

**Rating matrix**

Rating	: OUTPERFORMER
Target	: Rs 117
Target Period	: 12 months
Potential Upside	: 21%

**Key Financials**

(Rs Crore)	FY08	FY09	FY10E	FY11E
Net Sales	3851.5	6528.9	8277.5	9142.9
EBITDA	19.4	25.0	72.6	80.9
Net Profit	49.2	89.7	104.2	110.9

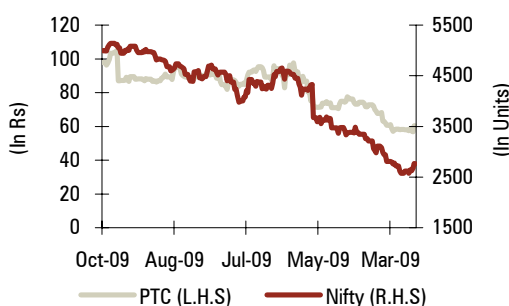
**Valuation summary**

	FY08	FY09	FY10E	FY11E
PE (x)	44.9	24.6	27.4	25.7
Target PE (x)	54.3	29.8	33.1	31.1
EV/EBITDA (x)	115.1	89.1	30.7	27.5
P/BV (x)	1.5	1.4	1.3	1.3
RoNW (%)	6.8	7.5	7.8	7.2
RoCE (%)	5.6	5.9	5.7	5.2

**Stock data**

Market Capitalisation	Rs 2853 Crore
Debt (FY09)	Rs 0 Crore
Cash (FY09)	Rs 626 Crore
EV	Rs 2227 Crore
52 week H/L	Rs 43/110 Crore
Equity capital	Rs 294 Crore
Face value	Rs 10
MF Holding (%)	18.1
FII Holding (%)	23.5

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



**Analyst's name**

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**WHAT'S CHANGED...**

PRICE TARGET ..... Changed from Rs 118 to Rs 117  
 EPS (FY10E) ..... Changed from Rs 4.0 to Rs 3.5  
 EPS (FY11E) ..... Changed from Rs 4.1 to Rs 3.7  
 RATING..... Changed from PERFORMER to OUTPERFORMER

**Impressive growth of Core earnings...**

PTC continues to witness impressive overall volume growth of ~26% from 5.16BU to 6.4 BU lead by significant jump in short term trades much ahead of our expectation. PTC in 1HFY10 has been able to increase its trading market share from ~46.5% in FY09 to 57% in July 09. Although, the revenues grew ~21% YoY from Rs 2,031.2 crores to Rs 2,451.6 crore, it were marginally lower as compared to our estimates, primarily due to the lower blended realisation per unit. The company reported Rs 3.84 per unit compared to 3.93 per unit in the same quarter last year. EBIT witnessed a substantial YoY growth of ~114% from Rs 13.5 crores to Rs 28.9 crores in Q2FY10. PAT numbers have remained subdued witnessing a YoY decline of 6% mainly owing to significant reduction in the Treasury income.

■ **capacity commissioning of ~580MW lined up in H2FY10**

Opening up of merchant capacity of ~138MW in Andhra Pradesh with GVK power, 100MW of Sugem power plant (Torrent Power), 300 MW with Lanco Amarkanthak-I plant and ~40MW of hydro capacity will lead to volume growth in H2FY10E.

■ **PFS is on track for achieving independence and subsequent listing**

PFS has already obtained 'AA' credit rating from Brickwork rating for Rs 100 crore first bond issue and also has considerable funding availability, which includes Rs 500 crore line of credit facilities from a group of banks. The management is planning to tap the capital market in FY11E & resulting in significant value unlocking

■ **Relaxation expected on the regulatory front**

Regulator has already proposed a draft guideline which signified a relaxation of the upper cap of 4 paise per unit on the trading margin to a more liberal cap which is 7 paise per unit of volume traded.

**Valuation**

At the CMP of Rs 97, the stock is trading at FY10E PB of 1.3x and FY11E PB of 1.3x. We believe with growth starting to show up from the Long Term PPA's from H2FY10E onwards the stock is in a sweet spot, thus we maintain our **OUTPERFORMER** rating with a SOTP price target of Rs 117.

**Exhibit 1: Performance Highlights**

(Rs Crore)	Q2FY10	Q2FY10E	Q2FY09	Q1FY10	QoQ (Chg %)	YoY (Chg %)
Net Sales	2,458.2	2,604.9	2,031.3	2,371.7	3.6	21.0
EBITDA	30.2	17.1	14.1	15.6	94.3	114.8
EBITDA Margin (%)	1.2	0.7	0.7	0.7	57 bps	53.7
Depreciation	0.7	0.2	0.8	0.7	1.1	-13.1
Interest	0.0	0.0	0.8	0.1	NA	NA
Reported PAT	30.8	34.1	32.8	33.3	-7.6	-6.1
EPS (Rs)	1.0	1.2	1.1	1.1	-7.6	-6.1

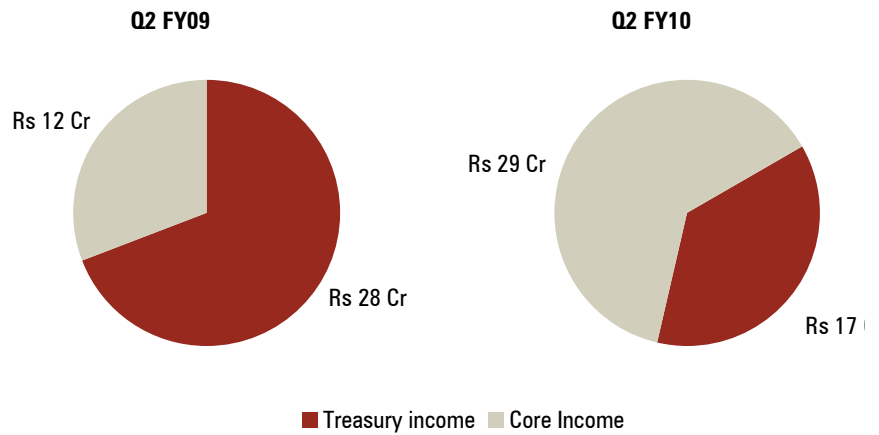
Source: Company, ICICIdirect.com Research

**Result Analysis**

PTC reported a revenue growth of ~21% YoY from Rs 2,031.3 Cr to Rs 2,458.2 Cr primarily lead by a ~26% jump in underlying volumes. The average realisation was on the lower side at Rs 3.83 per unit primarily lead by the trading volumes being dominated by hydro based generators which generally yields a muted realization compared to thermal capacities. Core EBIT witnessed an impressive YoY growth of ~114% from Rs 12 crores to Rs 28.9 crores in Q2FY10. PAT numbers have remained subdued witnessing a YoY decline of 6% mainly owing to significant reduction in the Treasury income.

**Exhibit 2: Core earnings starting to dominate the show**

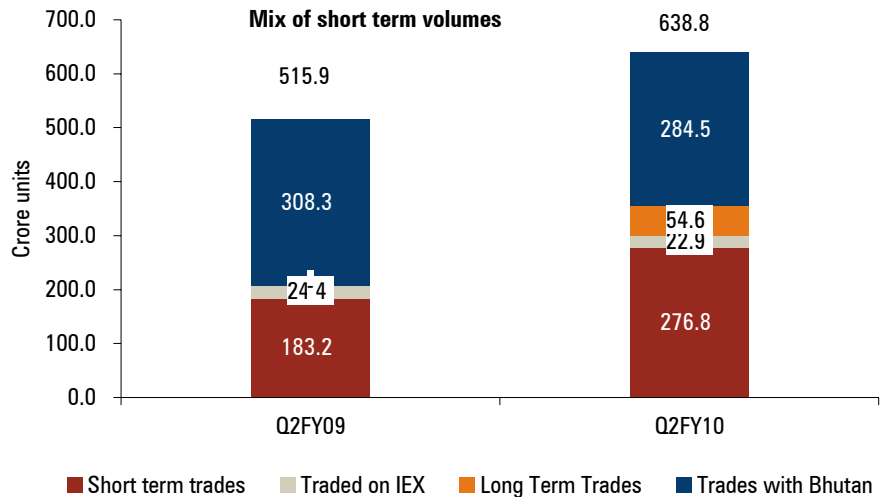
Core earnings has shown a stellar growth from the same quarter last year and has taken over the dominating role in the overall profitability of PTC



Source: Company, ICICIdirect.com Research

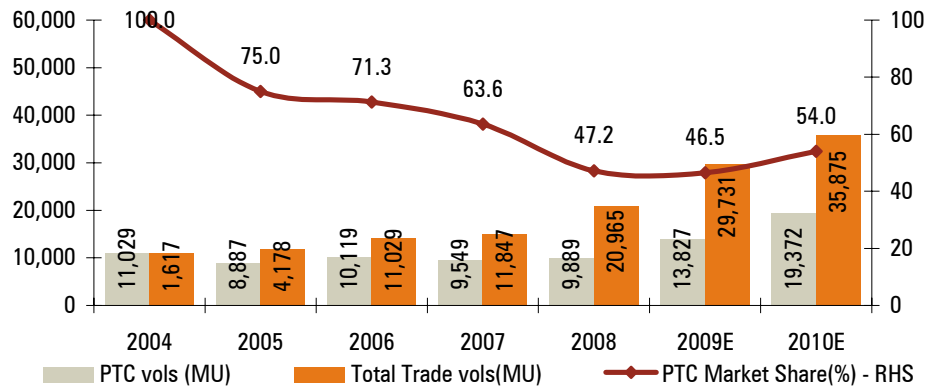
**Exhibit 3: 26% growth in overall volumes lead by jump in short term trades**

Growth bolstered by short term volumes which witnessed a steep growth of 51% over the same quarter last year. Target on the captive generation capacity over the past quarter has enhanced the growth in short term trades



Source: Company, ICICIdirect.com Research

PTC has started regaining market share in the first quarter the share was ~54% of the overall traded volume and has increased to 57% in July 09. We believe the company will be able to finish the overall year with 54% market share in FY10E

**Exhibit 4: Regaining market share**

Source: Company, ICICIdirect.com Research

#### ■ PTC Financial services gaining independence

PTC financial services has been able to obtain independent credit rating and it is successful in raising funds by issuing bonds of Rs 100 crores in the first tranche at competitive rates. We believe that the company is on track to hit the capital markets in FY11E.

**Exhibit 5: Projects under PFS have started achieving commissioning**

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
Thin film and solar power mod	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 Aug 09

Source: Company, ICICIdirect.com Research

#### ■ Major developments during the quarter

In 1HFY10, PTC has signed PPA's to the tune of 5,087 MW raising the accumulated PPA to 16,000 MW at the end of September 2009. Amongst the major projects that have started delivering volume growth to the long term trades are Meenakshi Power(25MW), Middle and Lower Kolab (37.5MW), Baglihar project (450 MW), Orrissa Power Consortium (20MW).

- **Relaxed Margin cap will offer significant operational flexibility**

In the draft regulation, CERC has relaxed the trading margin for the power trading business in India. At present, PTC's trading margins are capped at 4 paisa per kilowatt hour (Kwh).

The cap under the draft policy has been relaxed to a trading margin not exceeding 1.5% of its sale price per Kwh,

- subject to a maximum of seven 7 paise/Kwh when the sale price exceeds Rs 3/Kwh and

- 4 paise/kWh where sale price is less than or equal to Rs 3/Kwh

- **Focus on Captive power generation has started yielding results**

PTC has been able to harness ~1,042 MU of captive power generation in the 1HFY10. Continued focus on the segment is expected in the second half of the financial year as well.

- **PTC Energy limited has also picked up stake in 3 projects**

PTC Energy Ltd (PEL) has picked up stakes in 3 different projects to the tune of 26%. The aggregate capacity under development is more than 2,200MW. The projects are expected to be commissioned over FY12-13. Overall PEL is in the process of developing 4,200MW of capacity in which PEL's stake varies from 26% to 50%.

- **Progress at Athena energy ventures**

PTC is having 20% stake in Athena energy ventures. Athena energy ventures(AEVPL) is having an ambitious target of achieving 15,000MW of target capacity by FY15.

Major projects under the portfolio of AEVPL are the Athena Chhattisgarh Power Private Limited (ACPPL) which is a Special Purpose Vehicle (SPV) and 74% belongs to AEVPL. It is developing and implementing a 1,200MW domestic coal based Thermal Power Project in Janjgir-Champa District in the State of Chhattisgarh.

Another major project under its portfolio is the 2,640MW Bhavnupadu power project in which Athena energy has 26% stake. The project is expected to be developed in two phases of 1,320MW each and will partly be fuelled through domestic coal and partly on imported coal.

### Outlook & earnings revision

After the draft guidelines issued by the regulator that signified an easing off the margin cap, the stock has been witnessing heightened activity. We believe that over the coming quarter, the regulatory framework would continue to evolve. We believe that the trading volumes would continue to witness growth over the coming quarters as well with long term PPA's will start to deliver.

### Valuations

At the CMP of Rs 97, the stock is trading at FY10E PB of 1.3x and FY11E PB of 1.3x. We believe the evolution of the regulatory framework would continue and with more clarity emerging with respect to the implementation schedule of the underlying investments. The company will also benefit from the inception of long term power purchase agreement which will commence operations from H2FY10E, thus we maintain our **OUTPERFORMER** rating with a SOTP based price target of Rs 117.

In our base case valuation we are not considering the upside that can accrue from the unlocking of the value in the investment book, In our bull case valuation, anticipating a successful unlocking of value in PTC Financial services (PFS), the company will have a fair value of Rs 140.

Projects	Base case*		Bull Case**	
	Rs Crores	per share	Rs Crores	per share
<b>Value of Core business - (Trading and Tollir</b>	<b>1,810</b>	<b>61.6</b>	<b>1,810</b>	<b>61.6</b>
<b>Cash and Cash equivalents 0.8 x BV</b>	<b>862</b>	<b>29.3</b>	<b>862</b>	<b>29.3</b>
<b>Investments</b>	<b>779</b>	<b>26.5</b>	<b>1,448</b>	<b>49.2</b>
PTC Financial Services	446	15.2	1,115	37.9
PTC Energy	48	1.6	48	1.6
Athena Energy ventures	50	1.7	50	1.7
Krishna Godavari utility	20	0.7	20	0.7
Wind Power Project	36	1.2	36	1.2
Teesta Urja Limited	11	0.4	11	0.4
Other Investments at 0.8 x BV	169	5.7	169	5.7
<b>Total Equity Value</b>	<b>3,451</b>	<b>117</b>	<b>4,120</b>	<b>140</b>

\* All the investments including Cash & CE are taken at 0.84 x Book value

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

**Exhibit 10: ICICIdirect.com coverage universe (Power & Infrastructure)**

					Sales	EPS	PE	EV/E *	RoCE	
					(Rs cr)	(Rs)	(x)	(x)	RoNW (%)	(%)
<b>NTPC</b>										
<b>Idirect Code</b>	<b>NTPC</b>	<b>CMP</b>	<b>215</b>	<b>FY08</b>	40,017.7	9.0	23.9	17.4	14.6	15.8
		<b>Target</b>	<b>245</b>	<b>FY09</b>	45,272.8	9.9	21.6	18.7	14.9	13.3
<b>Mcap(Rs cr)</b>	<b>177,277.5</b>	<b>% Upside</b>	<b>14.0</b>	<b>FY10E</b>	51,272.3	10.5	20.5	15.1	14.6	13.3
				<b>FY11E</b>	59,164.6	11.0	19.6	12.1	14.3	12.7
<b>Neyveli Lignite</b>										
<b>Idirect Code</b>	<b>NEYLIG</b>	<b>CMP</b>	<b>138</b>	<b>FY08</b>	2,981.7	6.6	20.8	15.8	12.8	7.3
		<b>Target</b>	<b>146</b>	<b>FY09</b>	2,825.1	4.9	28.2	19.8	8.9	4.7
<b>Mcap(Rs cr)</b>	<b>21,810.2</b>	<b>% Upside</b>	<b>5.8</b>	<b>FY10E</b>	3,703.6	7.6	18.1	11.9	12.9	8.6
				<b>FY11E</b>	4,905.1	9.6	14.3	8.2	14.8	9.8
<b>PTC</b>										
<b>Idirect Code</b>	<b>POWTRA</b>	<b>CMP</b>	<b>97</b>	<b>FY08</b>	3,906.1	2.2	44.9	115.1	1.5	5.6
		<b>Target</b>	<b>117</b>	<b>FY09</b>	6,528.9	3.9	24.6	89.1	1.4	5.9
<b>Mcap(Rs cr)</b>	<b>2,852.7</b>	<b>% Upside</b>	<b>21.0</b>	<b>FY10E</b>	8,278.9	3.5	27.4	30.7	1.3	5.7
				<b>FY11E</b>	9,142.9	3.8	25.7	27.5	1.3	5.2
<b>GVK Power &amp; Infra</b>										
<b>Idirect Code</b>	<b>GVKPOW</b>	<b>CMP</b>	<b>52</b>	<b>FY08</b>	470.0	0.7	77.3	59.6	7.5	3.8
		<b>Target</b>	<b>54</b>	<b>FY09</b>	513.8	0.5	96.4	62.7	3.4	2.2
<b>Mcap(Rs cr)</b>	<b>8,226.4</b>	<b>% Upside</b>	<b>3.3</b>	<b>FY10E</b>	1,912.6	1.3	40.1	18.7	8.6	6.1
				<b>FY11E</b>	2,168.3	1.5	34.2	14.3	8.7	6.6

Source: Company, ICICIdirect.com Research

## RATING RATIONALE

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Outperformer (OP): 20% or more;

Performer (P): Between 10% and 20%;

Hold (H): +/-10% return;

Underperformer (U): -10% or more;

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