

Company Overview

PTC India Financial Services is specialized infrastructure finance company promoted by Power trading corporation of India. PTC India holds 60% stake in the company and rest is owned by investors. The company is present across entire value chain in power sector. These loans are term loans, structured deals, project finance and equity investments in projects. PFS key focus areas are renewable energy and thermal power but share of thermal power is now decreasing. The company also has equity stakes in IEX (India Energy exchange), RS wind energy, East coast energy. At the end of FY16 company had loan assets of 8634cr

Investment Rationale**Renewable portfolio to drive growth:**

PFS has been one of major financiers to renewable energy (Wind, Solar) these two forms of energy have shown good traction in installation and commissioning due to changes made in Government policies. The gestation periods for commissioning of these projects is less which leads to lesser cost overruns and even it is mandatory by the State electricity board (SEBs) to sign PPA's for renewable power. Hence asset starts generating revenues in shorter time (less than year) which leads to loans getting serviced timely. According to governments solar energy mission 100,000MW power will be added over next decade which in turn represents PFS which opportunity size of 10lac crore. The company has constantly focused on this segment and now this segment (renewable energy) represents 50% of total portfolio. Going forward this portfolio will continue to drive AUM growth.

Asset quality pressures to reduce going forward:

PFS witnessed a significant deterioration in its asset quality over last two years which resulted in gross NPA's rising to 3.8%. This was due to asset quality issues in thermal energy portfolio. There was late commissioning of some projects due to coal linkage issues. These issues have now receded with major part of the thermal portfolio turning operational (80%) over last one year. The company had also made early classification of some NPA's in renewable portfolio. These factors seem to be past for company and the asset quality should be stable going forward. The company has made enough provisions for stressed accounts and these accounts turning operational will limit provisions to be provided also further there can be provision write back which can boost profits.

Falling interest rates and higher CAR add to strength:

PFS is expected to benefit from fall in wholesale borrowing rates as major fund raised by the company are wholesale in nature. The company derives dual benefit from this as its cost of funds will decrease which increases spreads and NIM's and the customers interest cost reduces which leads to less accounts turning stressed. PFS has CAR of 21% which provides more comfort as company can use this capital both for providing against bad loans and to boost loan growth. Higher CAR also reduces frequent need for capital raising thus limiting equity dilution and further capital provides boost to NIM. There are equity investments in three assets which can be monetized when needed. PFS operates at comparatively low financial leverage than its peers which provides significant head room for growth without need of capital.

Valuation & Outlook

PFS presently trades 1.2 times its present book value with asset quality issues receding, strong growth in renewable energy portfolio and falling interest rates will drive the profits higher over next couple of years. Financial leverage which is at 4 can be scaled up to 6 this would drive a higher return on equity. Equity investment monetization and provision write-backs can provide further upside triggers for the stock. We value the stock at 1.2 times its estimated book value of Rs38 for FY18, hence we assign BUY rating with target of Rs 45.

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Positive

Stock

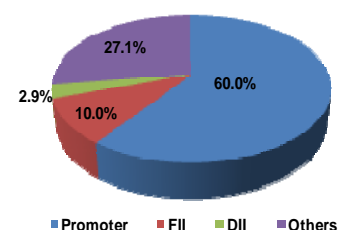
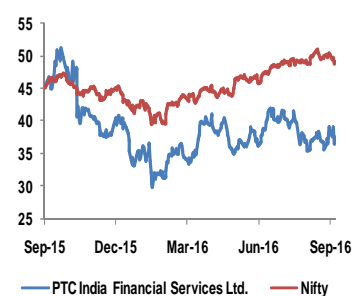
CMP (Rs)	37
Target Price (Rs)	45
BSE code	533344
NSE Symbol	PFS
Bloomberg	PTCIF IN
Reuters	PTCN.BO

Key Data

Nifty	8,611
52WeekH/L(Rs)	52/29
O/s Shares (mn)	562
Market Cap (Rs Bn)	21
Face Value (Rs)	10

Average volume

3 months	21,94,990
6 months	16,63,490
1 year	14,30,170

Share Holding Pattern (%)**Relative Price Chart****Research Team**

022-61596406



Weekly Fundamental Pick

Key Financials

YE March (Rs. mn)	FY15	FY16	FY17E	FY18E
Net Interest Income	3,410	4,140	4,554	5,510
<i>Growth%</i>	60.8%	21.4%	10.0%	21.0%
Pre Provisioning Profits	3,760	4,430	4,962	6,093
<i>Growth%</i>	60.7%	17.8%	12.0%	22.8%
Net Profit	2,010	2,390	2,510	3,062
<i>Growth%</i>	42.6%	18.1%	5.0%	22.0%
EPS (Rs)	3.6	4.3	4.5	5.4
<i>Growth%</i>	42.6%	18.9%	5.0%	22.0%

Key Ratios

Net Interest Margin (%)	6.6%	6.0%	4.8%	4.8%
ROA (%)	3.3%	3.1%	2.8%	3.1%
RoE (%)	14.4%	15.0%	13.7%	15.0%
BV Per Share (Rs)	25.6	31.0	34.3	38.3
Gross NPA	1.3%	3.7%	4.5%	3.6%
Net NPA	1.0%	2.5%	3.2%	2.1%

Valuation Ratios

P/E (x)	10.3x	8.7x	8.3x	6.8x
P/BV (x)	1.4x	1.2x	1.1x	1.0x

Source: Company, BP Equities Research



Research Desk

Tel: +91 22 61596464

Institutional Sales Desk

Tel: +91 22 61596403/04/05

Disclaimer Appendix

Analyst (s) holding in the Stock : Nil**Analyst (s) Certification:**

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Corporate Office:

4th floor,
Rustom Bldg,
29, Veer Nariman Road, Fort,
Mumbai-400001
Phone- +91 22 6159 6464
Fax-+91 22 6159 6160
Website- www.bpwealth.com

Registered Office:

24/26, 1st Floor, Cama Building,
Dalal street, Fort,
Mumbai-400001

BP Equities Pvt. Ltd.
CIN No: U67120MH1997PTC107392