BUY (Maintain)

CMP: **INR 409** Target Price: **INR 510** ▲ 25%

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08 August 2025

India | Equity Research | Results update

Power Finance Corporation

NBFCs

Provision write-back aids PAT beat; loan growth healthy at 1% QoQ, despite higher base

Power Finance Corporation (PFC) reported better-than-expected PAT at INR 51.1bn, up 21% YoY/down 12% QoQ, aided by negative credit cost. After a robust 8% QoQ uptick in Q4FY25, its loan book was up 1% QoQ in Q1FY26, which seems to be healthy considering the seasonality and high base. Share of private sector in the overall book stands at 23% vs. 19% YoY. Private sector book's three-year CAGR is ~30% vs. a 14% CAGR for the overall book. Hence, given the relatively faster growth in the private sector book, we model a relatively higher credit cost of 15–30bps in FY26E/FY27E vs. ~10bps in FY25. In spite of that, we expect PFC to report RoE of 16–18% for FY26E/FY27E. We, therefore, maintain **BUY** with an unchanged SoTP-based TP of INR 510, valuing PFC standalone at 1.3x FY26E BV (unchanged; adjusted for REC stake purchase) and applying a 25% holdco discount for the REC stake.

Q1FY26 performance: PAT aided by provision write-back; core operating profit up 23% YoY vs. loan growth of 16% YoY

PFC reported better-than-expected PAT at INR 51.1bn, up 21% YoY/down 12% QoQ, aided by negative credit cost. Core operating profit (adjusted for dividend income, net gain on fair value changes and forex gain/loss) was up 23% YoY, which seems to be healthy and higher than its loan growth of 16% YoY. Loan growth was up 1% QoQ/16% YoY, at INR 5.50trn, aided by an 85% YoY surge in disbursements, albeit down 47% QoQ, which can be attributed to seasonality and higher base. GNPA/NNPA/PCR was stable QoQ while credit cost (calculated) came in negative at ~52bps, which aided the PAT uptick.

Spreads came in at 2.61bps, up 3bps vs. entire FY25 and similarly, margins also came in at 3.68%, up 4bps vs. entire FY25. Benefit in spreads/margins was largely due to lower borrowing cost.

PFC declared an interim dividend of INR 3.7/share for Q1FY26, which translates into ~27% dividend payout ratio and ~3.5% yield annualised, as per current market price. PFC's capital adequacy ratio is healthy at 22.37%.

Financial Summary

Y/E March (INR mn)	FY24A	FY25A	FY26E	FY27E
Net Interest Income	156,274	193,367	197,788	212,689
PAT	143,670	173,522	171,357	175,877
EPS (INR)	45.5	52.6	51.9	53.3
% Chg YoY	29.5	15.5	(1.2)	2.6
P/E (x)	9.0	7.8	7.9	7.7
P/BV (x)	1.7	1.5	1.3	1.2
Gross Stage - 3 (%)	3.3	1.9	1.2	1.0
Dividend Yield (%)	3.3	3.9	3.8	3.9
RoA (%)	3.0	3.2	2.8	2.5
RoE (%)	19.5	20.4	17.7	16.1

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Market Data

Market Cap (INR)	1,350bn
Market Cap (USD)	15,428mn
Bloomberg Code	POWF IN
Reuters Code	PWFC.BO
52-week Range (INR)	567 /357
Free Float (%)	44.0
ADTV-3M (mn) (USD)	33.7

Price Performance (%)	3m	6m	12m
Absolute	1.2	(0.2)	(17.0)
Relative to Sensex	1.3	(3.7)	(18.4)

ESG Score	2023	2024	Change
ESG score	73.0	71.2	(1.8)
Environment	48.2	51.9	3.7
Social	74.6	72.7	(1.9)
Governance	78.1	76.9	(1.2)

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY26E	FY27E
PAT	(5)	(5)

Previous Reports

22-05-2025: Q4FY25 results review

13-02-2025: Q3FY25 results review

Loan growth healthy despite seasonally weak quarter and higher base; FY26 guidance at 10–11%

Loan growth was up 1% QoQ/16% YoY at INR 5.50trn; which we believe is healthy, considering the seasonality in Q1 and post robust 8% sequential uptick in Q4FY25. This was aided by an 85% YoY surge in disbursements, though down 47% QoQ, which can be attributed to seasonality and higher base. Further, under generation, renewables continue to drive loan growth, which was up 36% YoY and now constitutes 14.8% of its overall loan book vs. 12.6% YoY. Over the past three years, PFC's overall loan book has grown at a CAGR of 14%, wherein the private sector has grown at a CAGR of 30% and government sector lending has been relatively slow at 11% YoY. Post a good run over the past three years, PFC has guided for 10–11% loan growth in FY26.

PFC has highlighted a few areas where it envisages tremendous growth potential and expects them to be key growth drivers in the medium-term. These areas include renewables, thermal generation capacity, nuclear generation space, clean energy funding and power distribution. Moreover, the company retains its top position as a renewable energy financing player with a loan book of more than INR 800bn.

Stable asset quality; provision write-back leads to negative credit cost

Asset quality continues to be stable with GNPA/NNPA ratio at a seven-year lows of 1.92%/0.38% while being flat QoQ. Overall, coverage ratio on Stage-3 was also stable QoQ at 80%, while coverage on Stage-1 and 2 combined fell to 98bps vs. 113bps QoQ. As a result, credit cost came in negative at 52bps (calculated), which was the lowest for PFC in the past ~6 years.

Key risks: Pressure on asset quality driven by macro-economic concerns or company-specific issues or regulatory change could result in higher NPA/credit cost; and lower-than-expected loan growth due to higher repayments/slowdown in GDP and thereby overall demand.

Q4FY25 analyst meet takeaways

Gensol Eng. exposure

- **Declared it as NPA in Q4 and made 100% provision of INR 2.63bn**
- **This is a promoter-specific event; the company does not see it representing sectoral risk**
- **Realised INR 0.44bn by way of FD and TRA balance**
- Disbursed INR 3.52bn for leasing of vehicles. Of this, ~2.7k vehicles have been delivered and hypothecated to PFC
- O/s exposure is INR 3.07bn, as per exchange filing

KSK Mahanadi

- 600MW coal-based project resolved through NCLT in Q4
- Exposure of ~INR 33bn
- **100% principal recovery of >100% and interest income recovery of INR 11.92bn**
- **~55% provision on this project amounting to INR 18.15bn has been reversed in Q4**
- NNPA at 0.39% now is the lowest in the past 7 years
- INR 105.17bn is O/s stress pool

Stress project specific details

- **2 projects outside NCLT in advance stage of resolution**
    - **TRN Energy – INR 11.39bn exposure – 50% PCR**
    - **Shiga Energy – INR 5.22bn exposure – 31% PCR –** 97MW commissioned hydro energy plant
- **Sinnar thermal power project – INR 30.01bn exposure – 80% PCR –** 1,350MW coal-based plant – resolution plan has been received and working towards acceptance of the same
- **India Power Corporation (Haldia) – INR 9.59bn exposure – 50% PCR -** 450MW coal-based plant – application for approval of resolution plan has been file before NCLT on 23/12/2024
- **15 discom projects upgraded and 13 discom projects downgraded during Q4; hence, made provision of INR 9bn towards those accounts**
- **Stage-2 coverage has increased to 0.58%, from 1.85% on an average, due to guidance from RBI and prudent approach adopted by PFC**

Loan growth and disbursements

- **Expect loan growth of 10-11% for FY26 vs. 13% YoY growth in FY25 (REC has guided for 11-13% growth)**
- **Q4FY25 loan growth at 8% QoQ/13% YoY, which is just a tad lower than 14% guidance, despite higher resolutions during FY25**
- Growth in FY25 has come primarily from distribution, which constituted 55% of disbursements and renewables, which constituted 17% of disbursements
- **Key lending opportunities in medium-term**
    - Renewables

- Thermal generation capacity (Govt. has announced its plan of adding 80GW of thermal generation capacity)
- Nuclear generation space
- Power distribution

- **Envisages financing opportunities in the above segments will likely emerge over the medium-term**
- **Infra sector growth would continue to be in gradual manner**
- PFC continues to be the largest NBFC group in India with loan book of >INR 11trn
- **Renewables has been primarily towards private sector**
- Retained positioning of largest renewable financing player in India
- Clean energy funding will be done in a big way
- Major disbursements in government sector are towards discoms

Foreign exchange borrowings

- ~100% of its USD exposure is hedged in nature
- On foreign currency borrowing, ~70% exposure is in USD
- ~95% of its borrowings is hedged for exchange risk
- Expect ~25% of borrowings to be repaid in FY26 and new borrowings would come at the latest rate

Margins

- **Maintain spread guidance range of 2.5% for FY26 vs. 2.58% for FY24**

Annual performance

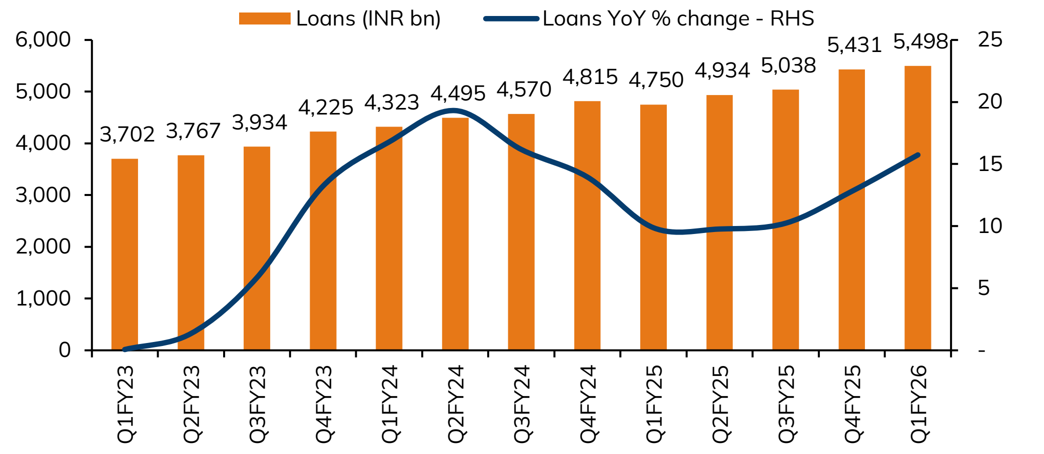
- All-time high PAT of INR 173bn for FY25, up 21%
- PAT rise is driven by 24% NII, provision reversal and recoveries on account of resolution
- **Final dividend of INR 2.5/share, taking total dividend to INR 15.8/share for FY25, which is ~4% dividend yield on CMP**

Exhibit 1: Q1FY26 result review

Income Statement (INR mn)	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	YoY %	QoQ %
Interest Income	1,18,270	1,19,090	1,24,172	1,37,215	1,37,389	16	0
Interest Expense	75,005	75,007	77,231	78,109	82,697	10	6
Net Interest Income	**43,266**	**44,083**	**46,942**	**59,106**	**54,692**	**26**	**-7**
Total Non-Interest income	3,160	14,655	5,971	11,309	2,016	-36	-82
Total Income	46,426	58,738	52,913	70,415	56,708	**22**	**-19**
Employee Cost	629	589	640	871	707	13	-19
Other expenses	-201	4,865	735	4,083	7,687	-3,921	88
Total Operating Expenses	**428**	**5,454**	**1,375**	**4,955**	**8,395**	**1,864**	**69**
Pre-provision operating profit	**45,998**	**53,284**	**51,538**	**65,460**	**48,313**	**5**	**-26**
Provisions for doubtful debts	620	-1,241	745	4,447	-6,818	-1,199	-253
PBT	**45,378**	**54,525**	**50,793**	**61,013**	**55,132**	**21**	**-10**
Non-operating expenses losses / (gains)	0	0	0	0	0	NA	NA
PBT (after forex)	**45,378**	**54,525**	**50,793**	**61,013**	**55,132**	**21**	**-10**
Tax	8,214	10,821	9,244	9,924	10,117	23	2
PAT (Pre-Extraordinaries)	**37,164**	**43,704**	**41,549**	**51,090**	**45,015**	**21**	**-12**
Extraordinaries (Net of Tax)	0	0	0	0	0	NA	NA
Reported Profit	**37,164**	**43,704**	**41,549**	**51,090**	**45,015**	**21**	**-12**
Balance Sheet (INR bn)	**Q1FY25**	**Q2FY25**	**Q3FY25**	**Q4FY25**	**Q1FY26**	**YoY %**	**QoQ %**
Loans	4,750	4,934	5,038	5,431	5,498	16	1
Disbursements	195	467	342	680	362	86	-47
Borrowings	3,998	4,268	4,229	4,755	4,604	15	-3
Total Assets	5,140	5,223	5,503	5,782	5,558	8	-4
Net Worth	829	859	901	909	954	15	5
Asset Quality (%)	**Q1FY25**	**Q2FY25**	**Q3FY25**	**Q4FY25**	**Q1FY26**	**YoY bps**	**QoQ bps**
Gross NPA (%)	3.55	2.71	2.68	1.94	1.92	-163 bps	-2 bps
Net NPA (%)	0.87	0.72	0.71	0.39	0.38	-49 bps	-1 bps
Coverage Ratio (%)	74	74	73	80	80	600 bps	0 bps
Credit cost (%)	0.05	(0.10)	0.06	0.35	(0.52)	-58 bps	-88 bps
Key Ratios (%)	**Q1FY25**	**Q2FY25**	**Q3FY25**	**Q4FY25**	**Q1FY26**	**YoY bps**	**QoQ bps**
Borrowings as a % of loans	84	87	84	88	84	-43 bps	-382 bps
Cost to Income	0.9	9.3	2.6	7.0	14.8	1388 bps	776 bps
Tier I	22	22	22	0	0	-2161 bps	0 bps
CAR	24	25	25	0	25	104 bps	2541 bps
DuPont Analysis (%)	**Q1FY25**	**Q2FY25**	**Q3FY25**	**Q4FY25**	**Q1FY26**	**YoY bps**	**QoQ bps**
NII / Assets	3.4	3.4	3.5	4.2	3.9	46 bps	-34 bps
Non-Interest Income / Assets	0.2	1.1	0.4	0.8	0.1	-11 bps	-66 bps
Operating cost / Assets	0.0	0.4	0.1	0.4	0.6	55 bps	24 bps
PPoP / Assets	3.6	4.1	3.8	4.6	3.4	-21 bps	-124 bps
Provisions / Assets	0.0	-0.1	0.1	0.3	-0.5	-53 bps	-80 bps
Reported RoA	2.9	3.4	3.1	3.6	3.2	25 bps	-45 bps
Reported RoE	18.3	20.7	18.9	22.6	19.3	98 bps	-326 bps

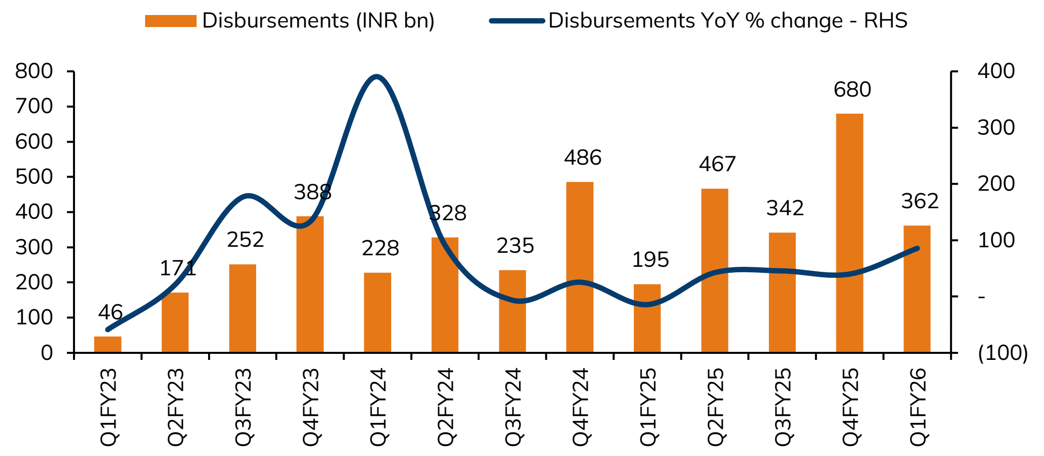
Source: Company data, I-Sec research

Exhibit 2: Loan growth up ~1% QoQ on high base



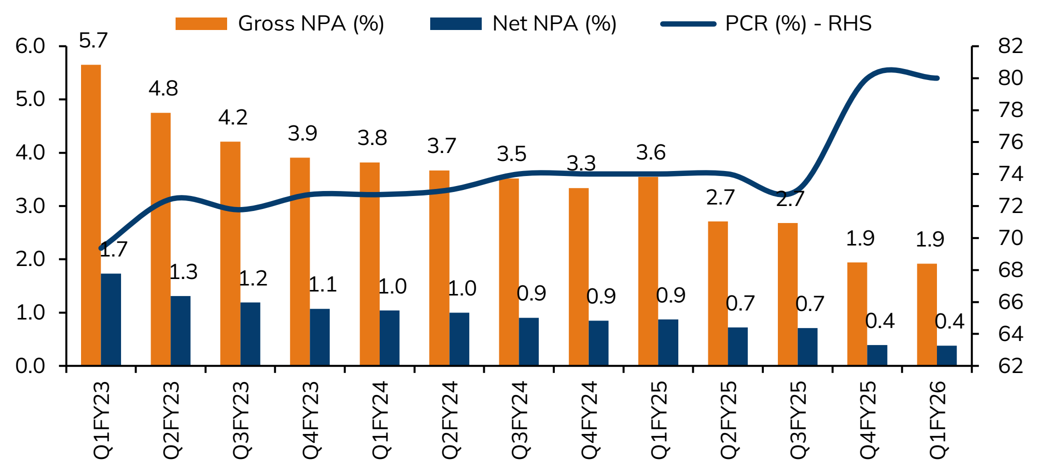
Source: Company data, I-Sec research

Exhibit 3: Sequential decline in disbursements off high base



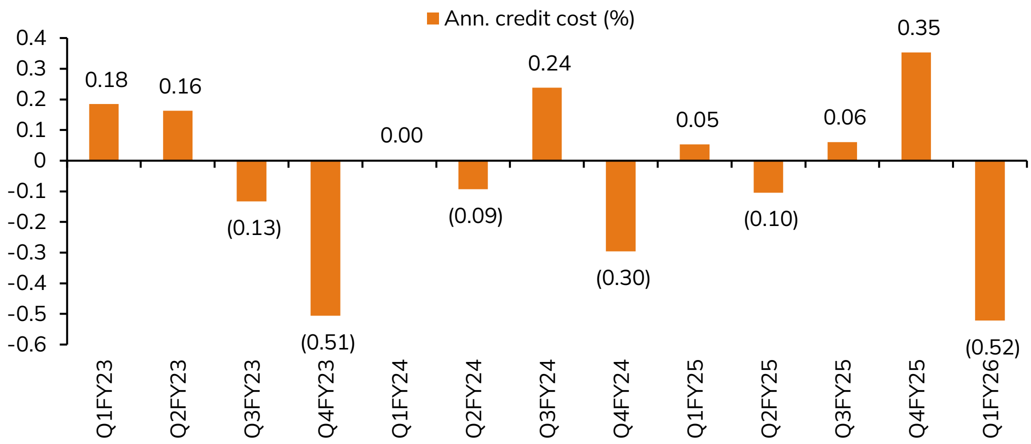
Source: Company data, I-Sec research

Exhibit 4: GNPA as well as NNPA at multi-year lows



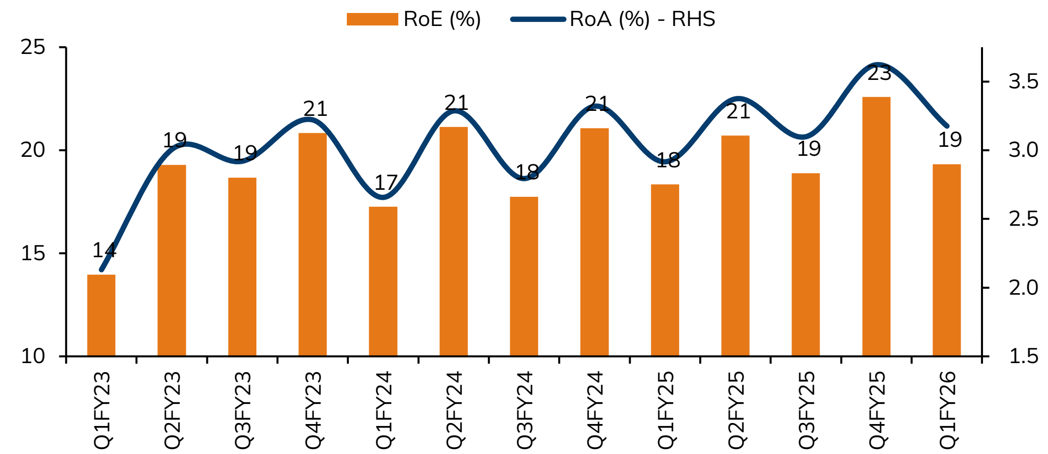
Source: Company data, I-Sec research

Exhibit 5: Credit cost (calculated) negative at ~52bps



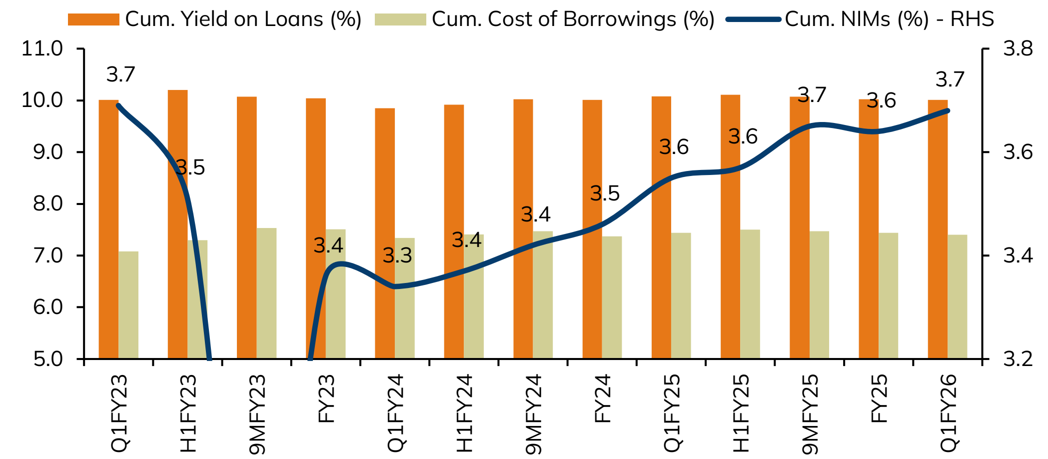
Source: Company data, I-Sec research

Exhibit 6: RoE at ~19%, aided by provision write-back



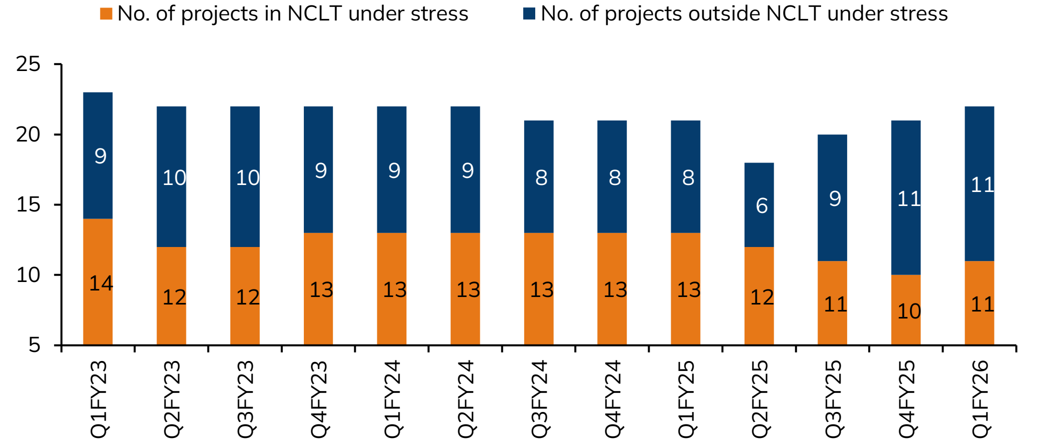
Source: Company data, I-Sec research

Exhibit 7: Margins inch up a tad aided by benefit on borrowing cost front



Source: Company data, I-Sec research

Exhibit 8: Total 22 projects under stress



Source: Company data, I-Sec research

Exhibit 9: SoTP-based valuation suggests TP of INR 510, implying >20% upside

Particulars	INR / share
FY26E book value (gross)	312
Less: consideration per share paid for REC in 2019	44
FY26E book value (adjusted)	268
FY26E P/B target multiple (x)	1.3
Standalone Target price (A)	**340**
REC at target market cap (INR mn)	14,21,941
PFC stake in REC (%)	52.63%
Holding company discount (%)	25%
PFC stake in REC per share (adjusted for holdco discount) (B)	**170**
Target price (A+B)	**510**

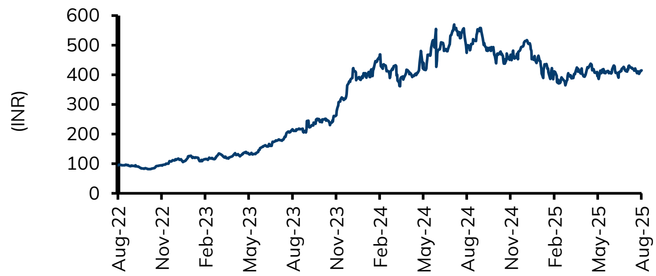
Source: Company data, Bloomberg, I-Sec research

Exhibit 10: Shareholding pattern

%	Dec'24	Mar'25	Jun'25
Promoters	56.0	56.0	56.0
Institutional investors	34.3	35.0	34.8
MFs and others	11.6	11.6	11.7
FIs/Banks	0.5	0.1	0.1
Insurance	4.2	4.1	3.9
FIIs	18.0	19.2	19.1
Others	9.7	9.0	9.2

Source: Bloomberg, I-Sec research

Exhibit 11: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 12: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25A	FY26E	FY27E
Interest Income	438,939	498,747	552,559	613,814
Interest Expenses	(282,665)	(305,380)	(354,771)	(401,125)
Net Interest Income (NII)	156,274	193,367	197,788	212,689
Other Income	**21,779**	**32,774**	**28,055**	**32,499**
Total Income (net of interest expenses)	335,380	421,829	427,235	461,915
Employee benefit expenses	**(2,427)**	**(2,686)**	**(2,957)**	**(3,241)**
Other operating expenses	(2,133)	(9,482)	(5,436)	(6,137)
Total Operating Expense	(4,561)	(12,168)	(8,393)	(9,378)
Pre Provisioning Profits (PPoP)	174,545	216,295	221,054	239,848
Provisions and write offs	1,712	(4,571)	(6,771)	(17,950)
Profit before tax (PBT)	**176,257**	**211,724**	**214,283**	**221,899**
Total tax expenses	**(32,587)**	**(38,202)**	**(42,926)**	**(46,022)**
Profit after tax (PAT)	143,670	173,522	171,357	175,877

Source Company data, I-Sec research

Exhibit 13: Balance sheet

(INR mn, year ending March)

	FY24A	FY25A	FY26E	FY27E
Share capital	33,001	33,001	33,001	33,001
Reserves & surplus	759,034	876,368	996,234	1,119,262
Shareholders' funds	**792,035**	**909,369**	**1,029,235**	**1,152,263**
Borrowings	**4,163,936**	**4,755,155**	**5,453,625**	**6,092,533**
Provisions & Other Liabilities	99,860	117,250	134,189	149,960
Total Liabilities and Stakeholder's Equity	**5,055,830**	**5,781,774**	**6,617,049**	**7,394,756**
Cash and balance with RBI	2,218	68,427	7,676	8,547
Fixed assets	**873**	**974**	**1,333**	**1,490**
Loans	4,699,284	5,328,183	5,976,881	6,655,209
Investments	202,200	207,200	226,449	245,494
Deferred tax assets (net)	**35,572**	**33,510**	**59,997**	**67,048**
Other Assets	115,684	143,480	344,712	416,967
Total Assets	**5,055,830**	**5,781,774**	**6,617,049**	**7,394,756**

Source Company data, I-Sec research

Exhibit 14: Key Ratios

(Year ending March)

	FY24A	FY25A	FY26E	FY27E
AUM and Disbursements (INR mn)				
AUM	4,699,284	5,328,183	5,976,881	6,655,209
On-book Loans	4,699,284	5,328,183	5,976,881	6,655,209
Disbursements	1,276,560	1,682,640	1,896,742	2,138,088
Growth (%):				
Total AUM (%)	14.4	13.4	12.2	11.3
Disbursements (%)	48.9	31.8	12.7	12.7
Loan book (on balance sheet) (%)	**14.4**	**13.4**	**12.2**	**11.3**
Total Assets (%)	13.7	14.4	14.4	11.8
Net Interest Income (NII) (%)	8.8	23.7	2.3	7.5
Non-interest income (%)	9.2	53.7	(9.8)	15.4
Total Income (net of interest expenses) (%)	8.8	25.8	1.3	8.1
Operating Expenses (%)	(82.3)	166.8	(31.0)	11.7
Employee Cost (%)	10.8	10.7	10.1	9.6
Non-Employee Cost (%)	(91.0)	344.5	(42.7)	12.9
Pre provisioning operating profits (PPoP) (%)	25.8	23.9	2.2	8.5
Provisions (%)	(42.2)	(367.1)	48.1	165.1
PBT (%)	24.4	20.1	1.2	3.6
PAT (%)	23.8	20.8	(1.2)	2.6
EPS (%)	29.5	15.5	(1.2)	2.6
Yields, interest costs and spreads (%)				
NIM on IEA (%)	3.4	3.7	3.3	3.2
Yield on loan assets (%)	9.9	9.9	9.8	9.7
Cost of borrowings (%)	7.2	6.8	7.0	6.9
Operating efficiencies				
Non interest income as % of total income	**0.9**	**0.8**	**0.9**	**0.9**
Cost to income ratio	2.5	5.3	3.7	3.8
Op.costs/avg assets (%)	0.1	0.2	0.1	0.1
Op.costs/avg AUM (%)	0.1	0.2	0.1	0.1
Salaries as % of non-interest costs (%)	53.2	22.1	35.2	34.6
Capital Structure				
Leverage (x)	5.9	5.9	5.8	5.8

Source Company data, I-Sec research

	FY24A	FY25A	FY26E	FY27E
Asset quality and provisioning				
GNPA (%)	3.3	1.9	1.2	1.0
NNPA (%)	0.9	0.4	0.3	0.3
GNPA (INR mn)	160,732	105,170	73,851	67,495
NNPA (INR mn)	41,107	20,930	16,986	17,549
Coverage ratio (%)	74.0	80.0	77.0	74.0
Credit Costs as a % of avg AUM (bps)	(4)	9	12	28
Credit Costs as a % of avg on book loans (bps)	(4)	9	12	28
Return ratios				
RoAA (%)	3.0	3.2	2.8	2.5
RoAE (%)	19.5	20.4	17.7	16.1
Dividend Payout ratio (%)	31.0	30.0	30.0	30.0
Valuation Ratios				
No of shares	**3,300**	**3,300**	**3,300**	**3,300**
No of shares (fully diluted)	3,300	3,300	3,300	3,300
EPS (INR)	45.5	52.6	51.9	53.3
EPS fully diluted (INR)	13.5	15.8	15.6	16.0
Price to Earnings (x)	9.0	7.8	7.9	7.7
Price to Earnings (fully diluted) (x)	30.3	25.9	26.2	25.5
Book Value (fully diluted)	240	276	312	349
Price to Book	1.7	1.5	1.3	1.2
DPS (INR)	13.5	15.8	15.6	16.0
Dividend yield (%)	3.3	3.9	3.8	3.9

Source Company data, I-Sec research

Exhibit 15: Key Metrics

(Year ending March)

	FY24A	FY25A	FY26E	FY27E
DuPont Analysis				
Average Assets (INR mn)	4,752,081	5,418,802	6,199,411	7,005,903
Average Loans (INR mn)	4,403,788	5,013,734	5,652,532	6,316,045
Average Equity (INR mn)	737,029	850,702	969,302	1,090,749
Interest earned (%)	9.2	9.2	8.9	8.8
Interest expended (%)	5.9	5.6	5.7	5.7
Gross Interest Spread (%)	3.3	3.6	3.2	3.0
Credit cost (%)	**0.0**	**0.1**	**0.1**	**0.3**
Net Interest Spread (%)	3.3	3.5	3.1	2.8
Operating cost (%)	**0.1**	**0.2**	**0.1**	**0.1**
Lending spread (%)	3.2	3.3	2.9	2.6
Non interest income (%)	**0.5**	**0.6**	**0.5**	**0.5**
Operating Spread (%)	3.7	3.9	3.5	3.2
Tax rate (%)	**(18.5)**	**(18.0)**	**(20.0)**	**(20.7)**
ROAA (%)	3.0	3.2	2.8	2.5
Effective leverage (AA/ AE)	**6.4**	**6.4**	**6.4**	**6.4**
RoAE (%)	19.5	20.4	17.7	16.1

Source Company data, I-Sec research

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