PTC India Financial Services ₹ 26-28

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Strong growth outlook: Huge investments (about ₹ 11,00,000 crore) into the power sector in XII Five Year Plan on the back of 100,000MW capacity addition will drive the loan growth for the company. The estimated funding gap in XI plan is pegged at ~40% which offers enough headroom for the smaller power financing companies like PFS to grow at the healthy pace. The loan book of the company has grown about thirty times since March 2009.

Unique business model: The business model of the company is unique vis-à-vis other power financing entities as in addition to debt financing, PFS makes strategic investments in companies in the energy value chain including in Greenfield and Brownfield projects in India. As on December 2010, the approved equity commitments for 10 companies pegged at ₹ 564.2 crores with projects aggregating 3,221MW of power generation capacity. Against this sanctioned commitments, PFS has already entered into definitive agreements for investments in 8 companies for an aggregate amount of ₹ 482.8 crore (63% of PFS's networth) with projects aggregating 2,621MW of power generation capacity. Equity financing business is more lucrative than treasury investments as PFS targets ~20% ROE on its equity portfolio and can exit from the equity investments through various exit options such as buybacks, IPO or stake sale etc.

Benefits of IFC status: PFS got IFC status in August 2010 which provides greater flexibility by enhancing its ability to raise funds on a cost competitive basis and take higher debt exposure in power projects than other NBFCs. As an IFC, it is eligible to raise ECBs up to 50% of its owned funds under automatic route, issue tax free infrastructure bonds and greater flexibility in lending to power projects among other things. It will enable PFS to lower its cost of borrowing which is as high as 10.2% (9MFY11) v/s 8.42% for PFC and 7.85% for REC.

Superior margin & zero NPA: The net interest margin is quite high at 7.5% 9MFY11 primarily because its short term lending rate is quite high (over 20%) v/s long term lending rate of ~13%. Margin is likely to moderate as the proportion of long term loans increases. Margin has already come down significantly to 7.5% from 11.9% in FY10 and 17.2% in FY09. Further, the company has zero NPA.

Strong domain knowledge & expertise: Its domain knowledge and expertise in power sector enables PFS to identify investment opportunities with high potential and effectively manage risks associated therewith. PFS has developed strong relationships over a period of time and become a preferred financing provider for power projects, particularly for smaller and medium sized projects.

Leveraging on PTC relationship & brand: PFS leverages on its relationship with its parent company which is the market leader for power trading solutions in India and provides comprehensive solutions for the power sector. It provides PFS with early access to potential business opportunities, ability to understand and efficiently cater to the needs of the developers in a comprehensive manner.

Focus on expansion of fee based services & CER financing:
PFS intends to increase its fee-based product offerings that include primarily debt facility agent, security agent services and various advisory services. It also intends to increasingly focus on debt syndication activities in the future. Moreover, PFS has also commenced carbon credit financing against CER in March 2010.

Reasonable valuations: We believe PFS is reasonably priced at 1.54x of current book at the upper band and 1.43x at the lower band. Though it is smaller player in comparison to its peers, there is enough headroom to grow in the near to mid term. We recommend SUBSCRIBE with long term view however investors looking for listing gains may avoid the issue.

Key Financials ₹. Crore

Peer Comparision (9MFY11)	FY08	FY09	FY10	9MFY11
Total Income	3.1	11.6	53.5	82.5
Total expenditures	2.0	2.9	16.8	38.3
Net Profit	1.6	8.5	25.5	31.2
EPS	0.2	0.2	0.6	0.7
BVPS	12.3	14.0	14.6	15.3
P/B (at ₹ 28)	2.3	2.0	1.9	1.8

Source: Company data, KRChoksey Research

Date: March 15, 2011

Market Info:

SENSEX	18,168
NIFTY	5,450

IPO price band: ₹.26-28

Date of Opening	March 16, 2011
Date of Closing	March 18, 2011
Issue size @ ₹ 26-28	₹ 407-439 crore
No. of Shares Offered	15.7 crore
Face Value	10
BRLMs	SBI Capital, JM Financial, ICICI Sec, Almondz, Avendus
Registrar	Karvy
IPO Grading	4 out of 5 from CARE, 3 out of 5 from CRISIL
Minimum Lot	250 equity shares
Maximum Retail Lot	7,000 Shares ₹ 196,900/- at ₹ 28*/- per share
Post Issue Share Capital	₹ 562 crore
Post Issue Market - cap.	₹ 1,461-1,574 Crore

***Retail discount of ₹ 1 to the issue price**

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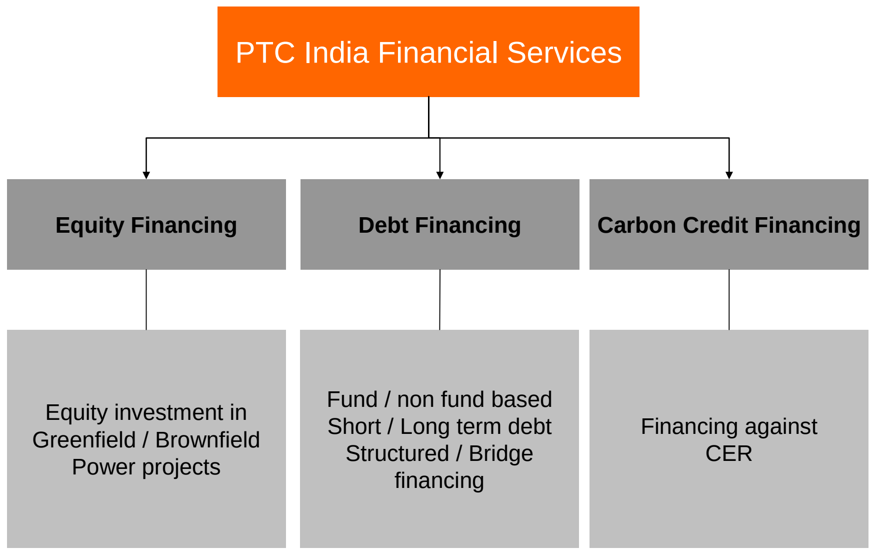
Incorporated in 2006, PFS is a non-deposit taking NBFC catering to financial needs of small & medium power projects. It got IFC status in August 2010.

Company description

PTC India Financial Services Ltd (PFS) was incorporated as a 100% subsidiary of PTC India in September 2006 and commenced its operations in May 2007. PFS is systematically important and non deposit taking NBFC engaged in the business of equity financing, debt financing and carbon credit financing, fee based syndication and advisory services particularly to the power sector. In 2008, the promoting company sold 22% stake in the subsidiary for a consideration of ₹ 155 crore to PE players Macquarie and Goldman Sachs. Currently, its promoter PTC India, a market leader in power trading business, holds 77.6% in the company which will decline to 60% post issue. Capital adequacy ratio stood at 60.6% as on December 2010 with tier- I capital comprising 60.4%.

Business Model



Management Profile

Mr. T. N. Thakur

Aged 61 years, is the CMD. He is the founder director of the company and has been on the board since incorporation. He holds a Bachelors degree in engineering and has more than 30 years of experience in Indian Audit & Accounts Service. Earlier he was with PFC as a Director (Finance & Financial Operations). He has about 3 years of tenure remaining with the company. He is also the CMD of the parent company, PTC India.

Mr. Ashok Haldia

Aged 54 years, is a Whole Time Director and CFO. He has over 2 years of tenure remaining with the company. He is a qualified member of ICAI, ICSI and ICWAI. He also holds a Ph.D. degree from University of Rajasthan. He has been on the board since August 2008 and prior to which he served as a secretary, ICAI for about a decade.

The issue

Pre issue paid up capital	
43.5 equity shares of ₹ 10 each	434.6
Equity shares offered	
Fresh issue of 12.8 crore shares	127.5
Offer for sale of 2.9 crore shares	29.2
Post issue paid up capital	562.1
Equity dilution	29.3%

Source: Company data, KRChoksey Research

Shareholding Pattern

Shareholding Pattern	Pre Issue	Post Issue
PTC India	77.6%	60.0%
Macquarie India Holdings	11.2%	3.5%
GS Strategic Investment	11.2%	8.7%
Public	0.0%	27.9%
Total	**100.0%**	**100.0%**

Source: Company data, KRChoksey Research

The objective of the issue

The objective of the issue is to augment the capital base to meet their future requirements arising out of growth in business.

Sector outlook

India is an energy deficient country with energy deficit at 10.1% and peak deficit at 13.3%. We expect India would be energy surplus after 2014 thanks to phenomenon capacity addition in XII plan.

Steps taken by the GOI to boost the power sector:

- UMPP (4,000MW) to result in phenomenon capacity addition in XII
- Larger independent Transmission Projects (LITP) to boost transmission infrastructure
- R-APDRP to cause significant reduction in AT&C losses (currently ~29% and targeted at 15%)
- Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) - launched in April 2005, goal is to provide access to electricity to all households in 5 years. Under the scheme, 90% of capital subsidy is being provided by GOI for overall cost of the projects
- Thrust on Renewable & Nuclear Power

₹ crore	XI Plan	XII Plan
Infrastructure	2,050,000	4,100,000
Power	658,629	1,100,000
% of Infra Spending	*32.1%*	*26.8%*
Generation	231,629	489,000
% of Power spending	*35.2%*	*44.5%*
Transmission	140,000	240,000
% of Power spending	*21.3%*	*21.8%*
Distribution	287,000	371,000
% of Power spending	*43.6%*	*33.7%*
Generation Target (MW)	78,700	100,000

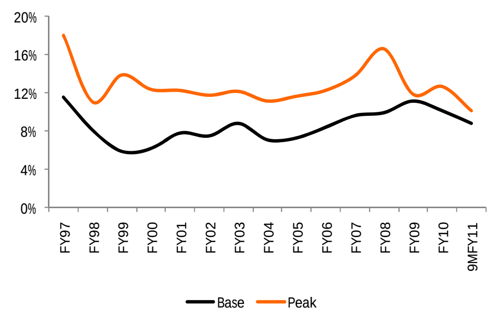
Source: CEA, RECL, PFC, KRChoksey Research

Asset liability mismatch was positive ₹ 159.6 crore as of December 31, 2010.

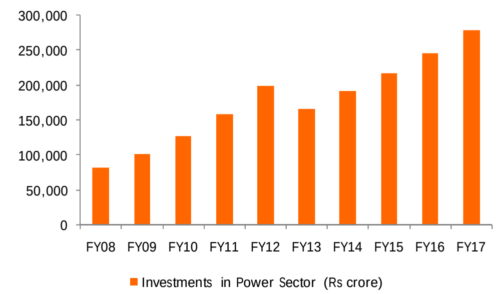
Since PFS makes equity investments in unlisted firms which are illiquid in nature, it may be difficult to exit profitably.

PFS is engaged in power financing which exposes it to the single sector concentration risk besides execution risk involved at the project level.

Energy deficit is likely to whittle down and turn energy surplus by 2014-15



Investments in power sector is likely to pick in XII plan



Source: CEA, RECL, PFC, KRChoksey Research

Asset Liability Management

	Upto 1 Month	1-12 Months	1-3 Years	3-5 Years	Over 5 Years	Total
Liabilities	17.3	57.5	278.3	130.8	921.8	1,405.5
Assets	56.2	235.3	244.2	155.8	873.7	1,565.1
Gap	38.9	177.8	-34.1	25.0	-48.1	159.6
Cumulative Gap	38.9	216.7	182.6	207.7	159.6	159.6

Source: DRHP

Equity Financing

Equity Financing	Stake	Investments (₹ crore)
Ind - Barath Energy (Utkal) Ltd	20.6%	105.0
Ind - Barath Power Gencom Ltd	26.0%	55.6
Indian Energy Exchange Ltd	21.1%	5.8
Meenakshi Energy Pvt. Ltd	20.4%	60.3
Rs India Wind Energy Ltd	37.0%	61.1
Varam Bio Energy Pvt. Ltd	26.0%	4.4

Source: DRHP

Concentration of outstanding loans as on December 2010

	%age of loans	Loans (₹ crore)
Konaseema Gas Power Limited	17.8%	100.0
Thermal Powertech Corp. India Ltd	17.8%	100.0
Athena Chhattisgarh Power Pvt. Ltd	16.1%	90.0
Surana Power Limited	14.3%	80.0
ICOMM Tele limited	9.4%	52.8
Bajaj Energy Private limited	7.8%	43.8
Jhajjar Power Limited	5.7%	31.9
OCL India Limited	5.4%	30.0
Amreli Power Projects (P) Ltd.	2.9%	16.1
A A Energy Ltd	2.8%	15.9
Total	**100.0%**	**560.5**

Source: DRHP

Peer comparison (9MFY11)

	PFS	PFC	REC	IDFC
NIM	7.5%	4.1%	4.5%	3.7%
Spread	5.6%	2.8%	3.4%	2.5%
BVPS	19.6	124.8	127.1	68.2
EPS	0.7	23.4	18.9	6.6
Loan Book	595	92,118	75,744	35,021
Gross NPA	0.00%	0.01%	0.03%	0.10%
ROE	4.8%	20.1%	21.1%	15.5%

Source: Company data, KRChoksey Research, Post issue book value for PFS

Valuation & View

We believe PFS is reasonably priced at 1.54x of current book at the upper band and 1.43x at the lower band. Though it is smaller player in comparison to its peers such as PFC, REC and IDFC, there is enough headroom to grow in the near to mid term. We recommend SUBSCRIBE to the issue with long term horizon. However investors looking for listing gains may avoid the issue as upside potential is limited, in our view.

Valuation	PFS		PFC	REC	IDFC
CMP	26	28	233	219	145
P/B	1.43	1.54	1.86	1.73	2.12
P/E	36.19	38.98	9.95	11.58	21.83

Source: KRChoksey Research

Key concerns

Slower growth in disbursements, stiff competition from the banks and rising interest rates particularly wholesale costs of funds may mount pressure on the margin and spread in the near term. Further, inability to timely exit from equity investments in unlisted entities which are illiquid and concentration risk as over 75% loans have been extended to top five borrowers, are other key risks.

Financials

Income Statement Summary

₹ crore	FY07	FY08	FY09	FY10	9MFY11
Interest Income	0.2	0.0	0.4	27.5	57.9
Interest on loan financing	0.0	0.0	0.0	13.6	54.1
Interest on fixed deposits	0.2	0.0	0.3	13.9	3.8
Income from investments	0.0	3.1	10.3	21.3	14.1
Other Income	0.0	0.0	0.9	4.7	10.5
Fee based income	0.0	0.0	0.9	4.7	6.7
Income from sale of power	0.0	0.0	0.0	0.0	3.5
Others	0.0	0.0	0.0	0.0	0.3
Total Income	**0.2**	**3.1**	**11.6**	**53.5**	**82.5**
Interest and other charges	0.0	0.0	0.0	11.6	28.6
Personnel expenses	0.0	0.3	1.0	2.6	0.6
Administration and other expenditure	1.8	1.7	1.9	2.6	3.3
Depreciation/ amortization	0.0	0.0	0.0	0.0	4.1
Provision for contingencies	0.0	0.0	0.0	0.0	1.6
Total expenditures	**1.8**	**2.0**	**2.9**	**16.8**	**38.3**
PBT	-1.7	1.1	8.7	36.7	44.3
Provision for tax	0.1	-0.5	0.2	11.2	13.1
Net Profit	**-1.7**	**1.6**	**8.5**	**25.5**	**31.2**

Balance Sheet Summary

₹ Crore	FY07	FY08	FY09	FY10	9MFY11
Equity share capital	4.0	90.0	434.6	434.6	434.6
Reserves and surplus	0.0	20.7	174.7	200.1	231.3
Net worth	**2.3**	**110.6**	**609.3**	**635.9**	**664.5**
Secured Loans	0.0	0.0	20.0	310.8	477.4
Deferred tax liabilities (net)	0.0	0.0	0.0	4.4	7.2
Current liabilities	1.8	2.2	1.2	7.9	17.5
Provisions	0.0	0.0	0.0	0.0	1.8
Total liabilities & Equity	4.1	112.8	630.5	959.0	1,168.3
Fixed Assets (net)	0.0	0.0	0.1	35.0	31.1
Capital WIP	0.0	0.0	0.0	0.1	0.0
Investments	**0.0**	**111.8**	**200.0**	**406.7**	**440.5**
Loan financing	**0.0**	**0.0**	**20.0**	**266.2**	**595.1**
Deferred tax assets (net)	0.0	0.5	0.4	0.0	0.0
Sundry debtors	0.0	0.0	0.0	0.0	0.4
Cash and bank balances	4.1	0.1	408.7	234.5	66.4
Loans and advances	0.0	0.3	0.7	11.8	29.7
Other current assets	0.1	0.0	0.7	4.8	5.0
Total Assets	**4.1**	**112.8**	**630.5**	**959.0**	**1,168.3**

Source: Company data, KRChoksey Research

Key Operating Matrix

	FY07	FY08	FY09	FY10	9MFY11
Net Interest Income (₹ crore)	---	---	0.4	19.0	26.1
Yield on interest bearing assets	---	---	17.7%	19.0%	15.7%
Cost of funds	---	---	11.9%	10.6%	10.2%
Net Interest Margin	---	---	17.2%	11.9%	7.5%
Spread	---	---	5.8%	8.4%	5.6%
Sanctions	---	---	284.3	1,542.9	2,256.7
Disbursements	---	---	20.0	246.2	328.9
EPS	-4.3	0.2	0.2	0.6	0.7
Book Value	5.7	12.3	14.0	14.6	15.3

Source: Company data, KRChoksey Research

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