

CMP: ₹ 430

Target: ₹ 520 (21%)

Target Period: 12 months

April 10, 2026

BUY

Structural opportunity to drive multi-year growth...

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 – 46%, Infrastructure & Others – 6%.

Investment Rationale

- Capex cycle to drive structural lending opportunity:** India's power sector is entering a massive capex cycle, with installed capacity projected to rise from ~520 GW to ~900 GW by FY32E. This expansion creates a ₹12-13 lakh crore lending opportunity for specialized financiers including PFC across generation (₹8-9 lakh crore), transmission (~₹1 lakh crore), and distribution (~₹2 lakh crore) projects. Beyond traditional power, growth is supported by 47 GW storage mandate and a strategic pivot into infrastructure financing. Given the policy roadmap for 900+ GW of non-fossil capacity by FY36, this cycle is expected to extend into next decade, ensuring robust long-term loan growth and visibility for PFC due to its dominant market share and policy linkages.
- Merger synergies to unlock scale and profitability:** The proposed merger of PFC and REC is a significant operational upgrade aimed at creating a leaner, more dominant lender with a loan book of ~₹11.5 lakh crore. Eliminating competition and overlapping mandates, the unified entity will enhance pricing discipline and margin sustainability. Significant synergy benefit includes integrated technology, improved efficiency, larger balance. Crucially, removing the ~30% holding company discount should unlock shareholder value, paving the way for a structural valuation re-rating.
- Asset quality transformation drives earnings visibility:** PFC has achieved a sharp turnaround in asset quality, with GNPA/NNPA declining from peak ~12.5%/10.6% in earlier cycle to ~1.6%/0.2% in 9MFY26, driven by sustained recoveries, upgrades and minimal fresh slippages. The loan book remains anchored by ~75% government-backed exposure, while PCR at ~84%, keeps balance sheet well-buffered, enabling provision write-backs from the residual stressed pool. While we have built in higher credit cost of ~20 bps in FY27-28E; stalled projects at multi-year low provides comfort on sustainability of asset quality, thereby aiding earnings.

Rating and Target Price

- PFC offers an attractive play on India's power & infrastructure financing cycle, supported by sustained structural growth opportunity, steady margins & asset quality aiding healthy RoE. Self-sustaining model & regular dividend provides valuation support and improve overall risk reward. Valuing core business at ~1.2x FY28E BV and assigning 30% discount to subsidiary, we ascribe target of ₹520. Recommend a BUY rating.



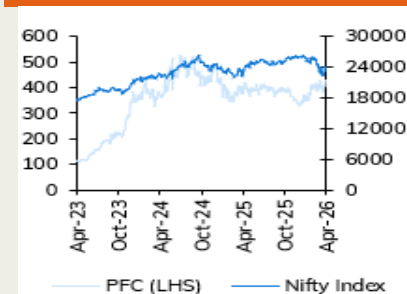
Particulars

Particulars	Amount
Market Capitalisation	₹ 142,020
52 week H/L	444/330
Networth	₹ 100,736.8
Face Value	10

Shareholding pattern

(in %)	Mar-25	Jun-25	Sep-25	Dec-25
Promoter	56.0	56.0	56.0	56.0
FII	18.8	18.7	18.8	18.3
DII	16.2	16.1	16.0	15.5
Others	9.0	9.2	9.1	10.2

Price Chart



Key risks

- Slowdown in sectoral capex or delay in project execution
- Bulky projects and rising private sector exposure amplifies asset quality vulnerability

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Key Financial Summary

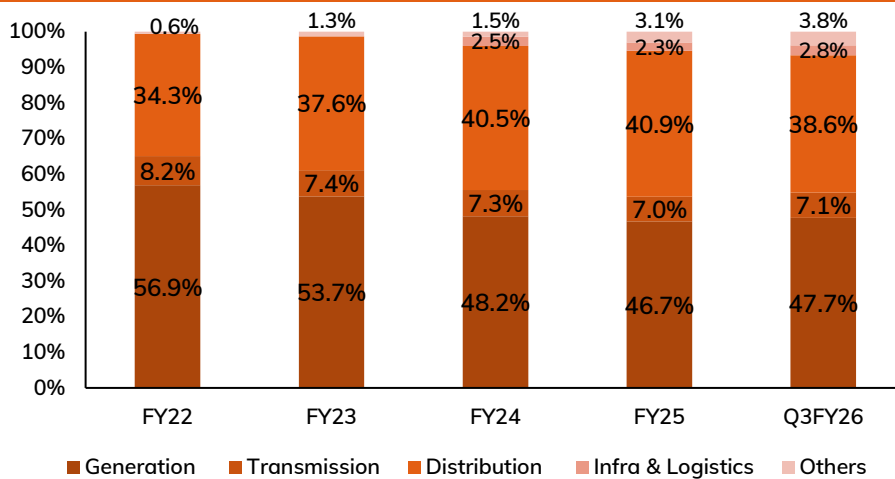
₹ crore	FY23	FY24	FY25	2 year CAGR (FY23-FY25)	FY26E	FY27E	FY28E	3 year CAGR (FY25-28E)
NII	14,363	15,621	19,337	16.0%	21,975	23,457	25,643	9.9%
PPP	13,874	17,455	21,629	24.9%	22,697	25,239	27,934	8.9%
PAT	11,605	14,367	17,352	22.3%	18,750	19,586	21,663	7.7%
ABV (₹)	241	228	269	5.6%	307	346	389	13.1%
P/E	9.8	9.9	8.2		7.6	7.2	6.6	
P/ABV	1.8	1.9	1.6		1.4	1.2	1.1	
RoA	2.8%	3.0%	3.2%		3.0%	2.8%	2.8%	
RoE	17.0%	18.1%	19.1%		18.2%	16.9%	16.7%	

Company Background

Power Finance Corporation Ltd. (PFC), incorporated in 1986 under the Ministry of Power, is a Maharatna PSU and the largest power sector-focused NBFC-IFC in India. Established as a specialised development financial institution for domestic power financing, the company has built a dominant lending franchise spanning generation (conventional and renewable), transmission and distribution (T&D), including distribution network upgradation and smart metering initiatives. In line with the government's infrastructure push, PFC has also diversified into financing of infrastructure and logistics segment, covering electric vehicle (EV) fleet, charging infrastructure, roads, ports, metro rail, and smart city project. Majority ownership by the Government of India (~56%) supports AAA rating and diversified funding access across domestic and international markets, reinforcing PFC's positioning as a systemically important infrastructure financier within India's power ecosystem.

PFC offers rupee and foreign currency term loans, short-term loans, equipment lease financing, and transitional financing for stressed power asset. As of Dec-2025, standalone loan assets stood at ₹5.69 lakh crore, reflecting its scale leadership in the sector. The lending profile remains predominantly government-linked, comprising central and state utilities alongside select private developers and infrastructure sponsors, providing stability to the asset base. The portfolio remains diversified across generation (~48% including renewable and hydro), transmission & distribution (~46%), and a small but growing infrastructure segment (~3%), with ~75% exposure to government utilities supporting predictable credit behaviour and portfolio stability.

Exhibit 1: Diversified Loan Book



Beyond power (generation, transmission, and distribution), PFC has actively diversified into infrastructure projects such as roads, ports, metros, oil refineries, biofuels, and waste-to-energy projects

Source: Company, ICICI Direct Research

PFC functions as one of the key nodal agencies for the Government of India's power sector reform and developmental programmes. It has acted as the designated implementing agency for flagship government schemes including the Pradhan Mantri Sahaj Bijli Har Ghar Yojana (SAUBHAGYA) and the Revamped Distribution Sector Scheme (RDSS), channeling funds and overseeing their execution across states. This dual mandate as a commercial lender and a policy-implementation agency differentiates PFC from conventional NBFCs and reinforces its systemic importance within the Indian financial ecosystem. PFC is administered under the Ministry of Power (MoP), ensuring close alignment with national energy policy objectives. Its role in financing low-cost, efficient, and reliable power generation is central to India's energy security agenda. Given India's target of 500 GW of non-fossil fuel capacity by 2030, PFC's relevance as the primary institutional financier of the energy transition is only expected to grow.

PFC acquired the Government of India's ~52.6% stake in REC Ltd. in March 2019 for a consideration of ₹14,500 crore, following which REC became its subsidiary, creating the largest power financing group in India with complementary portfolios and sector reach. PFC is oriented towards large thermal and central sector projects, whereas REC's portfolio is weighted towards the distribution segment and rural electrification. In February 2026, the boards of PFC and REC also granted in-principle approval for their proposed merger, aimed at further consolidating the group's lending franchise.

Consolidated loan asset book stood at ₹11,51,407 crore as on Q3FY26

Investment Rationale

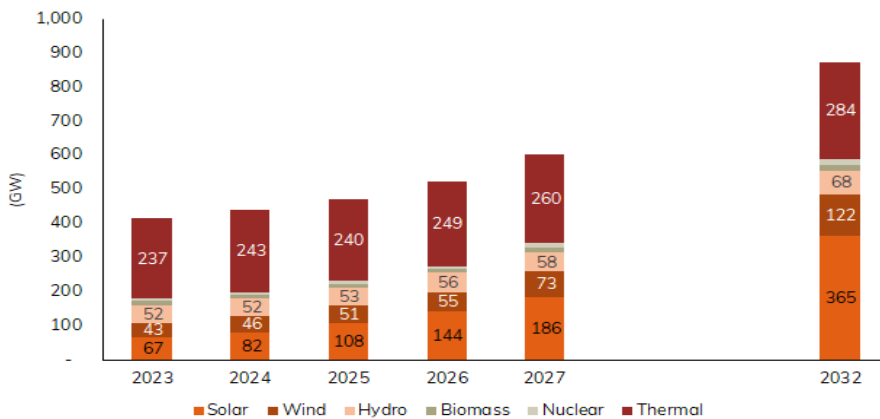
Capacity expansion cycle to create funding opportunity

India's power sector is entering a new investment phase driven by sustained growth in electricity demand, increasing electrification across industries, renewable integration and the need to ensure long-term energy security. After a prolonged period of moderate capacity addition, the government has outlined an aggressive expansion plan to support rising peak demand while maintaining grid stability and accelerating the transition towards a cleaner energy mix. This is expected to result in a large and visible pipeline of generation projects over the next several years, creating a favourable lending environment for sector-focused financiers.

As of January 2026, India's total installed power generation capacity stands at ~520GW, comprising ~248GW of fossil-fuel based capacity and ~271GW of non-fossil capacity. While the current capacity base has increased meaningfully over the past decade, projected demand growth indicates that significant additions will be required to meet future consumption, particularly with rising industrial demand, electrification of transport and higher renewable penetration.

Under the National Electricity Plan, total installed capacity is targeted to reach ~900GW by FY32E to meet projected peak demand of ~458GW. The planned capacity mix includes ~284GW of conventional capacity, primarily coal-based, and ~589 GW of renewable-led capacity, driven by solar (~365GW) and wind (~122GW), along with incremental additions in hydro, nuclear, pumped storage (~26.7 GW) and battery storage (~47 GW). The expansion across thermal, renewable and storage segment suggests that the upcoming cycle will be broad-based, resulting in a strong pipeline of generation projects across central, state and private sector.

Exhibit 2: Projected installed capacity (2023-32)



Source: NEP, CEA, ICICI Direct Research

The capital expenditure required for generation projects during FY26E-FY32E is estimated at ~₹25.8 lakh crore. Assuming an average funding structure of ~25% equity and ~75% debt, the total debt funding requirement is estimated at ~₹19.4 lakh crore, implying a large addressable lending opportunity for power sector financiers over the medium term.

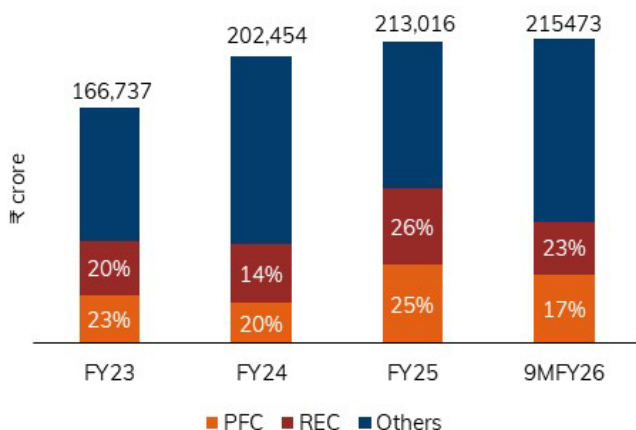
Exhibit 3: Fund requirement for Generation projects (mode-wise) during 2023-2032

Capex (₹ crore)	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY 26-32
Conventional	80,434	92,163	57,405	43,264	65,444	78,450	60,696	47,819	28,626	13,315	3,37,614
Coal	62,027	62,763	29,411	24,310	39,919	56,001	48,072	42,093	26,374	13,315	
Nuclear	18,407	29,400	27,994	18,954	25,525	22,449	12,624	5,726	2,252		
Renewable	1,41,882	1,77,775	2,26,616	2,44,033	2,68,527	3,08,969	3,25,319	3,23,502	3,28,244	98,829	18,97,423
Hydro	14,733	16,670	14,912	10,277	9,558	29,900	33,307	31,639	24,010	10,921	
PSP	3,383	2,484	4,738	15,448	28,150	29,692	25,120	15,405	5,023	-	
Wind Power	25,863	41,541	54,824	55,611	53,106	61,341	74,449	74,197	83,821	37,092	
Offshore Wind								4,501	13,701	9,199	
SHP	373	355	366	377	388	400	412	424	302	131	
Biomass	4,131	4,921	5,064	5,217	5,372	5,536	5,702	5,873	4,180	1,814	
Solar	93,399	1,11,804	1,46,712	1,57,103	1,71,953	1,82,100	1,86,329	1,91,463	1,97,207	39,672	
BESS					56,647	1,44,966	83,981	22,502	8,249	32,938	3,49,283
Total	2,22,316	2,69,938	2,84,021	2,87,297	3,90,618	5,32,385	4,69,996	3,93,823	3,65,119	1,45,082	25,84,320
Proportion of Debt*	1,66,737	2,02,454	2,13,016	2,15,473	2,92,964	3,99,289	3,52,497	2,95,367	2,73,839	1,08,812	19,38,240

Source: NEP, ICICI Direct Research *debt assumed at 75% of capex

Given strong domain expertise, policy linkage and established relationship with central, state and private sector developers, a meaningful share of the upcoming generation financing opportunity is expected to be captured by PFC and REC. PFC and REC together remain dominant lenders to the power sector and historically account for ~40-50% of the total funding to generation projects, translating into an estimated opportunity of ~₹8-9 lakh crore over next 6 years.

Exhibit 4: PFC and REC remain major contributor to generation capex



Source: NEP, Company, ICICI Direct Research

Grid expansion to support increasing capacity & renewable integration

The planned increase in generation capacity is expected to be accompanied by a parallel expansion in transmission infrastructure, as the existing grid will need to be significantly strengthened to handle higher power flows, renewable integration and rising inter-regional electricity distribution. With renewable capacity addition accelerating and demand centers becoming more geographically dispersed, transmission investment is emerging as a critical enabler of the next phase of power sector growth, resulting in a sustained capex cycle.

Under the National Electricity Plan (Transmission), the transmission network at 220kV and above is projected to expand materially over the next several years in line with the targeted increase in generation capacity. The total transmission line length is expected to rise to ~6.48 lakh circuit kilometers, while transformation capacity is projected to increase to ~2,345 GVA by FY32E. In addition, inter-regional transmission capacity is planned to increase from ~120GW as of January 2026 to ~168GW by FY32, reflecting the need for stronger grid connectivity across regions.

Exhibit 5: Transmission lines and sub-station capacity addition by FY32

Transmission System Type / Voltage Class	Unit	At the end of Feb'26	Likely at the end of 2026-27	Likely at the end of 2027-32
Transmission lines				
HVDC (\pm 320 kV/ 500 kV/800 kV Bipole)	ckm	19,375	19,455	34,887
765 kV	ckm	60,913	87,581	114,719
400 kV	ckm	209,165	228,596	249,585
230/220 kV	ckm	214,208	235,771	248,999
Total-Transmission Lines	ckm	503,661	571,403	648,190
Sub-stations				
765kV	GVA	362	601	920
400kV	GVA	524	678	814
230/220kV	GVA	509	568	611
Total – Substations	GVA	1,429	1,847	2,345

Source: CEA, NEP, ICICI Direct Research

The expansion is being driven by multiple structural factors, including integration of large renewable capacities, strengthening of intra-state networks, cross-border interconnections and rising demand from industrialisation, data centers and electrification. Unlike earlier cycles, transmission investment are increasingly linked to long-term energy transition and grid modernization goals, providing better visibility on future spending.

The estimated expenditure required for transmission infrastructure during FY25–FY32E is ~₹9.2 lakh crore, including ~₹6.6 lakh crore towards inter-state systems and ~₹2.7 lakh crore towards intra-state networks, covering transmission lines, substations and reactive compensation.

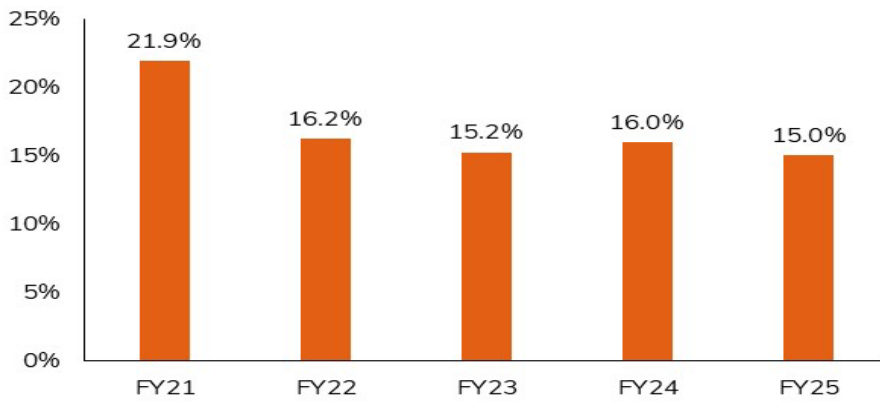
Given long-standing role, established relationships with central and state utilities, PFC and REC is expected to finance ~10-15% of this infrastructure expansion (assumption based on trend seen in the current block of investment), translating into an estimated opportunity of ~₹80,000-1,00,000 crore.

Structural reforms to support sustained financing opportunity in distribution

With capacity addition in generation segment accelerating and transmission network being strengthened to support higher power flows, the focus is increasingly shifting towards the distribution segment, which remains critical for maintaining stability across the value chain. Historically, distribution utilities have been the weakest link in the sector, constrained by regulated tariffs, high aggregate technical and commercial (AT&C) losses and recurring liquidity stress, resulting in delayed payment to generation companies limiting their ability to undertake capex. This structural weakness has required periodic government intervention and has sustained the need for dedicated financing support, a role traditionally fulfilled by PFC and REC.

Over the years, both institutions have played a central role in funding distribution infrastructure through government-led programmes such as APDRP (Accelerated Power Development and Reforms Programme), IPDS (Integrated Power Development Scheme), DDUGJY (Deen Dayal Upadhyaya Gram Jyoti Yojana) and Saubhagya (Pradhan Mantri Sahaj Bijli Har Ghar Yojana), enabling them to build long-standing relationships with state distribution utilities. In addition, role played as nodal agencies for multiple schemes has positioned these institutions as the preferred channel for government-supported lending to the sector, ensuring continued participation in distribution financing.

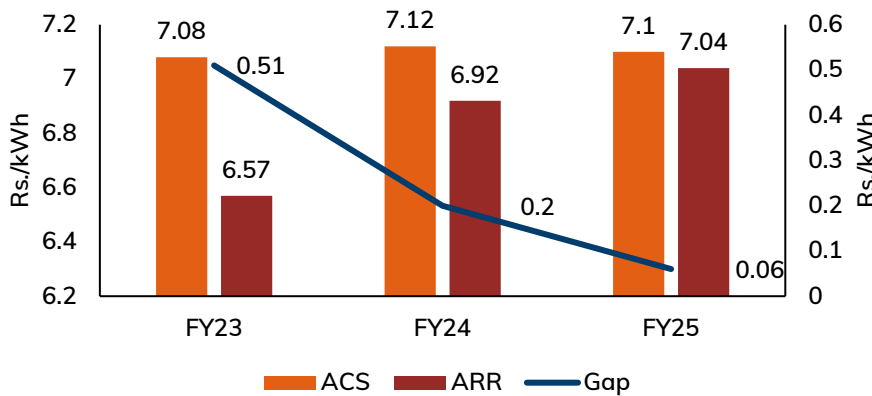
Exhibit 6: Trend of AT&C losses (FY21-FY25)



Source: Company, ICICI Direct Research

In recent years, the sector also benefited from liquidity support measures such as the Liquidity Infusion Scheme (LIS), Late Payment Surcharge (LPS) rules and the Revolving Bill Payment Facility (RBPF), which were aimed at clearing outstanding dues of distribution companies to generation utilities and restoring payment discipline across the value chain. These measures helped reduce receivables, improved cash flow visibility for generation companies and supported near-term disbursement growth for lenders. However, with legacy dues largely regularised and liquidity support schemes nearing completion, the opportunity from dues-related and working-capital funding is gradually tapering off, shifting the focus towards structural improvement in the distribution segment.

Exhibit 7: Trend of ACS-ARR Gap (FY23-FY25)



Source: Company, ICICI Direct Research

This led to the introduction of the Revamped Distribution Sector Scheme (RDSS), which consolidates earlier reform programmes into a results-linked framework focused on reducing AT&C losses, narrowing the ACS-ARR gap (Average Cost of Supply and Average Revenue Realised) and improving billing and collection efficiency through large-scale smart metering and network strengthening. The scheme, with a total outlay of ~₹3 lakh crore (~₹38,803 crore has been disbursed so far), was introduced to address the limited effectiveness of earlier reforms and to ensure that future funding is linked to measurable operational improvements.

Exhibit 8: Outlay planned for RDSS

Item Description	Quantity	Outlay (₹ Crore)	Grant %	Grant (₹ Crore)	Loan
Prepaid smart metering	25 crore	1,50,000	15%	22,500	1,27,500
Other costs including (billing modules, data management, data analytics and support to implementation)	Lumpsum	800	100%	800	
Part A- Funding for smart metering		1,50,800		23,300	
Part B- Funding for capacity building		1,52,958	60%	74,331	78,627
Total		3,03,758		97,631	2,06,127

Source: Ministry of Power, ICICI Direct Research

Execution delays under the scheme have effectively extended the opportunity cycle. Against a target of ~25 crore, prepaid smart meters, only ~5.83 crore meters had been installed as of February 2026, suggesting that implementation is likely to continue beyond the original timeline. Thus, visibility on future disbursement remains strong amid continued implementation of smart meter.

PFC and REC have been designated as nodal agencies for RDSS, with funding structured through a mix of grants and loans routed through their balance sheet. With government providing grant support of 15% for smart metering and 60% for loss reduction, cumulative disbursement opportunity for PFC and REC is estimated to be ~₹2.06 lakh crore, indicating a large sanctioned pipeline yet to be executed.

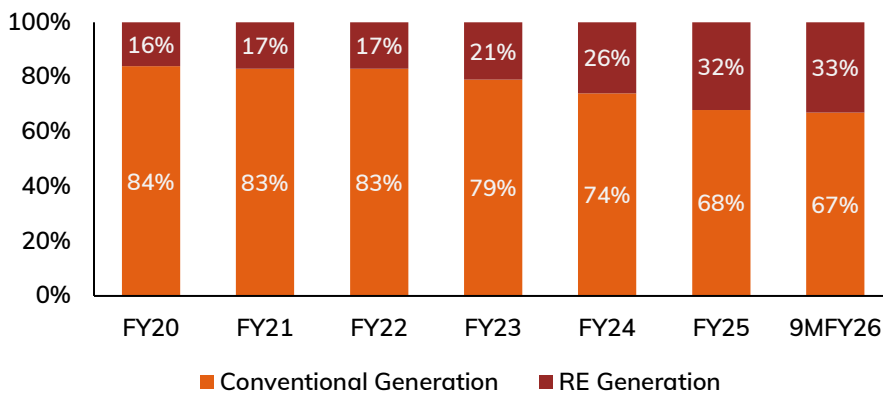
For PFC, distribution financing is therefore transitioning from liquidity-driven lending to scheme-led infrastructure funding. The combination of RDSS-linked disbursement, improved payment discipline and continued government support provides multi-year loan growth visibility with relatively low credit risk, making distribution an important contributor to balance sheet expansion.

Renewables, storage and infrastructure financing to provide diversified growth opportunities

Increasing investments in renewable, storage and infrastructure are creating incremental growth opportunities for PFC, alongside its core exposure to generation, transmission & distribution financing. Rising renewable capacity addition, higher storage requirement and gradual diversification into infrastructure segment are expected to support loan growth over the medium term.

PFC is the largest renewable sector financier in the country and has supported ~60 GW of renewable energy capacity as of FY25, representing ~27% of India's non-fossil fuel based installed capacity. The renewable segment has seen a steady increase in PFC's portfolio, with renewable loans accounting for ~33% of the generation loan book and ~16% of the overall loan book as of 9MFY26, amounting to ~₹89,169 crore. The company has guided for increasing the renewable share to ~20% of total loan book over the next three years, indicating continued focus on clean energy financing.

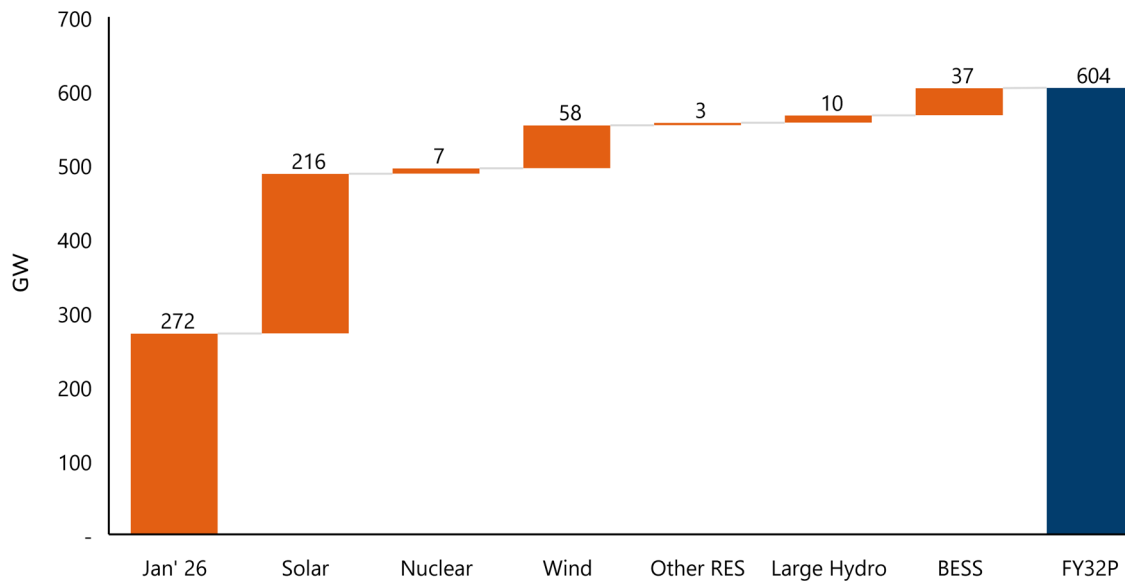
Exhibit 9: RE share in generation loan book doubled in 5 years (FY20-9MFY26)



Source: Company, ICICI Direct Research

India's generation mix is shifting towards non-fossil sources, which accounted for ~51.9% of installed capacity as of December 2025. Out of total installed capacity of ~513 GW, ~247 GW is contributed from fossil fuel-based capacity and ~267 GW by non-fossil capacity. India targets ~600 GW of non-fossil fuel capacity by 2032, led by solar and wind energy. During 2025, ~48 GW of renewable capacity was added, accounting for ~75% of total capacity addition, indicating a strong focus on renewable projects.

Exhibit 10: Renewable energy along with battery base to reach ~600 GW by FY32



Source: CEA, ICICI Direct Research

Higher renewable penetration is also driving investment in energy storage and grid balancing infrastructure. Battery Energy Storage Systems (BESS) are expected to see increasing deployment, with industry estimates indicating requirement of ~47 GW storage capacity by FY32, translating into ~236 GWh of BESS capacity and investment of ~₹4.7–4.8 lakh crore. Mandatory storage requirement in renewable tenders and viability gap funding support is expected to accelerate project execution, providing additional lending opportunities.

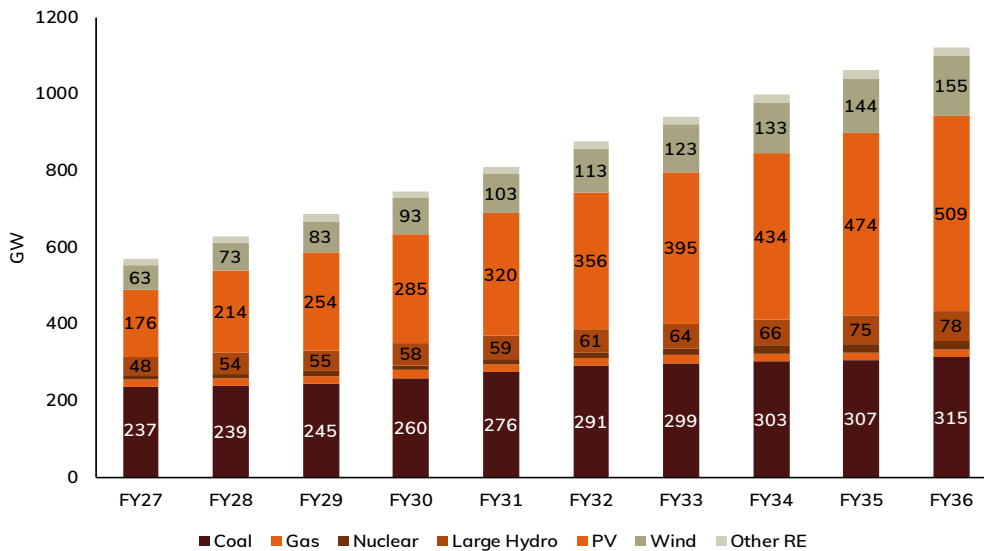
PFC has also been gradually diversifying its loan book towards infrastructure and emerging energy segment, in line with regulatory flexibility to lend outside the traditional power sector. The company has exposure to sectors such as green hydrogen, e-mobility and basic infrastructure, with lending across roads, logistics, petroleum, ports, refineries, ethanol, desalination and urban infrastructure. Infrastructure and logistics financing currently remains a small share of the loan book but is seeing increasing traction, with sanctions of ~₹84,433 crore in FY25 and disbursement of ~₹12,534 crore during the year, indicating growing contribution from non-power segments.

Long term visibility beyond FY32

The discussion at the Bharat Electricity Summit 2026 indicated continued focus on capacity addition beyond the current FY32 horizon, with longer-term planning suggesting sustained expansion in generation, transmission and storage infrastructure over the next decade.

Installed capacity is expected to increase from ~520 GW currently to over ~1100 GW by 2035-36, with a large share coming from non-fossil fuel sources, implying that investment in renewable, thermal balancing capacity and storage are likely to remain elevated even beyond the current plan period. Transmission requirement are also expected to rise in line with higher renewable penetration, with planning for integration of over 900 GW of non-fossil capacity, requiring significant addition in transmission lines and substation capacity. In addition, higher renewable share is likely to drive increased deployment of storage systems, with long-term requirement estimated at ~174 GW / 888 GWh.

Exhibit 11: Installed capacity targeted to increase to ~1100 GW by FY36



Source: Company, Ministry of Power, ICICI Direct Research

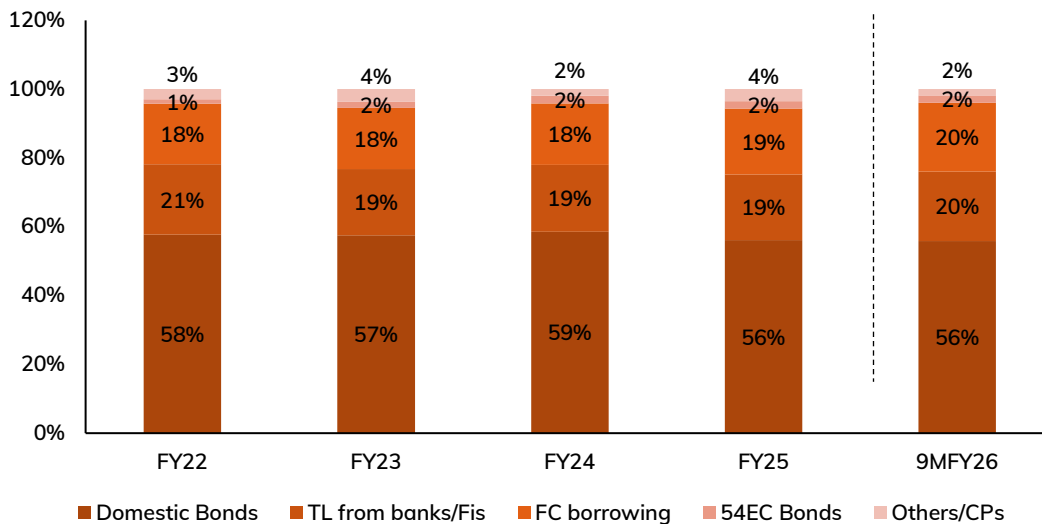
The transmission network expansion roadmap planned evacuation infrastructure for over 900 GW of non-fossil capacity (including BESS) by FY36. To support the incremental renewable integration during FY27–FY36, planned addition under ISTS and intra-state network includes ~1,37,500 ckm of transmission lines and ~8,27,600 MVA of substation capacity, with a total estimated investment of ₹7.9 lakh crore.

These discussions suggest that the power sector capex cycle may extend beyond the current identified pipeline, providing incremental comfort on long-term lending visibility across specialized financiers.

Structural funding advantage aided by sovereign backing and AAA rating

PFC benefits from a structurally strong funding profile supported by its Government of India ownership (~55.9%) and consistent domestic AAA credit rating, enabling access to large pool of capital at competitive rates across multiple funding channel. The company raises funds through domestic bonds, taxable bonds, term loan from banks, ECBs, and international bonds, with domestic bonds forming dominant share of borrowings. Owing to its quasi-sovereign status and strong asset quality, PFC is able to borrow at rates typically 50–80 bps lower than many NBFC peers, which supports margin stability despite lending largely to long-tenor infrastructure projects.

Exhibit 12: Borrowings mix remains well diversified



Source: Company, ICICI Direct Research

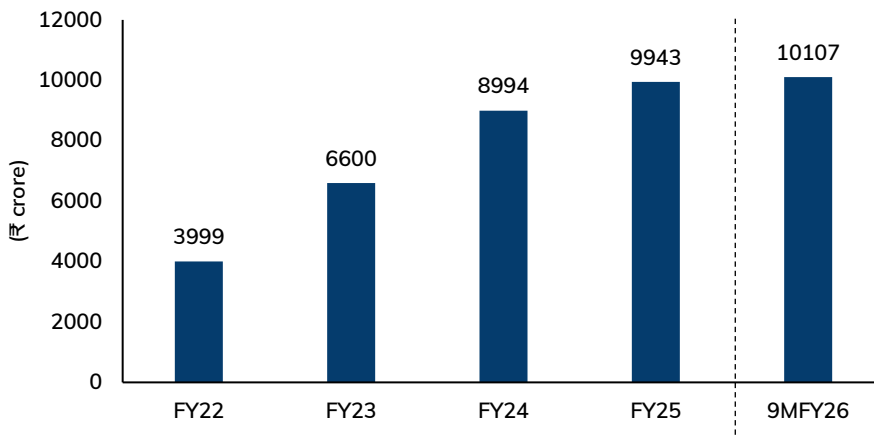
Exhibit 13: Rating profile

Agencies	Foreign borrowings	Long term borrowings	Short term borrowings
Fitch	BBB-	-	-
Care	-	AAA	A1+
ICRA	-	AAA	A1+

Source: Company, ICICI Direct Research

PFC has demonstrated an incremental focus on low-cost borrowing sources, specifically through Section 54EC Capital Gain Bond portfolio. The 54EC bond book surged to ₹10,107 crore in 9MFY26, representing a significant scale-up from ₹6,600 crore in FY23. These bonds carry a highly competitive coupon rate (~5.25% in Q3FY26) providing PFC with a stable, low-cost funding base compared to broader market instruments. These bonds come with a mandatory 5-year lock-in period, which provides PFC with long-term, non-volatile liquidity, insulating the balance sheet from short-term market fluctuations.

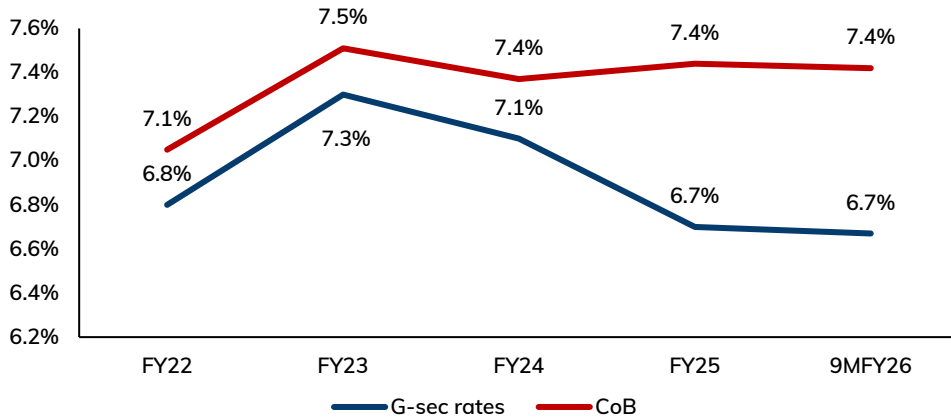
Exhibit 14: Increasing focus on low-cost borrowings (54EC Bonds)



Source: Company, ICICI Direct Research

The Yield Disconnect: In FY25 and 9MFY26, a significant decoupling occurred between benchmark G-Sec rates and corporate bond yields. While sovereign rates softened, corporate yields remained elevated due to persistent liquidity constraint and a demand-supply mismatch. This disconnect forced several state-owned entities to cancel issuances as investors demanded higher risk premium. Rather than bowing to elevated domestic bond pricing—evidenced by the tactical withdrawal of a ₹6,000-crore bond issue in late 2025—PFC successfully leveraged its diversified liability mix. By pivoting away from the expensive corporate bond market and tapping into alternative funding sources (such as ECBs or bank term loans), PFC has managed to stabilize its cost of borrowing. Going ahead, with normalization in liquidity situation, the divergence between Gsec and cost of borrowing for PFC could revert back to historical level.

Exhibit 15: Yield disconnect seen in FY25 and 9MFY26



Source: Company, RBI, ICICI Direct Research

From legacy stress to structural asset quality strength

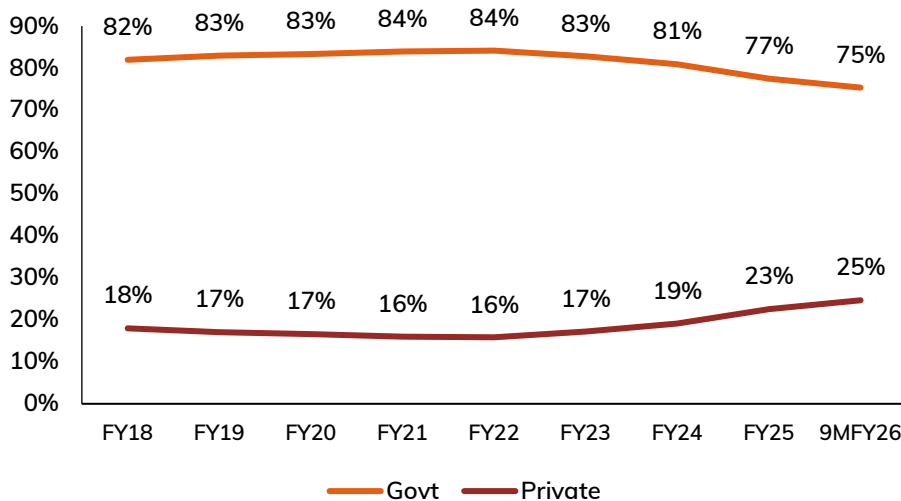
The most compelling aspect of the PFC investment thesis is the structural transformation in its asset quality over the past five years, marked by a transition from elevated stress and heavy provisioning to a phase of recoveries, provision write-backs, and sustained moderation in credit cost.

Historically, PFC's balance sheet was impacted by its exposure to private-sector thermal power projects (2010–2015 vintage), many of which faced challenges such as lack of fuel linkages, absence of long-term PPAs, and execution delays. This led to elevated GNPA/NNPA levels and suppressed valuations during the earlier cycle. However, with the resolution of these legacy assets and a calibrated shift in lending strategy, the asset quality narrative has structurally improved.

Government-dominated loan mix ensures low risk profile: A key driver of PFC's asset quality has been the consistent dominance of government-backed exposure in loan mix, which continues to account for a significant majority of the portfolio. As highlighted in the chart, government-linked lending has remained stable at ~82-85%, which has gradually moderated in recent fiscal, though still continues to remain substantial at ~75% (as of 9MFY26), underscoring the inherently low-risk nature of the book, given the financial backing of central and state utilities.

While share of private sector exposure has gradually increased to ~25%, this shift is strategically calibrated and quality-accretive in nature, largely driven by expansion in the renewable energy (RE) segment. The RE portfolio, currently constituting ~16% of the book (targeted to reach ~20% over next three years), is characterised by strong counterparties, long-term PPAs, and negligible delinquency levels.

Exhibit 16: Strategic focus on low-risk government exposure

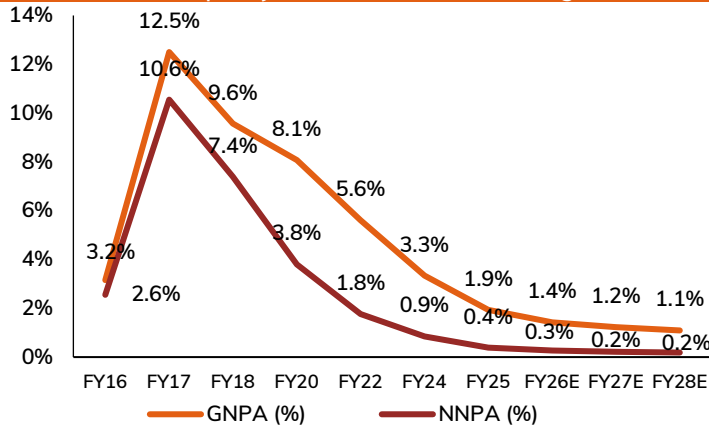


Government-backed exposure continues to anchor the loan book (~75%), ensuring structurally low credit risk despite calibrated increase in private RE exposure

Source: Company, ICICI Direct Research

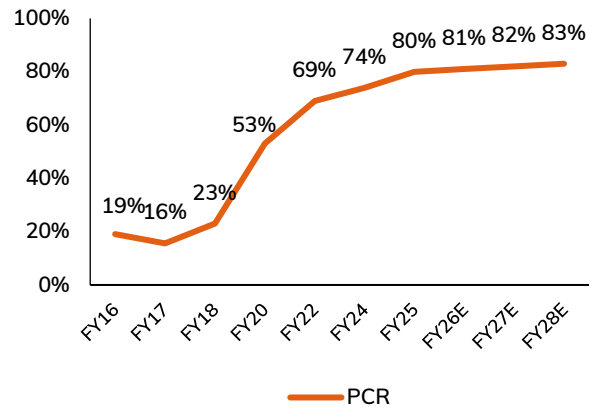
Meaningful improvement in asset quality metrics: Reflecting structural changes, PFC has delivered a sharp improvement in asset quality, with GNPA declining from ~12.5% and NNPA from ~10.6% in the earlier cycle to ~1.6% and ~0.2%, respectively, in 9MFY26. This improvement has been supported by robust recoveries, upgrades, and limited fresh slippages, indicating a clean-up of legacy stress. At the same time, the company has strengthened its balance sheet resilience, with Provision Coverage Ratio (PCR) improving to ~84%; among the highest in the segment.

Exhibit 17: Asset quality remains at decadal strong level



Source: Company, ICICI Direct Research

Exhibit 18: PCR at historically strong level



Source: Company, ICICI Direct Research

Stalled projects at multi-year low: Importantly, number of projects stalled has been on multi-year low level which provides comfort in term of incremental stress accretion anticipated to remain benign. Thus, risk of incremental large slippages remains low, and the balance sheet is now largely de-risked from legacy exposures.

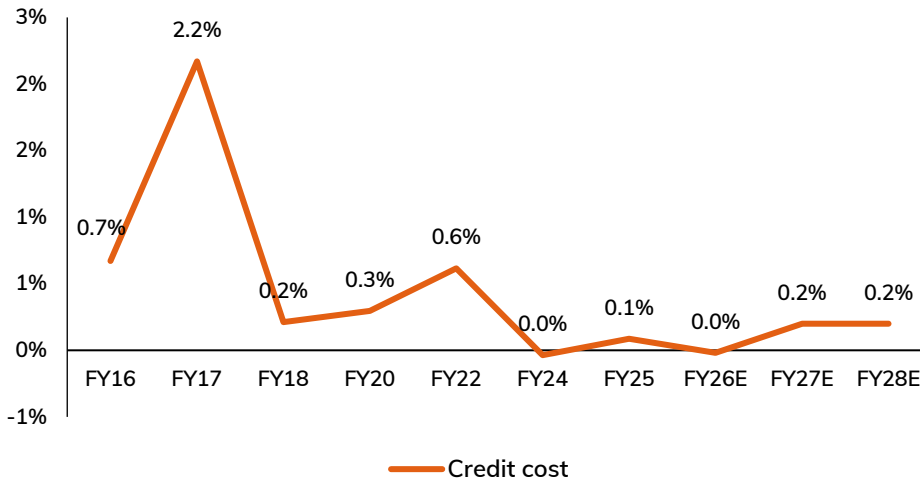
Provision write-backs to support earnings: With a high provisioning buffer in place, recoveries from the residual stressed pool expected to directly flow through the P&L, has provided an earnings kicker over FY23–26 in the form of provision write-backs. Going forward, we expect GNPA and NNPA ratios to stabilise at historically low levels, supported by improved portfolio mix and strong underwriting discipline. While the phase of large one-time recoveries may moderate, leading to some normalisation in credit cost, overall credit costs are expected to remain benign and well-contained.

Exhibit 19: Detailed resolution status of key stressed accounts (March 2026)

Account Name	Project Type	Exposure (Est. ₹ Cr)	Current Status (March 2026)	Recovery Outlook
Sinnar Thermal Power	Thermal (1,350 MW)	3,001.0	Acquisition Completed by NTPC-MAHAGENCO consortium in Feb 2026 following NCLT approval.	High: Successful revival under new ownership; implementation of the resolution plan is underway.
KSK Mahanadi Power	Thermal (3,600 MW)	-	Resolution Completed; previously one of the largest NPA accounts, now resolved through the insolvency process.	Realised: Major contributor to the 104 bps decline in Gross NPA ratio.
Lanco Amarkantak	Thermal (1,920 MW)	2,376.0	Advanced Stage of Resolution; PFC-REC joint bid (PAMC) is the leading resolution path.	Positive: PFC expects over 35% principal recovery post-resolution
Hiranmaye Energy	Thermal	2,180.0	IBC Proceedings Upheld by Supreme Court in Feb 2026; promoter plea for settlement was rejected.	Developing: Lifting of the stay allows the Corporate Insolvency Resolution Process (CIRP) to proceed.
TRN Energy Ltd	Thermal	1,139.0	Successfully Resolved outside NCLT; account has been upgraded to Stage I/II.	Stable: Asset is now performing and generating interest income.
Shiga Energy	Hydro (97 MW)	522.0	Advanced Stage of Resolution being handled outside the NCLT framework.	Very High: PFC management expects 100% principal recovery for this asset.
Dans Energy	Hydro	413.0	Successfully Resolved via debt restructuring outside NCLT.	Stable: Asset moved out of Stage III (NPA) category

Source: Company, ICICI Direct Research

Exhibit 20: Anticipated credit cost to hover in narrow range



Our model builds in a conservative shift to a 20bps average credit cost for FY27–28E, moving away from the near-zero or negative levels seen in FY23–25. This proactive adjustment for both PFC accounts for potential credit cycle normalization and ensures a more grounded earnings outlook.

Source: Company, ICICI Direct Research

The Powerhouse Consolidation: Creating India's Largest Specialized Infrastructure Financier

As announced in the Union Budget 2026–27, the government is now taking the "final step" by considering merger of PFC and REC into a single, unified financial behemoth. This consolidation represents a transformational shift in the Indian power-sector financing ecosystem, creating a "mega-lender" with immense systemic importance. The combined entity is expected to command a loan book of ~₹11.5 lakh crore, positioning it as India's largest infrastructure financing institution and one of the largest specialized power financiers globally.

The Evolution of the PFC–REC Relationship

Rather than a new initiative, this merger is the process of structural alignment that has been years in the making.

- It all began in 2019 when PFC acquired a 52.63% stake in REC from the Government of India for ₹14,500 crore at ₹139.5 per share.
- This established a unique structure where REC became a subsidiary of PFC, yet both continued to operate as independent entities.
- The challenge remained that both institutions maintained overlapping lending mandates, leading to unnecessary duplication of efforts.
- The current merger solves this by simplifying the corporate hierarchy and finally unlocking the operational synergies that a unified powerhouse can provide.

Unlocking value by eliminating the "Holding company discount"

- By collapsing the current parent-subsidary model into a single, unified balance sheet, the merger removes the layers of complexity.
- Investors will no longer be valuing PFC through the lens of its 52.63% stake in REC; instead, they will have direct exposure to the combined cash flows and assets of a single powerhouse.
- This simplified corporate structure is expected to improve market sentiment, leading to a more transparent valuation that more accurately reflects the true scale and earning potential of the merged entity.

Exhibit 21: The Valuation Gap: Holding company discount impact

Valuation	With Ho-Co Discount	Without Ho-Co Discount
PFC Network in FY28E	129,034.6	129,034.6
Less: Invt in REC (year 2019)	14,500.0	14,500.0
Standalone PFC NW	114,534.6	114,534.6
Multiple	1.2	1.2
Valn of Standalone PFC in FY28E	132,974.7	132,974.7
Current Market Cap of REC Ltd	87,300.0	87,300.0
PFC stake in REC	52.6%	52.6%
Value of PFC share	45,946.0	45,946.0
Holding company discount	30.0%	0.0%
Add: REC stake @ 30% disc	32,162.2	45,946.0
Consolidated value of PFC	165,136.9	178,920.7
No of shares	330.0	330.0
Intrinsic value	500.4	542.2

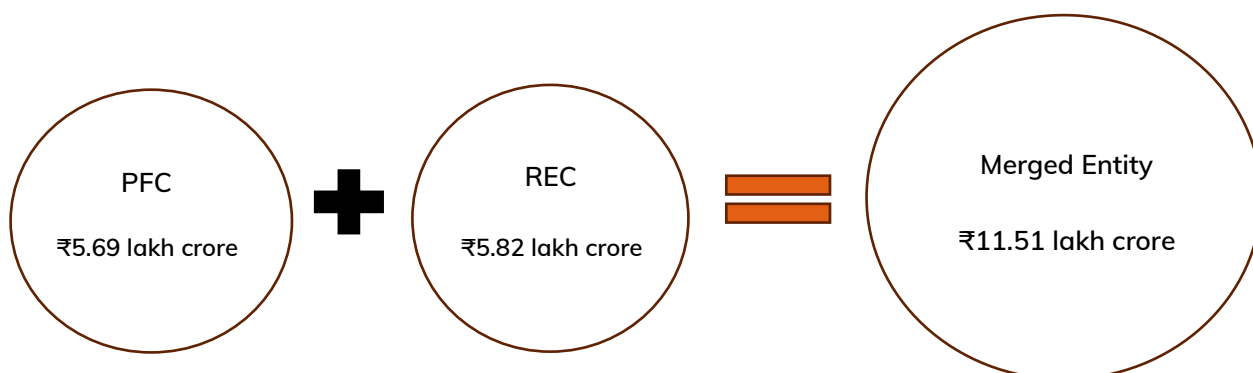
Eliminating the 30% holding company discount through a unified PFC-REC merger is expected to drive an immediate 8.4% expansion in intrinsic value. This structural simplification removes layers of complexity and paves way for a rerating of the combined entity

Source: Company, ICICI Direct Research

Re-phasing: Systemic Importance & Strategic Market Dominance

- The merged entity commands a massive ₹11.5 lakh crore loan book, establishing it as a specialized infrastructure behemoth with deep pricing power and economies of scale.
- As the primary vehicle for India's "Power for All" and green energy transition, the entity is central to national policy, ensuring a steady pipeline of high-priority projects.
- Its Maharatna status and Government Company standing creates high barriers to entry and provides an implicit sovereign safety net, significantly de-risking the credit profile for long-term investors.

Exhibit 22: Merged loan book as of 31st Dec, 2025



Source: Company, ICICI Direct Research

Synergistic Efficiency: The "Power of One" Strategy

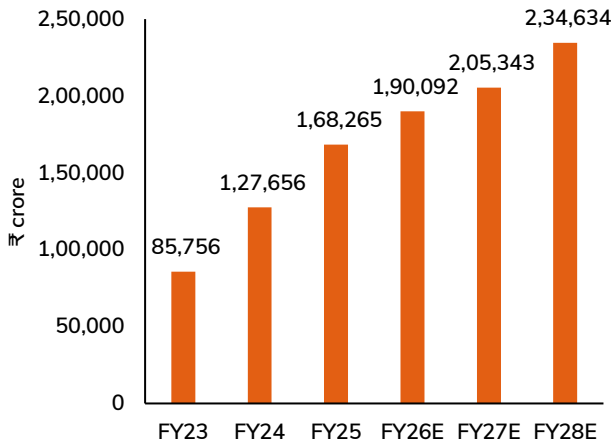
- The merger of PFC and REC is not just a structural change; it is a significant operational upgrade designed to create a leaner, more dominant, and higher-margin lender.
- Enhanced Pricing Power & Margin Protection: Historically, PFC and REC occasionally competed for the same high-quality mandates, leading to "yield undercutting." A unified entity removes this internal competition, allowing

for better negotiation and the preservation of healthy Net Interest Margins (NIMs) across the portfolio.

- **Operational Cost Optimization:** By moving to a single technology stack and a unified back-office, the merged entity eliminates redundant overheads and duplicate administrative functions. This streamlined model is expected to improve the C/I ratio, directly benefiting the bottom line.
- **Unlocking Lending Headroom:** Under RBI concentration norms, lending limits are strictly tied to a firm's net worth. By combining balance sheet, the new entity increases its lending capacity to single borrowers (such as large State Discoms). This increased headroom is critical for funding the massive capital requirement of India's next-generation energy projects, including green hydrogen, offshore wind, and nuclear power.
- **Lowering Risk Premium and attract foreign interest:** By operating as a single, specialized behemoth, the entity can attract a deeper pool of ESG-focused global funds and green capital. This increased demand naturally drives down the risk premium on international bond issuances, directly lowering marginal cost of borrowing. In addition, specialized nature of business, consolidated size of operations and long-term opportunity, could attract interest from foreign investors.

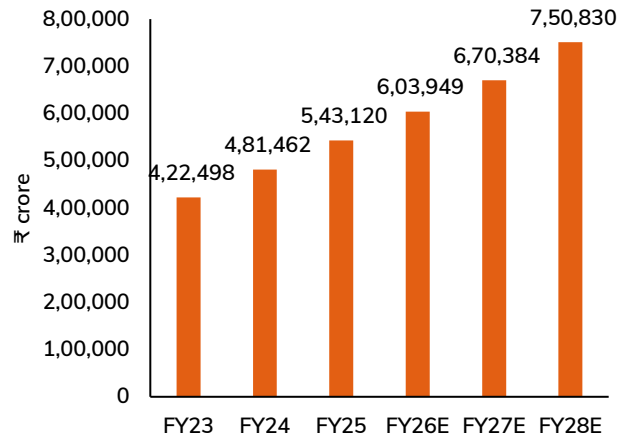
Financial Outlook

Exhibit 23: Strong disbursement pipeline...



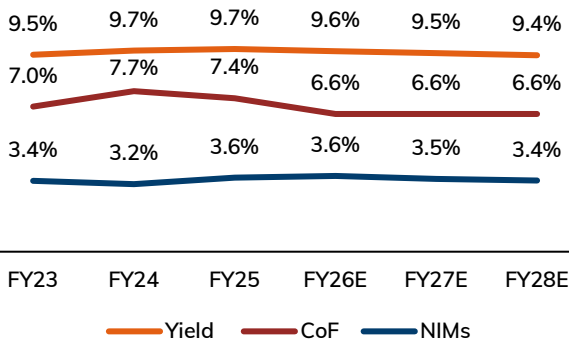
Source: Company, ICICI Direct Research

Exhibit 24: ..to enable sustained credit growth



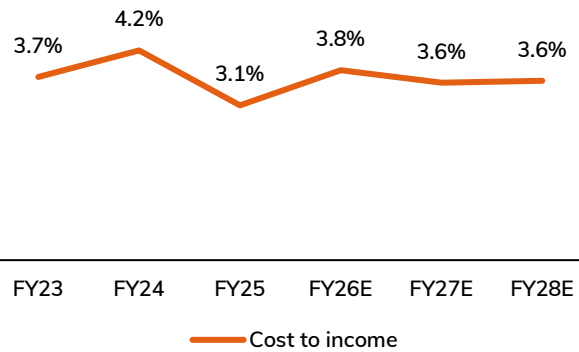
Source: Company, ICICI Direct Research

Exhibit 25: Margins anticipated to remain in a range.....



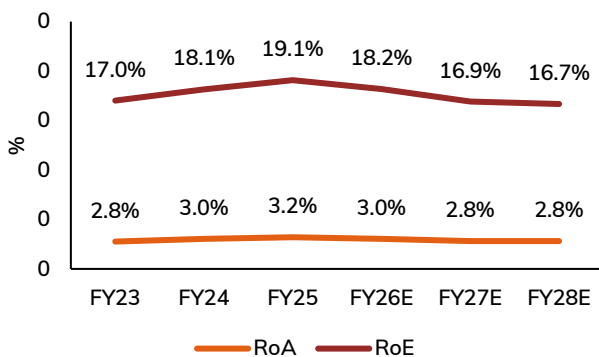
Source: Company, ICICI Direct Research

Exhibit 26: ...coupled with steady efficiency



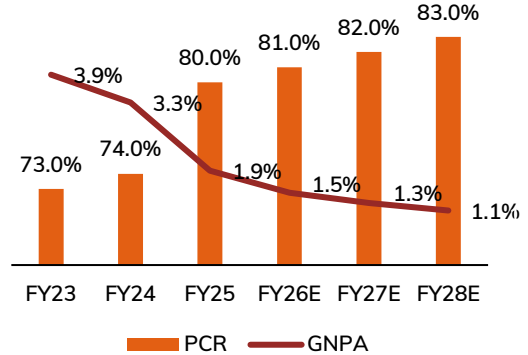
Source: Company, ICICI Direct Research

Exhibit 27:is expected to keep RoA at ~2.8%



Source: Company, ICICI Direct Research

Exhibit 28: Asset quality resilient with healthy PCR



Source: Company, ICICI Direct Research

Valuation

Exhibit 29: Valuation matrix

Stocks	CMP	Mkt Cap (₹ crore)		EPS (₹)			BVPS (₹)			P/E (x)			P/B (x)			RoA (%)			RoE (%)		
		FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E
PFC	430	142,020	56.8	59.4	65.6	312	351	394	7.6	7.2	6.6	1.4	1.2	1.1	3.0	2.8	2.8	18.2	16.9	16.7	
REC	347	91,347	62.3	66.1	74.6	337	385	439	5.6	5.2	4.7	1.0	0.9	0.8	2.6	2.5	2.4	19.6	18.1	17.8	
IREDA	124	34,933	6.8	8.9	11.0	50	59	70	18.3	14.0	11.3	2.5	2.1	1.8	2.0	2.0	1.9	13.5	14.9	15.6	

Source: Bloomberg, Company, ICICI Direct Research

- PFC remains an attractive play on India's power and infrastructure financing cycle, supported by a strong business model characterized by sovereign linkage, low credit cost, stable margins and healthy return ratios. We expect loan growth to remain steady at ~11–12% over the medium term, driven by strong visibility across generation, transmission, RDSS-linked distribution financing & renewable projects. The ongoing power sector capex cycle, along with incremental opportunities in storage, infrastructure & green energy financing, should support sustained balance sheet growth over next few years.
- PFC remains well positioned to benefit from the ongoing investment cycle in the power sector, supported by strong policy linkage, dominant market share and stable asset quality. With largely government-linked loan book (at ~75%) and legacy stress largely behind, credit cost is expected to remain benign. Healthy NIMs, low cost of borrowing aided by its AAA rating, and write-backs from resolved legacy stressed asset is seen to keep earnings growth healthy with RoA expected to sustain at ~2.6-2.8% and RoE in the range of ~15–17% over FY26–28E.,
- The proposed PFC–REC consolidation, could strengthen the combined balance sheet, improve capital allocation flexibility and enhance the ability to fund large projects across the power and infrastructure financing space. Self-sustaining growth along with healthy and regular dividend yield also aid favourable risk reward matrix.
- We value PFC at ~1.2x FY28E BV, and initiate with a BUY rating supported by strong earnings visibility, improving sector outlook, stable asset quality, regular dividend payout and attractive valuation relative to its return profile and long-term growth opportunity.

Exhibit 30: Fundamental comparison

Stocks	AUM (₹ crore)		YoA (%)		CoF (%)		Spread (%)		NIM (%)		RoA (%)		RoE (%)		CAR (%)		GNPA (%)		NNPA		PCR (%)	
	FY25	9MFY26	FY25	9MFY26	FY25	9MFY26	FY25	9MFY26	FY25	9MFY26	FY25	9MFY26	FY25	9MFY26	FY25	9MFY26	FY25	9MFY26	FY25	9MFY26	FY25	9MFY26
PFC	543,120	569,627	10.0	10.0	7.4	7.4	2.6	2.6	3.6	3.7	3.3	3.0	19.1	19.5	22.1	22.4	1.9	1.6	0.4	0.3	80.0	84.0
REC	566,883	581,787	10.1	10.0	7.1	7.3	2.9	2.7	3.6	3.5	2.8	2.5	22.0	19.2	26.0	24.3	1.4	0.9	0.4	0.2	71.7	77.0
IREDA	76,282	87,975	10.0	9.7	7.6	7.1	2.4	2.6	3.3	3.7	2.3	3.0	16.5	20.0	17.8	19.5	2.5	3.8	1.7	1.4	45.3	56.1

Source: Bloomberg, ICICI Direct Research

Risk and Concerns

Growth in power sector remains cyclical

While the medium-term outlook for the power sector remains favourable—supported by renewable energy expansion, transmission capex, and government policy initiatives—the sector has historically exhibited cyclical growth patterns, characterised by phases of strong capacity addition followed by periods of subdued demand and stressed asset formation. PFC's growth trajectory has mirrored these cycles, with phases of robust double-digit loan growth interspersed with periods of moderation. Although the current environment remains supportive, any slowdown in sectoral capex or delays in project execution could impact PFC's credit growth momentum. Therefore, despite visible medium-term opportunities, the sustainability of continued growth remains contingent on broader power sector investment cycle.

Bulky project & rising private sector exposure amplifies asset quality vulnerability

The bulky nature of PFC's loan book creates a structural vulnerability where a single large-scale project slippage can trigger outsized, "chunky" NPAs. This concentration risk is being significantly amplified by a strategic pivot toward the private sector, which now accounts for nearly 25% of total exposure. Given the inherent complexity and lower recovery rates historically associated with private power projects, this rising share introduces a higher probability of asset quality shocks, though currently there are no signs of imminent risk. Furthermore, we expect private sector exposure to remain elevated as the company aggressively pivots its growth strategy toward Renewable Energy (RE) and diversified non-power infrastructure segments.

Competition from PSU lenders may impact margins

Despite a notable decline in the participation of banks in power sector financing post last NPA cycle, competitive intensity within the PSU lending ecosystem remains a key risk. Entities such as Indian Renewable Energy Development Agency (IREDA) and Indian Railway Finance Corporation (IRFC) have been gradually diversifying their lending portfolios and expanding into infrastructure financing, often supported by access to low-cost funding. Their ability to offer financing at relatively competitive spreads could exert pressure on pricing discipline in the sector. Consequently, any increase in competitive intensity from such PSU players may structurally impact spreads and margins, thereby affecting profitability over the medium term.

Financial Summary

Exhibit 31: Profit and loss statement ₹ crore

(Year-end March)	FY25	FY26E	FY27E	FY28E
Interest Earned	49,875	55,264	60,758	67,050
Interest Expended	30,538	33,288	37,301	41,407
Net Interest Income	19,337	21,975	23,457	25,643
% growth	23.8	13.6	6.7	9.3
Non Interest Income	2,992	1,628	2,721	3,343
Net Income	22,328	23,603	26,178	28,986
Total operating expense	699	906	939	1,051
PPoP	21,629	22,697	25,239	27,934
Provisions	457	-181	1,341	1,502
PBT	21,172	22,878	23,898	26,433
Taxes	3,820	4,128	4,312	4,769
Net Profit	17,352	18,750	19,586	21,663
% growth	20.8	8.1	4.5	10.6

Source: Company, ICICI Direct Research

Exhibit 32: Key ratios ₹ crore

(Year-end March)	FY25	FY26E	FY27E	FY28E
<u>Valuation</u>				
No. of Equity Shares	330.0	330.0	330.0	330.0
EPS (₹)	52.6	56.8	59.4	65.6
BV (₹)	275.6	312.5	351.1	393.7
ABV (₹)	269.2	307.3	346.4	389.4
P/E	8.2	7.6	7.2	6.6
P/BV	1.6	1.4	1.2	1.1
P/adj.BV	1.6	1.4	1.2	1.1
Yield on AUM	9.7%	9.6%	9.5%	9.4%
Cost of funds	7.4%	6.6%	6.6%	6.6%
Net Interest Margins	3.6%	3.6%	3.5%	3.4%
Spreads	2.4%	3.0%	2.9%	2.8%
<u>Quality and Efficiency</u>				
Cost / Total net income	3.1%	3.8%	3.6%	3.6%
GNPA%	1.9%	1.5%	1.3%	1.1%
NNPA%	0.4%	0.3%	0.2%	0.2%
RoE (%)	19.1%	18.2%	16.9%	16.7%
RoA (%)	3.2%	3.0%	2.8%	2.8%

Source: Company, ICICI Direct Research

Exhibit 33: Balance sheet ₹ crore

(Year-end March)	FY25	FY26E	FY27E	FY28E
<u>Sources of Funds</u>				
Capital	3,300	3,300	3,300	3,300
Reserves and Surplus	87,637	99,825	112,556	126,637
Networth	90,937	103,125	115,856	129,937
Borrowings	471,951	534,469	593,260	658,623
Other Liabilities & Provisi	15,289	19,319	18,896	19,479
Total	578,177	656,912	728,012	808,039
<u>Applications of Funds</u>				
Investments	20,720	22,792	25,071	27,578
Advances	532,818	603,949	670,384	750,830
Other Assets	24,639	30,171	32,557	29,630
Total	578,177	656,912	728,012	808,039

Source: Company, ICICI Direct Research

Exhibit 34: Growth ratios

(Year-end March)	FY25	FY26E	FY27E	FY28E
Total assets	14.4%	13.6%	10.8%	11.0%
Advances	13.4%	13.3%	11.0%	12.0%
Borrowings	14.9%	13.2%	11.0%	11.0%
Net income	22.5%	5.7%	10.9%	10.7%
Net interest income	23.8%	13.6%	6.7%	9.3%
Total operating expense	-9.6%	29.6%	3.6%	12.0%
PPoP	23.9%	4.9%	11.2%	10.7%
Net profit	20.8%	8.1%	4.5%	10.6%
Book value	14.8%	13.4%	12.3%	12.2%
EPS	20.8%	8.1%	4.5%	10.6%

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%

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