



## PTC India

BSE SENSEX  
20,498

S&P CNX  
6,177

Rs120

Buy

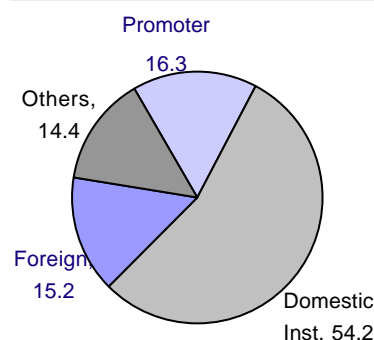


Bloomberg	PTCININ
Reuters	PTCLBO
Equity Shares (m)	294.5
52-Week Range	130/87
1,6,12 Rel. Perf.(%)	-13/-6/19
M.Cap. (Rs b)	36.2
M.Cap. (US\$ b)	0.8

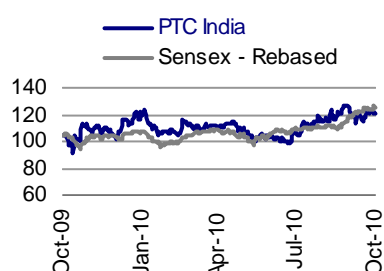
Y/E March	2010	2011E	2012E
Sales (Rs b)	76.5	102.1	136.3
EBITDA (Rs b)	0.4	1.2	1.6
NP* (Rs b)	1.1	1.7	3.3
EPS (Rs)*	3.9	5.9	11.2
EPS Gr. (%)	-6.9	50.2	90.2
BV/Share (Rs)	71.2	73.7	76.7
P/E (x) *	31.0	20.6	10.9
P/BV (x)	1.7	1.6	1.6
EV/EBITDA (x)	43.5	21.8	15.7
EV/ Sales (x)	0.4	0.2	0.2
RoE (%)	5.2	6.3	7.3
RoCE (%)	7.2	8.9	10.1

\* Consolidated

### Shareholding pattern % (Jun-10)



### Stock performance (1 year)



### On the cusp of a big leap

**Consolidated PAT to grow 4x over FY10-13E, value unlocking possibilities exist**

**Trading business to witness earnings CAGR of 68% till FY13, driven by volume growth (up 2.8x) and margin expansion (up 2x):** We expect PTC India to witness 42% CAGR in trading volumes till FY13 to 52BU, largely driven by commissioning of 7GW+ of generation capacity tied up through long-term contracts. We also expect blended gross margins to nearly double to Rs0.07/unit in FY13, given improved margins on short-term contracts based on CERC guidelines and shift in product mix towards profitable contracts (higher share of long-term contracts and lower contribution of cross-border trades). This, we believe will lead to a meaningful 68% CAGR in net profit from power trading till FY13 to Rs1.9b.

### PTC Financial Services on strong footing, expect earnings CAGR of 51% till FY13:

As at September 2010, cumulative sanctions by PTC Financial Services (PFS) stood at Rs28b and disbursements stood at Rs9b. Net worth as at FY10 stands at Rs6.4b and the company can possibly leverage up to 6x for financing activities (potentially Rs40b+), which provides interesting growth possibilities. We expect PFS' balance sheet size to grow at 49% CAGR, reaching Rs31b in FY13 (v/s Rs7b in March 2010). We expect PFS to report net profit of Rs875m in FY13, up from Rs95m in FY09 and Rs255m in FY10 (CAGR of 51%), driven by increased disbursements. We estimate average NIM at 5.3% and RoA at 3.6%, given the mezzanine debt / equity funding sanctions of Rs5b, which entail better spreads.

### PTC Energy witnessing business traction given tolling projects:

PTC Energy's tolling arrangement would start contributing to profitability beginning FY12, as 350MW of capacity would be available. Coal supply has been tied up for the projects for 10 years, with fixed CIF price for five years (subject to a floor and cap). Based on the current fuel rates, we estimate the total cost for PTC Energy (PEL) at Rs3.1-3.2/unit. We believe that this provides net profit possibilities of Rs1.1b in FY12 and Rs1.4b in FY13, up from Rs17m in FY11. This will provide the initial seed capital to finance equity investment in developmental projects. Initial closure of the power sector fund (in JV with Ashmore) expected in 2HFY11 also provides interesting opportunities.

### Value unlocking possibilities; expect consolidated earnings CAGR of 60% till FY13:

Over the next 12-18 months, there could be interesting value unlocking possibilities, given (1) possible IPO / PE transaction in PFS, (2) PE in Athena Energy, and (3) stake sale in Teestha. PTC has cash and cash equivalents of Rs11b, and has already made investments of Rs7b in subsidiaries/project SPVs. We expect PTC's consolidated earnings to increase from Rs1.1b in FY10 to Rs4.7b in FY13 - a CAGR of 60%. The stock trades at consolidated PER of 10.9x FY12E and 7.6x FY13E. Maintain **Buy** with price target of Rs191/share (upside of 60%).

## Trading business to witness earnings CAGR of 68% till FY13

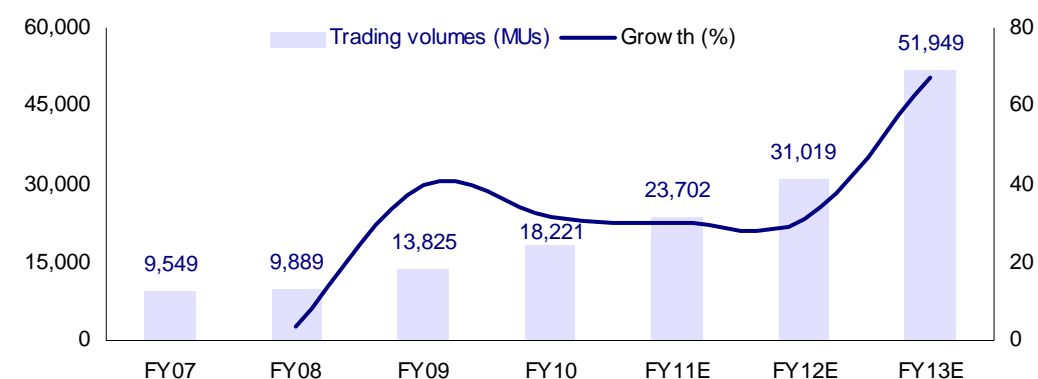
We expect PTC India to witness 42% CAGR in trading volumes till FY13 to 52BU, largely driven by commissioning of 7GW+ of generation capacity tied up through long-term contracts. We also expect blended gross margins to nearly double to Rs0.07/unit in FY13, given improved margins on short-term contracts based on CERC guidelines and shift in product mix towards profitable contracts (higher share of long-term contracts and lower contribution of cross-border trades). This, we believe will lead to a meaningful 68% CAGR in net profit from power trading till FY13 to Rs1.9b.

In FY10, long-term contracts contributed 38% of PTC India's trading volumes; we expect this contribution to increase to 66% in FY13. This will lower earnings volatility and provide better visibility, as the long-term contracts are for ~25 years, covering the entire project lifecycle. As at June 2010, PTC has signed PPAs for 16.4GW capacity, of which 7GW+ are likely to be commissioned over FY13. The build-up in terms of project commissioning stands as: FY10 - 700MW commissioned, FY11 - 700MW (Malana-II, Amarkantak, Sugan, etc), FY12 - 3.5GW (Karcham Wangtoo, Teesta Energy, Meenakshi, Simhapuri, IB Utkal, etc) and FY13 - 2.5GW (Dheeru Powergen, KVK Nilachal, etc). This should drive volume growth for PTC till FY13.

Also, blended trading margins would improve given (1) higher cap proposed by CERC (Rs0.07/unit v/s Rs0.04/unit for power traded at Rs3+); we expect the full benefit to start accruing from 3QFY11, as the existing contracts get re-negotiated, (2) increased share of long-term contracts, which entail higher margins (2-2.5%), as these contracts are largely outside the purview of regulatory cap, and (3) decline in contribution from cross-border trades (lower margins at Rs0.03/unit) from 5.8BU in FY09 (42% of total volumes) to 5.3BU in FY10 (29%) and an estimated 2.7BU in FY13 (5%).

### Trading volumes to witness 42% CAGR till FY13 (MUs)

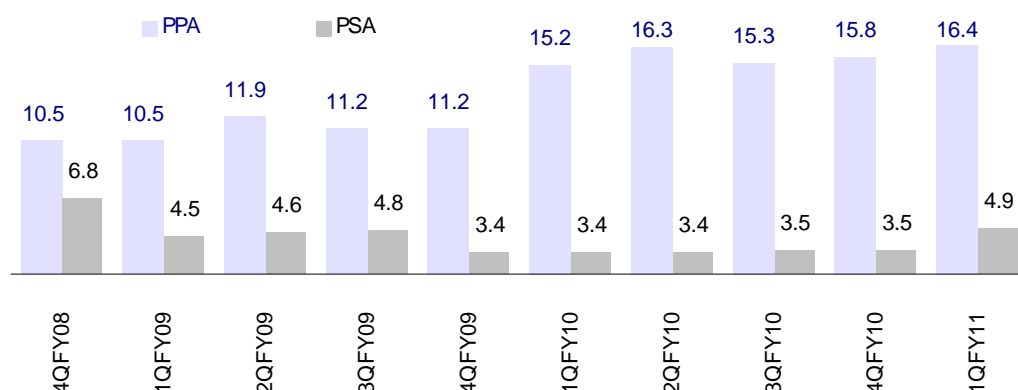
*Volume increase would be largely driven by commissioning of 7GW + of generation capacity tied up through long-term contracts during FY10-13*



Source: Company/MOSL

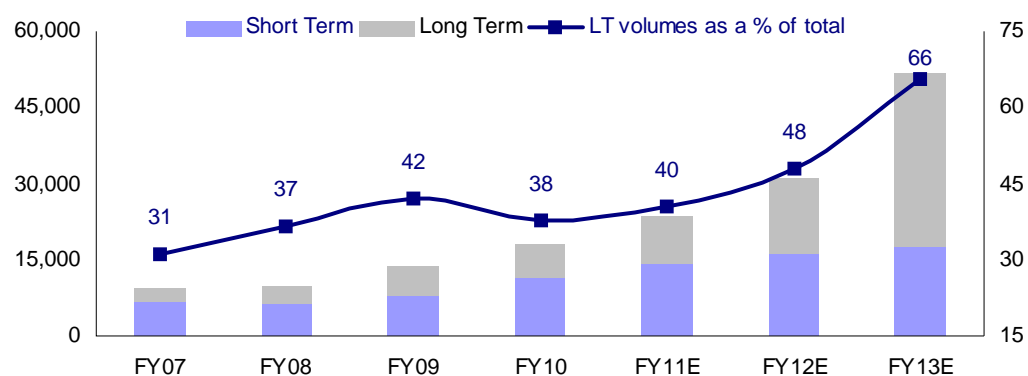
### Driven by increased contribution from long-term portfolio (GW)

As at June 2010, PTC has signed PPAs for 16.4GW capacity, of which 7GW + are expected to be commissioned during FY10-13



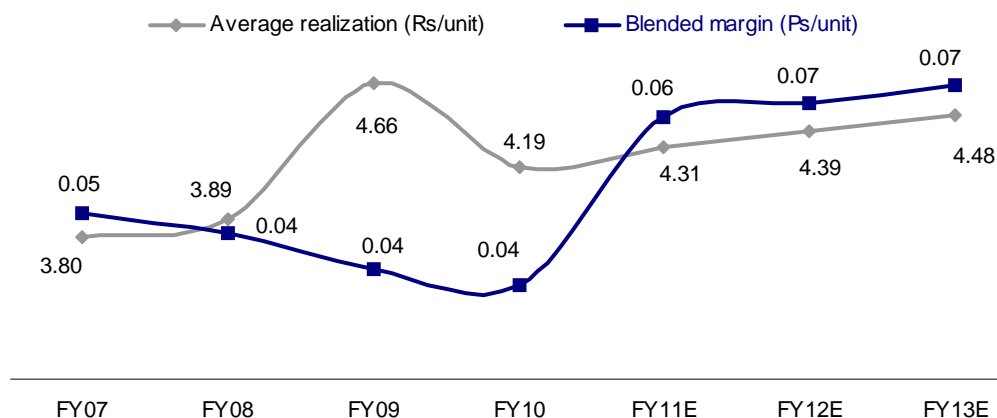
### Changing revenue composition to aid margin improvement (MUs)

Increased share of long-term contracts entails better margins (2-2.5%), as these contracts are largely outside the purview of regulatory cap



### Trading margins to nearly double by FY13

We expect blended trading gross margins to nearly double to Rs0.07/unit in FY13, given improved margins on short-term contracts and shift in volume mix towards LT contracts and lower contribution of cross-border trades



Source: Company/MOSL

**Favorable regulatory environment: CERC hikes margin cap**

- ✍ CERC has increased the cap on ST trading to Rs0.07/unit from Rs0.04/unit.
- ✍ According to the revised norms, ST trading margin will be 1.5% of realization or Rs0.07/unit, whichever is lower for units traded at Rs3/unit or above.
- ✍ For units traded below Rs3/unit, the current ST trading margin cap of Rs0.04/unit will apply.

**Expect trading margin improvement in FY11, given repricing gains from CERC stipulations**

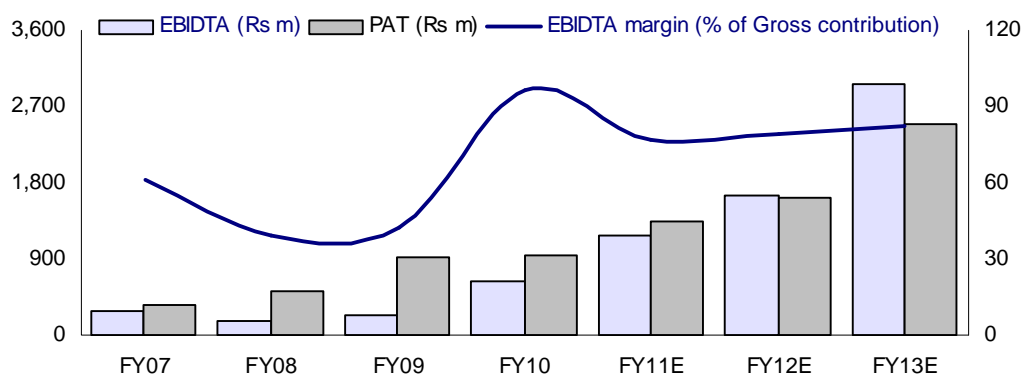
Trading margin for PTC has improved in 1QFY11, and we expect the full benefit of re-pricing to accrue from 3QFY11

	FY07	FY08	FY09	FY10	1QFY11
Gross margin (Rs m)	467	369	492	851	323
Traded units (m)	9,548	9,889	13,825	18,236	5,747
<b>Gross margin (Paise/unit)</b>	<b>4.9</b>	<b>3.7</b>	<b>3.6</b>	<b>4.7</b>	<b>5.6</b>
<b>Less:</b>					
Surcharge	0	0	0	55	35
Rebate	0	0	20	200	0.2
Adjusted gross margin (Rs m)	467	369	472	596	288
<b>Adjusted Gross margin (Paise/unit)</b>	<b>4.9</b>	<b>3.7</b>	<b>3.4</b>	<b>3.3</b>	<b>5.0</b>

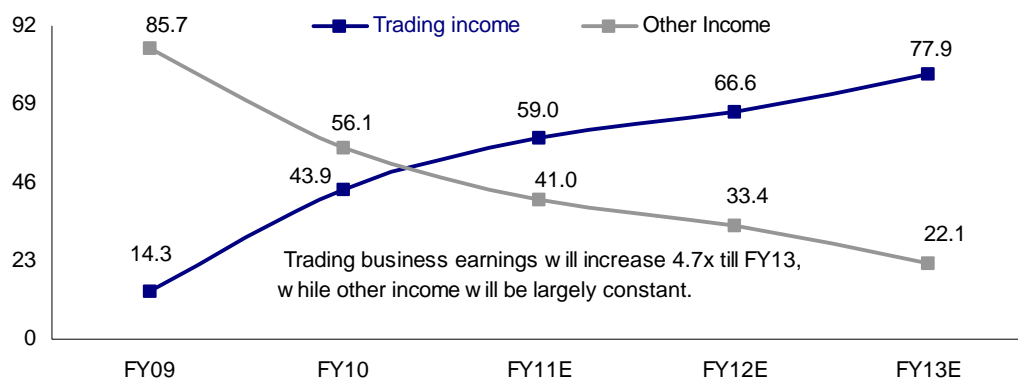
Source: Company/MOSL

**Trading business to drive standalone operating earnings (Rs m)**

Higher volumes and margins will drive operating leverage and we expect EBITDA margin (as % of gross contribution) to improve to 82% in FY13 from 42% in FY09

**Composition of standalone earnings to get boost from trading business (Rs m)**

Standalone PAT for PTC would also undergo transition, as contribution of other income to PAT will decline from 56% in FY10 to 22% by FY13. Trading business earnings will increase 4.7x till FY13



Source: Company/MOSL

## PTC Financial Services on strong footing, earnings CAGR of 51% till FY13

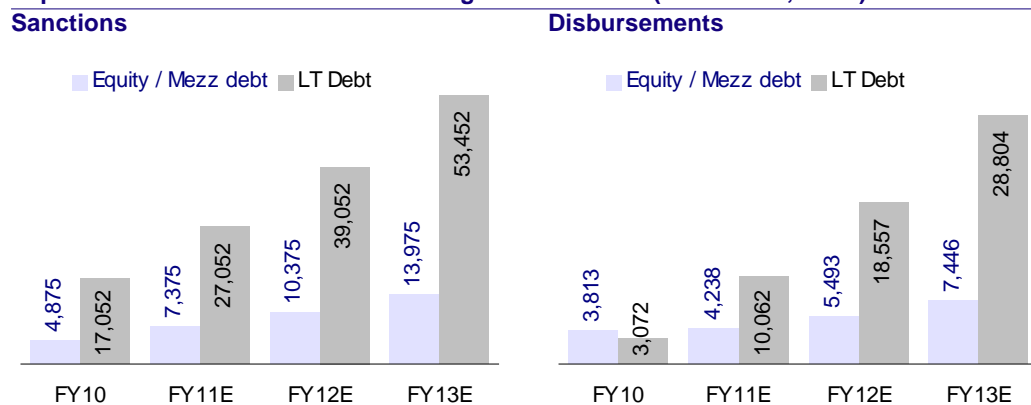
PTC India's 78% subsidiary, PTC Financial Services (PFS) is an NBFC focused on equity / debt syndication for power projects. As at September 2010, cumulative sanctions by PFS stood at Rs28b, up from Rs22b in March 2010 and Rs9b in September 2009. Disbursements stood at Rs9b, up from Rs6.8b in March 2010. Total equity sanctions till date stand at Rs5b and disbursements stand at Rs4b (up from Rs3.8b in March 2010).

Net worth as at FY10 stands at Rs6.4b while it can leverage upto 6x for financing activities (potentially Rs40b+), which provides interesting growth possibilities. We expect PFS' balance sheet size to grow at 49% CAGR, reaching Rs31b in FY13 (v/s Rs7b in March 2010). PFS is currently constrained to take up higher debt exposure in a single project at Rs1.2b, given net worth criteria. Post the PE/IPO offering (looking to raise Rs6b-7b), debt exposure limits would increase to Rs2b-2.5b per project, which can drive growth momentum.

PFS can raise long-term resources through NCDs for 2/5 years, ECB (sanctions available for US\$30m) and long-term debt for 15 years (with 3 years moratorium). Grant of infrastructure finance company status by the RBI will enable PFS to tap low cost funds.

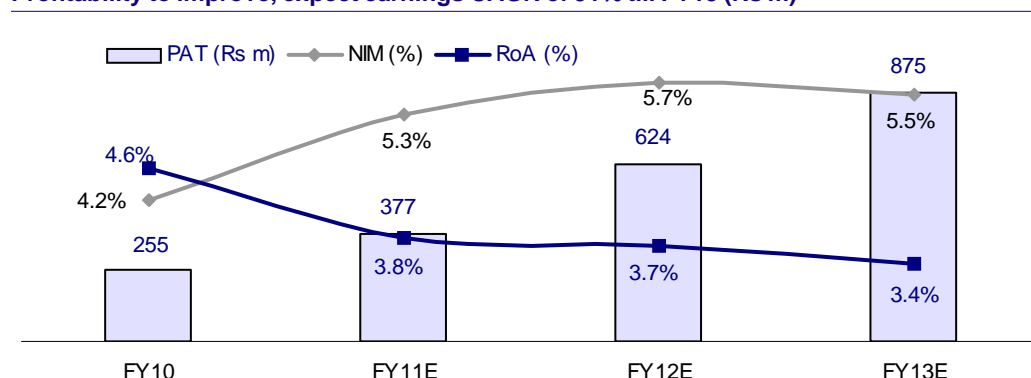
We expect PFS to report net profit of Rs875m in FY13, up from Rs95m in FY09 and Rs255m in FY10 (CAGR of 51%), driven by increased disbursements. We estimate average NIM at 5.3% and RoA at 3.6%, given the mezzanine debt / equity funding sanctions of Rs5b, which entail much higher spread.

### Expect sanctions and disbursement to gain momentum (cumulative, Rs m)



*Higher debt exposure in single project post the PE / IPO offering would drive growth momentum*

### Profitability to improve, expect earnings CAGR of 51% till FY13 (Rs m)



*PFS's earnings growth is driven by disbursements, higher NIMs given better spreads on mezzanine debt/ equity funding*

Source: Company/MOSL

## PTC Energy to witness business traction given tolling projects

PTC India's 100% subsidiary, PTC Energy acts as a co-developer of power projects. It has also initiated the process to launch a power sector fund in JV with Ashmore and the fund manager has been appointed. Domestic and international marketing has commenced, and the first closure is expected in 2HFY11.

PEL's tolling arrangement would start contributing to profitability beginning FY12, as 200MW would be available for sale from 1QFY12 and 150MW from 3QFY12. PEL plans to enter into medium-term contracts with industrial consumers for the offtake. The management has tied up coal supply for the project for 10 years, with fixed CIF price for five years (subject to a floor and cap). Based on the current fuel rates, we estimate the total cost for PEL at Rs3.1-3.2/unit. We believe that this provides net profit possibilities of Rs1.1b in FY12 and Rs1.4b in FY13, up from Rs17m in FY11. This will provide the initial seed capital to finance equity investment in developmental projects.

*We believe that the total cost of Rs3-3.2/unit provides net profit possibilities of Rs1.1b in FY12 and Rs1.4b in FY13, up from Rs17m in FY11*

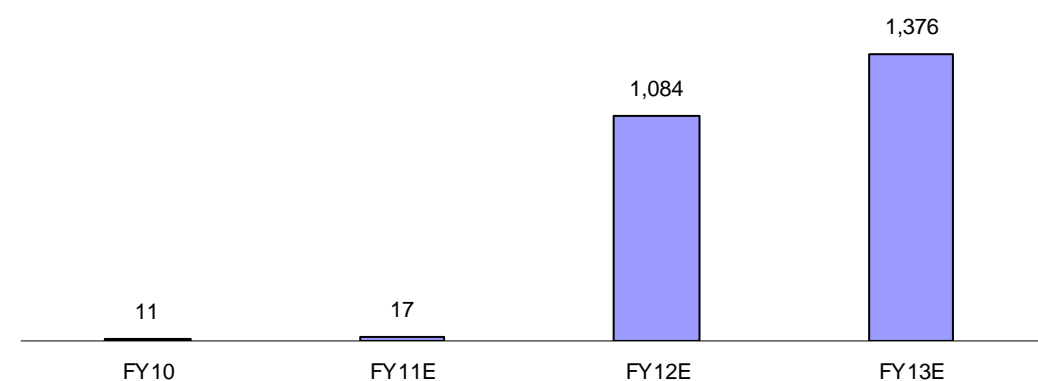
### Competitive costs for projects under tolling arrangement

	FY12E	FY13E
<b>Generation (MUs)</b>		
Meenakshi	329	1,051
Simhapuri	1,051	1,402
<b>Total</b>	<b>1,380</b>	<b>2,453</b>
<b>Rs/Unit</b>		
Fixed Cost	0.9	0.9
Variable Cost	2.3	2.4
<b>Total Cost</b>	<b>3.2</b>	<b>3.3</b>

Source: Company/MOSL

### Net profit growth significant as capacity becomes operational

*We expect PEL to report net profit of Rs1.4b in FY13; it will be a meaningful contributor to consolidated earnings*



Source: Company/MOSL

## Value unlocking possibilities exist in the near-term

Over the next 12-18 months, there could be interesting value unlocking possibilities, given (1) possible IPO / PE transaction in PFS, (2) PE in Athena Energy, and (3) stake sale in Teestha. PTC has cash and cash equivalents of Rs11b, and has already made investments of Rs7b in subsidiaries/project SPVs.

### Athena Energy / Teesta Power Project provide value unlocking possibilities

- **Athena Energy** (PTC India's stake: 20%) has a total development portfolio of 10GW+, of which ~4.2GW are in initial stages of development. Financial closure has been achieved for the 1.3GW Bhavnupadu Power Project (Orissa) and is expected soon for 1.2GW Singhitari Project in Chhattisgarh. Part of the fuel requirement for the Chhattisgarh project will be met through captive coal block allocated in consortium. Also, the Lower Damwe HEP Project (1.7GW project) in Arunachal Pradesh is likely to achieve financial closure by 1QFY12 and CoD can be targeted by FY16. Given the investments required, Athena Energy could look for a PE transaction, which will provide benchmark valuations. We currently value PTC's 20% stake in Athena at 1x BV (investment Rs480m as at end FY10).
- PTC also has 11% stake in the 1,200MW **Teesta Hydropower Project**. We understand that the project is completed to the extent of ~70% and is likely to be commissioned in FY12. Given the minority investment, we believe that PTC could opt for a strategic sale, resulting in value unlocking. PTC has invested Rs1.3b in Teesta as at end FY10, and we value the stake at 1x BV.

### Investment schedule (Rs m)

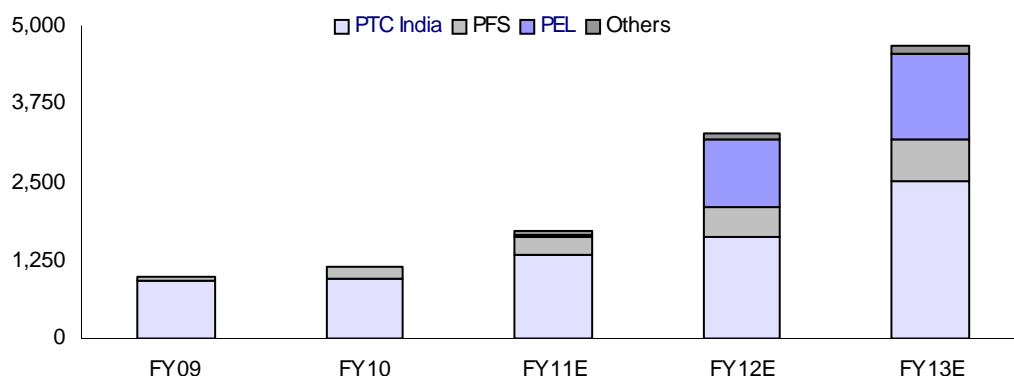
	FY08	FY09	FY10	FY11E
<b>Subsidiary</b>				
- PTC Energy	0	410	410	1,000
- PTC Financial Services	540	4,460	4,460	4,460
<b>Associates</b>				
Athena	300	300	480	1,500
Krishna Godavari	153	195	195	400
Teestha (11% stake)	702	1,257	1,257	1,357
<b>Total Investments</b>	<b>1,694</b>	<b>6,623</b>	<b>6,803</b>	<b>8,718</b>

Source: Company/MOSL

## Consolidated PAT to increase 4x over FY10-13; Buy

We expect PTC to report standalone net profit of Rs1.34b in FY11 (up 42%), Rs1.67b in FY12 (up 25%) and Rs2.5b in FY13 (up 55%). The stock trades at 27x FY11E, 22x FY12E and 14x FY13E reported earnings. PTC's consolidated earnings are likely to increase from Rs1.1b in FY10 to Rs4.7b in FY13 - CAGR of 60% over FY10-13. The stock trades at 20.6x FY11E, 10.9x FY12E and 7.6x FY13E consolidated earnings.

### Consolidated earnings to increase 4x (Rs m)



Source: Company/MOSL

PTC has cash and cash equivalents of Rs11b. It has made investments of Rs7b in subsidiaries/project SPVs (PFS: Rs4.5b, PEL: Rs410m, Athena: Rs690m, Teesta Energy: Rs1.3b, and Krishna Godavari: Rs195m). Going forward, the company plans to invest Rs1b in Athena Energy - Rs3b towards coal mine acquisition and Rs3b-4b would be retained in the books towards working capital requirement for trading business.

Based on SOTP methodology, we value PTC India at Rs191/share (core business: Rs77/share, PFS: Rs39/share, PTC Energy: Rs28/share, investments in other project SPVs: Rs7/share, cash: Rs40/share). **Buy.**

### PTC: SOTP valuations

	Business Segment	Method multiple	Valuation (Rs m)	Value (Rs/sh)	Value
Core Business	Power Trading	PER, FY12E	20	22,712	77
PTC Financial Services	Financial Intermediation	P/BV, FY12E	2	11,423	39
PTC Energy	Power Generation	PER, FY12E	10	8,143	28
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
<b>Total</b>					<b>191</b>

## Financials and Valuation

INCOME STATEMENT		(Rs Million)			
Y/E MARCH	2009	2010	2011E	2012E	
<b>Total Revenues</b>	<b>64,396</b>	<b>76,490</b>	<b>102,056</b>	<b>136,272</b>	
Total Expenses	64,132	76,119	100,886	134,634	
<b>EBITDA</b>	<b>264</b>	<b>371</b>	<b>1,170</b>	<b>1,639</b>	
% of Total Revenues	0.4	0.5	1.1	1.2	
Depreciation	62	55	47	54	
Interest	0	0	0	50	
Other Income	973	742	782	768	
<b>PBT</b>	<b>1,175</b>	<b>1,057</b>	<b>1,905</b>	<b>2,304</b>	
Tax	226	377	571	691	
Rate (%)	19.2	35.6	30.0	30.0	
<b>Reported PAT</b>	<b>949</b>	<b>681</b>	<b>1,333</b>	<b>1,613</b>	
Change (%)	69.2	-28.3	95.9	20.9	
<b>Adjusted PAT</b>	<b>910</b>	<b>941</b>	<b>1,333</b>	<b>1,613</b>	
Change (%)	73.2	3.4	41.7	20.9	
<b>Consolidated PAT</b>	<b>954</b>	<b>1,150</b>	<b>1,727</b>	<b>3,284</b>	
Change (%)	-	20.6	50.2	90.2	

BALANCE SHEET		(Rs Million)			
Y/E MARCH	2009	2010	2011E	2012E	
Share Capital	2,274	2,945	2,945	2,945	
Reserves	13,091	18,017	18,750	19,637	
<b>Net Worth</b>	<b>15,365</b>	<b>20,962</b>	<b>21,696</b>	<b>22,583</b>	
Loans	0	0	0	2,000	
Deferred Tax Liability	95	90	90	90	
Minority Interest	0	0	0	0	
<b>Capital Employed</b>	<b>15,460</b>	<b>21,052</b>	<b>21,785</b>	<b>24,672</b>	
Gross Fixed Assets	614	618	711	820	
Less: Depreciation	138	192	239	293	
<b>Net Fixed Assets</b>	<b>475</b>	<b>426</b>	<b>472</b>	<b>528</b>	
Investments	7,994	8,760	8,718	9,718	
<b>Curr. Assets</b>	<b>9,995</b>	<b>15,766</b>	<b>17,800</b>	<b>21,303</b>	
Debtors	3,546	5,310	6,990	9,334	
Cash & Bank Balance	6,256	9,944	10,432	11,522	
Loans & Advances	183	436	278	347	
Other Current Assets	11	76	100	100	
<b>Current Liab. &amp; Prov.</b>	<b>3,005</b>	<b>3,900</b>	<b>5,204</b>	<b>6,876</b>	
Other Liabilities	2,562	3,466	4,683	6,251	
Provisions	442	434	521	625	
Net Deferred Tax Asset	0	0	0	0	
<b>Net Current Assets</b>	<b>6,990</b>	<b>11,866</b>	<b>12,596</b>	<b>14,427</b>	
<b>Misc Expenses</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	
<b>Application of Funds</b>	<b>15,460</b>	<b>21,052</b>	<b>21,785</b>	<b>24,672</b>	

E: MOSL Estimates

RATIOS		2009	2010	2011E	2012E
<b>Basic (Rs)</b>					
<b>EPS</b>		<b>4.0</b>	<b>3.2</b>	<b>4.5</b>	<b>5.5</b>
<b>Consol EPS</b>		<b>4.2</b>	<b>3.9</b>	<b>5.9</b>	<b>11.2</b>
<b>CEPS (Rs)</b>		<b>4.3</b>	<b>3.4</b>	<b>4.7</b>	<b>5.7</b>
Book Value		67.6	71.2	73.7	76.7
DPS		1.8	1.4	2.0	2.5
Payout (incl. Div. Tax.)		45.4	43.8	45.0	45.0
<b>Valuation (x)</b>					
P/E (Standalone)		30.2	37.9	26.7	22.1
P/E (Consolidated)		28.9	31.0	20.6	10.9
EV/EBITDA		105.6	43.5	21.8	15.7
EV/Sales		0.4	0.4	0.2	0.2
Price/Book Value		1.8	1.7	1.6	1.6
Dividend Yield (%)		1.5	1.2	1.7	2.0
<b>Profitability Ratios (%)</b>					
RoE		6.0	5.2	6.3	7.3
RoCE		7.4	7.2	8.9	10.1
<b>Turnover Ratios</b>					
Debtors (Days)		20	25	25	25
Asset Turnover (x)		0.1	0.0	0.1	0.1
<b>Leverage Ratio</b>					
Debt/Equity (x)		-0.4	-0.5	-0.5	-0.4

CASH FLOW STATEMENT		(Rs Million)			
	2009	2010	2011E	2012E	
<b>PBT before EO Items</b>	<b>1,135</b>	<b>1,320</b>	<b>1,905</b>	<b>2,304</b>	
Add : Depreciation	62	55	47	54	
Interest	0	0	0	50	
Less : Direct Taxes Paid	226	377	571	691	
(Inc)/Dec in WVC	-924	-1,188	-242	-741	
<b>CF from Operations</b>	<b>47</b>	<b>-190</b>	<b>1,138</b>	<b>975</b>	
Extra-ordinary Items	0	0	0	0	
<b>CF from Oper. incl EOI</b>	<b>47</b>	<b>-190</b>	<b>1,138</b>	<b>975</b>	
(Inc)/dec in FA	8	-5	-93	-110	
(Pur)/Sale of Investments	5,388	-768	43	-1,000	
<b>CF from Investments</b>	<b>5,396</b>	<b>-774</b>	<b>-50</b>	<b>-1,110</b>	
(Inc)/Dec in Net Worth	-12	5,063	0	0	
(Inc)/Dec in Debt	0	0	0	2,000	
Less : Interest Paid	0	0	0	50	
Dividend Paid	413	412	600	726	
<b>CF from Fin. Activity</b>	<b>-425</b>	<b>4,651</b>	<b>-600</b>	<b>1,224</b>	
<b>Inc/Dec of Cash</b>	<b>5,018</b>	<b>3,687</b>	<b>488</b>	<b>1,090</b>	
Add: Beginning Balance	1,237	6,256	9,944	10,432	
<b>Closing Balance</b>	<b>6,255</b>	<b>9,943</b>	<b>10,432</b>	<b>11,522</b>	



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