PTC India Financial Services Ltd (PFS)

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Company Background and Business Model

PFS is a non-deposit taking NBFC promoted by PTC India Ltd (PTC), registered with the Reserve Bank of India. The company is primarily engaged in investing and financing the companies with projects across the energy value chain. It provides both equity and debt financing, including short-term and long-term debt, as well as structured debt financing. With focus on infrastructure development, it provides an integrated suite of services including provision financing and makes investments in private sector Indian companies in the power sector, including for power generation, equipment supply and fuel source projects. Besides this, it also provides fee-based syndication and advisory services as well as carbon credit financing against certified emissions reduction (CER).

Key Strengths

- **Composite financial services platform –** The Company offers a wide-range of financial products and services throughout the life cycle of projects across all areas of the energy value chain. It has financed various projects, including power generation, equipment supply and fuel source projects. PFS is among the few financial institutions in India that provide both equity and debt financing. Added to this, it also provides fee-based syndication and advisory services as well as carbon credit financing against certified emissions reduction (CER).

- **Strong Parentage –** PFS is a subsidiary of and is promoted by PTC, which is the market leader for power trading solutions in India. The strong parentage 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.

- **Strong domain knowledge and expertise –** The management team has significant experience in the power sector and the financial services industry, which enables the company to identify investment opportunities with high potential and effectively manage the associated risks. 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.

- **Benefits of IFC status –** PFS was granted IFC status in August 2010 thereby enhancing its ability to raise funds on cost-competitive basis. The IFC status has given the company more operational flexibility as now it is entitled to lend up to 25.0% of its owned funds to a single borrower in the infrastructure sector, compared to 20.0% of owned funds by other NBFCs. It also enabled the company to raise capital through issuance of infrastructure bonds at comparatively lower yields (as infrastructure bondholders are entitled to certain tax benefits) and raise ECBs up to 50.0% of its owned funds without prior RBI approval, thereby reducing cost of funds.

Object of the Issue

To enhance the capital base to meet future capital requirements arising out of growth in the business

Issue Details

Issue Opens	March 16, 2011
Issue Closes	March 18, 2011
Equity Offerings (In mn shares)	156.7
Face Value	10.00
Price Band	₹26 - ₹28
Issue Size (in bn)	₹4.07 -₹4.39
Maximum Application (no. of shares for retail)	7000
Issue Type	100% Book Building
Listing	NSE & BSE
IPO Grading	4/5 - CARE, 3/5 - Crisil
BRLMs	SBICAP, JM Fin, ICICI Sec, Almondz
Registrar	Karvy
Retail Discount	**Re.1/share**

Source: RHP

Shareholding Pattern (%)

	Pre Issue	Post Issue
Promoter	77.6	60.0
Non Promoter	22.4	12.1
Public	0	27.9

Source: RHP

Issue Structure (In No Shares)

Issue size	**156.7 mn**
of which Fresh issue by the company	127.5 mn
of which Offer for sale	29.2 mn
Break-up of net issue to public:	
QIB's portion (maximum)	78.350 mn
Non-institutional portion (minimum)	23.505 mn
Retail Portion (minimum)	54.845 mn

Source: RHP

Analyst Details

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Equity investments

As of December 31, 2010, the company's equity investments aggregated ₹4186.2 mn in eight companies. Based on the limited information given in the RHP, we believe that the company has protected its rights well and has clearly defined its exits, ROI (return on Investments) in the SHA (shareholders agreement). Added to this, the company's representation on numerous boards enables them to get clear understanding of the ground level realities and operational issues. Some of its strategic Investments include the one with Indian Energy Exchange, wherein PFS made principal investment in IEX in December 2007, investing ₹65.0 mn for 26.0% shareholding. It further invested ₹4.39 mn in March 2009 for further capital requirement of IEX in order to maintain their 26.0% stake, thereby making a total investment of ₹69.4 mn. In September 2010, the company liquidated its 4.88% stake in IEX for a consideration of ₹135.30 mn, valuing the remaining stake (21.12%) at ₹585.6 mn based on the last concluded deal. Therefore, on an overall basis, PFS is likely to do well on its Equity portfolio given the professional set-up, guidance and support of PTC and its involvement and representation at the projects.

Key equity investments agreement details

Equity Investments	Capacity (MW)	Equity Commitment as of Dec' 10	Outstanding Investments as of Dec' 10	Guaranteed Cumulative Return (%)	Management and the right to appoint director(s):	Right to affirmative vote	Tag along right	Put option with the company	IPO
Ind-Barath Energy (Utkal) Limited	700	1050	1050	23.65%	1 director for each block of 10% of the total paid up equity share capital	Yes	Yes, if shareholding of IBPIL in IBPL falls below 51%	Yes, at any time within 5 years from the date of allotment of equity shares	right to participate in the IPO by way of an offer for sale of a part or all of their equity shares
Ind-Barath Powergencom Limited	189	556.3	556.3	23.75%	1 director for each block of 10% of the total paid up equity share capital	Yes	Yes, if shareholding of IBPIL in IBPL falls below 51%	Yes, at any time within 3 years from the date of allotment of equity shares	NA*
RS India Wind Energy Private Limited	102.45	710.97	611.21	NA*	1 director for each block of 15% of the total paid up equity share capital	Yes	Yes, if owner's shareholding in RSI falls below 37%	NA*	right to participate in the IPO by way of an offer for sale of a part or all of their equity shares
Meenakshi Energy Private Limited	900	996.8	603.41	NA*	1 director for each block of 15% of the total paid up equity share capital	Yes	Yes, if owner's shareholding in RSI falls below 51%	Yes, at any time within 5 years from January 5, 2011 if MEPL's IPO fails	right to participate in the IPO by way of an offer for sale of a part or all of their equity shares
East Coast Energy Private Ltd	1320	1333.85	1250	NA*	1 director for each block of 15% of the total paid up equity share capital or aggregate par value of ₹ 1.2 bn whichever is lower	NA*	No	Yes	Yes, Option of swapping our shares in East coast to AGPL

* Information not available
Note - Chart prepared based on limited information given in RHP

Company's Strategy going forward

To offer comprehensive structured financing solutions to private power project developers – The Company intends to continue to focus on the power sector and offer comprehensive, structured financing solutions that will address the financing requirements of private power project developers in India. It also intends to grow its principal investment and debt financing businesses, as well as expand fee based and other services, to ensure effective sourcing and cross-sell of its financing products and services.

Consolidate its position as a preferred financing solution – The Company seeks to leverage its strong industry experience, relationships and the goodwill from its association with PTC, to consolidate its position as a preferred financing solutions provider for smaller and medium sized power generation, equipment supply and fuel source projects. This specific segment in the power sector has significant potential and is currently under served by large banks and financing institutions that may have limited interest for this segment.

Expand fee-based services and CER financing – PFS intends to increase its focus on fee-based services that include primarily debt facility agent and security agent services as well as various advisory services such as techno-commercial appraisal services. It also intends to increasingly focus on debt syndication activities as its technical expertise and industry experience enable it to effectively understand the risks and opportunities in a project and structure financing solutions.

Lowering cost of funds – The company aims to lower its cost of funds through the issuance of infrastructure bonds at comparatively lower yields, as holders of such bonds are entitled to certain tax benefits. The company further intends to improve its credit ratings for long-term borrowings, by maintaining an asset base with an optimal mix of principal investments and debt financing and also increasing the proportion of long-term debt in its debt financing portfolio, thereby resulting in lower cost of funds.

Developing strategic partnerships with international financial institutions – The Company intends to continue to develop strategic partnerships with international financial institutions by establishing JVs and/or private equity funds. It is currently exploring JV opportunities for the establishment of a fund focused on renewable energy. In addition to this, it has also entered into strategic partnership with Macquarie Bank Ltd and Vitol SA in connection with its carbon credit financing business.

Key Industry growth drivers

Huge potential for investments in the energy sector

The total energy consumption in India is estimated to grow from 566 Mtoe in 2006 to 1280 Mtoe in 2030 as per World Economic Outlook 2008, IEA. This implies growth at a CAGR of 3.5% CAGR in India's energy requirement over the next 25-30 years. The total fund requirement for generation projects, during the Twelfth Plan period is estimated at approximately ₹49508.30 bn which reflects the huge potential for investments in the energy sector in India.

Significant demand-supply gap

The Indian power sector has historically been beset by energy shortages which have been rising over the years. In FY2010, peak energy deficit was 12.7% and total energy deficit was 10.1%. India has continuously experienced shortages in energy and peak power requirements. According to the Monthly Review of the Power Section published by the CEA in October 2010, the total energy deficit and peak power deficit during April 2010 to October 2010 was approximately 9.2% and 10.1%, respectively.

Key Risks

Significant Dependence on PTC

PFS is significantly dependent on PTC for growing and supporting its business. In the past, the Company has received many of the principal investment and debt financing opportunities from references made by PTC. In the event that PTC ceases to be a significant shareholder in the Company and refrains from participating in the growth of the business, its business prospects, financial condition and results of operations may be materially and adversely affected.

Volatility in interest rates could adversely affect margins and profitability

The results of Company's operations could be affected by changes in interest rates and the timing of any re-pricing of liabilities compared with the re-pricing of assets. Being a non-deposit taking NBFC, PFS is exposed to greater interest rate risk compared to banks or deposit taking NBFCs, as a result of relatively higher cost of funds.

Energy projects carry certain risks which could adversely affect the company's business

Various risks including political, regulatory, fiscal, monetary and legal actions and policies, changes in government and regulatory policies relating to the power sector, delays in the construction and operation of projects the company finances etc. may adversely affect the business and financial condition of the Company.

Outlook and Valuations

At the upper price band of ₹28 and lower price band of ₹26, the issue is reasonably priced at ~1.83x and ~1.70x its pre issue book value of ₹15.29 as of December 2010. On its post issue book value of ₹18.17 the issue is priced at ~1.54x at the upper band and ~1.43x at the lower band. Considering ₹1 retail discount the issue is priced at 1.49 times (at the upper band) its post issue book value. There is a huge demand for financing in the power sector owing to planned large scale investments due to increasing demand for power. This gives the company immense opportunity to grow its loan book size going forward. Currently the company's loan financing book is very small mainly due to lower leverage (~1.9x). The current equity raising initiative by the company will provide PFS enough room to increase its leverage which will drive the growth in loan book going forward. Assuming that 30% of the total capital raised by the company goes into equity investments with the balance available for leveraging, the company can grow it debt financing book size to ~₹40bn from the current ₹5.95 bn over the next 3-4 years with the gradual increase in leverage to 5x. Added to this, most of the exits from equity investment would start happening from FY13 which would further provide support to the company's financials.

Environmental clearance, fuel security and linkages, long term PPA's and overall timely execution are critical to the success of projects and therefore its Equity and debt investments. PFS, we believe, has good control on projects and finances, as it is representing on numerous boards which provides clear understanding of the ground level realities and operational issues, thereby facilitating execution. Considering the company's strong parentage, huge demand for financing in the power sector, good business model and low leverage, we believe it is a good investment bet and **thus recommend investors to SUBSCRIBE to the issue with medium to long term perspective.**

Income Statement

Particulars (in ₹ mn)	FY07	FY08	FY09	FY10	9M FY11
Income					
- From investments	-	30.9	103.1	212.8	141.4
- From interest					
- on loan financing	-	-	0.1	135.7	541.3
- on fixed deposits	1.6	0.4	3.4	139.4	38.1
- Fee based income	-	-	9.3	46.8	66.7
- Income from sale of power	-	-	-	0.0	35.5
- Others	-	-	0.0	0.2	2.5
Total income	**1.6**	**31.4**	**116.0**	**534.9**	**825.4**
Expenditures					
Interest and other charges	-	0	0.2	116.0	286.4
Personnel expenses	-	2.7	9.6	25.7	6.4
Administration and other expenses	18.5	17.1	19.2	25.7	33.4
Depreciation/ amortization	-	0.1	0.2	0.5	40.5
Provisions for contingencies	-	-	-	-	15.8
Total expenditures	**18.5**	**20.0**	**29.2**	**167.9**	**382.5**
Profit / (loss) before tax and extraordinary items	**(16.9)**	**11.4**	**86.8**	**367.0**	**442.9**
Total tax charge / (benefit)	0.6	(5.0)	1.5	112.5	130.7
Net profit / (loss) after tax	**(17.4)**	**16.4**	**85.3**	**254.5**	**312.2**

Balance Sheet

Particulars (in ₹ mn)	FY07	FY08	FY09	FY10	9M FY11
Fixed assets	-	0.4	0.6	350.7	311.1
Investments	-	1117.9	2000.1	4067.0	4405.4
Loan financing	-	-	200.0	2662.0	5951.2
Deferred tax assets (net)	-	5.0	3.6	-	-
Current assets, loans and advances	41.3	5.0	4101.1	2510.7	1015.3
Total assets	**41.3**	**1128.3**	**6305.5**	**9590.4**	**11682.9**
Loan funds					
Secured loans	-	-	200.0	3108.0	4773.7
Total loan funds	-	-	200.0	3108.0	4773.7
Deferred tax liability (net)	-	-	-	43.8	71.8
Current liabilities and provisions	18.6	22.5	12.0	79.2	192.7
Total liabilities	**18.6**	**22.5**	**212.0**	**3231.0**	**5038.2**
Net worth	**22.6**	**1105.8**	**6093.5**	**6359.4**	**6644.7**
Net worth represented by					
Equity share capital	40.0	900.0	4345.8	4345.8	4345.8
Employees stock options outstanding	-	-	1.0	12.4	4.3
Reserves and surplus	-17.4	205.8	1746.6	2001.1	2313.3
Less - Misc exp	-	-	-	-	18.7
Net worth	**22.6**	**1105.8**	**6093.5**	**6359.4**	**6644.7**

Key Ratios

Key Ratios	FY07	FY08	FY09	FY10	9M FY11
Yield (%)	-	-	17.7	19.0	15.7
Cost of funds (%)	-	-	11.9	10.6	10.2
Spread (%)	-	-	5.8	8.4	5.6
NIM (%)	-	-	17.2	11.9	7.5

Source: RHP

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