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Networth Stock Broking Ltd

Power **PTC India Ltd**

Opportunity knocking…….

Initiating Coverage

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Date: 11th February 2010

- **Uniquely placed as integrated energy player:** PTC India Ltd (PTC) is in the process of transforming from just power trader to an integrated player in the power space. The company has expanded its horizon by making its presence into the entire value chain of the power like financing, fuel-intermediation, power tolling, power generation and exchange. We believe this would help PTC to de-risk its business model and improve visibility & certainty to earnings.
- **Power Trading is still in its nascent stage: P**ower trading in India is just 8.7% (5.3% excluding UI) volumes of total generation traded (as on Oct 2009, CERC) on the exchange. Of this, 49% is through Bilateral Trades, 39.8% by UI trades and 11.3% by power exchange. We believe this leaves enough un-captured potential in power trading for player such as PTC.
- **Relaxation of cap on STT margin to boost the profitability:** The margin on short-term trading (STT) has been increased to 7paisa/unit from 4paisa/unit. We believe this will help PTC to improve its gross margins from 4.3paisa/unit in HIFY10 to 6paisa/unit in FY11E and FY12E. We also believe that very soon there will be no cap on STT margin to bring higher participation and efficiency in the market.
- **Strategic investments through subsidiaries and SPVs are value accretive:** PTC has strategically invested in various ventures like Athena Power Ventures (20%), PTC Financial Services (77.60%), PTC Energy Ltd (100%), Teesta Urja Ltd (26.83%), KG Power Ltd (38.79%) and Barak Power Ltd (50%). As per our estimation, the per share value of these investments is Rs.27 and contribute 19% to the valuation of PTC. We believe that the above investment in power generation projects will also result in higher trading volumes
- **Trading volumes are expected to grow at 30% CAGR over next 3 years:** PTC has more than 50% market share in power trading in India. As per LTT (Long-term Trading) PPAs and PSAs signed by the company, we expect volumes to grow at a CAGR of 30% over next 3 years (FY09-FY12E). We believe that PTC's long term goal to change revenue mix of LTT:STT to 70:30 from 47:53 will bring more visibility and sustainability to the revenues.
- **Valuations:** PTC has pioneered in power trading industry with its first mover advantage and continuous innovative initiatives. We believe that the diversification in entire value chain of power would de-risk its business model and substantially support its core business. We recommend "BUY" on the stock with a TP of Rs146.

Rating	BUY
Target Price	146
CMP	Rs106
Upside	39%
Sensex	16152

Key Data	
Bloomberg Code	PTCIN IN
Reuters Code	PTCI.BO
NSE Code	PTC
Current Share o/s (mn)	294.5
Diluted Share o/s (mn)	294.5
MktCap (Rsbn/USDmn)	13.5/678.7
52 Wk H/L (Rs)	125.5/55
Daily Vol. (3M NSE Avg)	2443437
Face Value (Rs)	10
Beta	0.75
1USD/INR	46.4

Shareholding Pattern	(%)
Promoters	16.3
FII	20.5
Others	63.2

Price Performance (%)

	1M	6M	1yr
PTC	-0.6	11.4	-0.5
NIFTY	-8.0	-3.5	65.1

Source: *Bloomberg; *As on 11th Feb. 2010*

Exhibit 1: Key Financials

Y/E Mar (Rs Mn)	Sales	YoY (%)	EBITDA	YoY (%)	PAT	YoY (%)	EPS (Rs)	BV(Rs)	P/E(x)	P/BV(x)	ROE (%)
FY08A	39,063	*4*	190	*0*	488	*39*	2.1	65.1	49.0	1.6	*3.3*
FY09A	65,290	*67*	226	*19*	910	*86*	4.0	67.6	26.3	1.6	*5.9*
FY10E	83,710	*33*	971	*329*	1,248	*37*	4.2	70.3	24.7	1.5	*6.5*
FY11E	1,17,435	*35*	1,521	*57*	1,945	*56*	6.6	76.6	15.9	1.4	*8.7*
FY12E	1,49,052	*27*	2,283	*50*	2553	*31*	8.7	85.0	12.1	1.3	*10.4*

Source: *Company, Networth Research*

Company Background

PTC (Power Trading Corporation) is one of the earliest and largest players in power trading with more than 50% market share. It is a Government of India initiated Public-Private Partnership, whose primary focus is to develop a commercially vibrant power market in the country. PTC is the pioneer in developing and implementing the concept of power trading in India and has successfully demonstrated its efficiency in optimally utilizing the existing infrastructure within the country to the benefit of all.

Since its inception in 1999, PTC has been providing holistic services that address the sustainability of a power market model, including intermediation for long-term supply of power from identified domestic and cross-border power projects, financial services like providing equity support to projects in the energy value chain, advisory services and foray into providing fuel linkages to power plants of various utilities / generators participating in the power market.

PTC owns 26% stake in IEX (Indian Energy Exchange) through its subsidiary PFS. PTC is also Nodal Agency for Cross Border Trades.

Exhibit 2: Key events

1999	Date of Incorporation
2000-01	Signed First Power Purchase Agreement
2004	IPO (Price Rs 14-Rs16)
2008	QIP @ Rs155/share
2010	QIP @Rs75/share

Source: *Company, Networth Research*

Exhibit 3: Key management personnel

Name	Position	Profile
Mr. T N Thakur	CMD	He holds a Bachelor Degree in Engineering and has an experience of 37 years. His last assignment was with Power Finance Corporation Ltd.
Mr. Deepak Amitabh	Director Finance	He has worked for Indian Revenue Services (IRS), Government of India for 25 years. He holds a Masters Degree in Science.

Source: *Company, Networth Research*

Investment Rationale

Uniquely placed as an integrated energy player

PTC is in the process of transforming it from just a power trader to an integrated player in the power space. The company has diversified into the entire value chain of power like financing, fuel intermediation, power tolling, power generation and exchange. It has been aggressively investing in various power generation projects (both equity and debt). It has also been fuel inter-mediatory, wherein it imports coal from overseas markets and supply coal to the projects, for which PTC has entered into long term MOU with Indonesian coal mine for supply of 1 mn tons of thermal coal annually. In addition, company plans to invest into coal assets overseas for securing fuel supplies.

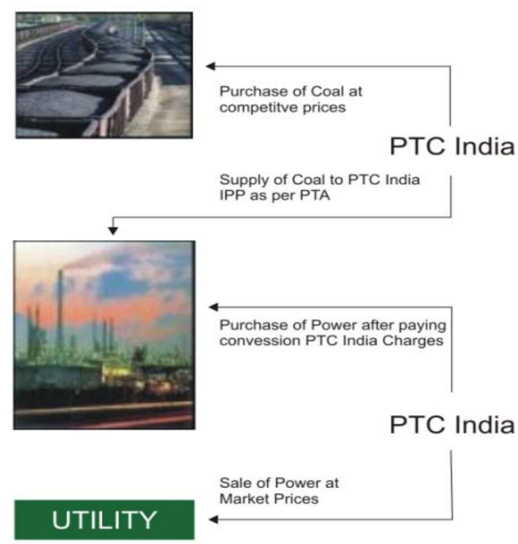
Power Tolling – a unique & advantageous concept: PTC has also entered into Power Tolling agreements (PTAs) with few power projects in India. Unlike US and European markets, PTAs is a very new concept for India, particularly in the power sector. Under PTAs, PTC will supply coal (through 100% subsidiary PEL) to the power plant and pay power conversion charges to the operator, thereby becoming the owner of that power to sell at the market driven rates. The beauty of the PTA is that PTC will produce power only when the merchant power tariff are hardening. PTC has already signed PTA for 400MW of power. It has signed a MoU with two other projects of 270MW each. We believe PTC stands to benefit from PTA as it provides substantially higher returns on capital invested compared to power generation.

26% stake in IEX takes care of competition: PTC owns 26% in IEX (Indian Energy Exchange Ltd) through its financial arm PTC Financial Services Ltd It's a part of PTC's vertical integration. IEX is the dominant power exchange with around 10% market share in short-term trading market, traded volumes totaling 5234MUs during FY09.We believe that going ahead PTC may face stiff competition from power exchanges which will off-set by investment in IEX.

Exhibit 4: Fully integrated energy services

Source: *Company, Networth Research*

Exhibit 5: Power Tolling Process



Source: *Company, Networth Research*

Power Trading is still in its nascent stage

Power trading in India is still in its nascent stage with just 8.3% (5.3% excluding Unscheduled Interchange) volumes of total generation traded on the exchange. However over the last 5 years (FY04-FY09), trading volumes have grown at a CAGR of 83%. The trend has been consistently northward due to rising demand and players in the market. As per CERC, currently there are 38 trading license holders; however there are only 12 active members who dominate the market.

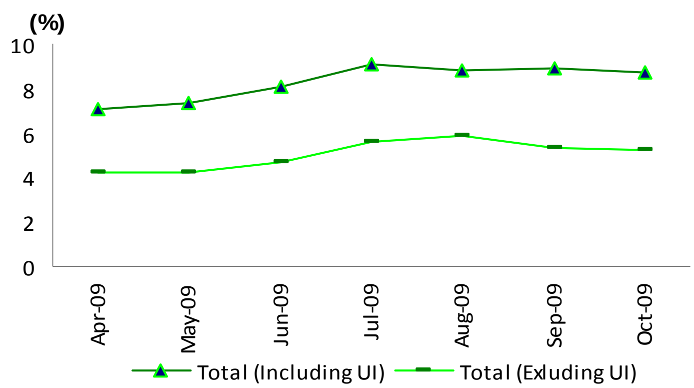
Exhibit 6: Monthly data on power generation and trading

Particulars	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09
Gross Generation (mu)	62486.0	63466.0	62646.0	62936.0	65563.0	63188.0	64896.3
Long Term PPAs	58054.0	58809.0	57580.0	57215.0	59774.0	57593.0	59234.0
Transaction through Short Term Trading (mu)	4432.0	4656.0	5066.0	5721.0	5789.0	5595.0	5662.2
Bilateral	2210.0	2317.0	2418.0	3021.0	3369.0	2858.0	2771.7
% of Total Generation	3.5	3.7	3.9	4.8	5.1	4.5	4.3
% of Short-term	49.9	49.8	47.7	52.8	58.2	51.1	49.0
Unscheduled Interchange (mu)	1816.0	1997.0	2119.0	2205.0	1927.0	2210.0	2251.4
% of Total Generation	2.9	3.1	3.4	3.5	2.9	3.5	3.5
% of Short Term	41.0	42.9	41.8	38.5	33.3	39.5	39.8
Power Exchange (mu)	406.0	342.0	530.0	495.0	494.0	527.0	639.0
a) IEX (MUs)							536.0
b) PXIL (MUs)							103.0
% of Total Generation	0.6	0.5	0.8	0.8	0.8	0.8	1.0
% of Short Term	9.2	7.3	10.5	8.7	8.5	9.4	11.3
Total (including UI) (%)	7.1	7.3	8.1	9.1	8.8	8.9	8.7
Total (Excluding UI) (%)	4.2	4.2	4.7	5.6	5.9	5.4	5.3

***Source:** CERC, Networth Research*

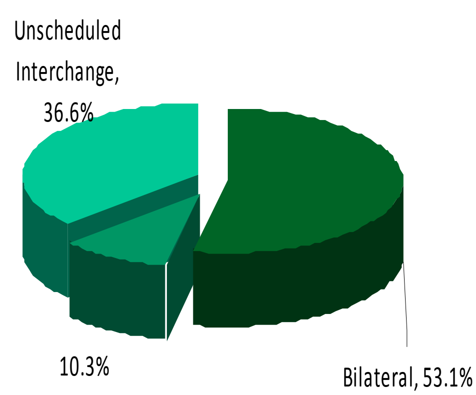
Out of this 8.3%, power trading through bilateral trading dominates the market with 53.1% transactions, Unscheduled Interchange 36.6% and Power exchanges (IEX and PXIL) collectively accounts for 10.3%.

Exhibit 7: STT volumes as % of power generation



***Source:** CERC, Networth Research*

Exhibit 8: Volume of short term Transaction of Electricity during sec 09



***Source:** CERC, Networth Research*

Looking at the low %age of power trading volumes out of total power generation, rising power demand in the power deficit states, we believe that power trading We expect bilateral trading continue to dominate the power trading market mainly on account of the ability to structure the volume, pricing and duration separately for both buyers and the seller.

Few players dominate the trading market….PTC leads the way

In India, there are only 15 license holders who actively dominate the power trading market largely on account of thin margin. There have been reports of many players surrendering there license to the CERC. We understand that these players are not focused in power trading business and trading in lower amount of volumes. This is again positive for focused and large player like PTC.

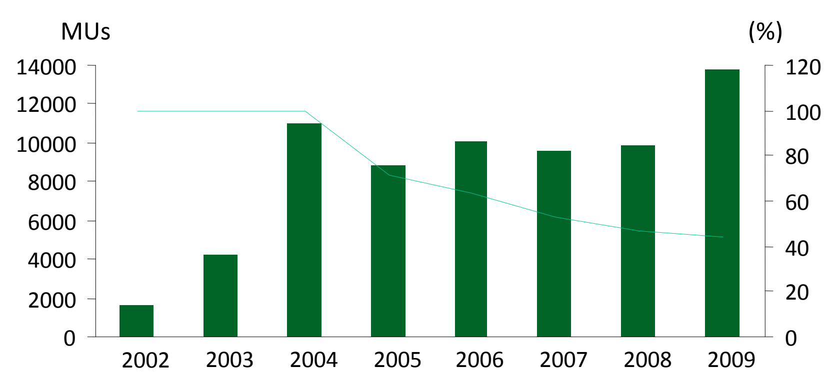
Exhibit 9: Major dominant players and their market share as on Sep 09

Market Share %	Sep-09
PTC India Ltd	52.89%
NTPC Vidyut Vyapar Nigam Ltd	11.62%
Lanco Electric Utility Ltd	9.05%
Tata Power Trading Company (P) Ltd	7.48%
JSW Power Trading Company Ltd	7.37%
Adani Enterprises Ltd	4.99%
GMR Energy Trading Ltd	2.29%
Reliance Energy Trading (P) Ltd	1.78%
Mittal Processors (P) Ltd	1.43%
RPG Power Trading Company Ltd	0.75%
Instinct Advertisement & Marketing Ltd	0.34%
Total	100%

Source: *CERC, Networth Research*

PTC has more than 50% market share in the STT market due to its early mover advantage and strong reputation in the market. Since its beginning, the company has successfully made and maintained good relationship with the buyers and suppliers.

Exhibit 10: Volume traded and market share of PTC



Source: *Company, Networth Research*

No threat from Power Exchanges to PTC

India has two power exchanges in India, IEX (Indian Energy Exchange) and PXIL (Power Exchange of India Ltd). Currently power exchanges share is around 10.3% of the total power trading in India. We believe that there is no threat to PTC from power exchanges, in-fact they will complement each other's business. PTC being oldest has a distinct advantage of having gathered significant knowledge of market players and operations. We believe that an exchange may not guarantee the payment from the parties in a transaction unlike PTC provides full guarantee of payment to the supplier.

Opportunities for short-term trading market

India has in-balanced disposition of resources within the country. On the one hand, the eastern region is rich in coal sources, so a lot of pit-head based power plants have been set-up there. The northern region also holds lot of hydro power potential. Whereas, the western and northern regions of the country suffer from a heavy deficit of such power due to their immense industrial and agricultural load.

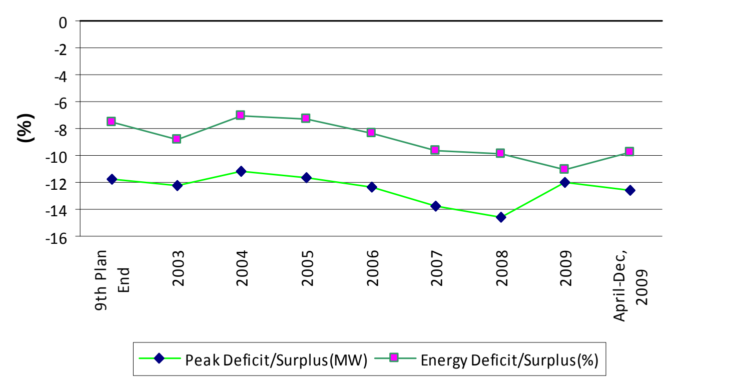
As per CEA (Central Electricity Authority), India's peak deficit has been more than 12% since last 12 years (14.6% in 2008). This shows demand for power has been consistently outpacing supply and expected to rise further on healthy infrastructural growth, which creates tremendous opportunities for short-term trading market. For FY10 (April to December), all India peak power deficit has been 12.6%. The full year peak deficit is expected to be 13% for FY10 which we expect to rise further and touch its historical level of 14.6% on account of capacity addition at a very slow pace and unavailability of enough fuel to various operational plants in next couple of years.

Exhibit 11: Region-wise peak power & energy deficit FY09

	Peak Deficit (%)	Energy Deficit (%)
Northern	10.7	10.8
Western	19	16
Southern	7.4	7.5
Eastern	9.4	5
North-Eastern	25.4	13.5

Source: *CEA, Networth Research*

Exhibit 12: Peak power and energy deficit



Source: *CEA, Networth Research*

Power capacity addition in India

As per IBF, India's projected peak demand for power at GDP growth of 8% and 9% from 20011-12 to 2031-32 would be in the range of 158GW to 733GW. To satisfy this rising demand, India requires having an installed capacity in the range of 220GW to 960GW.

Exhibit 13: Projected peak demand and Installed capacity required

Year	Projected peak demand (GW)		Installed Capacity required (GW)	
	At GDP growth rate of		At GDP growth rate of	
	8%	9%	8%	9%
2011-12	158	168	220	233
2016-17	226	250	306	337
2021-22	323	372	425	488
2026-27	437	522	575	685
2031-32	592	733	778	960

Source: *IBF, Networth Research*

The above mentioned power capacity addition requirements creates massive amount of opportunities for power trading companies like PTC. We believe PTC to be the clear beneficiary of this on account of its business model and highest market shares in the trading market.

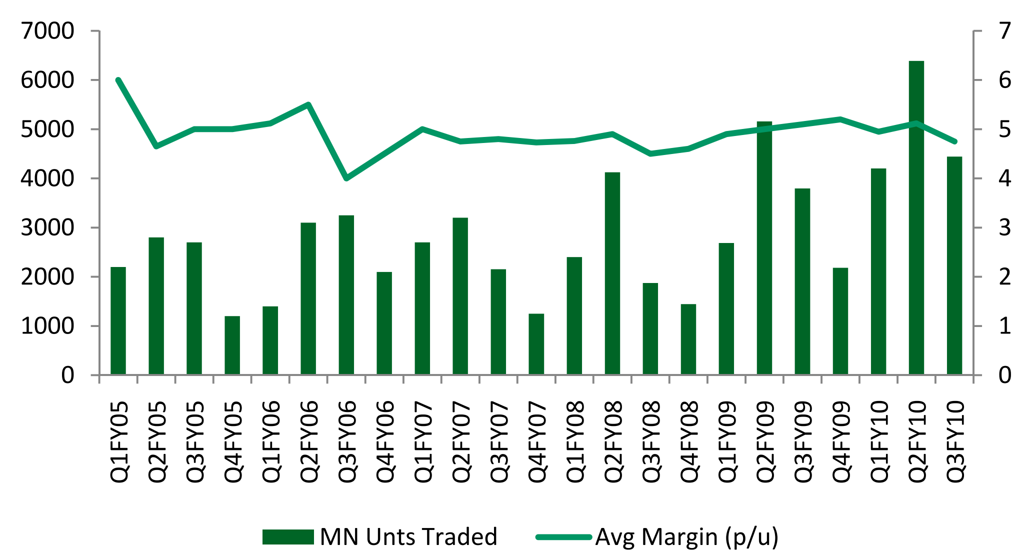
Relaxation of cap on STT margin to boost the profitability

CERC capped margin on STT at 4paisa/kWh in 2006 due to large fluctuations in the trading prices. This actually led to cancelling of trading licenses by many players. However, CERC proposed revision of margin from 4paisa/unit to 7paisa/unit in Oct 2009 which finally approved on 12th Jan 2010. As per the new trading regulations:

i) Trading margin shall apply only to short term buy – short term sell contracts for the inter-state trading.
ii)Trading margin shall not exceed 4 paise per unit if the sell price of electricity is less than or equal to Rs.3 per unit. The ceiling of trading margin shall be 7 paise per unit in case the sell price of electricity exceeds Rs.3 per unit.
iii) If more than one trading licensees are involved in a chain of transactions, the ceiling on trading margin shall include the trading margins charged by all the traders put together. In other words, traders cannot circumvent the ceiling by routing the electricity through multiple transactions.
iv) The new ceiling rates on trading margin would come into force after a period of one month so that the existing contracts can be re-aligned by the parties, if required.

This would help PTC to improve its gross margins from 4.3paisa/unit in HIFY10 to 6paisa/unit in FY11E and FY12E and margin improvement to 1.8% in FY12E from 1.4% in FY09. We also believe that very soon there will be no cap on STT margin to bring more transparency and efficiency in the market.

Exhibit 14: PTC's traded volumes and margin on an up move



Source: *Company, Networth Research*

Strategic investments through subsidiaries and SPVs are value accretive

PTC has strategically invested in various ventures like Athena Power Ventures (20%), PTC Financial Services (77.60%), PTC Energy Ltd (100%), Teesta Urja Ltd (26.83%), KG Power Ltd (38.79%) and Barak Power Ltd (50%). The idea here is to become complete power solution provider in the power space. As per our estimation, the per share value of these investments comes to around Rs.27 and contribute 16% to the valuation of PTC. The above investment would also add substantially to trading volumes.

Exhibit 15: List of strategic investments by PTC

Investments	Business	Stake (%)	Amount Approved (Rs. mn)	Amount Invested (Rs. mn)	Comments
PTC Financial Services Ltd (PFS)	Equity & Debt investment in power Projects	77.6	4460	4460	PFS has committed equity funding of INR4.5bn for 2479MW of thermal and c100MW of wind and some renewable project. It has sanctioned Rs6.7bn of debt for 4571MW
PTC Energy Ltd	Equity Investment in Power projects	100	2000	410	26% stake in 3 power projects totaling 2200MW
Athena Energy Pvt Ltd	Developing power projects	20	1500	480	Won bid to construct a 3,000MW Hydro plant, developing 2 coal-based projects of 2640MW
Teesta Urja Ltd	1200MW hydro electric project	27	1360	1254	Achieved Financial Closure, commissioning expected by FY13
Krishna Godawari Power Utilities Ltd	144MW imported coal based project in AP	39	400	195	Achieved Financial Closure, commissioning expected by end of FY10
Barak Power Ltd	PTC-BHEL JV for 2*125MW coal based power station	50	50.5	0.5	Scheduled to be commissioned by FY14
Total			**9771**	**6800**	

Source: *Company, Networth Research*

PTC Financial Services – Investing in power projects

PTC has invested Rs4460mn in PTC-FS, ie it holds 77.6% stake (increased from 60% to 77.6% in FY09) in PTC Financial Services (PTC-FS), a non-banking financial services company (NBFC) formed to invest in power generation projects. PTC-FS was formed keeping in mind that a NBFC will be in a better position to leverage its Balance Sheet. Investments through PTC-FS would also reduce the dilution on the PTC shareholders as-well-as de-risk the project risk on PTC. PTC-FS also holds 26% stake in India Energy Exchange (IEX), a nation-wide automated and online electricity trading platform. PTC-FS has committed total equity funding of Rs4539mn with thermal coal based projects aggregating to 2479MW and wind capacities aggregating to about 100MW. Total debt funding for PFS stands at Rs6734mn with thermal coal based projects aggregating to 3771MW, hydro capacities aggregating to about 15MW and some renewable projects of 42MW. Most of the projects are expected to be operational by 2013. We believe these projects will benefit PTC in two ways viz. ROE from generation business and it will also add to the trading volumes by a large extent.

PTC Energy Ltd – Creates power

PTC Energy Ltd (PEL) has been formed primarily to undertake various activities related to the business of power generation, transmission & distribution, import of coal and other allied works. In addition to this, company is also providing consultancy services to large gamut of clientele across different phases of the energy sector value chain. In power generation, company has entered in 3 joint ventures for power projects in different states in India.

Exhibit 16: Proposed power plants

	Project 1	Project 2	Project 3
Location	Orissa	Karnataka	Orissa
Capacity (MW)	700	450	1050
PEL's proposed equity (Rs mn)	2070	1001	2366
% of stake	26	26	26
COD	Jan, 2012 & Mar 2012	April 2011, July 2011 & May 2012	Oct 2012, Jan 2013 & April 2013

Source: *Company, Networth Research*

The company has also been importing coal from overseas markets which assures the fuel supply to the power projects. The coal import for FY10E is expected to reach up-to 300000MT.

Athena Energy Ltd

PTC holds 20% stake in Athena Energy Ventures (AEV), which has plans to add 10GW of generation capacity by 2015 with at an approximate outlay of Rs400bn. AEV is a JV between Athena Projects, PTC and IDFC with 57.90%, 20% and 17.50% stake respectively.

PTC has approved an investment of Rs1500mn and has already invested Rs480mn in the venture. Currently, AEV has around 9055MW capacity based on thermal and hydro on various stages of completion. We believe, besides ROE from these generation projects, PTC has also signed trading agreement for all the projects.

Exhibit 17: Projects in hand – Athena Energy Ventures (AEV)

Project	MW	Type	COD	Location
Demwe Hydroelectric Project	3000	Hydro	Phase 1- 2012	Arunachal Pradesh
			Phase 2 -2013	
Kakarapalli Thermal Power Project	2640	Imported Coal	Phase 1- 2011	Andhra Pradesh
			Phase 2 -2012	
Singhitarai Thermal Power Project	1200	Coal	2013	Chhattisgarh
Cocanada Thermal Power Project	1100	Gas	-	Andhra Pradesh
Kynshi Stage-I Hydroelectric Project	450	Hydro	-	Arunachal Pradesh
Emra Hydroelectric Project	665	Hydro	2012	Arunachal Pradesh
Total	9055			

Source: *Company, Networth Research*

The JV further plans to enter into transmission and distribution of assets, secured long- term fuel supply, including captive coal mines, develop and construct associated infrastructure like fuel storage, tankages, pipelines and rail heads in the future.

Teesta Urja Ltd

PTC has committed to invest Rs1360mn for 26.83% (increased from 11% to 26.83%) stake in 1200MW (2*600MW) hydro based power project Teesta Urja Ltd which is promoted by govt. of Sikkim. The project enjoys premium to other similar hydro power projects due to its unique tariff structure and off-take with PTC. The off take agreement provides for selling 30% of the energy generated on merchant basis and 70% on long term basis for a tariff of Rs2.7/ kWh. This would increase the value of the project compared to a structure in which the entire energy would have been sold on long term basis.

Unlike thermal power plants, Hydro power plants can be easily started and stopped without consuming much time. Water can be collected in the dam throughout the day and this can be used to generate electricity during peak hours and sold on merchant rates.

Krishna Godavari Power Utilities Ltd

PTC holds around 39% stake in Krishna Godavari Power Utilities Ltd (KG) for which it has committed Rs400mn and already invested around Rs195mn in the project. The JV is in the process of developing 63MW imported coal based project in Andhra Pradesh. The project is under construction and expected to be commissioned by the end of FY10. PTC has also signed off-take agreement and power will be supplied to the States and Industrial consumers in the southern region.

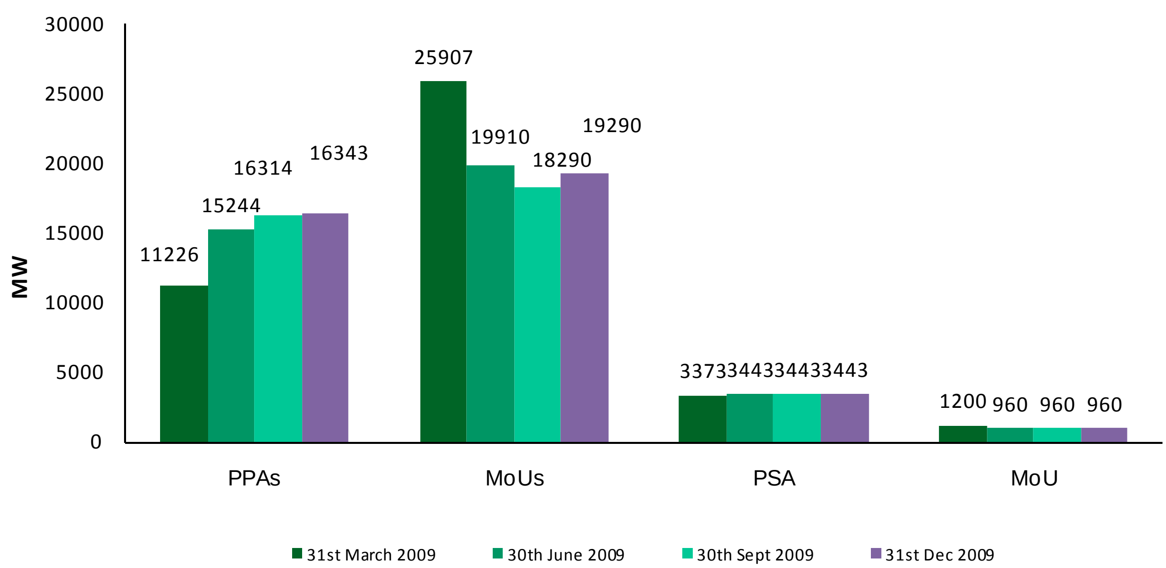
Barak Power Ltd

PTC has entered into a 50:50 JV with BHEL to for setting up 250MW coal based thermal power station at Silchar in Assam. The plant is expected to be commissioned by FY14.

Trading volumes are expected to grow at 30% CAGR over next 3 years:

PTC does four types of trading viz. STT (46%), Cross Border trading (CBT) 36.7%, domestic long term trading (10%) and through IEX (7.9%). As on 30th Sep 2009, PTC has signed LTT PPAs for 163435MW (5087.5MW added in HIFY10) and MoUs for 19290MWs which will converted into long term PPAs in the near term. It has also signed PSAs of 3443MW and MoUs of 960MW.

Exhibit 18: Long-term Trading



Source: *Company, Networth Research*

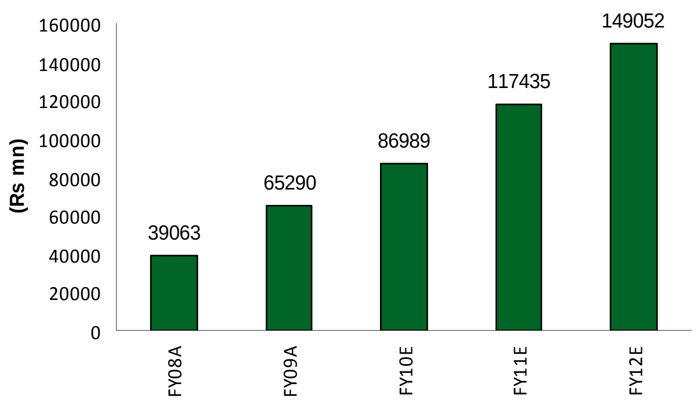
PTC's long-term goal is to have 70:30 ratio of LTT and STT which will ensure the revenue visibility and sustainability. As per the PPAs signed by the PTC, it expects volumes to grow at CAGR of 34.31% over next 3 years (Fy09-FY12E).

PTC has been designated entity for cross border trading for Nepal and Bhutan. The company traded around 3889MUs in HIFY10 through these two countries. Nepal and Bhutan are river-rich countries and posses huge potential for hydro power generation. As per CEA, the power potential in neighboring countries viz. Myanmar, Nepal and Bhutan are 100000MW, 83000MW and 23760MW respectively, which will benefit PTC in boosting the volumes. PTC has signed LTT PPAs for 11226MW and another 25907MW at various stages of discussion for final conversion to PPAs.

Financial Performance

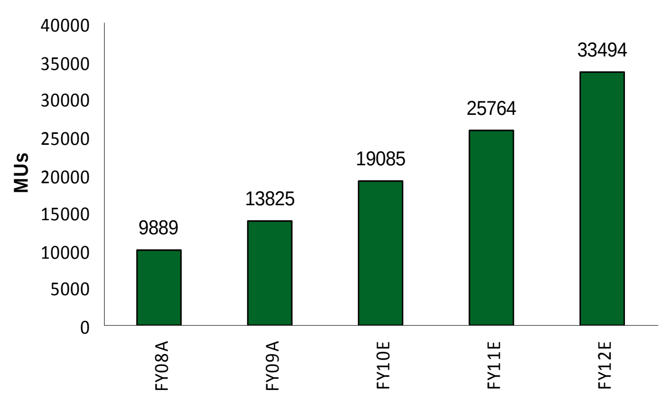
Expect trading volumes to grow at CAGR of 34%: PTC has targeted to have 70:30 ratio of LTT and STT over a period of next 2-3 years, which will improve revenue visibility and stability. It has signed long term PPAs for 16313.5MW & MoUs of 18290MW (potential PPAs) and commissioning of new power projects, which will help company to have volumes growing at 34% CAGR over the next 3 years (FY09-FY12E). This will help revenues to grow at a CAGR of 32% over FY09-FY12E.

Exhibit 19: Revenue Growth from FY08 to FY12E



Source: *Company, Networth Research*

Exhibit 20: Volume growth from FY08 to FY012E



Source: *Company, Networth Research*

Higher volumes to accelerate PAT at CAGR of 41% over FY09-12E: We expect PAT to accelerate at a CAGR of 41% over the next 3 years (FY09-12E), due to rise in volumes on account of large LTT PPAs and MoUs. The company's investment in various power projects which are expected to be operational in next couple of years will add substantially to the bottom-line.

Net margins to improve to 1.8% in FY12E: We expect net margins to improve to 1.8% from 1.4% in FY09, largely on the back of healthy mix of trading portfolio, new tolling agreements and relaxation on STT margin.

Improvement in ROE: Post relaxation on margin cap along with tolling project, PAT is expected to grow at a CAGR of 41% over the next 3 years (FY09-FY12E). ROE would improve to 10.2% in FY12E from 5.9% in FY09.

Valuations

At CMP, the stock is trading at 12.3x our FY12E earnings of Rs.8.7/share. We believe that the current valuations are lower than its historical average of 25x one year forward earnings over the past five years. The margin cap has been relaxed to 7paisa/unit from 4paisa/unit, due to which stock witnessed strong run up in the recent past. We expect regulator to fully scrap the cap on margin which will be another trigger for upside in the stock.

We believe that market is not fully valuing the investments made by the PTC in power projects may be on the back of concerns over distinct diversification and value proposition from these projects. However, we strongly believe that these investments will enable PTC to grow in term of assured volumes. Further, PFS has also planned to raise Rs400cr through IPO, which would lead to value unlocking for the shareholders. We have valued standalone trading business at Rs.119/share as per the DCF method. PFS is valued at Rs15 based on 1x adj. P/BV for FY12E, PEL is valued at Rs.2/share based on 1.5x adj. P/B for FY12E and Investments in power projects has been valued at Rs10/share on 1.5x adj. P/B FY12E. We recommend a "BUY" on the stock.

PFS: Possible Value Unlocking

PFS has plans to raise around Rs.400cr through IPO, which will lead to value unlocking for the PTC shareholders. The fund will be used for investment power projects.

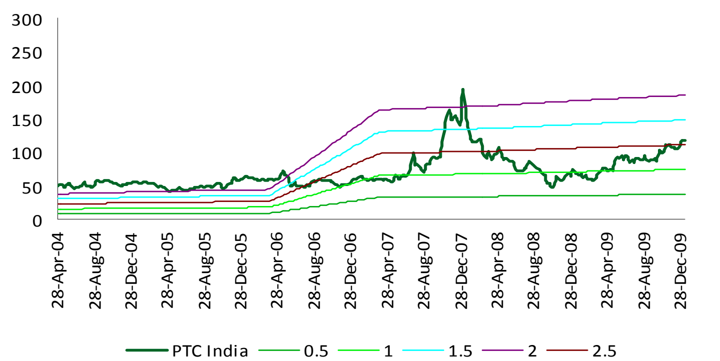
Exhibit 21: Valuations: Sum of the parts (SOTP)

	Investment Value (Rs mn)	Multiple (x)	SOTP (INR/Share)
DCF	-	-	119
PFS	4460	1	15
PEL	410	1.5	2
Power Project Investments	1930	1.5	10
Total	6800		146

Source: *Company, Networth Research,* ***Valuation Annexure below****: Exhibit no.25*

PTC has historically traded in a band of 2-2.5x one year forward PB. Currently PTC trades at 1.6x FY10E PB.

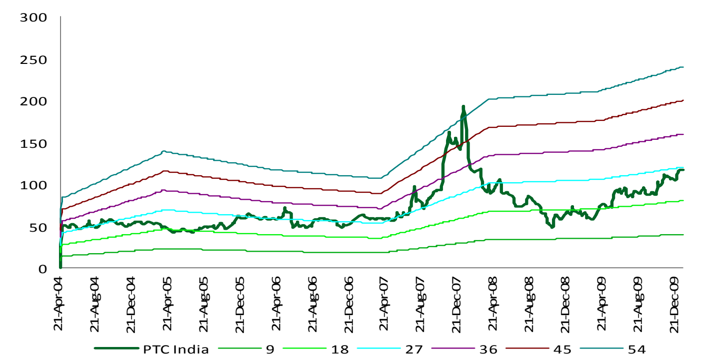
Exhibit 22: One year forward P/B



Source: *Company; Networth Research*

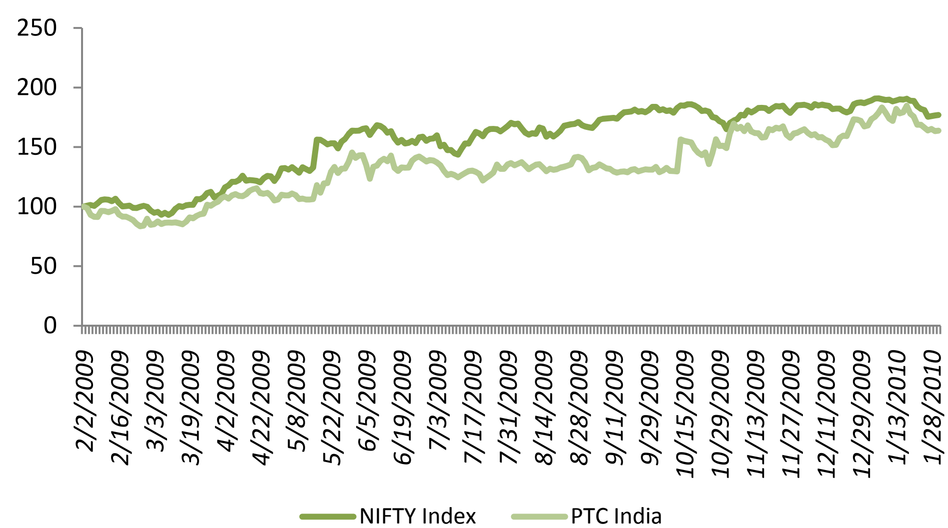
PTC has historically traded in a band of 18-27x one year forward PE. Currently PTC trades at 26x FY10E PE.

Exhibit 23: One year forward P/E



Source: *Company; Networth Research*

Exhibit 24: One year forward P/B



Source: Company; Networth Research

Valuation of Trading Business (DCF)

Exhibit 25: Trading Business Standalone (%)

Cost of Equity (Ke)	13.89
Risk free rate (%)	7.6
Market premium	8.4
Beta	0.75
Terminal growth (%)	2

Source: *Networth Research*

Exhibit 26: Calculation of Free Cash Flow to Equity (FCFE)

Rs mn	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Units Traded (Mus)	19,085	25,764	33,494	37,513	42,014	47,056	52,703	59,027	66,110	74,044	82,929
Realization per Unit	5	5	4	4	4	4	4	4	4	4	4
Turnover	85,881	115,939	147,372	155,410	180,276	205,515	234,287	257,715	283,487	311,836	336,783
EBITDA (Rs Mn)	971	1,521	2,283	1,647	1,929	2,209	2,530	2,783	3,062	3,368	3,637
PAT (Rs Mn)	1,248	1,945	2,553	3,108	3,245	3,699	4,217	4,639	5,103	5,613	6,062
Less: Change in WC	-1	0	0	7	22	23	26	21	23	26	22
Less: Capex	-70	-90	-120	-121	-114	-113	-126	-120	-118	-116	-110
Add: Depreciation	56	61	63	68	74	80	85	91	97	103	109
Projected Free Cash Flow to Equity	1,319	1,916	2,496	3,049	3,184	3,644	4,152	4,590	5,060	5,576	6,040
Discount Factor		1	1	1	1	1	1	0	0	0	0
PV of Cash Flow		1,916	2,192	2,351	2,155	2,166	2,167	2,104	2,036	1,970	1,873

Source: *Company, Networth Research*

Exhibit 27: Trading Business Standalone (%)

Terminal Value	51812
Discounted Terminal Value	14111
Cumulative PV of Cash Flow	20929
NPV	35040
Value/Share (Rs)	119

Source: *Networth Research*

Networth Stock Broking Ltd

Financial Summary

Income Statement (Rs.mn)

Y/E March	FY08A	FY09A	FY10E	FY11E	FY12E
Revenue	39,063	65,290	83,710	117,435	149,052
% change YoY	4	67	33	35	27
Expenditures					
Purchase of Electricity	38,075	63,864	84,814	114,311	144,789
Rebate on Sale of Power	618	872	1,015	1,200	1,510
Employee Cost	80	150	165	171	175
Other Expenses	100	178	172	232	295
Total Expenses	38,873	65,064	82,738	115,914	146,769
EBIDTA	190	226	971	1,521	2,283
% change YoY		19	329	57	50
Depreciation	13	62	56	61	63
Other Income	432	973	728	973	973
PBT	591	1,136	1,642	2,431	3,192
% change YoY		92	45	48	31
Total Tax	103	226	394	486	638
PAT	488	910	1,248	1,945	2,553
% change YoY	39	86	37	56	31

Balance Sheet (Rs.mn)

Y/E March	FY08A	FY09A	FY10E	FY11E	FY12E
Share Capital	2,274	2,274	2,941	2,941	2,941
Reserves Total	12,521	13,091	17,710	19,420	21,588
Total Shareholders' Funds	14,796	15,365	20,651	22,360	24,528
Secured Loans	0	0	0	0	0
Unsecured Loans	0	0	0	0	0
Total Debt	0	0	0	0	0
Deferred Tax Liability	51	95	95	95	95
Total Liabilities	**14,846**	**15,460**	**20,746**	**22,455**	**24,623**
APPLICATION OF FUNDS :					
Gross Block	596	604	674	764	884
Less : Accumulated Depreciation	76	138	194	255	318
Net Block	520	466	480	509	566
Capital Work in Progress	11	10	10	10	10
Investments	13,263	7,994	8,694	9,599	10,599
Current Assets, Loans & Advances					
Sundry Debtors	1,794	3,546	4,294	5,797	7,369
Cash and Bank	1,239	6,256	11,255	11,756	12,535
Other Current Assets	-	-	-	-	-
Loans and Advances	230	194	150	160	200
Total Current Assets	3,263	9,995	15,700	17,713	20,103
Less : Current Liabilities and Provisions					
Current Liabilities	1,913	2,562	3,435	4,638	5,895
Provisions	299	442	702	737	760
Total Current Liabilities	2,212	3,005	4,138	5,375	6,655
Net Current Assets	1,052	6,990	11,562	12,338	13,449
Total Assets	**14,846**	**15,460**	**20,746**	**22,455**	**24,623**

Ratios

Y/E March	FY08A	FY09A	FY10E	FY11E	FY12E
EBITDA (%)	0.5	0.4	1.2	1.3	1.5
PBT (%)	1.5	1.8	2.0	2.1	2.2
PAT (%)	1.3	1.4	1.5	1.7	1.7
EPS (Rs)	2.1	4.0	4.2	6.6	8.7
P/E(x)	49.0	26.3	23.4	15.9	12.1
Book Value (Rs)	65.1	67.6	70.3	76.6	85.0
P/BV(x)	1.6	1.6	1.5	1.4	1.3
ROE (%)	3.3	5.9	6.5	8.7	10.4
ROCE (%)	4.0	7.4	8.4	10.9	13.0
Debtor Days (Nos.)	16.8	19.8	18.0	18.0	18.0
Creditors Days (Nos.)	18.0	14.4	14.6	14.6	14.7

Cash Flow Statement (Rs.mn)

Y/E March	FY08A	FY09A	FY10E	FY11E	FY12E
Net Profit Before Tax	589	1,136	1,739	2,431	3,192
Net Cash from Op.Activities	168	-878	1,270	1,230	1,861
Net Cash from Inv.Activities	-11,154	6,163	-742	-200	-553
Net increase in cash	757	5,018	4,998	500	779
Cash and (Opening Bal.)	482	1,239	6,257	11,255	11,756
Cash and (Closing Balance)	1,239	6,256	11,255	11,756	12,535

Source: *Company, Networth Research*

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Key to NETWORTH Investment Rankings

Buy: Upside by>15, **Accumulate:** Upside by +5 to 15, **Hold:** Upside/Downside by -5 to +5, **Reduce:** Downside by 5 to 15, **Sell:** Downside by>15

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