher (5bps QoQ), led by marginal uptick in yields with transmission of high funding costs to borrowers. Loans were optically lower due to high base effect, yet POWF witnessed healthy 16% YoY traction led by non-power, renewables and distribution segments. Management is upbeat on renewable funding opportunity, largely led by recent PM Suryodaya Yojana for rooftop solar financing, with subsidiary as the nodal agency.

### Optically soft growth due to high base; guidance of 15% intact

POWF recorded a growth of 1.7% QoQ/16.2% YoY, largely led by renewable energy loans (up 4% QoQ/36.9% YoY), distribution loans (up 1.6% QoQ/26%YoY) and non-power loans (Infra/logistics/e-mobility; up 28.5% QoQ/255% YoY). Traditional transmission and generation loans surged 14%/7% YoY. Non-power share grew 49bps QoQ to 39.8%, and generation share declined 41bps QoQ to 50.6%. POWF expects growth in renewables to be led by equipment manufacturers of solar, hydro projects, continued distribution traction. And non-power growth may be accelerated by metro, port and infra projects underscoring robust business visibility. We expect a 15% loan CAGR in FY24E-26E.

### Asset quality improvement continues; resolutions underway

Asset quality improved, with six-year low Stage 3 assets of 3.52% from 3.67% in Q2FY24 (estimate: 3.6%). ECL provision rose 161bps QoQ at 74.4%. Currently, 21 stressed projects worth INR 160bn are in Stage III, of which 13 (worth INR 139bn) are being resolved under NCLT and the remaining eight (worth INR 22bn) outside NCLT. While DANS Energy (INR 4bn) was resolved in Q3, a hydro project may be resolved in Q4. Provision of LANCO project taken in the book was 76%. Thus, we pare GNPA estimates to 3.0-2.8% for FY25E/26E and expect credit cost estimates below average 20bps with sizeable write-backs/recoveries on the horizon (expect 10%-20%).

### Valuations: Reiterate BUY, with higher TP of INR 569

We raise FY24E-26E estimates and core book multiple to 1.7x (earlier 0.9x) as POWF has steady growth visibility, stable margins and continued asset resolutions. Despite the robust rally, we still foresee 21% upside from current levels as POWF rides the asset quality downcycle with government impetus-led growth traction. We reiterate BUY with raised SoTP-TP of INR 569 from INR 343, on 1.7x PABV.

## Rating: Buy

Target Price: INR 569

Upside: 21%

CMP: INR 469 (as on 8 February 2024)

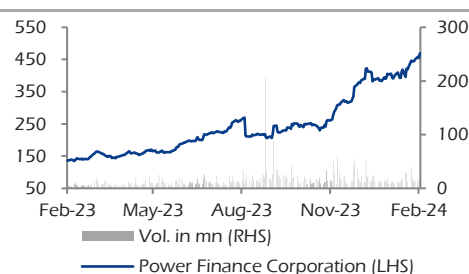
### Key data

Bloomberg /Reuters Code	POWF IN/PWFC.BO
Current /Dil Shares O/S (mn)	2,640/2,640
Mkt Cap (INR bn/USD mn)	1,546/18,636
Daily Volume (3M NSE Avg)	17,633,828
Face Value (INR)	10

1 USD = INR 83.0

Note: \*as on 8 February 2024; Source: Bloomberg

### Price & Volume



Source: Bloomberg

Shareholding (%)	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Promoter	56.0	56.0	56.0	56.0
Institutional Investor	35.2	34.8	34.7	35.4
Other Investor	2.0	2.1	2.1	1.8
General Public	6.8	7.1	7.2	6.8

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	11.7	11.0	21.5
Power Finance Corporation	77.8	117.7	307.9
LIC Housing Finance	42.7	49.8	67.7

Source: Bloomberg

YE march (INR mn)	Q3FY24	Q2FY24	Q3FY23	YoY (%)	QoQ (%)	Q3FY24E	Var (%)
NII	41,578	37,289	35,707	16.4	11.5	41,010	1.4
Operating profit	44,121	46,863	35,540	24.1	(5.8)	47,213	(6.5)
PAT	33,772	38,474	30,049	12.4	(12.2)	34,281	(1.5)

Key Financials												
YE	NIM	YoY	PPoP	YoY	PAT	YoY	EPS	Core RoE	RoA	P/E	P/ABV	
March	(INR mn)	(%)	(INR mn)	(%)	(INR mn)	(%)	(INR)	(%)	(%)	(x)	(x)	
FY23	143,627	2.4	138,744	(4.0)	116,055	15.8	44.0	18.2	2.9	10.7	1.9	
FY24E	156,287	8.8	172,482	24.3	135,746	17.0	41.1	18.1	3.0	11.4	2.0	
FY25E	181,013	15.8	196,923	14.2	145,818	7.4	44.2	16.4	2.8	10.6	1.7	
FY26E	220,278	21.7	241,474	22.6	170,975	17.3	51.8	16.3	2.8	9.1	1.4	

Note: Pricing as on 8 February 2024; Source: Company, Elara Securities Estimate

### Financials (YE March)

Income statement (INR mn)	FY23	FY24E	FY25E	FY26E
NII	143,627	156,287	181,013	220,278
Other income	20,203	21,877	25,371	32,123
<b>Gross Income</b>	<b>163,831</b>	<b>178,164</b>	<b>206,384</b>	<b>252,401</b>
Operating expenses	25,087	5,682	9,461	10,927
<b>PPOP</b>	<b>138,744</b>	<b>172,482</b>	<b>196,923</b>	<b>241,474</b>
Provisions	(2,962)	1,750	2,058	12,990
<b>PBT</b>	<b>141,706</b>	<b>170,732</b>	<b>194,865</b>	<b>228,484</b>
Tax	25,652	34,986	49,048	57,509
<b>PAT</b>	<b>116,055</b>	<b>135,746</b>	<b>145,818</b>	<b>170,975</b>

Balance Sheet (INR bn)	FY23	FY24E	FY25E	FY26E
Capital	26,401	26,401	26,401	26,401
Reserves and Surplus	655,622	791,368	937,185	1,108,160
<b>Net worth</b>	<b>682,022</b>	<b>817,768</b>	<b>963,586</b>	<b>1,134,561</b>
Borrowings	3,703,678	4,360,927	4,928,714	5,516,156
Other liabilities	62,631	68,587	190,176	297,089
<b>Total Liabilities</b>	<b>4,448,331</b>	<b>5,247,283</b>	<b>6,082,476</b>	<b>6,947,805</b>
Fixed assets	896	947	694	784
Loans	4,108,292	4,862,766	5,626,921	6,475,285
Net Current Assets	291,147	326,903	387,433	399,127
Other assets	47,996	56,667	67,429	72,609
<b>Total Assets</b>	<b>4,448,331</b>	<b>5,247,283</b>	<b>6,082,476</b>	<b>6,947,805</b>

Per Share data & Valuation Ratios	FY23	FY24E	FY25E	FY26E
EPS- (INR)	44.0	41.1	44.2	51.8
BV (INR)	258.3	247.8	292.0	343.8
ABV- (INR)	244.4	237.3	281.1	332.8
ABVPS excl REC	189.4	193.3	237.2	288.8
P/E- (x)	10.7	11.4	10.6	9.1
P/ABV-(x)	1.9	2.0	1.7	1.4

Yield and Cost (%)	FY23	FY24E	FY25E	FY26E
Yield on advances	10.0	10.2	10.5	10.7
cost of funds	6.8	7.3	7.7	7.8
Net Interest Margin (%)	3.6	3.4	3.5	3.6

Asset Quality (%)	FY23	FY24E	FY25E	FY26E
Gross NPA	3.9	3.4	3.0	2.8
Net NPA	1.1	0.9	0.9	0.8
% coverage of NPA (RHS)	72.7	72.7	70.8	71.5
credit cost (calc)	(0.1)	0.0	0.0	0.2

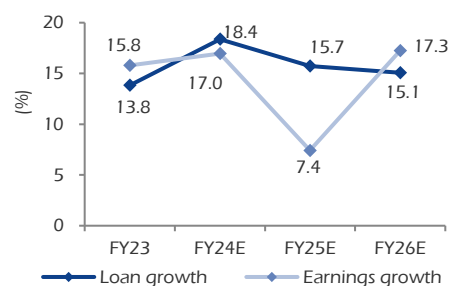
Capital Adequacy	FY23	FY24E	FY25E	FY26E
Tier 1	22.4	14.1	14.4	14.8
CAR	24.4	16.1	16.4	16.8

Growth Rates	FY23	FY24E	FY25E	FY26E
Loan growth	13.8	18.4	15.7	15.1
Earnings growth (RHS)	15.8	17.0	7.4	17.3

Business Ratios	FY23	FY24E	FY25E	FY26E
RoAA (%)	2.9	3.0	2.8	2.8
Core RoE (%) RHS	18.2	18.1	16.4	16.3
Leverage (x)	6.6	6.5	6.4	6.2

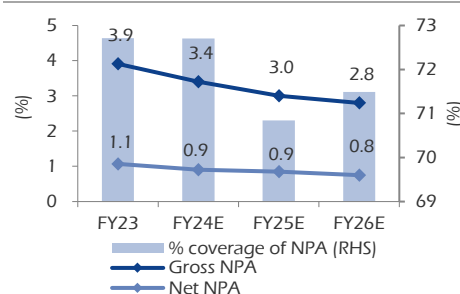
Note: Pricing as on 8 February 2024; Source: Company, Elara Securities Estimate

### Loans & earnings growth trend



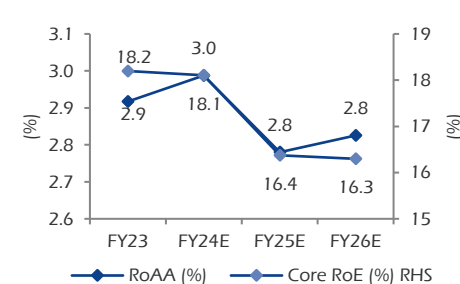
Source: Company, Elara Securities Estimate

### Gross and net NPA



Source: Company, Elara Securities Estimate

### Return ratios



Source: Company, Elara Securities Estimate

**Exhibit 1: POWF – Q3FY24 earnings**

(INR mn)	Q3FY24	Q3FY23	YoY (%/bps)	Q2FY24	QoQ (%/bps)	Comments
Interest income	113,313	95,662	18.5	106,921	6.0	
Interest expenses	71,735	59,955	19.6	69,631	3.0	
<b>Net interest income</b>	<b>41,578</b>	<b>35,707</b>	<b>16.4</b>	<b>37,289</b>	<b>11.5</b>	<b>NII was in line with our estimates of INR 41bn, led by higher-yielding rate</b>
Other income	5,231	7,982	(34.5)	10,964	(52.3)	Other income decreased sequentially due to lower dividend income
<b>Total income</b>	<b>46,808</b>	<b>43,689</b>	<b>7.1</b>	<b>48,254</b>	<b>(3.0)</b>	
Total operating expenses	2,687	8,149	(67.0)	1,391	93.2	Opex stood above our estimate of INR 1.5bn due to net translation loss
<b>Operating profit (PPOP)</b>	<b>44,121</b>	<b>35,540</b>	<b>24.1</b>	<b>46,863</b>	<b>(5.8)</b>	<b>PPoP stood below our estimate of INR 47.2bn due to higher opex and lower other income</b>
Provisions & write offs	2,626	-1,256	NM	-989	NM	Provision was ahead of our estimate of INR 1,401mn, led by higher resolution on account of stress asset resolution
<b>PBT</b>	<b>41,495</b>	<b>36,796</b>	<b>12.8</b>	<b>47,852</b>	<b>(13.3)</b>	
Tax	7,723	6,746	14.5	9,377	(17.6)	
<b>Reported profit</b>	<b>33,772</b>	<b>30,049</b>	<b>12.4</b>	<b>38,474</b>	<b>(12.2)</b>	<b>PAT was in line with our estimate of INR 34bn, after knocking other income one-off.</b>
<b>Balance sheet</b>						
Disbursement	234,870	251,780	(6.7)	327,700	(28.3)	Disbursement run-rate decelerated, led by distribution sector.
Loans	4,570,268	3,933,870	16.2	4,494,580	1.7	AUM traction was healthy, in line with our estimates of INR 4,674bn.
<b>Asset quality</b>						
Gross NPAs	160,730	165,640	(3.0)	164,870	(2.5)	
Gross NPA (%)	3.52%	4.2%	-69 bps	3.67%	-15 bps	Asset quality was in line with our estimate of 3.6%, slightly up sequentially.
Net NPA (%)	0.90%	1.2%	-29 bps	1.0%	-10 bps	
Credit cost	0.2%	-0.1%	36 bps	-0.1%	32 bps	Credit cost increased sequentially on account of provisioning.
Cost to income (%)	5.7%	18.7%	-1291 bps	2.9%	286 bps	Cost-to-income increased sequentially due to net translation loss
<b>NIM - calc (%)</b>	<b>3.4%</b>	<b>3.5%</b>	<b>-3 bps</b>	<b>3.4%</b>	<b>5 bps</b>	<b>NIMs came ahead of our estimates of 3.6%, up 3bps QoQ on account of increasing yield rate.</b>

Source: Company, Elara Securities Research

## Business performance

- In January 2024, POWF received the approval to create a wholly-owned subsidiary in GIFT City. GIFTY City is a global financial hub and offers various benefits such as tax exemption for 10 years with no GST. And POWF is the first government agency to be present in Gift City.
- Gift City subsidiary unlocks the opportunity to become a global lending platform.
- POWF continues to see strong growth (PAT at INR 189bn, up 26% YoY).
- Group loan assets grew 19% YoY and consolidated AUM was INR 9,545bn.
- Consolidated NNPA stood below 1%, i.e., 0.86%.
- 9MFY24 PAT was INR 102bn due to an increase in asset base and interest yield, and stable provision.
- Standalone PAT was INR 34bn, up 12% YoY.
- POWF declared an interim dividend of INR 3.5 per share and a cumulative dividend of INR 8 per share.
- Q3 AUM growth was from lending of distribution and renewable energy.
- Sanctioned for 9MFY24 stood at INR 1,440bn.
- Total sanctions under the Infra sector till date was INR 312bn and certain sanctions are in pipelines.

## Growth trajectory

- POWF expects growth for renewables, equipment manufacturers of solar, distribution, thermal power projects financing, and hydro projects.
- Infra sanction may materialize next year. POWF is seeking to fund metro projects, ports, and other infra projects.
- Under PM Sarvoday Yojana, POWF is seeing huge opportunity to fund state discoms and eight center undertakings under equipment manufacturers as well as installation of solar equipment.
- PM Sarvoday Yojana will require an investment of INR 2.4tn with the assumption of investment of INR 60k per KWH and 50% of funding to come from subsidy, which translates into an opportunity of INR 1.2tn.
- Sanctioned for 9MFY24 was INR 1,440bn.
- Expect loan growth of 15% in FY24E and FY25E.

- In FY22, LPS scheme was launched. Till date, INR 133bn has been disbursed under LPS scheme, improving the fiscal deficit of discoms. Under discoms, only 10% of disbursement is due. One more revolving year to the Discom.
- Sanctioned under RBFF was INR 510bn. Expect POWF to continue to fund both schemes.
- POWF is planning to increase its renewable energy share in the AUM mix to 20% in the next 2-3 years.
- Asset outlook is positive for the next financial year.
- FY25 growth rate is expected in 12-15% range.
- POWF maintained NIM guidance of 3.5% and spread guidance of 2.5%.
- As the government is expected to increase its capacity from 400GWH to 800GWH in the next five years, of which 50% will be renewable energy, which requires an investment of INR 33tn, POWF has a market share of 22% in power funding, which indicates a huge opportunity to lending. Distribution and transmission may also require continued capital infusion.

## Yield

- Yield stood at 10.02%. Interest rate increase started impacting the book. COF was 7.47%. spread at 2.55% and NIM at 3.42% which were within the guided range.
- CAR was 26.86% and tier-1 24.28%.
- POWF is continuously transferring the increasing cost of funds to customers as it is evaluating its yield every quarter.
- Currently, POWF is capturing projects funded by the banks.
- Currently funded hydro-funded projects may be completed in the next 2-3 years.
- POWF has the upper hand in funding hydro projects as compared with the banks.

## Asset quality

- POWF has resolved an asset of Dans Energy, which has an exposure of INR 4.1bn. The asset has been resolved outside the NCLT which impacted in the restructuring of existing debt, and the asset has been moved out of stage 3.
- There are no new slippage in the past year.
- NNPA stood at 0.9%, the lowest in past six years.
- GNPA was 3.52% versus 4.21% in 9MFY23.

- Currently, POWF has 21 stressed projects amounting to INR 160bn under stage 3, of which eight amounting to INR 22bn are being resolved outside NCLT and 13 projects amounting to INR 139bn under NCLT.
- The Lanco Amarkantak project, with exposure of INR 24bn, is at an advanced stage under NCLT. Bidding has taken place on 5 February for better valuation and a successful plan may be submitted to the NCLT.
- POWF maintained a PCR of 74% PCR.
- POWF increased the provision on stage 3 assets on account of stages of the resolution, which impacted in increasing provisioning (Dans Energy resolution impact in the reversal of provision).
- POWF expects resolution of a Hydro asset outside NCLT by the end of FY24 (Shiga Hydro Project with total exposure of ~INR 5bn).
- Recovery rate for Dans Energy project stood at 90%.

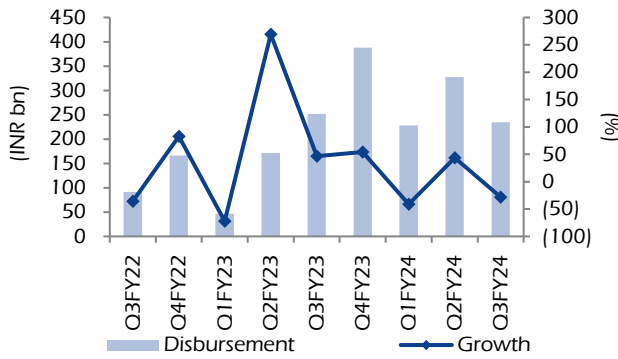
#### LPSS

- The borrower has the option to choose the installment period from 12 months to 48 months and LPSS disbursement to slow down in FY25.
- Total LPS schemes sanctioned till yet stood at INR 610bn, with total disbursement of INR 330bn, and an average tenure of 22-48months. And the rest of the amount may be disbursed in the next 2-3years.

#### Others

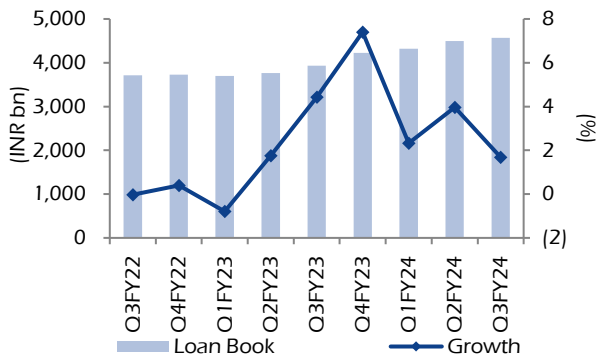
- Penalty of INR 8.80lakh was imposed by the RBI, on account of non-compliance with liquidity framework. This penalty does not impact the liquidity ratio (currently, liquidity ratio appropriate).
- The penalty imposed due to misinterpretation of RBI norms may not be repeated in the future.
- POWF has been included in the purview of RBI credit concentration norms. POWF is compiling these norms from FY10 and has an available exposure of INR 12.8tn to total government book, with available exposure of INR 900bn over top 12 borrowers.

**Exhibit 2: Disbursement down 28.3% QoQ to INR 235bn**



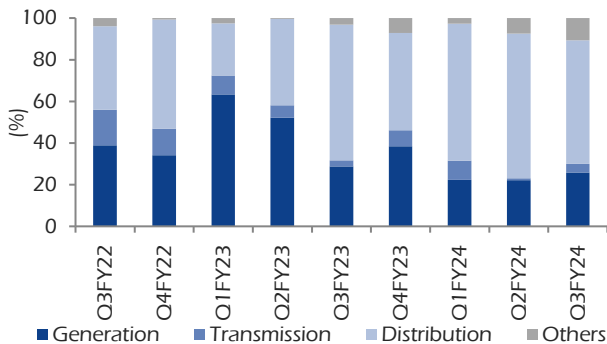
Source: Company, Elara Securities Research

**Exhibit 3: Loan book up 1.7% QoQ to INR 4,570bn**



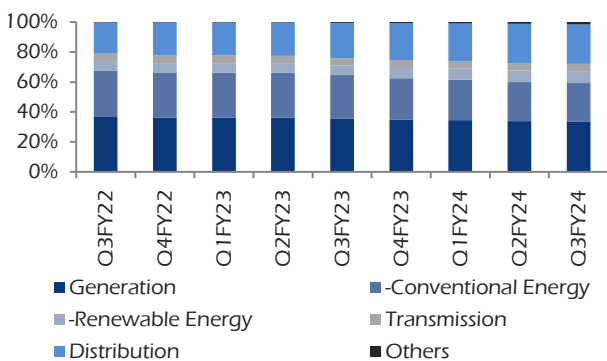
Source: Company, Elara Securities Research

**Exhibit 4: Distribution loan continued to be highest disbursement segment**



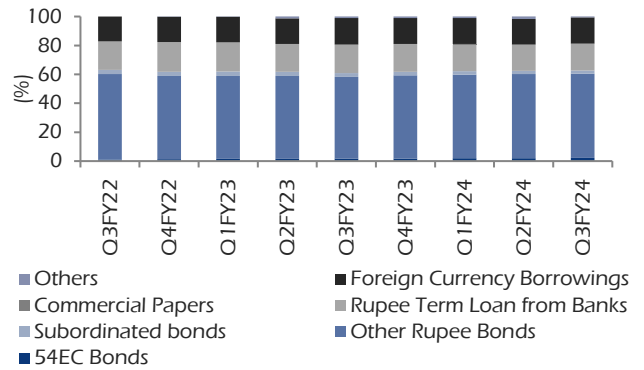
Source: Company, Elara Securities Research

**Exhibit 5: Loan mix continues to tilt to distribution loans**



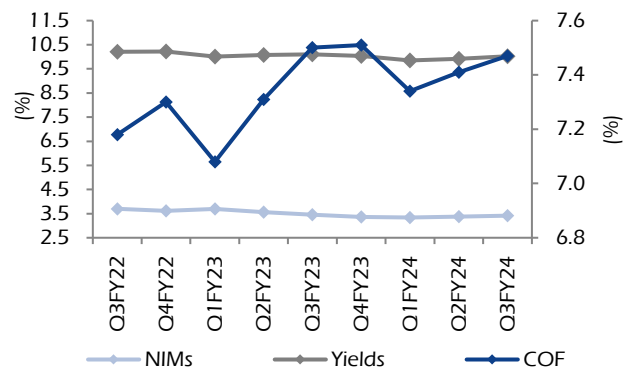
Source: Company, Elara Securities Research

**Exhibit 6: Decreasing share of commercial paper and increasing share of others in borrowing mix**



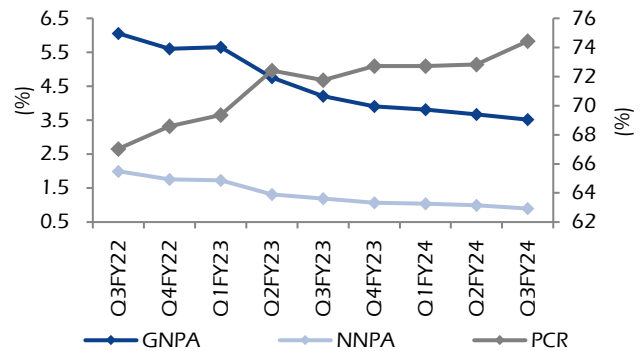
Source: Company, Elara Securities Research

**Exhibit 7: NIMs stabilized**



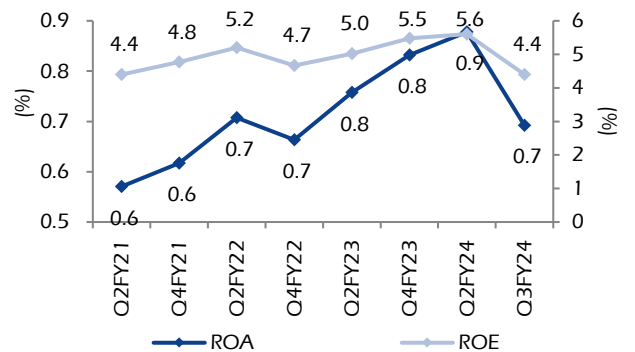
Source: Company, Elara Securities Research

**Exhibit 8: GNPA declined 20bps QoQ to 3.5%**



Source: Company, Elara Securities Research

**Exhibit 9: ROA decreased 20bps QoQ to 0.7%**



Source: Company, Elara Securities Research



**Exhibit 10: Quarterly asset resolution**

Particulars (INR bn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
<b>Projects under NCLT</b>									
Nos. of projects	16	14	14	12	12	13	13	13	13
Amount	166,880	153,380	153,380	123,190	109,730	139,120	139,120	138,990	138,990
Provision (%)	69	71	72	76	76	77	77	77	77
<b>Projects resolved outside NCLT</b>									
Nos. of projects	11	9	9	10	10	9	9	9	8
Amount	58,170	55,780	55,780	55,910	55,910	25,900	25,890	25,880	21,740
Provision (%)	60	62	62	63	64	51	51	52	55

Source: Company, Elara Securities Research

**Exhibit 11: SOTP Valuation**

Particulars	Amount
PFC FY25E adj. BVPS (INR)	281.1
REC investment per share (INR)	43.9
FY25E core adj. BVPS (INR)	237.2
Multiple (x)	1.7
<b>Core value (a)</b>	<b>402</b>
REC current market cap (INR mn)	1,399,556
PFC stake in REC	52.6%
Stake value (INR mn)	736,167
Holding company discount	25%
Net stake value (INR mn)	552,125
Nos. of share (nos. mn)	3,300.1
<b>Per share value (b)</b>	<b>167</b>
<b>Total value (a+b)</b>	<b>569</b>
CMP (INR)	469
<b>Upside (%)</b>	<b>21</b>

Source: Company, Elara Securities Research

**Exhibit 12: POWF – Core book valuation**

Particulars	Amount
Fair price – EVA (INR)	136.3
Fair price – P/ABV (INR)	903.5
<b>Target price (INR)</b>	<b>520</b>
<b>Target P/ABV (x)</b>	<b>1.7</b>
<b>Target P/E (x)</b>	<b>11.8</b>
CMP	469
<b>Upside (%)</b>	<b>10.9</b>
Dividend yield (%)	3.8
<b>Total return (%)</b>	<b>14.6</b>

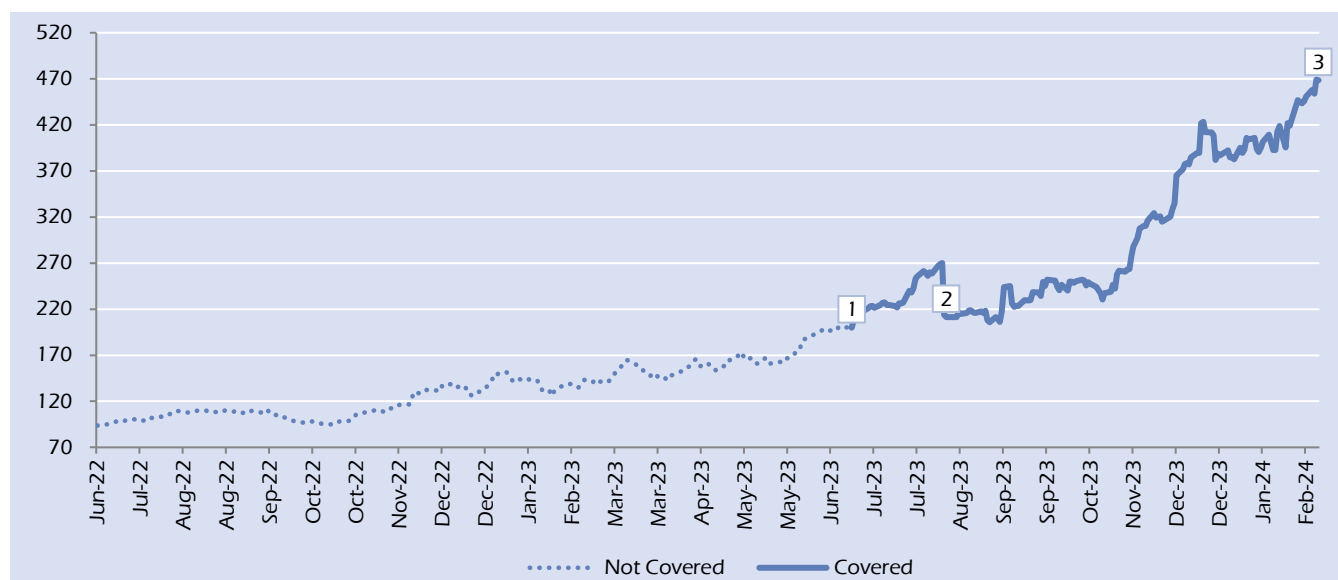
Source: Company, Elara Securities Research

**Exhibit 13: Change in estimates**

(INR mn)	Previous		Revised		Change (%)		New
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	
Net interest income	164,965	191,490	156,287	181,013	(5.3)	(5.5)	220,278
Operating profit	165,249	190,615	172,482	196,923	4.4	3.3	241,474
PAT	125,744	137,135	135,746	145,818	8.0	6.3	170,975
EPS (INR)	47.6	51.9	41.1	44.2	(13.6)	(14.9)	51.8
<b>TP (INR)</b>		<b>343</b>		<b>569</b>		<b>65</b>	

Source: Elara Securities Estimate

### Coverage History



	Date	Rating	Target Price	Closing Price
1	26-June-2023	Buy	INR 326	INR 200
2	11-Aug-2023	Buy	INR 343	INR 264
3	8-Feb-2024	Buy	INR 569	INR 469

### Guide to Research Rating

<b>BUY</b>	Absolute Return >+20%
<b>ACCUMULATE</b>	Absolute Return +5% to +20%
<b>REDUCE</b>	Absolute Return -5% to +5%
<b>SELL</b>	Absolute Return < -5%



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