

Power Finance Corporation Ltd. - Analyst Meeting Notes Q4-FY08 Results

April 21, 2008

Price: Rs154.15

52-wk High/Low: 298/109

M Cap: Rs17693Cr (\$4.4bn)

BSE Sensex: 16481

Rating: Not Rated

Power Finance Corporation Ltd. (PFCL), a registered NBFC, provides finance as well as fee-based services to power sector entities. It went public in February 2007, raising Rs997Cr @ Rs85 per share. PFCL was conferred with 'Navratna' status in June 2007.

Key Takeaways of the meeting

- Key highlight of Q4 is the steep increase in average cost of funds. Growth in Net Interest Income (NII) was capped at just 5% during the quarter, as interest costs grew by 30%, while interest income grew by just 19.3%.
- For FY08, NII grew by 28%. On account of the higher average cost of funds, interest expenditure growth at 33.7% outstripped interest income growth at 31.5%.
- PAT declined by 20% for the quarter, whereas for full year 08, it was up 22.6%. The decline in PAT for this quarter was due to losses on foreign-currency borrowings which were due to rupee appreciation. Forex exposure is approx. 5% of the business.
- Loan sanctions grew by 123.1% whereas disbursements were up only by 15.3% y-o-y. This is due to the nature of power projects that disbursements, which are spread over a period of 42 months, always lag sanctions. Cumulative sanctions and disbursements reached a figure of Rs1,86,418Cr and Rs.92,065Cr respectively.
- NIM increased by 30 bps, in spite of higher cost of funds of 8%.
- Net NPAs (as % of loan assets) continue at almost nil levels.
- Capital Adequacy Ratio stood at 17.4%; hence no fund raising plans in the near term.
- Ultra Mega Power Projects (UMPP)
 - Krishnapatnam in Andhra Pradesh of 4,000 MW was successfully awarded to Reliance Power.
 - Proposal for Jharkhand-based Tilaiya UMPP of 4,000 MW likely to come up by May 2008.
- It launched PFC Consulting Ltd., a wholly-owned subsidiary to focus exclusively on fee-based services. The income from consulting services stood at Rs25Cr.
- It entered into a MOU with Railway Infrastructure Technology and Engineering Services (RITES) for import of Coal and with Indian Renewable Energy Development Agency Ltd (IREDA) for renewable energy.

Summary of Financial Results

(RsCr)

	Q4-FY07	Q4-FY08	% change (y-o-y)	FY07	FY08	% change (y-o-y)
Interest Income	1,101	1,313	19.3%	3,717	4,889	31.5%
Interest Expense	637	828	30.0%	2,302	3,078	33.7%
Net Interest Income	463	486	5.0%	1,415	1,811	28.0%
Other Income	18	32	77.8%	36	70	94.4%
Total Operating Income	481	518	7.7%	1,451	1,881	29.6%
Operating Costs	18	36	100.0%	53	85	60.4%
Operating Profit	463	482	4.1%	1,398	1,796	28.5%
Provisions	10	0	-100.2	-5	-10	
Profit Before Tax & EO	473	482	1.9%	1,403	1,805	28.7%
EO	105	-38	-136.2%	109	-17	-115.6%
Tax Provisions	145	129	-11.0%	353	482	36.5%
Provision for DTL	62	18	-71.0%	172	97	-43.6%
Profit After Tax	371	297	-20.0%	986	1,209	22.6%
Operating Margin	42.1%	36.7%		37.6%	36.7%	
Net Profit Margin	33.7%	22.6%		26.5%	24.7%	
Paid up Eq. Capital	1147.77	1147.77		1147.77	1147.77	
EPS (Rs)	3.23	2.59		8.59	10.53	
Book Value (Rs)				74.87	82.47	

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Results analysis

Q4-FY08 (y-o-y)

NII grew marginally by 5%. This is largely because of higher cost of funds during this quarter. Other income which includes income from consultancy services, lease financing, etc grew by 77.8%. Boosted by other income, total operating income grew by 7.7%. PBT growth was restricted to 1.9%. Profit after tax after EO posted a decline of 20% on account of extra-ordinary items which include translation/actual losses, prior period adjustments etc.

FY08 (y-o-y)

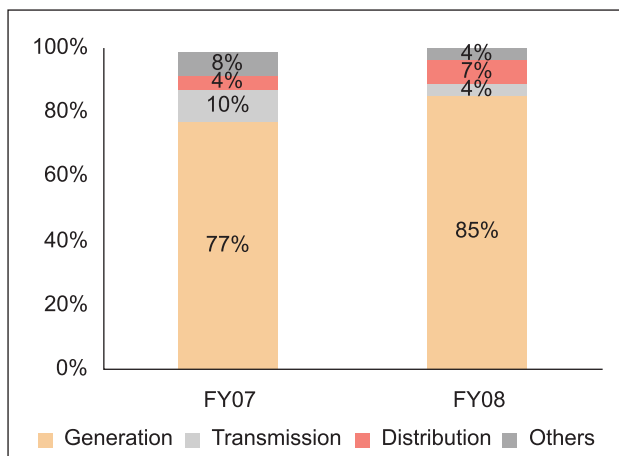
NII grew by 28%. On account of the higher average cost of funds during the year (8%, vis-à-vis 7.3% in FY07), interest expenditure growth (at 33.7%) outstripped interest income growth at 31.5%. Growth in disbursements stood at 15%, while NIM expanded by 30bps. Fee-based income was up 94.4% due to emphasis on consulting services as well advisory services. Due to this, the total operating income grew by 29%. Operating Profit increased by 28.5% in spite of rise in operating costs. Profit after tax after EO grew by 22.6%.

Other data points

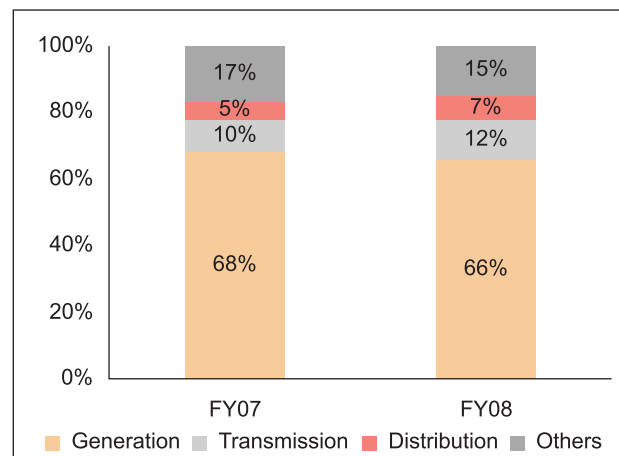
(RsCr)

	Q4-FY07	Q4-FY08	% change (y-o-y)	FY07	FY08	% change (y-o-y)
Sanctions	3,570	26,194	633.7%	31,146	69,498	123.1%
Disbursements	4,523	6,485	43.4%	14,055	16,211	15.3%
Loan Assets				43,885	51,540	17.4%

Sanctions Composition



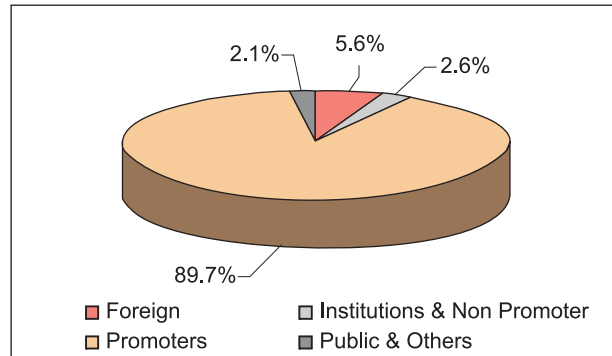
Disbursements Composition



Key ratios

Particulars	FY07	FY08
Yield on Assets	9.3%	10.1%
Cost of Funds	7.3%	8.0%
Interest Spread	1.9%	2.1%
Net Interest Margin	3.5%	3.8%
Debt Equity Ratio	4.34	4.54
Capital Adequacy Ratio	18.3%	17.4%
% Gross NPAs to Loan Assets	0.10%	0.03%
% Net NPAs to Loan Assets	0.06%	0.01%

Shareholding as of Mar 31, 2008



Peer Valuation

	REC	PFC	IDFC
EPS FY08E (Rs)	10.70	10.53	5.86
EPS FY09E (Rs)	13.92	13.52	7.81
EPS FY10E (Rs)	17.35	16.14	10.19
P/b FY08E (x)	1.6	2.3	4.6
P/b FY09E (x)	1.4	2.0	4.0
P/b FY10E (x)	1.1	1.1	3.4
P/e FY08E (x)	10.7	14.7	25.7
P/e FY09E (x)	8.2	11.5	19.3
P/e FY10E (x)	6.6	9.6	14.8

EPS FY08 for PFC at actuals

Keynote Capitals Ltd.

Member

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National Stock Exchange of India Ltd. (INB 010930556)
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Central Depository Services Ltd. (IN-DP-CDSL-152-2001)

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