



PTC India Financial Services Q1 FY17 Quarterly Update

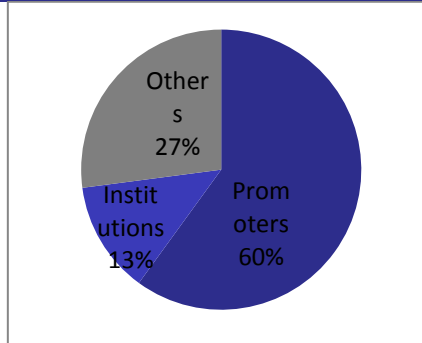
MARKET DATA

NSE TICKER	PFS
Net worth (₹ In crs) (FY18E)	2,210
P/BV Ratio (FY18E) (x)	0.9
EPS (FY18E) (₹)	6.6
Market Price (₹)	37
P/E Ratio (FY18E) (x)	5.6
52 Week High (21/10/2015) (₹)	52
52 Week Low (12/2/2016) (₹)	30
Market Capitalisation (₹ crs)	2,077

AVERAGE MONTHLY VOLUME ('000)

BSE	236
NSE	1,247

SHARE HOLDING PATTERN



RETURN

	3M	6M	12M
PFS	3%	15%	-18%
Sensex	11%	20%	2%

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In Q1 FY17 PTC India Financial Services (PFS) reported weak PAT growth of 10% y-o-y to ₹67crs despite 38% loan book growth leading to higher fee income. NIMs fell by 185bps y-o-y primarily due to reversal of interest income on NPAs.

Steady growth in loan book continues

Loan book grew by 38% y-o-y to ₹9,074crs led by 52% y-o-y growth in renewable loan which is the key focus area for PFS. Loan book exposure for Renewable, Thermal, Hydro, Others segments stood at 46%, 29%, 5%, and 21% respectively. Disbursements fell by 40% q-o-q (up 69% y-o-y) to ₹870crs due to higher prepayment of loans and increased competition. Management continues to focus on the renewable segment and has guided towards an overall loan book growth of ~30% until FY18.

Expect NIMs to fall going ahead

NIMs declined by 114bps q-o-q (185bps y-o-y) to 4.6% led by decline in spreads to 2.65% (122bps q-o-q and 193 bps y-o-y). This decline was primarily due to reversal of interest income of ~₹25crs related to NPAs. Yields are expected to moderate due to increasing share of renewable projects (~50bps lower than the thermal projects driven by lower execution risk) & rising competition. We expect NIMs to be ~4.6% in FY18E on account of increased focus on renewable projects, increasing competition and interest in interest cost led by higher leverage. Opex to loan book fell by 9bps q-o-q & 4bps y-o-y to 0.28%.

Asset quality deteriorated significantly

In Q1 FY17, with fresh slippages amounting to ₹235crs (3 accounts which were earlier identified as stressed assets have now been adequately provisioned for) GNPA% grew by 243bps q-o-q (459bps y-o-y) to 5.83%. We don't expect incremental provisioning for these assets as the same has been provisioned for. Thus annualized credit costs fell by 192bps q-o-q (2bps y-o-y), despite NNPA growing by 218bps q-o-q (356bps y-o-y).

Valuation

The opportunity to finance renewable energy projects remains huge, given the government's target of achieving 1,65,000 MW of renewable energy by 2022 implying a fourfold increase from ~43,000MW of installed capacity as of March 2016. PFS being an early mover, focused on this segment would have an advantage over competition. We expect ROA & ROE to be at 2.9% & 18% respectively for FY18E.

At CMP of ₹37, PFS is trading at P/B multiple of 1.1x its FY17E BV of ₹34 and 0.9x its FY18E BV of ₹39. We have valued the business at 1.2x FY17E BV which is the justified multiple. We thus revise our recommendation from BUY to HOLD with a target of ₹40 by March 2017.

Quarterly Performance:

Particulars ₹Cr	Q1 FY17	Q1 FY16	y-o-y	Q4 FY16	q-o-q	FY16	FY15	y-o-y
Net Interest Income	99	97	2%	115	-13%	414	341	22%
Other Income	19	9	119%	14	35%	59	60	-3%
Total Income	113	101	11%	123	-9%	450	385	17%
Operating Expenses	6	5	21%	8	-21%	26	35	-26%
PPOP*	106	96	11%	115	-8%	424	350	21%
Depreciation	1	1	-10%	1	-13%	4	4	1%
Total Provisions	2	1	83%	44	-95%	95	100	-5%
Extraordinary Income	-	-	NA	-	NA	207	-	NA
PBT	103	94	10%	71	46%	532	245	117%
Taxes	36	32	10%	22	66%	140	84	66%
PAT	67	61	10%	49	38%	391	161	143%
Adj. PAT	67	61	10%	49	38%	239	161	48%

*PPOP - Pre-Provisioning Operating Profits



QUARTERLY PERFORMANCE:

Particulars ₹ Cr	Jun-16	Jun-15	y-o-y	Mar-16	q-o-q	FY16	FY15	y-o-y
Interest Income	252	218	16%	256	-1%	921	742	24%
Interest Expenses	153	121	27%	141	8%	507	401	27%
Net Interest Income	99	97	2%	115	-13%	414	341	22%
Forex loss (on ECB borrowings)	6	5	21%	6	1%	23	16	40%
Other Income	19	9	119%	14	35%	59	60	-3%
Total Income	113	101	11%	123	-9%	450	385	17%
Operating Expenses	6	5	21%	8	-21%	26	35	-26%
Employee	3	2	32%	3	17%	10	10	1%
Others	3	3	12%	6	-38%	16	25	-37%
Operating Profits before provisions	106	96	11%	115	-8%	424	350	21%
Depreciation	1	1	-10%	1	-13%	4	4	1%
Exceptional Items	-	-	-	-	-	207	-	-
Total Provisions	2	1	83%	44	-95%	95	100	-5%
PBT	103	94	10%	71	46%	532	245	117%
Taxes	36	32	10%	22	66%	140	84	66%
PAT	67	61	10%	49	38%	391	161	143%
EPS	1.2	1.1	10%	0.9	38%	7.0	2.9	143%
Asset Quality								
GNPA ₹Cr	529	82	548%	294	80%	294	82	260%
NNPA ₹Cr	406	63	540%	200	102%	200	63	216%
GNPA %	5.8	1.24	459	3.4	243	3.4	1.3	212
NNPA %	4.5	1.0	356	2.4	218	2.4	1.0	135
Credit Cost %	0.10	0.07	2	2.02	-192	1.10	1.57	-47
Ratios %								
Cost to Income ratio	5.66	5.22	44	6.53	-87	5.76	9.13	-337
Tax Rate	34.63	34.61	2	30.49	414	26.40	34.42	-802
RoA %	2.88	3.52	-64	2.24	64	4.43	2.38	205
RoE %	15.24	16.78	-154	11.22	402	24.6	11.55	1305
CAR (Basel III) %	21	23.34	-234	21.82	-82	21.82	23.71	-189
Opex to Loan book	0.28	0.32	-4	0.37	-9	0.30	0.55	-25
Margins %								
Yield on Advances	11.69	13.88	-219	12.82	-113	13.07	13.71	-64
Cost of Deposits	9.04	9.3	-26	8.95	9	9.05	9.38	-33
NIMs	4.62	6.47	-185	5.76	-114	5.98	6.3	-32
Balance Sheet								
Adjusted Net worth	1,337	1,374	-3%	1,542	4%	1,542	1,374	12%
Adj. BV	24	24	-3%	27	4%	27	24	12%
Capital	562	562	0%	562	0%	562	562	0%
Net Worth	1,743	1,437	21%	1,743	0%	1,743	1,437	21%
FV	10	10		10		10	10	
Loans Disbursed	870	515	69%	1,450	-40%	1,450	2,493	-42%
Loans Sanctioned	1,496	954	57%	2,131	-30%	2,131	4,112	-48%
Loans Outstanding	9,074	6,582	38%	8,634	5%	8,634	6,379	35%

Source: Company, Dimensional Securities

*Adj. Net worth is adjusted for NNPA



RoA Tree Analysis:

Particulars	Jun-16	Mar-16	Dec-15	Sep-15	Jun-15	FY16	FY15
Interest Income	13.0%	13.2%	13.6%	12.7%	14.3%	11.8%	12.2%
Interest Expenses	7.9%	7.3%	7.3%	7.1%	7.9%	6.5%	6.6%
Net Interest Income	5.1%	5.9%	6.3%	5.6%	6.4%	5.3%	5.6%
Forex loss (on ECB borrowings)	0.3%	0.3%	0.3%	0.4%	0.3%	0.3%	0.3%
Other Income	1.0%	0.7%	0.9%	1.3%	0.6%	0.8%	1.0%
Total Income	5.8%	6.3%	6.8%	6.4%	6.7%	5.8%	6.3%
Operating Expenses	0.3%	0.4%	0.4%	0.3%	0.3%	0.3%	0.6%
Employee	0.2%	0.1%	0.2%	0.1%	0.1%	0.1%	0.2%
Others	0.2%	0.3%	0.2%	0.2%	0.2%	0.2%	0.4%
Operating Profits before provisions	5.5%	5.9%	6.4%	6.1%	6.3%	5.4%	5.7%
Depreciation	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Total Provisions	0.1%	2.2%	0.2%	0.4%	0.1%	1.2%	1.6%
PBT	5.3%	3.6%	6.1%	17.9%	6.2%	6.8%	4.0%
Taxes	1.8%	1.1%	2.1%	3.0%	2.1%	1.8%	1.4%
PAT (RoA)	3.5%	2.5%	4.0%	12.5%	4.0%	5.0%	2.6%
Average Assets/ Average Equity	4.90	4.90	4.40	4.30	4.37	4.90	4.37
RoE	17.0%	12.3%	17.8%	53.9%	17.6%	24.6%	11.5%

Source: Company, Dimensional Securities

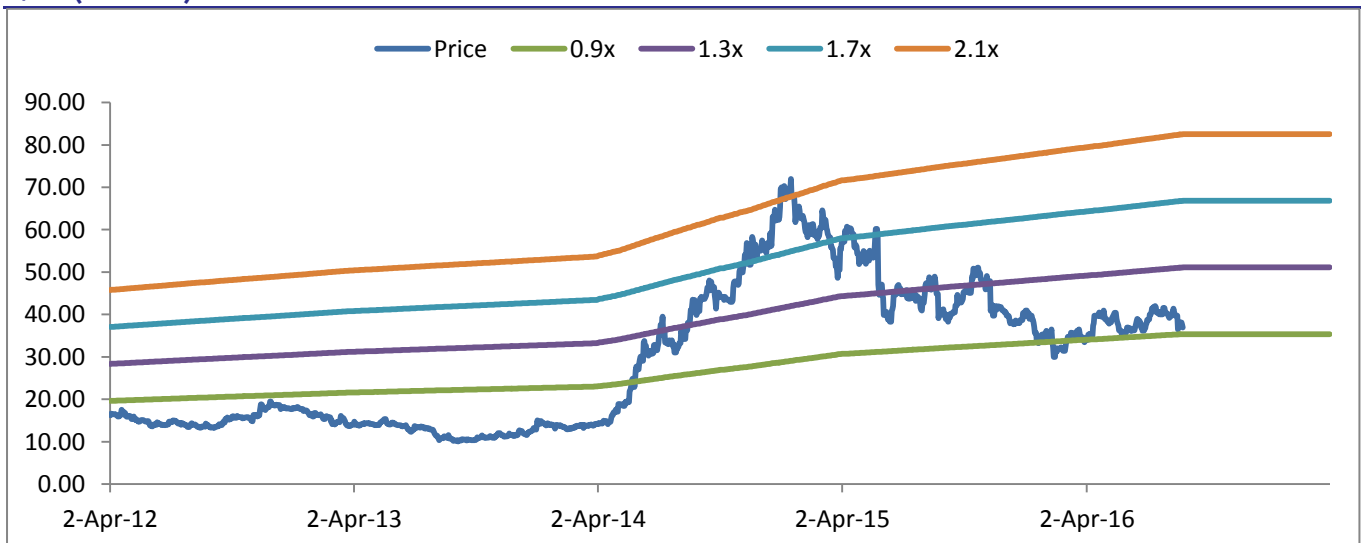
OUTLOOK & VALUATION: -

The opportunity to finance renewable energy projects remains huge, given the government’s target of achieving 1,65,000 MW of renewable energy by 2022 implying a fourfold increase from ~43,000MW of installed capacity as of March 2016. PFS being an early mover, focused on this segment would have an advantage over competition.

We expect ROA & ROE to be at 2.9% & 18% respectively for FY18E. However, refinancing of commissioned projects at lower yields continues to remain a major risk going ahead.

At CMP of ₹37, PFS is trading at P/B multiple of 1.1x its FY17E BV of ₹34 and 0.9x its FY18E BV of ₹39. We have valued the business at 1.2x FY17E BV which is the justified multiple. We thus revise our recommendation from BUY to HOLD with a target of ₹40 by March 2017.

P/BV (Forward)



Source: Dimensional Securities

**PROFIT & LOSS STATEMENT:**

Particulars ₹Cr	FY14	FY15	FY16	FY17E	FY18E
Interest Income	420	742	921	1,189	1,513
Interest Expenses	208	401	507	731	943
Net Interest Income (NII)	212	341	414	458	570
Other Operating income (OI)	44	60	59	83	106
Total Income (NII + OI)	256	401	473	541	677
Provisions	22	25	30	32	37
Other Operating Expenses	13	16	23	20	20
Loss on Foreign currency	221	359	420	489	620
Total Expenses	19	114	95	109	53
Profit from Operation	202	245	325	379	566
Exceptional items	82	-	207	-	-
PBT	284	245	531	379	566
Tax	77	84	140	131	196
PAT	207	161	391	248	370
Adj. PAT	147	161	239	248	370

Source: Company, Dimensional Securities

RATIO ANALYSIS

Particulars	FY14	FY15	FY16	FY17E	FY18E
Operational Ratios (₹)					
EPS	3.7	2.9	7.0	4.4	6.6
Book Value	24	26	31	34	39
DPS	1.0	1.0	1.0	1.1	1.2
Spread Analysis					
Yield on Loans	11.6%	13.1%	12.3%	12.0%	11.7%
Cost of Borrowings	7.8%	9.2%	9.1%	8.8%	8.6%
Interest Spread	3.8%	3.8%	3.2%	3.1%	3.1%
NIM	5.8%	6.0%	5.5%	4.9%	4.6%
Asset Quality					
GNPA%	0.1%	1.4%	3.9%	5.7%	5.0%
NNPA%	0.1%	1.1%	2.3%	3.3%	2.8%
Profitability Ratios					
Adj. RoE	11.4%	11.5%	15.0%	13.6%	17.9%
Adj. RoA	3.5%	2.6%	3.1%	2.5%	2.9%
Productivity Ratios (x)					
Total Assets/Equity	3.2	4.4	4.9	5.5	6.3
Debt / Equity	2.8	3.4	3.6	4.3	4.9
Valuation Ratios					
P/E (x)	3.9	19.3	4.9	8.4	5.6
P/B (x)	0.6	2.2	1.1	1.1	0.9
Dividend Yield	0.6	2.1	1.1	1.1	0.9

Source: Company, Dimensional Securities

**BALANCE SHEET**

Particulars ₹Cr	FY14	FY15	FY16	FY17E	FY18E
Capital	562	562	562	562	562
Reserves and Surplus	787	875	1,180	1,356	1,648
Net worth	1,349	1,437	1,743	1,918	2,210
Borrowed Funds	3,770	4,925	6,251	8,283	10,934
Deferred tax liabilities/assets	25	8	(4)	(4)	(4)
Current Liabilities and Provisions	270	380	829	1,088	1,415
Total Liabilities	5,414	6,750	8,818	11,285	14,553
Loans	4,697	5,694	8,043	10,609	13,791
Investments	401	340	235	247	259
Cash & Bank Balances	33	23	25	41	88
Other Current Assets	218	637	468	340	365
Fixed Assets	25	22	18	19	20
Other non-current assets	39	35	29	30	31
Total Assets	5,414	6,750	8,818	11,285	14,553

Source: Company, Dimensional Securities



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