

July 20, 2010

Rating	BUY
Price	Rs106
Target Price	Rs150
Implied Upside	42.0%
Sensex	17,928

(Prices as on July 19, 2010)
Trading Data

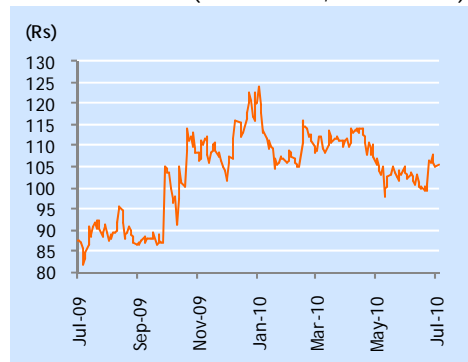
Market Cap. (Rs bn)	31.1
Shares o/s (m)	294.1
Free Float	83.70%
3M Avg. Daily Vol ('000)	991.5
3M Avg. Daily Value (Rs m)	106.2

Major Shareholders

Government	16.30%
Foreign	18.68%
Domestic Inst.	50.04%
Public & Others	14.98%

Stock Performance

(%)	1M	6M	12M
Absolute	3.3	(11.7)	20.6
Relative	1.3	(14.2)	(1.0)

Price Performance (RIC: PTCI.BO, BB: PTCIN IN)


Source: Bloomberg

■ **Results in line:** PTC India (PTC) reported operating profit of Rs278m, a YoY growth of 78%, primarily boosted by an uptick in the trading volumes. PAT came lower at Rs278m, a YoY decline of 16% due to lower other income which slowed down from Rs271m to Rs138m YoY. Trading margins have grown by 8% YoY to Rs0.056.

■ **Growth in trading volumes:** Trading volumes showed a growth of 37% YoY to 5.7bn units Vs our expectations of 5.1bn units. Trading of Amarkantak (Lanco Infra Power project-300 MW) commenced from this quarter.

■ **Trading margins show improvement:** Trading margins grew by 8% YoY to Rs0.056. The new trading margins of Rs0.07/unit which got applicable from this quarter will continue to have a positive impact on the operating profit for FY11.

■ **Outlook & Valuation:** Seasonally, Q1 & Q2 account for almost 60% of the volumes. We remain upbeat about strong set of numbers in H1FY11. PTC has about 13GW of long-term capacity available for trading by FY13. This would result in trading volumes to jump from ~18bn for FY10 to around 50bn units in FY13E. Currently, the split of trading volumes is skewed towards short-term trading volumes, accounting for almost 63%. However, with the long term tied-up capacity coming on-stream over the next 3-4 years, the trading business would tilt in favour of long-term volumes which would result in reduction of volatility in trading volumes. Further, PTC has Equity investments in power generation through PTC Financial Services (PFS) & PTC Energy (PEL), with committed funding of ~Rs6.5bn. We maintain our positive stance on the stock.

Key financials (Y/e March)	FY09	FY10	FY11E	FY12E
Revenue (Rs m)	65,401	77,743	94,750	121,751
Growth (%)	67.3	18.9	21.9	28.5
EBITDA (Rs m)	306	677	1,148	2,021
PAT (Rs m)	941	1,128	1,313	1,740
EPS (Rs)	4.1	3.8	4.5	5.9
Growth (%)	94.9	(7.3)	16.4	32.5
Net DPS (Rs)	1.6	1.8	2.0	2.2

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10	FY11E	FY12E
EBITDA margin (%)	0.5	0.9	1.2	1.7
RoE (%)	6.2	6.3	6.4	8.2
RoCE (%)	6.1	4.4	4.7	5.2
EV / sales (x)	0.2	0.3	0.3	0.3
EV / EBITDA (x)	44.8	39.1	27.0	18.8
PE (x)	25.5	27.5	23.6	17.8
P / BV (x)	1.5	1.5	1.5	1.4
Net dividend yield (%)	1.5	1.7	1.9	2.1

Source: Company Data; PL Research

Nishna Biyani
NishnaBiyani@PLIndia.com
+91-22-6632 2259



Q1FY11 Result Overview (Standalone)

(Rs m)

Y/e March	Q1FY11	Q1FY10	YoY gr. (%)	Q4FY10	FY11E	FY10	YoY gr. (%)
Sales income from operations	27,576	23,717	16.3	12,430	92,765	77,703	19.4
Other operating income	9	8	4.6	4	1,985	20	NA
Net Sales	27,584	23,725	16.3	12,435	94,750	77,723	21.9
Expenditure							
Power Purchase	27,253	23,498	16.0	12,268	91,593	76,751	19.3
<i>% of Sales</i>	<i>98.8</i>	<i>99.0</i>		<i>98.7</i>	<i>96.7</i>	<i>98.7</i>	
Employee Costs	26	51	(48.0)	39	202	184	10.0
<i>% of Sales</i>	<i>0.1</i>	<i>0.2</i>		<i>0.3</i>	<i>0.2</i>	<i>0.2</i>	
Other Expenditure	28	21	29.3	33	1,806	131	1,274.6
<i>% of Sales</i>	<i>0.1</i>	<i>0.1</i>		<i>0.3</i>	<i>1.9</i>	<i>0.2</i>	
Total Expenditure	27,307	23,570	15.9	12,340	93,601	77,066	21.5
Operating Profit	278	156	78.5	95	1,148	658	74.7
<i>% of Sales</i>	<i>1.0</i>	<i>0.7</i>		<i>0.8</i>	<i>1.2</i>	<i>0.8</i>	
Depreciation	12	14	(11.3)	14	67	55	21.3
Other Income	138	271	(49.1)	132	709	715	(0.8)
Prior period items	0	-		-	-	(1)	
EBIT	404	413	(2.3)	213	1,790	1,316	36.0
Interest	1	1	(4.5)	1	-	4	(100.0)
PBT	403	413	(2.3)	212	1,790	1,313	36.4
Prov. for Taxation	125	79	57.6	77	462	377	22.5
<i>ETR %</i>	<i>31.0</i>	<i>19.2</i>		<i>36.3</i>	<i>25.8</i>	<i>28.7</i>	
PAT before exception items	278	333	(16.5)	135	1,328	936	42.0
Exceptional items	0.18	0.0		(3.4)	15.00	(3.22)	
Adjusted PAT	278	333	(16.5)	139	1,313	939	39.9

Quarterly Snapshot

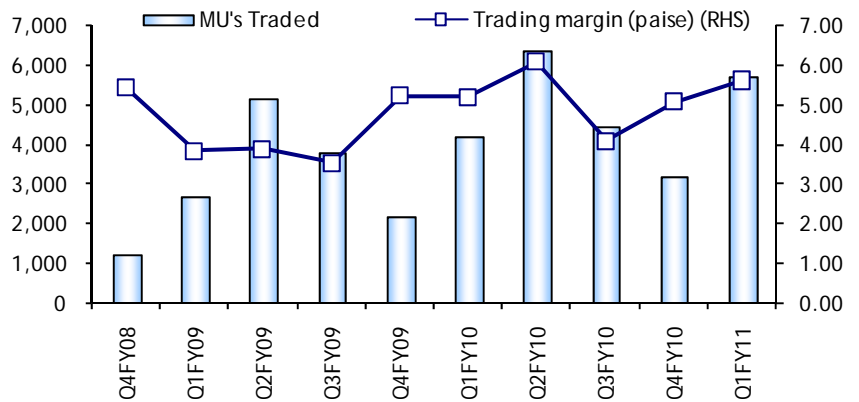
Y/e March (Rs m)	Q2 FY09	Q3 FY09	Q4 FY09	Q1 FY10	Q2 FY10	Q3 FY10	QFY10	Q1 FY11
Net Sales	20,323	21,170	11,796	23,725	24,587	16,976	12,435	27,584
Power purchases	20,112	21,034	11,663	23,498	24,193	16,793	12,268	27,253
<i>% of revenues</i>	<i>99.0</i>	<i>99.4</i>	<i>98.9</i>	<i>99.0</i>	<i>98.4</i>	<i>98.9</i>	<i>98.7</i>	<i>98.8</i>
EBITDA	151	29	43	156	302	105	95	278
<i>Operating Margin (%)</i>	<i>0.7</i>	<i>0.1</i>	<i>0.4</i>	<i>0.7</i>	<i>1.2</i>	<i>0.6</i>	<i>0.8</i>	<i>1.0</i>
Other income	270	310	173	271	170	142	132	138
Reported PAT	327	237	155	333	308	159	139	278
EPS (Rs)	1.4	1.0	0.7	1.5	1.4	0.5	0.6	1.2
Operating Matrix								
MU's Traded (kWh)	5,159	3,797	2,182	4,204	6,388	4,444	3,196	5,747
Average Realization	3.94	5.58	5.40	5.64	3.85	3.82	3.89	4.80
Cost per unit	3.90	5.54	5.34	5.59	3.79	3.78	3.84	4.74
Trading margin (Rs)	0.04	0.04	0.05	0.05	0.06	0.04	0.05	0.06

Highlights

Volumes growth impressive

Trading volumes showed a growth of 37% YoY to 5.7bn units Vs our expectations of 5.1bn units. Trading of Amarkantak (Lanco Infra Power project-300 MW) commenced from this quarter.

Volume growth of 37% YoY impressive

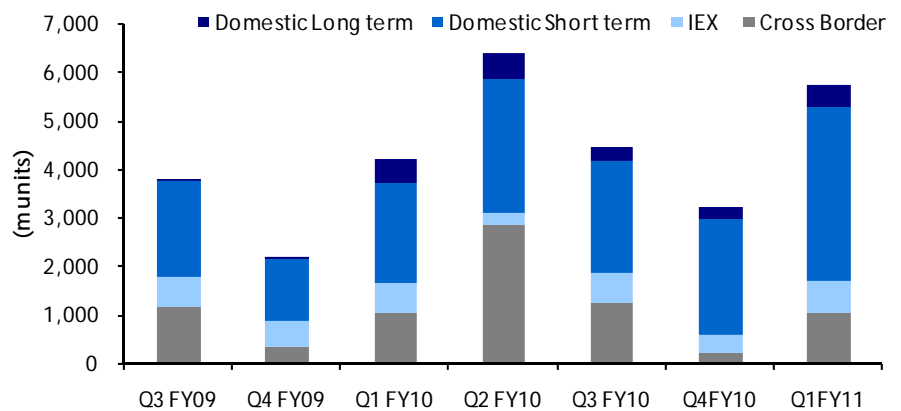


Source: Company Data, PL Research

Volume split tilting towards short term

PTC recorded strong volumes in the short-term trading at 4.2bn units v/s 2.6bn units YoY. Short-term volumes accounted for 74% of the volumes for this quarter. Cross border volumes accounted for 1bn units which is flat yoY.

Volume split over last 6-7 quarters



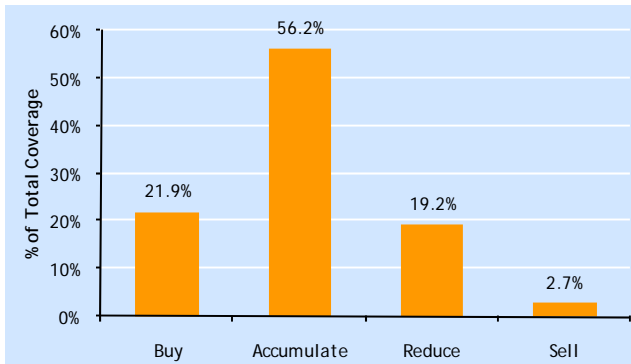
Source: Company Data, PL Research

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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