

POWER FINANCE CORP

BANKS & FINANCIAL SERVICES

19 FEB 2018

Quarterly Update

BUY

Target Price: Rs 135

Weak P&L performance, good b/s show

PFC reported a disappointing P&L performance with Q3 PAT at Rs 16 bn (down 17.7% YoY; our est. Rs 18.6 bn), primarily led by sharp decline in NIM (down 35 bps QoQ at 3.85%). Write-back in provisions and lower taxes supported the PAT to some extent. Loan growth at 10% YoY was primarily driven by distribution segment.

Headline asset quality improved with GNPA's down 30.3% QoQ to Rs 149.8 bn (ratio down 262 bps QoQ at 5.7%) led by lower fresh slippages and significant upgrades. Single account (Chhattisgarh PGCL) amounting to Rs 67.5 bn was upgraded to restructured standard category from NPA and management further expects an upgrade of Rs 40 bn (Singareni Collieries - Telangana) in Q4 from restructured standard category to standard loan.

CMP : Rs 112
Potential Upside : 21%

MARKET DATA

No. of Shares : 2,640 mn
Free Float : 34%
Market Cap : Rs 294 bn
52-week High / Low : Rs 169 / Rs 106
Avg. Daily vol. (6mth) : 6.3 mn shares
Bloomberg Code : POWF IB Equity
Promoters Holding : 66%
FII / DII : 14% / 13%

Key highlights: Disbursements declined 10% YoY, largely due to lower disbursements towards transmission asset. Advances grew 10% YoY, driven by distribution segment (202% YoY; 9.3% of loans); (b) Interest income of Rs 6.5 bn has not been recognized during Q3 (Rs 7.9 bn in 9MFY18) as loans amounting to Rs 101.6 bn in form of SDR/OSDR/S4A was invoked. This led to sharp 35 bps QoQ decline in margin (declining since last 3 qtr); (c) Addition to NPA during Q3 was Rs 2.2 bn and there was no new addition to private sector restructured standard assets; (d) MB Power amounting to Rs 13.7 bn was upgraded to standard loan from restructured category; (e) O/S standard restructured loans stands at Rs 566.4 bn (21% of loans), of which ~72% is from state sector

Maintain BUY with rolled forward TP of Rs 135 (1x FY20E ABV): Management's optimism on improvement in asset quality, by upgrades, is gradually playing out; however, we remain watchful on the same. The stock can see significant delta on ABV based on upgrades from the NPAs. Moreover, improving loan growth and maintaining margin remains a key challenge. We cut our FY19 estimates by 9% factoring in lower margins.

Financial summary (Standalone)

Y/E March	FY17	FY18E	FY19E	FY20E
PAT (Rs mn)	21,264	65,434	60,881	65,201
EPS (Rs)	8	25	23	25
EPS chg (%)	(65.2)	207.6	(7.0)	7.1
Book value (Rs)	124	139	152	167
Adj. BV (Rs)	59	111	125	135
PE (x)	13.8	4.5	4.8	4.5
P/ABV (x)	1.9	1.0	0.9	0.8
RoE (%)	6.6	18.8	15.8	15.5
RoA (%)	0.8	2.4	2.1	2.0
Net NPA (%)	10.3	4.1	3.7	3.3

Source: Company, Axis Capital

Key drivers

	Q1'18	Q2'18	Q3'18
Disbursement growth (YoY)	66	(5)	(10)
Net interest margin (%)	4.4	4.2	3.9
GNPA (%)	12.5	8.3	5.7

Price performance

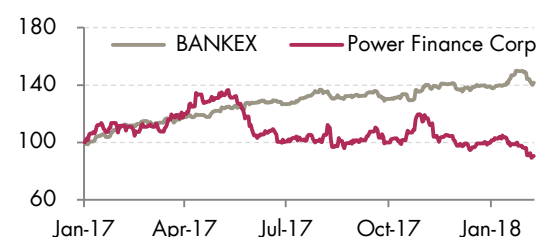
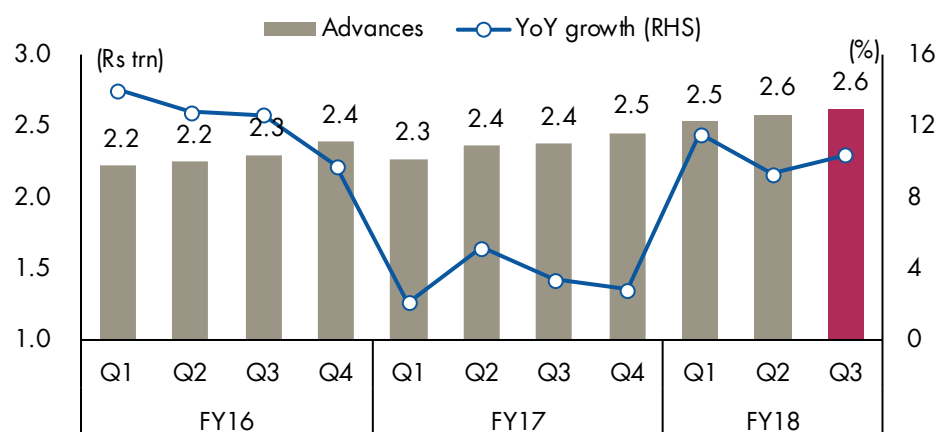
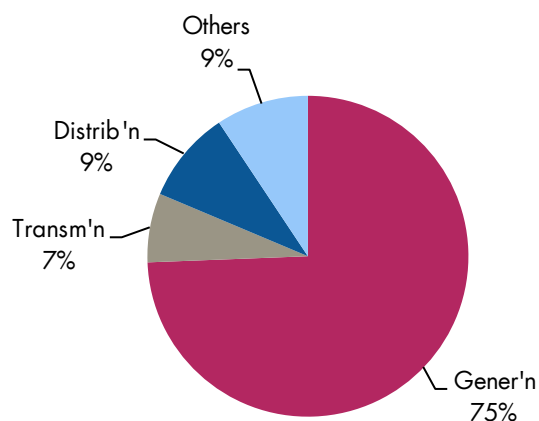
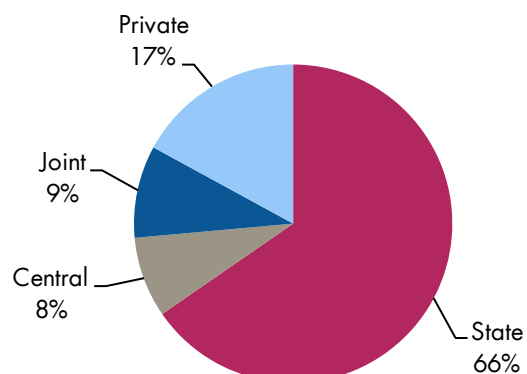


Exhibit 1: Advances growth at 10% YoY was slightly better than Q2


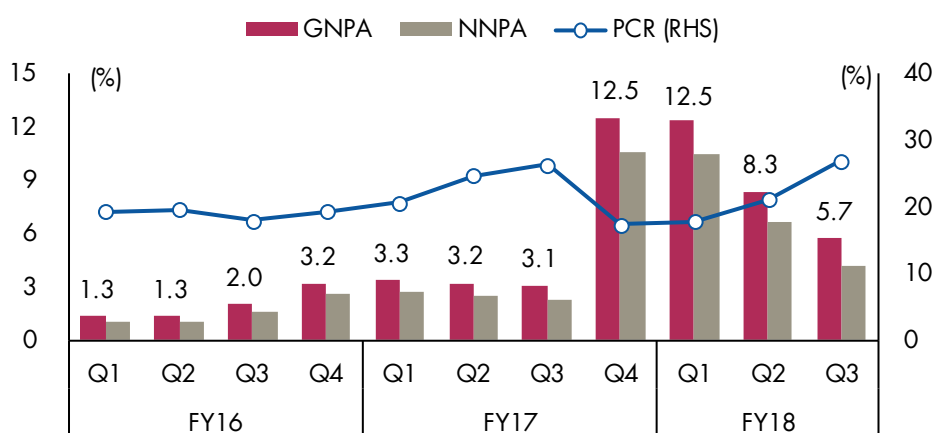
Source: Company, Axis Capital

Exhibit 2: Generation continues to form most of the loans


Source: Company, Axis Capital

Exhibit 3: ~74% of loans are to central & state govts


Source: Company, Axis Capital

Exhibit 4: Improvement in asset quality was driven by upgradation of assets


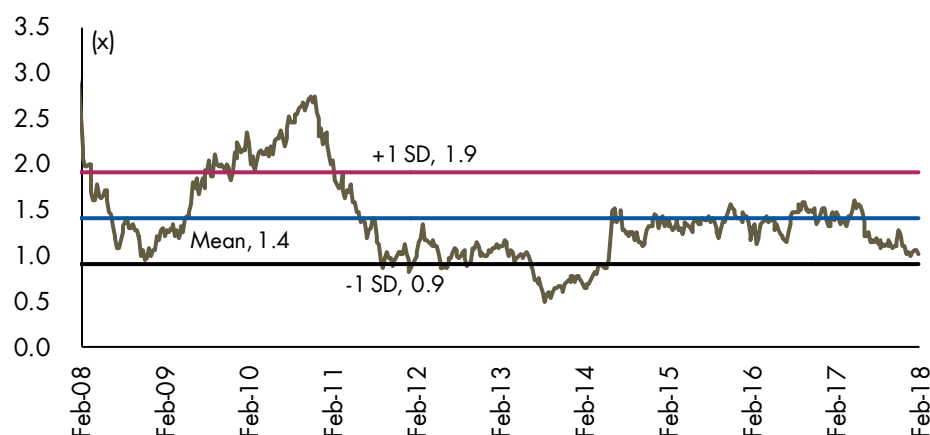
Source: Company, Axis Capital

Exhibit 5: Results update

(Rs mn)	Quarter ended					12 months ended		
	Dec-17	Dec-16	% Chg	Sep-17	% Chg	FY18E	FY17	% Chg
Interest Income	61,275	68,274	(10)	68,971	(11)	275,694	265,585	4
Interest Expended	43,657	40,650	7	43,146	1	172,273	161,247	7
Net Interest Income	17,618	27,624	(36)	25,825	(32)	103,421	104,338	(1)
Non-Interest Income	1,931	2,357	(18)	2,115	(9)	4,967	4,600	8
Net Income	19,549	29,981	(35)	27,940	(30)	108,388	108,939	(1)
Operating Expenses	619	587	6	564	10	8,209	6,890	19
Operating profit	18,930	29,394	(36)	27,376	(31)	100,179	102,048	(2)
Extraordinary items	0	0	-	0	-	0	0	-
Provision & Contingencies	(2,194)	1,201	(283)	1,220	(280)	5,332	50,936	(90)
PBT	21,124	28,193	(25)	26,156	(19)	94,847	51,113	86
Tax	5,079	8,694	(42)	7,290	(30)	29,398	29,834	(1)
Net Profit	16,044	19,499	(18)	18,866	(15)	65,434	21,264	208
Yields & Margins (%)								
Yield on advances	11.0	11.9	(98) bps	11.2	(29) bps	10.7	11.0	(28) bps
Cost of funds	8.1	8.4	(28) bps	8.2	(13) bps	8.1	8.0	10 bps
Net Interest Spread	2.9	3.5	(69) bps	3.0	(16) bps	2.1	2.5	(44) bps
Net interest margin	3.9	4.9	(109) bps	4.2	(35) bps	3.8	4.1	(32) bps
Asset quality								
Gross NPAs (%)	5.7	3.1	264 bps	8.3	(262) bps	5.6	12.5	(686) bps
Net NPAs (%)	4.2	2.3	195 bps	6.7	(246) bps	4.1	10.3	(621) bps
Balance sheet (Rs. Bn)								
Loan book	2,621	2,374	10	2,581	2	2,707	2,455	10
Disbursements	109	121	(10)	138	(21)	630	628	0

Source: Company, Axis Capital

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

Exhibit 6: 10 years P/ABV movement


Source: Bloomberg, Axis Capital

Financial summary (Standalone)

Profit & loss (Rs bn)

Y/E March	FY17	FY18E	FY19E	FY20E
Interest earned	266	276	295	316
Interest expended	(161)	(172)	(185)	(199)
Net interest income	104	103	111	117
Non interest income	5	5	5	6
Net income	109	108	116	122
Operating expenses	(7)	(8)	(9)	(9)
Staff expenses	(1)	(1)	(1)	(1)
Other operating expenses	(6)	(7)	(8)	(8)
Operating profit	102	100	107	113
Provisions & contingencies	(51)	(5)	(16)	(16)
Pre-tax profit	51	95	91	97
Tax expense	(30)	(29)	(30)	(32)
Profit after tax	21	65	61	65
Extraordinary item	-	-	-	-
Minority interest/Associates	-	-	-	-
Adj. PAT	21	65	61	65

Balance sheet (Rs bn)

Y/E March	FY17	FY18E	FY19E	FY20E
Total assets	2,583	2,836	3,094	3,408
Cash & Balances with RBI	92	82	85	89
Investments	36	47	58	70
Advances	2,455	2,707	2,950	3,248
Fixed assets	1	1	1	1
Other assets	-	-	-	-
Total liabilities	2,583	2,836	3,094	3,408
Equity capital	26	26	26	26
Preference capital	-	-	-	-
Reserves & surplus	300	341	376	414
Networth	327	368	402	440
Borrowings	2,026	2,227	2,387	2,615
Deposits	-	-	-	-
Other liabilities & prov.	193	201	262	307

Source: Company, Axis Capital

Key ratios

Y/E March	FY17	FY18E	FY19E	FY20E
Per share data				
FDEPS (Rs.)	8	25	23	25
BV (Rs.)	124	139	152	167
Adj. BV (Rs.)	59	111	125	135
DPS (Rs.)	5	8	9	9
Dividend payout (%)	62	32	37	36
Yields & Margins (%)				
Yield on advances	11.0	10.7	10.4	10.2
Cost of deposit	-	-	-	-
Net interest margin	4.1	3.8	3.7	3.6
Asset quality (%)				
Gross NPAs	12.5	5.6	5.3	4.9
Net NPAs	10.3	4.1	3.7	3.3
Credit cost	2.1	0.2	0.6	0.5
Provisioning coverage	17.4	27.1	30.0	33.0
Capital (%)				
Tier-I	16.2	17.1	16.6	15.7
CAR	19.3	20.1	19.4	18.3
Efficiency (%)				
ROA	0.8	2.4	2.1	2.0
ROE	6.6	18.8	15.8	15.5
Growth (%)				
CASA	-	-	-	-
Effective tax rate	58	31	33	33
Growth (%)				
Net interest income	(8)	(1)	7	5
Fee income	13	8	9	9
Growth (%)				
Profit after tax	(65)	208	(7)	7
Advances	3	10	9	10
Deposits	-	-	-	-
Total assets	5	10	9	10

Source: Company, Axis Capital

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

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