

Sector: Power
Result Update

	Change
Reco: Hold	↔
CMP: Rs. 60	
Price Target: Rs. 65	↔
↑ Upgrade	↔ No change
↓ Downgrade	

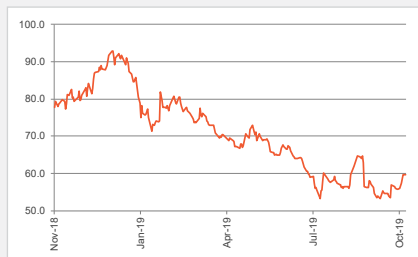
Company details

Market cap:	Rs. 1,764 cr
52-week high/low:	Rs. 94/52
NSE volume: (No of shares)	6.1 lakh
BSE code:	532524
NSE code:	PTC
Sharekhan code:	PTC
Free float: (No of shares)	25 cr

Shareholding (%)

Promoters	16
FII	36
DII	21
Others	27

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	9.2	13.4	-8.1	-18.1
Relative to Sensex	4.0	4.2	-11.5	-30.7

Sharekhan Research, Bloomberg

PTC India reported standalone EBITDA of Rs. 141 crore (up 7.1% y-o-y; up 38.4% q-o-q) that was above our estimate on account of higher surcharge income and lower operating expenses. Power trading volumes declined by 1.5% y-o-y to 21,812 million units due to a decline in volumes from short-term contracts, while gross margins (including surcharge and rebate) increased by 12.1% y-o-y to 7.43 paisa per unit. Decent growth outlook for power trading volume given operationalisation of new medium term PPAs; draft regulations for power trading increase risk, owing to a proposal to cap maximum margins at Re. 1 paisa/unit for back-to-back contracts. Additionally, weak financials of PTC India Financial Services (PFS) could impact/delay value unlocking. Hence, we maintain our Hold rating on the stock with unchanged price target (PT) of Rs. 65.

Key positives

- PTC India signed a contract for the Mangdechhu Hydro Electric Project in Bhutan with a potential of 3 billion units annually.
- Effective income tax rate was lower at 25.2% (versus 34% earlier)

Key negatives

- Power trading volumes declined by 1.5% y-o-y to 21,812 million units in Q2FY2020.
- Draft regulations for power trading propose a maximum margin of Re. 1 paisa/unit for back-to-back contracts

Our Call

Valuation – Maintain Hold with unchanged PT of Rs. 65: We have increased our FY2020 and FY2021 earnings estimates, assuming a lower effective tax rate (in line with the government's recent move to cut corporate tax rate to 25.2%). We expect decent growth in power trading volume as the company has operationalised new medium term PPAs but draft regulations for power trading increase risk, owing to a proposal to cap maximum margins at Re. 1 paisa/unit for back-to-back contracts. Additionally, PFS' weaker financial position (due to a liquidity crisis) could affect /delay value unlocking, despite the management's efforts to divest stake. Hence, we maintain our Hold rating on PTC India with an unchanged price target (PT) of Rs. 65.

Key Risks

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

Valuation (Standalone)

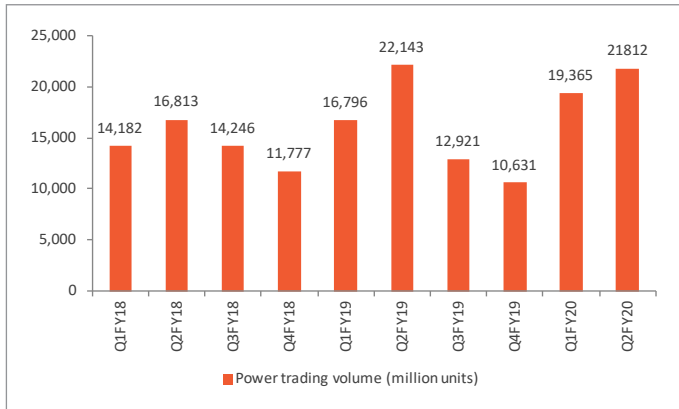
Particulars	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operations	8,797	11,315	13,496	15,346	17,181
OPM (%)	3.5	3.2	3.1	2.8	2.7
Adjusted PAT	291	319	262	337	352
Adjusted EPS (Rs.)	9.8	10.8	8.9	11.4	11.9
P/E (x)	6.1	5.5	6.7	5.2	5.0
P/B (x)	0.6	0.5	0.5	0.5	0.5
RoCE (%)	14.8	14.7	13.3	13.1	13.4
RoE (%)	9.8	10.1	8.0	9.8	9.7

Source: Company; Sharekhan estimates

EBITDA rises by 7% y-o-y led by higher surcharge income

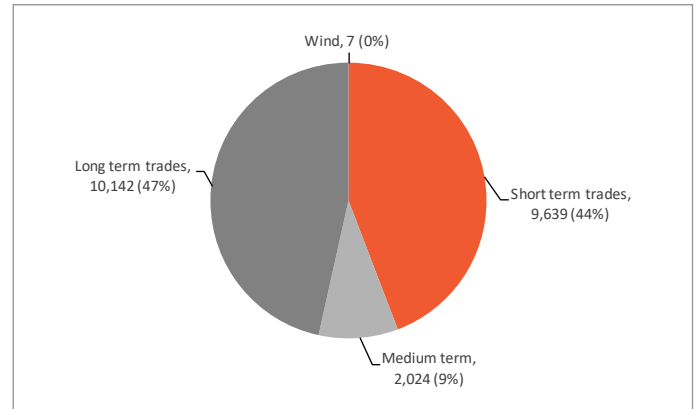
PTC India reported a standalone EBITDA of Rs. 141 crore (up 7.1% y-o-y; up 38.4% q-o-q) that was above our estimate of Rs. 93 crore led by a higher surcharge income of Rs. 55.8 crore (versus Rs. 28.4 crore in Q2FY2019) and lower operating expenses. Power trading volumes declined by 1.5% y-o-y (but rose 12.6% q-o-q) to 21,812 million units due to an 21.2% y-o-y decline in volumes from short-term contracts while volumes from medium and long term contracts were up by 22.9% y-o-y to 12,166 million units (accounting for 56% of total volumes in Q2FY2020). Gross margins (including surcharge and rebate) increased by 12.1% y-o-y to 7.43 paisa per unit. Standalone PAT increased sharply by 41% y-o-y to Rs. 135 crore, substantially above our estimate of Rs. 69 crore led by higher surcharge income and a lower effective tax rate.

Power trading volume trend



Source: Company

Power trading volume mix in Q2FY2020



Source: Company

Results

Particulars	Q2FY20	Q2FY19	YoY %	Q1FY20	Rs cr
					QoQ %
Net Sales	4,750	4,535	4.7	4,973	(4.5)
EBITDA	141	132	7.1	102	38.4
EBITDA (adjusted for surcharge income)	85	103	(17.4)	86	(1.2)
Other Income	36	65	(44.3)	3	946.4
Depreciation	1	1	2.9	1	12.5
Interest	15	56	(73.1)	9	72.4
PBT	162	141	15.1	96	68.3
Tax	27	45	(40.1)	33	(19.4)
RPAT	135	96	41.0	63	114.9
EPS (Rs)	4.6	3.2	41.0	2.1	114.9
			YoY (BPS)		QoQ (BPS)
OPM (%)	3.0	2.9	7	2.1	92
NPM (%)	2.8	2.1	73	1.3	158

Source: Company; Sharekhan Research

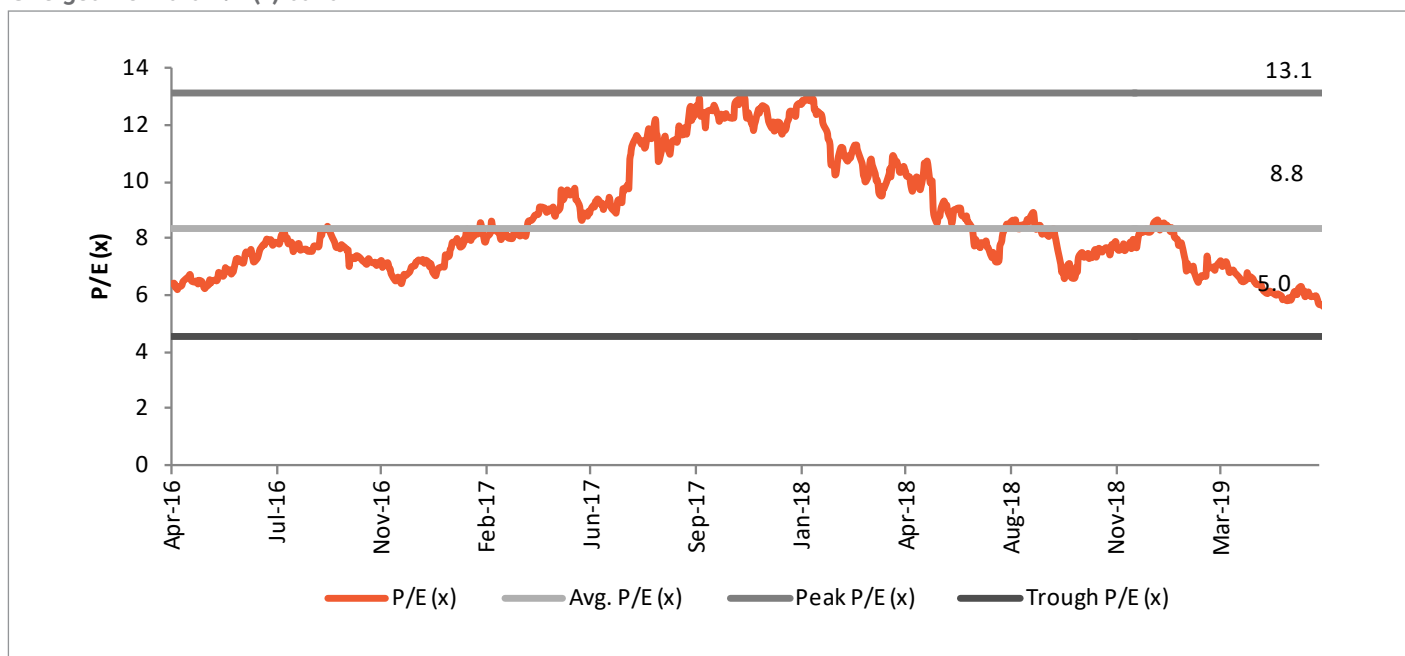
Outlook - Volume to grow as new medium term PPAs gets operationalised

PTC has operationalised 1,250 MW of medium-term power purchase agreements (PPAs) and plans to operationalise the remaining 550 MW in next few months. The company has operationalised 950MW out of a total 1050 MW of wind capacity for inter-state power supply. The new PPA for the Mangdechhu Hydro Electric Project in Bhutan has a potential of 3 billion units annually with a trading margin of 7 paise/unit. Hence, we expect decent growth in PTC India’s power trading volumes over FY2019-FY2021E supported by new medium term PPAs.

Valuation - Maintain Hold with unchanged PT of Rs. 65

We have increased our FY2020 and FY2021 earnings estimates, assuming a lower effective tax rate (in line with the government’s recent move to cut corporate tax rate to 25.17%). We expect decent growth in power trading volume as the company has operationalised new medium term PPAs but draft regulations for power trading increase risk, owing to a proposal to cap maximum margins at Re. 1 paisa/unit for back-to-back contracts. Additionally, PFS’ weaker financial position (due to a liquidity crisis) could affect /delay value unlocking, despite the management’s efforts to divest stake. Hence, we maintain our Hold rating on PTC India with an unchanged price target (PT) of Rs. 65.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

PTC India Ltd. (PTC India), the leading provider of power trading solutions in India, was established in 1999 as a Government of India initiated Public-Private Partnership. The company's primary focus is to develop a commercially vibrant power market in the country. PTC India is mandated by the government 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 that a weak financial performance of its financial services subsidiary (due to NPAs and provisions) would affect PTC India's consolidation financials and return ratios

Key Risks

Slower-than-expected growth in power trading volume if there is delay in operationalisation of new PPAs.

Additional Data

Key management personnel

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

Source: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	FIL Ltd.	8.9
2	Aditya Birla Sun Life Trustee	7.8
3	Aditya Birla Sun Life Asset Management Company Limited	7.7
4	Life Insurance Corporation of India	6.0
5	NTPC Ltd	4.1
6	Power Finance Corporation Ltd	4.1
7	National Hydroelectric Power Corporation Limited	4.1
8	Power Grid Corporation of India Ltd	4.1
9	GOVERNMENT PENSION FUND - GLOBAL	3.6
10	Norges Bank	3.6

Source: Bloomberg

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