

## PTC India

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE SENSEX: 10,007 | PTCIN IN     |
|                    | REUTERS CODE |
| S&P CNX: 2,933     | PTCI.BO      |

19 July 2006

**Buy**
*Previous Recommendation: Buy*
**Rs49**

|                      |            |
|----------------------|------------|
| Equity Shares (m)    | 150.0      |
| 52-Week Range        | 83/42      |
| 1,6,12 Rel. Perf.(%) | -7/-29/-27 |
| M.Cap. (Rs b)        | 7.3        |
| M.Cap. (US\$ b)      | 0.2        |

| YEAR   | NET SALES | PAT*   | EPS* | EPS        | P/E  | P/BV | ROE  | ROCE | EV/   | EV/    |
|--------|-----------|--------|------|------------|------|------|------|------|-------|--------|
| END    | (RS M)    | (RS M) | (RS) | GROWTH (%) | (X)  | (X)  | (%)  | (%)  | SALES | EBITDA |
| 03/06A | 30,052    | 407    | 2.7  | 66.3       | 17.9 | 3.0  | 17.5 | 24.0 | 0.2   | 14.9   |
| 03/07E | 42,557    | 408    | 2.7  | 0.5        | 17.9 | 2.6  | 15.4 | 17.9 | 0.2   | 16.2   |
| 03/08E | 67,620    | 685    | 4.6  | 68.1       | 10.6 | 2.3  | 22.8 | 24.5 | 0.1   | 8.8    |

\* Pre Exceptional

- During 1QFY07, PTC reported robust financial performance — net profit of Rs120m, up 6% YoY, significantly better than our estimate of Rs54m, mainly due to higher other income. A sizeable share of this income during each of the corresponding first quarters pertain to interest on maturity of long-term marketable investments.
- Composition of PTCs traded volume is changing significantly. Short term trading (accounted for 80% of traded volumes in FY06) will decline to 50% in FY07 and 35% in FY08. During FY07, we expect compositions of traded volumes as short term 50%, medium term 30% and long term 20% v/s FY06 (short term 80% and long term 20%)
- Traded volume were up 72% YoY to 2,625 MUs in 1QFY07 compared to 1,523 MUs in 1QFY06. Trading margins declined to Re0.05 per unit during 1QFY07 v/s Re0.07 per unit in 1QFY06, in line with the recent CERC regulation levying a cap on trading margins at Re0.04/unit, effective 31 January 2006.
- Key takeaways from the conference call:** PTC has: (1) signed medium term contracts expected to account for 30% of FY07 total traded volumes; (2) long term projects of 3,000MW would enter the construction phase in FY07; (3) Tala Power Project to be commissioned in phases during Aug-Feb 2007; (4) signed agreements for 500MW of generation capacity, where the company will supply imported coal and get it converted into electricity under tolling agreement.
- Valuation and view:** At CMP of Rs49, PTC trades at PER of 17.9x FY07E and 10.6x FY08E. Maintain **Buy**.

**QUARTERLY PERFORMANCE**

(Rs Million)

| Y/E MARCH                      | FY06         |              |               |              | FY07          |               |               |              | FY06          | FY07E         |
|--------------------------------|--------------|--------------|---------------|--------------|---------------|---------------|---------------|--------------|---------------|---------------|
|                                | 1Q           | 2Q           | 3Q            | 4Q           | 1Q            | 2QE           | 3QE           | 4QE          |               |               |
| Power Traded (MUs)             | 1,523        | 3,148        | 3,280         | 2,168        | 2,625         | 3,829         | 4,102         | 3,118        | 10,119        | 13,675        |
| <b>Sales</b>                   | <b>4,373</b> | <b>8,620</b> | <b>10,546</b> | <b>7,547</b> | <b>10,421</b> | <b>11,209</b> | <b>13,859</b> | <b>5,272</b> | <b>31,085</b> | <b>40,761</b> |
| Change (%)                     | -11.5        | 45.3         | 74.5          | 121.9        | 138.3         | 30.0          | 31.4          | -30.1        | 59.2          | 31.1          |
| <b>EBITDA</b>                  | <b>81</b>    | <b>142</b>   | <b>184</b>    | <b>92</b>    | <b>83</b>     | <b>123</b>    | <b>146</b>    | <b>-58</b>   | <b>499</b>    | <b>294</b>    |
| Change (%)                     | -27.3        | 52.0         | 81.1          | 85.1         | 1.8           | -13.2         | -20.9         | -162.9       | 42.7          | -41.1         |
| As of % Sales                  | 1.9          | 1.6          | 1.7           | 1.2          | 1.3           | 1.1           | 1.1           | -1.1         | 1.6           | 0.7           |
| Depreciation                   | 8            | 9            | 9             | 9            | 3             | 10            | 11            | 15           | 34            | 39            |
| Interest                       | 1            | 4            | 5             | 3            | 3             | 15            | 25            | 37           | 13            | 80            |
| Other Income                   | 67           | 13           | 20            | 21           | 79            | 40            | 75            | 63           | 120           | 257           |
| Extraordinary Income/(Expense) | 0            | 2            | 0             | 0            | -1            | 0             | 0             | 0            | 2             | 0             |
| <b>PBT</b>                     | <b>139</b>   | <b>140</b>   | <b>190</b>    | <b>101</b>   | <b>155</b>    | <b>138</b>    | <b>185</b>    | <b>-47</b>   | <b>570</b>    | <b>432</b>    |
| Tax                            | 26           | 45           | 62            | 31           | 35            | 47            | 63            | 5            | 164           | 150           |
| Effective Tax Rate (%)         | 18.5         | 32.0         | 32.8          | 31.0         | 22.3          | 34.0          | 34.0          | -11.7        | 28.8          | 34.7          |
| <b>Reported PAT</b>            | <b>113</b>   | <b>95</b>    | <b>128</b>    | <b>70</b>    | <b>120</b>    | <b>91</b>     | <b>122</b>    | <b>-52</b>   | <b>406</b>    | <b>282</b>    |
| <b>Adjusted PAT</b>            | <b>113</b>   | <b>97</b>    | <b>128</b>    | <b>70</b>    | <b>120</b>    | <b>91</b>     | <b>122</b>    | <b>-52</b>   | <b>408</b>    | <b>282</b>    |
| Change (%)                     | 39.0         | 81.4         | 89.2          | 78.1         | 6.3           | -6.3          | -4.8          | -174.5       | 67.3          | -30.8         |

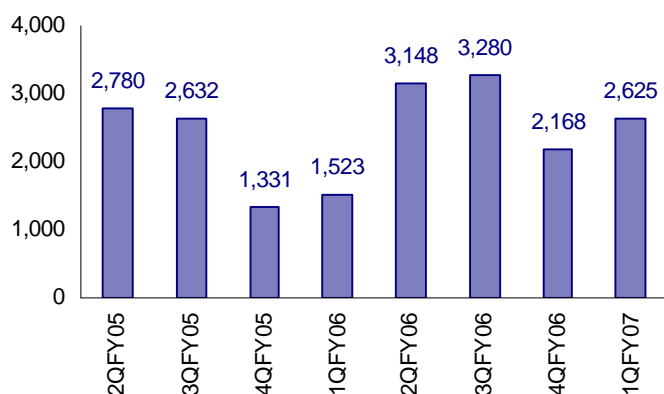
E: MOST Estimates

### Robust 1QFY07 performance

During 1QFY07, PTC reported robust financial performance with revenues of Rs10,421m, up 138% YoY and net profit of Rs120m, up 6% YoY. The performance has been significantly better than our estimates, mainly due to higher other income.

Volume traded during 1QFY07 was up 72% YoY to 2,625 MUs compared with 1,523 MUs in 1QFY06. This was mainly on the back of higher tradable surplus with improved market share in the spot market (70%) and contribution from medium-term trading (600MUs).

VOLUME TRADED (MUS)



Source: Company/ Motilal Oswal Securities

Revenues stood at Rs10,421m, up 138% YoY, while EBIDTA stood at Rs83m, up 1.8% YoY. Trading margins declined to Re0.05 per unit during 1QFY07 v/s Re0.07 per unit in 1QFY06. This is in line with the recent CERC regulation levying a cap on trading margins at Re0.04/unit, effective 31 January 2006.

Net profit during 1QFY07 was up 6% YoY to Rs120m, largely on the back of higher other income. Other income during 1QFY07 stood at Rs79m, compared with Rs67m in 1QFY06. A sizeable component of this other income during 1Q (both in FY06 and FY07) pertains to interest on maturity of long-term marketable investments.

### Key takeaways from the conference call:

**Medium term contracts:** PTC has signed medium term contracts (2-3 year contracts) with various state governments. During 1QFY07, this segment accounted for 600MUs (total traded 2625MUs). During FY07 the management expects medium term trading to account for 30% of total traded volumes versus nil in FY06. Thus medium term trading has emerged a sizeable contributor to traded volumes.

**Long term contracts:** During 1QFY07, PTC has signed a Memorandum of Understanding for 4,650MW of power capacity (cumulative 17,000MW as at June '06). This is the first step in the direction of initiating a long term power purchase agreement (PPA). The company has also signed PPAs for 144MW (cumulative 4,716MW) and a power sale agreement for 350MW (cumulative 4,260MW) during 1QFY07.

Of the above stated projects, management is confident that projects with capacity of 3000MW will enter the construction phase in FY07. The expected commissioning schedule is: FY08 — 100MW, FY09 – 700MW, FY10 – 500MW and FY11 – 1700MW. Further, of the above 3,000MW, 2,000MW are hydro-power projects and expected units available to PTC post commissioning are ~20BUs.

**Short term contracts:** Management stated that PTC has been successful in maintaining share at ~70% in 1QFY07, the same level as during FY06.

**Tala Power Project:** According to management the first unit (170MW) would be commissioned in August 2006; commissioning of all the six units (170MW each) is estimated by February 2007. This would provide incremental volumes of 4BUs p.a. to PTC. Also, the Tala transmission line has already been commissioned with a capacity of 2,500MW, while the project size is 1,020MW.

**Coal and electricity price arbitrage:** PTC has signed agreements for 500MW of generation capacity with power developers in Andhra Pradesh, where the company will supply imported coal and get it converted into electricity under a tolling arrangement. Thus PTC intends to leverage the arbitrage between coal and electricity prices. The company is looking to enter into long term contracts with miners in Indonesia, Australia, etc. for coal supplies.

### **Valuations and view**

Since the Indian power trading business is still in a nascent stage (traded volumes are just 2.5% of power generated), PTC's current profitability does not reflect its actual potential. We believe that FY08 would be the inflexion point in terms of the company's profits since the inter-state transmission capacity would expand by then and some mega power projects, including merchant power plants, would also commence generation.

At CMP of Rs49, PTC trades at PER of 17.9x FY07E and 10.6x FY08E. Maintain **Buy**.

## PTC India: an investment profile

### Company description

PTC India Ltd. is the pioneer in power trading in India, and over the years has become a Power Solutions company. It was set up in April 1999 with a mandate to catalyze the development of large power projects by acting as a single buyer for PPAs with independent power producers on one hand and by entering multi-partite PPAs with users and SEBs under long-term arrangements on the other. The GoI has identified PTC as its nodal agency for trading power with neighboring countries. Currently, short-term trading account for around 80% of PTC's volumes, but this is expected to decline to 35% by FY08.

### Key investment arguments

- ✍ Change in business mix towards long-term contracts extends volume and margin visibility and hence lends solidity to PTC's business model.
- ✍ Addressable market of PTC to rise due to open access to intra-state transmission, easing of inter state grid constraints, commissioning of new merchant power plants, etc
- ✍ FY08 would be the inflexion point in terms of volumes and earnings

### Key investment risks

- ✍ Changes in the regulatory regime
- ✍ Increasing competition in the short-term market
- ✍ Power off-take risk in executing long-term contracts

### Recent developments

- ✍ The 300MW Lanko Amarkantak TPP located in Chattisgarh achieved financial closure and has entered the construction phase. This is the first project in India to be granted long-term open access by Powergrid.
- ✍ Signed PPA for 704MW Karcham Wangtoo power project
- ✍ Approval of shareholder received to float a subsidiary to invest in power projects.

### Valuation and view

- ✍ We maintain **Buy**.

### Sector view

- ✍ We believe that the Indian power sector offers significant growth potential. Incumbents, especially the CPSUs and private players, enjoy growth optionality, which could be in multiples of the current size.

#### COMPARATIVE VALUATIONS

|          |       | PTC  | REL.ENER. | TPWR |
|----------|-------|------|-----------|------|
| P/E (x)  | FY07E | 17.9 | 12.6      | 15.5 |
|          | FY08E | 10.6 | 11.1      | 13.1 |
| P/BV (x) | FY07E | 2.6  | 1.2       | 1.8  |
|          | FY08E | 2.3  | 1.1       | 1.6  |
| RoE (%)  | FY07E | 15.4 | 10.0      | 10.2 |
|          | FY08E | 22.8 | 9.9       | 12.0 |

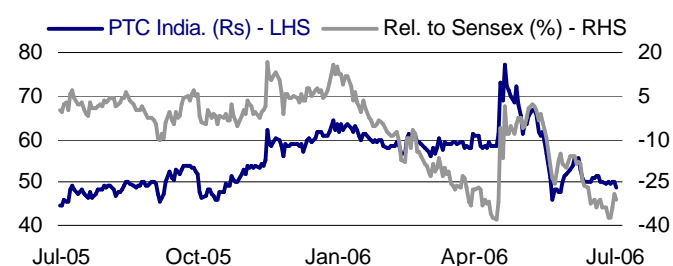
#### SHAREHOLDING PATTERN (%)

|                       | JUN.06 | MAR.06 | JUN.05 |
|-----------------------|--------|--------|--------|
| Promoters             | 32.0   | 32.0   | 32.0   |
| Domestic Institutions | 12.2   | 10.1   | 16.6   |
| FII's/FDIs            | 21.7   | 21.2   | 13.5   |
| Others                | 34.1   | 36.8   | 38.0   |

#### EPS: MOST FORECAST VS CONSENSUS (RS)

|      | MOST FORECAST | CONSENSUS FORECAST | VARIATION (%) |
|------|---------------|--------------------|---------------|
| FY07 | 2.7           | 2.3                | 17.4          |
| FY08 | 4.6           | 3.9                | 19.5          |

#### STOCK PERFORMANCE (1 YEAR)



| INCOME STATEMENT           |               | (RS MILLION)  |               |               |               |  |
|----------------------------|---------------|---------------|---------------|---------------|---------------|--|
| Y/E MARCH                  | 2004          | 2005          | 2006          | 2007E         | 2008E         |  |
| <b>Total Revenues</b>      | <b>22,687</b> | <b>19,525</b> | <b>30,052</b> | <b>42,557</b> | <b>67,620</b> |  |
| <i>Change (%)</i>          |               |               |               |               |               |  |
| Total Expenses             | 22,262        | 19,203        | 29,586        | 42,136        | 66,729        |  |
| <b>EBITDA</b>              | <b>425</b>    | <b>322</b>    | <b>466</b>    | <b>421</b>    | <b>891</b>    |  |
| <i>% of Total Revenues</i> | 19            | 17            | 16            | 10            | 13            |  |
| Depreciation               | 13            | 12            | 14            | 41            | 56            |  |
| Interest                   | 0             | 0             | 0             | 75            | 114           |  |
| Other Income               | 62            | 52            | 120           | 286           | 301           |  |
| <b>PBT</b>                 | <b>474</b>    | <b>362</b>    | <b>572</b>    | <b>591</b>    | <b>1,023</b>  |  |
| Tax                        | 162           | 125           | 165           | 183           | 338           |  |
| <i>Rate (%)</i>            | 34.2          | 34.5          | 28.8          | 31.0          | 33.0          |  |
| <b>Reported PAT</b>        | <b>312</b>    | <b>237</b>    | <b>407</b>    | <b>408</b>    | <b>685</b>    |  |
| <i>Change (%)</i>          | 149.8         | -23.9         | 71.5          | 0.2           | 68.1          |  |

| BALANCE SHEET                    |              | (RS MILLION) |              |              |              |  |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--|
| Y/E MARCH                        | 2004         | 2005         | 2006         | 2007E        | 2008E        |  |
| Share Capital                    | 1,500        | 1,500        | 1,500        | 1,500        | 1,500        |  |
| Reserves                         | 645          | 746          | 982          | 1,289        | 1,735        |  |
| <b>Net Worth</b>                 | <b>2,145</b> | <b>2,246</b> | <b>2,482</b> | <b>2,789</b> | <b>3,235</b> |  |
| Loans                            | 0            | 0            | 0            | 1,062        | 2,186        |  |
| Deferred Tax Liability           | 28           | 26           | 20           | 0            | 0            |  |
| <b>Capital Employed</b>          | <b>2,172</b> | <b>2,271</b> | <b>2,503</b> | <b>3,852</b> | <b>5,421</b> |  |
| Gross Fixed Assets               | 220          | 232          | 235          | 292          | 435          |  |
| Less: Depreciation               | 27           | 39           | 52           | 114          | 170          |  |
| <b>Net Fixed Assets</b>          | <b>193</b>   | <b>194</b>   | <b>183</b>   | <b>178</b>   | <b>266</b>   |  |
| Investments                      | 1,341        | 1,980        | 1,913        | 2,465        | 4,607        |  |
| <b>Curr. Assets</b>              | <b>2,292</b> | <b>1,032</b> | <b>2,289</b> | <b>3,395</b> | <b>4,011</b> |  |
| Inventory                        | 0            | 0            | 0            | 0            | 0            |  |
| Debtors                          | 766          | 565          | 991          | 1,232        | 1,957        |  |
| Cash & Bank Balance              | 1,277        | 96           | 594          | 1,362        | 782          |  |
| Loans & Advances                 | 246          | 367          | 699          | 800          | 1,272        |  |
| Other Current Assets             | 3            | 3            | 6            | 0            | 0            |  |
| <b>Current Liab. &amp; Prov.</b> | <b>1,727</b> | <b>990</b>   | <b>1,919</b> | <b>2,186</b> | <b>3,463</b> |  |
| Other Liabilities                | 1,305        | 535          | 1,252        | 1,180        | 1,868        |  |
| Provisions                       | 423          | 457          | 671          | 1,006        | 1,594        |  |
| Net Deferred Tax Asset           | -1           | -2           | -4           | 0            | 0            |  |
| <b>Net Current Assets</b>        | <b>565</b>   | <b>42</b>    | <b>370</b>   | <b>1,209</b> | <b>548</b>   |  |
| <b>Misc Expenses</b>             | <b>73</b>    | <b>57</b>    | <b>37</b>    | <b>0</b>     | <b>0</b>     |  |
| <b>Application of Funds</b>      | <b>2,173</b> | <b>2,272</b> | <b>2,503</b> | <b>3,852</b> | <b>5,421</b> |  |

E: MOST Estimates

| RATIOS                          |            |            |            |            |            |  |
|---------------------------------|------------|------------|------------|------------|------------|--|
| Y/E MARCH                       | 2004       | 2005       | 2006       | 2007E      | 2008E      |  |
| <b>Basic (Rs)</b>               |            |            |            |            |            |  |
| <b>EPS</b>                      | <b>2.1</b> | <b>1.6</b> | <b>2.7</b> | <b>2.7</b> | <b>4.6</b> |  |
| <b>CEPS (Rs)</b>                | <b>2.2</b> | <b>1.7</b> | <b>2.9</b> | <b>3.0</b> | <b>4.9</b> |  |
| Book Value                      | 13.8       | 14.6       | 16.3       | 18.6       | 21.6       |  |
| DPS                             | 0.9        | 0.9        | 0.9        | 0.9        | 1.6        |  |
| Payout (incl. Div. Tax.)        | 43.4       | 56.1       | 33.2       | 33.1       | 35.0       |  |
| <b>Valuation (x)</b>            |            |            |            |            |            |  |
| P/E                             |            | 29.9       | 17.9       | 17.9       | 10.6       |  |
| EV/EBITDA                       |            | 20.1       | 14.9       | 16.2       | 8.8        |  |
| EV/Sales                        |            | 0.3        | 0.2        | 0.2        | 0.1        |  |
| Price/Book Value                |            | 3.3        | 3.0        | 2.6        | 2.3        |  |
| Dividend Yield (%)              |            | 1.9        | 1.9        | 1.9        | 3.3        |  |
| <b>Profitability Ratios (%)</b> |            |            |            |            |            |  |
| RoE                             | 22.0       | 11.5       | 17.5       | 15.4       | 22.8       |  |
| RoCE                            | 30.9       | 16.6       | 24.0       | 17.9       | 24.5       |  |
| <b>Turnover Ratios</b>          |            |            |            |            |            |  |
| Debtors (Days)                  | 12         | 11         | 12         | 11         | 11         |  |
| Asset Turnover (x)              | 0.1        | 0.1        | 0.2        | 0.1        | 0.1        |  |
| <b>Leverage Ratio</b>           |            |            |            |            |            |  |
| Debt/Equity (x)                 | 0.0        | 0.0        | 0.0        | 0.4        | 0.7        |  |

| CASH FLOW STATEMENT           |               | (Rs Million)  |             |              |               |  |
|-------------------------------|---------------|---------------|-------------|--------------|---------------|--|
|                               | 2004          | 2005          | 2006        | 2007E        | 2008E         |  |
| <b>PBT before EO Items</b>    | <b>474</b>    | <b>369</b>    | <b>573</b>  | <b>591</b>   | <b>1,023</b>  |  |
| Add : Depreciation            | 13            | 12            | 14          | 41           | 56            |  |
| Interest                      | 0             | 0             | 0           | 75           | 114           |  |
| Less : Direct Taxes Paid      | 162           | 125           | 165         | 183          | 338           |  |
| (Inc)/Dec in WC               | 293           | -656          | 169         | 52           | 80            |  |
| <b>CF from Operations</b>     | <b>617</b>    | <b>-400</b>   | <b>591</b>  | <b>576</b>   | <b>934</b>    |  |
| Extra-ordinary Items          | 0             | 0             | 0           | 0            | 0             |  |
| <b>CF from Oper. incl EOI</b> | <b>617</b>    | <b>-400</b>   | <b>591</b>  | <b>576</b>   | <b>934</b>    |  |
| (Inc)/dec in FA               | 6             | -12           | -3          | -44          | -143          |  |
| (Pur)/Sale of Investments     | -1,323        | -639          | 66          | -660         | -2,142        |  |
| <b>CF from Investments</b>    | <b>-1,317</b> | <b>-651</b>   | <b>63</b>   | <b>-704</b>  | <b>-2,286</b> |  |
| (Inc)/Dec in Networth         | 1,123         | 9             | -20         | 0            | 0             |  |
| (Inc)/Dec in Debt             | 0             | 0             | 0           | -11          | 1,124         |  |
| Less : Interest Paid          | 0             | 0             | 0           | 75           | 114           |  |
| Dividend Paid                 | 135           | 137           | 135         | 135          | 240           |  |
| <b>CF from Fin. Activity</b>  | <b>987</b>    | <b>-128</b>   | <b>-155</b> | <b>-221</b>  | <b>770</b>    |  |
| <b>Inc/Dec of Cash</b>        | <b>287</b>    | <b>-1,180</b> | <b>499</b>  | <b>-349</b>  | <b>-581</b>   |  |
| Add: Beginning Balance        | 988           | 1,277         | 96          | 1,712        | 1,362         |  |
| <b>Closing Balance</b>        | <b>1,276</b>  | <b>97</b>     | <b>595</b>  | <b>1,362</b> | <b>782</b>    |  |

E: MOST Estimates



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**Disclosure of Interest Statement**

**PTC India**

- |   |    |
|---|----|
| 1. Analyst ownership of the stock                       | No |
| 2. Group/Directors ownership of the stock               | No |
| 3. Broking relationship with company covered            | No |
| 4. Investment Banking relationship with company covered | No |

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