

Results Review

Share Data

Market Cap	Rs. 25 bn
Price	102.7
BSE Sensex	17,755.94
Reuters	PTCI.BO
Bloomberg	PTCIN IN
Avg. Volume (52 Week)	0.6 mn
52-Week High/Low	Rs. 124.05 / 81.95
Shares Outstanding	246.5 mn

Valuation Ratios

Year to 31 March	2011E	2012E
EPS (Rs.)	4.9	10.0
EPS Growth (%)	50.6%	102.0%
PER (x)	20.8x	10.3x
EV/ Sales (x)	0.2x	0.1x
EV/ EBITDA (x)	18.5x	8.8x

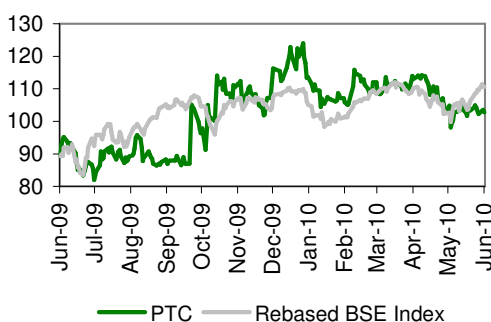
Shareholding Pattern (%)

Promoters	16
FII's	19
Institutions	50
Public & Others	15

Holding >1% (Non-Promoter)

LIC	7.5
Reliance Capital Trustee Co Ltd A/C	5.5
Lic Of India - Market Plus 1	4.4
Bajaj Allianz Life Insurance Company Lt	3.5
Damodar Vally Corporation Ltd	3.4

Relative Performance



PTC India Limited

Buy

Unwinding growth potential

PTC India Ltd's (PTC) top line for Q4'10 expanded 5.4% yoy to Rs. 12.4 bn on the back of healthy increase in volumes, whereas its net profit sank 10.7% yoy to Rs. 138.59 mn due to lower other income and increased tax outgo as compared to last year. For the full year, its revenues rose 19% to Rs. 77.7 bn and net profit went up 3.4% to Rs. 939 mn. We believe that with the major long-term contracts in the trading business coming on-stream in near-to-medium term and the tolling business coming on stream in FY11, the Company's earnings will increase at a galloping pace. As per our SOTP based valuation, the stock has a fair value of Rs 125, which provides a 21.7% upside from the CMP of Rs. 102.7. Hence, we give a Buy rating to the stock.

New CERC Regulations to Improve Margins in FY11: CERC abolished the regulation of a fixed trading margin of 4 paise per unit during Q4'10 and increased it to 7 paise per unit in case the selling price of electricity exceeds Rs 3 per unit for short-term contracts. This will boost up PTC's margins as the Company can now command a 7 paise margin. The impact was not visible in the Q4'10 margins as it was charging a margin of 4 paise only due to the existing commitments. The Company's management also revealed that from April 1, it has started charging 7 paise on the short-term trade and has also been successful in signing most of its new short term contracts at the higher levels of margin.

Substantial Volume Growth Lined up: The Company already has substantial long term contracts assuring robust volume growth through FY14. Around 1,100 MW of capacity is scheduled to get commissioned in FY11, another 4,500 MW in FY12 and over 6,000 MW in FY13. Such high capacity addition augurs well for the Company as it will help to bolster its top line tremendously. Moreover, as the cap on trading margins for long term contracts is now removed, the bottom line will expand as well.

Key Figures (Standalone)

Quarterly Data	Q4'09	Q3'10	Q4'10	YoY%	QoQ%	FY09	FY10	YoY%
(Figures in Rs mn, except per share data)								
Net Sales	11,796	16,976	12,435	5.4%	(26.8%)	65,289	77,703	19.0%
EBITDA	43	105	95	120.5%	(9.7%)	250	953	280.6%
Adj. Net Profit	155	159	139	(10.7%)	(12.7%)	908	939	3.4%
Margins(%)								
EBITDA	0.4%	0.6%	0.8%			0.4%	1.2%	
NPM	1.3%	0.9%	1.1%			1.4%	1.2%	
Per Share Data (Rs.)								
EPS	0.68	0.50	0.45	(33.8%)	(10.0%)	3.99	3.28	(17.8%)

Please see the end of the report for disclaimer and disclosures.

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Result Highlights

- PTC's total income for the quarter ending March 31, 2010 witnessed a growth of 5.41% yoy to Rs. 12.43 bn on the back of increase in volumes. The Company sold 3,200 million units (MUs) in Q4'10 as compared to 2,182 MUs in Q4'09.
- Purchases, which form the biggest expenditure for the Company, rose 5.41% yoy on an annual basis to Rs. 12.27 bn. However, its percentage to total income fell from 98.87% in Q4'09 to 98.66% in Q4'10. The employee costs and other expenditure (together amounting less than 1% of its sales) fell 17.5% and 23.8% yoy, respectively. As a result, the EBITDA margins leapt 40bps to 0.76% and the EBITDA jumped 120.5% yoy to Rs. 94.64 mn.
- However, PTC's other income fell 23.6% to Rs. 132.05 mn as its treasury income fell with the fall in interest rates. The Company paid Rs. 77 mn as tax, 39.1% higher than last year, because most of its treasury investments were equity related earlier, but later on it shifted to fixed income and debt related, which resulted in higher tax outgo. This led to a 10.7% decline in PTC's adjusted net profit to Rs. 138.59 mn.
- For FY10, the Company posted a top line of Rs. 77.70 bn, which was 19% higher than last year, while its bottom line expanded 3.36% over the same period to Rs. 938.84 mn.
- PTC sold 18,236 MUs in FY10 as compared to 13,825 MUs in FY09. However, the realisation per unit fell from 562.1 paise per unit in FY09 to 467.7 paise per unit in FY10.

Key Events

PTC has launched a fund in the month of May 2010 that aims to raise around USD 750 mn in collaboration with leading global investment manager Ashmore to provide equity financing to various kinds of power projects in India. The fund, PTC Ashmore India Energy Infrastructure Fund, will give

equity funding to projects across the spectrum of activities in the power sector, like generation, transmission, distribution, fuel extraction and fuel transport infrastructure.

Key Risks

- PPA defaults.
- Coal prices and exchange risk in tolling projects
- Future unfavourable regulatory decisions.

Key Figures (Standalone)

Year to March	FY08	FY09	FY10	FY11E	FY12E	CAGR (%)
(Figures in Rs. mn, except per share data)						(FY10-12E)
Net Sales	39,061	65,289	77,703	100,486	228,208	71.4%
EBITDA	169	225	953	1,102	2,325	56.2%
Net Profit	421	909	939	1,414	2,856	74.4%
Margins(%)						
EBITDA	0.4%	0.3%	1.2%	1.1%	1.0%	
NPM	1.1%	1.4%	1.2%	1.4%	1.3%	
Per Share Data						
EPS (Rs.)	2.5	5.1	3.3	4.9	10.0	74.4%
PER (x)	40.5x	20.3x	31.3x	20.8x	10.3x	

Valuation

We value the stock using Sum-of-the-parts method and arrive at a target price of Rs. 125 per share. We value the trading and tolling business by applying DCF. The two businesses provide a value of Rs. 59 and Rs. 19, respectively and constitute 62.5% of the total value of the stock. Other subsidiaries are valued at their book values while the investments in mutual funds and gold are valued at their market values. Our SOTP based target price of Rs. 125 provides a 22% upside at current levels and thus, we recommend a Buy.

SOTP Valuation

Businesses	Method	Rs. per share
Power Trading business	DCF	59
Power Tolling business	DCF	19
PTC Financial Services	Book Value	15
Cash	Book Value	21
Athena Energy Ventures Private Limited	Book Value	1
Krishna Godavri Power Utilities Limited	Book Value	1
Teestha Urja Limited	Book Value	4
Investments	Market Value	4

Price per share

125

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