Stock Update

Volume traction and stable realisation to drive earnings

PTC India
Reco: Hold | CMP: Rs81

Company details

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price target</td>
<td>Rs95</td>
</tr>
<tr>
<td>Market cap</td>
<td>Rs2,395 cr</td>
</tr>
<tr>
<td>52-week high/low</td>
<td>Rs130/81</td>
</tr>
<tr>
<td>NSE volume: (No of shares)</td>
<td>20.4 lakh</td>
</tr>
<tr>
<td>BSE code</td>
<td>532524</td>
</tr>
<tr>
<td>NSE code</td>
<td>PTC</td>
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<tr>
<td>Sharekhan code</td>
<td>PTC</td>
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<tr>
<td>Free float: (No of shares)</td>
<td>24.8 cr</td>
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</tbody>
</table>

Shareholding pattern

Promoters: 16%

FII: 33%

DII: 28%

Others: 23%

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.
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