

PTC India

Performance Highlights

Y/E March (Rs cr)	1QFY2011	4QFY2010	% chg qoq	1QFY2010	% chg yoy
Net revenue	2,758	1,243	121.8	2,373	16.3
Operating profit	28	9	194.2	15	85.3
Net profit	28	14	100.5	33	(16.7)

Source: Company, Angel Research

PTC India (PTC) reported impressive results on the operating front in 1QFY2011, registering 85.3% yoy growth in operating profit to Rs27.8cr. Growth was primarily driven by robust 36.7% yoy growth in sales volume to 5,747MU. The improvement in sales was aided by a substantial increase in power traded under the long-term route and from captive power plants. Going ahead, we expect the company's trading volume to be boosted by additional volumes from the long-term route, with 4,500MW of projects for which PPAs have been signed getting operational during FY2011-12. The company's operating margin is also expected to expand going ahead, as old contracts on which trading margins were charged at lower 4 paise/unit would be renegotiated at higher trading margins of 7 paise/unit.

We maintain a Buy on the stock.

Increased trading volume boosts top line: PTC's 1QFY2011 top line grew by 16.3% yoy to Rs2,758cr due to a substantial 36.7% yoy increase in trading volume to 5,747MU. The company's OPM improved by 40bp yoy to 1%, aided by increased cap on short-term trading margins to 7 paise/unit. However, on the bottom-line front, the company's net profit declined by 16.6% yoy to Rs27.8cr (Rs33.3cr) on account of lower other income (down by 50% yoy to Rs13.8cr) and higher tax expense. During 1QFY2010, the company booked the profit out of the maturity of certain investments based on tax-free fixed maturity plans.

Outlook and Valuation: The new trading margin regulations will have a positive impact on PTC's bottom line, as the company generates higher volumes by short-term trading (where the margin was earlier capped at 4 paise per unit). At the CMP of Rs113, PTC is trading at 22.2x FY2011E and at 17.2x FY2012E earnings. We have arrived at an SOTP fair value of Rs136 for PTC. We maintain our Buy recommendation on the stock.

Key Financials

Y/E March (Rs cr)	FY2009	FY2010E	FY2011E	FY2012E
Net Sales	6,529	7,770	10,906	13,698
% chg	67.1	19.0	40.4	25.6
Net Profit	90.8	93.9	148.9	192.2
% chg	86.5	3.4	58.6	29.1
OPM (%)	0.4	0.8	1.3	1.3
EPS (Rs)	4.0	3.2	5.1	6.5
P/E (x)	28.2	35.2	22.2	17.2
P/BV (x)	1.7	1.6	1.5	1.4
RoE (%)	6.0	5.2	7.0	8.6
RoCE (%)	1.3	3.2	6.0	7.3
EV/Sales (x)	0.3	0.3	0.2	0.2
EV/EBITDA (x)	74.1	32.0	17.1	15.3

Source: Company, Angel research

BUY

CMP	Rs113
Target Price	Rs136

Investment Period	12 Months
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Stock Info	
Sector	Power
Market Cap (Rs cr)	3,314
Beta	0.9
52 Week High / Low	126/81
Avg. Daily Volume	549861
Face Value (Rs)	10
BSE Sensex	17,977
Nifty	5,399
Reuters Code	PTCI.BO
Bloomberg Code	PTCIN@IN

Shareholding Pattern (%)	
Promoters	16.3
MF / Banks / Indian Fls	60.2
FII / NRIs / OCBs	15.2
Indian Public / Others	8.3

Abs. (%)	3m	1yr	3yr
Sensex	2.9	19.4	15.6
PTC India	0.1	31.3	13.9

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Exhibit 1: 1QFY2011 performance

Y/E March (Rs cr)	1QFY2011	4QFY2010	% chg	1QFY2010	% chg	FY2010	FY2009	% chg
Net Sales	2,758	1,243	121.8	2,373	16.3	7,770	6,529	19.0
Consumption of RM	2,725	1,227	122.1	2,350	16.0	7,675	6,474	18.6
(% of Sales)	98.8	98.7		99.0		98.8	99.2	
Staff Costs	3	4	(32.9)	5	(48.0)	18.4	15.0	22.3
(% of Sales)	0.1	0.3		0.2		0.2	0.2	
Other Expenses	3	3	(16.9)	3	1.8	13	14	(5.9)
(% of Sales)	0.1	0.3		0.1		0.2	0.2	
Total Expenditure	2,731	1,234	121.3	2,358	15.8	7,707	6,503	18.5
Operating Profit	27.8	9.4	194.2	15.0	85.3	63.6	26.2	143.0
OPM	1.0	0.8		0.6		0.8	0.4	
Interest	0	0	(2.3)	0	0.0	0	4	(89.6)
Depreciation	1	1	(13.1)	1	(10.9)	6	6	(12.4)
Other Income	14	14	1.6	28	(50.1)	74	97	(24.0)
PBT (excl. Extr. Items)	40	22	86.9	41	(2.2)	132	113	16.0
Extr. Income/(Expense)	-	-		-				
PBT (incl. Extr. Items)	40	22	86.9	41.2	(2.2)	131.6	113.5	16.0
(% of Sales)	1.5	1.7		1.7		1.7	1.7	
Provision for Taxation	13	8	62.3	8	58.6	38	23	66.7
(% of PBT)	31.0	35.7		19.1		28.6	19.9	
Reported PAT	28	14	100.5	33	(16.7)	94	91	3.4
PATM	1.0	1.1		1.4		1.2	1.4	
EPS (Rs)	0.9	0.5	100.5	1.1	(16.7)	3.2	3.1	3.4
Adjusted PAT	28	14	100.5	33	(16.7)	94	91	3.4

Source: Company, Angel Research

Exhibit 2: Actual v/s Angel estimates

	Actual	Estimates	Variation (%)
Net sales	2,758	1,307	111.1
Operating profit	28	9	198.7
Net profit	28	17	61

Source: Company, Angel Research

Exhibit 3: Operational performance

Parameter	1QFY11	4QFY10	3QFY10	2QFY10	1QFY10	4QFY09
Volumes (mn units)	5,747	3,200	4,444	6,388	4,204	2,182
% Growth (yoy)	36.7	46.7	17	23.8	56.5	78.4
Realisations (Rs/Unit)	4.8	3.9	3.8	3.9	5.6	5.4
% Growth (yoy)	(14.3)	(28.1)	(31.5)	(2.3)	25.9	21.0

Source: Company, Angel Research

Conference call highlights

During 1QFY2011, the company signed PPAs and MoUs for 667MW and 610MW of power, respectively. As of 1QFY2011, total PPAs and MoUs signed by the company currently stand at 16,400MW and 14,500MW, respectively. Cumulative power sale agreements (PSAs) stand at approximately 5,000MW.

As of 1QFY2011, PTC Financial Services (PTC-FS), the company's subsidiary, has sanctioned Rs1,953cr under debt and another Rs500cr under equity. Of the total amounts sanctioned, the amount disbursed under debt and equity routes stands at Rs480cr and Rs398cr, respectively.

PTC plans to add 600MW of capacity under the LTT route in FY2011E, while approximately 4,000MW is expected to be added to LTT in FY2012E.

Investment Arguments

Power deficit to encourage growth

The total volume of power traded in India is just 8% of the power generated. We expect the volume of power traded to rise at a healthy rate of 14% due to the continuing power deficit and increased power generation capacity.

Favourable government policies to aid growth

The National Electricity Policy encourages about 15% of new capacities to be tied up in the short-term market. Growing emphasis on allowing open access to consumers to buy power from producers in any state augurs well for power trading companies.

In January 2010, the CERC had increased the cap on short-term trading (STT) margin to 7 paise/unit from the earlier 4 paise/unit, which is a major boost to profitability as the 4 paise/unit cap regime was inadequate to cover the operational and market risks borne by trading companies.

PTC to maintain its market leadership position

PTC is currently the leader in power trading with a market share of 45–50%. Going ahead, we expect the company to maintain its leadership position in the power trading market due to its early mover advantage and increased volume of power traded under the long-term trade route, as close to 4,500MW of projects for which the company has signed PPAs are set to be operational in FY2011 and FY2012.

Transforming into an integrated player in the power sector

Apart from trading, PTC is also entering other businesses such as financing fuel intermediation, power tolling agreements and consultancy. PTC-FS, the company's financial services arm in which it has a 77.4% stake, has expanded its business considerably in the past one year.

PTC, through its subsidiaries, is also looking at acquiring coal mines abroad to aid its fuel intermediation and power tolling business.

Outlook and Valuation

We believe PTC's emphasis on the LTT segment will help it in sustaining higher growth, going ahead. During FY2010, STT constituted 50% of the total power traded by the company. PTC proposes to increase its power trading mix to 70:30 in favour of LTT. The company's increased focus on LTT is expected to provide consistent cash flows compared to STT, as the number of units generated is expected to be uniform, resulting in reduced volatility. We expect PTC to register a 32.7% CAGR in its top line over FY2010–12E, following the commissioning of new power projects. We estimate the company's bottom line to register a 43.1% CAGR over FY2010–12E.

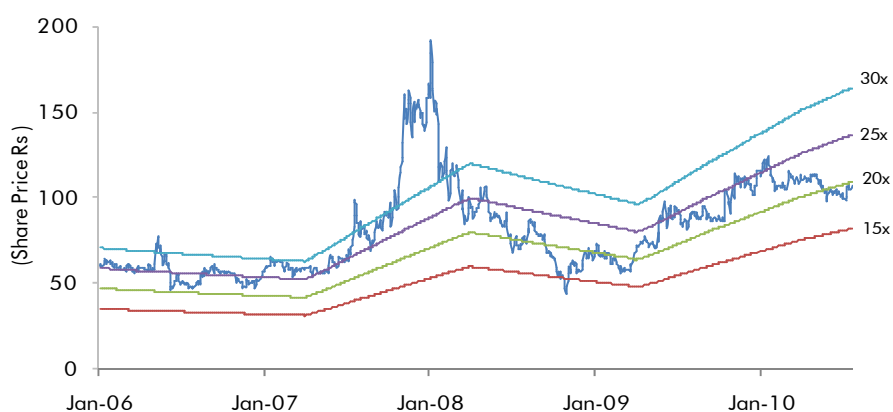
At the CMP of Rs113, PTC is trading at 22.2x FY2011E and 17.2x FY2012E earnings. We have arrived at an SOTP fair value of Rs136 for PTC, wherein we have assigned P/E of 10x FY2012E earnings from the core trading business (Rs65.2/share), while investments in PTC-FS, Teesta Urja, Krishna Godawari and Athena Energy Ventures have been valued at a P/BV of 1x FY2012E (Rs49.4/share). The cash and liquid investments in the company's books are valued at a P/BV of 1x FY2012E (Rs21.1/share). **Accordingly, we maintain our Buy recommendation on the stock.**

Exhibit 4: SOTP-based target price

Particulars	Valuation parameter	Per share value (Rs)
Core business - Power trading	10x FY2012E earnings	65.2
Cash and liquid investments	1x FY2012E book value	21.1
Investments in subsidiaries, associates	1x FY2012E book value	49.4
SOTP		135.7

Source: Angel Research

Exhibit 5: One-year forward P/E band



Source: Company, Angel Research

Profit & Loss Statement (Standalone)

Y/E March (Rs cr)	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Net Sales	3,767	3,906	6,529	7,770	10,906	13,698
Other operating income	-	-	-	-	-	-
Total operating income	3,767	3,906	6,529	7,770	10,906	13,698
% chg	21.2	3.7	67.1	19.0	40.4	25.6
Total Expenditure	3,736	3,887	6,503	7,707	10,770	13,524
Net Raw Materials	3,661	3,808	6,386	7,675	10,554	13,253
Other Mfg costs	4	3	-	0	5	7
Personnel	5	7	15	18	17	22
Other	67	69	101	13	193	242
EBITDA	30	19	26	64	136	174
% chg	(35.6)	(36.9)	36.6	143.7	114.5	27.6
(% of Net Sales)	0.8	0.5	0.4	0.8	1.3	1.3
Depreciation & Amortisation	1	1	6	6	8	8
EBIT	29	18	20	58	129	166
% chg	(36.5)	(38.5)	10.8	193.8	121.4	29.3
(% of Net Sales)	0.8	0.5	0.3	0.7	1.2	1.2
Interest & other Charges	3	2	4	0	5	6
Other Income	19	43	97	74	83	102
(% of PBT)	0.5	0.8	0.9	0.6	0.4	0.4
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	39	52	113	131	207	262
% chg	(24.6)	31.7	119.8	15.8	57.4	26.6
Extraordinary Expense/(Inc.)	(7)	(7)	-	(0)	-	-
PBT (reported)	46	59	113	132	207	262
Tax	11	10	23	38	58	69
(% of PBT)	27.1	19.8	19.9	28.7	28.0	26.5
PAT (reported)	35	49	91	94	149	192
PAT after MI (reported)	-	-	-	-	-	-
ADJ. PAT	29	41	91	94	149	192
% chg	(19.8)	44.9	119.5	3.0	59.1	29.1
(% of Net Sales)	0.8	1.1	1.4	1.2	1.4	1.4
Basic EPS (Rs)	2	2	4	3	5	7
Fully Diluted EPS (Rs)	2	2	4	3	5	7
% chg	(11.4)	(8.5)	86.5	(20.1)	58.6	29.1

Balance Sheet (Standalone)

Y/E March (Rs cr)	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E
SOURCES OF FUNDS						
Equity Share Capital	150	227	227	294	294	294
Preference Capital	-	-	-	-	-	-
Reserves & Surplus	116	1,252	1,309	1,785	1,883	2,024
Shareholders' Funds	266	1,480	1,537	2,079	2,177	2,318
Total Loans	-	-	-	-	-	-
Deferred Tax Liability	1	5	9	11	14	17
Total Liabilities	267	1,485	1,546	2,090	2,191	2,336
APPLICATION OF FUNDS						
Gross Block	24	60	60	62	78	86
Less: Acc. Depreciation	7	8	14	19	27	35
Net Block	17	52	47	43	51	51
Capital Work-in-Progress	1	1	1	1	1	1
Goodwill	-	-	-	-	-	-
Investments	211	1,326	799	652	1,052	1,452
Current Assets	263	373	1,000	1,929	1,827	1,663
Cash	48	124	626	1,274	975	643
Loans & Advances	53	70	19	132	120	151
Other	163	179	355	523	732	869
Current liabilities	227	268	300	536	740	831
Net Current Assets	36	105	699	1,394	1,087	832
Mis. Exp. not written off	2	-	-	-	-	(1)
Total Assets	267	1,485	1,546	2,090	2,191	2,336

Cash Flow Statement (standalone)

Y/E March (Rs cr)	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E
Profit before tax	46	59	113	132	207	262
Depreciation	1	1	6	6	8	8
Change in Working Capital	(7)	14	(77)	(45)	17	(66)
Less: Other income	19	43	97	74	83	102
Direct taxes paid	11	10	23	38	58	69
Cash Flow from Operations	10	21	(77)	(19)	91	32
(Inc)/ Dec in Fixed Assets	(1)	(37)	(1)	(2)	(16)	(8)
(Inc)/ Dec in Investments	(20)	(1,115)	527	147	(400)	(400)
(Inc)/ Dec in loans and advances	-	-	-	-	-	-
Other income	19	43	97	74	83	102
Cash Flow from Investing	(1)	(1,109)	624	219	(333)	(307)
Issue of Equity	-	1,192	-	500	-	-
Inc./(Dec.) in loans	-	-	-	-	-	-
Dividend Paid (Incl. Tax)	18	27	41	52	52	51
Others	3	2	4	0	5	6
Cash Flow from Financing	(20)	1,163	(45)	448	(57)	(57)
Inc./(Dec.) in Cash	(11)	75	502	648	(299)	(332)
Opening Cash balances	59	48	124	626	1,274	975
Closing Cash balances	48	124	626	1,274	975	643

Key Ratios

Y/E March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E
Valuation Ratio (x)						
P/E (on FDEPS)	48.1	52.5	28.2	35.2	22.2	17.2
P/CEPS	46.4	51.2	26.3	33.3	21.1	16.5
P/BV	6.4	1.7	1.7	1.6	1.5	1.4
Dividend yield (%)	1.0	1.0	1.6	1.6	1.6	1.5
EV/Sales	0.4	0.6	0.3	0.3	0.2	0.2
EV/EBITDA	54.1	127.4	74.1	32.0	17.1	15.3
EV / Total Assets	6.2	1.6	1.2	1.0	1.1	1.1
Per Share Data (Rs)						
EPS (Basic)	2.3	2.1	4.0	3.2	5.1	6.5
EPS (fully diluted)	2.3	2.1	4.0	3.2	5.1	6.5
Cash EPS	2.4	2.2	4.3	3.4	5.3	6.8
DPS	1.2	1.2	1.8	1.8	1.8	1.7
Book Value	17.7	65.1	67.6	70.7	74.0	78.8
DuPont Analysis						
EBIT margin	0.8	0.5	0.3	0.7	1.2	1.2
Tax retention ratio	72.9	80.2	80.1	71.3	72.0	73.5
Asset turnover (x)	18.4	5.0	5.7	9.0	10.7	9.4
ROIC (Post-tax)	10.3	1.8	1.4	4.8	9.1	8.4
Cost of Debt (Post Tax)	0.1	0.1	0.1	0.0	0.1	0.1
Leverage (x)						
Operating ROE	10.3	1.8	1.4	4.8	9.1	8.4
Returns (%)						
ROCE (Pre-tax)	11.2	2.0	1.3	3.2	6.0	7.3
Angel ROIC (Pre-tax)	14.2	2.3	1.7	6.7	12.7	11.5
ROE	13.7	5.6	6.0	5.2	7.0	8.6
Turnover ratios (x)						
Asset Turnover (Gross Block)	162.1	94.0	108.8	126.8	155.7	167.0
Inventory / Sales (days)	-	-	-	-	-	-
Receivables (days)	13	16	15	17	14	15
Payables (days)	20	23	16	20	22	21
Working capital cycle (ex-cash) (days)	(2)	(1)	2	5	4	4
Solvency ratios (x)						
Net debt to equity	(0.2)	(0.1)	(0.4)	(0.6)	(0.4)	(0.3)
Net debt to EBITDA	(1.6)	(6.5)	(24.0)	(20.1)	(7.2)	(3.7)
Interest Coverage (EBIT / Interest)	11.3	8.6	5.5	156.9	24.9	25.7

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Disclosure of Interest Statement	PTC India
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below Rs 1 lakh for Angel, its Group companies and Directors.

Ratings (Returns) :	Buy (> 15%) Reduce (-5% to 15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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