



PTC India

BSE SENSEX	S&P CNX	Rs81	Buy
17,463	5,226		
Bloomberg	PTCININ		
Equity Shares (m)	294.5		
52-Week Range (Rs)	145/75		
1,6,12 Rel. Perf.(%)	-18/-26/-34		
M.Cap. (Rs b)	23.9		
M.Cap. (US\$ b)	0.5		

YEAR	NET SALES	PAT*	EPS*	EPS*	P/E*	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/10A	76,490	1,150	3.9	-6.9	20.8	1.1	5.2	7.2	0.2	24.9
03/11E	86,340	1,669	5.7	45.1	14.3	1.1	6.2	9.0	0.2	10.2
03/12E	114,272	3,128	10.6	87.5	7.6	1.1	7.1	9.9	0.1	8.7
03/13E	179,330	4,239	14.4	35.5	5.6	1.0	9.4	12.6	0.1	5.8

* Pre Exceptional

PTC India: Power trading business expected to double volumes till FY13, Working Capital maintained

- 3QFY11 financial performance above estimates, given higher retained rebates, etc: During 3QFY11, PTC India's reported net profit of Rs354m (up 125% YoY) includes includes i) Rebate retained Rs118m and ii) late payment surcharge received from SEBs Rs96m; vs average Rs20-40m / qtr over past 4 quarters. Operational performance is below estimates as adjusted trading margins stand at Paise4.3/unit and are lower than 1HFY11 at Paise4.8/unit. Lower margins are attributable to i) change in composition of volumes towards power exchange and cross border trades which have lower margins ii) increased competitive intensity.
- Power trading business expected to double volumes till FY13, Long term drivers intact: Long term (LT) power portfolio for PTC currently comprises of 2.3GW and will add 1.4GW in FY12, 4.5GW in FY13, etc. We expect trading volumes in FY11 at 23.6BUs and the management indicated addition of 6BUs in FY12 and 25BUs in FY13. This will lead to more than doubling of the current trading volumes over the next 2 years, driving growth.
- PTC has signed Power Sale Agreement (PSA) for 3,594MW of projects cumulatively. This excludes ~3GW of capacities where PTC has emerged as the lowest bidders in Case 1 bidding and these contracts will provide good visibility on the build up of long term trading portfolio.
- **Stock correction provides Buying opportunity:** PTC has cash and cash equivalent of Rs11b, and has investments of Rs7b into subsidiaries/project SPVs. We expect PTC to report consolidated net profit of Rs1.6b in FY11E (up 45% YoY), Rs3.1b in FY12E (up 88% YoY) and Rs4.2b in FY13 (up 36% YoY). The stock trades at reported PER of 14.3x FY11E, 7.6x FY12E and 5.6x FY13E. Maintain **Buy**, with Price target of Rs144/sh (upside of 80%).

QUARTERLY PERFORMANCE

Y/E MARCH	(Rs Million)									
	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Power Traded (MUs)	4,204	6,388	4,444	3,202	5,747	7,730	5,813	4,310	18,236	23,600
Sales	23,717	24,582	16,975	12,430	27,576	24,693	17,576	16,495	76,490	86,340
Change (%)	97.1	21.0	-19.8	5.5	16.3	0.5	3.5	32.7	17.2	12.9
EBITDA	147	297	103	90	269	381	407	279	438	1,318
Change (%)	151.0	111.0	280.0	285.2	82.7	28.3	293.9	209.4	75.3	200.9
As of % Sales	0.6	1.2	0.6	0.7	1.0	1.5	2.3	1.7	0.6	1.5
Depreciation	14	14	16	14	12	12	13	12	55	50
Interest	1	0	2	1	1	2	8	8	0	19
Other Income	280	175	142	136	147	180	159	167	742	652
PBT	413	459	229	216	403	546	545	425	1,125	1,902
Tax	79	149	72	77	125	147	166	132	377	570
Effective Tax Rate (%)	19.1	32.5	31.3	35.7	31.0	26.9	30.5	31.1	33.5	30.0
Reported PAT	334	310	158	139	278	399	379	293	748	1,331
Adjusted PAT	345	276	158	120	284	358	379	293	941	1,295
Change (%)	82.6	-17.2	-42.7	-31.2	-17.7	29.4	140.4	144.8	3.4	37.6

E: MOSL Estimates

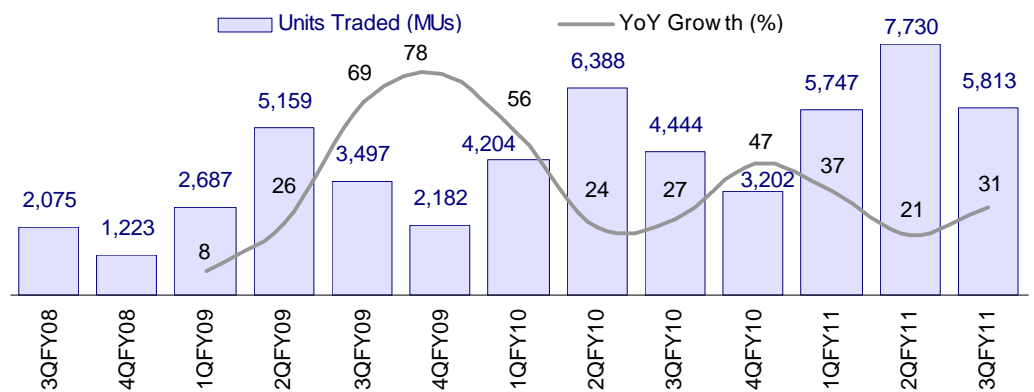
3QFY11 financial performance above estimates, given higher retained rebates, etc

- During 3QFY11, PTC India reported revenues of Rs18b (up 3.5% YoY), EBIDTA of Rs383m (up 270% YoY) and net profit of Rs354m (up 125% YoY). Reported PAT includes i) Rebate retained Rs118m and ii) late payment surcharge received from SEBs Rs96m; vs average Rs20-40m / qtr over past 4 quarters.
- Reported net profit at Rs354m is better than estimates of Rs286m, given higher volumes at 5.8BUs (estimate 4.7BUs) and increased rebate / surcharge income.

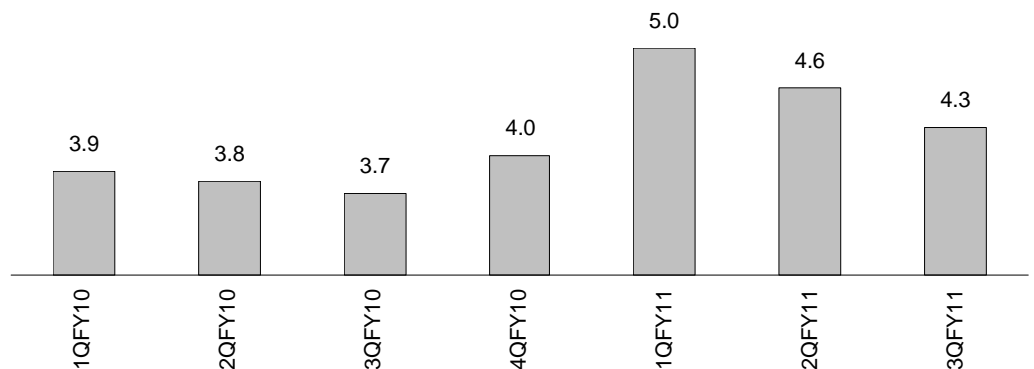
3QFY11 operational performance below estimates, margin contraction witnessed on LT trades

- Trading volumes stood at 5,813MUs, up 31% YoY. Power traded through exchanges stood at 19.5% of the total volumes, vs 10-11% in 1Q/2QFY11. Realisation for 3QFY11 stood at Rs3.02/unit, vs Rs3.82/unit YoY and Rs4.80/unit in 1QFY11.
- Adjusted for the rebate retained and surcharge received, trading margins stand at Paise4.3/unit. These are lower than margins reported in 1HFY11 at Paise4.8/unit. Lower margins are attributable to i) change in composition of volumes towards power exchange and cross border trades which have lower margins ii) increased competitive intensity.

Volume Traded: 3QFY11 up YoY by 31%



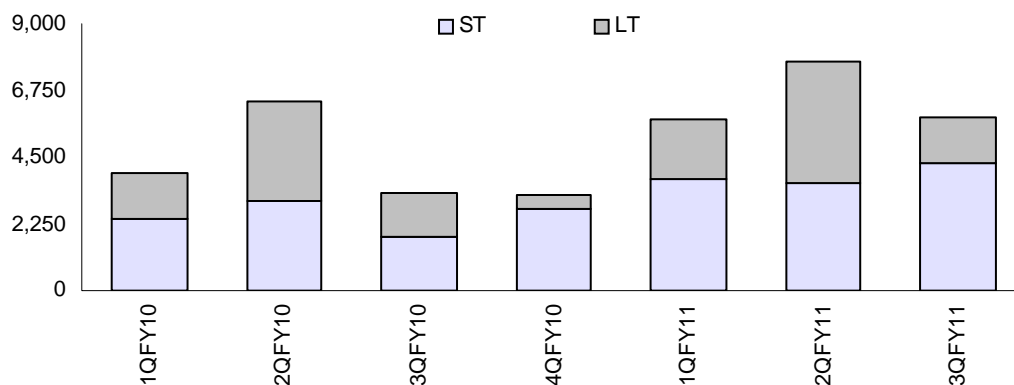
Trading margins under pressure (Paise/Unit)



Trading margins excl Cross border / Power exchange trades

Source: Company/MOSL

Changing mix towards long term trades, increased business stability

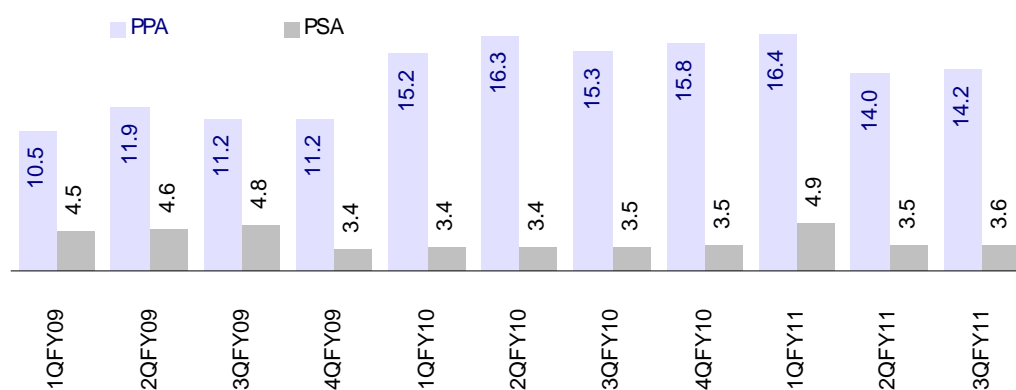


Note: In FY11, power trading from Amarkantak Unit 1 is reported under short term trades as long term sales yet to be tied up for the project

Source: Company/MOSL

Power trading business expected to double volumes till FY13, Long term drivers intact

- Long term (LT) power portfolio for PTC currently comprises of 2.3GW as: 225MW Baglihar HEP, 300MW Lanco Amarkantak Phase-1, 56MW of Hydro power project, 1,400MW of power import from Bhutan, 100MW Torrent Power -Sugen, 70MW Lanco Himachal, etc.
- Lanco Amarkantak Phase 2 is still selling power in UI market and the matter is sub-judice. In FY12, addition to long term trading portfolio is expected at ~1.4GW comprising of 0.7GW from Karcham Wangtoo, etc. FY13 will include commissioning of 1.3GW of Teesta Hydro power project, plus ~3GW of thermal projects.
- We expect trading volumes in FY11 at 23.6BUs and the management expects addition of 6BUs in FY12 and 25BUs in FY13. This will lead to more than doubling of the current trading volumes over the next 2 years, driving growth.
- During 3QFY11, cumulative Long Term Power Purchase Agreement (PPA) signed by PTC stood at 14,186MW, an addition of 186MW to its portfolio in the quarter. PTC has also signed Power Sale Agreement (PSA) for 3,594MW of projects cumulatively. This excludes ~3GW of capacities where PTC has emerged as the lowest bidders in Case 1 bidding by Karnataka (1380MW), Andhra (1400MW) and Bihar (300MW). These contracts are expected to be signed over the next 1-2 quarters will provide a good visibility on the build up of long term trading portfolio for the company.
- The management also indicated that the gap between receivables and payables as at Dec 10 stands at 18 days. This is largely due to an aberration given ongoing corporatisation of Tamilnadu discoms, as billing falls in January and they had outstanding payables of Rs1.5. This amount is fully received in January 2011 and the gap has now again reduced to 4.8 days. This compares with 5 days in Sept 10 and ~9.5 days in March 10; and indicates limited impact on working capital position of PTC.

Robust pipeline of LT PPAs and PSAs (GW)

Source: Company/MOSL

PTC Financial Services (PFS) and PTC Energy (PEL) witnessing business traction

- PTC investments includes: PFS Rs4.5b (77% subsidiary), PEL Rs410m (Sanctions is Rs2b), Athena Energy Rs1.15b (sanctions Rs1.5b), Teestha Rs1.42b (sanctions Rs1.35b + 10%), KG Basin project Rs200m (sanction Rs400m).
- Tolling projects includes: 200MW to be commissioned in July 2011 and 150MW in Dec 2011. PTC will capture the difference between the dark spread and spark spread, and we expect a meaningful contribution to profitability from FY13 onwards (Rs1.3b). PTC has already tied up imported coal under long term 5 year contracts with a floor and a cap, from a coal miner in Indonesia, which will result in competitive fuel costs.

Consolidated Net Profit composition (Rs M)

	FY09	FY10	FY11E	FY12E	FY13E
Standalone earnings, including Trading	910	941	1,295	1,571	2,177
PTC Financial Services (77.6% stake)	66	198	292	484	679
PTC Energy	(23)	11	(3)	969	1,270
Total	954	1,150	1,669	3,128	4,239

Source: Company/MOSL

Stock correction provides Buying opportunity

- PTC has cash and cash equivalent of Rs11b, and has investments of Rs7b into subsidiaries/project SPVs.
- We expect PTC to report consolidated net profit of Rs1.6b in FY11E (up 45% YoY), Rs3.1b in FY12E (up 88% YoY) and Rs4.2b in FY13 (up 36% YoY). The stock trades at reported PER of PER of 14.3x FY11E, 7.6x FY12E and 5.6x FY13E. Maintain **Buy**, with Price target of Rs144/sh (upside of 78%).

PTC: SOTP Composition

	Business Segment	Method	Valuation multiple	Value (Rs m)	Value (Rs/sh)
Core Business	Power Trading	PER, FY12E	15	15,210	52
PTC Financial Services	Financial Intermediation	P/BV, FY12E	1.5	8,567	29
PTC Energy	Power Generation	PER, FY12E	5	4,844	16
Athena Projects	Power Generation	Book Value, FY10		480	2
Teestha VI	Power Generation	Book Value, FY10		1,257	4
Krishna Godavari	Power Generation	Book Value, FY10		195	1
Cash Balance		Book Value, FY10		11,901	40
					144

Source: Company/MOSL

PTC India: an investment profile

Company background

PTC India Ltd. is the pioneer in power trading in India, and over the years has become a Power Solutions company. It was set up in April 1999 with a mandate to catalyze the development of large power projects by acting as a single buyer for PPAs with independent power producers on one hand and by entering multi-partite PPAs with users and SEBs under long-term arrangements on the other. The GoI has identified PTC as its nodal agency for trading power with neighboring countries. For FY10 PTC India has market share of 44% in ST Volumes.

Key investment arguments

- Change in business mix towards long-term contracts extends volume and margin visibility and PTC to benefit from CERC regulation of no cap on long term volume.
- Addressable market of PTC to rise due to open access to intra-state transmission, easing of inter state grid constraints, commissioning of new merchant power plants, etc
- PTC Financial Services (PFS) and PTC Energy (PEL) witnessing business traction. PFS has book size of Rs15.1b as on Q1FY11 and sanctioned debt and equity of Rs19.5b and Rs5b respectively.

Key investment risks

- Changes in the regulatory regime
- Increasing competition in the short-term market
- Power off-take risk in executing long-term contracts

Recent development

- PTC Ashmore fund launched and expected to close with fund size of USD300m by Q3FY11.
- In-Principle approval from board for IPO in current financial year.

Valuation and view

- PTC has cash and cash equivalent of Rs11b, and has investments of Rs7b into subsidiaries/project SPVs.
- We expect PTC to report consolidated net profit of Rs1.6b in FY11E (up 45% YoY), Rs3.1b in FY12E (up 88% YoY) and Rs4.2b in FY13 (up 36% YoY). The stock trades at reported PER of PER of 14.3x FY11E, 7.6x FY12E and 5.6x FY13E. Maintain **Buy**, with Price target of Rs144/sh (upside of 78%).

Sector view

- We believe that the Indian power sector offers Significant growth potential. Incumbents, especially the CPSUs and private players, enjoy growth optionally, This could be in multiples of the current size

Target Price and Recommendation

Current Price (Rs)	Target Price (Rs)	Upside (%)	Reco.
81	144	77.8	Buy

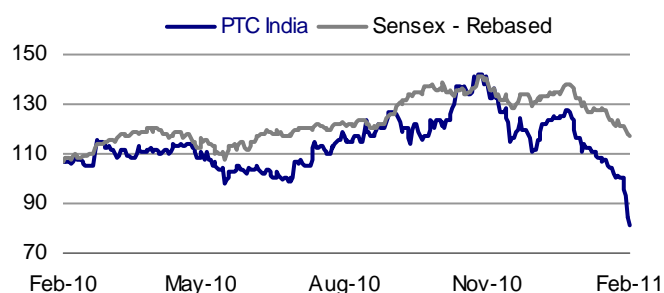
EPS: MOSL forecast v/s Consensus (Rs)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY11	5.7	4.7	20.5
FY12	10.6	7.4	44.0

Shareholding Pattern (%)

	Dec-10	Sep-10	Dec-09
Promoter	16.3	16.3	16.3
Domestic Inst	48.7	52.1	47.9
Foreign	19.7	16.4	21.0
Others	15.3	15.3	14.9

Stock performance (1 year)



N O T E S



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Disclosure of Interest Statement

PTC India

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|---|----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

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