

Sector: Power
Result Update

	Change
Reco: Hold	↔
CMP: Rs. 60	
Price Target: Rs. 65	↓

↑ Upgrade ↔ No change ↓ Downgrade

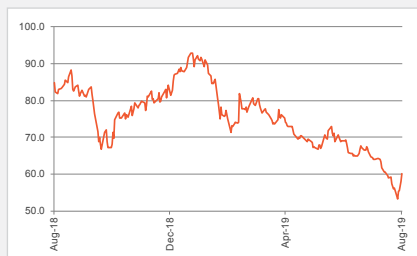
Company details

Market cap:	Rs. 1,779 cr
52-week high/low:	Rs. 94/53
NSE volume: (No of shares)	4.7 lakh
BSE code:	532524
NSE code:	PTC
Sharekhan code:	PTC
Free float: (No of shares)	25 cr

Shareholding (%)

Promoters	16
FII	36
DII	23
Others	25

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-10.1	-13.5	-21.6	-27.6
Relative to Sensex	-7.0	-13.0	-23.9	-27.5

Sharekhan Research, Bloomberg

PTC India Limited (PTC India) reported standalone EBITDA of Rs. 102 crore (up 7.9% y-o-y; up 9.7% q-o-q), above our estimate due to higher-than-expected power trading volume (up 15.3% y-o-y). Gross margin declined by 4.2% y-o-y to 6.23 paise per unit. Standalone PAT stood at Rs. 63 crore (up 2.2% y-o-y; up 16.3% q-o-q), below our estimate of Rs. 65 crore. The company is likely to operationalise ~950 MW of new power purchase agreement (PPAs), which would drive volume growth, but weakness in the financial performance of PTC India Financial Services could impact/delay value unlocking from dilution/divestment of stake in subsidiaries. Hence, we maintain our Hold rating on PTC India with a revised price target (PT) of Rs. 65.

Key positives

- ◆ Strong volume growth of 15.3% y-o-y in power trading volume.
- ◆ New PPAs of 950 MW to become operational in the next few months.

Key negatives

- ◆ Decline in gross margin by 4.2% y-o-y.

Our Call

Valuation – Maintain Hold with a revised PT of Rs. 65: We have lowered our FY2020 and FY2021 earnings estimates, as we assume lower trading margins (to reflect decline in Q1FY20 gross margins) and lower other income. The company's intention to dilute/divest stake in stressed subsidiaries seems in the right direction, but deteriorating financial performance of PTC India Financial Services (due to liquidity crisis) could impact/delay value unlocking. Hence, we maintain our Hold rating on the stock with a revised PT of Rs. 65.

Key Risks

Higher-than-expected growth in power trading volume and faster monetisation of investment in subsidiaries.

Valuation (Standalone)

Particulars	FY17	FY18	FY19E	FY20E	FY21E
Revenues	8,797	11,315	13,496	15,346	17,181
OPM (%)	3.5	3.2	3.1	2.8	2.7
Adjusted PAT	291	319	262	289	315
% YoY growth	24.1	9.7	(17.8)	10.3	8.9
Adjusted EPS (Rs.)	9.8	10.8	8.9	9.8	10.7
P/E (x)	6.1	5.6	6.8	6.1	5.6
Price/ Book (x)	0.6	0.6	0.5	0.5	0.5
RoCE (%)	14.8	14.7	13.3	13.1	13.6
RoE (%)	9.8	10.1	8.0	8.5	8.9

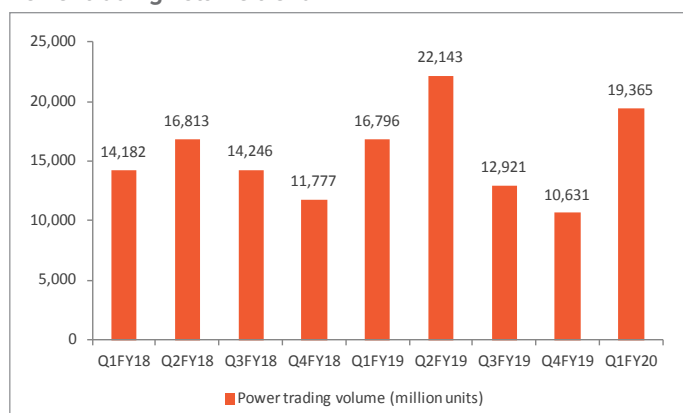
Source: Company, Sharekhan Estimates

EBITDA rises by 8% y-o-y led by strong growth in power trading volumes

PTC India reported standalone EBITDA of Rs. 102 crore (up 7.9% y-o-y; up 9.7% q-o-q), above our estimate of Rs. 96 crore due to higher-than-expected power trading volume at 19,365 million units (up 15.3% y-o-y). Rise in volumes was on the account of higher volume from medium and long-term contracts at 9,777 million units (up 42% y-o-y and accounted for ~50% of total volumes). Gross margin (including surcharge and rebate) declined to 6.23 paisa per unit in Q1FY2020 as compared to 6.5 paisa per unit in Q1FY2019 due to absence of highly profitably volumes from Bangladesh contract. Standalone PAT stood at Rs. 63 crore (up 2.2% y-o-y; up 16.3% q-o-q), below our estimate of Rs. 65 crore.

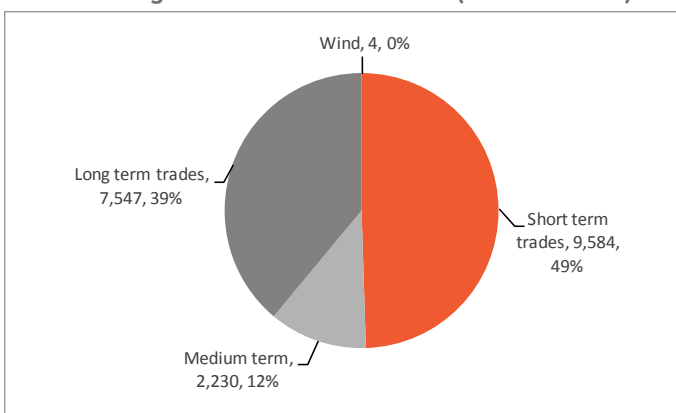
PTC Energy and PTC India Financial Services (PFS) reported PAT of Rs. 15.2 crore (vs. Rs. 9.9 crore in Q1FY2019) and Rs. 15.6 crore (vs. Rs. 55.9 crore in Q1FY2019), respectively. Consequently, consolidated PAT declined sharply by 26.8% y-o-y to Rs. 93 crore in Q1FY2020.

Power trading volume trend



Source: Company

Power trading volume mix in Q1FY2020 (In million units)



Source: Company

Plans to divest stake in subsidiaries

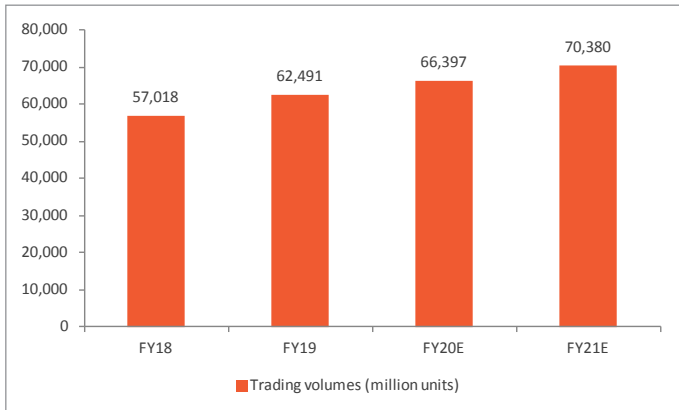
Board of Directors of PTC India has recommended the required resolution to shareholders to enable the Board of Directors to carry out the exercise connected to the proposals of dilution (including through part/full divestment) of its stake in its two subsidiaries, namely PTC India Financial Services Limited (PFS – 65% stake as on June 30, 2019) and PTC Energy Limited (PEL). The book value of invest in PFS and PEL stood at Rs. 755 crore and Rs. 654 crore, respectively, as on March 31, 2018. The company's net working capital days have reduced to 27 days with net working capital of Rs. 2,150 crore as on June 30, 2019 (debtors at Rs. 6,500 crore and creditors at Rs. 4,350 crore).

Results (Standalone)					Rs cr
Particulars	Q1FY20	Q1FY19	YoY %	Q4FY19	QoQ %
Net Sales	4,973	3,387	46.8	2,651	87.6
EBITDA	102	95	7.9	93	9.7
Other Income	3	32	NA	22	NA
Depreciation	1	1	(3.0)	1	(28.9)
Interest	9	31	NA	31	NA
PBT	96	94	1.7	83	15.5
Tax	33	33	1.0	29	14.1
RPAT	63	61	2.2	54	16.3
EPS (Rs)	2.1	2.1	2.2	1.8	16.5
			YoY (BPS)		QoQ (BPS)
OPM (%)	2.1	2.8	(74)	3.5	(146)
NPM (%)	1.3	1.8	(55)	2.0	(77)

Source: Company

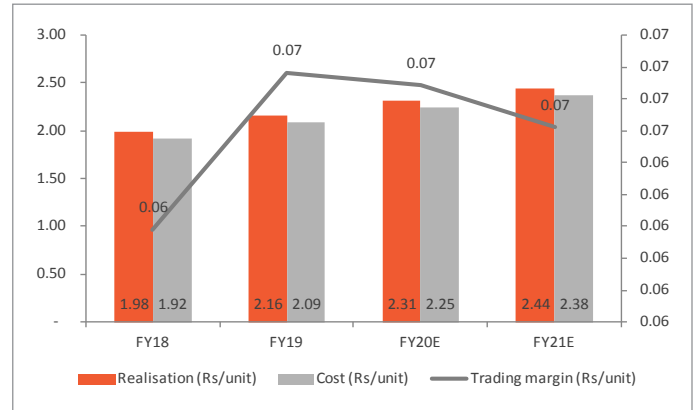
Financials in charts

Healthy growth outlook for power trading volume



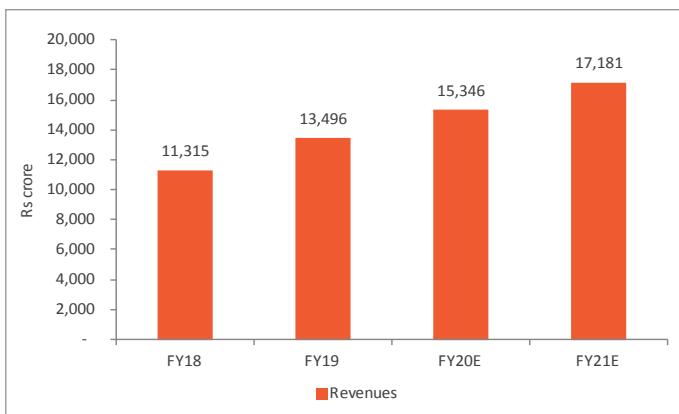
Source: Company, Sharekhan Research

Trading margin to moderate over FY20E-FY21E



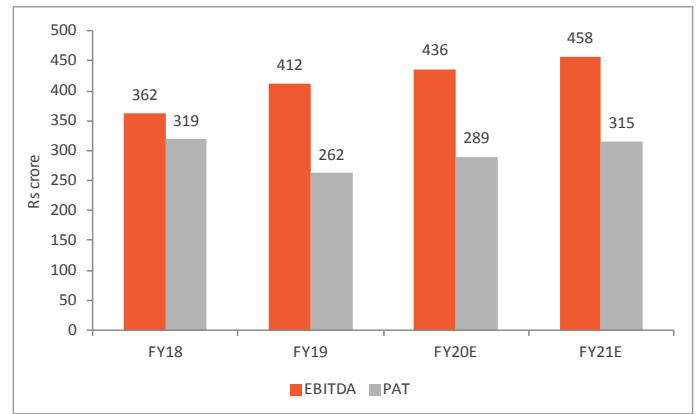
Source: Company, Sharekhan Research

Revenue trend



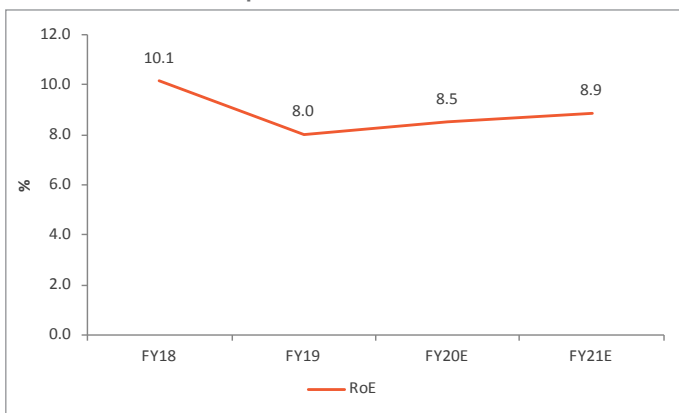
Source: Company, Sharekhan Research

EBITDA/PAT to post 5%/10% CAGR over FY19-FY21E



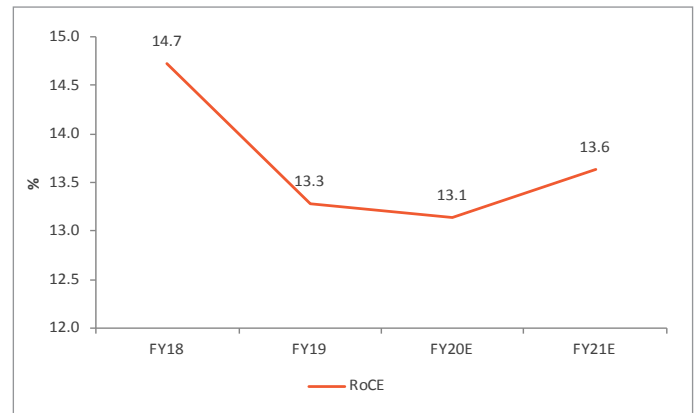
Source: Company, Sharekhan Research

RoEs to remain under pressure



Source: Company, Sharekhan Research

RoCE trend



Source: Company, Sharekhan Research

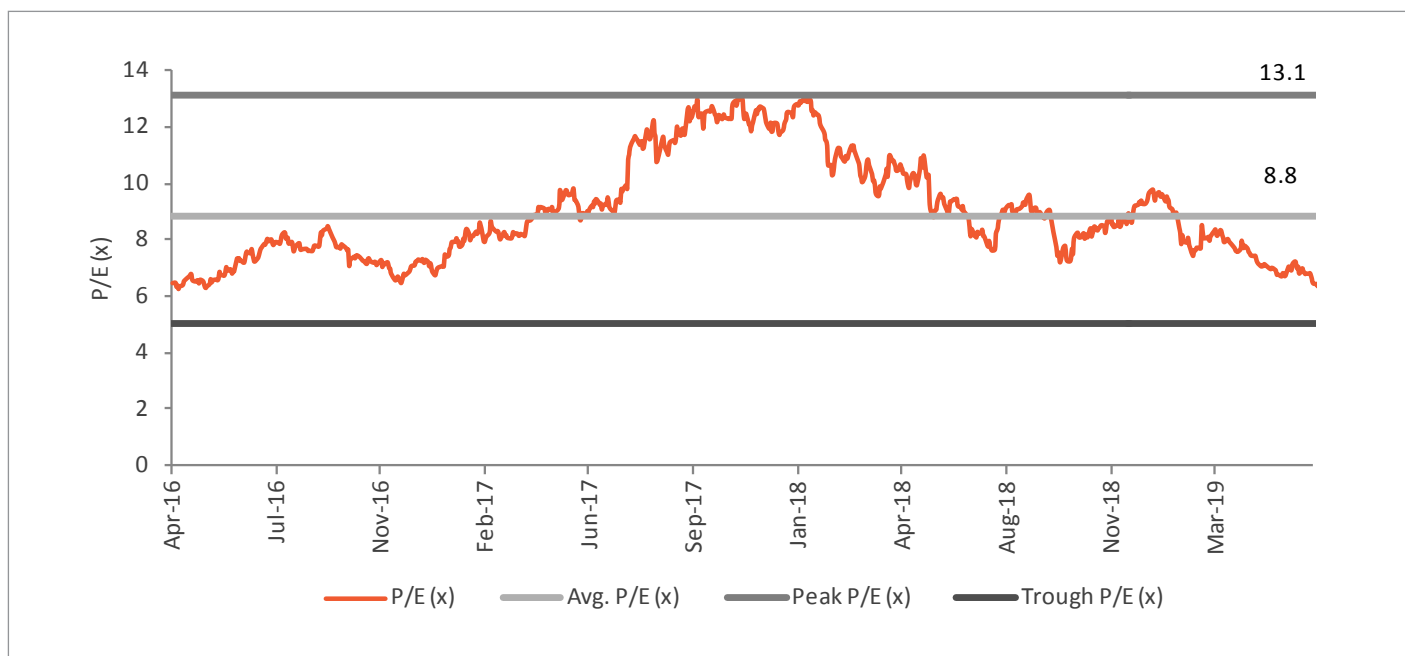
Outlook – Volume to grow as new PPAs of 950 MW expected to get operationalised

PTC India has operationalised 950 MW of medium-term PPAs for thermal assets and additional 120 MW of long-term PPA for wind power during the quarter. The company expects to operationalise 750 MW of medium PPAs in the next few months and 200 MW of PPA for wind assets by September 2019. The company has been issued letter of intent for 200 MW (short term) and 200 MW (long term) of new contracts from Bangladesh. Given new PPAs expected to get operationalised, PTC India’s trading volume is also expected to improve over FY2020E-FY2021E.

Valuation – Maintain Hold with a revised PT of Rs. 65

We have lowered our FY2020 and FY2021 earnings estimates, as we assume lower trading margins (to reflect decline in gross trading margin in Q1FY2020) and lower other income. The company’s intention to dilute/divest stake in stressed subsidiaries seems in the right direction, but the deteriorating financial performance of PFS (due to liquidity crisis) could impact/delay value unlocking. Hence, we maintain our Hold rating on the stock with a revised PT of Rs. 65.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

PTC India, the leading provider of power trading solutions in India, was established in 1999, as the Government of India initiated Public-Private Partnership, whose primary focus is to develop a commercially vibrant power market in the country. PTC India is also mandated by the Government of India to trade electricity with Bhutan, Nepal and Bangladesh.

Investment theme

PTC India undertakes trading activities, including long-term trading of power-generated from large power projects as well as short-term trading. We believe weakness in performance of its financial services subsidiary (due to NPA and provisions) would impact PTC India's consolidation financials and return ratios.

Key Risks

- ◆ Higher-than-expected growth in power trading volume.
- ◆ Earlier-than-expected monetisation of investment in subsidiaries.

Additional Data

Key management personnel

Deepak Amitabh	Chairman and Managing Director
Pankaj Goel	Chief Financial Officer
Ajit Kumar	Director – Commercial and Operations

Source: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Aditya Birla Sun Life Asset Management Company Limited	7.8
2	Life Insurance Corporation of India	6.0
3	NTPC Ltd.	4.1
4	Power Finance Corporation Ltd.	4.1
5	National Hydroelectric Power Corporation Limited	4.1
6	Power Grid Corporation of India Ltd.	4.1
7	GOVERNMENT PENSION FUND - GLOBAL	3.6
8	Norges Bank	3.6
9	Dimensional Fund Advisors LP	3.4
10	Damodar Valley Corp	3.4

Source: Bloomberg

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