Stock Update

Volume traction and stable realisation to drive earnings

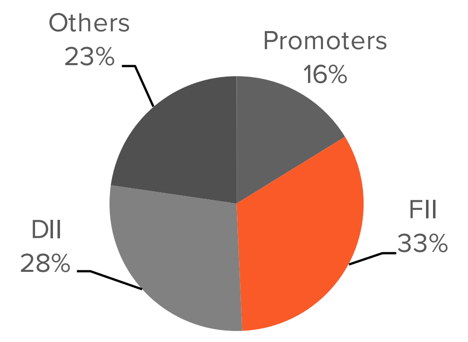
PTC India

Reco: Hold | CMP: Rs81

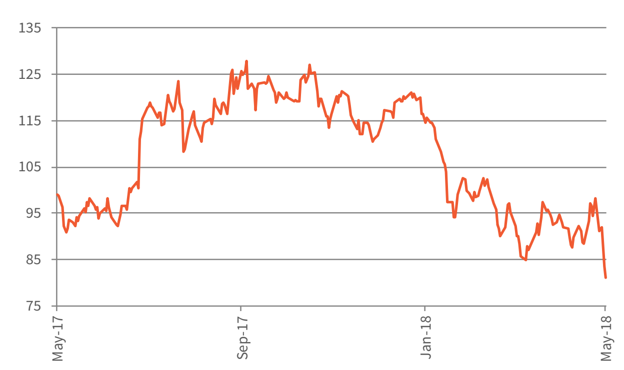
Company details

Price target:	Rs95
Market cap:	Rs2,395 cr
52-week high/low:	Rs130/81
NSE volume: (No of shares)	20.4 lakh
BSE code:	532524
NSE code:	PTC
Sharekhan code:	PTC
Free float: (No of shares)	24.8 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-11.6	-15.9	-28.1	-16.9
Relative to Sensex	-13.5	-18.7	-31.9	-28.5

Key points

- **Margin improved due to healthy realisation:** PTC India (PTC) net sales grew 24% y-o-y to Rs. 3925 crore driven by volume and realisation growth during the period. Volume growth was marginally below our expectation which grew 17% y-o-y to 11777 million units while realisation exceeded our expectation and stood at Rs. 3.3/ unit, a growth of 7% y-o-y. Adjusted operating profit/unit improved significantly to 5 paise/unit vs. 2.65 paise/unit in Q4FY2017 due to fall in other expenses by 62% y-o-y in Q4FY2018. Hence, adjusted operating profit more than doubled to Rs. 59 crore. Strong operational performance did not fully percolate to bottomline due to drastic fall in other income (high base due to one-time gain of Rs. 29 crore in Q4FY2017) during the period. Hence, adjusted PAT grew 17% y-o-y to Rs. 40 crore despite 72% y-o-y fall in interest cost during Q4FY2018.

- **Operationalisation and signing of PPA's to drive volumes:** Long-term power purchase agreement (PPA) of Karacham Wangoo (376MW) with Haryana and Punjab were operational in Q4FY2018. Further long-term PPA of Teesta Urja (200MW) with UP has already started in Q1FY2019. Management stated 70% capacity of Teesta Urja (1200MW) has already been tied up and expects the balance to be tied up soon post discussion with the states. There was some evacuation problem with one line for Teesta Urja which the management expects to get commissioned by September 2018. PTC will act as an aggregator for procurement and supply of power for 2500MW from thermal assets in the medium term. The management states this model will start soon on a pilot basis. Further, aggregation of 1050MW renewable power and signing of PPA and PSA (Power Supply Agreement) with five developers and seven states will be commissioned by October 2018. Cross-border transaction for 250MW with Bangladesh is expected to come on stream soon. Based on this, we expect volumes CAGR of 13% from FY2018-FY2020E.

- **Maintain Hold with revised PT to Rs. 95:** The management has given a steady volume growth outlook, driven by signing of new PPA and commission of project. However, the shift of volumes towards short-term volume (currently 53% mix) will exert pressure on margins. In contrast, PTC has delivered strong realisation in FY2018 and the management expects the realisation to remain on the higher level, driven by higher merchant prices. On this backdrop, we have tweaked our earnings estimates for FY2019 and FY2020E. Correction in the stock price provides a better opportunity to long-term investor given the steady earnings, higher dividend yields and decent return ratios. Hence, we maintain our Hold with a revised price target of Rs. 95.

Results Rs cr

Particulars	Q4FY2018	Q4FY2017	y-o-y (%)	Q3FY2018	q-o-q(%)
Units traded -mn units	11,777	10,106	16.5	14,246	-17.3
Blended realisation in Rs. /unit	3.3	3.1	6.6	3.1	7.6
Total income	**4,008**	**3,269**	**22.6**	**4,490**	**-10.7**
Operating profit	**93**	**90**	**3.5**	**86**	**8.7**
Adjusted Operating Profit	**59**	**27**	**119.9**	**57**	**3.8**
Other income	18	76	-76.9	18	-1.1
Interest	13	45	-71.6	16	-20.8
Depreciation	1	1	0.0	1	8.5
PBT	98	121	-19.2	87	12.1
Tax	33	42	-20.9	28	18.3
Adjusted PAT	**40**	**34**	**16.8**	**38**	**4.3**
Extraordinary items	24	44	-45.5	21	18.3
Reported PAT	**64**	**79**	**-18.3**	**59**	**9.2**
Adj EPS	**1.4**	**1.2**	**16.8**	**1.3**	**4.3**
Rep. EPS	**2.2**	**2.7**	**-18.3**	**2.0**	**9.2**
Ratios (%)			**bps**		**bps**
Operating margin ()	1.5	0.8	1	1.3	0
Pat margin	1.0	1.1	(0)	0.9	0
Tax rate	34.0	34.7	(1)	32.2	2

Valuation Rs cr

Particulars	FY2016	FY2017	FY2018	FY2019E	FY2020E
Net sales (Rs cr)	12,476	14,075	18,189	20,795	23,544
Operating Profit (Rs cr)	304	308	362	387	437
OPM (%)	2.4	2.2	2.0	1.9	1.9
Adj PAT (Rs cr)	219	218	231	254	290
Adj EPS (Rs)	7.4	7.4	7.8	8.6	9.8
Y-o-Y growth %	16	0	6	10	14
PER (x)	10.9	11.0	10.4	9.4	8.3
P/BV (x)	0.8	0.8	0.7	0.7	0.6
EV/EBIDTA (x)	6.0	5.3	4.9	4.5	4.1
RoCE (%)	15.5	14.8	14.8	15.3	15.9
RoE (%)	8.1	19.1	14.7	12.4	12.3
Dividend Yield (%)	2.6	3.0	4.5	4.9	5.6
Dividend Yield (%)	2.1	2.4	4.0	4.8	5.5

SOTP valuation

Price Target of PTC India	Rs
Core EPS of FY20 (Rs)	7.1
PE (x)	7.0
Core business Value (Rs/share)	50
Embedded Value (Rs/share)	45
Stake in PFS (30% holding discount)	19
Strategic Investments	16
Cash on books	10
Total Price Target (Rs/share)	**95**

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