Power Finance Corporation : Good: Subscribe for long term

FPO Note: Largest listed term-lending NBFC in the country

Rating***

Issue details	
Price band (Rs)	Rs.193-203
FPO Opening Date	10/05/11
FPO Closing Date	13/05/11
Issue Size	Rs.4659.93 Crore
CMP (09/5/11)	Rs.210.95

Valuations & Recommendation

Valuation wise, PFC's TTM P/E at the FPO price of Rs. 193, comes to 8.46 times, and is reasonable, but comparable peer REC is also valued the same, while IFCI is available at around half of PFC's valuation.

Power generation and distribution is priority and thrust area for the government. India is the world's 6th largest energy consumer, but accounts only for 3.4% of global energy consumption, with more than 17% global population. The installed power generation capacity of India stood at 165,000 MW. The Indian government has set a modest target to add approximately 78,000 MW of installed generation capacity by 2012. The total demand for electricity in India is expected to cross 950,000 MW by 2030. **Looking to growth prospectus of the sector, we recommend to invest only for long term gain.**

Highlights

- **Power Finance Corporation is a NAVRATNA PSU**
- **The company has paid dividend 40% and 45% in the last two years**
- **For the year ended March 2011, the profit growth was at a modest 13 per cent while loan book grows by 24 per cent**
- **PFC's loan book grew at an annualised rate of 22.8 per cent over the period FY06 – FY11**
- **The sharp rise in interest costs has led to margins of PFC falling**
- **India is the world's 6th largest energy consumer, but accounts only for 3.4% of global energy consumption, with more than 17% global population.**

Company Introduction

Company Profile

Power Finance Corporation, the largest listed term-lending NBFC in the country, is attempting to grow bigger through this FPO, pegged to raise around Rs. 5000 crore. This state-run institution, which is already bigger than several banks by networth, will end up as the fourth-largest lender in the country by networth, post the FPO.

The company has been conferred with the status of Nav-Ratna PSU by Government of India on 22nd June, 2007. Under Navratna scheme, the government has delegated enhanced powers to CPSEs having comparative advantage and the potential to become global players.

PFC's loan book exposure to the States has come down from 77 per cent in March 2006 to 65 per cent in December 2010, while the Central and joint sector loans rose to 27.6 per cent. Private sector accounted for 7.1 per cent of the total loan book as of December 2010.

Market Scenario

While the demand for loans to fund power projects is high and sustainable, it is the rising interest rates and worries about asset quality pressures that led to the stock correcting sharply over the last six months. PFC lost 35 per cent year-to-date and 46 per cent from its peak in October 2010. Sequentially the March quarter margins for PFC fell almost 65 bps to 3.45 per cent.

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While the company's focus on one sector — power — poses concentration risks, it plans to extend loans to related segments such as coal mining equipment to add diversity.

Financial Strength

PFC's loan book grew at an annualised rate of 22.8 per cent over the period FY06 – FY11. For the year ended March 2011, the profit growth was at a modest 13 per cent despite the loan book growing by 24 per cent. Rising interest costs put pressure on margins and falling ‘other income, given the lumpy nature of the fee income took a toll on the company.

The current capital raising plan would boost the capital adequacy significantly. The ratio stood at 17.3 per cent in December 2010 against mandatory 15 per cent requirement for infrastructure financing companies.

POWER FINANCE CORPORATION LIMITED

www.pfcindia.com

RANKING METHODOLOGY

WEAK	*
AVERAGE	**
GOOD	***
VERY GOOD	****
EXCELLENT	*****