

## PTC India (POWTRA)

**Rs 114**

### WHAT'S CHANGED...

PRICE TARGET .....	Changed from Rs 134 to Rs 136
EPS (FY10) .....	Changed from Rs 3.5 to Rs 3.3
EPS (FY11E) .....	Changed from Rs 3.7 to Rs 4.4
RATING.....	Unchanged

### Subdued numbers with improving outlook...

PTC continued to witness robust volume growth of ~47% from 2.18 BU to 3.2 BU in Q4FY10. The growth was led by ~16 fold jump in long-term volume (excluding cross-border trades) due to low base effect and a 48% jump in short-term trades much ahead of our expectation. Revenues witnessed 5.5% growth marginally ahead of our expectation of 0.5% growth in Q4FY10. PTC reported 47% volume growth compared to our expectation of ~16% in Q4FY10. The company reported Rs 3.88 per unit compared to 5.39 per unit in the same quarter last year. EBITDA growth continued to witness significant momentum with a near ~4 fold increase from Rs 2.3 crore to Rs 9.5 crore in Q4FY10. PAT numbers were below our estimates owing to a significant reduction in the treasury income from Rs 19.2 crore to Rs 13.5 crore. With the momentum building up in core earnings, we believe the company is gradually entering a strong territory. Also, unlocking of value in the financial subsidiary will lead to a re-rating of the company's prospects.

#### Relaxation of cap in trading margin will lead to margin expansion in FY11E

In January 2010, CERC has relaxed the margin for the power trading business in India. Only the trading under the short-term route is exposed to the margin cap and the caps are:

- Subject to a maximum of seven paise/Kwh when the sale price exceeds Rs 3/Kwh and
- 4 paise/kWh where the sale price is less than or equal to Rs 3/Kwh

The relaxation has meant a lot more flexibility to PTC in terms of charging the margins. PTC has started flexing its muscle by increasing the margins on some of the short-term and long-term contracts that were due for renewal. The impact will be visible in margin expansion from FY11E.

### Valuation

Volume expansion and better flexibility in charging the trading margin will lead to an expansion in the operational performance. With the possible unlocking of value in the financial subsidiary and increasing visibility of margin expansion over the coming years, we are reiterating our **BUY** rating. At the CMP of Rs 114, the stock is available at 1.5x book value and 16.1x P/E for FY12E.

#### Exhibit 1: Valuation Metrics

(Rs Crore)	Q4FY10A	Q4FY10E	Q4FY09	Q3FY10	QoQ (Chg %)	YoY (Chg %)
<b>Net Sales</b>	1,243.0	1,183.3	1,177.7	1,697.5	-26.8	5.5
<b>EBITDA</b>	9.5	8.5	2.3	10.5	-9.7	304.0
<b>EBITDA Margin (%)</b>	0.8	0.7	0.2	0.6	14 bps	56.2
<b>Depreciation</b>	0.7	0.9	0.8	0.7	-0.3	-9.9
<b>Interest</b>	0.1	0.0	0.2	0.2	NA	NA
<b>Reported PAT</b>	13.9	17.0	15.5	15.9	-12.8	-10.7
<b>EPS (Rs)</b>	0.5	0.6	0.5	0.5	-12.8	-10.7

Source: Company, ICICIdirect.com Research

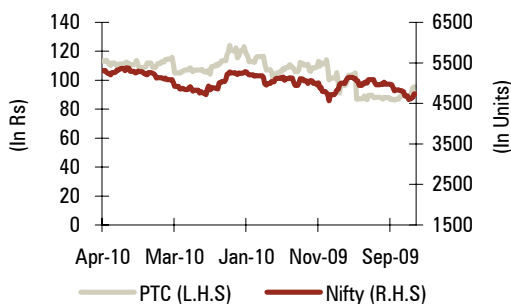
Rating matrix	
Rating	: <b>Buy</b>
Target	: Rs 136
Target Period	: 12 months
Potential Upside	: 19%

Key Financials				
(Rs Crore)	FY09	FY10E	FY11E	FY12E
Net Sales	6528.9	7770.3	9976.3	10701.4
EBITDA	25.0	65.8	104.5	220.0
Net Profit	89.7	94.0	129.2	208.8

Valuation summary				
	FY09	FY10E	FY11E	FY12E
PE (x)	28.9	35.7	26.0	16.1
Target PE (x)	34.4	42.4	30.9	19.1
EV/EBITDA (x)	97.6	37.1	23.3	11.1
P/BV (x)	1.7	1.6	1.5	1.5
RoNW (%)	7.5	7.2	8.3	12.9
RoCE (%)	5.9	5.1	6.0	9.3

Stock data	
Market Capitalisation	Rs 3353 Crore
Debt (FY09)	Rs 0 Crore
Cash (FY09)	Rs 913 Crore
EV	Rs 2440 Crore
52 week H/L	Rs 68/125 Crore
Equity capital	Rs 294 Crore
Face value	Rs 10
MF Holding (%)	23.7
FII Holding (%)	18.7

#### Price movement (Stock vs. Nifty)



#### Analyst's name

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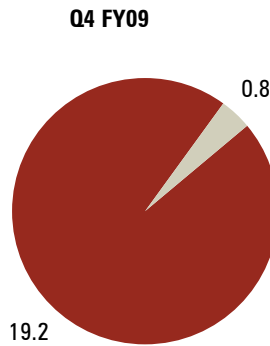
### Operating performance

Core earnings continued to deliver significant growth and are expected to command a lion's share in FY11E

Short-term trades continued to witness robust growth. Although the projects that were likely to come up under the long-term trading route have witnessed marginal delays, we have received significant comfort from the fact that a part of the project portfolio has already received synchronisation, which will translate into volume growth in the near future

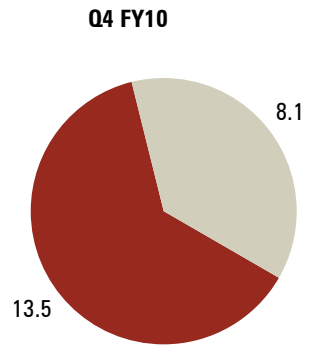
Margin expansion will continue to take place in the trading area based on new capacities getting added and the commencement of tolling business in early FY12

**Exhibit 2: Break-up of income**



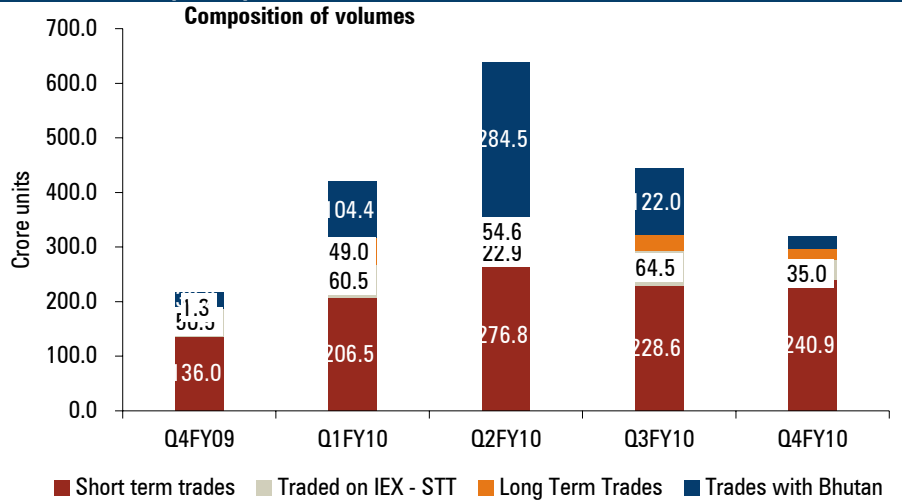
Source: Company, ICICIdirect.com, Research

**Exhibit 3: Break-up of income**



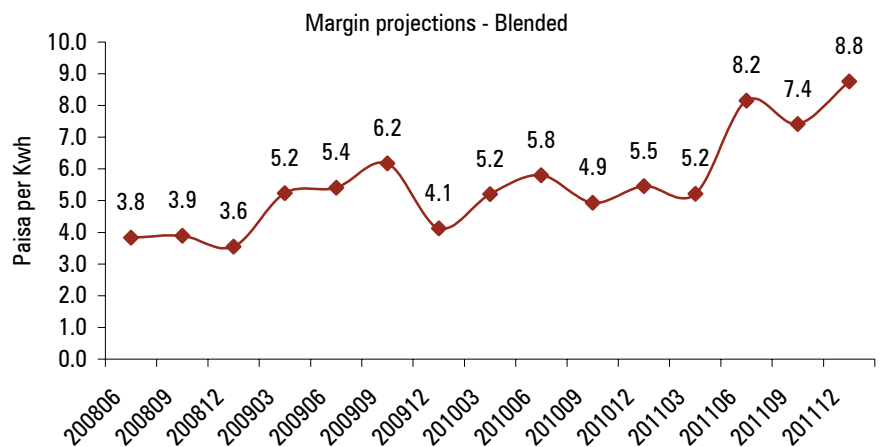
Source: Company, ICICIdirect.com, Research

**Exhibit 4: Trend of quarterly units traded**

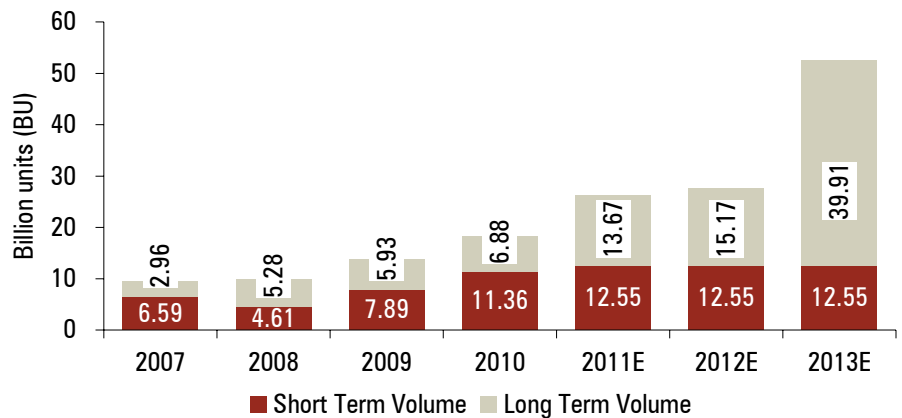


Source: Company, ICICIdirect.com Research

**Exhibit 5: Trend of quarterly units traded**



Source: Company, ICICIdirect.com Research

**Exhibit 6: Projection for volume growth**

Source: Company, ICICIdirect.com Research

### Strong line-up for FY11E and FY12E

PTC expects 800 MW of incremental capacity to start contributing in overall long-term trading volumes over FY11E followed by 4,000 MW of capacity addition lined up in FY12E. Some of the key projects lined up over the coming years are as follows:

**Exhibit 7: Expected growth lined up in FY11E & FY12E**

Expected Volume			Expected Volume		
Projects	Type	(MW)	Projects	Type	(MW)
<b>FY11E</b>			<b>FY12E</b>		
Amarkantak Phase II	Coal	300	Teesta - Stage III	Hydro	1200
Simhapuri	Coal	190	Karcham Wangtoo	Hydro	704
Sugen	Gas	100	Meenakshi Group	Coal	170
Malana	Hydro	100	Total		2074
Budhil	Hydro	70			
Sub total (a)		760			

Source: Company, ICICIdirect.com Research

### Other investments progressing well

PTC's investment portfolio is faring well. The company appears to be on track to commence generation at the Teesta Urja hydroelectric plant (1100 MW) in FY11-12. PTC has an 11% stake in the venture and the Rs 5,700-crore project is financed by a mix of 80% debt and 20% equity. Financial closure for the project was received in September 2007. Rural Electrification Corporation is the lead lender for the project. According to the offtake arrangement, ~30% of the power is likely to be routed in the merchant market. This will improve the return ratios for the venture considering the prices prevalent in the merchant market.

PTC has also commenced the coal trading business under the wholly owned subsidiary PTC Energy and has so far executed coal trading to the tune of 0.107 MT.

Based on the latest estimates of capacity addition, PTC is expected to witness a ~2.9 fold growth by FY13E

PFS has also commenced the business of carbon financing. PFS has provided upfront carbon financing to the 20 MW hydro project in Orissa against forward purchases of certified emission reduction that the project is expected to earn

### PTC Financial Services on track to gain independence

PTC Financial Services (PFS), a 74.3% subsidiary of PTC India, is the next candidate that will look to hit the capital market in the second half of 2010. PFS has started gaining momentum on the lending side and as on March 31, 2010, the company has sanctioned funds to the tune of ~Rs 1,000 crore under long-term project financing while ~Rs 570 crore was sanctioned for the short-term and mezzanine funding. The company has so far disbursed Rs 310 crore of debt funds and also participated in equity investment of Rs 381 crore till March 2010.

#### Exhibit 8: Revised financial estimates

Projects	Stake acquired(%)	Committed Funds (Rs Cr)	Capacity - (MW)	State	Likely COD
<b>Energy Exchange</b>					
IEX	26.0	6.9		India	June-08
<b>Investments in Renewable</b>					
Varam Bioenergy Pvt Ltd.	26.0	4.4	10	Maharashtra	2009-10
Biomass Projects	26.0	1.1	12	Overall India	2010-11
Wind cum Bio Diesel project	37.0	54.0	100	Maharashtra	2009-10
Solar project	37.0	NA	3	Haryana	NA
<b>Investments in conventional Projects</b>					
Ind-Bharat Power Gencom Ltd*	26.0	55.6	189	Tamil Nadu	2009-10
Meenakshi Group	26.0	88.3	270	Andhra Pradesh	2010-11
Thermal Coal	13.0	105.0	700	Tamil Nadu	NA
Thermal Coal	NA	NA	300	Maharashtra	NA
Thermal Coal	NA	NA	1,320	Andhra Pradesh	2012-13
<b>Investments in equipment manufacturers</b>					
Wind Turbine mfgd unit	NA	3.4	NA	Haryana	NA
Solar power modules	49.0	NA	NA	Hyderabad	NA
<b>Total</b>		<b>319</b>	<b>2,904</b>		

Operational Assets

\* Phase - I of 63 MW commissioned in Sep 09 \*\* Phase - II of 63MW commissioned in Mar 09

Source: ICICIdirect.com Research

At the CMP of Rs 114, the stock is trading at FY11E P/BV of 1.5x and FY12E PB of 1.5x. We believe improved visibility on the business model of PFS will lead to a re-rating of the stock. We are retaining our **BUY** rating on the stock with an SOTP price target of Rs 136.

#### Exhibit 9: SOTP based valuation

Projects	Base case*		Bull Case**	
	Rs Crores	per share	Rs Crores	per share
<b>Value of Core business - (Trading and Tolling)</b>	<b>2,020</b>	<b>68.7</b>	<b>2,020</b>	<b>68.7</b>
<b>Cash and Cash equivalents 1.0x BV</b>	<b>913</b>	<b>31.0</b>	<b>913</b>	<b>31.0</b>
<b>Investments</b>	<b>1,055</b>	<b>35.9</b>	<b>1,501</b>	<b>51.0</b>
PTC Financial Services (PFS)	669	22.7	1,115	37.9
PTC Energy	42	1.4	42	1.4
Athena Energy ventures	70	2.4	70	2.4
Krishna Godavari utility	20	0.7	20	0.7
Wind Power Project	36	1.2	36	1.2
Teesta Urja Limited	125	4.3	125	4.3
Other Investments at 0.8 x BV	94	3.2	94	3.2
<b>Total Equity Value</b>	<b>3,988</b>	<b>136</b>	<b>4,434</b>	<b>151</b>

\* Other investments are taken at 0.84 x Book value

\*On the back of improved visibility we have assigned a 1.5x book value in our base case to PFS

\*\*Assumed - PFS is successfully able to tap the IPO market at a P/B of 2.5 times.

Source: ICICIdirect.com Research

In our base case, PFS will be able to command a book value multiple of at least 1.5x on the back of improved operational visibility. We have revised the fair value of PTC to Rs 136 allocating Rs 22.7 per share of PFS fair value

**Exhibit 10: ICICIdirect.com Research Universe**

					Sales (Rs cr)	EPS (Rs)	PE (x)	EV/E (x)	PB (x)	RoNW (%)	RoCE (%)
<b>NTPC</b>											
<b>Idirect Code</b>	<b>NTPC</b>	<b>CMP</b>	<b>205</b>	<b>FY08</b>	40,017.7	9.0	22.8	16.6	3.1	14.6	15.8
		<b>Target</b>	<b>241</b>	<b>FY09</b>	45,272.8	9.9	20.6	17.9	2.8	14.9	13.3
<b>Mcap(Rs cr)</b>	<b>168,867.1</b>	<b>% Upside</b>	<b>17.7</b>	<b>FY10E</b>	49,596.7	10.5	19.5	14.3	2.6	14.5	13.3
				<b>FY11E</b>	53,976.0	10.8	18.9	12.7	2.4	13.8	12.2
				<b>FY12E</b>	62,773.4	12.3	16.7	10.1	2.2	14.3	12.2
<b>Lanco Infratech</b>											
<b>Idirect Code</b>	<b>LANINF</b>	<b>CMP</b>	<b>60</b>	<b>FY08</b>	3,241.3	1.5	40.4	30.4	7.8	21.2	9.3
		<b>Target</b>	<b>61</b>	<b>FY09</b>	6,072.0	1.2	51.1	27.9	6.8	14.3	5.8
<b>Mcap(Rs cr)</b>	<b>14,313.3</b>	<b>% Upside</b>	<b>2.8</b>	<b>FY10E</b>	7,580.3	2.0	29.3	17.6	4.3	18.1	6.4
				<b>FY11E</b>	13,998.3	4.1	14.7	6.1	3.5	26.3	11.5
				<b>FY12E</b>	15,919.6	4.7	12.7	5.0	2.8	24.4	11.1
<b>GMR Infrastructure</b>											
<b>Idirect Code</b>	<b>GMRINF</b>	<b>CMP</b>	<b>64</b>	<b>FY08</b>	2,294.7	0.6	110.8	54.8	3.8	3.4	3.0
		<b>Target</b>	<b>74</b>	<b>FY09</b>	4,019.2	0.8	83.3	30.9	3.6	4.3	3.2
<b>Mcap(Rs cr)</b>	<b>23,448.5</b>	<b>% Upside</b>	<b>16.0</b>	<b>FY10E</b>	5,374.1	0.0	NA	21.1	3.6	-0.2	3.7
				<b>FY11E</b>	6,509.7	0.8	79.4	15.8	3.5	4.4	4.4
				<b>FY12E</b>	7,710.4	0.8	82.3	12.3	3.3	4.0	3.9
<b>Neyveli Lignite</b>											
<b>Idirect Code</b>	<b>NEYLIG</b>	<b>CMP</b>	<b>153</b>	<b>FY08</b>	2,981.7	6.6	23.0	19.7	2.7	12.8	7.3
		<b>Target</b>	<b>141</b>	<b>FY09</b>	2,825.1	5.0	30.2	24.6	2.7	9.1	4.6
<b>Mcap(Rs cr)</b>	<b>21,810.2</b>	<b>% Upside</b>	<b>(7.6)</b>	<b>FY10E</b>	3,951.3	7.1	21.4	17.2	2.4	11.9	7.2
				<b>FY11E</b>	4,826.9	7.7	19.7	12.2	2.3	11.9	7.3
				<b>FY12E</b>	5,399.0	7.5	20.3	10.5	2.1	10.7	7.3
<b>PTC</b>											
<b>Idirect Code</b>	<b>POWTRA</b>	<b>CMP</b>	<b>114</b>	<b>FY08</b>	3,906.1	2.2	52.7	126.0	1.8	5.6	6.8
		<b>Target</b>	<b>136</b>	<b>FY09</b>	6,528.9	3.9	28.9	97.6	1.7	5.9	7.5
<b>Mcap(Rs cr)</b>	<b>3,352.6</b>	<b>% Upside</b>	<b>18.9</b>	<b>FY10E</b>	7,772.3	3.2	35.7	37.1	1.6	5.1	7.2
				<b>FY11E</b>	9,976.3	4.4	26.0	23.3	1.5	6.0	8.3
				<b>FY12E</b>	10,701.4	7.1	16.1	11.1	1.5	9.3	12.9
<b>GVK Power &amp; Infra</b>											
<b>Idirect Code</b>	<b>GVKPOW</b>	<b>CMP</b>	<b>46</b>	<b>FY08</b>	470.0	0.7	68.2	65.8	65.8	7.5	3.8
		<b>Target</b>	<b>54</b>	<b>FY09</b>	513.8	0.5	85.1	69.2	2.8	3.4	2.2
<b>Mcap(Rs cr)</b>	<b>7,261.4</b>	<b>% Upside</b>	<b>17.3</b>	<b>FY10E</b>	1,820.3	0.9	51.3	21.1	2.3	6.5	5.7
				<b>FY11E</b>	2,169.4	1.5	30.5	14.4	2.1	8.4	7.0
				<b>FY12E</b>	2,299.1	1.7	27.1	12.4	2.0	8.7	6.8
<b>NHPC</b>											
<b>Idirect Code</b>	<b>NHPC</b>	<b>CMP</b>	<b>31</b>	<b>FY08</b>	2,475.7	0.9	34.5	24.3	2.2	5.9	5.6
		<b>Target</b>	<b>39</b>	<b>FY09</b>	2,923.1	1.0	30.7	23.9	2.1	6.4	4.9
<b>Mcap(Rs cr)</b>	<b>37,432.0</b>	<b>% Upside</b>	<b>28.3</b>	<b>FY10E</b>	4,103.9	1.4	21.4	14.5	1.6	8.4	6.6
				<b>FY11E</b>	3,634.0	1.0	29.4	16.9	1.5	5.3	4.5
				<b>FY12E</b>	4,975.3	1.3	22.7	11.8	1.5	6.7	6.3
<b>JP Power</b>											
<b>Idirect Code</b>	<b>JAIHYD</b>	<b>CMP</b>	<b>74</b>	<b>FY08</b>	300.8	1.5	50.1	70.3	3.5	20.9	12.2
		<b>Target</b>	<b>72</b>	<b>FY09</b>	296.7	1.2	63.2	70.9	3.4	13.3	11.8
<b>Mcap(Rs cr)</b>	<b>15,487.1</b>	<b>% Upside</b>	<b>(2.9)</b>	<b>FY10E</b>	704.8	2.0	36.7	29.9	4.6	6.7	10.7
				<b>FY11E</b>	724.0	3.9	18.8	29.1	4.3	7.5	5.5
				<b>FY12E</b>	2,405.2	4.7	15.8	9.2	3.6	15.1	12.0

Source: ICICIdirect.com Research

## RATING RATIONALE

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