

POWER FINANCE CORP

BANKS & FINANCIAL SERVICES

10 AUG 2017

Quarterly Update

BUY

Target Price: Rs 150

Asset quality stable; upgrades expected

PFC reported a PAT of Rs 14.3 bn (down 17% YoY) dragged by higher provisions (up 137% YoY) and lower NII (down 7% YoY). Headline asset quality was largely stable with GNPA ratio at 12.5% (down 4 bps QoQ) with ~18% coverage ratio. Margin recovered to 4.4% level post sharp decline last quarter (due to interest reversals). Loan growth improved to 12% YoY on a favorable base.

As stated in Q4FY17 update, management expects ~80% of GNPA's (which slipped to NPLs, as it migrated from MoP/Gol approved prudential norms to RBI norms) to be upgraded in FY18. These loans are state sector loans and have fuel supply/power purchase agreements in place. These upgrades would improve the headline GNPA sharply (expects GNPA of 6.3% in FY18 vs. 12.5% currently).

CMP : Rs 124
Potential Upside : 21%

MARKET DATA

No. of Shares : 2,640 mn
Free Float : 34%
Market Cap : Rs 328 bn
52-week High / Low : Rs 169 / Rs 103
Avg. Daily vol. (6mth) : 7.9 mn shares
Bloomberg Code : POWF IB Equity
Promoters Holding : 66%
FII / DII : 16% / 13%

Key highlights: (a) Disbursements soared 66% YoY on favorable base primarily driven by generation category in the state segment; (b) Advances growth improved to 12% YoY driven by generation, transition finance and short term loans. Exposure to distribution segment continued to de-grow (down ~5% YoY; flat QoQ); (c) Share of other loans (transition finance and short term loans) increased to 17.1% of loans (15.9% in Q4); and (d) Restructured assets de-grow marginally on a sequential basis to Rs 546 bn with the share of private sector at ~33%.

Maintain BUY with TP of Rs 150: Upgrades will be key monitorable for FY18 and if management's optimism pan out, the stock could see significant delta on ABV. Strong pipeline in sanctions provides comfort on loan growth visibility; however, we will also monitor NIM, as loan mix is skewing away from high-yielding generation loans. At CMP of Rs 124, PFC trades attractively at 1.1x/0.9x FY18E/19E P/ABV of Rs 111/Rs 136 respectively. We reiterate BUY and maintain the target price of Rs 150 (1.1x FY19 ABV), implying 21% upside. We have not built in complete NPA recovery as enunciated by the management, and this may be a source of upside risk to our estimates.

Financial summary (Standalone)

Y/E March	FY16	FY17	FY18E	FY19E
PAT (Rs mn)	61,135	21,264	54,108	65,962
EPS (Rs)	23	8	20	25
EPS chg (%)	2.6	(65.2)	154.4	21.9
Book value (Rs)	121	124	137	154
Adj. BV (Rs)	106	59	111	136
PE (x)	5.4	15.4	6.1	5.0
P/ABV (x)	1.2	2.1	1.1	0.9
RoE (%)	19.9	6.6	15.7	17.1
RoA (%)	2.6	0.8	2.0	2.2
Net NPA (%)	2.5	10.3	3.8	2.4

Source: Company, Axis Capital

Key drivers

	Q3'17	Q4'17	Q1'18
Disbursement growth (YoY)	13	57	66
Net interest margin (%)	4.7	2.6	4.4
GNPA (%)	3.1	12.5	12.5

Price performance

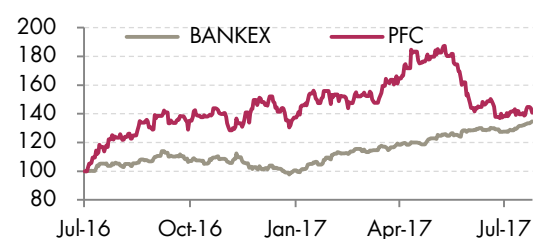
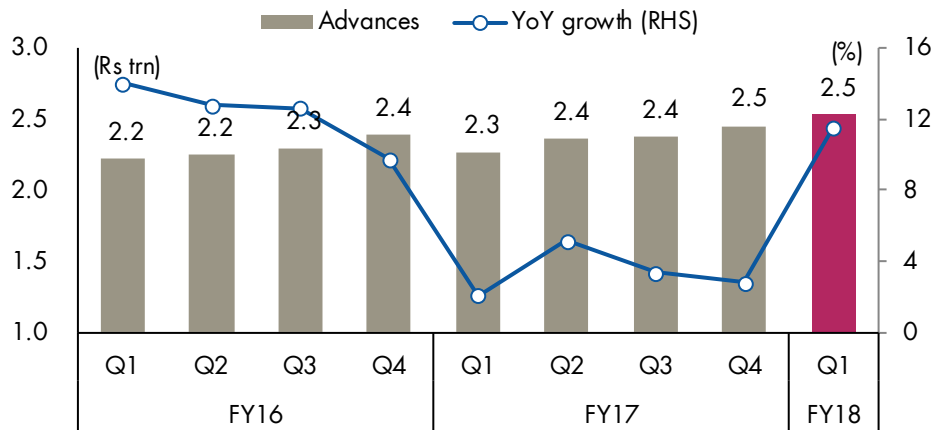
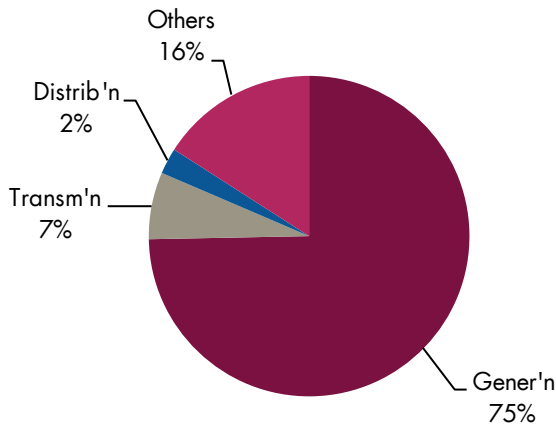
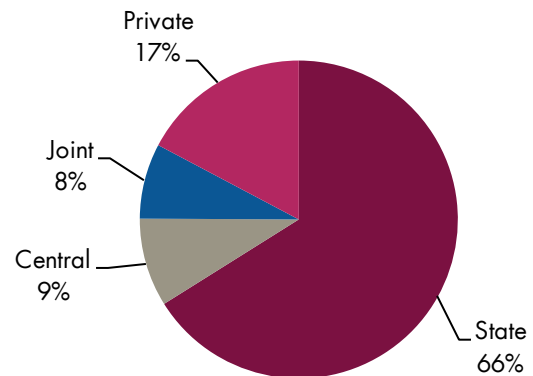


Exhibit 1: Advances growth improved after being tepid for 4 quarters


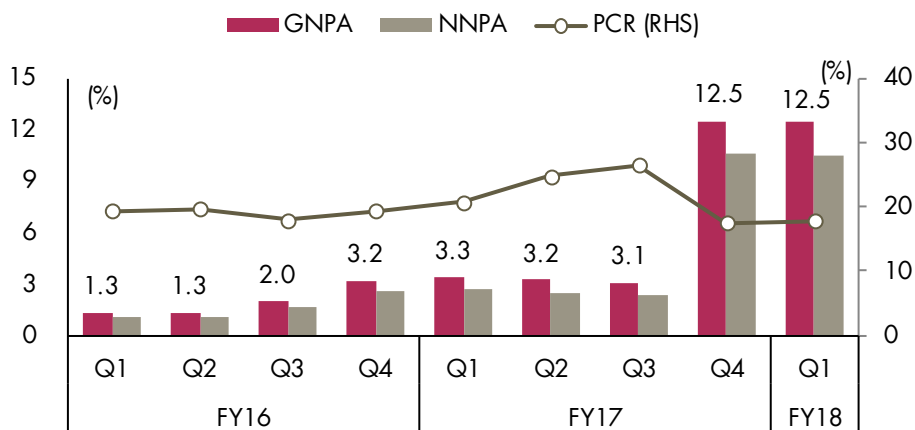
Source: Company, Axis Capital

Exhibit 2: Generation continues to form most of the loans


Source: Company, Axis Capital

Exhibit 3: ~83% of loans are to central & state govts.


Source: Company, Axis Capital

Exhibit 4: Asset quality remained stable during Q1


Source: Company, Axis Capital

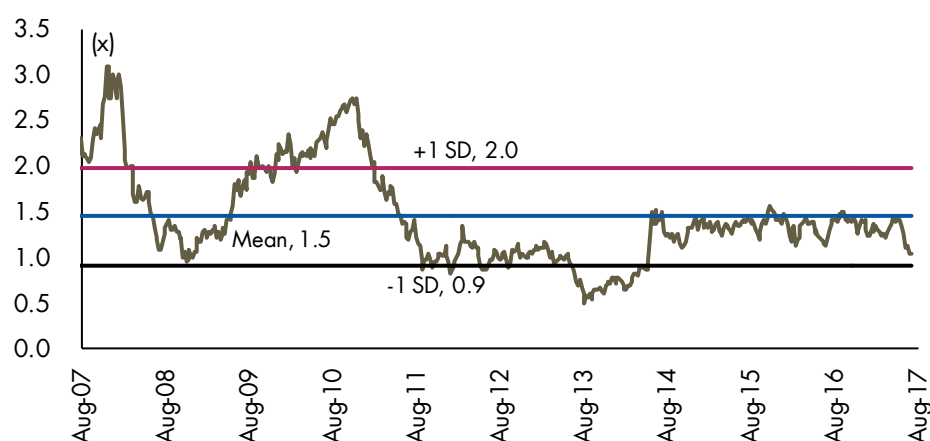
Exhibit 5: Results update

(Rs mn)	Quarter ended					12 months ended		
	Jun-17	Jun-16	% Chg	Mar-17	% Chg	FY18E	FY17	% Chg
Interest Income	68,970	71,520	(4)	55,680	24	279,533	265,585	5
Interest Expended	41,330	41,690	(1)	40,300	3	171,150	161,247	6
Net Interest Income	27,640	29,830	(7)	15,380	80	108,383	104,338	4
Non-Interest Income	90	70	29	1,420	(94)	4,967	4,600	8
Net Income	27,730	29,900	(7)	16,800	65	113,350	108,939	4
Operating Expenses	2,040	2,020	1	530	285	9,466	6,890	37
Operating profit	25,690	27,880	(8)	16,270	58	103,884	102,048	2
Extraordinary items	(30)	(1,240)	(98)	80	(138)			
Provision & Contingencies	4,130	1,740	137	44,990	(91)	23,112	50,936	(55)
PBT	21,530	24,900	(14)	(28,640)	-	80,772	51,113	58
Tax	7,240	7,774	(7)	5,470	32	26,650	29,834	(11)
Net Profit	14,290	17,126	(16.6)	(34,110)	-	54,108	21,264	154
Yields & Margins (%)								
Yield on advances	11.1	11.9	(87) bps	9.3	175 bps	10.8	11.0	(14) bps
Cost of funds	8.3	8.5	(15) bps	8.4	(5) bps	8.0	8.0	5 bps
Net Interest Spread	2.8	3.5	(72) bps	1.0	180 bps	2.3	2.5	(25) bps
Net interest margin	4.4	4.9	(49) bps	2.6	187 bps	4.0	4.1	(13) bps
Asset quality								
Gross NPAs (%)	12.5	3.3	912 bps	12.5	(4) bps	6.3	12.5	(616) bps
Net NPAs (%)	10.5	2.7	782 bps	10.6	(7) bps	3.8	10.3	(652) bps
Balance sheet (Rs bn)								
Loan book	2,527	2,265	12	2,455	3	2,707	2,455	10
Disbursements	128	78	66	284	(55)	630	628	0

Source: Company, Axis Capital

Note: Ratios are on calculated basis and may differ from actuals.

Note: FY17 numbers are on provisional basis as we await the annual report for granular details.

Exhibit 6: 10 years P/ABV movement


Source: Bloomberg, Axis Capital

Financial summary (Standalone)

Profit & loss (Rs bn)

Y/E March	FY16	FY17	FY18E	FY19E
Interest earned	271	266	280	302
Interest expended	(157)	(161)	(171)	(185)
Net interest income	113	104	108	117
Non interest income	5	5	5	5
Net income	118	109	113	122
Operating expenses	(11)	(7)	(9)	(10)
Staff expenses	(1)	(1)	(1)	(1)
Other operating expenses	(10)	(6)	(8)	(9)
Operating profit	108	102	104	112
Provisions & contingencies	(17)	(51)	(23)	(14)
Pre-tax profit	91	51	81	98
Tax expense	(29)	(30)	(27)	(32)
Profit after tax	61	21	54	66
Extraordinary item	-	-	-	-
Minority interest/Associates	-	-	-	-
Adj. PAT	61	21	54	66

Balance sheet (Rs bn)

Y/E March	FY16	FY17	FY18E	FY19E
Total assets	2,466	2,583	2,836	3,094
Cash & Balances with RBI	50	92	82	85
Investments	27	36	47	58
Advances	2,389	2,455	2,707	2,950
Fixed assets	1	1	1	1
Other assets	-	-	-	-
Total liabilities	2,466	2,583	2,836	3,094
Equity capital	13	26	26	26
Preference capital	-	-	-	-
Reserves & surplus	307	300	336	381
Networth	320	327	363	407
Borrowings	2,005	2,026	2,227	2,387
Deposits	-	-	-	-
Other liabilities & prov.	104	193	206	257

Source: Company, Axis Capital

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
Per share data				
FDEPS (Rs.)	23	8	20	25
BV (Rs.)	121	124	137	154
Adj. BV (Rs.)	106	59	111	136
DPS (Rs.)	7	5	6	7
Dividend payout (%)	30	62	29	28
Yields & Margins (%)				
Yield on advances	11.9	11.0	10.8	10.7
Cost of deposit	-	-	-	-
Net interest margin	4.8	4.1	4.0	3.9
Asset quality (%)				
Gross NPAs	3.1	12.5	6.3	4.8
Net NPAs	2.5	10.3	3.8	2.4
Credit cost	0.7	2.1	0.9	0.5
Provisioning coverage	19.4	17.4	40.0	50.0
Capital (%)				
Tier-I	17.1	16.2	13.8	13.5
CAR	20.3	19.3	16.7	16.3
Efficiency (%)				
ROA	2.6	0.8	2.0	2.2
ROE	19.9	6.6	15.7	17.1
Growth (%)				
CASA	-	-	-	-
Effective tax rate	33	58	33	33
Growth (%)				
Net interest income	13	(8)	4	8
Fee income	92	13	8	9
Growth (%)				
Profit after tax	3	(65)	154	22
Advances	10	3	10	9
Deposits	-	-	-	-
Total assets	8	5	10	9

Source: Company, Axis Capital

Note: FY17 numbers are on provisional basis as we await the annual report for granular details.

Note: Ratios are on calculated basis and may differ from actuals.

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