

BUZZING

STOCK

Power Trading Corporation of India Ltd.

CMP – Rs.60

Analyst

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Key Stock Data

Sensex	13190
Nifty	3848
Sector	Trading - Large
Bloomberg	PTCIN IN
Reuters	PTCI.BO
No. of shares (m)	150
Market Cap (Rs m)	8,940
Market Cap (US\$ m)	209
52-week H/L	Rs.83/44

Shareholding Pattern (%)

Promoters	32
Mutual Funds	16.56
FII's	13.5
Corporate Bodies	20.01
Pubic & Others	17.94

Overview:

PTC is the pioneer in developing and implementing the concept of power trading in the country. It purchases power from state power utilities, generating companies, Independent Power Producers, Captive Power producers and sales the power to other state power utilities and bulk consumers. It has also been appointed as the nodal agency for cross border trading in power with Nepal and Bhutan.

The profit of the company rests on the transaction margin it charges over the power it purchases. This margin may be a fixed amount per unit of electricity traded or a percentage of total power traded.

Power Trading and PTC :

There are 22 companies have the license in different categories (Based up on their Net worth) to trade in power. However only 4 companies make their actual presence in the market power trading, which constitute around 2% of the total power produced in our country. PTC has a market share of 70% followed 22% by NTPC's Power trading subsidiary NTPC Vidyut Vyapar Nigam.

Power trading essentially means a payment (with margin) by the buyer to the seller for a contracted supply of load at a specified time. It doesn't involve any actual supply of power from the buyer to the supplier. The contract may be for short term (within one year), medium term (between 1 year to 7 years) or for long term (for more than 7 years). Based on this margin varies from higher to lower. Currently PTC derives 40% of its revenue from long-term contracts and the balance from short to medium term contracts.

Margin Cap: Blip for short term

Looking at the rising margin (from 3 paise unit in FY02 to 7 paise per unit in FY06) in power trading CERC (Central Electricity Regulatory Authority) caped the margin on the interstate power trade to 4 paise per unit in FY07. Around 80% of sales of PTC involve interstate trades. So in the short term the profitability of the company may remain subdued. However with improvement of interregional transmission network coupled with coming up of mega power plants in the country the spot market for power will become deeper (coming up of power exchanges) where the with greater competition such regulation measures will have little meaning. (Recently the Appellate Tribunal for Electricity (ATE) has contested the CERC's order to fix margin on power trading). So the volume of traded power will go up in the long run. Also the increase in long-term contracts for trading will go a long way in sustaining the margin for the company. Further its better association with load dispatching centers and power generators coupled with focused approach will maintain its competitiveness in power trading in the country.

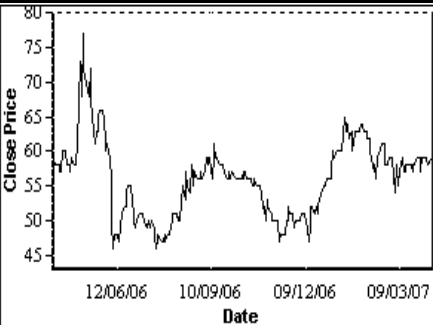
Diversification :

To exploit its relation with power generators and utilities further the company is now planning to start a full-fledged power consultancy for the generators, transmission companies and distributors. It is also planning to be involved in helping the generating companies get right fuel from the international and domestic markets at appropriate time. This entire move will help the company in getting good fee based income from the power manufacturers and utility service providers, going forward.

Valuation :

We expect a 28% rise in sales to Rs.39.7bn during FY07 over FY06. But due to cap in margin the net profit would dip by 14% to Rs.0.350bn. At current price the stock is trading at 26x to its expected EPS of Rs 2.33.

Financial Snapshot

Power Trading Corporation of India Ltd.						Rs.m	Ratios (%)			
	Q3 FY07	Q3 FY06	Chg. (%)	FY06	FY05	Chg. (%)		FY06	FY05	Chg.(%)
Financial Year End: March										
Net Sales	8074	10546	(23)	31086	20321	53	Debt -Equity	0.0	0.0	-
Other Income	44	20	127	120	52	131	PBIDTM	2	2	(9)
Total Income	8118	10565	(23)	31206	20373	53	PBDTM	1.7	1.9	(10)
Total Expenditure	7997	10367	(23)	30608	19986	53	RoCE	23	18	29
PBIDT	121	199	(39)	597	387	54	RoNW	15	11	41
Interest	7	5	55	13	7	90				
PBDT	114	194	(41)	584	380	54				
Depreciation	3	4	(6)	14	12	16				
Tax	26	63	(59)	170	132	29				
Reported Profit After Tax	86	128	(33)	406	240	69				
Extra -ordinary Items	0	0	0	0	0	0				
Adj. Profit After Extra-ordinary item	86	128	(33)	406	240	69				
No. of shares (m)	150	150	-	150	150	-				
EPS (annualised.) (Rs.)	2.3	3.4	-	2.7	1.6	-				
P/E	26.1	17.6	-	22.1	37.5	-				

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