

PTC India Financial Services Q1 FY16 Quarterly Update

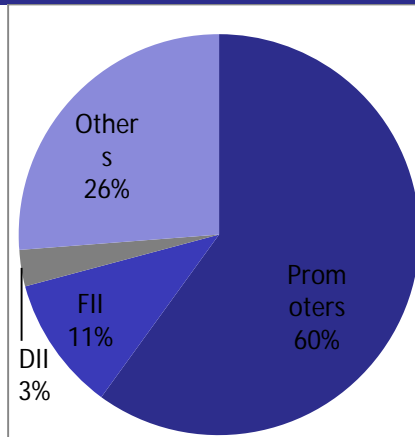
MARKET DATA

| | |
|------------------------------|-------|
| NSE TICKER | PFS |
| Networth (₹ Cr) | 1,437 |
| P/BV Ratio (FY16E) (x) | 1.6 |
| EPS (FY16E) (₹) | 4.5 |
| Market Price (₹) | 46 |
| P/E Ratio (FY16E) (x) | 10.2 |
| 52 Week High (15/1/2015) (₹) | 73 |
| 52 Week Low (13/08/2014) (₹) | 36 |
| Market Capitalisation (₹ Cr) | 2,577 |

AVERAGE MONTHLY VOLUME ('000)

| | |
|-----|--------|
| BSE | 316.0 |
| NSE | 1099.2 |

SHARE HOLDING PATTERN



| RETURN | 3M | 6M | 12M |
|--------|------|------|-----|
| PFS | -13% | -24% | 24% |
| Sensex | 2% | -4% | 6% |

Vishal Rampuria
 (Director, Research)

vishal.rampuria@dimensional.in
 +91-22-66545256

Bunty Chawla (Research Analyst)
bunty.chawla@dimensional.in
 +91-22-66545231

In Q1 FY16, Net interest income grew by 9% QoQ (25% YoY) led by 3% QoQ (33% YoY) growth in loan book and better NIMs. Overall, PAT grew strongly by 288% QoQ (18% YoY) supported by sharp drop in provisions, down 98% QoQ (61% YoY).

■ Strong loan growth led by renewable sector

Loan book grew by 3% QoQ (33% YoY) to ₹6,582 cr led by 11% QoQ (55% YoY) growth in renewable book which is the key focus area for PFS. This resulted increase in share of renewables to 41% from 39% QoQ (35% YoY). Also, thermal power book grew by 6% QoQ (23% YoY) however, hydro book remain flat QoQ (20% YoY). Disbursements de-grew by 38% QoQ (up 156% YoY) due to seasonality. With focus on power sector, especially renewable sector by the government, management sees huge opportunity in this sector. The company has a strong pipeline of disbursement worth ₹3,500 cr which are expected to disburse in next 3 quarters.

■ NIMs improved; guidance for maintaining spreads

NIMs improved by 44bps QoQ (down 3bps YoY) to 6.47% in Q1 FY16 backed by increase in yields by 42bps QoQ (4bps YoY) and sequentially flat (down 18bps) cost of funds. However, the margins are guided to be maintained despite competitive pressure on yields as management is expecting lower borrowing cost due to funds from IFC and expected reduction in base rates by the banks, thus guided for maintaining spreads going ahead. Refinancing risk remains a key monitorable. Given benign credit growth, banks may aggressively refinance such projects, after execution, which pose spread risk for PFS.

■ Asset quality remains stable

In Q1 FY16, with no fresh slippages, GNPA % declined 4bps QoQ (up 115bps YoY). Also, annualised credit cost declined by 329bps QoQ (17bps YoY) as provisions declined by 98% QoQ (61% YoY). Outstanding restructured assets ₹450 cr consists of one gas plant (around ₹116 cr), one hydro plant and few thermal based accounts. Gas plant based account may improve due to gas availability under the pooling mechanism to be bid out in Q2 FY16. Renewable energy sector has lower asset quality risks due to faster execution, lower gestation period, no fuel risk and government support, thus we expect asset quality to remain stable.

■ Other Highlights

Non-Interest income de-grew by 48% QoQ (up 54% YoY) led by de-growth in disbursement by 38% QoQ (up 156% YoY). With CAR at 23% against regulatory requirement of 15%, PFS can headroom to grow its asset book especially in the renewable sector.

■ Valuation

At CMP PFS is trading at P/B multiple of 1.6x its FY16E BV of ₹29 and 1.4x its FY17E BV of ₹33. We recommend a BUY rating with a target of ₹60 by March 2016 and an upside potential of 32%. Our valuation is based on FY17E P/B multiple of 1.8, arrived at using justified P/B multiple method.

Quarterly Performance:

| Particulars (₹ Cr) | Q1 FY16 | Q1 FY15 | % YoY | Q4 FY15 | %QoQ | FY15 | FY14 | % YoY |
|--------------------------------|---------|---------|-------|---------|------|------|------|-------|
| Interest Income | 218 | 168 | 30% | 201 | 9% | 742 | 420 | 77% |
| Interest Expenses | 121 | 90 | 34% | 111 | 9% | 401 | 208 | 92% |
| Net Interest Income | 97 | 78 | 25% | 90 | 9% | 341 | 212 | 61% |
| Forex loss (on ECB borrowings) | 5 | 3 | 62% | 3 | 33% | 16 | 13 | 29% |
| Other Income | 9 | 6 | 54% | 16 | -48% | 60 | 44 | 37% |
| Total Income | 101 | 81 | 26% | 103 | -1% | 385 | 243 | 58% |
| Operating Expenses | 5 | 4 | 20% | 18 | -70% | 35 | 17 | 103% |
| PPOP* | 96 | 76 | 26% | 85 | 13% | 350 | 226 | 55% |
| Total Provisions | 1 | 3 | -61% | 54 | -98% | 100 | 19 | 435% |
| PBT | 94 | 72 | 30% | 30 | 212% | 245 | 285 | -14% |
| Taxes | 32 | 20 | 62% | 14 | 128% | 84 | 77 | 9% |
| PAT | 61 | 52 | 18% | 16 | 288% | 161 | 208 | -23% |

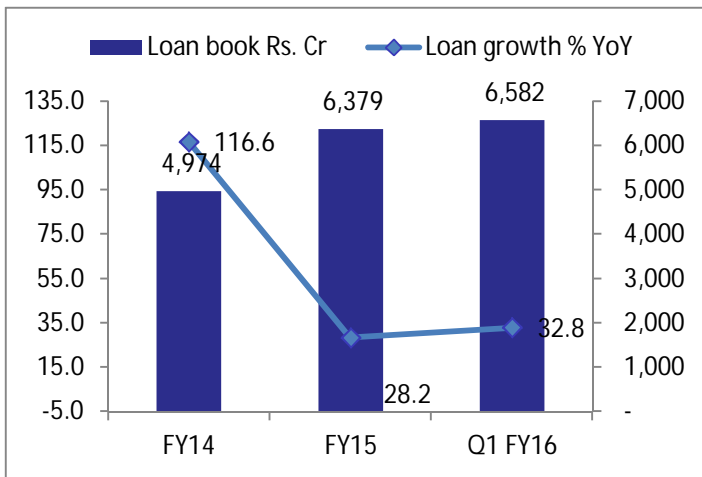
*PPOP - Pre-Provisioning Operating profits



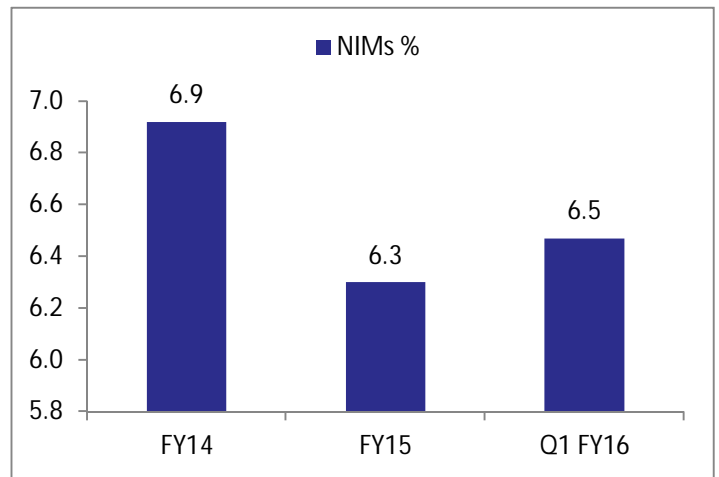
Q1 FY16 CONFERENCE CALL HIGHLIGHTS : -

- Power sector revival is the key agenda for government thus focusing on a) addition of generation capacity and b) increase in fuel supply however gas availability is under question
- Government is targeting 1,00,000 MW in the renewable sector over 5-6 years
- Company has disbursed loans to 46 renewables projects till today; Found nil stress in these accounts
- East Coast thermal power project – more than 30% completed
- Management is exploring of lending to SEBs

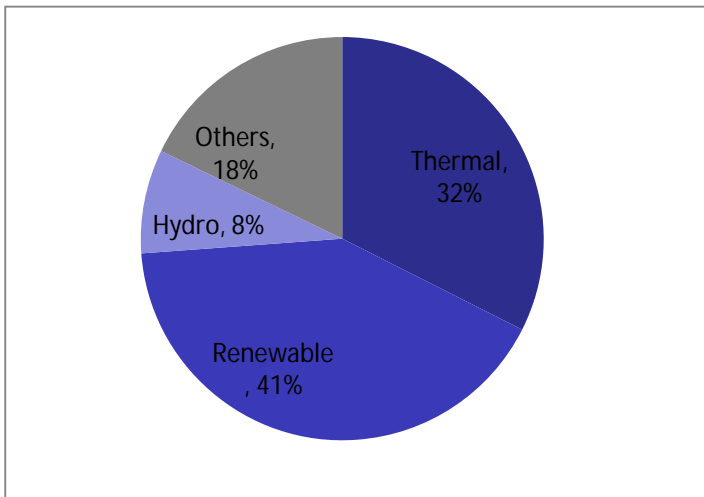
Graphs for important parameters



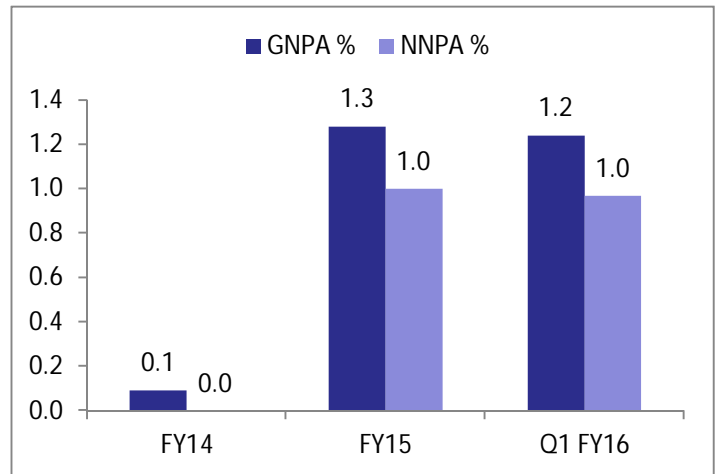
Source: Company



Source: Company



Source: Company



Source: Company



QUARTERLY PERFORMANCE:

| Particulars ` Cr | Jun-15 | Jun-14 | % YoY | Mar-15 | %QoQ | FY15 | FY14 | % YoY |
|-------------------------------------|--------|--------|-------|--------|-------|-------|-------|-------|
| Interest Income | 218 | 168 | 30% | 201 | 9% | 742 | 420 | 77% |
| Interest Expenses | 121 | 90 | 34% | 111 | 9% | 401 | 208 | 92% |
| Net Interest Income | 97 | 78 | 25% | 90 | 9% | 341 | 212 | 61% |
| Forex loss (on ECB borrowings) | 5 | 3 | 62% | 3 | 33% | 16 | 13 | 29% |
| Other Income | 9 | 6 | 54% | 16 | -48% | 60 | 44 | 37% |
| Total Income | 101 | 81 | 26% | 103 | -1% | 385 | 243 | 58% |
| Operating Expenses | 5 | 4 | 20% | 18 | -70% | 35 | 17 | 103% |
| Employee | 2 | 2 | -6% | 2 | -5% | 10 | 7 | 36% |
| Others | 3 | 2 | 51% | 16 | -81% | 25 | 10 | 153% |
| Operating Profits before provisions | 96 | 76 | 26% | 85 | 13% | 350 | 226 | 55% |
| Depreciation | 1 | 1 | 1% | 1 | -9% | 4 | 4 | -1% |
| Exceptional Items | - | - | - | - | - | - | 82 | - |
| Total Provisions | 1 | 3 | -61% | 54 | -98% | 100 | 19 | 435% |
| PBT | 94 | 72 | 30% | 30 | 212% | 245 | 285 | -14% |
| Taxes | 32 | 20 | 62% | 14 | 128% | 84 | 77 | 9% |
| PAT | 61 | 52 | 18% | 16 | 288% | 161 | 208 | -23% |
| EPS | 1.1 | 0.9 | 18% | 0.3 | 288% | 2.9 | 3.7 | -23% |
| Asset Quality | | | | | | | | |
| GNPA ` Cr | 82 | 4 | 1804% | 82 | 0% | 82 | 4 | 1804% |
| NNPA ` Cr | 63 | - | NA | 63 | 0% | 63 | - | NA |
| GNPA % | 1.24 | 0.09 | 115 | 1.28 | -4 | 1.28 | 0.09 | 119 |
| NNPA % | 1.0 | 0.0 | 97 | 1.0 | -3 | 1.0 | 0.0 | 100 |
| Credit Cost % | 0.07 | 0.25 | -17 | 3.36 | -329 | 1.57 | 0.38 | 119 |
| Ratios % | | | | | | | | |
| Cost to Income ratio | 5.22 | 5.48 | -26 | 17.44 | -1222 | 9.13 | 7.12 | 201 |
| Tax Rate | 34.61 | 27.76 | 685 | 47.38 | -1277 | 34.42 | 27.09 | 733 |
| RoA | 3.52 | 3.84 | -32 | 0.92 | 260 | 2.38 | 3.84 | -146 |
| RoE | 16.78 | 15.21 | 157 | 4.39 | 1239 | 11.55 | 16.13 | -458 |
| CAR (Basel III) | 23.34 | 26.05 | -271 | 23.71 | -37 | 23.71 | 25.23 | -152 |
| Opex to Loan book (x) | 0.32 | 0.36 | -4 | 1.12 | -80 | 0.55 | 0.35 | 20 |
| Margins % | | | | | | | | |
| Yield on Advances | 13.88 | 13.84 | 4 | 13.46 | 42 | 13.71 | 13.64 | 7 |
| Cost of Deposits | 9.3 | 9.48 | -18 | 9.3 | 0 | 9.38 | 9.07 | 31 |
| NIMs | 6.47 | 6.5 | -3 | 6.03 | 44 | 6.3 | 6.92 | -62 |
| Balance sheet | | | | | | | | |
| BV-Reported ` | 26 | 24 | 7% | 26 | 0% | 26 | 24 | 7% |
| Adjusted Networkth | 1,374 | 1,349 | 2% | 1,374 | 0% | 1,374 | 1,349 | 2% |
| Adj. BV ` | 24 | 24 | 2% | 24 | 0% | 24 | 24 | 2% |
| Capital | 562 | 562 | 0% | 562 | 0% | 562 | 562 | 0% |
| Net Worth | 1,437 | 1,349 | 7% | 1,437 | 0% | 1,437 | 1,349 | 7% |
| FV | 10 | 10 | | 10 | | 10 | 10 | |
| Loan Disbursement | 515 | 201 | 156% | 835 | -38% | 2,493 | 3,071 | -19% |
| Loan Sanctioned | 954 | 160 | 496% | 550 | 73% | 4,112 | 2,520 | 63% |
| Loan Outstanding | 6,582 | 4,956 | 33% | 6,379 | 3% | 6,379 | 4,974 | 28% |

Source: Company, Dimensional Securities



RoA Tree Analysis:

| Particulars | Jun-15 | Mar-15 | Dec-14 | Sep-14 | Jun-14 | FY15 | FY14 |
|-------------------------------------|--------|--------|--------|--------|--------|-------|-------|
| Interest Income | 14.3% | 13.2% | 15.9% | 14.5% | 16.1% | 12.2% | 10.1% |
| Interest Expenses | 7.9% | 7.3% | 8.6% | 7.7% | 8.6% | 6.6% | 5.0% |
| Net Interest Income | 6.4% | 5.9% | 7.3% | 6.8% | 7.5% | 5.6% | 5.1% |
| Forex loss (on ECB borrowings) | 0.3% | 0.2% | 0.5% | 0.4% | 0.3% | 0.3% | 0.3% |
| Other Income | 0.6% | 1.1% | 1.4% | 1.8% | 0.5% | 1.0% | 1.1% |
| Total Income | 6.7% | 6.8% | 8.2% | 8.2% | 7.8% | 6.3% | 5.8% |
| Operating Expenses | 0.3% | 1.2% | 0.7% | 0.4% | 0.4% | 0.6% | 0.4% |
| Employee | 0.1% | 0.2% | 0.2% | 0.2% | 0.2% | 0.2% | 0.2% |
| Others | 0.2% | 1.0% | 0.4% | 0.2% | 0.2% | 0.4% | 0.2% |
| Operating Profits before provisions | 6.3% | 5.6% | 7.6% | 7.8% | 7.3% | 5.7% | 5.4% |
| Depreciation | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% |
| Total Provisions | 0.1% | 3.5% | 0.7% | 2.8% | 0.3% | 1.6% | 0.4% |
| PBT | 6.2% | 2.0% | 6.8% | 4.9% | 6.9% | 4.0% | 6.9% |
| Taxes | 2.1% | 0.9% | 2.3% | 1.8% | 1.9% | 1.4% | 1.9% |
| PAT (RoA) | 4.0% | 1.0% | 4.5% | 3.1% | 5.0% | 2.6% | 5.0% |
| Average Assets/ Average Equity | 4.37 | 4.37 | 3.68 | 3.68 | 3.23 | 4.37 | 3.23 |
| RoE | 17.6% | 4.5% | 16.4% | 11.4% | 16.2% | 11.5% | 16.1% |

Source: Company, Dimensional Securities



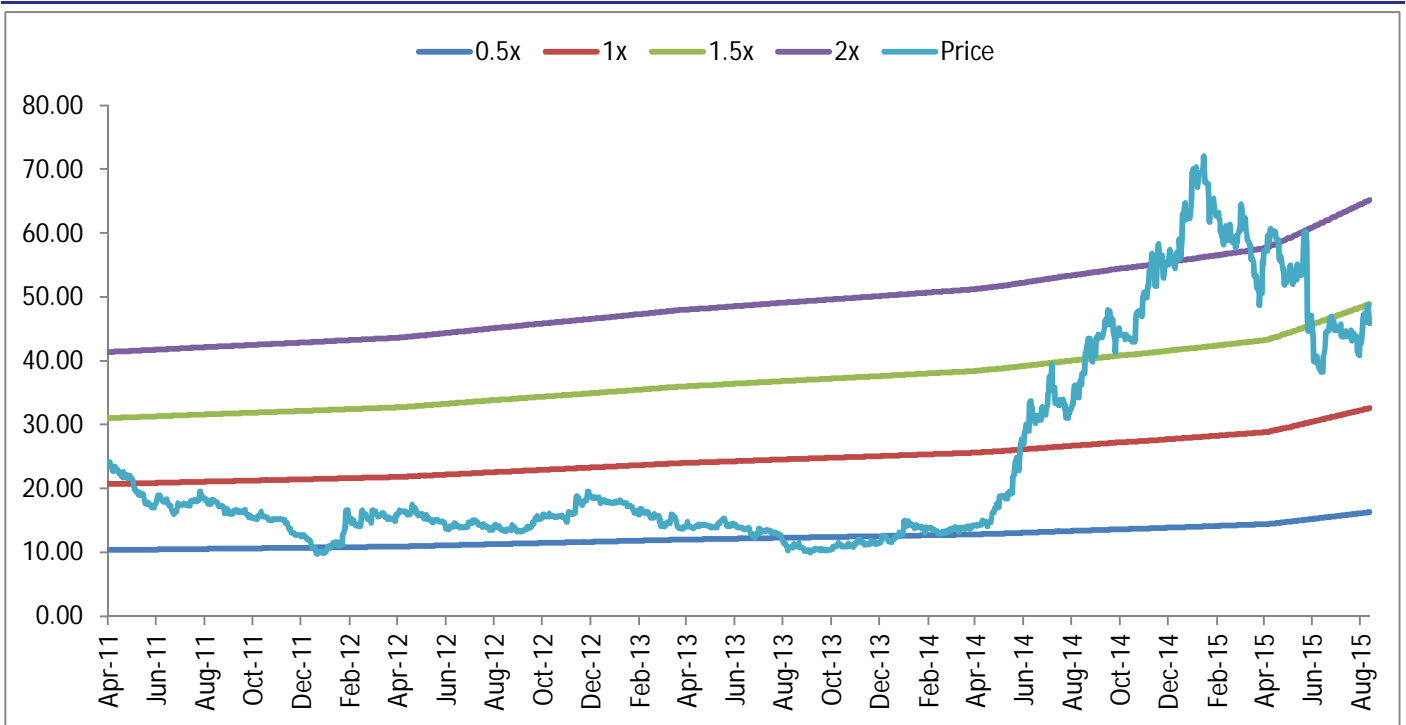
OUTLOOK & VALUATION: -

PFS reported overall strong performance with a) strong loan book growth led by renewables, b) improvement in NIMs (6.5%) and c) stable asset quality. With focus on renewable sector which has lesser asset quality issues, PFS can grow higher with stable asset quality.

We expect loan book to grow at 29% CAGR (FY15-17E) with RoA and RoE to improve towards 3.0% and 18.5% by FY17E.

At CMP PFS is trading at P/B multiple of 1.6x its FY16E BV of ₹29 and 1.4x its FY17E BV of ₹33. We recommend a BUY rating with a target of ₹60 by March 2016 and an upside potential of 30%. Our valuation is based on FY17E P/B multiple of 1.8, arrived at using justified P/B multiple method.

P/BV (Forward)



Source: Dimensional Securities



PROFIT & LOSS STATEMENT :

| Particulars ` Cr | FY14 | FY15 | FY16E | FY17E |
|-----------------------------|------|------|-------|-------|
| Interest Income | 420 | 742 | 948 | 1,190 |
| Interest Expenses | 208 | 401 | 532 | 688 |
| Net Interest Income (NII) | 212 | 341 | 416 | 501 |
| Other Operating income (OI) | 44 | 60 | 40 | 45 |
| Total Income (NII + OI) | 256 | 401 | 456 | 546 |
| Provisions | 17 | 39 | 37 | 48 |
| Other Operating Expenses | 24 | 101 | 30 | 33 |
| Total Expenses | 53 | 156 | 67 | 80 |
| Profit from Operation | 203 | 245 | 389 | 466 |
| Exceptional items | 82 | - | - | - |
| PBT | 285 | 245 | 389 | 466 |
| Tax | 77 | 84 | 134 | 161 |
| PAT | 208 | 161 | 254 | 305 |

*Pre-Provisioning Operating Profit

Source: Company, Dimensional Securities

BALANCE SHEET:

| Particulars ` Cr | FY14 | FY15 | FY16E | FY17E |
|-------------------------------|-------|-------|-------|--------|
| EQUITY AND LIABILITIES | | | | |
| Share Capital | 562 | 562 | 562 | 562 |
| Total Reserves | 787 | 875 | 1,055 | 1,271 |
| Shareholder's Funds | 1,349 | 1,437 | 1,617 | 1,833 |
| Long-Term Borrowings | 2,352 | 3,765 | 5,114 | 6,537 |
| Def. Tax Liabilities (net) | 25 | 8 | 8 | 8 |
| Long Term Provisions | 29 | 68 | 105 | 153 |
| Total Non-Current Liabilities | 2,406 | 3,841 | 5,228 | 6,698 |
| Current Liabilities | | | | |
| Other Current Liabilities | 172 | 241 | 350 | 448 |
| Short Term Borrowings | 1,417 | 1,160 | 1,541 | 1,970 |
| Short Term Provisions | 66 | 68 | 142 | 231 |
| Total Current Liabilities | 1,659 | 1,472 | 2,037 | 2,652 |
| Total Liabilities | 5,414 | 6,750 | 8,881 | 11,183 |
| ASSETS | | | | |
| Non-Current Assets | | | | |
| Fixed Assets | 25 | 22 | 15 | 10 |
| Non-current investments | 401 | 340 | 340 | 340 |
| Long term loans & advances | 4,531 | 5,485 | 7,374 | 9,232 |
| Other non-current assets | 39 | 35 | 35 | 35 |
| Total Non-Current Assets | 4,996 | 5,882 | 7,763 | 9,616 |
| Current Assets | | | | |
| Trade Receivables | 0 | 1 | 1 | 1 |
| Cash and Bank | 33 | 23 | 16 | 186 |
| Other Current Assets | 218 | 636 | 848 | 1,061 |
| Short Term Loans & Advances | 166 | 208 | 254 | 318 |
| Total Current Assets | 417 | 868 | 1,118 | 1,567 |
| Total Assets | 5,414 | 6,750 | 8,881 | 11,183 |

Source: Company, Dimensional Securities

RATIO ANALYSIS

| Particulars | FY14 | FY15 | FY16E | FY17E |
|---------------------------------|-------|-------|-------|-------|
| Operational Ratios (`) | | | | |
| EPS | 3.7 | 2.9 | 4.5 | 5.4 |
| Book Value | 24.0 | 25.6 | 28.8 | 32.6 |
| DPS | 1.0 | 1.0 | 1.1 | 1.4 |
| Spread Analysis | | | | |
| Yield on Loans | 11.6% | 13.1% | 12.8% | 12.5% |
| Cost of Borrowings | 7.8% | 9.2% | 8.9% | 8.6% |
| Interest Spread | 3.8% | 3.8% | 3.8% | 3.8% |
| NIM | 5.8% | 6.0% | 5.6% | 5.3% |
| Profitability Ratios | | | | |
| RoE | 11.2% | 12.6% | 16.6% | 17.7% |
| RoA | 3.5% | 2.9% | 3.3% | 3.0% |
| Productivity Ratios (x) | | | | |
| Total Assets/Equity | 3.2 | 4.4 | 5.1 | 5.8 |
| Debt / Equity | 2.8 | 3.4 | 4.3 | 4.9 |
| Valuation Ratios | | | | |
| P/E (x) | 3.8 | 19.3 | 10.8 | 9.0 |
| P/B (x) | 0.6 | 2.2 | 1.7 | 1.5 |
| Dividend Yield | 7% | 2% | 2% | 3% |

Source: Company, Dimensional Securities



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