

Result Update

14 November 2016

Core earnings resilient, treasury income propel PAT

We retain Buy with a revised TP of Rs95. Despite zero tolling volumes & margins and ~average 32% volume contribution from IEX/PXIL contracts (vs 26% in Q2FY16 and 35% in Q1FY17), core earnings were resilient. The company attributes this to higher margin on long-term volumes (+64% YoY +5% QoQ). PTC India recorded high net rebate and surcharge income of Rs0.3bn. While on expected lines, the erstwhile tolling business has been discontinued, the increased share of long-term volumes and growth in short-term market will support earnings. The working capital cycle has eased leading to higher cash flow generation. We believe that risk-reward remains favourable. Retain Buy.

- Earnings snapshot:** PTC earned recurring net rebate of Rs0.08bn vs Rs0.14bn in Q1FY17. But, the company posted a net surcharge income of Rs0.24bn vs Rs0.07bn in Q1FY17. On neutralising the impact of net rebate, core EBITDA was at Rs577mn. Core EBITDA/unit is derived at Rs0.037 (-5% QoQ), which is resilient. The company has filed for arbitration with its erstwhile tolling partners on disputes related to trading margins and profit margin share, but is confident of a favourable outcome. We had anticipated it and built-in near zero contribution from tolling over the forecast period.
- Exposure to financial risks – concerns persist:** As per FY16 Annual report, the company has reflected Rs1.9bn (82% of RPAT in FY16) as disputed claims with SEBs, which are challenged in the HC or the SC and pending the outcome, has not accounted for it. Also, APTEL in Jan'15 upheld Punjab SERC order and disallowed PTC's claim to recover water charges of Rs494mn on the ground that PSA was unsigned and legally not tenable. Also, PTC has similar cases with other SEBs currently under litigation, exposing it to business and financial risks.
- Outlook:** The sustained core earnings is on the back of PPA/PSA volumes of Lanco Amarkantak project, Bangladesh project, Maruti Clean Energy project, Jaypee Nigrie project, etc. The recently evolved e-bidding platform is guided to be a neutral event. In our view, this development does pose some risks to its short-term trading portfolio (at ~24% share in overall volumes – excluding IEX/PXIL trades), but the adverse impact seems very insignificant noting the steeply low margin earned on short-term transactions. Also, over next two years, the share of long-term volumes would increase, thus lending strong visibility in earnings. Additionally, we are enthused with the Management's capability to recover (on cash basis) surcharge income. Although business model yields an overall RoE of 8-9%, core RoE at 11% vs CoE of 13.2%, the risk-reward is favourable at current stock valuations.
- Valuations and key risks:** We retain Buy, with a revised TP of Rs95 (based on Mar'18E), which has been derived from (1) average of value on fair multiple assigned to EPS and book value on Mar'18E, (2) investments in PFS valued internally as we align with peer valuation and (3) other investments at 0.34x BV. Key upside risks are (1) higher trading volumes and margins and (2) higher share in profits from long-term PPAs.

Y/E Mar – Stand. (Rsmn)	Q2FY17	Q2FY16	YoY (%)	Q1FY17	QoQ (%)	Q2FY17E	Var (%)
EBITDA	658	564	16.8	655	0.4	649	1.5
Net rebate	81	93	(12.0)	143	(43.0)	120	(32.2)
EBITDA from erstwhile tolling	-	9	NA	39	NA	-	NA
Core EBITDA	577	462	24.8	473	21.8	529	9.1
RPAT	1,129	1,007	12.2	563	100.5	572	97.5
APAT	1,066	766	39.2	465	129.4	572	86.4
Operating Metrics							
Total Units traded (MU)	15,561	12,546	24.0	12,221	27.3	15,358	1.3
- Erstwhile tolling volumes (MU)	-	60	NA	130	NA	-	NA
Core EBITDA/unit (Rs/kWh)	0.04	0.04	0.2	0.04	(5.3)	0.03	7.7
EBITDA/unit (Rs/kWh)	0.04	0.04	(5.8)	0.05	(21.1)	0.04	0.1
APAT/unit (Rs/kWh)	0.07	0.06	12.2	0.04	80.1	0.04	84.0

Source: Company, Centrum Research

Target Price	Rs95	Key Data
CMP*	Rs70	Bloomberg Code
Upside	35.3%	Curr Shares O/S (mn)
Previous Target	Rs92	Diluted Shares O/S(mn)
Previous Rating	BUY	Mkt Cap (Rsbn/USDmn)
Price Performance (%)*	52 Wk H / L (Rs)	20.8/30.9
1M	6M	1Yr
		5 Year H / L (Rs)
PTCIN IN	(7.1)	104.9/33.2
NIFTY	(4.7)	Daily Vol. (3M NSE Avg.)
	5.7	1314334
6.0		

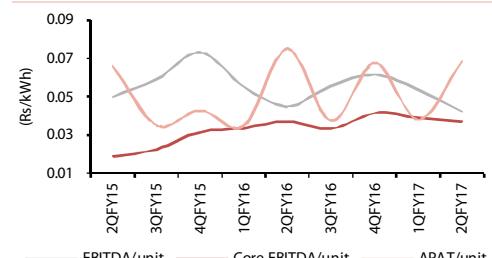
*as on 11 November 2016; Source: Bloomberg, Centrum Research

Shareholding pattern (%)

	Sep-16	Jun-16	Mar-16	Dec-15
Promoter	16.2	16.2	16.2	16.2
FII's	31.5	30.2	27.9	28.4
Dom. Inst.	29.3	28.6	29.5	28.3
Public & Others	23.0	25.0	26.4	27.1

Source: BSE, *as on 11 November 2016

Trend in margins/unit



Source: Company, Centrum Research Estimates

Earning Revision

Particulars (Rsbn)	FY17E			FY18E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue	152.2	152.2	0.0	175.0	175.0	0.0
EBITDA	2.5	2.5	0.0	2.9	2.9	(0.0)
PAT	2.7	2.3	16.4	2.7	2.6	4.1

Source: Centrum Research Estimates

Centrum vs. Bloomberg Consensus*

Particulars (Rsbn)	FY17E			FY18E		
	Centrum	BBG	Var (%)	Centrum	BBG	Var (%)
Sales	152.2	150.9	0.9	175.0	173.6	0.8
EBITDA	2.5	2.5	-	2.9	2.9	-
PAT	2.7	2.4	12.5	2.7	2.8	(3.6)
Bloomberg Consensus*				Centrum Target Price (Rs)	Variance (%)	
BUY	SELL	HOLD	Target Price (Rs)	95	1.1	
10	0	2	94			

*as on 11 November 2016; Source: Bloomberg, Centrum Research Estimates

Sachin Mehta, sachin.mehta@centrum.co.in; 91 22 4215 9854

Y/E Mar (Rsmn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	APAT	YoY (%)	Adj. DEPSRs.	RoE (%)	RoCE (%)	P/B (x)	Adj. P/E (x)
FY14	1,12,898	27.5	1,899	1.7	1,237	(2.6)	4.2	5.1	6.8	0.8	16.8
FY15	1,30,203	15.3	2,127	1.7	2,353	90.2	7.9	9.1	8.8	0.8	8.8
FY16	1,26,896	(2.5)	2,282	1.8	2,711	15.2	9.2	10.0	9.6	0.7	7.7
FY17E	1,52,199	19.9	2,529	1.7	2,675	(1.4)	9.0	9.3	9.3	0.7	7.8
FY18E	1,75,016	15.0	2,943	1.7	2,699	0.9	9.1	8.8	8.8	0.7	7.7

Source: Company, Centrum Research Estimates

In the interest of timeliness, this document is not edited.

Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet

Valuation and view

We have arrived at the revised TP of Rs95 using SOTP valuation based on Mar'18E. The core business has been valued as the average of fair price derived under P/E(x) and P/B(x) methodology. Investment value in PTC Financial Services (PFS) is valued as per internal estimates and aligned with industry peer valuation. Investment in other subsidiaries/JV projects has been assigned a P/B(x), with volumes from these SPVs being factored in core trading operations at the standalone level.

In our Q1FY17 update note, we had indicated that our estimate on other income is likely to increase and the same has now been reflected. The finance cost has been higher owing to conversion of certain long term PPA into financial lease, but has been neutralised with a corresponding increase in other income as well under IND-AS implemented from Q1FY17. The net debtor (trade receivable less trade payable) cycle has improved significantly to 23days as at Sep-16 vs 35days as at Mar-16. Also, the cash and bank balances as at Sep-16 stood at Rs3.1bn vs Rs1.6bn as at Mar-16, which is healthy despite infusing Rs2.8bn during the quarter (0.9bn during Q1FY17) into its subsidiary PTC Energy for wind asset capacity addition.

We revise our target price owing to revised treasury income factored-in over the forecast period while retaining the working capital cycle assumptions.

Exhibit 1: SoTP Valuation

Methodology	Fair multiple assigned to Mar18E	Fair price (Rs)	Valuation Base
P/E (x)	6.9	61.9	WaCC = CoE at 13.2%, Beta at 1.2, EPS considered post adjustment of dividend received from PFS as it is valued separately
P/B(x) to BV excluding investment	0.59	38.8	WaCC = CoE at 13.2%, Beta at 1.2
Average of the fair price	-	50.4	Average of price under fair P/E(x) and P/B(x)
Add: Investments in PFS	-	35.0	Valued as per internal estimates and aligned with industry peer valuation
Add: Other Investments	0.34	9.4	Trading volumes of these SPVs factored in at standalone level
Fair price (rounded-off)	-	95	

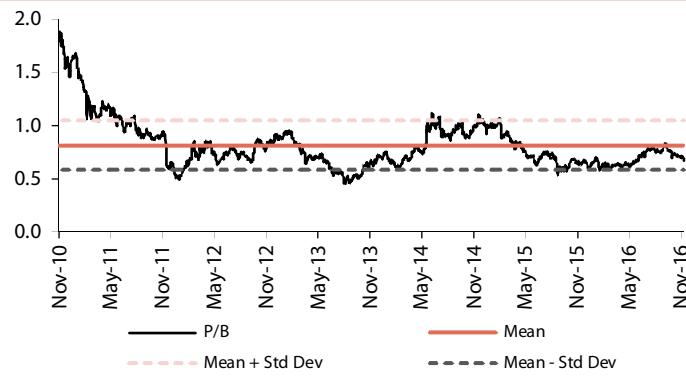
Source: Company, Bloomberg, Centrum Research Estimates

Exhibit 2: Sensitivity Analysis for FY17E

Sensitivity to key variables	Increase	% impact on EBITDA	% impact on EPS
Increase in LTT (excluding CBT)@margin of Rs0.06	5%	1.9	1.3
Increase in STT (excluding IEX/PXIL trade)@margin of Rs0.04	5%	0.6	0.4

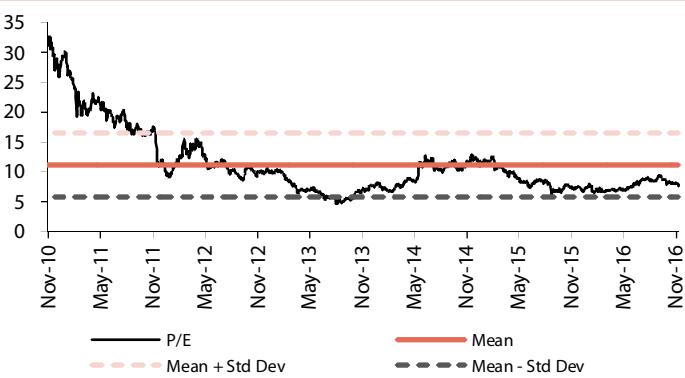
Source: Company, Centrum Research Estimates

Exhibit 3: 1 year forward P/B chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 4: 1 year forward P/E chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 5: Comparative Valuations

Company	Mkt Cap (Rsbn)	CAGR FY16-FY18E (%)			EBITDA Margin (%)			PE (x)			P/B (x)			RoE (%)			Div Yield (%)		
		Rev.	EBITDA	PAT	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E
PTC India	20.8	17.4	13.6	6.6	1.8	1.7	1.7	7.7	7.8	7.7	0.7	0.7	0.7	10.0	9.3	8.8	3.6	3.6	3.6
NTPC	1,250.8	7.8	14.6	12.1	25.0	26.2	28.2	12.2	13.4	11.9	1.4	1.3	1.2	11.8	10.0	10.5	2.2	2.3	2.3
Tata Power	211.8	(5.9)*	(4.2)*	30.3*	22.2	21.2	22.9	18.4	14.1	10.8	1.4	1.4	1.3	7.9	9.8	12.2	1.7	1.7	1.7

Source: Company, Centrum Research Estimates * Not Comparable under IND-AS

Quarterly financials, Operating metrics and Key performance indicators

Exhibit 6: Quarterly Financials

Particulars (Rsmn)	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17
Net Sales	28,190	23,189	32,932	34,799	29,351	29,814	35,766	39,748
Other operating income	-	-	-	-	-	-	-	-
Purchase cost	27,597	22,605	32,244	34,114	28,638	29,095	34,977	38,950
Total operating expenses	27,730	22,726	32,364	34,236	28,805	29,209	35,110	39,089
EBITDA	459	463	568	564	545	605	655	658
Depreciation	11	11	9	9	9	9	8	8
Interest	3	3	1	3	3	12	307	466
Other Income	136	394	143	741	121	584	474	1,265
PBT	582	842	702	1,293	654	1,169	815	1,449
Tax	191	278	223	286	201	396	252	320
RPAT	66	564	479	1,007	453	397	563	1,129
YoY Growth (%)								
Net Sales	7.9	(17.0)	(10.7)	(17.0)	4.1	28.6	8.6	14.2
EBITDA	7.7	3.5	(0.5)	(11.1)	18.7	30.7	15.3	16.8
RPAT	(54.8)	(18.8)	9.5	4.9	15.9	36.8	17.5	12.2
Margins (%)								
EBITDA	1.6	2.0	1.7	1.6	1.9	2.0	1.8	1.7
PAT	1.4	2.4	1.5	2.9	1.5	2.6	1.6	2.8
Key operational parameters								
Units sold (MU)	7,773	6,331	10,265	12,546	9,761	9,800	12,221	15,561
- Of which units sold under erstwhile tolling	512	507	250	60	173	170	130	-
Gross trading margin (Rs/kWh)	0.06	0.08	0.06	0.05	0.06	0.07	0.06	0.05
EBITDA/unit (Rs/kWh)	0.06	0.07	0.06	0.04	0.06	0.06	0.05	0.04
Margin on Tolling projects (Rs/kWh)	0.3	0.2	0.2	0.2	0.6	0.3	0.3	NA
Net rebate and surcharge (Rs/kWh)	0.02	0.03	0.02	0.01	0.01	0.02	0.01	0.01
Net trading margin (Rs/kWh)	0.03	0.04	0.04	0.04	0.04	0.05	0.05	0.05

Source: Company, Centrum Research Estimate

Exhibit 7: Key Performance Indicators

Assumptions	FY14	FY15	FY16	FY17E	FY18E
Units sold (BU)	35.1	37.1	42.3	48.4	58.2
EBITDA/unit (Rs/kWh)	0.05	0.06	0.05	0.05	0.05
APAT/unit (Rs/kWh)	0.04	0.06	0.06	0.06	0.05

Source: Company, Centrum Research Estimate

Financials (Standalone)

Exhibit 8: Income Statement

Y/E March (Rsmn)	FY14	FY15	FY16	FY17E	FY18E
Revenues	1,12,898	1,30,203	1,26,896	1,52,199	1,75,016
Purchase/CoGS	1,08,662	1,26,954	1,23,562	1,48,422	1,70,640
% of revenues	96.2	97.5	97.4	97.5	97.5
Operating expenses	2,183	922	800	963	1,108
% of revenues	1.9	0.7	0.6	0.6	0.6
Employee Costs	155	199	253	285	326
% of revenues	0.1	0.2	0.2	0.2	0.2
EBITDA	1,899	2,127	2,282	2,529	2,943
EBITDA Margin (%)	1.7	1.7	1.8	1.7	1.7
Depreciation & Amortisation	42	42	35	35	35
EBIT	1,857	2,086	2,247	2,494	2,908
Interest expenses	27	10	19	-	-
Other Income	537	1,259	1,589	1,244	862
PBT (excluding exceptional item)	2,367	3,335	3,817	3,738	3,770
Provision for tax	1,130	982	1,106	1,063	1,070
Effective tax rate (%)	47.7	29.5	29.0	28.4	28.4
Net Profit	1,237	2,353	2,711	2,675	2,699
Min. int./ share from asso.	-	-	-	-	-
Rep. PAT	2,512	2,031	2,336	2,675	2,699
Exceptional item	1,276	(322)	(375)	-	-
Adj. PAT after excp.	1,237	2,353	2,711	2,675	2,699

Source: Company, Centrum Research Estimates

Exhibit 9: Key Ratios

Y/E March	FY14	FY15	FY16	FY17E	FY18E
Growth Metrics (%)					
Revenue	27.5	15.3	(2.5)	19.9	15.0
EBITDA	10.8	12.0	7.3	10.8	16.3
Rep. Profit	97.8	(19.2)	15.0	14.5	0.9
Profitability Metrics (%)					
EBITDA Margin	1.7	1.7	1.8	1.7	1.7
PBIT Margin	1.7	1.6	1.8	1.7	1.7
PBT Margin	3.3	2.3	2.7	2.5	2.2
PAT Margin	1.1	1.8	2.2	1.8	1.6
Return Ratio (%)					
ROE	5.1	9.1	10.0	9.3	8.8
ROCE(inc. Investments)	6.8	8.8	9.6	9.3	8.8
ROIC- Adjusted	5.7	6.3	5.7	7.3	7.7
Turnover Ratio (days)					
Inventory period	-	-	-	-	-
Debtors period	69.0	71.2	93.7	87.6	87.6
Creditors period	35.9	45.9	58.3	58.4	58.4
Net working capital	32.0	24.7	35.9	27.4	27.7
Solvency Ratio (x)					
Debt-equity	-	-	-	-	-
Net debt-equity	(0.2)	(0.3)	(0.2)	(0.3)	(0.3)
Current Ratio	2.3	1.7	1.6	1.7	1.6
Interest coverage	87.2	348.4	201.9	NM	NM
Dividend					
Dividend per share	2.0	2.2	2.5	2.5	2.5
Dividend payout ratio (%)	47.9	27.7	27.3	27.7	27.4
Dividend yield (%)	2.8	3.1	3.6	3.6	3.6
Per share (Rs)					
Basic EPS - Adjusted	4.2	7.9	9.2	9.0	9.1
Fully diluted EPS - Adjusted	4.2	7.9	9.2	9.0	9.1
Fully diluted EPS - Reported	8.5	6.9	7.9	9.0	9.1
CEPS	4.5	8.1	9.3	9.2	9.2
Book value	84.7	89.1	94.3	100.1	106.1
Valuation (x)					
P/E (Adj.)	16.8	8.8	7.7	7.8	7.7
P/BV	0.8	0.8	0.7	0.7	0.7
EV/EBITDA	7.8	5.8	6.3	4.6	4.0
EV/Sales	0.1	0.1	0.1	0.1	0.1
Mcap/Sales	0.2	0.2	0.2	0.1	0.1

Source: Company, Centrum Research Estimates

Exhibit 10: Balance Sheet

Y/E March (Rsmn)	FY14	FY15	FY16	FY17E	FY18E
Equity Share Capital	2,960	2,960	2,960	2,960	2,960
Reserves	22,124	23,426	24,939	26,676	28,431
Shareholders' fund	25,084	26,386	27,899	29,636	31,391
Debt	-	-	-	-	-
Deferred Tax/non -current Liability	-	-	-	-	-
Total Capital Employed	25,084	26,386	27,899	29,636	31,391
Gross fixed assets	655	670	673	703	733
Accumulated depreciation	(356)	(397)	(427)	(462)	(497)
CWIP	1	-	-	-	-
Net Fixed Assets	300	272	246	241	236
Investments	9,597	14,541	13,611	12,681	12,681
Inventories	-	-	-	-	-
Sundry Debtors	20,857	25,151	32,258	36,117	41,545
Cash & bank balances	5,447	2,796	1,615	5,420	5,353
Loans and advances	826	946	1,796	752	866
Other current assets	57	5	1	45	52
Total current assets	27,186	28,898	35,669	42,334	47,815
Creditors	10,857	16,207	20,062	24,078	27,696
Other current liabilities and provision	1,208	1,183	1,634	1,543	1,645
Net current assets	15,122	11,508	13,973	16,713	18,474
Deferred Tax Asset/Others	63	64	69	-	-
Total Assets	25,084	26,386	27,899	29,636	31,391

Source: Company, Centrum Research Estimates

Exhibit 11: Cash Flow

Y/E March (Rsmn)	FY14	FY15	FY16	FY17E	FY18E
PBT	3,642	3,013	3,442	3,738	3,770
Total tax paid	(1,151)	(983)	(1,110)	(994)	(1,070)
Depreciation	42	42	35	35	35
Chg in debtors	564	(4,294)	(7,107)	(3,859)	(5,428)
Chg in inventory	183	-	-	-	-
Chg in loans & advances	(369)	(120)	(850)	1,044	(113)
Change in other current assets	(53)	52	4	(45)	(7)
Chg in creditors	(153)	5,350	3,855	4,016	3,619
Chg in other current liabilities	115	(147)	167	96	90
Change in other non-current liabilities	6	2	12	37	11
Net chg in working capital	294	843	(3,918)	1,288	(1,827)
CF from op. activities (a)	2,827	2,914	(1,552)	4,066	907
Capital expenditure	(9)	(13)	(3)	(30)	(30)
Chg in investments	(353)	(4,943)	930	930	-
CF from invest. activities (b)	(361)	(4,957)	926	900	(30)
Debt raised/(repaid)	-	-	-	-	-
Dividend (incl. tax)	(531)	(642)	(549)	(1,089)	(866)
Others	(23)	34	(6)	(71)	(78)
CF from fin. activities (c)	(554)	(608)	(555)	(1,160)	(944)
Net chg in cash (a+b+c)	1,912	(2,650)	(1,181)	3,806	(67)

Source: Company, Centrum Research Estimates

Appendix A

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PTC India price chart



Source: Bloomberg, Centrum Research

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SEBI REGN NO.: INP000004383

Website: www.centrum.co.in

Investor Grievance Email ID: investor.grievances@centrum.co.in

Compliance Officer Details:

Kavita Ravichandran

(022) 4215 9842; Email ID: Compliance@centrum.co.in

Centrum Broking Ltd. (CIN :U67120MH1994PLC078125)

Registered Office Address	Corporate Office & Correspondence Address
Bombay Mutual Building , 2nd Floor, Dr. D. N. Road, Fort, Mumbai - 400 001	Centrum House 6th Floor, CST Road, Near VidyaNagar Marg, Kalina, Santacruz (E), Mumbai 400 098. Tel: (022) 4215 9000