

PTC Financial Services Ltd.

SECTOR: NBFC



EXPENSIVE

Issue Snapshot

Issue Open	16-Mar-11
Issue Close	19-Mar-11
Price Band (INR)	26-28
Discount to Retail Investors (INR)	1
Issue Size (INR Bn)	3.32 - 3.57
Market Cap (INR Bn)	14.61 - 15.74

Issue Size (No. of Shares)	156,700,000
Fresh Issue (No. of Shares)	127,500,000
Offer for Sale (No. of Shares)	29,200,000
QIB	54,845,000
Non-Institutional	23,505,000
Retail	78,350,000
Face Value (INR)	10
Book Value as of 31.12.10 (INR)	15.29

Capital Structure

Pre Issue Equity (INR Mn)	4350
Post Issue Equity (INR Mn)	5621

Shareholding Pattern	Pre Issue (%)	Post Issue (%)
Promoter & Promoter Groups	77.60%	60.00%
Other Institutions	22.40%	12.12%
Public	0	27.88%
Total	100%	100.00%
Total Shares	434,583,335	562,083,335

Objects of the Issue	Rs Mn.
Augment Capital Base to meet future capital requirements arising out of growth in business	[.]
Total	[.]

Website: www.ptcfinancial.com

PFS, is a non- deposit taking NBFC with IFC status, promoted by PTC India to provide financial services to the entities in energy value chain, providing both equity and debt financing; short term & long term debt, as well as structured debt financing. PFS also provides fee based syndication and advisory services as well as carbon credit financing against certified emissions reduction (CER).

PFS adds value to Greenfield and Brownfield projects at various stages of growth and development, by providing non-fund based financial services.

Investment Rationale

- PFS to be a beneficiary of huge investment opportunities in the XIth Plan, to the tune of INR 11.06tn; across Power Generation, Transmission & Distribution Segments in Central as well as State sector.
- Promoted by PTC, which is the market leader for power trading solutions in India, synergies among the group entities provides PFS with ability to understand and efficiently cater to the needs of the developers in a comprehensive manner.
- Lineage from PTC as well as nimble and well experienced management lends PFS an edge in financing operations as well as effective risk management.

Investment Concerns

- Significantly dependent on PTC, for the growth of their business.
- Interest rate risk, being an NBFC and having 84.88% of total assets and 58.10% of total liabilities at floating rates of interest.
- Power sector projects have long gestation periods before they become operational and carry project-specific as well as general risks like political, regulatory, fiscal, monetary and legal actions and policies that may adversely affect the viability of projects we finance;

Valuation

At the upper band of INR 28, the stock is available at a P/E and P/BV multiple of 35x and 1.5x based on its FY11E EPS of INR 0.81 and post issue BVPS of INR 18.00. The issue looks **Expensive** compared to other well established peers.

Investment Rationale

Huge Capex in Power Sector in XIth Plan:

As per the Central Electric Agency (CEA), the total capacity in India stands as under:

CAPACITY IN INDIA

Sector	Current Installed				Future Additions in 11th 5 year Plan			
	Central	State	Private	TOTAL	Central	State	Private	TOTAL
Thermal	39,247.23	52,186.73	19,890.52	111,324.48	24,840	23,301	11,552	59,693
Nuclear	4,780.00	0	0	4,780.00	3,380	0	0	3,380
Hydro	8,685.40	27,257.00	1,425.00	37,367.40	8,654	3,482	3,491	15,627
RES*	0	3,008.85	15,445.67	18,454.52	0	0	0	0
Total	52,712.63	82,452.58	36,761.19	171,926.40	36,874	26,783	15,043	78,700

* RES - Renewable Energy Sources

Source: CEA, SPA Research

For meeting the planned target capacity addition targets, it entails an investment of Rs 11.06tn as tabulated below:

	INR Mn.
Power Generation	4,950,830
Transmission	2,400,000
Distribution	3,710,000
Total	11,060,830

Source: CEA, RHP

This entails huge funding and growth opportunities for companies like PFS who can participate with financing solutions and innovative financial products to support this growth.

Lineage of PTC:

With PTC as its promoter, PFS has good synergies from group companies as well as technical knowledge and expertise of its parent company in the power sector. PTC being a market leader in the power trading in the country, provides a good edge as well as brand equity to capitalise on.

Efficient Management:

PTC's management is well experienced with expert domain knowledge and technical expertise in power sector that enables it to identify lucrative investment opportunities, alongwith effective risk management and maintaining healthy margins on the investments as well.

Company Background

PFS, promoted by PTC, is a non-deposit taking NBFC with IFC status, to provide financial services to the entities in energy value chain, providing both equity and debt financing; short term, long term debt, as well as structured debt financing.

It enjoys the flexibility due to NBFC IFC status awarded by RBI and hence has a greater edge than other financiers and competitors.

SI - NBFC - ND IFC
% of its owned funds

LENDING AND INVESTING LIMIT

Limits for Infra Inv

Lending & investing to single borrower	Up to 25.00%	Up to 30.00%	Up to 30.00%
Lending & investing to single group of borrowers	Up to 40.00%	Up to 50.00%	Up to 50.00%

* In case of NBFC (% of its Owned Funds)- up to 15.00% -25.00% and in case of the NBFC (limits for infrastructure loans)- up to 20.00% -35.00%

PFS' Business includes Equity Funding, Debt Funding as well as Fee based Income. Broadly the businesses are detailed as below:

Fee based Income: PFS provides various fee-based services including lenders agent and security agent services, as well as advisory services such as techno-economic feasibility studies for power projects in India. It also provides financing to project developers against purchase of CERs generated or to be generated from their projects.

Equity Funding: PFS makes strategic equity investments in companies in the energy value chain in India, including in Greenfield and Brownfield projects. The nature and extent of equity participation in such companies vary in accordance with the requirements, opportunities and risks associated with the projects. As on 31st December, the total equity portfolio stands at INR 4828mn and PFS has board approvals for equity commitments of INR 5462mn.

Debt Funding: PFS provides fund based and non-fund based debt financing, including short-term and long-term debt, as well as structured debt financing. In addition to financing project companies. PFS also provides bridge financing to promoters of power projects. As of December 31, 2010, outstanding loan financing was INR 5,951.15 mn to 13 companies, and Board approved debt commitments aggregated INR 22,567.30 mn.

Equity investments by PFS as at 31st December, 2010:

Project	Project Status	Capacity (MW)	Equity Commitment (INR Mn)	Outstanding Investments (INR Mn)	Proposed Shareholding pursuant to Equity Commitment	Shareholding (%)	Expected Date of Commercial Operations
East Coast Energy Pvt Ltd	Under development	1,320.00	1,334	1,250	8.00%	13.87%	Unit 1 -December, 2013 and Unit II - May 2014
Ind- Barath Energy (Utkal) Ltd	Under development	700	1,050	1,050	13.19%	20.55%	Unit I- January 2012 and Unit II - March, 2012
Meenakshi Energy Pvt Ltd	Under development	900	997	603	15.47%	20.41%	December, 2011 (Phase I) and March 2013 (Phase II)
Ind- Barath Powergencom Ltd	Phase I of two units of 63 MW - commissioned Phase II of one unit of 63 MW - under development	189	556	556	26.00%	26.00%	March, 2011 (Phase II)
Indian Energy Exchange Ltd	N.A.	N.A.	69	58	26.00%	21.12%	N.A.
RS India Wind Energy Ltd	Wind Farm	99.45	540	539	37.00%	37.00%	November, 2011
	39.60MW of Phase I - commissioned Phase II -under development						(Phase II)
	WTG Manufacturing facility.	N.A.	74	72			Under development
	Solar farm	3	98	Nil			Under initial phase of development
Varam Bio Energy Pvt Ltd	Commenced commercial operations in February 2009	10	44	44	26.00%	26.00%	N.A
PTC Bermaco Green Energy Systems Ltd	Under Development	NA	66	14	26.00%	26.00%	NA

Financials

Income Statement (INR Mn)	FY08	FY09	FY10	Q3FY11	Balance Sheet (INR Mn)	FY08	FY09	FY10	Q3FY11
Interest Earned					Share capital	900.0	4,346.8	4,358.2	4,350.1
- on loan financing	0.0	0.1	135.7	541.3	Reserves and surplus	206.8	1,746.6	2,001.1	2,313.3
- on fixed deposits	0.4	3.4	139.4	38.1	(-) Debit bal in P&L	(1.0)	0.0	0.0	0.0
	0.4	3.5	275.1	579.4	Net Reserves	205.8	1,746.6	2,001.1	2,313.3
Interest and other charges	0.0	0.2	116.0	286.4	Net worth	1,105.8	6,093.5	6,359.4	6,663.4
Net Interest Income	0.4	3.4	159.1	292.9	Secured loans	0.0	200.0	3,108.0	4,773.7
Fee based income	0.0	9.3	46.8	66.7	TOTAL	1,105.8	6,293.5	9,467.4	11,437.1
Income from sale of power	0.0	0.0	0.0	35.5	Net block	0.4	0.6	349.7	311.0
Others	0.0	0.0	0.2	2.5	Capital WIP	0.0	0.0	1.0	0.1
Income from Investments	30.9	103.1	212.8	141.4		0.4	0.6	350.7	311.1
Total income	31.4	115.8	418.9	539.0	Investments	1,117.9	2,000.1	4,067.0	4,405.4
Personnel expenses	2.7	9.6	25.7	6.4	Loan financing	0.0	200.0	2,662.0	5,951.2
Administration & other expenses	17.1	19.2	25.7	33.4	Deferred tax assets (net)	5.0	3.6	(43.8)	(71.8)
Depreciation	0.1	0.2	0.5	40.5	Net Current Assets	(17.5)	4,089.1	2,431.4	822.6
Provision for contingencies	0.0	0.0	0.0	15.8	Misc Expenditure	0.0	0.0	0.0	18.7
Total expenditure	20.0	29.0	51.9	96.1	TOTAL	1,105.8	6,293.5	9,467.4	11,437.1
Profit / (loss) before tax	11.4	86.8	367.0	442.9					
Provision for tax	(5.0)	1.5	112.5	130.7					
Net Profit / (Loss)	16.4	85.3	254.5	312.2					

Cash Flow (INR Mn)	FY08	FY09	FY10	Q3FY11	Key ratios	FY08	FY09	FY10	Q3FY11
From Operating Activities	(317.8)	(1,115.3)	(4,414.7)	(3,006.7)	EPS	0.31	0.35	0.59	0.72
From Investing Activities	(788.1)	99.5	(191.2)	(93.3)	BV	12.29	14.02	14.63	15.33
From Financing Activities	1,066.8	5,101.3	2,863.7	1,419.3	RoE	1.48%	1.40%	4.00%	4.68%
Net Cash Flow	(39.2)	4,085.5	(1,742.2)	(1,680.7)	RoA	1.48%	1.36%	2.69%	2.73%
Opening C& CE	40.6	1.4	4,086.9	2,344.7	NIMs	-	13.01%	10.02%	8.43%
Closing C& CE	1.4	4,086.9	2,344.7	664.1	Yield on Assets	-	13.71%	17.32%	16.68%
					Cost of Borrowings	-	0.09%	3.73%	6.00%

Peer Comparison

Peer Comparison	CMP (INR)	M-Cap (INR Mn)	EPS (INR)	BV (INR)	RoE (%)	RoA (%)	P/E (x)	P/BV (x)
PFS @ 26	26	14615	0.81	18.00	4.28	2.95	32.29	1.44
PFS @ 28	28	15739	0.81	18.00	4.28	2.95	34.77	1.56
PFC	232	266100	24.00	140.00	19.30	3.00	9.67	1.66
REC	219	216540	25.00	130.40	20.80	3.20	8.76	1.68

* All the above figures are for FY11E

** Consensus Estimates used for PFC & REC

EPS & BVPS are calculated using post issue capital

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1. Analyst ownership of the stock - No
2. Group/Directors ownership of the stock - No
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