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Power Finance Corp.

Refer to important disclosures at the end of this report

Growth revival with improving asset quality; Attractive valuations

CMP	Target Price
Rs 121 as of (January 14, 2021)	Rs 210 12 months
Rating	Upside
BUY	73.5 %

We are initiating coverage on Power Finance Corp. (PFC) with a Buy rating and a TP of Rs210 (+73% upside). Our TP implies 1.0x FY23E adjusted standalone P/B multiple and 6x P/E. We believe that with the rising share of PSU exposure and stringent underwriting practices, PFC's asset quality trend is likely to improve. Our account-by-account analysis of stressed assets indicates that the current provision coverage is adequate for previous years' NPAs. In our view, the government's Aatmanirbhar Bharat package for discoms should boost loan growth in the near term.

- **Legacy NPAs from private sector; zero credit loss in government-backed entities:** Despite stringent underwriting standards, PFC witnessed volatile asset quality trends due to private sector exposure; NPA formation here was a result of regulatory changes, which affected all power sector lenders. As of Sep'20, the private sector accounted for 16% (Rs611bn) of PFC's loan book, of which 43% was already recognized as NPAs. We remain comfortable with the rising share of Government/PSU sector (including state utilities) in PFC's loan book, since it potentially entails lower credit losses.
- **Provisions towards legacy NPAs are adequate:** Our account-by-account analysis of the existing stressed asset pool suggests limited risk of additional credit costs. We expect the overall haircut on the existing stressed portfolio to be 48-50%; therefore, the current provision coverage of 56% is adequate. With gradual resolution of NPAs, we expect some reversal in provisions over a period of time; however, we are not building in the same in our estimates.
- **Aatmanirbhar package to boost loan growth; may need to look beyond power sector to sustain growth:** In a major push to revive financial health of ailing discoms, the government under the Aatmanirbhar scheme has decided to infuse liquidity of Rs1.2tn through PFC and REC. As state discoms seek loans and receive sanctions (Rs311bn sanctioned so far), we expect a steady revival in disbursements. In our view, PFC's Genco book has largely peaked, given the current low-PLF operating environment, and as future generation capacity will largely come in the renewables segment (PFC's market share is low here). Accordingly, the government may allow PFC to expand beyond the power sector, which could help it avoid stagnation/decline beyond the next 2-3 years, in our view.
- **TP of Rs210 based on excess-return methodology:** We value PFC on the basis of a sum-of-the-parts (SOTP); standalone PFC is valued by discounting profits in excess of RoE, and we add the value of 52.6% stake in REC at the current market cap after a 30% holdco discount. We model a 25% dividend payout ratio (DPR) through FY23E and 50% thereafter. Our bull case scenario yields Mar'22 fair value of Rs265, based on: (1) a 50% DPR in FY22E/FY23E; (2) REC valuation done at a multiple similar to that of PFC.
- **Key risks:** PFC has 58% of its FX exposure unhedged. We model FX losses based on 1.5% annual INR depreciation; however, a more adverse FX movement could impact our earnings forecasts. Further, we build in a 50% DPR beyond FY23, but if the RBI maintains dividend restrictions, our TP would be adversely affected by lower RoEs.

Please see our sector model portfolio (Emkay Alpha Portfolio): BFSI-NBFCs (Page 27)

Financial Snapshot (Standalone)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net income	97,787	115,179	123,375	135,663	142,399
Net profit	69,529	56,551	83,550	86,297	92,789
EPS (Rs)	26.3	21.4	31.6	32.7	35.1
ABV (Rs)	123.2	133.8	156.8	182.0	209.0
RoA (%)	2.2	1.6	2.1	2.0	2.1
RoE (%)	**17.3**	**12.8**	**17.3**	**15.8**	**15.1**
PE (x)	**4.6**	**5.7**	**3.8**	**3.7**	**3.5**
P/ABV	**1.0**	**0.9**	**0.8**	**0.7**	**0.6**

Source: Company, Emkay Research

Change in Estimates	
EPS Chg FY21E/FY22E (%)	-/-
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	NA

Emkay vs Consensus		
EPS Estimates		
	FY21E	FY22E
Emkay	31.6	32.7
Consensus	27.8	33.6
Mean Consensus TP (12M)		Rs 148

Stock Details	
Bloomberg Code	POWF IN
Face Value (Rs)	10
Shares outstanding (mn)	2,640
52 Week H/L	133 / 74
M Cap (Rs bn/USD bn)	319 / 4.37
Daily Avg Volume (nos.)	6,833,962
Daily Avg Turnover (US$ mn)	10.0

Shareholding Pattern Dec '20	
Promoters	56.0%
FIIs	17.4%
DIIs	20.2%
Public and Others	6.5%

Price Performance				
(%)	**1M**	**3M**	**6M**	**12M**
Absolute	-	40	50	(2)
Rel. to Nifty	(7)	15	9	(17)

Relative price chart

Source: Bloomberg

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Legacy NPAs were on account of private sector; no credit loss in govt-backed entities

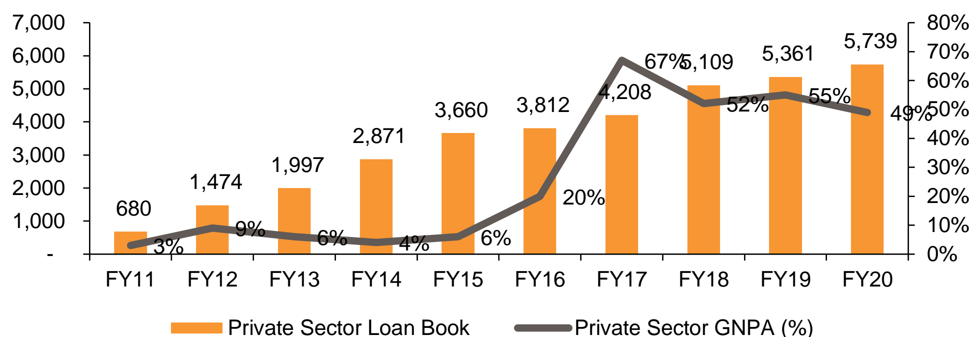
PFC has witnessed volatile trends in asset quality historically due to private sector exposure. As of Sep'20, private sector accounted for 16% (Rs611bn) of PFC's loan book, of which 43% was recognized as NPAs. Going ahead, we remain fairly comfortable with the elevated share of Government/PSU sector (including state utilities) as it ensures lower credit losses.

High default rate in private sector exposure, mainly due to technical issues; Stable asset quality in PSU exposure

The biggest concern of PFC investors has been volatile asset quality trends of the past. Our analysis of the last 10 years clearly indicates that the stress had majorly been originated (and led to elevated credit defaults) in the private sector book, while stress accretion in government backed entities had resulted in zero credit losses till date.

Volatile asset quality trends in private sector power exposures were resultant of the imprudent capacity expansion that occurred in the period 2010-15; demand growth slowdown after 2012; and upstream (coal linkages) and downstream (Power purchase agreement tie-ups) challenges in the power sector value chain.

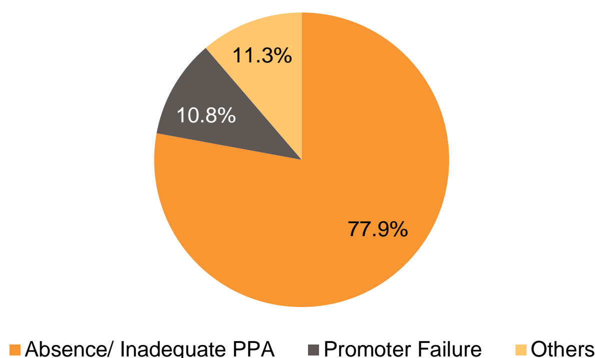
Exhibit 1: Private sector NPAs as % of Private Sector Exposure (Rs. Bn)



Source: Company, Emkay Research

Our analysis of account-by-account exposure of PFC's existing stress pool suggests that ~78% of the stressed projects are on account of inadequate/absent power purchase agreements (PPAs).

Exhibit 2: ~78% of stressed projects affected due to inadequate PPAs



Source: Company, Emkay Research

Resolution of existing NPAs for PFC remains a likely event

Some large projects such as KSK Mahanadi, RKM Power and Sinnar Thermal are resolved or on the brink of resolution. Most of the projects that we have analyzed have strategic advantages such as proximity to source of coal/proximity to port (in case of dependence on imported coal) or partial commissioning.

During our account-by-account assessment of PFC's NPAs, we have assigned a probability of recovery on a total stressed exposure and we believe that these stressed assets are of value to acquirers and would fetch a fairly reasonable recovery for the lender.

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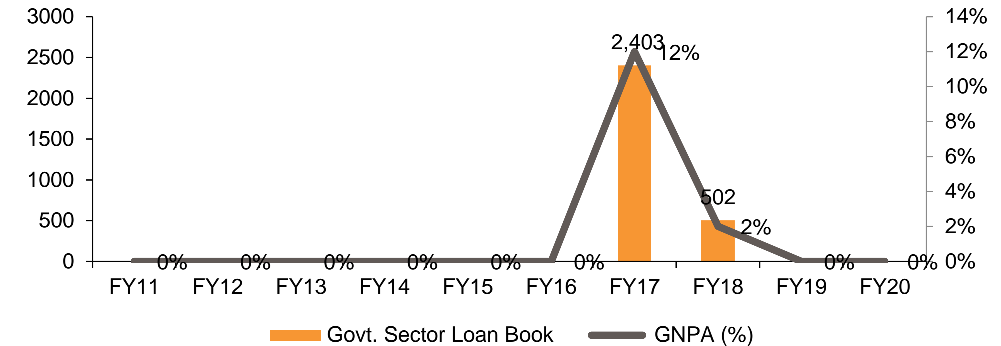
Government-linked entities have not caused any credit losses till date

Stress accretion in government-backed entities remained zero. Barring few incidences, most government-backed entities (central as well as state) have managed to repay their liabilities resulting in ~zero credit loss. In the one-off exceptions, debtors have received their dues but just with a time lag. Though PFC witnessed a surge in government sector NPAs, post RBI's asset quality norms in FY17, the entire pool of government NPAs was subsequently upgraded to standard, resulting in zero credit loss. Additionally, PFC has reported nil NPAs from PSU exposure in FY19 and FY20.

PFC reported NPAs from Government sector only once, following RBI's asset quality norms in FY17; however, the entire pool of government NPAs subsequently upgraded to standard assets, resulting in zero credit losses.

Exhibit 3: Government sector NPAs as % of Government Sector Exposure (Rs. Bn)



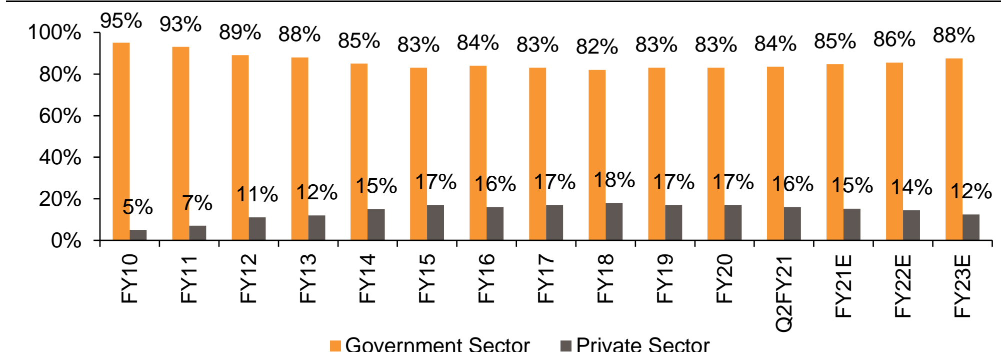
Source: Company, Emkay Research

Despite weak PSU financials (stretched working capital cycle and debt service coverage), there has been no instance of loss/write-off in exposure to state utilities. This was on account of a) state government guarantee; b) first charge on receivables through daily escrows; and c) creation and maintenance of DSRA. In short, despite stretched balance sheets, preference to repay financiers takes precedence among these state-run entities over other liabilities.

Further rise in share of PSU portfolio gives comfort

Under the 'Aatmanirbhar Bharat' scheme, incremental disbursements (of ~Rs1.2tn) will be to state discoms, backed by state guarantees, resulting in incremental disbursement to the 'safe' PSU portfolio. Our historical analysis makes us comfortable with a concentrated share of the government sector (including state utilities) as that has and will result in steady trends in asset quality. Though there may be one-off restructuring/deferment in payments, we believe that credit losses in this portfolio shall be minimal.

Exhibit 4: Share of Government/PSU entities in AUM on the rise



Source: Company, Emkay Research

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PFC has an escrow mechanism under which revenue of the borrower is placed in the relevant escrow accounts/trust and retention accounts granting first charge on cash inflows to PFC.

Why there is no meaningful risk of default in loans issued to state discoms?

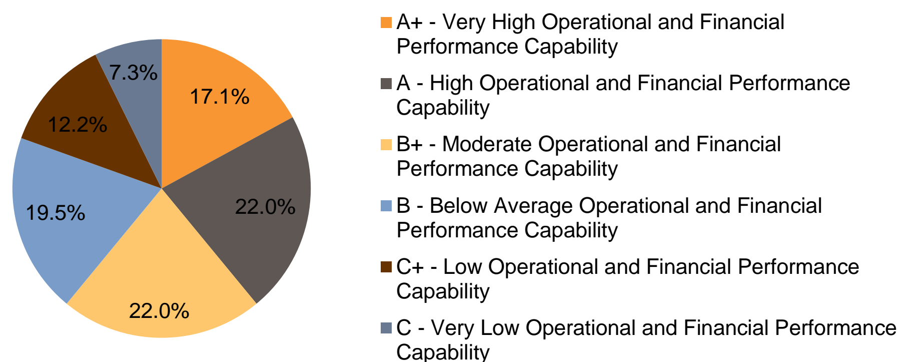
We have gone through debenture term sheets and credit rating rationale of various leading state discoms. The financial health of these state discoms are shaky due to the impact of the pandemic – weak demand, high AT&C losses and high debt levels (less than 40% having stable operational metrics), and we believe these can improve only with structural reforms.

However, we believe that lenders to these discoms are not at risk of suffering a default on the following grounds:

- 100% ownership by State Governments which continue to support the cash bleed by equity, grants, subsidies and cross subsidization
- Unconditional, irrevocable guarantees by State Governments (where operational metrics are weak)
- Creation and maintenance of DSRA (where liquidity maybe weak)
- Electricity receivables escrowed into bond servicing accounts on a daily basis – trustee administered

Given these ring-fencing mechanisms, we believe that financial creditors like PFC/REC stand adequately secured regarding their extant/incremental exposure to state discoms.

Exhibit 5: State discoms grading



Source: Emkay Research

Annexure 1: Current lending structure for few of state discoms

Example A

Uttar Pradesh Power Corporation Ltd (UPPCL) is the largest state discom form the state and is running with AT&C losses of ~30%. UPPCL is seeking a loan of ~Rs210bn under 'Aatmanirbhar Bharat' package and has ring-fenced financial creditors (including PFC/REC) as follows:

- Adequate liquidity due to the presence of Debt Service Reserve Account (DSRA)
- Electricity receivables escrowed on a daily basis
- Unconditional and irrevocable guarantee from the state government of Uttar Pradesh

Example B

Jaipur Vidyut Vitran Nigam Ltd (JVVNL) is a discom from Rajasthan, which is running at AT&C losses of ~25% and has ring-fenced financial creditors in the following way;:

- Support in the form of equity and grants due to its strategic importance
- Escrow mechanism with 1.2x cover for non-guaranteed facilities
- Unconditional and irrevocable guarantee from the Rajasthan Government

Robust underwriting mechanism: watertight lending structure and escrow mechanism already in place

Learning from past, PFC has completely stopped sanctioning loans without a PPA. PFC has also tightened its lending structure. PFC has established an escrow mechanism for roughly ~92-94% of its outstanding loans. In the case of private sector borrowers, additional security is obtained through a first priority pari passu charge on the relevant project assets, and through a trust and retention account mechanism.

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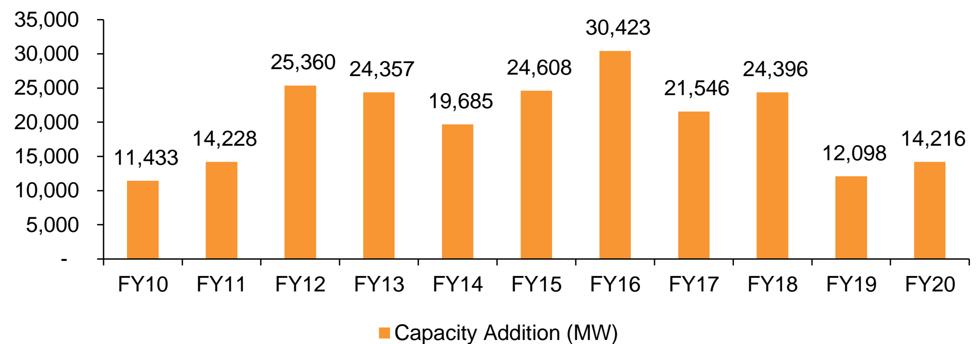
Legacy power sector NPAs mainly caused by regulatory hurdles

Indian financial institutions in past decade has witnessed volatile asset quality trends in their power sector exposures, with roughly ~18-20% of exposure gradually turning out to be NPAs. The main causes include 1) imprudent capacity expansion during 2010-15; 2) demand growth slowdown after 2012; and 3) upstream (coal linkages) and downstream (PPAs) challenges in the power sector value chain.

One of the largest transformations is possibly the inclusion of the private sector in the Generation segment. Approximately 117GW of coal-based capacities were added during the period; from 68GW in FY05 to 185GW in FY16 (CAGR of 9.6%). Coal production on the other hand failed to match the pace of the coal-based capacity additions and grew at a subdued rate of 4.8% CAGR during FY05-FY16 to 639 MT. This led to a scarcity in the availability of domestic fuel and developers resorted to expensive coal imports to bridge the supply gap.

Exhibit 6: Imprudent capacity addition is behind us



Source: Emkay Research

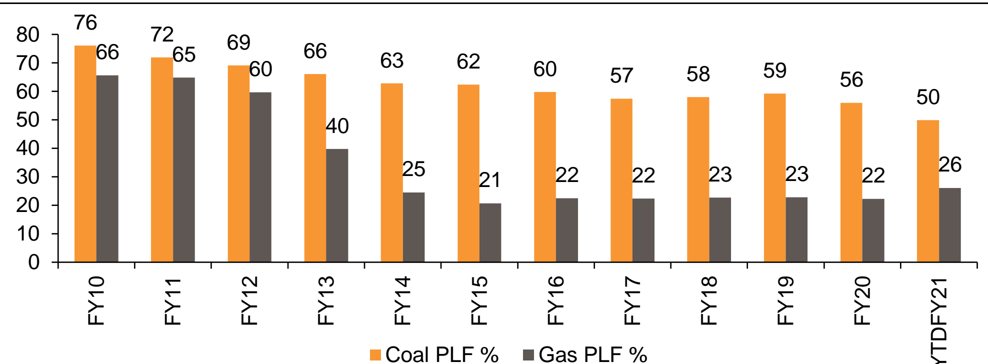
Many plants were also affected by coal supply issues. After the cancellation of 204 coal mines by the Supreme Court in 2014, many of these thermal power projects got stalled without adequate coal supply. In addition, many projects were set up without firm coal linkages from CIL (relying on imported coal), leading to high cost of generation.

Fall in power demand and lack of PPAs affected PLFs

Robust capacity addition also outpaced energy demand. Energy demand and supply deficit had fallen sharply from 8.71% in 2012-13 to 0.7% in 2017-18. Accordingly, discoms differed entering into any long-term PPA with the power developers. Fall in power demand and lack of PPAs affected PLF of the thermal power stations.

The overall PLF of thermal power plants declined from 78.8% in 2006-07 to 59.88% in 2017-18 and sub 50% in FY20. Low demand and increased power supply led to a steep fall in merchant rates to ~Rs2.5/unit, making it unviable for projects importing expensive coal to compete in the market.

Exhibit 7: PLFs remain low



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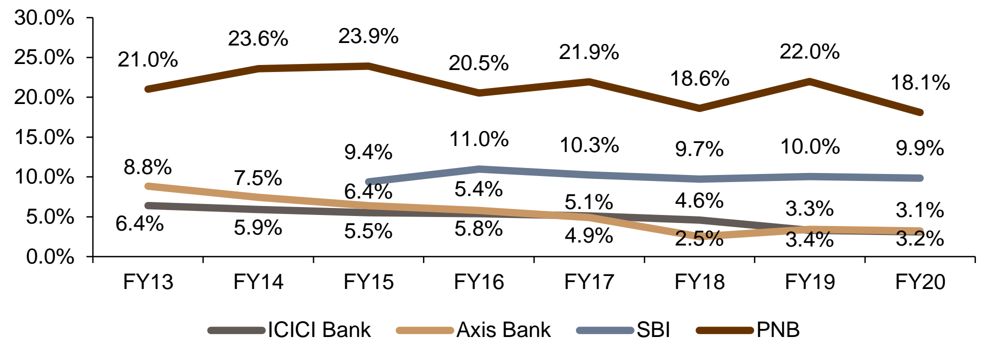
Surge in power sector NPAs across lenders

Most lending institutions in the past had sanctioned advances based on fuel supply agreements, probable plant structure, etc. However, with absence of demand (lack of PPAs from SEBs), Indian financial sector witnessed a sharp rise in NPAs, resulting in declining exposure.

In absence of demand (lack of PPAs from SEBs), Indian financial sector witnessed a sharp rise in NPAs, resulting in declining exposure for most lenders.

Exhibit 8: Reducing exposure of leading lenders on the back of elevated NPAs



Source: Emkay Research

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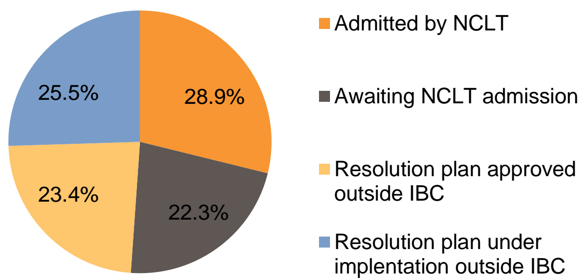
Adequate provisioning done towards legacy NPAs

Our account-by-account analysis of the existing stressed pool suggests limited risk of additional credit costs. We expect the overall haircut on the existing stressed portfolio to be 48-50%. Hence, the current provision coverage of 56% should be adequate, in our view. With gradual resolution of NPAs, we expect some reversal in provisions over a period of time; however, we are not building in the same in our estimates.

Our analysis of existing stressed pool suggests:

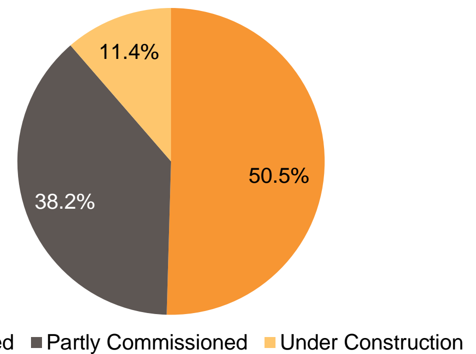
- ~65% of the cases have already been admitted to NCLT or are under IBC and awaiting resolution or are already resolved outside IBC.
- 30-40% of impaired assets are at advanced stages of resolution for PFC.
- Projects like IndBarath, Jhabua Power and Jal Power have already found bidders.
- Projects like South East UP Power, Lanco Amarkantak, KSK Mahanadi Power and Shree Maheshwar are at advanced stages of resolution, with their plans near approval.
- Even outside NCLT, several projects are being actively resolved, namely RKM Powergen, India Power Corporation (Haldia), Sinnar Thermal Power, etc.

Exhibit 9: Resolution stages of stressed pool remains encouraging



Source: Company, Emkay Research

Exhibit 10: Share of Commissioned & Partly-Commissioned projects



Source: Company, Emkay Research

Exhibit 11: Our risk assessment of existing pool

Project Status	No of Projects	Capacity (MW)	Average PLF %	PFC Exposure Rs mn	Expected recovery %	Expected recovery t Rs mn
Commissioned	12	6600-6700	40.0%	1,45,030	65%	94,270
Partly Commissioned	5	5300-5500	33.0%	1,09,800	44%	48,312
Under Construction	6	3800-4000	0.0%	32,640	25%	8,160
	27			**2,87,470**	**52%**	**1,50,742**

Source: Emkay Research

In our view, the overall haircut on the existing stressed portfolio will roughly be around ~48-50%. Hence, the existing coverage of ~56% should suffice for now.

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Annexure 2: Sensitivity analysis for IndBharath Utkal project resolution

We have done a sensitivity analysis on one of the stressed accounts of PFC – IndBharath Utkal. Through our profitability estimates, we derive the following conclusion:

- The project would become profitable even at ~40% PLF if provided with ~65% haircut.
- In our provisioning requirement, we are building in ~65% haircut, justifying investor interest.

Exhibit 12: Details of IndBharath Utkal

Project	**IndBharath**
Capacity MW	**700**
Project cost (mn)	**42,500**
Per/MW	**61**
Debt	**31,875**

Rs mn	**Scenario 1**	**Scenario 2**	**Scenario 3**
PLF %	**40%**	**50%**	**60%**
Revenue	8,401	10,501	12,601
variable cost	3,865	4,831	5,797
O&M	980	980	980
EBITDA	**3,556**	**4,690**	**5,824**
Depreciation	2,253	2,253	2,253
EBIT	1,304	2,438	3,572
Interest	3,825	3,825	3,825
PBT	-2,521	-1,387	-253
Tax	-	-250	-46
PAT	-2,521	-1,138	-208
Probable Haircut	65%	50%	30%
EBIT	1,304	2,438	3,572
Interest	1,304	1,913	2,678
PBT	-	525	894
Tax	-	-250	159
PAT	156	275	1,053

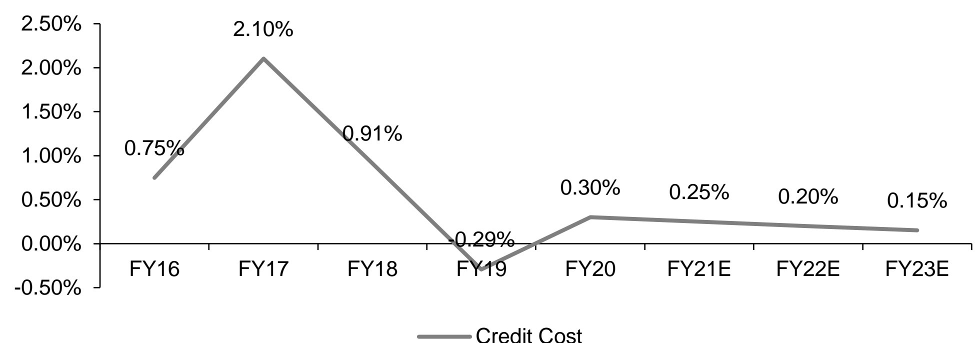
Source: Company, Emkay Research

We are not factoring any provision reversals for now

Our account-by-account analysis of PFC's NPAs suggests LGDs of ~48-50% on the worst case basis (against existing coverage of ~56%). However, we choose to be conservative and are not building in provision reversals in our estimates.0

As these NPAs get resolved and given PFC's healthy coverage ratio (as well as their charge over fixed assets), we expect PFC to report reversal in provisions in the coming financial years. However, we decided to be conservative and did not build in provision reversals in our estimates (given the timing uncertainty of resolution), resulting in an upside risk to our estimates.

Exhibit 13: Credit cost trend



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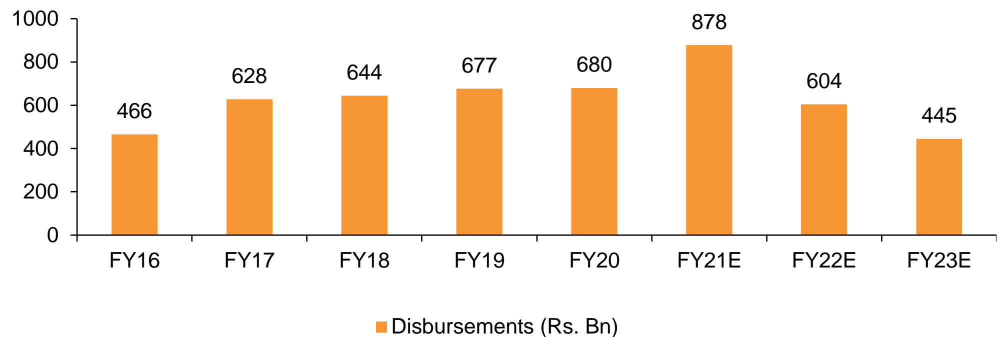
Aatmanirbhar Bharat to aid growth revival in FY21E

PFC has reported AUM CAGR of ~10% during FY15-20 despite various lending restrictions placed under UDAY. Disbursements during the same period grew at a ~9% CAGR, backed by demand from transmission and distribution projects, whereas generation projects continued to witness slowdown amid excess supply and lower PLFs.

In a major push to revive the financial health of ailing discoms, the government has decided to infuse a one-time relief of Rs1.2tn through PFC/REC. Under this scheme, power financiers have received interest of Rs1.18tn from discoms. Of this, ~Rs311bn have been disbursed till date. We believe that disbursements under this package will channelize liquidity into the value chain by clearing dues of CPSU gencos, transcos and IPPs, and ease systemic stress.

Exhibit 14: Disbursements boosted by Aatmanirbhar package



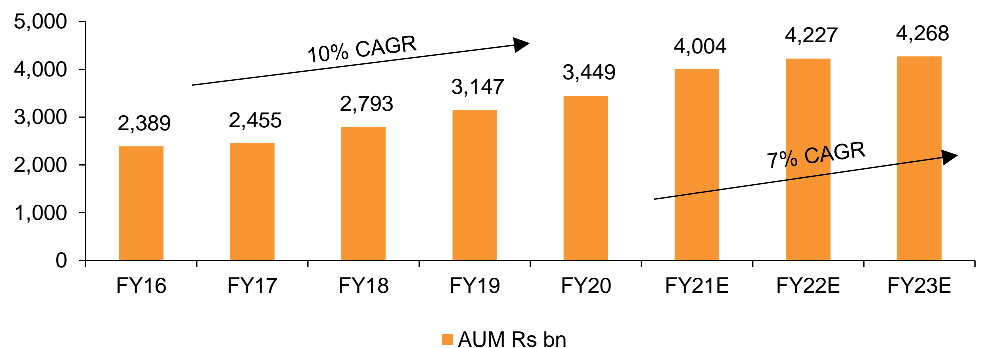
Source: Company, Emkay Research

After the scheme announcement, Andhra Pradesh discoms sought loans worth Rs66bn (Rs33bn disbursed); Maharashtra's Rs50bn loan has been sanctioned; Punjab applied for Rs40bn; Rajasthan sought loans worth ~Rs40bn (Rs20.3bn disbursed); and Telangana applied for Rs120bn (Rs63bn disbursed). Uttar Pradesh, where discoms owe dues totaling Rs147bn, has received Rs105bn in loan, highest in all states.

We are factoring in a revival in disbursement, leading to AUM growth

We expect demand from Gencos to remain weak with some momentum from renewable projects. With special disbursements under Aatmanirbhar, we expect revival in disbursements for FY21E.

Exhibit 15: Revival in disbursements to lead to AUM growth



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Looking beyond the Power sector

PFCs Genco book has largely peaked out due to low PLFs and incremental capacity largely coming in only renewables. Accordingly, PFC would soon scout for alternate opportunities in the hunt for growth. Widening of scope will also increase the perceived longevity of the company.

Genco book for PFC largely peaked out; repayments will lead to decline

We believe that loan book growth through lending to Gencos has largely peaked for PFC and the company would soon scout for alternate opportunities in the hunt for growth.

With a potential recovery of over 50% from the stressed pool and an adequate corresponding provision buffer, PFC has proven its underwriting capability as well as the 'credibility' of the power sector.

We believe that capex requirement from thermal power projects has already peaked out due to low PLFs with roughly 24000MW additions expected in the next three years. For renewables, the overall loan disbursement duration remains low with relatively stringent competition among lenders. Hence, in our view, Genco book for PFC has largely peaked out and with regular repayments arising, the book is expected to witness a decline. The company would soon scout for alternate opportunities in the hunt for growth, which should increase the perceived longevity of the company.

Infrastructure finance could be next avenue of growth

PFC may seek to broaden its growth avenues and entering into infrastructure finance could be the most obvious choice with the National Infrastructure Pipeline target capex spend of Rs111tn till FY25. The NIP project was allocated Rs13.6tn in FY21 and Rs19.5tn in the subsequent financial years with 80% of total estimated investments to be financed by the government. Given the impact of Covid-19 on states' finances, we believe that the government may look for support from its deep pockets financing arms like PFC as it seeks to achieve the NIP capex goal.

T&D Infrastructure another area of expansion

The government's investment target in the T&D space stands at Rs3-3.2tn in the 13th Plan (2017-22) vs. Rs2.1-2.2tn in the 12th Plan. This includes expanding inter-regional transmission capacity to 130GW by FY23 from 86GW in FY18. Till date, inter-regional transmission capacity has reached only to 104GW. The government is expected to focus on T&D infrastructure improvement through widening the transmission network, higher grid availability, better power supply across regions, agricultural feeder separation and extensive rural electrification – in turn driving up power demand.

Further, the government plans to come up with a Rs3.4tn worth distribution reform scheme called Atal Distribution System Improvement Yojana (ADITYA) to replace UDAY scheme, which came to an end in Mar'20. ADITYA is a performance-linked reform scheme, which aims to revive ailing distribution segments by bringing down AT&C losses. **We believe T&D could be a big focus area for PFC in its hunt for growth.**

PFC/REC to play key role in resolving liquidity issues of discoms

Passage of Electricity Amendment Act (Annexure 3) with some critical proposals will kick start an investment cycle. Also, the government has the upper hand in approving the National Tariff Policy and will be approved soon. Special discom package (under Aatmanirbhar) will not only infuse the most needed liquidity in the value chain allaying asset quality risks, but boost disbursements for PFC. This, coupled with NIPs comprehensive capex plan (Annexure 4), improves growth visibility for PFC.

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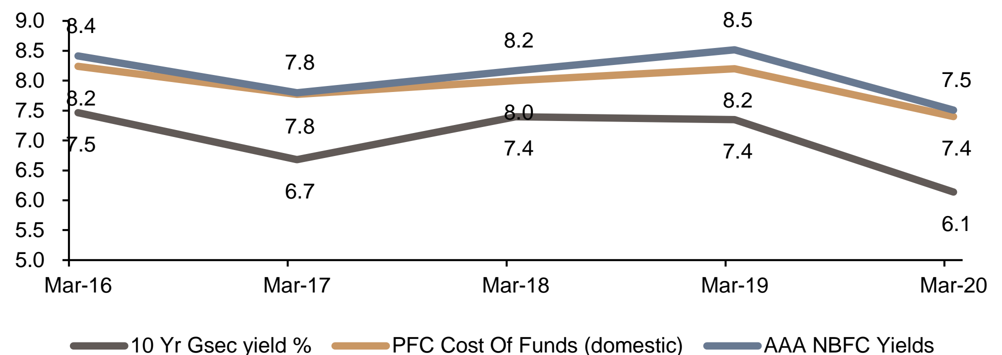
Sovereign rating gives advantage in cost of funds

We are factoring in stable margins in the range of 330-335bps during FY21-23E as we assume a decline in overall yields due to the rising share of secured government projects; however, an equivalent decline in the cost of funds due to the company's superior ratings and well-balanced ALM profile.

PFC has managed to maintain superior yields on a consolidated basis in the range of ~10-12%, backed by healthy product mix and stringent risk assessment processes. Post launch of UDAY scheme (FY17 onwards), overall yields and margins have declined due to the absence of loss funding to discoms. However, the company was able to manage margins due to less competition and the backing of sovereign ratings.

Exhibit 16: PFC manages domestic cost of funds at cheaper rates compared to AAA-rated NBFCs



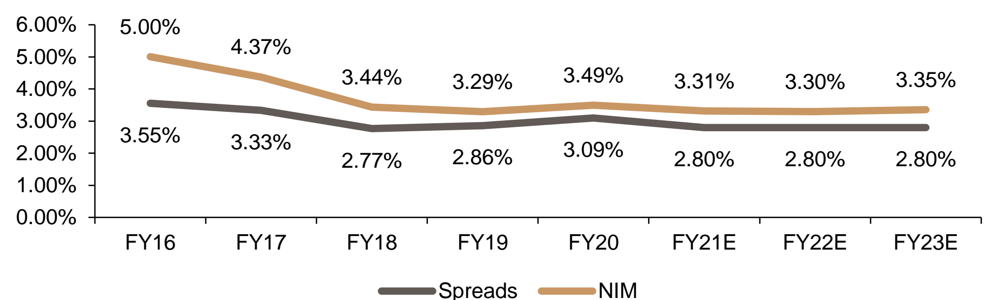
Source: Company, Emkay Research

Lower interest rate scenario to support margin volatility in future

As global interest rates remain tepid, we believe that the cost of funds will fall further for a well-managed NBFC like PFC with strong parentage, while the current Covid-19-induced financial crisis would leave rates of unsecured retail loans static/relatively expensive. This will not only enable PFC to be more competitive in its rate structure and win market share but will also give a margin boost, leading to high ROE's in a low COE environment.

Post launch of UDAY scheme (FY17 onwards), overall yields and margins have declined due to absence of high yield loss funding to discoms. However, PFC was able to manage margins due to less competition and superior sovereign ratings.

Exhibit 17: Trend in Spreads and NIMs



Source: Company, Emkay Research

Though the Aatmanirbhar package proposes relatively lower rate of interest, secured profile of the lending as well as softer borrowing rates would continue to support margins in future.

Rating and ALM profile remain par excellent

The company managed to maintain the highest rating for both long- and short-term domestic borrowing programmes (including bank loans).

- Domestic Rating assigned by CRISIL, ICRA and CARE
  - Long-term domestic borrowing programme - CRISIL AAA, ICRA AAA and CARE AAA
  - Short-term domestic borrowing programme - CRISIL A1+, ICRA A1+ and CARE A1+
- International Rating
  - Baa3 and BBB- assigned by Moody's and Fitch, respectively.

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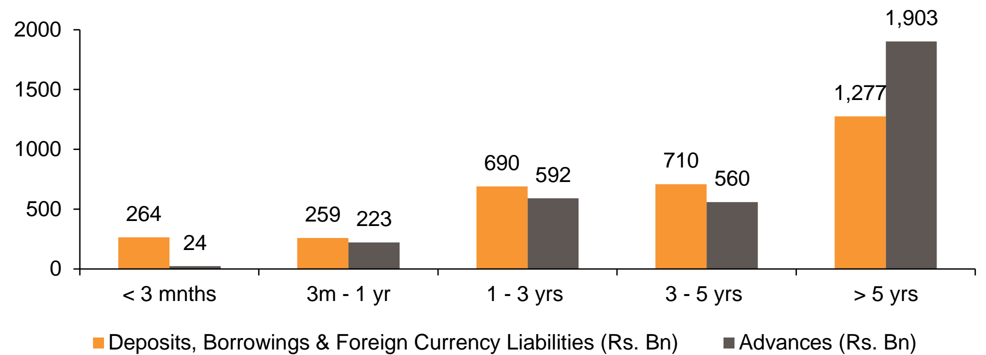
PFC has put in place an effective asset liability management system as per the Asset Liability Management Policy formulated in line with the RBI's guidelines on Liquidity Risk Management Framework to manage the liquidity and interest rate risks. PFC has maintained a significantly positive ALM position across all buckets as against 15% negative ALM position permissible under the current RBI regulations.

Exhibit 18: ALM maturity profile of the company across buckets as on March'20



Source: Company, Emkay Research

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Financials and Assumptions

Exhibit 19: PFC income statement summary and profitability trends (Rs mn)

Income Statement	FY18	FY19	FY20	FY21F	FY22F	FY23F
Interest Income	259,759	287,663	333,711	366,716	388,724	388,764
% growth	*-2.8%*	*10.7%*	*16.0%*	*9.9%*	*6.0%*	*0.0%*
% yields on avg. loans	*10.1%*	*9.9%*	*10.3%*	*10.0%*	*9.6%*	*9.3%*
Interest Expenses	169,559	189,876	218,532	243,341	253,062	246,365
% growth	*5.2%*	*12.0%*	*15.1%*	*11.4%*	*4.0%*	*-2.6%*
% cost of funds	*7.4%*	*7.1%*	*7.2%*	*7.2%*	*6.8%*	*6.5%*
Net Interest Income	**90,200**	**97,787**	**1,15,179**	**1,23,375**	**1,35,663**	**1,42,399**
% growth	*-14.9%*	*8.4%*	*17.8%*	*7.1%*	*10.0%*	*5.0%*
NIM % of average AUMs	**3.44%**	**3.29%**	**3.49%**	**3.31%**	**3.30%**	**3.35%**
Employee cost	1,766	1,736	1,938	2,132	2,260	2,373
% growth	*53.6%*	*-1.7%*	*11.7%*	*10.0%*	*6.0%*	*5.0%*
Depreciation, amortization	64	61	91	91	91	91
% growth	*15.3%*	*-4.2%*	*48.2%*	*0.0%*	*0.0%*	*0.0%*
Translation exchange loss/ gain	2,131	4,353	19,344	-2,516	7,952	7,675
% of forex loans	*1.6%*	*1.8%*	*5.1%*	*-0.5%*	*1.5%*	*1.5%*
Other expenses	3,921	2,194	1,968	2,952	2,067	2,170
% growth	*49.7%*	*-44.0%*	*-10.3%*	*50.0%*	*-30.0%*	*5.0%*
Operating expenses	7,882	8,344	23,341	2,659	12,370	12,309
% growth	*13.5%*	*5.9%*	*179.7%*	*-88.6%*	*365.1%*	*-0.5%*
Cost-to-income ratio (%)	*8.7%*	*8.5%*	*20.3%*	*2.2%*	*9.1%*	*8.6%*
Opex-to-AUM ratio (%)	*0.30%*	*0.28%*	*0.71%*	*0.07%*	*0.30%*	*0.29%*
Operating profit	**82,361**	**89,443**	**91,838**	**1,20,716**	**1,23,293**	**1,30,090**
% growth	*-19.3%*	*8.6%*	*2.7%*	*31.4%*	*2.1%*	*5.5%*
Total Provisions	23,910	-8,715	9,912	9,316	8,230	6,371
% of avg. AUMs	*0.91%*	*-0.29%*	*0.30%*	*0.25%*	*0.20%*	*0.15%*
Profit before tax	58,451	98,158	81,925	1,11,400	1,15,063	1,23,719
% growth	*14.4%*	*67.9%*	*-16.5%*	*36.0%*	*3.3%*	*7.5%*
Taxation	14,583	28,629	25,374	27,850	28,766	30,930
Tax rate (%)	*24.9%*	*29.2%*	*31.0%*	*25.0%*	*25.0%*	*25.0%*
Profit after tax	**43,868**	**69,529**	**56,551**	**83,550**	**86,297**	**92,789**
% growth	*106.3%*	*58.5%*	*-18.7%*	*47.7%*	*3.3%*	*7.5%*

Source: Company, Emkay Research

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Exhibit 20: PFC Balance sheet (Rs mn)

LIABILITIES	FY19	FY20	FY21F	FY22F	FY23F
Equity Capital	26,401	26,401	26,401	26,401	26,401
Reserves & surplus	406,479	425,241	487,903	552,626	622,217
Shareholders' funds	432,880	451,641	514,304	579,026	648,618
% growth	*17.1%*	*4.3%*	*13.9%*	*12.6%*	*12.0%*
% of total liabilities	*12.6%*	*12.5%*	*12.2%*	*13.0%*	*14.4%*
Borrowings	2,957,445	3,108,745	3,650,716	3,792,276	3,788,171
% growth	*22.0%*	*5.1%*	*17.4%*	*3.9%*	*-0.1%*
% of total loans	*97.5%*	*93.0%*	*94.0%*	*92.5%*	*91.5%*
Current liabilities	53,278	53,752	59,127	65,039	71,543
% growth	*2096.7%*	*0.9%*	*10.0%*	*10.0%*	*10.0%*
% of total liabilities	*1.5%*	*1.5%*	*1.4%*	*1.5%*	*1.6%*
Provisions	3,654	3,735	3,735	3,735	3,735
% growth	*25.5%*	*2.2%*	*0.0%*	*0.0%*	*0.0%*
% of total liabilities	*0.1%*	*0.1%*	*0.1%*	*0.1%*	*0.1%*
Total liabilities	**3,447,257**	**3,617,873**	**4,227,881**	**4,440,076**	**4,512,067**
% growth	*23.2%*	*4.9%*	*16.9%*	*5.0%*	*1.6%*
******ASSETS******					
Cash and bank balances	142,006	1,990	46,852	30,883	57,324
% of assets	*4.1%*	*0.1%*	*1.1%*	*0.7%*	*1.3%*
Investments	165,862	164,733	182,536	189,614	189,409
% growth	*558.2%*	*-0.7%*	*10.8%*	*3.9%*	*-0.1%*
% of borrowings	*5.6%*	*5.3%*	*5.0%*	*5.0%*	*5.0%*
Total loans and advances	3,032,104	3,341,126	3,883,741	4,099,757	4,140,078
% growth	*14.0%*	*10.2%*	*16.2%*	*5.6%*	*1.0%*
Other Financial Assets	53,310	53,391	56,061	58,864	61,807
% growth	*-3.2%*	*0.2%*	*5.0%*	*5.0%*	*5.0%*
Fixed assets	277	314	345	379	417
% growth	*6.4%*	*13.0%*	*10.0%*	*10.0%*	*10.0%*
Other assets	8,107	20,285	22,313	24,544	26,999
% growth	*8.9%*	*150.2%*	*10.0%*	*10.0%*	*10.0%*
Deferred tax assets	45,592	36,034	36,034	36,034	36,034
Total non-interest bearing assets	53,976	56,632	58,692	60,958	63,450
% growth	*1.5%*	*4.9%*	*3.6%*	*3.9%*	*4.1%*
Total Assets	**3,447,257**	**3,617,873**	**4,227,881**	**4,440,076**	**4,512,067**
% growth	*23.2%*	*4.9%*	*16.9%*	*5.0%*	*1.6%*

Source: Company, Emkay Research

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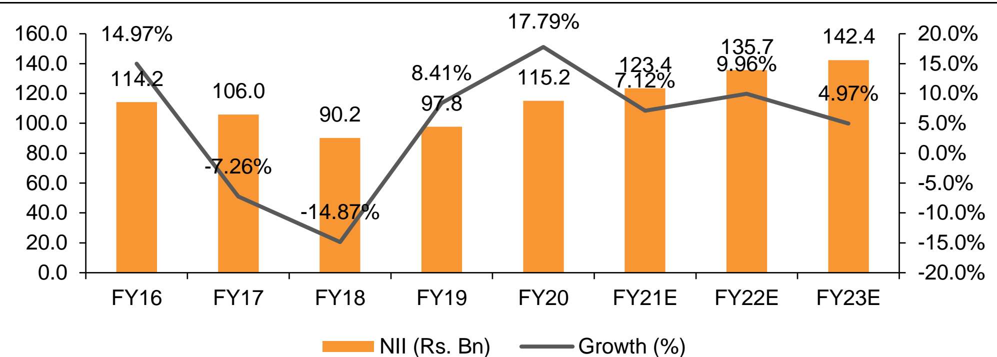
- We are factoring in a 7% CAGR in net interest income (NII) during FY20-23E, mainly backed by a surge in disbursements due to the government's Aatmanirbhar scheme for discoms. We expect demand from Genco to remain muted due to lower incremental capex and weak PLFs currently.

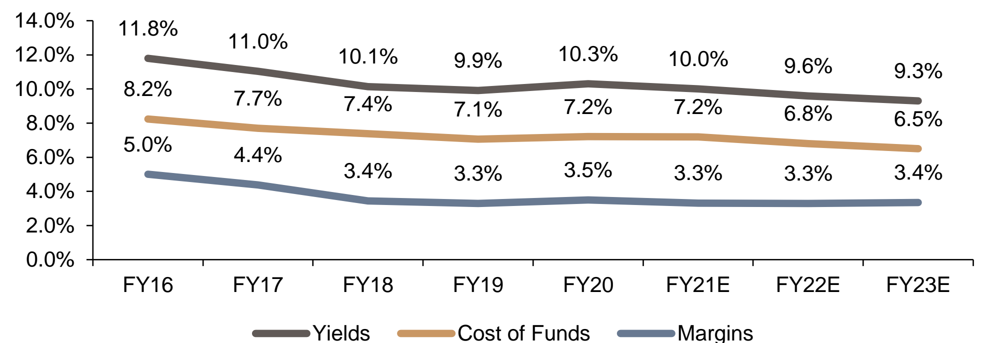
Exhibit 21: NII growth



Source: Company, Emkay Research

- We are factoring in stable margins in the range of 330-335bps during FY21-23E as we assume a decline in overall yields due to a rise in the share of secured government projects. However, we expect an equivalent decline in the cost of funds due to company's superior ratings and well-balanced ALM profile.

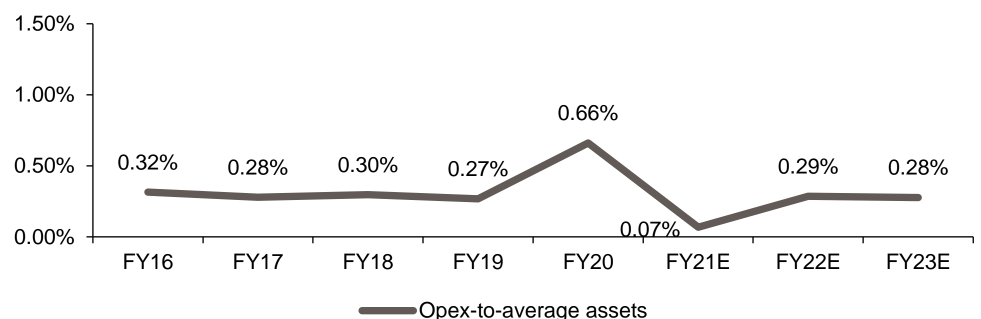
Exhibit 22: Yields, Cost of Funds and Margins



Source: Company, Emkay Research

- We expect a dip in operating expenses during FY21, mainly driven by gains from foreign exchange contracts as we assume rupee appreciation during FY21. However, going forward, we expect the cost-to-average assets to remain at ~30bps for FY22-23E.

Exhibit 23: Trends in Cost to average assets



Source: Company, Emkay Research

- Considering resolution of legacy NPAs as well as PFC's healthy coverage ratio, we expect PFC to report a reversal in provisions in the coming financial years. However, we are not building in provision reversals in our estimates (given the timing uncertainty of resolution), resulting in an upside risk to our estimates.

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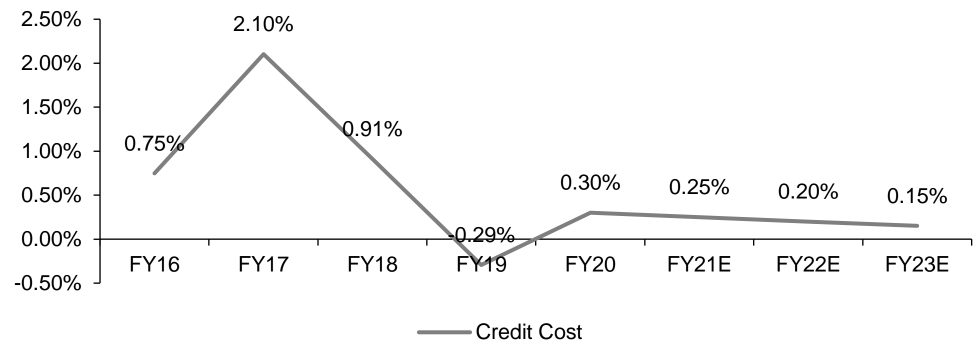
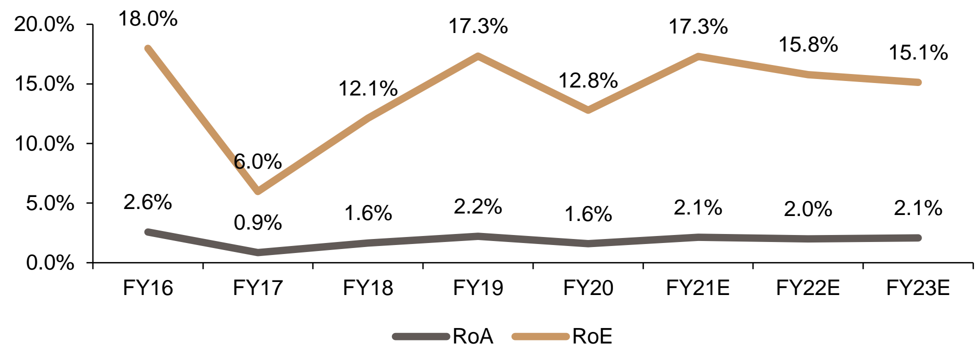
Exhibit 24: Trends in Credit costs



Source: Company, Emkay Research

- We are factoring in an ~18% CAGR in profit during FY20-23E, backed by a decline in provisions by ~14% CAGR and steady trends in NII, which is expected to grow at a ~7% CAGR during FY20-23E.

Exhibit 25: RoE and RoA trends healthy



Source: Company, Emkay Research

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Valuation and Recommendation

- Historic track record of asset quality deterioration mainly in private sector weighed on PFC's valuations. Our analysis of account-by-account exposure suggests limited downside risk to stress accretion and would be more than offset by resolutions that are at advanced stages.
- The low interest rate scenario is another advantage for PFC as it will support spreads and margins in the coming quarters. This coupled with improving operating efficiency will aid profitability further.

Spike in disbursement growth during FY21 is attributable to the government's Aatmanirbhar scheme for Discoms, whereas AUM growth may ease post normalization of repayments.

Exhibit 26: Growth assumptions

Parameter	FY19	FY20	FY21	FY22	FY23
AUM Growth	12.7%	9.6%	16.1%	5.6%	1.0%
Disbursement Growth	5.1%	0.5%	29.1%	-31.2%	-26.3%
NII Growth	8.4%	17.8%	7.1%	10.0%	5.0%
Operating Profit	8.6%	2.7%	31.4%	2.1%	5.5%
Profit after Tax	58.5%	-18.7%	47.7%	3.3%	7.5%

Source: Emkay Research

- We are factoring in an ~18% CAGR in profit during FY20-23E, backed by a decline in provisions by ~14% CAGR along with steady trends in Net Interest Income which is expected to grow by ~7% CAGR from FY20-23E.
- Current multiple provides comfort and we see limited downside risk hereon, considering consistency in growth and improving profitability providing further comfort.

We are initiating coverage on Power Finance Corp. (PFC) with a Buy rating and Mar'22 TP of Rs210 (+73% upside). We are valuing PFC on a sum-of-total-parts (SOTP) basis whereby we have chosen to intrinsically value standalone PFC using the excess return on equity method. Additionally, we are valuing PFC's ~52.6% stake in REC Limited (subsidiary of PFC) on the market cap basis with a 30% holding company discount. Our TP implies 1.0x FY23E adjusted standalone P/B multiple and 6x P/E.

Exhibit 27: Our DCF assumptions

Parameter	Value
Risk free rate	6.0%
Risk premium	6.0%
Beta	1.0
Cost of equity	12.0%
Tax rate	25%
Terminal growth rate	1%

Source: Emkay Research

Exhibit 28: Value of Investment in REC (Rs bn, unless otherwise stated)

Outstanding REC equity shares (bn)	**1.98**
CMP (Rs)	145
M-cap	286
PFC's stake in REC (%)	52.63%
Value attributable to PFC	151
Value attributable to PFC (Rs/share)	57
Hold-co discount (%)	30.0%
Value attributed to PFC after hold-co discount (Rs/share)	**40**
Acquisition cost of REC (INR bn)	145

Source: Emkay Research

Exhibit 29: PFC — sum of the parts (Rs/share)

Particulars	Contribution (%)	Value per share (Rs)	Rationale
Core business	81.0%	170	ERoE
Value of REC Limited	19.0%	40	M Cap basis
Target Price		**210**	

Source: Emkay Research

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Sensitivity analysis to our assumptions – probable upside risk

- Considering recent restriction over dividend payouts from the Reserve Bank, we have factored in a 25% dividend payout ratio from FY21 through FY23E. However, any exception to the norm will be beneficial for the company's valuation.
- Similarly, we have valued PFC's stake in REC at the current market price, implying 5.8x price to FY20 earnings. However, if we allocate REC the similar target multiple as PFC, it will provide a decent upside to our TP.

Exhibit 30: Sensitivity analysis to our assumptions

	Base Case	Bull Case
Dividend Payout% (FY21-23)	25.0%	50.0%
REC's Valuation	At Current Market Price	Target multiple as PFC
Fair Value (INR)	210	265
Upside %		26%

Source: Emkay Research

Volatility in operating expense is due to gain/loss on foreign exchange contracts, which are largely unhedged.

Exhibit 31: Du-Pont analysis

ROE decomposition	FY19	FY20	FY21F	FY22F	FY23F
Interest income	9.2%	9.4%	9.3%	9.0%	8.7%
Interest expended	6.1%	6.2%	6.2%	5.8%	5.5%
Net Interest Income	**3.1%**	**3.3%**	**3.1%**	**3.1%**	**3.2%**
Other Income (Treasury / others) / Avg. Assets	0.0%	0.0%	0.0%	0.0%	0.0%
Income Yield / Avg. Assets	**3.1%**	**3.3%**	**3.1%**	**3.1%**	**3.2%**
Op. Cost / Avg Assets	0.3%	0.7%	0.1%	0.3%	0.3%
Operating profit / Avg Assets	**2.9%**	**2.6%**	**3.1%**	**2.8%**	**2.9%**
Provisions / Avg. assets	-0.3%	0.3%	0.2%	0.2%	0.1%
Pre-Tax ROA	**3.1%**	**2.3%**	**2.8%**	**2.7%**	**2.8%**
Tax Retention Rate	70.8%	69.0%	75.0%	75.0%	75.0%
Post Tax ROA	**2.2%**	**1.6%**	**2.1%**	**2.0%**	**2.1%**
Leverage = Avg. Assets / Avg. Equity	7.8	8.0	8.1	7.9	7.3
ROE (Leverage * ROA)	**17.3%**	**12.8%**	**17.3%**	**15.8%**	**15.1%**

Source: Company, Emkay Research

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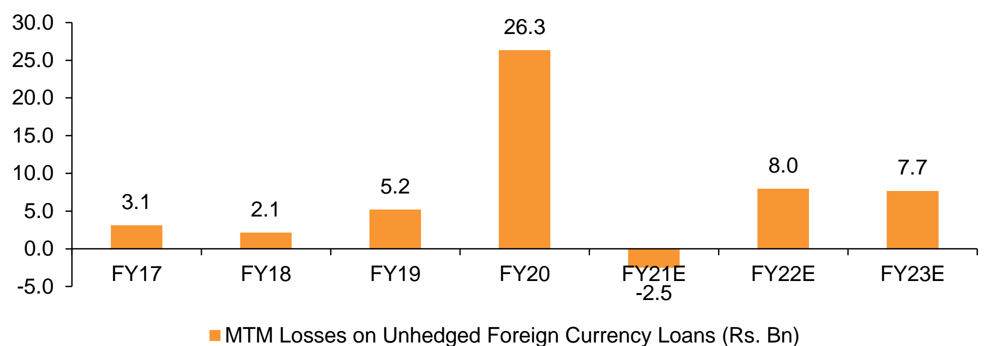
Key risks

MTM loss on unhedged forex needs to be monitored

PFC has ~58% of its overseas borrowings unhedged (100% of long-tenure forex exposure is unhedged and 26% of less than 5-years forex borrowings are not hedged). With movement in INR-USD, concurrent notional loss/gain on forex liabilities and derivative contracts will tend to keep earnings volatile.

In FY20, with 5-7% rupee depreciation, PFC had provided Rs26bn of notional loss (equivalent to >25% of operating profit). Based on Emkay view, we are factoring in rupee appreciation for FY21 resulting in gains for the year, whereas for FY22/23E, we are factoring in losses of ~1.5% of revenues based on historic trends.

Exhibit 32: MTM losses on Unhedged foreign currency loans



Source: Company, Emkay Research

However, we remain cautious regarding management's policy of keeping long-tenure forex unhedged, which may lead to undue volatility in earnings.

Restriction over dividend distribution in future

In a recent announcement, the RBI has issued guidelines regarding the distribution of dividends by NBFCs from FY21 onward with the intention of bringing greater transparency and uniformity in practice. The regulator has established three parameters for determining dividend payout − capital adequacy, net NPA ratio (for deposit-taking NBFCs and systemically important non deposit-taking NBFCs) and leverage ratio (for non-systemically important, non-deposit taking NBFCs).

As per the laid out conditions, PFC is eligible for a ~25% dividend payout, which is much lower than its historical payout of ~45%. Though we are building in a 25% dividend payout in our estimates, we do believe that the government/regulator may establish an exception to these rules and enable PFC to payout high dividends on account of the following:

- PFC is very well capitalized with a CAR of 17% in FY20, which is expected to increase to 18.8% by FY23E due to improving profitability.
- With limited growth levers going ahead (growth tapering off from FY22E), in order to maintain its high ROE record, it will be pertinent to maintain a higher dividend payout.
- With fiscal deficit at ~7.7% and with the desire to boost the economy in Budget'21 through state spending
- Government's expressed desire of enhanced dividends from CPSEs (and also quarterly declaration of dividend)

While valuing PFC, we have built in a higher dividend payout of ~50% in future years (FY24 onward). However, in case RBI restriction continue for a longer time, than our valuations will get adversely impacted due to elevated book value and lower RoEs.

- **Policy risks:** Our entire buy thesis of PFC is based on government reforms and policy changes. Any adverse policy change else inability of the government to pass specific amendments will pose greater risks to our investment thesis.
- **Underwriting Risks:** Underwriting refers to the process that a large financial service provider (bank, insurer, investment house) uses to assess the eligibility of a customer to receive their products like equity capital, insurance or credit to a customer.

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- **Interest rate risk:** Changes in interest rates remain the key macro risk which needs to be keenly monitored for lenders as their overall margins and investment income remains fairly dependent.
- **Credit risk:** It mainly arises due to the uncertainty in a counterparty's (also called an obligor's or credit's) ability to meet its obligations.
- **Market risk:** Value of an investment will decrease due to moves in market factors. This is more prominent in current environment considering the uncertainty around.

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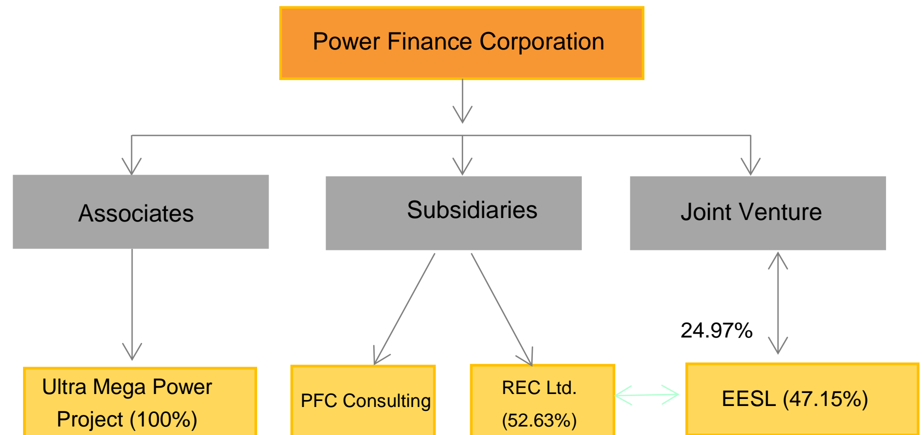
Company Information

Power Finance Corporation Limited (PFC) is the largest government-owned NBFC, funding to the Indian power sector. The company also acts as the nodal agency for Ultra Mega Power Projects (UMPPs), Integrated Power Development Scheme (IPDS) and Independent Transmission Projects (ITPs). PFC has set up a subsidiary – PFC Consulting Limited – and several other business units, such as power exchanges, to strengthen their base across lending verticals.

Exhibit 33: PFC group structure



Source: Company

Exhibit 34: PFC shareholding pattern

Shareholding Pattern (%)	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoters	56.0	56.0	56.0	56.0	56.0
FIIs	18.9	18.9	17.5	16.8	17.4
DIIs	20.3	20.4	21.1	20.7	20.2
Public and Others	4.9	4.7	5.4	6.5	6.5

Source: Company, Emkay Research, Capitaline

Brief Management profile

- **Mr Ravinder Singh Dhillon:** Mr. Ravinder Singh Dhillon took over the charge of Director (Projects), Power Finance Corporation Ltd. on 12th June 2019. He has more than 34 years of experience in various areas of power sector and was serving as Executive Director in PFC prior to this appointment. With B.E. (Electrical) from Thapar Institute of Engg. & Tech., and M. Tech. in Power Systems from IIT Delhi, he has worked in various capacities for over 25 years in PFC, handling Project Appraisal, Business Development, Stressed Assets Revival and Monitoring of projects. Before joining PFC, Mr. Dhillon worked with Bharat Heavy Electricals Ltd. and Central Electricity Authority for 9 years.
- **Mr. Praveen Kumar Singh:** Mr Praveen Kumar Singh holds B Tech (Electrical) from IIT-BHU and M Tech in Energy and Environment management from IIT Delhi. He worked in various units of projects division in PFC for over 24 years.
- **Mrs Parminder Chopra:** Mrs Chopra was appointed as Director (Finance) of the company in June'20. With over 32 years of experience, she specializes in handling core finance functions such as fund mobilization, corporate accounts, banking and treasury, asset-liability management and stressed asset resolution.

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Merger of REC with PFC – The uncertain event

In Mar'19, PFC completed the acquisition of a majority stake in REC Ltd by transferring Rs145bn to the government and with the intent to merge the two companies in 2019-20. This stake acquisition was in pursuance to the in-principle approval from the Cabinet Committee on Economic Affairs for the strategic sale of 52.6% of paid-up equity shareholding of REC held by the government to PFC, along with the transfer of management control. However, the planned merger has hit regulatory/ownership roadblocks.

Issues pertaining to merger

- **The merger violates RBI's debt exposure norms:** The merger violates RBI's norms on the exposure of NBFCs. As per the RBI's norms, debt exposure of an NBFC in a project cannot exceed 25%. The exposure of PFC and REC as a merged entity would exceed the limit of 25% in many existing projects as the two firms have been financing power sector projects (in the absence of banks). In order to achieve RBI approval for the merger, the merged entity is required to reduce its exposure in a project to 25% - this does not seem feasible in the near future.
- **The shareholding of the government falls below 51%:** Another issue faced by the company is regarding government ownership. As per current regulations, 51% government holding is needed to maintain the PSU character of an organization. Post the PFC-REC merger, the government shareholding in the merged entity is expected to fall to about 42-43%, taking the company outside the PSUs fold.
- **Other government entities may need to increase stake in PFC:** State-run financial institutions or public sector enterprises such as LIC, NTPC and NHPC may pick up a stake in PFC to prevent government shareholding in the power sector financier from falling below the threshold 51% level post-merger with REC.
- **Absence of competition may lead to monopolistic market:** On the flipside, we believe that the merger may reduce competition between the two entities and could lead to higher interest rates for discoms/gencos.

For now, the future of merger remains uncertain; however, the government/management of PFC remain optimistic of finding a solution. We remain watchful of the developments in this regard.

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Annexure 3: Electricity (Amendment) Bill 2020

The Central government has introduced the Electricity (Amendment) Bill 2020 to amend various provisions in the Electricity Act 2003. The amendment aims to address critical issues weakening the commercial and investment activities in the electricity sector of the country.

Key Amendments:

- **National Selection Committee:** Instead of the separate Selection Committee (for the appointment of Chairperson and members of State Electricity Regulatory Commissions-SERCs), the bill proposed to set up a National Selection Committee.
- **Direct Benefit Transfer:** The bill proposed Direct Benefit Transfer (DBT) which will be beneficial for both the State Governments and as well as Distribution Companies.
- **National Renewable Energy Policy:** India is a signatory to the Paris Climate Agreement. It is therefore proposed to have a separate policy for the development and promotion of generation of electricity from renewable sources of energy. The policy in the Bill prescribes a minimum percentage of purchase of electricity from renewable sources of production. It also seeks to give special attention to hydro power.
- **Sustainability:** In the past, there have been issues of lazy attempts from the commissions in adopting the tariffs determined, causing cost escalation problem. To address this problem, the Amendment prescribes a period of 60 days to adopt the determined tariffs. Failing to do so would result in the tariff being deemed to be accepted.
- **Payment Security:** The Bill also proposes to empower Load Dispatch Centres to oversee the establishment of adequate payment security mechanisms before dispatch of electricity, as per contracts. This has been proposed keeping in view the case of late payment of dues of generating and transmission companies which have reached unsustainable levels.
- **Subsidy:** The Bill proposes for the SERCs to reduce cross subsidies as per the provisions of the Tariff Policy. Additionally, it also proposed strengthening of the Appellate Tribunal by increasing the strength to at least seven to facilitate quick disposal of cases.

Key Objectives of the Bill:

- **Ensure consumer centricity**
- **Promote Ease of Doing Business,**
- **Enhance sustainability of the power sector,**
- **Promote green power,**
- **Provide Central government more power to determine tariff and regulations**

Objections:

The bill has also been in headlines in the past few months due to several objections to it from several parties across the country.

The Telangana State Legislative Assembly unanimously adopted a resolution opposing the Bill, stating it is detrimental to State and farmers' interests. A national power engineers' organization urged all political parties to block the passage of the Bill in the Parliament. All-India Power Engineers' Federation has written to all MPs of both the houses of Parliament, urging them to press for sending the Bill to the standing committee on energy. All India Power Engineers Federation (AIPEF) said lakhs of power sector engineers and employees held peaceful protests across the country against privatization of discoms and the Electricity Amendment Bill 2020.

It is worth mentioning that cost-reflective tariff has been a concern for states like Telangana which provide free electricity to the farming sector. Formation of ECEA has also been criticized as a move toward centralization of power. Additionally, recognition of franchisees and sub-licensees might open the sector to private players.

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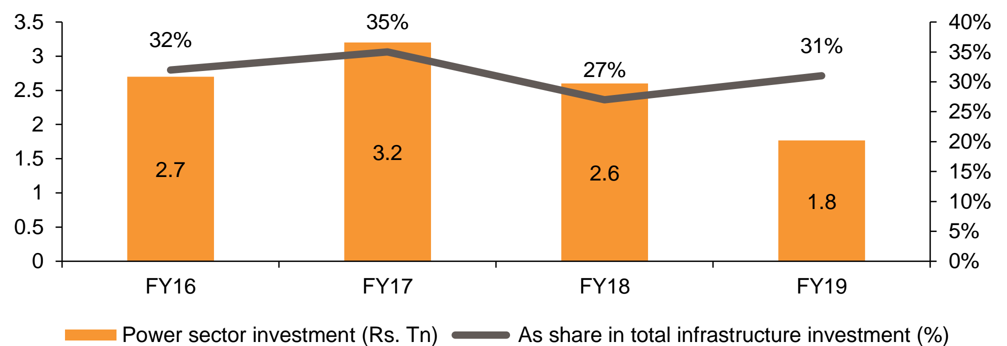
Annexure 4: National Infrastructure pipeline - Rs25trn capex for FY20-25

The NIP chalks out a comprehensive plan, outlining in detail the capex in the sector between FY20 and FY25.

- Of the total estimated capex of Rs111trn by FY25, power sector comprises 22.5% at Rs25trn.
- This is a 41% jump from the Rs17.7trn capex done in the sector between FY13-FY19.
- Of the Rs25trn outlined, conventional generation, distribution and transmission comprise Rs3.3trn, Rs3.2trn and Rs3trn, respectively while, separately, state expenditure (all segments) includes Rs4.6trn and renewables Rs9.3trn.
- From FY13 to FY19, India's infrastructure investment has been an estimated Rs57tn (5.7% of India's nominal GDP of Rs989trn) during the period.

Although India is moving towards faster adoption of renewables, we believe its capacity addition in the next three years should be reduced and made more back ended. This will address the lingering concerns of reduced thermal PLFs as well as reduce the stress on discoms, who are finding it difficult to comply with the increasing RPOs. During this period, i.e. up to FY24, focus should be more on investments strengthening distribution and transmission segments.

Exhibit 35: Power sector capex forms 20-40% of infra investments



Source: NIP, Emkay Research

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Key Financials (Standalone)

Income Statement

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net income	**97,787**	**115,179**	**123,375**	**135,663**	**142,399**
Operating expenses	8,344	23,341	2,659	12,370	12,309
Pre provision profit	**89,443**	**91,838**	**120,716**	**123,293**	**130,090**
PPP excl treasury	**89,443**	**91,838**	**120,716**	**123,293**	**130,090**
Provisions	(8,715)	9,912	9,316	8,230	6,371
Profit before tax	**98,158**	**81,925**	**111,400**	**115,063**	**123,719**
Tax	28,629	25,374	27,850	28,766	30,930
Tax rate	29	31	25	25	25
Profit after tax	**69,529**	**56,551**	**83,550**	**86,297**	**92,789**

Balance Sheet

Y/E Year End (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity	26,401	26,401	26,401	26,401	26,401
Reserves	406,479	425,241	487,903	552,626	622,217
Net worth	**432,880**	**451,641**	**514,304**	**579,026**	**648,618**
Borrowings	2,957,445	3,108,745	3,650,716	3,792,276	3,788,171
Total liabilities	**3,447,257**	**3,617,873**	**4,227,881**	**4,440,076**	**4,512,067**
Cash and bank	142,006	1,990	46,852	30,883	57,324
Investments	165,862	164,733	182,536	189,614	189,409
Loans	3,032,104	3,341,126	3,883,741	4,099,757	4,140,078
Others	107,008	109,710	114,408	119,442	124,840
Total assets	**3,447,257**	**3,617,873**	**4,227,881**	**4,440,076**	**4,512,067**

Key Ratios (%)

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
NIM	3.3	3.5	3.3	3.3	3.4
RoA	2.2	1.6	2.1	2.0	2.1
RoAE	17.3	12.8	17.3	15.8	15.1
GNPA (%)	8.6	7.7	6.8	6.6	6.6
NNPA (%)	4.2	3.6	3.2	3.0	2.9

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	26.3	21.4	31.6	32.7	35.1
BVPS	164.0	171.1	194.8	219.3	245.7
ABVPS	123.2	133.8	156.8	182.0	209.0
DPS	0.0	9.5	7.9	8.2	8.8

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	4.6	5.6	3.8	3.7	3.4
P/BV	0.7	0.7	0.6	0.6	0.5
P/ABV	1.0	0.9	0.8	0.7	0.6
Dividend Yield (%)	0.0	7.9	6.5	6.8	7.3

Source: Company, Emkay Research

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Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
NII	8.4	17.8	7.1	10.0	5.0
PPOP	8.6	2.7	31.4	2.1	5.5
PAT	58.5	(18.7)	47.7	3.3	7.5
Loans	14.0	10.2	16.2	5.6	1.0

Quarterly (Rs mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
NII	25,507	26,485	27,349	30,728	33,645
NIM(%)	3.5	3.5	3.2	3.5	3.7
PPOP	21,191	23,421	25,605	24,794	34,487
PAT	13,303	16,017	16,998	17,528	21,211
EPS (Rs)	0.75	1.33	0.89	1.25	1.55

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoters	56.0	56.0	56.0	56.0	56.0
FIIs	18.9	18.9	17.5	16.8	17.4
DIIs	20.3	20.4	21.1	20.7	20.2
Public and Others	4.9	4.7	5.4	6.5	6.5

Source: Capitaline

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Emkay Alpha Portfolio – BFSI-NBFCs

Analyst: Jignesh Shial

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Sector

NBFCs/AFCs

Analyst bio

Jignesh Shial is a CA and has total 12 years of research experience. His team currently covers 11 NBFCs/AFCs.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-NBFCs	**8.45**	**8.45**	**0%**	**0**	**100.00**
Bajaj Finance	1.60	1.60	0%	0	18.94
Cholamandalam Investment	0.21	0.23	10%	2	2.70
Edelweiss Financial Services	0.00	0.00	NA	0	0.00
HDFC	5.92	5.94	0%	2	70.31
L&T Finance Holdings	0.08	0.08	0%	0	0.97
LIC Housing Finance	0.16	0.16	0%	0	1.93
Magma Fincorp	0.00	0.00	NA	0	0.00
Mahindra Finance	0.14	0.09	-37%	-5	1.04
Nippon Life	0.06	0.06	0%	0	0.66
Shriram City Union Finance	0.00	0.00	NA	0	0.00
Shriram Transport Finance	0.28	0.29	4%	1	3.45
Cash	**0.00**	**0.00**	**NA**	**0**	**0.00**

Source: Emkay Research

** Not under coverage: Equal Weight*

High Conviction/Strong Over Weight   High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	**15-Jan-20**	**15-Jul-20**	**14-Oct-20**	**14-Dec-20**	**13-Jan-21**
EAP - BFSI-NBFCs	100.0	125.3	90.6	99.3	122.8	138.2
BSE200 Neutral Weighted Portfolio (ETF)	100.0	120.1	85.2	93.3	115.7	129.9

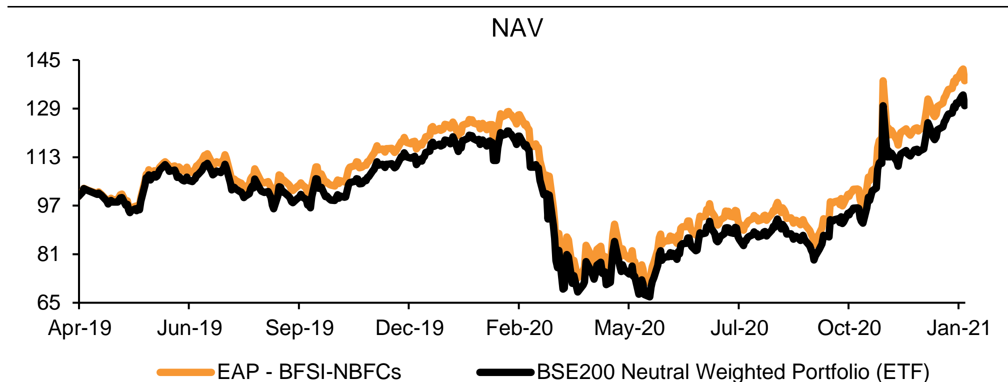
**Performance measurement base date 1st April 2019*
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-NBFCs	12.5%	39.1%	52.5%	10.2%
BSE200 Neutral Weighted Portfolio (ETF)	12.3%	39.2%	52.5%	8.1%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): Nifty

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Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 15 Jan 2021 03:20:12 (SGT)
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