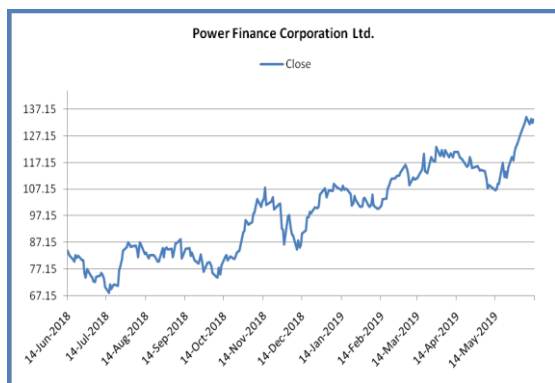


Power Finance Corporation Ltd.

INDUSTRY	Finance Term Lending
No. of Shares (Crore)	264.01
Face value (Rs)	10.00
Mkt. Cap (Rs. Crore)	35865.75
Price (27/06/2019)	135.85
Book Value (Rs)	152.27
P/BV	0.89
BSE Code	532810
NSE Code	PFC
Bloomberg	POWF IN
Reuters	PWFC.BO
Avg. Monthly Volume	92,35,380
52 W H/L (Rs)	138.15 / 67.50
Shareholding Pattern	
	%
Indian Promoters	59.05
Foreign Promoters	0.00
DII's	18.70
FPI's	16.63
Body Corporate	0.80
Non-Institutions	4.83
Total	100
(As on March 31, 2019)	
Recommendation	
BUY	



Company Background

Power Finance Corporation Ltd. (PFC) was incorporated in 1986 - a Schedule-A Navratna CPSE (Central Public Sector Enterprises) and is a leading Non-Banking Financial Corporation in the Country. It is a specialized public financial institution in power sector and is the largest infrastructure finance company in the country by net worth. It is incorporated to finance, facilitate, invest and promote India's integrated development of the power and associated sectors. PFC's product portfolio comprises of financial products and services mainly to power projects like project term loans, short term loans, equipment lease financing, discounting of bills and consultancy services. It has also initiated financing of projects based on renewable energy sources. It acts as vehicle for development in generation, transmission and distribution as well as for renovation and modernization of power projects.

Investment Rationale

- For the period of FY13-18, both its topline and bottomline grew at a CAGR of ~9% and ~6% respectively. In Q4FY19 PFC's standalone income grew by 23% to Rs. 7,701 crore, its operating profit was higher by ~48% to Rs. 7,896 crore and net profit has risen more than double to Rs. 2,118 crore, YoY basis, mainly due to higher revenues. PFC has been consistently paying Dividend since many years.
- PFC finances power sector projects and its main source of revenue is interest income on loans. For the whole year FY18-19 PFC's standalone net profit grew by 59% to Rs. 6,953 crore and on consolidated basis posted profit of Rs. 12,596 crore up by 44%, YoY basis.
- Despite the liquidity challenges in the market, PFC managed to deliver excellent business growth by leveraging its strong credit rating profile and long established reputation. As of March 2019, the company's loan asset book crossed Rs. 3 trillion and grew at a rate of 13%.
- During the fourth quarter ended March, PFC had completed the acquisition of state-run REC Ltd. (formerly Rural Electrification Corporation Ltd.) by acquiring 52.63% share at a cost of about Rs. 14,500 crore. The acquisition would enable increased efficiencies in lending processes and policies across both the institutions and would create public value by offering better loan products to the power sector. REC has targeted to achieve Rs. 28,000 crore revenue from operations in current fiscal in view of excellent performance scenario.
- Considering the significant increase in size and profitability, PFC became the largest financial player in power sector. PFC will be the second-largest government-owned financial player in the country based on the current market capital after State Bank of India (SBI). Besides, PFC will be third-highest profit making financial player in India based on profit data of 2017-18 after IOCL and ONGC.
- In June 2019, PFC has raised USD 1 billion (around Rs. 6,940 crore) through issuance of bonds in the international market.
- In March quarter, GVK Ratle, where PFC had an exposure of Rs. 800 crore, has been upgraded as a Standard Asset from non performing asset (NPA) category. The company had lent Rs. 29,000 crore worth of its loan book to 29 stressed power projects of which 15 projects are in National Company Law Tribunal (NCLT) and the remaining they are trying to resolve outside NCLT.

Recommendation - The convergence between PFC and REC would help the company reap benefits from a decentralized outreach and a professional project finance expertise. Further, the ensuing diversification of assets of the group, as well as portfolio risk would help in resolution of stressed power sector assets in a better and coordinated manner. All these initiatives are likely to turnaround power sector and benefit PFC. At the CMP of Rs. 135.85, the stock trades at ~2.5 times FY21 EPS of Rs. 54. **Hence, we recommend a BUY on the stock with a Target Price of Rs. 162 with an upside potential of ~19% from the current level with an investment horizon of 9-12 months.**

Particulars (Rs. Crs)	Q4FY19^	Q4FY18^	Var%	H2FY19^	H2FY18^	Var%	FY19*	FY18*
Net Sales	7701.12	6254.47	23.13	15063.41	12143.98	24.04	53886.44	48336.33
Operating Profit	7897.86	5338.99	47.93	15450.08	12302.25	25.59	52454.23	42061.60
Profit After Tax	2117.56	796.35	165.91	4193.40	2540.03	65.09	12596.02	8775.34
PBIDTM%	102.55	85.36	20.14	102.57	99.56	3.02	96.93	86.50
PATM	27.50	12.73	115.96	27.84	20.56	35.43	23.28	18.05
EPS (Rs.)	8.02	3.02	165.91	15.88	9.62	65.09	37.58	25.34

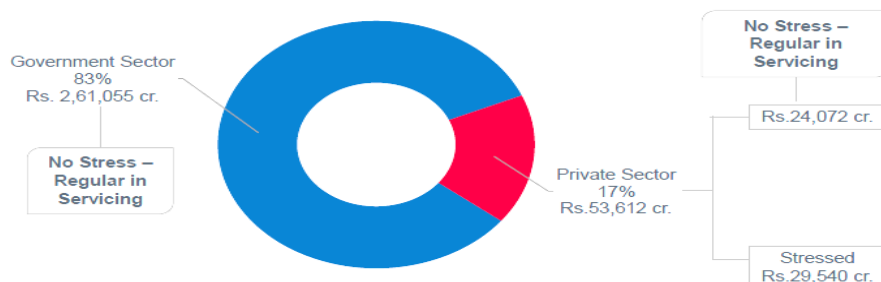
^Numbers are Standalone & *Numbers are Consolidated

Source: Company, Ace Equity, AUM Research

Asset Quality

Asset Quality Snapshot – Total Portfolio

Loan Book of Rs.3,14,667 cr. as on 31.03.2019



91% of Loan Assets are regular in servicing & no stress is envisaged

Provisioning Snapshot – Total Portfolio

(Rs.'crore)

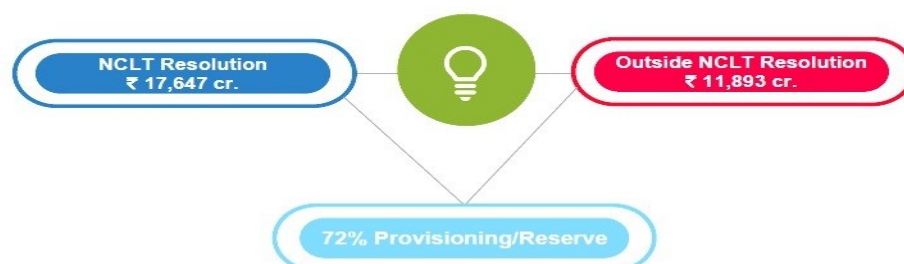
Status as on 31.03.2019

	Stage I & Stage II	Stage III	Stage III (NPA) as % of Total Loan Assets	Total
Outstanding Loan Assets				
Government Sector	2,61,055	-	Nil	2,61,055
Private Sector	24,072	29,540	9.39%	53,612
Total Outstanding Amount	2,85,127	29,540	9.39%	3,14,667
Total Provisioning Amount	1,160	15,208	-	16,368
Net Assets	2,83,967	14,332	4.55%	2,98,299

51% provisioning against Stage III Assets (NPA) of Pvt. sector

Resolution Status – Stage III Assets

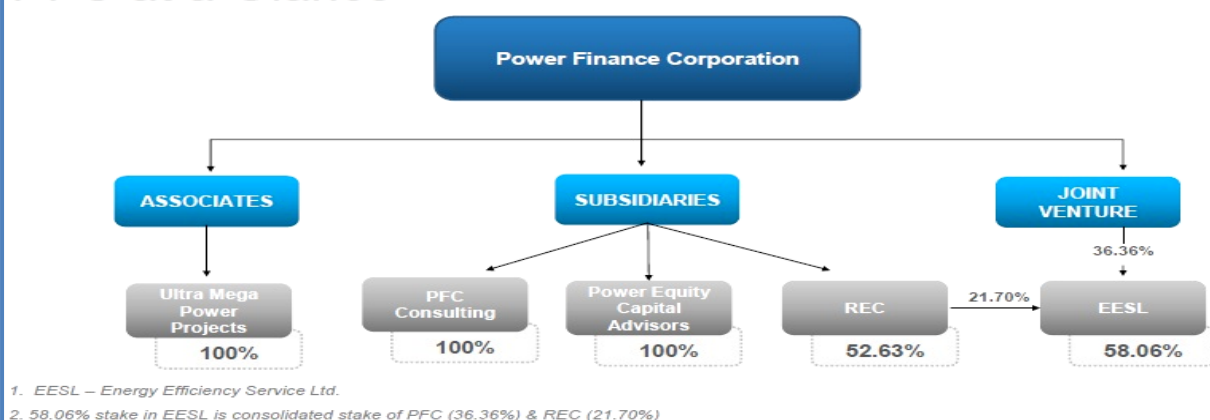
Resolution status of Rs.29,540 cr. of loan assets in Stage 3



Reserves Includes Stage I Provision + Reserve for Bad & doubtful debts + Sec 45 IC Reserve

Source: Company, Ace Equity, AUM Research

PFC at a Glance



Financials

Standalone Quarterly Results (Value in Rs. Crs)

Particulars	Q4FY19	Q4FY18	Var%	H2FY19	H2FY18	Var%
Net Sales	7701.12	6254.47	23.13	15063.41	12143.98	24.04
Total Expenditure	-195.22	915.97	-121.31	-383.55	395.02	-197.10
PBIDT (Excl OI)	7896.34	5338.50	47.91	15446.96	11962.13	29.13
Other Income	1.52	0.49	210.20	3.12	340.12	-99.08
Operating Profit	7897.86	5338.99	47.93	15450.08	12302.25	25.59
Interest	4979.93	4268.55	16.67	9770.00	8740.48	11.78
PBDT	2917.93	1070.44	172.59	5680.08	3561.77	59.47
Depreciation	1.93	1.96	-1.53	3.58	3.83	-6.53
PBT	2916.00	1068.48	172.91	5676.50	3557.94	59.54
Tax	798.44	272.13	193.40	1483.10	1017.91	45.70
Profit After Tax	2117.56	796.35	165.91	4193.40	2540.03	65.09
EPS (Rs.)	8.02	3.02	165.91	15.88	9.62	65.09

Consolidated Income Statement (Value in Rs. Crs)

Particulars	FY14	FY15	FY16	FY17	FY18	FY19
Net Sales	21608.37	24990.33	27771.16	27481.16	48336.33	53886.44
Total Expenditure	787.88	1182.88	2055.46	5557.83	6583.82	1702.60
PBIDT (Excl OI)	20820.49	23807.45	25715.70	21923.33	42040.01	52411.34
Other Income	28.36	101.99	116.86	176.09	21.59	42.89
Operating Profit	20848.85	23909.44	25832.56	22099.42	42061.60	52454.23
Interest	13219.20	15455.65	16645.38	16794.91	30288.83	34620.96
PBDT	7629.65	8453.79	9187.18	5304.51	11772.77	17833.27
Depreciation	5.23	7.92	20.08	40.82	14.68	15.49
PBT	7624.42	8445.87	9167.10	5263.69	11758.09	17817.78
Tax	2162.58	2441.47	2983.10	3027.59	2982.75	5221.76
Profit After Tax	5461.84	6004.40	6184.00	2236.10	8775.34	12596.02
EPS (Rs.)	20.69	22.74	23.42	8.47	25.34	37.58

June 27, 2019

Consolidated Balance Sheet (Value in Rs. Crs)						
Particulars	FY13	FY14	FY15	FY16	FY17	FY18
EQUITY AND LIABILITIES						
Share Capital	1320.02	1320.04	1320.04	1320.04	2640.08	2640.08
Total Reserves	22359.70	26202.23	31091.31	34708.27	34204.83	37561.66
Shareholder's Funds	23679.72	27522.27	32411.35	36028.31	36844.91	40201.74
Secured Loans	6636.67	22776.66	20786.66	19869.75	20106.17	13691.52
Unsecured Loans	114514.19	119714.91	144208.75	152744.82	154997.19	178362.96
Deferred Tax Assets / Liabilities	218.63	273.00	188.27	301.96	247.55	296.16
Other Long Term Liabilities	539.81	347.62	333.81	548.85	6143.07	5931.40
Long Term Provisions	162.35	473.19	963.97	1230.59	2667.16	2252.45
Total Non-Current Liabilities	122071.65	143585.38	166481.46	174695.97	184161.14	200534.49
Current Liabilities						
Trade Payables	2.69	2.54	17.04	69.65	120.55	389.29
Other Current Liabilities	14679.83	21655.32	25407.96	28038.86	33938.85	39182.10
Short Term Borrowings	8709.97	1314.73	4064.41	7571.57	2543.48	7126.10
Short Term Provisions	195.50	239.47	529.43	815.39	1928.55	741.31
Total Current Liabilities	23587.99	23212.06	30018.84	36495.47	38531.43	47438.80
Total Liabilities	169339.36	194319.71	228911.65	247219.75	259537.48	288175.03
ASSETS						
Non-Current Assets						
LOANS	142524.17	168816.19	197930.34	200380.71	200938.25	235461.67
Gross Block	110.29	111.80	150.99	265.10	402.65	541.51
Less: Accumulated Depreciation	35.34	40.20	49.49	66.62	106.27	171.33
Net Block	74.95	71.60	101.50	198.48	296.38	370.18
Capital Work in Progress	-	0.66	-	-	-	-
Intangible assets under development	-	-	2.42	46.63	105.44	411.88
Non Current Investments	23.03	23.60	23.80	1819.23	1819.50	876.04
Long Term Loans & Advances	368.13	198.72	210.31	298.12	543.39	714.07
Other Non Current Assets	31.52	39.26	108.60	77.39	5183.82	5298.35
Total Non-Current Assets	143021.80	169150.03	198376.97	202820.56	208886.78	243132.19
Currents Investments	3.83	3.83	504.04	410.74	1325.67	1070.78
Sundry Debtors	6.37	7.04	28.59	111.21	279.56	385.30
Cash and Bank	4957.48	459.49	5367.36	301.55	3792.83	780.54
Other Current Assets	3305.36	4372.23	4978.81	5661.97	5292.97	4589.60
Short Term Loans and Advances	18044.52	20327.09	19655.88	37913.72	39959.67	38216.62
Total Current Assets	26317.56	25169.68	30534.68	44399.19	50650.70	45042.84
Net Current Assets (Including Current Investments)	2729.57	1957.62	515.84	7903.72	12119.27	-2395.96
Total Current Assets Excluding Current Investments	26313.73	25165.85	30030.64	43988.45	49325.03	43972.06
Total Assets	169339.36	194319.71	228911.65	247219.75	259537.48	288175.03
Contingent Liabilities	4680.49	2599.27	1080.64	718.20	1961.07	2046.97
Total Debt (Long Term Plus Short Term)	139472.91	159215.30	187795.10	200660.14	202992.74	230310.42
Adjusted Book Value	89.69	104.25	122.77	136.47	139.56	152.27

Source: Company, Ace Equity, AUM Research

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