

Power Finance Corporation

Refer to important disclosures at the end of this report

Healthy performance, asset quality improves

- PFC reported healthy trends in profitability, with PAT of Rs22.7bn (+33.8% yoy, -2.3% qoq), driven by improvement in margins (~381bps) and credit costs (-49bps vs. ~86bps last quarter). However, disbursements remained weak at Rs113.3bn (-45.4% yoy, -18.2% qoq), mainly due to weak demand across segments.
- Asset-quality trends were encouraging, as out of the total Stage-3 assets of Rs211.5bn for 26 projects, 16 projects worth Rs158.2bn are already admitted under the NCLT with ~69% provision coverage, while 10 projects worth Rs53.3bn with 54% coverage are being pursued outside the NCLT. Overall coverage improved to ~65% from ~63% last quarter.
- Yields are re-priced at lower rates from Apr'21 to improve competitiveness among lenders. Hedging of ~86% of forex loans (maturing up to 5 years) also provides comfort over volatile forex losses. Aatmanirbhar plans for SEB may support near-term disbursements; however, finding new growth avenues - amid weak thermal power additions - is a necessity.
- We continue to like the company based on improving asset-quality trends and an attractive risk-reward. Maintain Buy and roll forward to Sept'22E with a revised TP of Rs220 (Rs215 earlier), corresponding to ~1x P/Adj. Sept'23E book. We are increasing the dividend payout estimate to ~45% by FY24E, based on revised guidelines from the RBI.

Disbursement momentum remains weak; new avenues of growth necessary:

Disbursements during the quarter remained weak at Rs113.3bn (-45.4% yoy, -18.2% qoq), mainly due to weak demand across segments. Total AUM remained flat sequentially at Rs3.7tn on lower disbursements. In our opinion, in the absence of any major capex plans in the thermal power segment, the company needs to find new avenues of growth to maintain existing leverage.

Asset-quality trends continue to see improvement; gradual resolution of legacy portfolio expected:

On asset quality, PFC has witnessed an improvement in Gross Stage-3 assets to ~5.72% from ~7.5% last year, while Net Stage 3 has improved to 2% from 3.41% last year. Asset-quality trends remained encouraging, as out of the total Stage-3 assets of Rs211.5bn for 26 projects, 16 projects worth Rs158.2bn are already admitted under the NCLT with ~69% provision coverage, while 10 projects worth Rs53.3bn with 54% coverage are being pursued outside the NCLT. Overall coverage improved to ~65% from ~63% last quarter.

Outlook and valuation: We are valuing PFC using 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 current market cap, after applying a 30% hold-co discount. We continue to like the company based on improving asset-quality trends and attractive risk-reward. We maintain our Buy rating and OW stance in EAP and roll forward to Sept'22E with a revised TP of Rs220, corresponding to ~1x P/Adj. Sept'23E book. We are increasing the dividend payout estimate to ~45% by FY24E, based on revised guidelines from the RBI.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-NBFCs \(Page 7\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net income	115,179	145,721	142,939	136,769	136,026
Net profit	56,551	84,440	88,301	82,662	83,498
EPS (Rs)	21.4	32.0	33.4	31.3	31.6
ABV (Rs)	133.8	176.5	199.6	217.6	234.2
RoA (%)	1.6	2.2	2.2	2.0	2.1
RoE (%)	12.8	17.3	16.0	13.6	12.8
PE (x)	6.1	4.1	3.9	4.1	4.1
P/ABV	1.0	0.7	0.6	0.6	0.6

Source: Company, Emkay Research

CMP	Target Price
Rs 130 as of (August 13, 2021)	Rs 220 (▲) 12 months
Rating	Upside
BUY (■)	69.7 %

Change in Estimates

EPS Chg FY22E/FY23E (%)	(1.4)/(9.3)
Target Price change (%)	2.3
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY22E	FY23E
Emkay	33.4	31.3
Consensus	34.2	39.7
Mean Consensus TP (12M)	Rs 178	

Stock Details

Bloomberg Code	POWF IN
Face Value (Rs)	10
Shares outstanding (mn)	2,640
52 Week H/L	141 / 82
M Cap (Rs bn/USD bn)	342 / 4.61
Daily Avg Volume (nos.)	7,537,279
Daily Avg Turnover (US\$ mn)	12.7

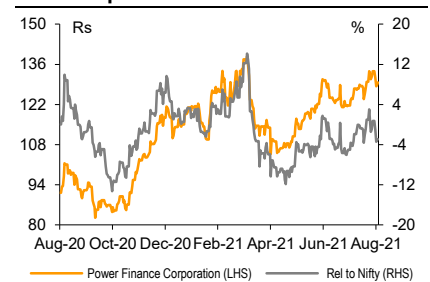
Shareholding Pattern Jun '21

Promoters	56.0%
FIIIs	17.4%
DIIIs	19.4%
Public and Others	7.3%

Price Performance

(%)	1M	3M	6M	12M
Absolute	5	12	3	41
Rel. to Nifty	1	1	(5)	(2)

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

Jignesh Shial
jignesh.shial@emkayglobal.com
+91 22 6624 2468

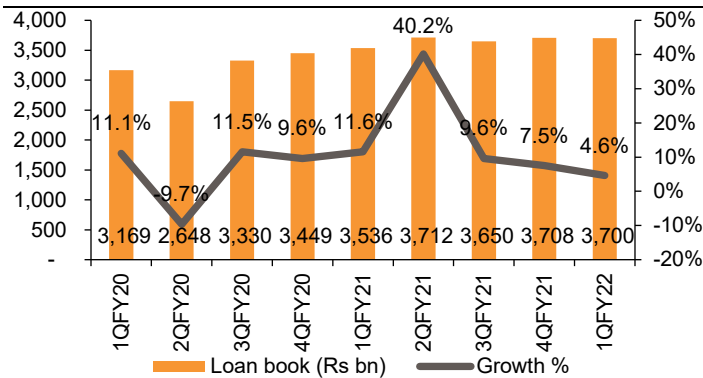
Anand Dama
anand.dama@emkayglobal.com
+91 22 6624 2480

Aman Jain
aman.jain@emkayglobal.com
+91 22 6612 1285

Shrishti Jagati
shrishti.jagati@emkayglobal.com
+91 22 6624 2485

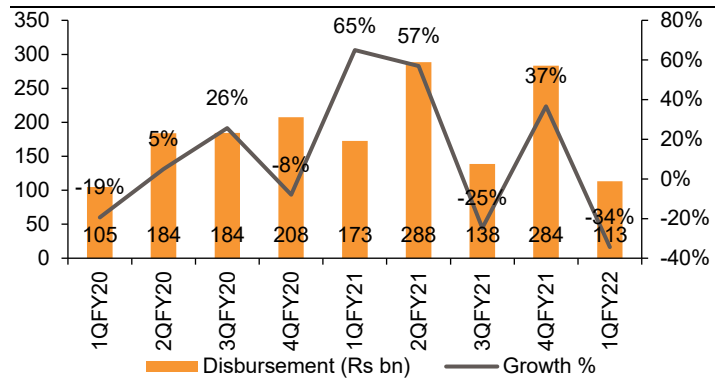
Story in Charts

Exhibit 1: AUM growth stands at ~4.6% yoy



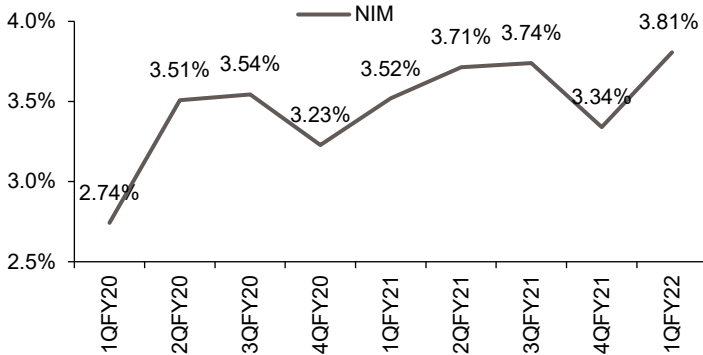
Source: Company, Emkay Research

Exhibit 2: Decline in disbursements but supported by Atmanirbhar sanctions



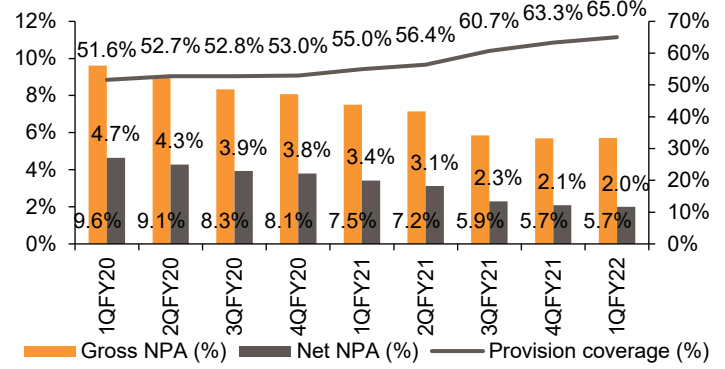
Source: Company, Emkay Research

Exhibit 3: NIMs improved on lower cost of funds



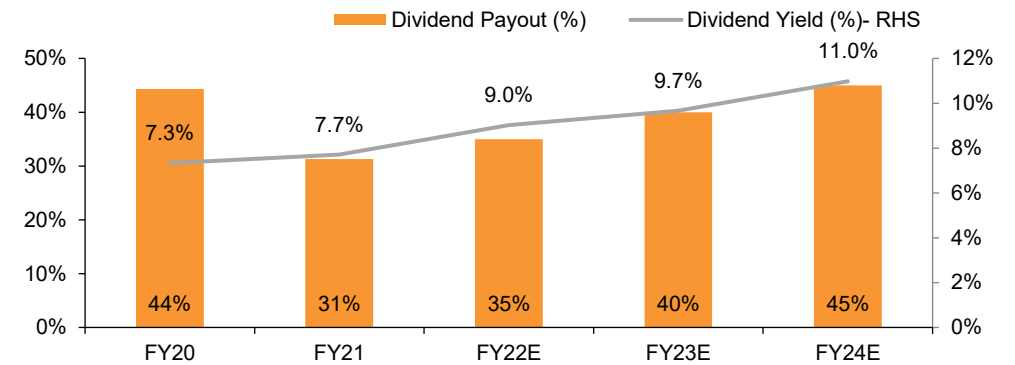
Source: Company, Emkay Research

Exhibit 4: Asset quality improves while coverage expands



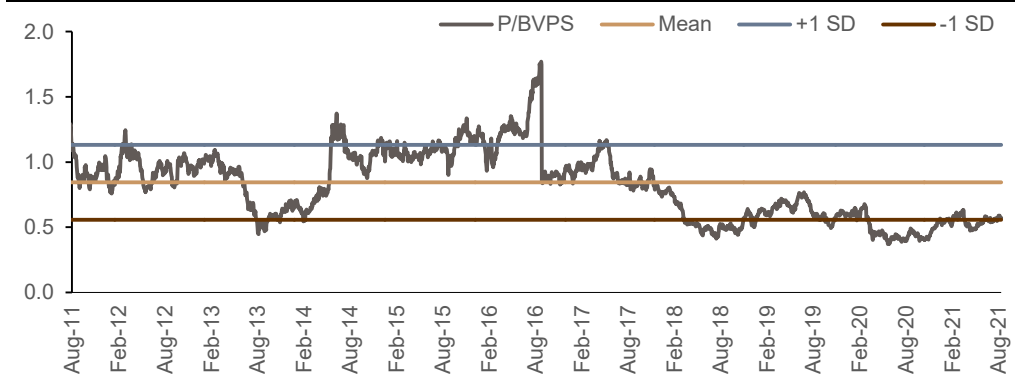
Source: Company, Emkay Research

Exhibit 5: Dividend payout ratio to increase after revised guidelines from RBI



Source: Company, Emkay Research

Exhibit 6: The stock currently trades at 0.6x 1-year forward BV



Source: Company, Emkay Research

Exhibit 7: Quarterly financials

Rs mn	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	YoY (%)	QoQ (%)	FY21	FY22E	YoY (%)
Net Interest Income	30,728	33,645	34,421	30,719	35,246	14.7%	14.7%	129,513	138,940	7.3%
Other Income	254	380	7,586	7,988	622	144.6%	-92.2%	16,208	3,999	-75.3%
Total Income	30,982	34,025	42,007	38,706	35,867	15.8%	-7.3%	145,721	142,939	-1.9%
Operating Expenses	6,189	-462	119	2,838	3,767	-39.1%	32.7%	8,684	10,754	23.8%
Operating Profit	24,794	34,487	41,888	35,868	32,101	29.5%	-10.5%	137,037	132,185	-3.5%
Provisions	3,530	9,532	13,972	7,930	4,505	27.6%	-43.2%	34,964	18,978	-45.7%
CoR (%)	0.40%	1.05%	1.52%	0.86%	0.49%			1.00%	0.50%	
PBT	21,264	24,956	27,916	27,938	27,595	29.8%	-1.2%	102,073	113,207	10.9%
Tax	4,268	4,105	4,588	4,672	4,860	13.9%	4.0%	17,633	24,905	41.2%
Tax rate (%)	20.1%	16.4%	16.4%	16.7%	17.6%			17.3%	22.0%	
PAT	16,996	20,851	23,328	23,266	22,736	33.8%	-2.3%	84,440	88,301	4.6%
Disbursements	172,710	288,340	138,470	283,500	113,320	-45.4%	-18.2%	883,020	697,793	-21.0%
Total AUM	3,535,950	3,711,580	3,650,310	3,707,720	3,699,830	7.3%	1.4%	3,707,720	3,883,601	4.7%

Source: Company, Emkay Research

Exhibit 8: Changes in earnings estimates

Y/e Mar (Rs mn)	FY22E			FY23E			FY24E		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	148,070	142,678	-3.6%	147,360	136,456	-7.4%	148,066	135,651	-8.4%
PPOP	140,295	132,185	-5.8%	139,466	126,716	-9.1%	140,128	125,730	-10.3%
PAT	89,587	88,301	-1.4%	91,180	82,662	-9.3%	91,697	83,498	-8.9%
EPS (Rs)	33.9	33.4	-1.4%	34.5	31.3	-9.3%	34.7	31.6	-8.9%
BV (Rs)	222	220	-0.9%	246	239	-3.0%	271	256	-5.3%

Source: Company, Emkay Research

Exhibit 9: Key assumptions

(%)	FY21	FY22E	FY23E	FY24E
Loan growth	7.8%	4.6%	-0.9%	-1.7%
Borrowing growth	7.3%	3.9%	-3.1%	-3.9%
Yield on average loans	10.7%	10.0%	9.5%	9.3%
Cost of average int. liabilities	7.2%	6.8%	6.6%	6.5%

Source: Emkay Research

Exhibit 10: SOTP valuation

Particulars	Contribution (%)	Value per share (Rs)	Rationale
Core business	81.8%	180	ERoE
Value of Subsidiaries - REC Limited	18.2%	40	M Cap basis
Target Price		220	

Source: Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net interest income	115,097	145,504	142,678	136,456	135,651
Other income	82	217	260	312	375
Fee income	0	0	0	0	0
Net income	115,179	145,721	142,939	136,769	136,026
Operating expenses	23,341	8,684	10,754	10,052	10,296
Pre provision profit	91,838	137,037	132,185	126,716	125,730
PPP excl treasury	91,838	137,037	132,185	126,716	125,730
Provisions	9,912	34,964	18,978	15,462	13,351
Profit before tax	81,925	102,073	113,207	111,254	112,379
Tax	25,374	17,633	24,905	28,592	28,881
Tax rate	31	17	22	26	26
Profit after tax	56,551	84,440	88,301	82,662	83,498

Balance Sheet

Y/E Year End (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity	26,401	26,401	26,401	26,401	26,401
Reserves	425,241	497,530	554,926	604,523	650,447
Net worth	451,641	523,931	581,327	630,924	676,848
Deposits	0	0	0	0	0
Borrowings	3,108,746	3,334,534	3,465,726	3,358,906	3,228,132
Total liabilities	3,617,873	3,920,841	4,115,511	4,064,979	3,987,488
Cash and bank	1,990	47,622	58,597	43,788	31,708
Investments	164,733	159,735	173,286	167,945	161,407
Loans	3,341,126	3,601,248	3,767,093	3,732,118	3,668,332
Others	109,710	111,864	116,125	120,678	125,546
Total assets	3,617,873	3,920,841	4,115,511	4,064,979	3,987,488

Key Ratios (%)

Y/E Year End	FY20	FY21	FY22E	FY23E	FY24E
NIM	3.5	4.1	3.8	3.5	3.6
Non-ll/avg assets	0.0	0.0	0.0	0.0	0.0
Fee income/avg assets	0.0	0.0	0.0	0.0	0.0
Opex/avg assets	0.0	0.0	0.0	0.0	0.0
Provisions/avg assets	0.0	0.0	0.0	0.0	0.0
PBT/avg assets	0.0	0.0	0.0	0.0	0.0
Tax/avg assets	0.0	0.0	0.0	0.0	0.0
RoA	1.6	2.2	2.2	2.0	2.1
RoAE	12.8	17.3	16.0	13.6	12.8
GNPA (%)	7.7	5.4	5.2	5.4	5.6
NNPA (%)	3.6	2.0	1.8	1.8	2.0

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	21.4	32.0	33.4	31.3	31.6
BVPS	171.1	198.4	220.2	239.0	256.4
ABVPS	133.8	176.5	199.6	217.6	234.2
DPS	9.5	10.0	11.7	12.5	14.2

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	6.1	4.1	3.9	4.1	4.1
P/BV	1.0	0.7	0.6	0.6	0.6
P/ABV	1.0	0.7	0.6	0.6	0.6
P/PPOP	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	7.3	7.7	9.0	9.7	11.0

Source: Company, Emkay Research

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
NII	17.7	26.4	(1.9)	(4.4)	(0.6)
PPOP	2.7	49.2	(3.5)	(4.1)	(0.8)
PAT	(18.7)	49.3	4.6	(6.4)	1.0
Loans	10.2	7.8	4.6	(0.9)	(1.7)

Quarterly (Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
NII	30,728	33,645	34,421	30,719	35,246
NIM(%)	3.5	3.7	3.7	3.3	3.8
PPOP	24,794	34,487	41,888	35,868	32,101
PAT	-	-	-	-	-
EPS (Rs)	6.44	7.90	8.84	8.81	8.61

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoters	56.0	56.0	56.0	56.0	56.0
FIIIs	17.5	16.8	17.4	17.3	17.4
DIIIs	21.1	20.7	20.2	19.6	19.4
Public and Others	5.4	6.5	6.5	7.1	7.3

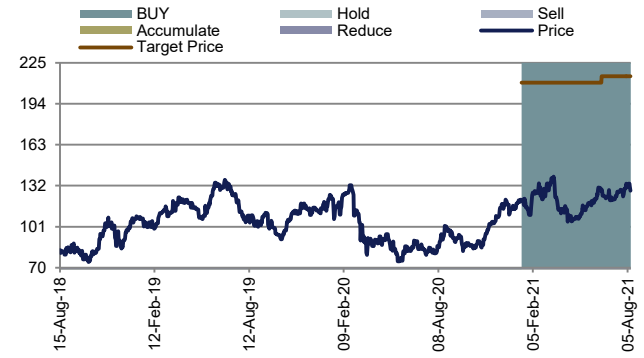
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
16-Jun-21	129	215	12m	Buy	Jignesh Shial
19-Feb-21	124	210	12m	Buy	Jignesh Shial
11-Feb-21	128	210	12m	Buy	Jignesh Shial
14-Jan-21	121	210	12m	Buy	Jignesh Shial

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-NBFCs



Analyst: Jignesh Shial

Contact Details

jignesh.shial@emkayglobal.com
+91 22 6624 2468

Sector

NBFCs/AFCs

Analyst bio

Jignesh Shial is a CA and has total 13 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	7.79	7.79	0%	0	100.00
Bajaj Finance	1.77	1.77	0%	0	22.67
Cholamandalam Investment	0.22	0.22	0%	0	2.78
Edelweiss Financial Services	0.00	0.00	NA	0	0.00
HDFC	5.17	5.20	1%	3	66.68
L&T Finance Holdings	0.07	0.07	0%	0	0.93
LIC Housing Finance	0.13	0.13	0%	0	1.66
Mahindra Finance	0.10	0.00	-100%	-10	0.00
Nippon Life India Asset Management	0.06	0.06	0%	0	0.78
Ponawalla Finco*	0.00	0.04	NA	4	0.48
Shriram City Union Finance	0.00	0.03	NA	3	0.40
Shriram Transport Finance	0.28	0.28	0%	0	3.61
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	13-Aug-20	11-Feb-21	12-May-21	13-Jul-21	12-Aug-21
EAP - BFSI-NBFCs	100.0	93.1	146.2	133.2	143.1	146.9
BSE200 Neutral Weighted Portfolio (ETF)	100.0	87.8	137.5	125.0	134.3	137.7

*Performance measurement base date 1st April 2019

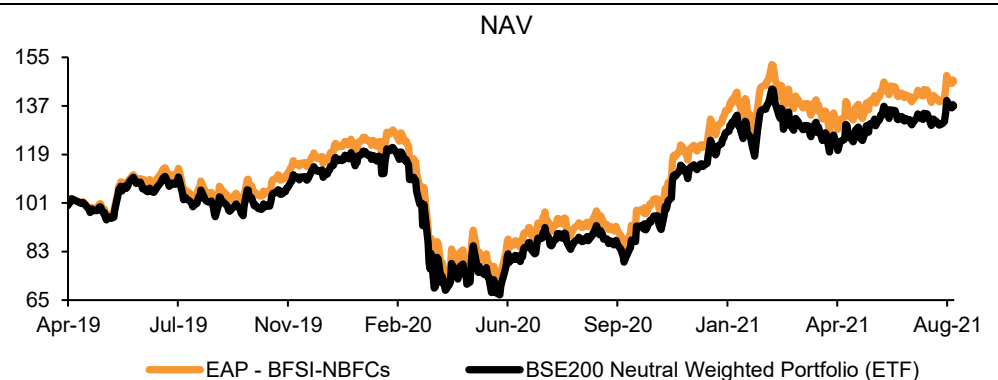
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-NBFCs	2.7%	10.3%	0.5%	57.8%
BSE200 Neutral Weighted Portfolio (ETF)	2.6%	10.2%	0.2%	56.9%

Source: Emkay Research

NAV chart



Source: Emkay Research

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

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

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

Completed Date: 13 Aug 2021 19:02:09 (SGT)

Dissemination Date: 13 Aug 2021 19:03:09 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com