

ICICI Securities Limited
is the author and
distributor of this report

Company update

Financials

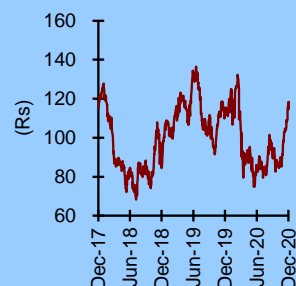
Target price Rs151

Shareholding pattern

	Mar '20	Jun '20	Sep '20
Promoters	56.0	56.0	56.0
Institutional investors	39.3	38.6	37.5
MFs and other	13.8	14.5	14.3
Banks/FIs	0.5	0.5	0.3
Insurance	6.1	6.1	6.1
FIs	18.9	17.5	16.8
Others	4.7	5.4	6.5

Source: BSE

Price chart



Research Analysts:

Kunal Shah

kunal.shah@icicisecurities.com
+91 22 6637 7572

Rahul Modi

rahul.modi@icicisecurities.com
+91 22 6637 7373

Anshuman Ashit

anshuman.ashit@icicisecurities.com
+91 22 6637 7419

Renish Bhuvra

renish.bhuvra@icicisecurities.com
+91 22 6637 7465

Chintan Shah

chintan.shah@icicisecurities.com
+91 22 2277 7658

INDIA



Power Finance Corporation

BUY

Maintained

Investment thesis intact; dividend payout
guidelines to inculcate long-term discipline

Rs115

RBI's draft circular on dividend declaration by NBFCs links eligibility and quantum of dividend distribution to net NPA, CRAR and leverage. For PFC, categorised as NBFC-ND-SI, based on its past three years' CRAR and current net NPA print, the criteria matrix (as per draft circular) makes it eligible to dividend payout up to 25% of earnings (vs its current policy of 30% of earnings or 5% of net worth, whichever is higher). However, eligibility criteria are expected to accelerate structural improvement of PFC's balance sheet for it to pay out higher dividends (shore up CRAR to >18% and contain net NPA to sustain at <2% for 40-45% payout). Note that being a PSE, the government would be keen to receive higher dividend from PFC. In any case, dividend yield would remain above 6%, hence there is no change in our investment rationale. Given PFC's balance sheet expansion of >10%, steady-state RoE profile of >14% and anticipated stress resolution, we maintain BUY on the stock.

- **Draft RBI circular links dividend payout to net NPA, CRAR and leverage:** RBI's draft circular subjects NBFCs to comply with certain criteria for distributing dividends from FY21 onwards. In case of PFC, which is a systemically important non-deposit taking NBFC (NBFC-ND-SI), the eligibility criteria include: a) at least 15% CRAR for past three years (including the accounting year for which dividend is proposed); b) net NPA ratio below 6% in each of the past three years; c) proposed dividend should be payable only out of the current year profit; and d) extraordinary profits/income to be excluded for net profit calculation.
- **PFC eligible to pay up to 25% of net profit in near term, though it can be structurally higher in the longer term:** PFC's past 3-year CRAR for FY21 dividend eligibility will be in the range of 15-18% and FY20 net NPA at 3.8%. Company therefore falls in category 'C' as per the criteria matrix and is eligible to pay out 25% dividend (vs its current policy of 30% of net profit or 5% of net worth, whichever is higher). This translates to a dividend of Rs7-8/share for FY21E. At CMP, PFC's yield would still be higher than 6% (better than prevailing G-Secs). In addition, a relatively lower dividend payout for the year will result in higher book value accretion.
- **Investment thesis intact; guidelines inculcate long-term discipline:** Our investment thesis on PFC remains unchanged. In fact, we expect the company to work towards containing net NPLs below 2% and shore up CRAR to above 18%, so that payout can increase to 40-45%. This is possible with big-ticket resolutions going forward. Thus, the guidelines are structurally positive as they inculcate long-term discipline.
- **Final guidelines may be a non-event for PFC:** We expect the final circular from RBI to be released by Jan'21 (last date for submission of comments is 24th Dec'20). ***There is a likelihood of state-owned NBFCs being exempted in the final guidelines as government is keen to receive higher dividends from profitable PSEs*** (DIPAM issued an advisory in Nov'20 to PSEs to pay higher dividends). In such a situation, there will be no impact on PFC.

Market Cap	Rs302bn/US\$4.1bn
Reuters/Bloomberg	PWFC.BO/POWF IN
Shares Outstanding (mn)	2,640.1
52-week Range (Rs)	132/75
Free Float (%)	44.0
FII (%)	16.8
Daily Volume (US\$'000)	10,202
Absolute Return 3m (%)	25.5
Absolute Return 12m (%)	11.7
Sensex Return 3m (%)	18.6
Sensex Return 12m (%)	15.6

Year to March	FY19	FY20	FY21E	FY22E
Net revenue	97,355	120,944	129,435	136,474
Net profit	69,529	56,551	73,120	75,148
Diluted EPS (Rs)	26.3	21.4	27.7	28.5
BV (Rs)	164.0	171.1	188.3	207.4
Adj. BV (Rs)	123.2	133.8	156.0	176.9
Price/book (x)	0.7	0.7	0.6	0.6
Price/ Adj book (x)	0.9	0.9	0.7	0.7
Diluted P/E (x)	4.4	5.4	4.2	4.0
Dividend yield (%)	-	8.3	6.0	6.2
RoE (%)	17.4	16.7	14.7	14.2

Please refer to important disclosures at the end of this report

Table 1: Draft dividend payout criteria matrix*(Rs mn, year ending March 31)*

Category	CRAR	Net NPA			
		Zero	< 2%	2% - 4%	4% - 6%
A	> 20% for each of the last 3 years*	Up to 50	Up to 45	Up to 35	Up to 25
B	18% - 20% for each of the last 3 years*	Up to 45	Up to 40	Up to 30	Up to 20
C	15% - 18% for each of the last 3 years*	Up to 40	Up to 35	Up to 25	Up to 15
D	> 15% in the accounting year for which dividend is to be declared	Up to 15		Up to 10	Nil

Source: Company data, I-Sec research

* including the accounting year for which the NBFC proposes to declare dividend

Table 2: Trends for PFC*(Rs mn, year ending March 31)*

	Net NPA			CRAR			Dividend pay-out		
	FY18	FY19	FY20	FY18	FY19	FY20	FY18	FY19	FY20
PFC	7.4%	4.6%	3.8%	20.0%	17.1%	17.0%	31%	0%	44%

Source: Company data, I-Sec research

Financial summary

Table 3: Profit and Loss statement

(Rs mn, year ending March 31)

	FY18	FY19	FY20	FY21E	FY22E
Interest income	264,747	287,961	322,301	347,014	379,593
Interest expended	172,256	193,860	215,589	232,025	259,176
Net interest income	92,491	94,101	106,712	114,988	120,417
Non-interest income	1,499	1,490	1,230	2,434	2,714
Income from operations	93,990	95,591	107,941	117,423	123,130
Other income	3,233	1,763	13,003	12,012	13,343
Net revenues	97,222	97,355	120,944	129,435	136,474
Operating expenses	3,828	4,016	3,969	4,405	4,923
- Employee exp	3,560	3,888	3,799	4,240	4,749
- Depreciation /amortisation	64	61	91	82	87
- Other opex	205	67	79	83	87
Pre-provision profit	93,394	93,338	116,975	125,031	131,551
Provisions	8,153	(8,715)	9,912	32,048	32,611
- Loan loss provisions	5,608	(8,715)	9,912	32,048	32,611
PBT	85,241	102,053	107,063	92,983	98,940
Taxes	25,302	29,765	33,160	23,432	24,933
PAT	59,938	72,288	73,903	69,551	74,007
Extraordinaries	(1,386)	(2,759)	(17,352)	3,569	1,141
Reported PAT	58,552	69,529	56,551	73,120	75,148
Basic number of shares (mn)	2,640	2,640	2,640	2,640	2,640
Basic EPS (INR)	22.2	26.3	21.4	27.7	28.5
Diluted number of shares (mn)	2,640	2,640	2,640	2,640	2,640
Diluted EPS (INR)	22.2	26.3	21.4	27.7	28.5
DPS (INR)	7.8	-	9.5	6.9	7.1
Dividend payout (%)	42.1	-	49.0	25.0	25.0

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY18	FY19	FY20	FY21E	FY22E
Liabilities					
Equity capital	26,401	26,401	26,401	26,401	26,401
Reserves & surplus	344,862	376,774	414,511	464,194	515,298
Net worth	371,263	403,175	440,911	490,595	541,699
Reserve for doubtful debts	33,830	37,402	25,142	21,255	20,762
Secured Loans	331,030	953,630	1,179,690	1,341,361	1,472,073
Unsecured loans	1,964,354	1,930,646	1,854,832	2,006,481	2,269,887
Deferred tax liability	3,009	-40,607	-29,521	-15,603	-12,634
Interest subsidy fund from government	1,160	0	0	0	0
Total liabilities	2,704,646	3,284,246	3,471,053	3,844,090	4,291,786
Assets					
Loans	2,728,122	3,032,104	3,341,126	3,708,321	4,149,147
Investments	23,364	165,862	164,733	164,733	164,733
Current assets	112,518	209,801	81,812	84,390	95,071
Current liabilities	166,493	131,501	131,705	128,695	132,762
Net current assets	-53,974	78,300	-49,893	-44,305	-37,691
Fixed assets (net block)	648	283	675	641	602
Foreign currency translation difference	6,486	7,697	14,412	14,700	14,994
Total assets	2,704,646	3,284,246	3,471,053	3,844,090	4,291,786
Balance sheet ratios (%)					
Loan growth	13.6	11.1	10.2	11.0	11.9
Borrowings growth	13.3	25.7	5.2	10.3	11.8
EA growth	12.7	21.4	5.7	10.8	11.6
Gross NPA ratio	9.6	9.4	8.1	7.5	7.3
Net NPA ratio	7.4	4.6	3.8	3.1	2.6
Provision coverage	22.9	51.5	52.9	61.0	66.0

Source: Company data, I-Sec research

Table 5: Growth metrics*(%, year ending March 31)*

	FY18	FY19	FY20	FY21E	FY22E
Net interest income	(9.9)	1.7	13.4	7.8	4.7
Net revenues growth	(7.5)	0.1	24.2	7.0	5.4
Opex growth	2.6	4.9	(1.2)	11.0	11.8
PPP growth	(7.9)	(0.1)	25.3	6.9	5.2
PAT growth	185.5	20.6	2.2	(5.9)	6.4

Source: Company data, I-Sec research

Table 6: Operating ratios*(%, year ending March 31)*

	FY18	FY19	FY20	FY21E	FY22E
Yield on assets	10.4	9.6	9.54	9.49	9.33
Cost of funds	8.0	7.5	7.28	7.27	7.31
Spread	2.4	2.1	2.3	2.2	2.0
Net interest margins	3.6	3.1	3.16	3.14	2.96
Cost-income	3.9	4.1	3.3	3.4	3.6
Tax rate	29.7	29.2	31.0	25.2	25.2

Source: Company data, I-Sec research

Table 7: Sanctions and disbursements*(Rs mn, year ending March 31)*

	FY18	FY19	FY20	FY21E	FY22E
Sanctions	1,188,700	1,307,570	1,438,327	1,582,160	1,740,376
Disbursements	678,560	676,780	679,970	781,966	860,162
Disbursements to sanction ratio (%)	57.1	51.8	47.3	49.4	49.4
Disbursements growth (%)	1.7	(0.3)	0.5	15.0	10.0
Sanctions growth (%)	14.7	10.0	10.0	10.0	10.0

Source: Company data, I-Sec research

Table 8: RoE decomposition*(%, year ending March 31)*

	FY18	FY19	FY20	FY21E	FY22E
Net interest income/assets	3.6	3.1	3.2	3.1	3.0
Non-interest income/assets	0.2	0.1	0.4	0.4	0.4
Net revenues/Assets	3.8	3.3	3.6	3.5	3.4
Operating expense/Assets	0.2	0.1	0.1	0.1	0.1
Provisions/Assets	0.3	(0.3)	0.3	0.9	0.8
Taxes/Assets	1.0	1.0	1.0	0.6	0.6
Total costs/Assets	1.5	0.8	1.4	1.6	1.5
ROA	2.3	2.4	2.2	1.9	1.8
Equity/Assets	15.0	13.9	13.1	13.0	12.8
ROAE	15.7	17.4	16.7	14.7	14.2

Source: Company data, I-Sec research

Table 9: Valuation metrics*(year ending March 31)*

	FY18	FY19	FY20	FY21E	FY22E
Diluted EPS (Rs)*	22.2	26.3	21.4	27.7	28.5
EPS growth (%)	175.4	18.7	(18.7)	29.3	2.8
Book value per share (Rs)	151.0	164.0	171.1	188.3	207.4
Adjusted book value per share (Rs)*	92.5	123.2	133.8	156.0	176.9
Diluted P/E (x)	5.2	4.4	5.4	4.2	4.0
Price/ BV (x)	0.8	0.7	0.7	0.6	0.6
Price/ Adj. BV (x)	1.2	0.9	0.9	0.7	0.7
Dividend yield (%)	6.8	0.0	8.3	6.0	6.2

Source: Company data, I-Sec research

Note: FY18 financial statements are as per I-GAAP and FY19-FY22E financials are as per Ind-AS

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40.92, Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

I/We, Kunal Shah, CA; Rahul Modi, Masters in Finance; Anshuman Ashit, BE, PGDM; Renish Bhuva, CFA (ICFAI); Chintan Shah, CA; authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.