

Stock Update

Strong volume outlook

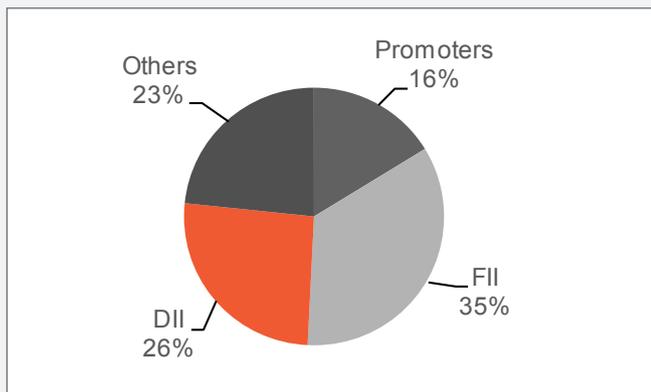
PTC India

Reco: Hold | CMP: Rs122

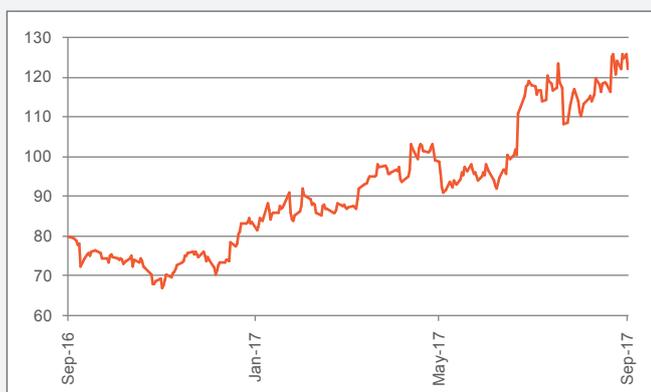
Company details

Price target:	Rs130
Market cap:	Rs3,700 cr
52-week high/low:	Rs130/67
NSE volume: (No of shares)	24.3 lakh
BSE code:	532524
NSE code:	PTC
Sharekhan code:	PTC
Free float: (No of shares)	24.80 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	18.4	33.7	50.6	64.5
Relative to Sensex	14.2	28.5	35.9	43.0

We interacted with PTC India's management regarding the recent spike in merchant prices on the exchanges and its impact on the company. Key highlights were:

Key points

- ♦ **Rise in merchant prices to augment volumes:** As per PTC India's management, the recent spike in merchant prices on energy exchanges was due to the abrupt rise in demand for electricity during the past one month. Management stated that the changed demand-supply scenario is mainly due to two reasons: 1) increased demand because of weather beating load on account of less rainfall, leading to increased agricultural load along with high humidity and temperature leading to increased air-conditioning and other load; and 2) less availability of power from non-fossil fuels (hydro generation was short by 17% due to less inflow of water) and nuclear source (outage due to planned shutdown of 2,700MW) of generation during the period. Further, management stated that there has been a 64% increase in volume traded, while PTC India commands ~38% market share in the energy traded platform. Hence, on this backdrop, we have increased the volume assumption and expect it to grow by 15%/16% YoY to ~55/64BU in FY2018/2019, respectively.
- ♦ **....but margins to remain intact:** However, management stated that despite the rise in volume, margin profile would be maintained by the company. Moreover, management expects merchant prices to stay at this elevated level for a short period and eventually cool off to levels of Rs.3-4/unit for the remaining FY2018. Hence, we maintain our margin of 6paise per unit for FY2018.
- ♦ **Strong volume visibility:** PTC India is selected as a trader under the Ministry of Renewable Energy (MNRE) and Solar Energy Corporation of India (SECI) scheme for conducting competitive bidding for procurement of 1,000MW power from wind power projects. Of which, PTC India has executed agreements for the supply of 400MW wind power to states of Bihar and Jharkhand in Q1FY2018. Further, cross-border trades in Bhutan and Bangladesh have been extended further, providing strong volume visibility.
- ♦ **Revise earnings estimates and maintain Hold with revised PT of Rs.130:** PTC India has delivered better volumes coupled with improved realisation in Q1. Further, management has guided for volumes to be at healthy levels on account of the recent hike in merchant prices and strong volume visibility from the domestic (MNRE and SECI) as well as international (cross-border trades) markets. However, we have maintained 6paise per unit margin and revised our earnings estimates accordingly for FY2018 and FY2019. We reiterate our Hold rating on the stock but revise our price target (PT) to Rs.130.

Valuation					Rs cr
Particulars	FY15	FY16	FY17	FY18E	FY19E
Net sales	13,082	12,476	14,075	17,287	21,023
Operating Profit	271	304	308	360	425
OPM (%)	2.1	2.4	2.2	2.1	2.0
Adj PAT	189	219	284	325	381
Adj EPS (Rs)	6.4	7.4	9.6	11.0	12.9
Y-o-Y growth %	15%	16%	29%	15%	17%
PER (x)	19.5	16.9	13.0	11.4	9.7
P/BV (x)	1.4	1.3	1.2	1.1	1.0
EV/EBIDTA (x)	10.1	8.7	7.7	7.0	6.2
RoCE (%)	12.1	15.5	14.8	15.6	16.8
RoE (%)	7.2	7.6	9.2	9.8	10.8
Core RoE (%)	15.0	8.1	19.1	19.9	18.4
Dividend Yield (%)	1.8	1.8	2.0	3.1	3.7

SOTP valuation

Price Target of PTC India	Rs
Core EPS on FY2019 (Rs.)	6.6
PE (x)	11
Core business Value (Rs./share)	73
Embedded Value (Rs./share)	57
Stake in PFS (30% holding discount)	32
Liquid Investments	19
Cash on books	6
Total Price Target (Rs./share)	130

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