ARIHANT capital markets ltd.

IPO NOTE

16th March 2011

PTC India Financial Services Ltd

Recommendation: Neutral

★★

Issue Summary		
Price Band (Rs)*	26	28
Bid Lot	250 shares	
Face Value	Rs.10	
Opens on	16th Mar'11	
Closes on	18th Mar '11	
Total no of shares to be raised	15.67 cr	

Pre-issue share capital	Rs. 434.58 crs	
Post-issue share capital	Rs 562.08 crs	
Issue Size	Rs 407.42 crores	Rs 438.76 crores
Post Issue Market Cap	n.a	n.a
P/E on FY10	14.7	15.3

Net Issue	No. of Shares	%
QIB's	<= 73.8 crs	50%
Non Institutional	>=23.50 crs	15%
Retail	>= 54.85 crs	35%
Employees	n.a	n.a
Total	156.7 crs	100 %

Company & Business Profile

PTC India Financial Services Ltd (PFS) is an NBFC (SI-ND) promoted by PTC India Limited ("PTC") for providing equity and debt financing to primarily power generation projects. Co also provides fee-based syndication and advisory services as well as carbon credit financing. Having an Infrastructure Finance Company (IFC) status enhances Co's ability to raise funds on a cost-competitive basis and assume higher debt exposure in infrastructure projects.

PTC holds 77.6% of the equity and GS Strategic Investments Limited (an affiliate of The Goldman Sachs Group, Inc.) and Macquarie India Holdings Limited (an affiliate of The Macquarie Group) each hold 11.20%. PTC is a GoI initiated company promoted by NTPC, Power Grid, PFC and NHPC. Post IPO, PTC's stake in PFS will come down to 60% while shares of Goldman and Macquarie will fall to 8.5% and 3.1%.

Under Principal Investments Co makes strategic equity investments in companies and as of December 31, 2010, Co had approved equity commitments for ten companies totaling to Rs 564.2 cr (3,221 MW of power generation capacity). Around 79.24% of these investments are in Greenfield projects, which typically involve between 2 and 5 years of development activity prior to commencement of commercial operations. PFS usually invests its corpus in power exchange, wind turbine manufacturing units and power projects based on coal, hydro, bio-mass, wind and solar. Equity investments forms nearly 41% of its portfolio

Under debt finance they provide fund based and non-fund based debt financing, including short-term and long-term debt, as well as structured debt and bridge financing. Term lending forms ~21% while intermediate lending ~38% of Co's portfolio.

Their primary sources of funds include equity, term loans and NCDs. Co. has also entered into ECB agreement with Deutsche Investitions for an aggregate amount of Rs 116.5 cr.

CRISIL gave 3 out of 5 Grade to the IPO while ICRA has given 4 out of 5.

Objects of the Issue

Particulars (on higher band)	Amount proposed(Rs in cr)
Gross Proceeds of the Issue (on higher band)	438.76
Issue related Expenses	#
Offer for Sale portion	81.76
Net Proceeds	#

*Re 1 discount for retail investors

not available

Book Running Lead Managers:

- **SBI Capital Markets Limited**
- **JM Financial Consultants Private Limited**
- **ICICI Securities Limited**
- **Almondz Global Securities Limited**

Investment Positives:

- **Big Power Funding Requirements of India** - India has continuously experienced shortages in energy and peak power requirements with total energy defict at ~9.2% during April to Oct 2010. Apart from deficit is the rising consumption demand. The total energy consumption in India is estimated to grow from 566 Mtoe in 2006 to 1280 Mtoe in 2030. The total fund requirement for generation projects, during the XII Plan period is estimated at ~ Rs 4,95,083 cr, Rs 2,40,000 cr for transmission, Rs 3,71,000 cr for distribution.
- **Range of Services for an Identified Niche Segment** - The Co offers a comprehensive range of financial products and services across all areas of the energy value chain. Co plans to capture and consolidate in the segment of smaller and medium sized power generation, equipment supply and fuel source projects This could well become the niche of the Co going ahead. Apart from this Co is exploring new specilaised avenues like carbon tarding and renewable energy.
- **PTC Brand** - Brand PTC and the synergies among the group entities provide access to potential business opportunities, ability to understand and efficiently cater to the needs of the developers in a comprehensive manner.
- **NBFC categorised as IFC gives Cost Advantage** - As an NBFC, in comparision to banks the Co is subject to fewer restrictions. As an IFC category, it has ability to raise funds on a cost-competitive basis and take higher debt exposure on individual and group level. Apart from ECB's, Co can also raise tax exempt infrastructure bonds at comparatively lower yields. PFS is currently in the process of raising about Rs 100 crore through the issue of tax-free infrastructure bonds. Recently IFC also extended $50 million worth of loans to PFS for development of clean energy projects.
  But this has to be read in the light that many NBFC's are now vying for Banking Licence.
- **Small Co with Rapid growth and strong ratios's** - Rapid growth in recent years saw its total assets, total income and profit after tax grow at a 4- year CAGR of 192%, 313% and 294%, respectively (as at end of Dec 31, 2010 total assets Rs 1168.3 cr, total income Rs 82.5 cr and PAT 9M Rs 31.2 cr). The Return on average assets as at end of FY10 was strong at 3.2%. The margins of the Co are strong at 7.52% for nine months period ending Dec 2010, but has been decreasing with growth and is expected to moderate further. As on December 31, 2010, Co did not have any Non Performing Assets.

Concerns

- **Co. has competitors in all segments** – Some of these competitors have substantially larger financing resources or greater technical, marketing and other resources and greater experience.
  - Equity financing – private equity firms and venture capital enterprises and managers of other types of third party funds.
  - Debt financing- Banks, financial institutions and other NBFCs
  - Advisory services- investment banks, and consulting organizations

  The Co faces potential competition from group Co's some of which are open to engage in similar business. Towards this it has some arrangements like with PTC Ashmore Fund (PAF), where it shall refer all energy sector equity financing opportunities in India in excess of Rs 100 cr to the PAF, while the PAF shall refer all energy sector equity financing opportunities of a value of Rs 100 cr or lower, as well as all debt financing opportunities.

- **Dependence on PTC -** Co has till date been significantly dependent on PTC for growing and supporting its business. Any conflict in future can be detrimental.
- **ALM mismatch -** The Co at present has an asset liability mismatch of positive Rs 1,59.6 cr where it is using short term borowings to fund long term assets. This gap is considered beneficial in times of rising rates but can be detrimental going ahead.
- **Low RoNW-** For the nine months ended December 31, 2010, the RONW was 4.70%. This is very low whe compared to peers and fall after dilution. This is due to its equity investments which are yet to yield returns.

Peer Comparision

9M11 (Rs in Cr)	PFS	PFC	REC
Loan Book	595	92,118	75744
NIM %	7.52	4.09	4.52
RoE %	4.7	18.81	21.1
RoA %*	3.56	2.75	3.29
GNPA %	0	0.01	0.03
EPS (TTM)	0.96#	22.75	25.22
Book Value	19.6	124.78	127.06
CMP	28	232	219.3
PBV x	1.43	1.86	1.73
PE x	29.2	10.2	8.7

* Based on 9M annualized profits; # 9M annualized

Profit & Loss Account (Rs. in crs)

Particulars	FY 2007	FY 2008	FY 2009	FY 2010	9M11
Interest Income	0.2	0.0	0.4	27.5	57.9
Interest Expd	0.0	0.0	0.0	11.6	28.6
NII	0.2	0.0	0.3	15.9	29.3
Other income	0.0	3.1	11.2	26.0	24.6
Operating income	0.2	3.1	11.6	41.9	53.9
Expenditure	1.8	2.0	2.9	5.2	8.0
Operating Profit	-1.7	1.1	8.7	36.7	45.9
Provision	0.0	0.0	0.0	0.0	1.6
PBT	-1.7	1.1	8.7	36.7	44.3
Tax	0.1	-0.5	0.2	11.2	13.1
PAT	-1.7	1.6	8.5	25.5	31.2
EPS (Pre Issue)	-4.35	0.18	0.20	0.59	0.72
EPS (Post Issue)					0.56

Valuations and Recommendations

We recommend investors to invest at lower band.

The Co is very small with its loan book less than 1% of PFC. This has allowed it to grow at higher CAGR. But it will need to maintain the pace with quality going ahead. The segment is filled with competition though there is ample scope to expand given the potential demand. As it expands and as its equity investments yield results, its RoE will improve but that may take some more time. The issue is priced lower than its peers valuation on price to book value basis, but given its low RoE and small size, this is still high, especially in the high interest rate scenario.

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