Power Finance Corporation (POWFIN)

CMP: ₹329 | Target ₹ 380 (16%) | Target Period: 12 months | BUY

November 6, 2026

Growth remains benign; asset quality resilience aids earnings

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-49%, Transmission & Distribution-40%, Infrastructure & Others-11%.

Q2FY27 performance: PFC reported a muted performance in Q2FY27, with loan asset rising 0.4% QoQ and 2.0% YoY to ₹5,72,524 crore, while disbursements fell 31.5% YoY to ₹34,131 crore, reflecting continued moderation in loan demand. NII declined 3.2% YoY to ₹5,121 crore, while spreads moderated 15 bps YoY to 2.4% in H1FY27; NIM stood at 3.51% (-11 bps YoY). However, PAT grew 11.8% YoY to ₹4,987 crore, supported by impairment reversals and lower forex losses.

Investment Rationale:

- **Structural growth opportunity intact; near-term growth subdued**: PFC's loan assets increased 0.4% QoQ and 2.0% YoY to ₹5.73 lakh crore, constrained by elevated prepayment. Disbursements recovered 69.2% QoQ but declined 31.5% YoY to ₹34,131 crore, primarily due to weakness in distribution financing. While conventional generation and renewable loan book grew 9% and 5.5% YoY, distribution and infrastructure & logistics loans declined 6.1% and 9.1% YoY, respectively. Financing opportunities across generation, renewables and transmission remain strong, though conversion of the sanctioned pipeline into disbursement and moderation in prepayment remain critical for sustained loan growth.
- **PFC-REC merger synergies to strengthen competitive positioning:** Management expects the merger to reduce competitive overlap, improve pricing discipline and support spread stability, while the larger balance sheet could strengthen funding efficiencies. The merged entity would have a balance sheet exceeding ₹12 lakh crore and a renewable book of over ₹1.7 lakh crore, with an 88:100 share-swap ratio. NOCs from RBI and stock exchanges mark progress, while shareholder, creditor and MCA approvals remain pending. Potential operational synergies and removal of the holding-company discount could provide valuation upside.
- **Margin compression and earnings sustainability remain key concerns:** Spreads moderated 15 bps YoY to 2.4% in H1FY27 as yields declined 41 bps, outpacing the 26 bps reduction in funding cost. Q2FY27 NII declined 3.2% YoY, reflecting pressure on core earnings. GNPA/NNPA remained benign at 0.91%/0.15%, though GNPA improvement was largely write-off led and provisioning coverage moderated to 83% from 86%. PAT growth was aided by impairment reversals, largely from Stage 1&2 ECL releases (coverage down to 0.74% from 0.86%), and lower forex losses. With limited scope for recurring write-backs, stabilisation in margins and recovery in loan growth remain critical for sustaining earnings visibility.

Rating and Target Price

The proposed PFC-REC merger remains a key structural catalyst, while opportunities in generation financing support medium-term growth. Factoring subdued loan growth, we revise our target price to ₹380 (earlier ₹500), valuing the stock at ~0.9x FY28E BV with a 30% subsidiary discount. However, given steep correction in the stock price in the recent past, we maintain our Buy rating

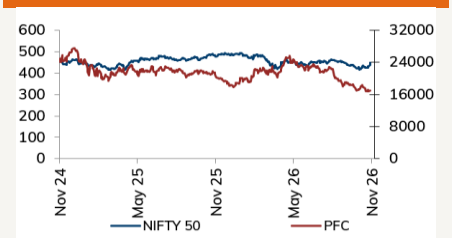
Particulars

Particulars	Amount
Market Capitalisation	₹ 1,08,705 crore
Net worth	₹ 1,11,106 crore
52-week H/L	₹ 486 /310
Face Value	₹ 10

Shareholding pattern

(in %)	Dec 25	Mar 26	Jun 26	Sep 26
Promoter	55.9	55.9	55.9	55.9
FII	18.3	19.6	20.5	17.8
DII	15.5	15.1	14.5	15.8
Public	10.2	9.3	8.9	10.4

Price Chart



Key risks

(i) Delay in recovery in growth momentum

(ii) Delay in merger

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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%	21,570	23,381	3.3%
PAT	21,629	22,957	18.3%	23,227	25,582	5.6%
ABV (₹)	17,352	20,051	20.0%	19,287	20,182	0.3%
P/E	269	308		345	385	
P/ABV	6.3	5.4		5.6	5.4	
RoA	1.2	1.1		1.0	0.9	
RoE	3.2%	3.4%		3.0%	3.0%	

Source: Company, ICICI Direct Research

ICICI Securities – Retail Equity Research

Exhibit 1: Variance Analysis

	Q2FY27	Q2FY26	YoY (%)	Q1FY27	QoQ (%)	Comments
NII	5122	5289	-3.2	5234	-2.1	Muted growth in AUM impacted NII momentum
Reported NIM (%)	3.5%	3.6%	-11 bps	3.5%	-3 bps	NIM decline led by moderation in yields
Other Income	1128	786	43.5	334	238.1	
Total Income	6250	6076	2.9	5567	12.3	
Staff cost	70	71	-0.8	79	-10.8	
Other Operating Expenses	202	223	-9.2	131	54.3	
PPP	5978	5782	3.4	5357	11.6	
Provision	-180	242	-174.2	-556	-67.7	ECL reversals driven by lower Stage 1& 2 provisioning
PBT	6157	5540	11.1	5913	4.1	
Tax Outgo	1170	1078	8.6	1168	0.2	
PAT	4987	4462	11.8	4745	5.1	Earnings growth largely driven by ECL reversals and lower forex losses
Key Metrics						
GNPA	6315	10487	-39.8	6315	0.0	GNPA decline led by write-offs
NNPA	874	2076	-57.9	874	0.0	
Loan Book	572524	561210	2.0	570045	0.4	Subdued growth amid elevated prepayment and weak distribution financing

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	56,248	59,359
Interest Expended	30,538	33,177	34,678	35,978
Net Interest Income	19,337	21,895	21,570	23,381
% growth	23.8	13.2	-1.5	8.4
Non Interest Income	2,786	3,310	2,622	3,234
Net Income	22,123	25,206	24,192	26,615
Total operating expense	493	2,248	965	1,033
PPoP	21,629	22,957	23,227	25,582
Provisions	457	-1,816	-603	646
PBT	21,172	24,774	23,830	24,936
Taxes	3,820	4,723	4,543	4,754
Net Profit	17,352	20,051	19,287	20,182
% growth	20.8	15.6	-3.8	4.6

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	58.4	61.2
BV (₹)	275.6	310.7	348.7	388.4
ABV (₹)	269.2	308.0	345.3	385.5
P/E	6.3	5.4	5.6	5.4
P/BV	1.2	1.1	0.9	0.8
P/adj.BV	1.2	1.1	1.0	0.9
Yield on AUM	9.7%	9.8%	9.5%	9.5%
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%	2.6%	2.7%
Quality and Efficiency				
Cost / Total net income	2.2%	8.9%	4.0%	3.9%
GNPA%	1.9%	1.1%	1.4%	1.3%
NNPA%	0.4%	0.2%	0.2%	0.2%
RoE (%)	19.1%	19.6%	16.8%	15.7%
RoA (%)	3.2%	3.4%	3.0%	3.0%

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	111,768	124,887
Networth	90,937	102,532	115,068	128,187
Borrowings	471,951	493,784	515,658	547,078
Other Liabilities & Provisions	15,289	22,199	22,064	22,963
Total	578,177	618,515	652,790	698,228
Applications of Funds				
Investments	20,720	20,718	22,168	23,720
Advances	532,818	574,018	603,320	645,552
Other Assets	24,639	23,779	27,302	28,956
Total	578,177	618,515	652,790	698,228

Source: Company, ICICI Research

Exhibit 5: Growth ratios

(% growth)	FY25	FY26	FY27E	FY28E
Total assets	14.4%	7.0%	5.5%	7.0%
Advances	13.4%	7.7%	5.1%	7.0%
Borrowings	14.9%	4.6%	4.4%	6.1%
Net income	21.4%	13.9%	-4.0%	10.0%
Net interest income	23.8%	13.2%	-1.5%	8.4%
Total operating expense	-36.2%	355.6%	-57.1%	7.0%
PPoP	23.9%	6.1%	1.2%	10.1%
Net profit	20.8%	15.6%	-3.8%	4.6%
Book value	14.8%	12.8%	12.2%	11.4%
EPS	20.8%	15.6%	-3.8%	4.6%

Source: Company, ICICI Research

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Sell: <-15%

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