March 31, 2017

PTC India Financial Services (PTCIND)₹ 42

One-time gains led by stake sale in IEX…

Rating matrix

Rating	:	Hold
Target	:	₹ 42
Target Period	:	12 months
Potential Upside	:	1%

What's Changed?

Target	Changed from ₹ 40 to ₹ 42
EPS FY17E	Changed from ₹ 4.8 to ₹ 6.1
EPS FY18E	Unchanged
Rating	Unchanged

Key Financials

₹ Crore	FY15	FY16E	FY17E	FY18E
NII	341	414	510	628
PPP	360	626	672	661
PAT	161	391	404	398

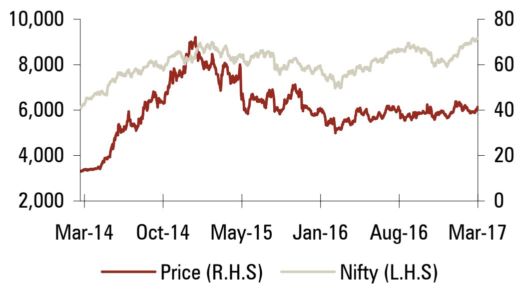
Valuation summary

(YoY Growth)	FY15	FY16E	FY17E	FY18E
P/E	14.0	5.7	6.5	6.6
Target P/E	14.7	6.0	6.9	7.0
P/BV	1.6	1.3	1.0	0.9
Target P/BV	1.6	1.4	1.1	1.0
RoA	2.6	5.0	4.0	3.0
RoE	11.5	24.7	18.8	14.7

Stock data

Particulars	Amount
Market Capitalisation	₹ 2559 crore
GNPA (Q3FY17)	4.8%
NNPA (Q3FY17)	0.9%
NIM % (Q3FY17)	5.4%
52 week H/L	1.5
Net worth	₹ 1898 Crore
Face value	₹ 10
DII Holding (%)	2.6
FII Holding (%)	9.2

Price Chart



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The management of PTC India Financial Services has informed the exchange regarding successful divestment of its entire stake in Indian Energy Exchange (IEX) for a consideration of ₹ 132.54 crore. Prior to the deal, investment in IEX was at ₹ 1.52 crore, leading to a profit of ~₹ 131 crore. However, the management is expected to utilise a proportion of gains as higher provisions. Consequently, we have revised our FY17E PAT estimates by 28% factoring in one-time gains at ₹ 404 crore. Keeping FY18E estimates unchanged, our ABV has increased at ₹ 37.9 per share compared to ₹ 37.4 earlier. Therefore, we revise our target price at ₹ 42 per share (₹ 40 earlier), valuing the stock at 1.1x FY18E ABV. We continue to maintain our **HOLD** recommendation on the stock.

Credit traction to continue ahead; renewable energy key driver

PFS' advances have grown exponentially at a CAGR of 45% in FY12-16 to ₹ 8301 crore at the end of FY16. PFS, initially, had the largest exposure to thermal power projects at ~60% till FY12, primarily sourced as a reference from parent company PTC India. The company is now able to garner business on its own with focus on small and medium renewable power projects, which constitute ~48% of the overall loan book. Owing to increasing competition from banking peers, we expect loan growth to moderate compared to previous fiscals at ~28.5% CAGR to ₹ 13701 crore in FY17-18E. Renewable energy loans are expected to comprise ~58% of the loan book increasing to ₹ 8013 crore by FY18E.

Expect margins to stabilise at ~5.0-5.3%; benefit from MCLR to pour in

PFS enjoyed NIM of 6.0% in FY15 due to higher yields of 13-14% on low ticket, mid-sized project lending. Leveraging on its power sector lineage, PFS is able to structure loans and provide other technical assistance to small developers, which enables it to command a higher yield. On the liability side, PFS, in the past, had the benefit of raising funds through low cost tax free bonds and ECBs. However, increasing competition among financial institutions is expected to exert some pressure on margins. We expect margins to inch up and stabilise at ~5.0-5.3% in FY17-18E, owing to a shift of bank borrowings to MCLR, which is expected to lower the cost of funds by ~20 bps.

Asset quality to remain broadly stable

PFS had zero NNPA and marginal GNPA till Q3FY15. However, NPA unexpectedly surged post Q4FY15 owing to pains in certain accounts. In Q1FY17, asset quality deteriorated, led by higher slippage from already restructured accounts, resulting in a surge in GNPA ratio at 5.83% (3.4% QoQ). Going ahead, as the loan book size expands and book matures, we expect NPA accretion to moderate in FY17-18E. Consequently, we revise our GNPA estimate downwards and expect GNPA ratio at 4.5% at ₹ 470 crore in FY17E and ₹ 591 crore (GNPA ratio – 4.3%) by FY18E. Accordingly, NNPA ratio is expected to inch lower at 2.5% in FY18E.

Financial summary

Profit and loss statement				₹ Crore
(Year-end March)	FY15	FY16	FY17E	FY18E
Interest Earned	741.6	921.3	1,163.8	1,494.6
Interest Expended	400.3	507.0	654.2	866.5
Net Interest Income	341.3	414.3	509.6	628.1
% growth	61.3	21.4	23.0	23.3
Non Interest Income	60.3	265.6	221.0	103.2
Net Income	401.6	679.9	730.6	731.3
Employee cost	10.7	10.2	12.7	14.2
Other operating Exp.	31.0	43.3	45.7	56.5
Operating Income	359.9	626.4	672.2	660.6
Provisions	114.8	95.0	67.2	67.1
PBT	245.1	531.4	605.0	593.5
Taxes	84.4	140.3	200.8	195.9
Net Profit	160.7	391.1	404.1	397.6
% growth	-22.6	143.4	3.3	-1.6
EPS (₹)	2.9	7.0	6.1	6.0

Source: Company, ICICIdirect.com Research

Key ratios				
(Year-end March)	FY15	FY16	FY17E	FY18E
Valuation				
No. of Equity Shares	56.2	56.2	66.2	66.2
EPS (₹)	2.9	7.0	6.1	6.0
BV (₹)	25.6	30.8	38.8	43.0
BV-ADJ (₹)	24.4	27.3	34.7	37.9
P/E	14.0	5.7	6.5	6.6
P/BV	1.6	1.3	1.0	0.9
P/adj.BV	1.6	1.4	1.1	1.0
Yields & Margins (%)				
Yield on interest earning assets	13.0	12.4	12.2	12.2
Avg. cost on funds	8.9	8.5	8.6	8.7
Net Interest Margins	6.0	5.6	5.3	5.1
Spreads	4.0	3.9	3.7	3.5
Quality and Efficiency				
Cost / Total net income	10.4	7.9	8.0	9.7
GNPA%	1.3	3.5	4.5	4.3
NNPA%	1.0	2.4	2.6	2.5
RONW (%)	11.5	24.7	18.8	14.7
ROA (%)	2.6	5.0	4.0	3.0

Source: Company, ICICIdirect.com Research

Balance sheet				₹ Crore
(Year-end March)	FY15	FY16	FY17E	FY18E
Sources of Funds				
Capital	562.1	562.1	662.1	662.1
Reserves and Surplus	874.9	1170.0	1905.3	2186.0
Networth	1437.0	1732.1	2567.4	2848.1
Borrowings	5093.7	6845.4	8520.4	11368.0
Other Liabilities & Provisions	203.7	274.4	471.4	546.5
Total	6,734	8,852	11,559	14,763
Applications of Funds				
Fixed Assets	22.0	20.7	19.7	18.9
Investments	286.1	244.4	255.1	269.6
Advances	6287.9	8300.3	10536.2	13700.8
Other Assets	138.3	286.5	748.3	773.4
Total	6,734	8,852	11,559	14,763

Source: Company, ICICIdirect.com Research

Growth ratios				(% growth)
(Year-end March)	FY15	FY16	FY17E	FY18E
Total assets	24.4	31.4	30.6	27.7
Advances	28.2	32.0	26.9	30.0
Borrowings	29.8	34.7	24.6	33.6
Total Income	46.8	48.0	16.7	15.4
Net interest income	61.3	21.4	23.0	23.3
Operating expenses	24.1	28.5	9.2	20.9
Operating profit (excl trading)	63.2	74.0	59.9	22.4
Net profit	-22.6	143.4	3.3	-1.6
Book value	6.5	20.5	48.2	10.9
EPS	(22.6)	143.4	(12.3)	(1.6)

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (NBFC)

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹) FY16	FY17E	FY18E	P/E (x) FY16	FY17E	FY18E	P/ABV (x) FY16	FY17E	FY18E	RoA (%) FY16	FY17E	FY18E	RoE (%) FY16	FY17E	FY18E
LIC Housing Finance (LICHF)	619	590	Hold	31,283	32.9	39.2	45.6	18.8	15.8	13.6	3.5	2.9	2.4	1.4	1.4	1.4	19.6	19.5	18.8
Reliance Capital (RELCAP)	614	540	Hold	15,157	56.9	45.4	49.5	10.8	13.6	12.5	1.1	1.1	1.0	2.4	1.6	1.5	9.8	7.0	7.2
HDFC (HDFC)	1,500	1,570	Buy	236,617	45.0	46.6	53.9	33.4	32.2	27.8	7.0	6.4	5.7	2.6	2.4	2.4	21.8	20.5	21.5
PTC India Financial Services (PTCIND)	42	42	Hold	2,373	7.0	6.1	6.0	6.0	6.8	6.9	1.5	1.2	1.1	5.0	4.0	3.0	24.7	18.8	14.7
CARE (CARE)	1,614	1,650	Buy	4,681	48.4	40.0	52.7	33.4	40.3	30.6	13.0	11.6	10.4	43.2	40.9	42.7	38.9	28.8	33.8
Bajaj Finserv (BAFINS)	4,100	3,620	Buy	65,283	117.2	146.2	197.0	35.0	28.0	20.8	5.1	4.3	3.6	1.9	2.0	2.3	15.7	16.7	18.8
Bajaj Finance (BAJAF)	1,170	1,300	Buy	62,488	24.5	33.6	43.9	47.8	34.8	26.7	8.3	7.0	5.5	3.2	3.4	3.3	20.9	22.1	23.3

Source: Company, ICICIdirect.com Research

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