Power Finance Corporation Ltd

ISIN :INE134E01011 | NSE :PFC

Price: 422
Recommendation: Buy
Industry: Financial Institution
Sector: Financial Services
Report Date: 03-Apr-2025

Power Finance Corporation (PFC) is strategically enhancing its growth by focusing on renewable energy, with a 28% year-on-year increase in its portfolio, now valued at INR69,500 crores. The company is also investing in green loans and maintaining a balanced approach by supporting conventional sectors. With a robust disbursement plan of INR252,000 crores for FY '24-'25, PFC aims for 12-13% AUM growth, while addressing NPAs and currency exposure challenges.

Sales		Profit & Loss		Profitability Matrix	
Current Year	50404 Cr	Operating Profit(Year)	50060 Cr	Operating Profit Margin	99.3 %
Previous Year	39775 Cr	Operating Profit(Quarter)	12799 Cr	EBITDA Margin	90.59 %
Current Quarter	13044 Cr	PAT (Year)	14370 Cr	Net Profit Margin	31.0 %
Previous Quarter	13207 Cr	PAT (Quarter)	4155 Cr	EPS	49.6
Revenue (QYoY)	11852 Cr				
Valuation Matrix		**Growth(YoY)**		**Growth(QoQ)**	
Trailing P/E	8.50	Sales Growth	14.6 %	Sales Growth	-1.23 %
PEG Ratio	0.54	PAT Growth	23.79 %	Sales Growth QYoY	10.06 %
EV/EBITDA	11.2	EPS Growth	14.02 %	PAT Growth	-4.92 %
P/B	1.64	Dividend Yield	3.36	PAT Growth QYoY	23.04 %
Capital Allocation		**Holdings**		**Leverage**	
RoE	19.5 %	Promoter	56.0 %	Debt/Equity	4.97
RoA	3.02 %	FII	18.0 %	Debt	426830 Cr
RoCE	9.77 %	DII	17.2 %	Market Cap	139182 Cr
RoIC	9.77 %	Public	8.80 %	Enterprise value	563404 Cr
		No of Shares	330 Cr	Cash Equivalents	2607 Cr

source : Company filings

Company's Overview Based on Recent Concall and Performance:

In the recent meeting, Power Finance Corporation (PFC) outlined several strategic initiatives and business strategies aimed at bolstering its growth trajectory. The company emphasized its focus on renewable energy, with a significant portion of its disbursements directed towards this sector. "Our renewable energy portfolio saw 28% year-on-year growth and is currently around INR69,500 crores," stated the management, highlighting their commitment to supporting India's energy transition. Additionally, PFC has entered into large green loan agreements, further solidifying its position as a key financing partner in this domain. The company also plans to maintain a balanced approach by continuing to support conventional generation and distribution sectors, ensuring a diversified portfolio.

PFC's business strategies include a robust disbursement plan for the upcoming quarters, with a major focus on the distribution side. The company has sanctioned INR252,000 crores during FY '24-'25, with 62% allocated for generation projects. This strategic allocation is expected to drive growth in both the generation and distribution fronts. The management expressed optimism about achieving similar growth levels as the previous financial year, despite challenges in the conventional generation and state utilities sectors. "We are quite hopeful that this quarter also, we are going to have a disbursement on distribution as well as on the renewable side," the management noted, indicating a positive outlook for the near future.

Looking ahead, PFC is poised for future growth and scaling, with expectations of maintaining a 12% to 13% asset under management (AUM) growth for the current and next financial years. The company is also addressing challenges related to non-performing assets (NPAs) and foreign currency exposure. The management highlighted ongoing resolutions for key projects like KSK Mahanadi, with expectations of more than 100% recovery. Additionally, PFC is managing its foreign currency portfolio prudently, with most of its book hedged against currency fluctuations. "We are expecting some provision reversals on account of stressed asset resolution, which would provide sufficient cushion to set off the effect of exchange rate variation," the management assured.

While PFC's strategies and initiatives are commendable, there are areas for improvement. The company could enhance its communication and transparency regarding project resolutions and financial disclosures, as highlighted by investor concerns during the meeting. Additionally, while the focus on renewables is a positive step, the company must ensure that its conventional generation and state utility sectors are not neglected, as these remain critical components of its portfolio. Overall, PFC's strategic initiatives and growth plans position it well for future success, provided it continues to address these challenges effectively.

Name	Mar Cap (Rs. Cr.)	P/E	ROE	Sales(G) QoQ	Sales(G) QYoY	PAT(G) QoQ	PAT(G) QYoY
Indian Renewable	43541.82	28.43	17.29%	4.23%	35.57%	9.70%	26.78%
I R F C	168779.73	25.81	13.66%	-1.97%	0.40%	1.12%	1.98%
Tour. Fin. Corp.	1639.53	17.44	8.65%	-11.40%	-14.94%	-11.53%	-17.98%
Power Fin.Corpn.	139181.73	8.50	19.50%	-1.23%	10.05%	-4.93%	23.03%
Guj. State Fin.	135.35			-385.29%	-4950.00%	-4.50%	-9.64%

Aspect	Commentary
Revenue	The company shows a strong revenue growth with a 14.6% YoY increase, indicating robust sales performance. However, a slight QoQ decline of 1.23% suggests potential seasonal or market fluctuations. The focus should be on sustaining annual growth while addressing quarterly dips to ensure consistent revenue streams.
Profit & Loss	Operating profit remains high, reflecting efficient cost management. The PAT growth of 23.79% YoY is impressive, showcasing strong profitability. However, a QoQ decline in PAT by 4.92% suggests the need for strategies to stabilize quarterly earnings and mitigate any short-term financial pressures.
Profitability Matrix	The company exhibits strong profitability with an operating profit margin of 99.3% and a net profit margin of 31.0%. These figures highlight effective cost control and revenue generation. Maintaining these margins will be crucial for sustaining long-term financial health and investor confidence.
Valuation Matrix	The valuation metrics indicate a favorable investment scenario with a trailing P/E of 8.50 and a PEG ratio of 0.54, suggesting undervaluation relative to growth. The EV/EBITDA of 11.2 and P/B of 1.64 further support a positive valuation outlook, making it an attractive option for investors.
Growth (YoY)	The company demonstrates strong YoY growth with sales up by 14.6% and PAT by 23.79%. This indicates effective business strategies and market positioning. The focus should be on maintaining this growth trajectory while exploring new opportunities to enhance market share and profitability.
Growth (QoQ)	Despite a 10.06% QYoQ sales growth, the company faces a 4.92% decline in PAT QoQ, highlighting potential operational challenges. Addressing these issues is crucial for stabilizing quarterly performance and ensuring consistent growth. Strategic adjustments may be needed to enhance short-term results.
Capital Allocation	The company shows efficient capital allocation with a RoE of 19.5% and RoCE of 9.77%. These metrics reflect effective use of equity and capital employed. Continued focus on optimizing capital allocation will be key to enhancing shareholder value and supporting sustainable business growth.
Holdings	The promoter holding of 56% indicates strong insider confidence, while FII and DII holdings of 18% and 17.2% respectively, reflect institutional interest. Public holding at 8.8% suggests room for increased retail participation. Balancing these holdings can enhance market perception and liquidity.
Leverage	With a high debt/equity ratio of 4.97, the company is significantly leveraged, posing potential financial risk. Managing this leverage through strategic debt reduction and cash flow optimization will be crucial to maintaining financial stability and reducing interest burden.

Analyst viewpoint: Power Finance Corporation (PFC) exhibits a compelling growth trajectory characterized by a strong QYoQ sales growth of 10.06% and a remarkable PAT growth of 23.04% QYoY. This performance highlights its resilient market position and effective cost management, as evidenced by its operating profit margin of 99.3% and a net profit margin of 31.0%. Moreover, PFC's strategic focus on renewable energy with a substantial 28% year-on-year growth in this sector, coupled with its robust capital allocation reflected by a RoE of 19.5%, bolsters its positioning as a leader in the financial services sector. These indicators are further enhanced by its attractive valuation metrics such as a trailing P/E of 8.50 and a PEG ratio of 0.54, underscoring a strong buy recommendation for investors seeking exposure to a burgeoning sector with compelling returns.

Despite this optimistic outlook, the company faces challenges such as a slight 1.23% decline in QoQ sales growth, which could signal operational headwinds that require strategic addressing to stabilize quarterly earnings. Additionally, while PFC is making commendable strides in diversifying its portfolio towards renewable energy, it must continue to prioritize its conventional sectors to maintain a balanced growth trajectory. Addressing such challenges, along with enhancing transparency and reducing leverage as indicated by the current debt/equity ratio of 4.97, will be pivotal for sustaining long-term financial health and fostering greater investor confidence in the near future.

Please read detailed disclosure on next page.

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Investment Rating	Expected Return (over 12-month)
BUY	>=15%
SELL	<-10%
NEUTRAL	>-10% to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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