



## PTC India

STOCK INFO.	BLOOMBERG
BSE SENSEX: 18,513	PTCIN IN
	REUTERS CODE
S&P CNX: 5,496	PTCI.BO

24 October 2007

Buy

Previous Recommendation: Buy

Rs106

Equity Shares (m)	150.0
52-Week Range	112/46
1,6,12 Rel. Perf.(%)	7/48/43
M.Cap. (Rs b)	15.9
M.Cap. (US\$ b)	0.4

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
03/07A	36,307	353	2.3	-13.7	45.2	6.0	13.8	17.7	0.4	55.0
03/08E	58,529	441	2.9	25.6	36.0	5.5	15.9	17.0	0.3	35.7
03/09E	76,412	556	3.7	26.1	28.6	4.9	18.1	17.7	0.2	27.7

\* Pre Exceptional

- 2QFY08 performance in line with expectation:** During 2QFY08, PTC reported revenues of Rs14.7b, up 11.6% YoY, EBIDTA of Rs103m, up 8.3% YoY and net profit of Rs115m, up by 33.3% YoY. The net profit numbers are in line with our estimates. The volume traded during 2QFY08 stood at 4,110MUs, up 25.8% YoY with Tala hydro power project, Bhutan accounting for 50% of the traded volumes (~2BUs).
- Planned fund raising of Rs12b through QIP issue (during FY08):** The Company has recently approved raising Rs12b through equity to finance investments of Rs1.6b in PTC Financial Services, Rs1.4b as equity commitment in Teestha (1200MW), Rs1.5b equity in Athena Energy, Rs3-4b for acquisition of coal mines abroad and balance to maintain capital adequacy ratio for power trading.
- Key takeaways from Analyst meet:** 1) PTC is in the process of finalizing the stake sale (40%) in PTC Financial Services (100% subsidiary) to two international partners, 2) PTC owns 26% stake in the power exchanges through PTC Financial services, 3) Cumulative PPAs signed as at end Sept-07 stood at 10,434MW while PSA has been signed for 5011MW. It has also entered into MoU for 21,689MW and 4) Athena Ventures (20% stake by PTC) has bagged power project of 3700MW.
- Valuations and view:** We expect PTC to report net profit of Rs441m in FY08 (up 25.6% YoY) and Rs556m in FY09 (up 26.9% YoY). At CMP of Rs106/sh, the stock trades at reported PER of 36x FY08 and 28.6x FY09. The reported earnings does not factor in possible earnings from 10,434MW of long term PPAs to be commissioned during FY11-13 and possible value creation from PTC Financial Services, Athena Energy Ventures, Coal Intermediation, and power exchange. Maintain **Buy**.

### QUARTERLY PERFORMANCE

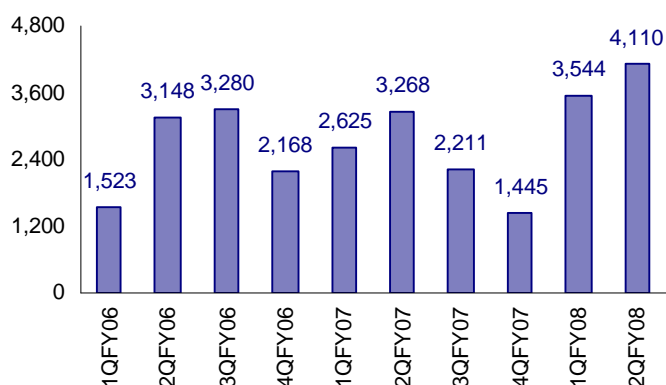
Y/E MARCH	FY07				FY08				(Rs Million)	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE	FY07	FY08E
Power Traded (MUs)	2,625	3,268	2,211	1,445	3,544	4,110	3,869	3,884	9,549	15,407
<b>Sales</b>	<b>10,421</b>	<b>13,147</b>	<b>8,074</b>	<b>6,025</b>	<b>11,586</b>	<b>14,672</b>	<b>13,929</b>	<b>18,342</b>	<b>37,667</b>	<b>58,529</b>
Change (%)	138.3	52.5	-23.4	-20.2	11.2	11.6	72.5	204.4	21.2	55.4
<b>EBITDA</b>	<b>88</b>	<b>95</b>	<b>82</b>	<b>53</b>	<b>58</b>	<b>103</b>	<b>120</b>	<b>174</b>	<b>318</b>	<b>456</b>
Change (%)	8.0	-32.7	-55.3	-42.6	-34.0	8.3	45.9	231.5	-36.3	43.3
As of % Sales	1.3	0.7	1.0	0.9	0.5	0.7	0.9	1.0	0.8	0.8
Depreciation	8	8	8	9	7	8	11	17	33	42
Interest	3	7	7	2	3	6	9	30	20	48
Other Income	79	39	44	32	97	64	45	16	193	222
Extraordinary Income/(Expense)	-1	0	0	0	0	0	0	0	0	0
<b>PBT</b>	<b>155</b>	<b>119</b>	<b>111</b>	<b>73</b>	<b>144</b>	<b>154</b>	<b>145</b>	<b>144</b>	<b>459</b>	<b>588</b>
Tax	35	32	25	15	25	39	41	42	106	147
Effective Tax Rate (%)	22.3	27.1	22.2	20.5	17.4	25.3	28.0	29.3	23.2	25.0
<b>Reported PAT</b>	<b>120</b>	<b>86</b>	<b>86</b>	<b>58</b>	<b>119</b>	<b>115</b>	<b>104</b>	<b>102</b>	<b>352</b>	<b>441</b>
<b>Adjusted PAT</b>	<b>120</b>	<b>86</b>	<b>86</b>	<b>58</b>	<b>119</b>	<b>115</b>	<b>104</b>	<b>102</b>	<b>352</b>	<b>441</b>
Change (%)	6.3	-11.2	-32.7	-16.5	-0.8	33.3	21.2	74.9	-13.7	25.1

E: MOST Estimates

## 2QFY08 performance in line

During 2QFY08, PTC reported revenues of Rs14.7b (up 11.6% YoY), EBIDTA of Rs103m (up 8.3% YoY) and Net profit of Rs115m (up 33.3% YoY). The net profit numbers are in line with our estimates. The volume traded during 2QFY08 was up 25.8% YoY to 4,110 MUs, from 3,268 MUs in 2QFY07. PTC has been able to maintain market share of 59% in short term market. During 2QFY08, Tala hydro power project, Bhutan accounted for 50% of the traded volumes (~2BUs) vs marginal contribution during 2QFY07, as the project was commissioned in phases during Aug 06-Feb 07.

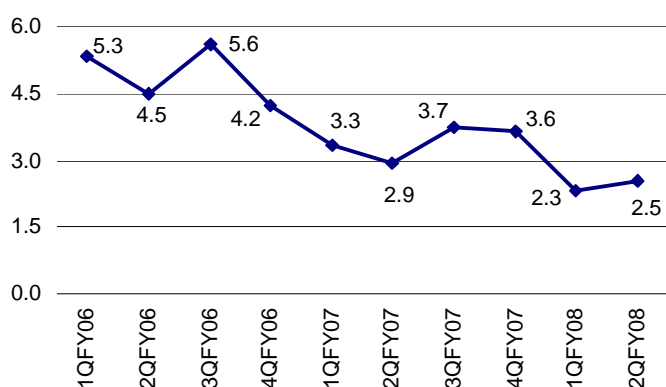
TRADING VOLUME (MUS)



Source: Company

During 2QFY08, trading margins declined 14% YoY to Rs0.025 per unit, vs Rs0.029 per unit in 2QFY07. The decline is due to the higher proportion of volumes from Tala project, where the company enjoys trading margins of Rs0.025/unit.

TREND IN GROSS MARGIN (PAISA/UNIT)



Source: Company

## Planned fund raising of Rs12b through QIP issue (during FY08)

The Company has recently approved raising Rs12b through equity to finance investments of Rs1.6b in PTC Financial Services, Rs1.4b as equity commitment in Teestha (1200MW), Rs1.5b equity in Athena Energy, Rs3-4b for acquisition of coal mines abroad and balance for maintaining a reasonable capital adequacy ratio for power trading. The management intends to keep 10 days of margin for short term power trading and 3 months for long term trading.

## Key takeaways from the analyst meet

**Strategic stake sale in PTC Financial Services:** PTC Financial Services has authorized capital of Rs3b, and the management has indicated that PTC will own 60% stake. The balance 40% (20% each) would be offered to two international partners, and the transaction is expected to be completed over the next 10-15 days. PTC Financial Services will engage in equity funding for power projects, through its own proprietary book (5-6x leverage on initial equity possible) and third party funds. To begin with, PTC Financial Services will have the option to explore minority stakes in projects where PTC has signed Long term PPAs for power trading (PPAs 10,434MW and MOUs 21,689MW). Going forward, the company can also take equity stakes in third party projects, both in power and coal segments.

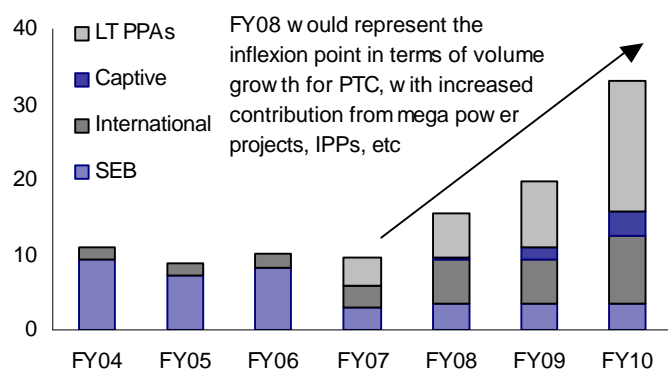
**Athena energy ventures – gaining size:** In Sept 07, Athena Projects (52%), IDFC (28%) and PTC (20%) launched power business joint venture, Athena Energy Ventures, which intends to develop power project portfolios worth 10,000MW by 2015. The JV has already bagged 1700MW hydro power project in Arunachal Pradesh and 2000MW of thermal power projects.

**Power exchanges initiative – at a nascent stage:** PTC owns 26% stake in the power exchange through PTC Financial Services. As per the CERC norms, to begin with, physical volumes can be traded on the exchange and going forward, derivatives would also be traded. It seems that there is no cap on the margins on units traded through the exchange. Successful launch will again lead to sizeable value creation for PTC over the medium to long term.

**Long term contracts to dominate the trading mix going forward:** During FY08, we expect the Tala project to contribute ~4BUs, of which 2BUs were traded in 2QFY08 (hydro power generation peaks during monsoon season). As at Sept 07, PTC has signed Memorandum of Understanding (MOUs) for 21689MW of power capacity, and firm power purchase agreement for 10,434MW. The company has also signed Power sale Agreement for 5,011MW. Most of these projects will be commissioned during FY11-13, and thus would increase volumes significantly.

During FY08, we expect the trading volume for PTC to increase to 15.4BUs, comprising largely of the medium and long term contracts (11.2BUs) and 19.7BUs in FY09 with 14.3BUs from the medium and long term contracts. The share of volumes from the medium and long term contracts in the overall trading volumes for the company is expected to be 73% both for FY08 and FY09.

TREND IN PTC'S EXPECTED VOLUME BUILD UP



Source: Company/Motilal Oswal Securities

**Arbitrage between coal and electricity prices:** PTC had earlier signed agreements for 500MW of generation capacities with power developers in Andhra Pradesh, where the company will supply imported coal and under a tolling arrangement, get it converted into electricity. PTC has ventured into coal intermediation to focus on the 'Dark spread' (margin on coal trading) and 'Spark spread' (difference between cost of electricity and realization). The company is looking to enter into long term contracts with miners in Indonesia, Australia, etc for coal supplies, and thus act as aggregator for medium sized power plants in India. It plans to invest Rs3-4b for acquisition of coal mines abroad. The company also is looking at opportunities where it will supply imported coal and get it converted into electricity under a tolling arrangement, and thus leverage the arbitrage between coal and electricity prices.

**Valuations and view**

We expect PTC to report net profit of Rs441m in FY08 (up 25.6% YoY) and Rs556m in FY09 (up 26.9% YoY). At CMP of Rs106/sh, the stock trades at reported PER of 36x FY08 and 28.6x FY09. The reported earnings does not factor in possible earnings from 10,434MW of long term PPAs to be commissioned during FY11-13 and possible value creation from PTC Financial Services, Athena Energy Ventures, Coal Intermediation, and power exchange. **Maintain Buy.**

## PTC India: an investment profile

### Company description

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. Currently, short-term trading account for around 80% of PTC's volumes, but this is expected to decline to 25% by FY08.

### Key investment arguments

- ✍ Change in business mix towards long-term contracts extends volume and margin visibility and hence lends solidity to PTC's business model.
- ✍ 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.
- ✍ FY08 would be the inflexion point in terms of volumes and earnings.

### 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 developments

- ✍ Received approval from shareholders for a QIP issue of Rs12b
- ✍ PTC is in the process of finalizing a stake sale (40%) in a 100% subsidiary, PTC Financial services to two international partners. It is engaged in the business of investment in the energy related sectors.

### Valuation and view

- ✍ At CMP of Rs106/sh, the stock trades at reported PER of 36x FY08 and 28.6x FY09. Maintain **Buy**.

### Sector view

- ✍ We believe that the Indian power sector offers significant growth potential. Incumbents, especially the CPSUs and private players, enjoy growth optionality, which could be in multiples of the current size.

#### COMPARATIVE VALUATIONS

		PTC	REL. ENER.	TPWR
P/E (x)	FY08E	36.0	39.1	35.9
	FY09E	28.6	39.9	37.2
P/BV (x)	FY08E	5.5	4.0	3.7
	FY09E	4.9	3.7	3.5
RoE (%)	FY08E	15.9	10.7	9.6
	FY09E	18.1	10.7	8.8

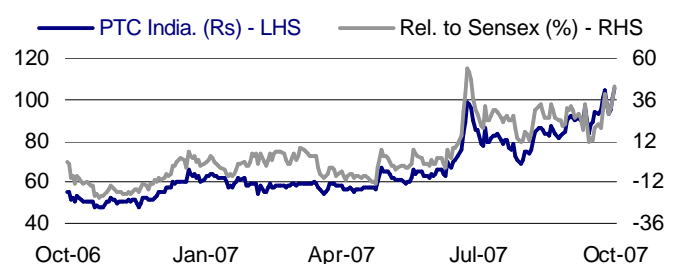
#### SHAREHOLDING PATTERN (%)

	SEP-07	JUN-07	SEP-06
Promoter	32.0	32.0	32.0
Domestic Inst	9.2	8.9	6.5
Foreign	28.1	26.4	22.3
Others	30.7	32.7	39.2

#### EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	2.9	3.7	-22.0
FY09	3.7	4.5	-18.4

#### STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(RS MILLION)					
Y/E MARCH	2005	2006	2007	2008E	2009E
<b>Total Revenues</b>	<b>19,525</b>	<b>29,861</b>	<b>36,307</b>	<b>58,529</b>	<b>76,412</b>
Total Expenses	19,196	29,394	36,029	58,073	75,782
<b>EBITDA</b>	<b>329</b>	<b>467</b>	<b>279</b>	<b>456</b>	<b>630</b>
<i>% of Total Revenues</i>	<i>1.7</i>	<i>1.6</i>	<i>0.8</i>	<i>0.8</i>	<i>0.8</i>
Depreciation	12	14	13	42	51
Interest	0	0	0	48	188
Other Income	52	120	193	222	381
<b>PBT</b>	<b>369</b>	<b>573</b>	<b>459</b>	<b>588</b>	<b>772</b>
Tax	125	165	105	147	216
<i>Rate (%)</i>	<i>33.8</i>	<i>28.7</i>	<i>23.0</i>	<i>25.0</i>	<i>28.0</i>
<b>Reported PAT</b>	<b>244</b>	<b>408</b>	<b>353</b>	<b>441</b>	<b>556</b>
<i>Change (%)</i>	<i>-21.7</i>	<i>67.3</i>	<i>-13.4</i>	<i>24.7</i>	<i>26.1</i>

BALANCE SHEET					
(RS MILLION)					
Y/E MARCH	2005	2006	2007	2008E	2009E
Share Capital	1,500	1,500	1,500	1,500	1,500
Reserves	746	982	1,156	1,398	1,732
<b>Net Worth</b>	<b>2,246</b>	<b>2,482</b>	<b>2,656</b>	<b>2,898</b>	<b>3,232</b>
Loans	0	0	0	1,911	2,782
Deferred Tax Liability	26	20	15	0	0
<b>Capital Employed</b>	<b>2,271</b>	<b>2,503</b>	<b>2,671</b>	<b>4,809</b>	<b>6,014</b>
Gross Fixed Assets	232	235	240	314	358
Less: Depreciation	39	52	65	107	159
<b>Net Fixed Assets</b>	<b>194</b>	<b>183</b>	<b>175</b>	<b>207</b>	<b>199</b>
Investments	1,980	1,913	2,111	4,134	5,179
<b>Curr. Assets</b>	<b>1,032</b>	<b>2,289</b>	<b>2,635</b>	<b>4,136</b>	<b>5,423</b>
Inventory	0	0	0	0	0
Debtors	565	991	1,625	2,620	3,421
Cash & Bank Balance	96	594	482	672	901
Loans & Advances	367	699	523	843	1,101
Other Current Assets	3	6	4	0	0
<b>Current Liab. &amp; Prov.</b>	<b>990</b>	<b>1,919</b>	<b>2,267</b>	<b>3,667</b>	<b>4,788</b>
Other Liabilities	535	1,252	1,658	2,675	3,492
Provisions	457	671	615	992	1,295
Net Deferred Tax Asset	-2	-4	-6	0	0
<b>Net Current Assets</b>	<b>42</b>	<b>370</b>	<b>367</b>	<b>469</b>	<b>636</b>
<b>Misc Expenses</b>	<b>57</b>	<b>37</b>	<b>17</b>	<b>0</b>	<b>0</b>
<b>Application of Funds</b>	<b>2,272</b>	<b>2,503</b>	<b>2,671</b>	<b>4,809</b>	<b>6,014</b>

E: MOST Estimates

RATIOS					
Y/E MARCH	2005	2006	2007	2008E	2009E
<b>Basic (Rs)</b>					
<b>EPS</b>	<b>1.6</b>	<b>2.7</b>	<b>2.3</b>	<b>2.9</b>	<b>3.7</b>
<b>CEPS (Rs)</b>	<b>1.7</b>	<b>2.8</b>	<b>2.4</b>	<b>3.2</b>	<b>4.0</b>
Book Value	14.6	16.3	17.6	19.3	21.5
DPS	0.9	1.1	1.2	1.3	1.5
Payout (incl. Div. Tax.)	56.9	42.1	50.0	45.0	40.0
<b>Valuation (x)</b>					
P/E		39.1	45.2	36.0	28.6
EV/EBITDA		33.3	55.0	35.7	27.7
EV/Sales		0.5	0.4	0.3	0.2
Price/Book Value		6.5	6.0	5.5	4.9
Dividend Yield (%)		1.1	1.1	1.2	1.4
<b>Profitability Ratios (%)</b>					
RoE	11.3	17.5	13.8	15.9	18.1
RoCE	16.6	24.0	17.7	17.0	17.7

Turnover Ratios					
Debtors (Days)	11	12	16	16	16
Asset Turnover (x)	0.1	0.2	0.1	0.1	0.1
<b>Leverage Ratio</b>					
Debt/Equity (x)	0.0	0.0	0.0	0.7	0.9

CASH FLOW STATEMENT					
(Rs Million)					
	2005	2006	2007	2008E	2009E
<b>PBT before EO Items</b>	<b>369</b>	<b>573</b>	<b>459</b>	<b>588</b>	<b>772</b>
Add : Depreciation	12	14	13	42	51
Interest	0	0	0	48	188
Less : Direct Taxes Paid	125	165	105	147	216
(Inc)/Dec in WC	-656	169	-109	89	62
<b>CF from Operations</b>	<b>-400</b>	<b>591</b>	<b>257</b>	<b>620</b>	<b>857</b>
Extra-ordinary Items	0	0	0	0	0
<b>CF from Oper. incl EOI</b>	<b>-400</b>	<b>591</b>	<b>257</b>	<b>620</b>	<b>857</b>
(Inc)/dec in FA	-12	-3	-6	-74	-44
(Pur)/Sale of Investments	-643	64	-200	-2,023	-1,045
<b>CF from Investments</b>	<b>-655</b>	<b>61</b>	<b>-206</b>	<b>-2,096</b>	<b>-1,089</b>
(Inc)/Dec in Networth	12	16	13	2	0
(Inc)/Dec in Debt	0	0	0	1,911	871
Less : Interest Paid	0	0	0	48	188
Dividend Paid	137	171	175	198	222
<b>CF from Fin. Activity</b>	<b>-124</b>	<b>-155</b>	<b>-163</b>	<b>1,667</b>	<b>461</b>
<b>Inc/Dec of Cash</b>	<b>-1,180</b>	<b>497</b>	<b>-111</b>	<b>190</b>	<b>229</b>
Add: Beginning Balance	1,277	96	594	482	672
<b>Closing Balance</b>	<b>96</b>	<b>594</b>	<b>482</b>	<b>672</b>	<b>901</b>

E: MOST Estimates



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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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