



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

**Analyst:** Avinash Tanawade (022) 67141449

**Retail Idea@ Dalal & Broacha**

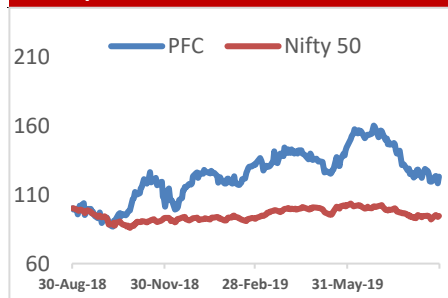
## BUY

Current Price (Rs)	105
52 Week Range	139/72
Target Price (Rs)	128
Upside (%)	22%

## Key Share Data

Market Cap (Rs.bn)	277
Market Cap (US\$ mn)	3880
No of o/s shares (mn)	2640
Face Value	10
Monthly Avg. vol (BSE+NSE) Nos'000	3,391
BSE Code	532810
NSE Code	PFC
Bloomberg	POWF:IN

## Price performance



% Shareholding	June-19	Mar-19
Promoter	59.1	59.1
DIIs	17.7	18.7
FII	17.8	16.6
Others	5.4	5.6
Total	100	100

Power Finance Corporation (PFC) is specialized in power sector financing and provides fund based & non-fund based support to a range of power sector activities including generation, distribution, and transmission. Its loan book as on Q1FY20 stood at Rs 314,667 Cr (grew at CAGR of 13.2% between FY17-19). Out of total advances, major exposure is in the generation segment (around 71%), while transmission, distribution contributes 8%, 20%, respectively. During FY19, PFC has acquired 52.63% equity stake in REC along with the management control at a cash purchase consideration of Rs 14,500 Cr.

**Healthy Profitability:** company's profitability remains healthy with return on assets of 1.62% and return on equity of 12.6% in Q1FY20. Loan growth was steady at 11.2% YoY, with growth largely coming from distribution (33% YoY) and transmission (19%). Despite a tight quarter for NBFCs, the company's reported interest spread on earning assets were up 22 bps YoY at 2.71% largely due to 18 bps YoY decline in cost of funds. The management expects spreads to remain in the range of 2.6-2.7% in FY20. In order to maintain competitive borrowing costs, company has diversified its resource profile, which included rupee-denominated bonds (62% of the total borrowing), rupee term loan from banks/FI's (16%), foreign currency borrowings (13%), commercial papers (5%), subordinated bonds (3%) and others (like 54 EC bond, CC/OD/Line of Credit) (1.13%). The company has posted a net profit of Rs 1,383 Cr and its Net Interest income was Rs 2,195 Cr in Q1 FY20.

**Dominant market position in power financing segment:** Demand for electricity is seeing steady growth with favorable government policy. Government of India has released its roadmap to achieve 175 GW capacity in renewable energy by 2022, which includes 100 GW of solar power and 60 GW of wind power. Furthermore, government initiatives like 24x7 power to all households and UDAY scheme, which has improved the viability of distribution companies to buy more power to serve more customers have helped the sector witness robust growth. Given the above favorable environment and huge funds requirements to boost the Indian power sector, PFC is well placed to tap these opportunities.

**Asset quality stable:** PFC's GNPA% and NNPA% declined from 12.5% and 10.55% respectively as on March 31, 2017 to 9.61% and 4.65% respectively as on June 30, 2019, but it still remains high. The company caters only to the power sector, with 82% of its advances to government sector power utilities (regular in servicing). All the stress is in private book (18% of loans). Of the total private exposure, 54% is already classified as NPA, on which PFC has 52% provision coverage ratio (PCR). Currently, Rs 14400 Cr (13 cases, 61% coverage) of troubled assets are being resolved under the NCLT while another Rs 12100 Cr (five projects) are cases where ICA are signed or likely to be signed. Going forward, PFC's incremental asset quality trends look stable, with management don't expect any more projects slipping into NPA during FY20.

## Valuation and outlook

While the delay in resolution in the power sector may result in the stock consolidating around the same levels, the high dividend yield will provide support in the short term. The company would resume its dividend policy (distributing 30% of net profit or 5% of the net worth whichever is higher) after an exemption given last year. We expect dividend yield to be in the range of 7.5-8% in FY20. Thus, we have assigned a 'Buy' rating on PFC with a price target of Rs 128, valuing the stock at 0.8x FY21E standalone P/ABV

## Key Financials (Rs in Cr)

Year	PAT	Growth (%)	Advances	Growth (%)	ROE	ROA	BVPS	P/B (X)
FY17	2126	(65)	245525	3	5.9	0.8	138	0.8
FY18	4387	106	279329	14	12.1	1.7	151	0.7
FY19	6953	58	314,667	13	17.3	2.2	164	0.6



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Contact	Email ID	Contact No.	Sector
Mr. Kunal Bhatia	<a href="mailto:kunal.bhatia@dalal-broacha.com">kunal.bhatia@dalal-broacha.com</a>	022 67141442	Auto, Auto Ancillary, FMCG
Ms.Charulata Gaidhani	<a href="mailto:charulata.gaidhani@dalal-broacha.com">charulata.gaidhani@dalal-broacha.com</a>	022 67141446	Pharma /Healthcare
Ms. Abhilasha Satale	<a href="mailto:abhilasha.satale@dalal-broacha.com">abhilasha.satale@dalal-broacha.com</a>	022 67141439	Midcaps
Mr. Mayank Babla	<a href="mailto:Mayank.babla@dalal-broacha.com">Mayank.babla@dalal-broacha.com</a>	022 67141412	I.T.
Mr. Avinash Tanawade	<a href="mailto:avinash.tanawade@dalal-broacha.com">avinash.tanawade@dalal-broacha.com</a>	022 67141449	BFSI
Mr. Suraj Nandu	<a href="mailto:suraj.nandu@dalal-broacha.com">suraj.nandu@dalal-broacha.com</a>	022 67141438	Associate
Ms. Nidhi Babaria	<a href="mailto:Nidhi.babaria@dalal-broacha.com">Nidhi.babaria@dalal-broacha.com</a>	022 67141450	Associate
Mr. Tanush Mehta	<a href="mailto:tanush.mehta@dalal-broacha.com">tanush.mehta@dalal-broacha.com</a>	022 67141432	Associate

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021  
Tel: 91-22- 2282 2992, 2287 6173, (D) 6630 8667 Fax: 91-22-2287 0092  
E-mail: [research@dalalbroachaindia.com](mailto:research@dalalbroachaindia.com), [equity.research@dalal-broacha.com](mailto:equity.research@dalal-broacha.com)