

PTC India

PTC India Financial Services gets IFC status

PTC India Financial Services (PFS), a subsidiary of PTC India, has been given the infrastructure financial company (IFC) status by the Reserve Bank of India (RBI). The RBI had earlier classified non-banking financial companies (NBFCs) under three categories, namely asset finance companies, loan companies and investment companies. Recently, the RBI introduced a fourth category of NBFCs, i.e. IFCs. Post this development, PFS would be allowed to have a higher exposure to lending and investment to a single borrower or a group of borrowers. Further, PFS would have better access to resources as the exposure limit for banks' funding to IFCs has been improved. At the CMP of Rs119, PTC India is trading at 23.5x FY2011E and at 18.2x FY2012E earnings. **We maintain our Buy recommendation on the stock with an SOTP fair value of Rs136.**

About PFS: PFS is a 77.6% subsidiary of PTC India. The company was set up in FY2008 as a special purpose investment vehicle primarily to make both equity and debt investments in power projects in the areas of generation, transmission and distribution. As of 1QFY2011, PFS had sanctioned Rs1,953cr under debt and Rs500cr under equity, while the disbursements under these heads stood at Rs480cr and Rs398cr, respectively. PFS currently has a net worth of Rs650cr as of 1QFY2011.

Implications of the development: We believe this development will prove to be positive for PFS, as:

- PFS can now raise ECBs up to 50% of its net worth through the automatic route and raise funds through tax-free infrastructure bonds.
- PFS can now take up additional lending exposure, up to 5% of its owned funds, in case of a single borrower and 10% for a group of borrowers.
- PFS will be able to raise higher resources as banks have been allowed lesser risk weightage on lending made to IFCs. Exposure of banks has recently been increased to 20% of its capital funds w.r.t IFC from the earlier 15%.
- Cost of borrowings for PFS will be reduced by ~50bp.

Key financials (Standalone)

Y/E March (Rs cr)	FY2009	FY2010	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)	29.7	37.2	23.5	18.2
P/BV (x)	1.8	1.7	1.6	1.5
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)	79.5	34.9	18.5	16.4

Source: Company, Angel Research

BUY

CMP	Rs119
Target Price	Rs136

Investment Period	12 Months
-------------------	-----------

Stock Info	
Sector	Power
Market Cap (Rs cr)	3,498
Beta	1
52 Week High / Low	126/83
Avg. Daily Volume	479436
Face Value (Rs)	10
BSE Sensex	18,409
Nifty	5,544
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	11.9	20.8	30.0
PTC	15.0	33.2	72.6

Rupesh Sankhe

022-40403800; Ext 319

rupeshd.sankhe@angeltrade.com

V Srinivasan

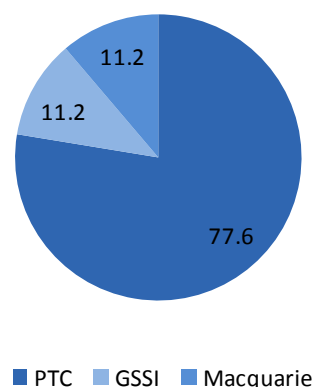
022-40403800; Ext 330

v.srinivasan@angeltrade.com

PFS's shareholding pattern

PTC India holds a 77.6% stake in PFS, whereas the remaining 22.4% is shared equally by Goldman Sachs Strategic Investments Limited (GSSI) and Macquarie Group Limited (Macquarie).

Exhibit 1: PFS's shareholding pattern (%)



Source: Company, Angel Research

Exhibit 2: Project portfolio (Equity stake)

Project	Location	Details	Stake (%)
Renewable energy			
10MW biomass plant	Maharashtra	Project commissioned in FY2009	26
100MW wind cum bio-diesel project	Maharashtra	41.25MW first phase to be commissioned in August 2010; 58.75MW second phase to be commissioned in December 2010	37
SPV to undertake 500MW biomass and renewable energy projects	-	This SPV will scout for investment opportunities across the country. Around 50 projects have already been identified, out of which permissions for 25 projects have been received from the state government. One project is in the process of acquisition.	Up to 26
3MW solar power project	Haryana	The entire land for the project has been identified and the MoU has been signed with HAREDA. Order for equipment has been placed, which is likely to be commissioned by December 2010.	37
Conventional energy			
189MW imported coal project	Tamil Nadu	The project is a merchant power plant and has three units of 63MW each. The first two units have been commissioned. The last unit is in the synchronization stage.	26
270MW imported coal project	Andhra Pradesh	This is a tolling project in which PTC India will be supplying coal to the project and will purchase power by paying conversion charges. Financial closure for the projects has been achieved. The project is expected to be commissioned by CY2011.	26
Stage 1 of 2x660MW thermal project	Andhra Pradesh	70% of coal required for the project has got the linkage from Ministry of Coal, GOI. The required land for the project has already been acquired. The project is expected to be commissioned by 2012.	NA
2x350MW thermal project	Orissa	It is a domestic pit-head coal project, for which coal linkage has already been obtained. Financial closure for the first unit has been achieved and that for the second unit is in advanced stages. The first unit and second units are expected to be commissioned by December 2011 and March 2012, respectively.	NA

Source: Company, Angel Research

PFS financial performance in FY2010

PFS recorded net sales of Rs49cr in FY2010, up 372% on a yoy basis. The company's EBITDA and PBDT rose by 487% and 323% to Rs43.6cr and Rs36.7cr, respectively. Growth was largely driven by higher level of loan disbursement (both term loan and mezzanine/short-term loan) to power projects and increased fee-based income. During FY2010, the company sanctioned funds aggregating to ~Rs1,510cr to 22 power projects. During the year, the company also started upfront financing for carbon credits.

Exhibit 3: PFS's financial performance

(Rs cr)	FY2010	FY2009	Chg [%]
Gross Sales	48.8	10.3	372
Net Sales	48.8	10.3	372
Other Income	4.7	1.3	270
Total Income	53.5	11.6	361
Total Expenditure	5.2	2.9	79
EBITDA	43.6	7.4	487
Interest	11.6	0.0	-
PBDT	36.7	8.7	323
Depreciation	0.0	0.0	-
Tax	11.3	0.2	-
Reported PAT	25.5	8.5	198
Equity Capital	435	435	-
Reserves and Surplus	200	175	14.3

Source: Company, Angel Research

Investment arguments

Power deficit to encourage growth

The total volume of power traded in India is just 8% of the power generated, as reported by the power ministry in 2010. 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, such as PTC India.

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

PTC India to maintain its market leadership position

PTC India 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 on account of 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 power trading, PTC India has also entered into other businesses such as financing fuel intermediation, power tolling agreements and consultancy. PFS has expanded its business considerably in the past two years.

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

Outlook and valuation

Going ahead, we believe PTC India's emphasis on the long-term trade (LTT) segment will help it in sustaining higher growth. During FY2010, STT constituted 50% of the total power traded by the company. PTC India 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.

Following the commissioning of new power projects, we expect PTC India to register a 32.7% CAGR in its top line over FY2010–12E. We estimate the company's bottom line to register a 43.1% CAGR over FY2010–12E.

At the CMP of Rs119, PTC India is trading at 23.5x FY2011E and 18.2x FY2012E earnings. **We have arrived at an SOTP fair value of Rs136 for PTC India**, wherein we have assigned P/E of 10x FY2012E earnings from the core trading business (Rs65.2/share), while investments in PFS, Teesta Urja, Krishna Godawari and Athena Energy Ventures have been valued at P/BV of 1x FY2012E (Rs49.4/share). The cash and liquid investments in the company's books are valued at 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
Target Price		135.7

Source: Angel Research

Profit and 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	FY2010	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	FY2010	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 adv.	-	-	-	-	-	-
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	-	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	FY2010	FY2011E	FY2012E
Valuation Ratio (x)						
P/E (on FDEPS)	50.7	55.4	29.7	37.2	23.5	18.2
P/CEPS	48.9	54.0	27.8	35.1	22.3	17.5
P/BV	6.7	1.8	1.8	1.7	1.6	1.5
Dividend yield (%)	1.0	1.0	1.5	1.5	1.5	1.5
EV/Sales	0.5	0.7	0.3	0.3	0.2	0.2
EV/EBITDA	57.2	134.9	79.5	34.9	18.5	16.4
EV / Total Assets	6.5	1.7	1.3	1.1	1.1	1.2
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
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
WC 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/Int.)	11.3	8.6	5.5	156.9	24.9	25.7

Research Team Tel: 022 - 4040 3800

E-mail: research@angeltrade.com

Website: www.angeltrade.com

DISCLAIMER

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Angel Broking Limited, its affiliates, directors, its proprietary trading and investment businesses may, from time to time, make investment decisions that are inconsistent with or contradictory to the recommendations expressed herein. The views contained in this document are those of the analyst, and the company may or may not subscribe to all the views expressed within.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Limited endeavours to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Angel Broking Limited and its affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

Neither Angel Broking Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

Note: Please refer to the important 'Stock Holding Disclosure' report on the Angel website (Research Section). Also, please refer to the latest update on respective stocks for the disclosure status in respect of those stocks. Angel Broking Limited and its affiliates may have investment positions in the stocks recommended in this report.

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%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
	Reduce (-5% to 15%)	Sell (< -15%)	

Address: Acme Plaza, 'A' Wing, 3rd Floor, M.V. Road, Opp. Sangam Cinema, Andheri (E), Mumbai - 400 059.

Tel: (022) 3952 4568 / 4040 3800

Research Team

Fundamental:

Sarabjit Kour Nangra	VP-Research, Pharmaceutical	sarabjit@angeltrade.com
Vaibhav Agrawal	VP-Research, Banking	vaibhav.agrawal@angeltrade.com
Vaishali Jajoo	Automobile	vaishali.jajoo@angeltrade.com
Shailesh Kanani	Infrastructure, Real Estate	shailesh.kanani@angeltrade.com
Anand Shah	FMCG, Media	anand.shah@angeltrade.com
Deepak Pareek	Oil & Gas	deepak.pareek@angeltrade.com
Sushant Dalmia	Pharmaceutical	sushant.dalmia@angeltrade.com
Rupesh Sankhe	Cement, Power	rupeshd.sankhe@angeltrade.com
Param Desai	Real Estate, Logistics, Shipping	paramv.desai@angeltrade.com
Sageraj Bariya	Fertiliser, Mid-cap	sageraj.bariya@angeltrade.com
Viraj Nadkarni	Retail, Hotels, Mid-cap	virajm.nadkarni@angeltrade.com
Paresh Jain	Metals & Mining	pareshn.jain@angeltrade.com
Amit Rane	Banking	amitn.rane@angeltrade.com
John Perinchery	Capital Goods	john.perinchery@angeltrade.com
Jai Sharda	Mid-cap	jai.sharda@angeltrade.com
Sharan Lillaney	Mid-cap	sharanb.lillaney@angeltrade.com
Amit Vora	Research Associate (Oil & Gas)	amit.vora@angeltrade.com
V Srinivasan	Research Associate (Cement, Power)	v.srinivasan@angeltrade.com
Aniruddha Mate	Research Associate (Infra, Real Estate)	aniruddha.mate@angeltrade.com
Mihir Salot	Research Associate (Logistics, Shipping)	mihirr.salot@angeltrade.com
Chitrangda Kapur	Research Associate (FMCG, Media)	chitrangdar.kapur@angeltrade.com
Vibha Salvi	Research Associate (IT, Telecom)	vibhas.salvi@angeltrade.com
Pooja Jain	Research Associate (Metals & Mining)	pooja.j@angeltrade.com
Yaresh Kothari	Research Associate (Automobile)	yareshb.kothari@angeltrade.com
Shrinivas Bhutda	Research Associate (Banking)	shrinivas.bhutda@angeltrade.com
Sreekanth P.V.S	Research Associate (FMCG, Media)	sreekanth.s@angeltrade.com
Hemang Thaker	Research Associate (Capital Goods)	hemang.thaker@angeltrade.com

Technical:

Shardul Kulkarni	Sr. Technical Analyst	shardul.kulkarni@angeltrade.com
Mileen Vasudeo	Technical Analyst	vasudeo.kamalakant@angeltrade.com

Derivatives:

Siddarth Bhamre	Head - Derivatives	siddarth.bhamre@angeltrade.com
Jaya Agarwal	Derivative Analyst	jaya.agarwal@angeltrade.com

Institutional Sales Team:

Mayuresh Joshi	VP - Institutional Sales	mayuresh.joshi@angeltrade.com
Abhimanyu Sofat	AVP - Institutional Sales	abhimanyu.sofat@angeltrade.com
Nitesh Jalan	Sr. Manager	niteshk.jalan@angeltrade.com
Pranav Modi	Sr. Manager	pranavs.modi@angeltrade.com
Sandeep Jangir	Sr. Manager	sandeep.jangir@angeltrade.com
Ganesh Iyer	Sr. Manager	ganeshb.lyer@angeltrade.com
Jay Harsora	Sr. Dealer	jayr.harsora@angeltrade.com
Meenakshi Chavan	Dealer	meenakshis.chavan@angeltrade.com
Gaurang Tisani	Dealer	gaurangp.tisani@angeltrade.com

Production Team:

Bharathi Shetty	Research Editor	bharathi.shetty@angeltrade.com
Simran Kaur	Research Editor	simran.kaur@angeltrade.com
Bharat Patil	Production	bharat.patil@angeltrade.com
Dilip Patel	Production	dilipm.patel@angeltrade.com