

## RESULT UPDATE

## PTC India

Maintain Market Performer

Price: Rs. 56

BSE Index: 13872

3<sup>rd</sup> May 2007

### Share Data

Reuters code	PTCI.BO
Bloomberg code	PTCIN IN
Market cap. (US\$ mn)	204
6m avg. daily turnover (US\$ mn)	0.5
Issued shares (mn)	150

Performance (%)	1m	3m	12m
Absolute	(5)	(10)	(4)
Relative	(11)	(8)	(17)

### Valuation Ratios

Year to 31 Mar.	FY07	FY08E
EPS (Rs.)	2.3	3.0
+/- (%)	(13.6)	27.0
PER (x)	23.9	18.3
Dividend/Yield (%)	1.6	1.6
EV/Sales (x)	0.2	0.1
EV/EBITDA (x)	26.4	18.4

### Major shareholders (%)

Promoters	32
FII's	25
MF's	4
Institutions	5
Public & Others	34

### Financial highlights

(Rs. mn)	4QFY06	4QFY07	YoY (%)	3QFY07	QoQ(%)	FY06	FY07	YoY (%)	FY08E	YoY (%)
Sales	7,546.8	6,024.8	(20.2)	8,074.0	(25.4)	31,144.5	37,666.6	20.9	69,371.2	84.2
EBIDTA	91.8	52.6	(42.7)	82.1	(36.0)	546.0	318.1	(41.7)	457.6	43.8
EBITDA Margin (%)	1.2	0.9	-	1.0	-	1.8	0.8	-	0.7	(21.9)
Depreciation	8.5	8.5	0.3	3.5	142.8	(13.9)	32.8	(336.3)	15.6	(52.4)
Interest	3.1	2.3	(25.8)	3.1	(25.8)	0.0	19.6	-	0.0	(100.0)
Other Income	21.1	31.5	49.2	21.1	49.2	60.6	192.9	218.1	160.0	(17.1)
Non recurring items	0.0	0.0	-	0.0	-	(22.1)	-	(100.0)	0.0	-
PBT	101.3	73.3	(27.6)	96.7	(24.1)	570.7	458.6	(19.6)	601.9	31.3
Tax	31.2	15.1	(51.8)	24.6	(38.8)	164.1	105.3	(35.8)	153.0	-
tax rate %	30.8	20.5	-	25.5	-	28.7	23.0	-	25.4	10.7
PAT	70.1	58.3	(16.9)	72.1	(19.1)	406.6	353.3	(13.1)	448.9	27.1
Adj. PAT (After Non recurring item)	70.1	58.3	(16.9)	72.1	(19.1)	428.7	353.3	(17.6)	448.9	27.1
Prior period Adj	-	0.3	-	(0.1)	-	-	2.3	-	-	-
Net Profit	70.1	57.9	-	72.1	-	406.6	350.9	-	448.9	-
EPS (Rs.)	0.5	0.4	(16.9)	0.5	(19.1)	2.9	2.4	(17.6)	3.0	27.1
P/E (x)	119.8	144.2	-	116.6	-	19.6	23.8	-	18.7	(21.3)

### 4QFY07 Results

**PTC India (PTC) results were largely as per our expectations with shrinking profits impacted by sustenance of margin cap at 4 paisa per unit as imposed by the regulator (CERC) in the first half of the year. However, we had expected better volumes and maintenance of market share at around 70%. On these parameters the performance was disappointing with volumes falling by 33% y-o-y for the quarter and 5% y-o-y for the full year FY07. The market share of the company in terms of units traded has also come down from 70% in FY06 to 55% in FY07 due to loss of business to competition. Despite the present dampeners we feel that the business model of the company holds potential which will unlock value once the long term PPA's secured by PTC come into play from FY08 onwards.**

**Presently with the cap on margins continuing in the near term (pending decision by the Supreme Court) and falling market share we do not expect any benefits accruing in the foreseeable horizon. The expanding coal intermediation and consultancy business shall prove to be future growth drivers, while assured business from the Tala project in Bhutan should provide a cushion to the declining bottom line. We maintain our estimates for FY08 to be revised shortly post further interaction with management. The stock currently trades at 24x FY07 earnings and 18x FY08E earnings.**

### Highlights

- The 4Q top-line declined by 20% y-o-y despite higher cost of power, because of lower volumes which have fallen by 33% on a year to year basis. The full year revenues however have grown by 21% y-o-y despite a minor fall of 5% in units traded. This is primarily attributable to higher prices of power driven up by supply side deficit.

- However margins remained at the capped level of 4 paisa per unit impacting the FY07 EBITDA by 42% on a y-o-y basis and further reducing operating margins from 1.8% in FY06 to 0.8% in FY07.
- Other income has shown a healthy growth for the full year and risen by 49% y-o-y in the current quarter due to better treasury gains.
- The effective tax rate has reduced by almost 6% primarily due to tax savings from treasury gains in tax free investments
- Volumes fell due to loss of 4 bn units (42% of units traded in FY07 ) which could have been traded on account of transmission congestion as well as GRIDCO (a major supplier) being restrained by ATE (Appellate Tribunal for Electricity) from trading its surplus power through the trading route.

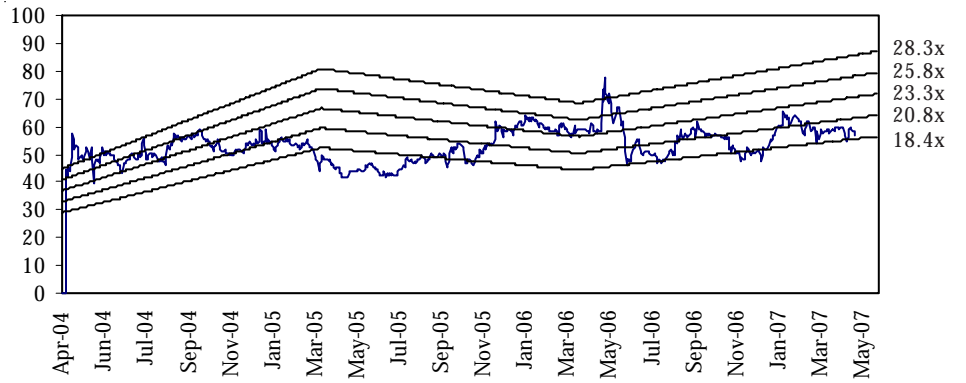
## Outlook

- PTC continues to be the market leader in the fast growing power trading market. Despite regulatory hurdles and recent fall in market share we feel the prospects of the company still hold promise. The rationale for the same being that if margin cap continues the only way to augment earnings is by ramping up volumes. PTC is the only player today with firm PPA's (power purchase agreements) signed for more than 6600 MW and PSA's (power sales agreement) for 2900 MW. These are all upcoming capacities which shall come into play in a phased manner starting FY08. We feel that this future booking of market share is unique to this company which shall drive growth in future. Although competition is rising no single player has yet emerged as a significant threat, despite major utilities like NTPC and Tata Power already being in the fray. Besides the company is confident of making up for lost ground in the coming year once the long term PPA's start operations, about 79 MW of which is expected in FY08 and 460 MW in FY09.
- An encouraging development in the year has been ATE's order rapping CERC's intervention in signed PPA's by which it had proposed to reallocate the power from the generation stations. This gives a boost of confidence as it settles the fact that once a PPA is signed CERC does not have jurisdiction over the allocation of power. In the light of 6600 MW of PPA's already signed by PTC and another 16700 MW in the MOU stage the long term prospects of the company seem intact.
- Despite aggressive expansion plans laid down by the ministry in the 11<sup>th</sup> plan, the demand supply gap is expected to continue in the power market which will augur well for the power trading industry. With 41000 MW (30% of current national capacity) already under construction, to be installed over the next 5 years and another 37000 MW of planned addition in the 11<sup>th</sup> plan, the volumes of power traded is bound to grow multifold.

## Valuation

In the backdrop of these developments we remain confident on the long term prospects of the company. However considering the lack of any triggers of growth in the immediate horizon we maintain Market Performer rating on the stock. The stock currently trades at 18x FY08E earnings, at which we feel it is fully valued with limited downside, most of the negatives being already factored into the price.

PER Band



**Income Statement**

Yr. ended 31 Mar. (Rs. m)	FY05	FY06	FY07	FY08E
Net sales	19,528	31,144	37,667	69,371
Growth (%)	(14.0)	59.5	20.9	84.2
Operating expenses	(19,176)	(30,598)	(37,348)	(68,914)
Operating profit	353	546	318	458
Other operating income	0	586	0	0
<b>EBITDA</b>	<b>353</b>	<b>546</b>	<b>318</b>	<b>458</b>
Growth (%)	(20.7)	54.8	(41.7)	43.8
Depreciation	(12)	(14)	(33)	(16)
Other income	42	61	193	160
<b>EBIT</b>	<b>383</b>	<b>593</b>	<b>478</b>	<b>602</b>
Interest paid	0	0	(20)	0
Pre-tax profit (before non-recurring items)	383	593	459	602
Non-recurring items	6	(22)	0	10
Pre-tax profit (after non-recurring items)	390	571	459	612
Tax (current + deferred)	(125)	(164)	(105)	(153)
<b>Net profit</b>	<b>265</b>	<b>406</b>	<b>353</b>	<b>459</b>
<b>Adjusted net profit</b>	<b>258</b>	<b>428</b>	<b>353</b>	<b>449</b>
Growth (%)	(22.4)	65.8	(17.5)	27.1
Prior period adjustments	(21)	0	(2)	0
<b>Net income</b>	<b>243</b>	<b>406</b>	<b>351</b>	<b>459</b>

**Balance Sheet**

Yr. ended 31 Mar. (Rs. m)	FY05	FY06	FY07	FY08E
Current assets	1,032	2,289	2,346	4,133
Investments	1,980	1,913	1,913	1,913
Net fixed assets	194	183	170	174
Other non-current assets	58	40	40	40
<b>Total assets</b>	<b>3,264</b>	<b>4,426</b>	<b>4,470</b>	<b>6,260</b>
Current liabilities	992	1,923	1,785	3,288
Other non-current liabilities	26	20	22	22
<b>Total liabilities</b>	<b>1,018</b>	<b>1,943</b>	<b>1,808</b>	<b>3,310</b>
Share capital	1,500	1,500	1,500	1,500
Reserves & surplus	746	982	1,162	1,450
Shareholders' funds	2,246	2,482	2,662	2,950
<b>Total equity &amp; liabilities</b>	<b>3,264</b>	<b>4,426</b>	<b>4,470</b>	<b>6,260</b>

**Cash Flow Statement**

Yr. ended 31 Mar. (Rs. m)	FY05	FY06	FY07	FY08E
Pre-tax profit	390	571	459	612
Depreciation	12	13	33	16
Chg in working capital	(638)	190	(383)	460
Total tax paid	(129)	(172)	(105)	(153)
<b>Cash flow from oper. (a)</b>	<b>(366)</b>	<b>603</b>	<b>3</b>	<b>935</b>
Capital expenditure	(12)	(3)	(20)	(20)
Chg in investments	(639)	66	0	0
<b>Cash flow from inv. (b)</b>	<b>(651)</b>	<b>64</b>	<b>(20)</b>	<b>(20)</b>
<b>Free cash flow (a+b)</b>	<b>(1,016)</b>	<b>667</b>	<b>(17)</b>	<b>915</b>
Dividend (incl. tax)	(137)	(171)	(171)	(171)
Other financing activities	(27)	1	0	0
<b>Cash flow from fin. (c)</b>	<b>(164)</b>	<b>(170)</b>	<b>(171)</b>	<b>(171)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(1,180)</b>	<b>497</b>	<b>(188)</b>	<b>744</b>

**Key Ratios**

Yr. ended 31 Mar. (%)	FY05	FY06	FY07	FY08E
EPS (Rs.)	1.6	2.7	2.3	3.1
EPS growth	(22.4)	67.0	-13.6	30.8
EBITDA margin	1.8	1.8	0.8	0.7
EBIT margin	2.0	1.9	1.3	0.9
ROCE	17.2	24.8	18.4	21.3
Net debt/Equity	(4.3)	(23.9)	(15.1)	(38.9)

**Valuations**

Yr. ended 31 Mar. (x)	FY05	FY06	FY07	FY08E
PER	34.5	20.7	23.9	18.3
PCE	32.9	20.0	21.9	17.7
Price/Book	4.1	3.7	3.5	3.1
Yield (%)	1.3	1.6	1.6	1.6
EV/Net sales	0.4	0.3	0.2	0.1
EV/EBITDA	23.8	15.4	26.4	18.4

**Du Pont Analysis – ROE**

Yr. ended 31 Mar. (x)	FY05	FY06	FY07	FY08E
Net margin (%)	1.3	1.4	0.9	0.6
Asset turnover	5.5	8.1	8.5	12.9
Leverage factor	1.6	1.6	1.7	1.9
Return on equity (%)	11.8	18.1	13.7	16.0

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**Analyst Certification**

I, Subhadip Mitra, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendation or view expressed in this report.

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