Power Finance Corporation (POWFIN)

ICICI Direct

CMP: ₹400	Target ₹ 500 (25%)	Target Period: 12 months	BUY

August 10, 2026

Near-term moderation; structural drivers remain intact

About the stock: Established in 1986, Power Finance Corporation Ltd. (PFC) is a Maharatna PSU under Ministry of Power and the largest power sector–focused NBFC-IFC in India. PFC lends across generation, transmission & distribution, renewables, energy storage and gradually diversifying in infrastructure segment.

- AUM mix: Generation – 48%, Transmission & Distribution – 41%, Infrastructure & Others – 11%.

Q1FY27 performance: PFC reported a muted performance in Q1FY27, with loan assets declining 1.7% QoQ but rising 3.7% YoY to ₹5,70,045 crore, while disbursements fell 44% YoY to ₹20,176 crore, reflecting continued moderation in loan demand. NII declined 4.4% YoY to ₹5,234 crore, while spreads improved 3 bps QoQ to 2.49% but remained 12 bps lower YoY; NIM stood at 3.54% (-14 bps YoY). PAT grew 5.4% YoY to ₹4,745 crore, supported by impairment reversals.

Investment Rationale:

- **Structural growth opportunity intact; near-term growth subdued**: PFC's loan assets declined 1.7% QoQ to ₹5.7 lakh crore, while disbursements fell 44% YoY and 50% QoQ to ₹20,176 crore, reflecting prepayment pressure, elevated refinancing competition and lower RBPF-led rollover. Weak disbursement momentum remains the key near-term constraint to AUM growth; however, growth opportunity remains strong, supported by sanctions of ₹2.85 lakh crore and an undisbursed pipeline of ₹2.5–3 lakh crore across transmission, distribution and infrastructure, with renewable assets already constituting 15% of the loan book.
- **PFC-REC merger synergies to strengthen competitive positioning:** The merger is expected to reduce competitive overlap between REC and PFC, improve pricing discipline and support spread stability, while the larger combined balance sheet could strengthen bargaining power on funding. The merged entity would have a balance sheet of ~₹12 lakh crore and a group renewable book of ~₹1.6 lakh crore with an 88:100 share-swap ratio and an appointed date of 1 April 2027, pending approvals. Management's commentary on operational and policy alignment provides comfort on integration risk, while removal of the holdco discount on PFC's REC ownership could provide a medium-term valuation catalyst.
- **Declining stressed pool and strong coverage support earnings:** PFC's GNPA/NNPA remained broadly stable at 1.11%/0.15%, with the Stage 3 book at ₹6,315 crore and 86% provisioning. Importantly, ~80% of the peak stressed pool has already been resolved, while the residual Stage 3 book remains well provided, with 10 NCLT projects worth ₹5,461 crore carrying 91% provisioning. Q1 also saw a provision reversal following an upward revision in the internal rating of TNPGCL. While provision write-backs are largely one-off, lower residual stress, government-linked exposure and strong provision coverage should support credit costs and earnings.

Rating and Target Price

- The proposed PFC-REC merger remains a key structural catalyst. However, near-term growth remains constrained by prepayment and refinancing pressure, while competitive intensity could keep spreads under pressure. Thus, we revise our target price to ₹500 (earlier ₹520), valuing the stock at ~1.15x FY28E BV and assign 30% discount to subsidiary. Maintaining Buy rating on stock.

Key Financial Summary

₹ crore	FY25	FY26	3-year CAGR (FY23-FY26)	FY27E	FY28E	2-year CAGR (FY26-28E)
NII	19,337	21,895	15.1%	22,987	25,351	7.6%
PPP	21,629	22,957	18.3%	24,723	27,612	9.7%
PAT	17,352	20,051	20.0%	19,396	21,222	2.9%
ABV (₹)	269	308	8.5%	346	388	12.2%
P/E	7.6	6.6		6.8	6.2	
P/ABV	1.5	1.3		1.2	1.0	
RoA	3.2%	3.4%		3.0%	2.9%	
RoE	19.1%	19.6%		16.8%	16.5%	

Source: Company, ICICI Direct Research

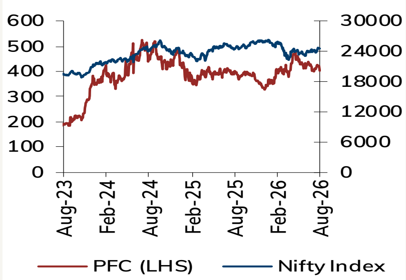
Particulars

Particulars	Amount
Market Capitalisation	₹ 1,38,604 crore
Net worth	₹ 1,08,548 crore
52-week H/L	₹ 486 /330
Face Value	₹ 10
DII Holding (%)	14.5
FII Holding (%)	20.5

Shareholding pattern

(in %)	Sept 25	Dec 25	Mar 26	Jun 26
Promoter	55.9	55.9	55.9	55.9
FII	18.8	18.3	19.6	20.5
DII	16.0	15.5	15.1	14.5
Public	9.1	10.2	9.3	8.9

Price Chart



Key risks

(i) Moderation in growth and margins

(ii) Delay in merger

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Result Update

ICICI Securities – Retail Equity Research

Exhibit 1: Variance Analysis

	Q1FY27	Q1FY26	YoY (%)	Q4FY26	QoQ (%)	Comments
NII	5234	5469	-4.3	5523	-5.2	NII decline amid competitive loan repricing and elevated forex hedging cost
Reported NIM (%)	3.5%	3.7%	-14 bps	3.6%	-1 bps	
Other Income	334	-617	-154.1	1114	-70.1	
Total Income	5567	4852	14.7	6637	-16.1	
Staff cost	79	71	11.7	66	18.9	
Other Operating Expenses	131	-50	-363.9	188	-30.2	
PPP	5357	4831	10.9	6382	-16.1	
Provision	-556	-682	-18.5	-1382	-59.8	Recoveries and ECL reversal drive write backs
PBT	5913	5513	7.3	7764	-23.8	
Tax Outgo	1168	1012	15.4	1439	-18.9	
PAT	4745	4502	5.4	6325	-25.0	Earnings growth largely driven by lower credit cost
Key Metrics						
GNPA	6315	10531	-40.0	6323	-0.1	Asset quality improves following key resolutions
NNPA	874	2078	-57.9	874	0.0	
Loan Book	570045	549786	3.7	580115	-1.7	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 2: Profit and loss statement (₹ crore)

(Year-end March)	FY25	FY26	FY27E	FY28E
Interest Earned	49,875	55,072	58,840	64,442
Interest Expended	30,538	33,177	35,853	39,091
Net Interest Income	19,337	21,895	22,987	25,351
% growth	23.8	13.2	5.0	10.3
Non Interest Income	2,786	3,310	2,622	3,234
Net Income	22,123	25,206	25,608	28,585
Total operating expense	493	2,248	885	974
PPoP	21,629	22,957	24,723	27,612
Provisions	457	-1,816	759	1,391
PBT	21,172	24,774	23,964	26,220
Taxes	3,820	4,723	4,569	4,999
Net Profit	17,352	20,051	19,396	21,222
% growth	20.8	15.6	-3.3	9.4

Source: Company, ICICI Research

Exhibit 3: Key Ratios (₹ crore)

(Year-end March)	FY25	FY26	FY27E	FY28E
Valuation				
No. of Equity Shares	330.0	330.0	330.0	330.0
EPS (₹)	52.6	60.8	58.8	64.3
BV (₹)	275.6	310.7	348.9	390.7
ABV (₹)	269.2	308.0	345.6	387.7
P/E	7.6	6.6	6.8	6.2
P/BV	1.5	1.3	1.1	1.0
P/adj.BV	1.5	1.3	1.2	1.0
Yield on AUM	9.7%	9.8%	9.7%	9.7%
Cost of funds	7.4%	6.9%	6.9%	6.8%
Net Interest Margins	3.6%	3.8%	3.6%	3.6%
Spreads	2.4%	2.9%	2.8%	2.9%
Quality and Efficiency				
Cost / Total net income	2.2%	8.9%	3.5%	3.4%
GNPA%	1.9%	1.1%	1.3%	1.2%
NNPA%	0.4%	0.2%	0.2%	0.1%
RoE (%)	19.1%	19.6%	16.8%	16.5%
RoA (%)	3.2%	3.4%	3.0%	2.9%

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet (₹ crore)

(Year-end March)	FY25	FY26	FY27E	FY28E
Sources of Funds				
Capital	3,300	3,300	3,300	3,300
Reserves and Surplus	87,637	99,232	111,839	125,633
Networth	90,937	102,532	115,139	128,933
Borrowings	471,951	493,784	549,848	604,833
Other Liabilities & Provisions	15,289	22,199	22,064	22,963
Total	578,177	618,515	687,051	756,729
Applications of Funds				
Investments	20,720	20,718	22,790	25,069
Advances	532,818	574,018	632,325	695,558
Other Assets	24,639	23,779	31,936	36,103
Total	578,177	618,515	687,051	756,729

Source: Company, ICICI Research

Exhibit 5: Growth ratios

(% growth)	FY25	FY26	FY27E	FY28E
Total assets	14.4%	7.0%	11.1%	10.1%
Advances	13.4%	7.7%	10.2%	10.0%
Borrowings	14.9%	4.6%	11.4%	10.0%
Net income	21.4%	13.9%	1.6%	11.6%
Net interest income	23.8%	13.2%	5.0%	10.3%
Total operating expense	-36.2%	355.6%	-60.6%	10.0%
PPoP	23.9%	6.1%	7.7%	11.7%
Net profit	20.8%	15.6%	-3.3%	9.4%
Book value	14.8%	12.8%	12.3%	12.0%
EPS	20.8%	15.6%	-3.3%	9.4%

Source: Company, ICICI Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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