MIRAE ASSET Sharekhan

Power Finance Corporation Ltd

Healthy Q4: Moderated growth guidance

Viewpoint

Result Update

NBFC		Sharekhan code: PFC		
Reco/View: Positive	↔	CMP: Rs. 413	Upside potential: 29%	↓

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

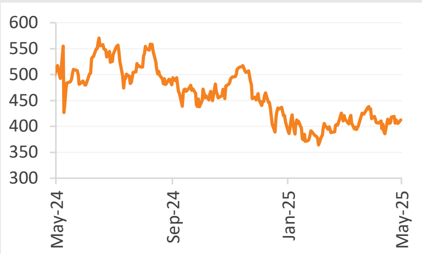
Company details

Market cap:	Rs. 1,36,200 cr
52-week high/low:	Rs. 580/357
NSE volume: (No of shares)	85.0 lakh
BSE code:	532810
NSE code:	PFC
Free float: (No of shares)	143.0 cr

Shareholding (%)

Promoters	56.0
FII	18.8
DII	16.2
Others	9.0

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	-0.5	5.6	-14.7	-19.5
Relative to Sensex	-3.4	-3.7	-16.6	-28.0

Source: Mirae Asset Sharekhan Research, Bloomberg

Summary

- PAT beat estimates by 17%, primarily driven by a write-back of ~ Rs. 1,198 crore in interest income from the resolution of KSK Mahanadi.
- However, credit cost rose as company took 100% provisions on the Gensol exposure. Provision of Rs. 1800 crore were reversed on account of resolution but was partly utilised for higher standard asset provisions on discoms, which saw a rating downgrade in Q4FY25.
- Robust disbursement growth of 40%/99% (y-o-y/q-o-q) helped AUM to beat the estimates by 3.3%. Management lowered AUM growth guidance to 10-11% in FY26 from 13%-14%.
- Attractive valuation: Stock trades at an attractive valuation of 0.9x/x0.8 its FY26E/FY27E core BV (based on standalone adjusted for investments in REC). Valuation is cheaper given an RoE trajectory of ~18% with a healthy dividend yield, despite a moderate AUM growth guidance. We expect a potential upside of 29% with a revised PT of Rs. 530.

Q4FY25 numbers were healthy. PAT beat estimates by 17% despite higher credit cost due to a reversal of interest income as it received higher amounts than claimed on resolution of KSK Mahanadi project (stresses assets of Rs. 3,300 crore). NII beat estimates by 26% (up 39.5% y-o-y and 25.9% q-o-q) to Rs. 5,910.6 crore due to reversal of Rs. 1,200 crore as interest income from KSK Mahanadi (one-off item). NIM (as a % of AUM) beat estimates 116 bps at 4.35% (up 83 y-o-y and 63 bps q-o-q). Cost of fund also fell by 38/28 bps (y-o-y/q-o-q). Reported NIM was stable in FY25 stood at ~3.64% (9MFY25: 3.65%). Other income grew 61.8%/92.4% (y-o-y/q-o-q) to Rs. 1,222 crore driven higher dividend income. Opex up by 27.8% q-o-q to Rs. 234.1 crore due to higher cost of employees. PPOP above estimates, grew robustly by 39.8/27% (y-o-y/q-o-q). Annualised credit cost above estimates at 0.33% (as % of AUM), up by 61/27 bps (y-o-y/q-o-q) despite a reversal of provisions for Rs. 1,815 crore (KSK Mahanadi). As it made provisions of Rs. 900 crore for nine discoms on downgrading of credit ratings, a higher PCR on Stage-2 assets, provided 100% provisions on the Gensol exposure of Rs. 263 crore (identified as NPA). PAT beat estimates by 17% y-o-y (up by 23.5% y-o-y and 23.0% q-o-q) on above estimates PPOP growth however partially offset by higher credit costs. Asset quality improved significantly; GS-3 reduced by 140/74 bps (y-o-y/q-o-q) to 1.94% while net NPA reduced by 46/32 bps (y-o-y/q-o-q) to 0.38%. The company successfully resolved the KSK Mahanadi project, recovered 100% of the principal amount, along with Rs. 1,200 crore in interest. It has also finalised the restructuring plan of TRN Energy (o/s Rs. 1,139 crore) and Shiga Energy (o/s of Rs. 522 crore, with the documentation and implementation process is underway. Gensol Engineering identified as an NPA (due Rs. 350 crores) and it has realised Rs. 44 crores. AUM grew by 12.8%/7.8% (y-o-y/q-o-q), to Rs. 5,43,120 crore, beat the estimates by 3.3% due to growth in renewable portfolio (up by 35% y-o-y) and distribution segments. Robust disbursement growth of 40%/99% (y-o-y/q-o-q to Rs. 67,967 crore due to growth in generation and distributions. Repayment growth was higher at 18.6%/21.0% (y-o-y/q-o-q) due to balance transfers (BT) on high competition.

Key positives

- Asset quality improved significantly. ; GS-3 reduced by 140/74 bps (y-o-y/q-o-q) to 1.94% while net NPA reduced by 46/32 bps (y-o-y/q-o-q) to 0.38% due to resolution of stressed assets.
- The company successfully resolved KSK Mahanadi project (stressed assets of Rs. 3,300), received 100% principal recovery, along with Rs. 1,200 crore interest recovery.
- Robust disbursement growth of 40%/99% (y-o-y/q-o-q to Rs. 67,967 crore was led by growth in generation and distributions.
- Other income grew by 61%/92.4% (y-o-y/q-o-q).

Key negatives

- Credit cost rose 61/27 bps (y-o-y/q-o-q) at 0.33% (as % of AUM). It was also above estimates partially impacted profitability.
- Employee costs increased by 51.2/36.1% (y-o-y/q-o-q).

Management Commentary

- AUM growth beat estimates by 3.3% (up 12.8% y-o-y /7.8% q-o-q). However, the company has revised AUM growth guidance downwards to 10-11% in FY26 from earlier given guidance of 13% as Liquidity infusion scheme (LIS) scheme is over and LPS (Late Payment Surcharge) is almost over, also increased pressure on balance of transfer due to competition.
- The management is confident of achieving spreads of ~2.5% in FY26.
- PCR on Stage-2 assets was raised from 0.58% to 1.85% due to guidance from RBI and prudent approach adopted by the company.

Our Call

Stay positive; expect upside of 29%: Q4 numbers were healthy driven by higher-than-expected recoveries on resolution along with above estimates AUM/disbursement growth. However, the management has moderated growth guidance to 10-11% from 13% for FY26. We expect PFC to deliver a decent AUM CAGR of 11.5% for FY25-27 and generate strong RoA/RoE >3.0/18% over the next two years. We believe that the risk-reward ratio is favourable considering strong return ratios with healthy dividend yield of 4.0%. Stock trades on attractive valuation at 0.9x/x0.8 its FY26E/FY27E core BV (based on standalone adjusted for investments in REC). We expect an upside of 29% with revised PT of Rs. 530.

Key Risks

Asset quality issue, delay in signing of PPAs, incremental stress build up in the Discoms, lower share of government guaranteed loans.

Valuation (Standalone) Rs cr

Particulars	FY23	FY24	FY25	FY26E	FY27E
NII	14,363	15,627	19,341	20,430	23,247
PAT	13,510	14,264	17,352	18,144	20,240
EPS (Rs.)	35.2	43.5	52.6	55.0	61.3
Core P/E (x)	7.1	5.8	4.8	4.6	4.1
Core P/BV (x)	1.2	1.3	1.1	0.9	0.8
RoE (%)	21.2	19.4	20.4	18.7	18.3
RoA (%)	3.2	3.0	3.2	3.0	3.0

Source: Company; Mirae Asset Sharekhan estimates

Key result highlights

- **NII & NIM:** NII ROSE 39.5% y-o-y and 25.9% q-o-q to Rs. 5,910.6 crore due to one off items in interest income driven by resolution of stressed assets and lower cost of funds. NIM (as a % of AUM) at 4.35%, up 83 y-o-y and 63 bps q-o-q. Cost of fund reduced by 38/28 bps (both y-o-y/q-o-q).
- **AUM & AUM growth:** AUM grew by 12.8%/7.8% (y-o-y/q-o-q), to Rs. 5,43,120 due to growth in renewable portfolio (up by 35% y-o-y) and distribution segments. Robust disbursement growth of 40%/99% (y-o-y/q-o-q to Rs. 67,967 crore due to growth in generation and distributions. Repayment growth was higher at 18.6%/21.0% (y-o-y/q-o-q) due to balance transfers (BT) and it was cause of concern due to reduction in the repo rate.
- **Asset quality:** Asset quality improved significantly and on historical low levels; GS-3 reduced by 140/74 bps (y-o-y/q-o-q) to 1.94% while net NPA reduced by 46/32 bps (y-o-y/q-o-q) to 0.38%. The company successfully resolved the KSK Mahanadi project (stressed assets of Rs. 3,300), received 100% principal recovery, along with Rs. 1,200 crore interest recovery. It has also finalised restructuring plan of TRN energy (o/s Rs. 1,139 crore) and Shiga Energy (o/s of Rs. 522 crore, with the documentation & implementation process is underway. Gensol Engineering was identified as NPA (due Rs. 350 crores), Rs.44 crores realised including securities and TRA balance.
- **Credit cost:** Credit cost at Rs. 445 crore from Rs. 75 crore in Q3FY25 and – Rs. 337 crore (Negative). Annualised credit cost above estimates at 0.33% (as % of AUM), up by 61/27 bps (y-o-y/q-o-q) despite reversal of provisions for Rs. 1,815 crore (KSK Mahanadi). As it made provisions of Rs. 900 crore for nine discoms on downgrading of credit ratings, increased PCR on Stage-2 assets, provided 100% provisions on Gensol exposure of Rs. 263 crore (identified as an NPA).

Results Rs cr

Particulars	Q4FY24	Q3FY25	Q4FY25	y-o-y %	q-o-q %
Interest Income	11,493.7	12,417.2	13,721.5	19.4%	10.5%
Interest Expenses	7,256.4	7,723.1	7,810.9	7.6%	1.1%
NII	**4,237.3**	**4,694.2**	**5,910.6**	**39.5%**	**25.9%**
Other Income	755.4	635.3	1,222.2	61.8%	92.4%
Total Income	**4,992.7**	**5,329.5**	**7,132.8**	**42.9%**	**33.8%**
Opex	343.1	183.2	234.1	-31.8%	27.8%
PPOP	**4,683.0**	**5,153.8**	**6,546.0**	**39.8%**	**27.0%**
P&C	-337.0	74.5	444.7	-232.0%	497.1%
PBT	**5,020.0**	**5,079.3**	**6,101.3**	**21.5%**	**20.1%**
Tax	884.5	924.4	992.4	12.2%	7.4%
PAT	**4,135.5**	**4,154.9**	**5,109.0**	**23.5%**	**23.0%**
AUM	4,81,462	5,03,824	5,43,120	12.8%	7.8%
Disbursements	48,607	34,151	67,967	39.8%	99.0%

Source: Company; Mirae Asset Sharekhan Research

Actual vs Estimates

Particulars	Q4FY25E	Q4FY25A	Varaince (%)
NII	4,669	5,911	26.6%
PPOP	5,028	6,546	30.2%
PAT	4,367	5,109	17.0%

Source: Company; Mirae Asset Sharekhan Research

Asset quality Details

Particulars	Q4FY24	Q3FY25	Q4FY25	y-o-y	q-o-q
GNPA	3.34%	2.68%	1.94%	-140.0 bps	-74.0 bps
NNPA	0.85%	0.71%	0.39%	-46.0 bps	-32.0 bps

Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Significant investment in the long-term to meet the capacity expansion

Industry reports reveal that India requires a $700 billion investment in the next 10 years to meet the power demands, rise in per capita power consumptions, structural changes to renewable energies, and investment in distribution and in thermal power. The government targets to set up 500 GW installation capacity of renewable energies. Besides, transmitting of this such a large energy will require further investment in transmission and distribution. Notably, renewables energies are intermittent in nature hence the investment also required for thermal based capacities. PFC/REC are nodal agencies for many schemes of the government which are likely to capitalise on opportunity, resulting in strong growth over the next five-seven years. Further, the government would like to resolve the bad assets as quickly as possible as these plants can be commercialised for the power production when India faces power shortage and can meet the power demand of the country, benefitting the PFC/REC.

■ Company Outlook – Risk Reward Favourable

PFC is a strategic important entity for the government as it has highly ambitious plans for the investment in the power sector. It is/was also a nodal agency of the government for many schemes in the power sector. The company enjoys strong ratings, therefore lower/reasonable cost of fund besides likely to get directly and indirectly support from the government whenever required. Hence, it is expected to capitalise on high growth, improving on asset quality and likely to generate high return ratios.

■ Valuation – Positive View with upside potential of 29%:

Q4 numbers were healthy driven by higher-than-expected recoveries on resolution along with above estimates AUM/disbursement growth. However, the management has moderated growth guidance to 10-11% from 13% for FY26. We expect PFC to deliver a decent AUM CAGR of 11.5% for FY25-27 and generate strong RoA/RoE >3.0/18% over the next two years. We believe that the risk-reward ratio is favourable considering strong return ratios with healthy dividend yield of 4.0%. Stock trades on attractive valuation at 0.9x/x0.8 its FY26E/FY27E core BV (based on standalone adjusted for investments in REC). We expect an upside of 29% with revised PT of Rs. 530.

Peer valuation

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/E(x)		P/BV(x)		RoA (%)		RoE (%)	
			FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
PFC*	425	136,000	4.6	4.1	0.9	0.8	3.0	3.0	18.7	18.3
REC	407	107,000	6.3	5.7	1.2	1.1	2.7	2.6	20.6	19.7
IREDA	174	46,000	23	19	3.8	3.1	2.0	2.0	16.9	17.1

*Source: Company; , Bloomberg; Mirae Asset Sharekhan Research; * core PE/PB*

About company

Power Finance Corporation, public sector entity, is one of the largest power focused company in India. It was founded in 1986 by the Govt. of India to provide financial assistance to power projects across India including generation, transmission, distribution. It also provides consulting services for projections under construction through its subsidiary and is the nodal agency for development of Ultra Mega Power Plants (UMPPs) in India. One of the highest Profit making NBFC in India in FY2024.

Investment theme

PFC is one of the largest power focused NBFCs of India. It is a strategic important entity of the government of India for the power sector, along with nodal agency for implementing many schemes. The company has strong growth visibility over the next 2-3 years; hence the company's total assets is expected to reach ~Rs. 7.0 lakh crore by FY27. Besides, it has strong prospectus in the long-term due to significant investment expected for the power sector over the next 10 years. We expect it to generate steady margin, return ratios, and continue enjoy strong ratings and healthy asset quality profile.

Key Risks

Regulatory headwinds, asset quality issue, delay in signing of PPAs, incremental stress build up in the Discoms, lower share of government guaranteed loans, higher rate of balance transfer due to competitive intensity as reduction in the repo rate.

Additional Data

Key management personnel

Name	Designation
Parminder Chopra	Chairman & Managing Director
Sandeep Kumar	CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Republic of India	55.99
2	Kotak Mahindra Asset Management Co	2.09
3	Vanguard Group Inc/The	1.86
4	Nippon Life India Asset Management	1.76
5	Life Insurance Corp of India	1.74
6	Blackrock Inc	1.55
7	FundRock Management Co SA	1.36
8	HDFC Asset Management Co Ltd	1.29
9	Republic of Singapore	1.23
10	DSP Investment Managers Pvt Ltd	1.20

Source: Bloomberg

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Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

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