



## PTC India Financial Services Q3 FY16 Quarterly Update

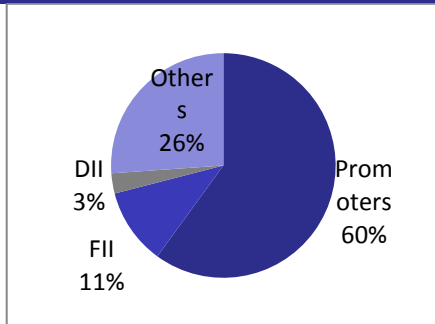
### MARKET DATA

NSE TICKER	PFS
Networth (Rs. In crs) (FY16E)	1,769
P/BV Ratio (FY16E) (x)	1.4
EPS (FY16E) (₹)	7.1
Market Price (₹)	30
P/E Ratio (FY16E) (x)	4.3
52 Week High (4/3/2015) (Rs.)	67
52 Week Low (12/2/2016) (Rs.)	30
Market Capitalisation (Rs. crs)	1,686

### AVERAGE MONTHLY VOLUME ('000)

BSE	206.2
NSE	1119.7

### SHARE HOLDING PATTERN



RETURN	3M	6M	12M
PFS	-29%	-35%	-50%
Sensex	-11%	-16%	-20%

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In Q3 FY16, Net interest income grew by 15% q-o-q (20% y-o-y). Loan book grew by 8% q-o-q (33% y-o-y) and NIMs increased by 54bps q-o-q (down 17bps y-o-y). Overall, adj. PAT de-grew by 8% q-o-q (up 96% y-o-y) mainly due to higher tax rate of 34% from 19% in Q2 FY16.

#### Steady growth in loan book continues

Loan book grew by 8% q-o-q (33% y-o-y) to Rs. 7,795crs led by 18% q-o-q (56% y-o-y) growth in renewable book which is the key focus area for PFS. Share of renewables increased to ~45% from ~41% sequentially (36% y-o-y). Also, thermal power book (31% of loan book) grew by ~10% q-o-q (~36% y-o-y), hydro book (~5% of loan book) de-grew by ~30% q-o-q (10% y-o-y) and others (~19% of loan book) remained flat at 0.2% q-o-q (4% y-o-y). Disbursements grew by 32% q-o-q (37% y-o-y) to Rs. 905crs. We expect growth rate to moderate at a CAGR of 26% to Rs.10,159crs over FY15-FY17E when compared to previous fiscals due to increasing competition from banking peers and IFC.

#### Expect NIMs to fall going ahead

In Q3FY16, NIMs improved by 54bps q-o-q (down 17bps y-o-y) to 6.12% as spreads improved to 4.1% from 3.6% in Q2 FY16 and 4.3% in Q3 FY15. Yields on advances would be under pressure in the near term due to increasing contribution of renewable projects in the loan book (currently 45%) which have lower yields (~60bps lower than the thermal projects). In the past, PFS had the benefit of raising funds through low cost tax free bonds and ECBs. However, to aid faster credit growth, bank borrowing as a % of borrowing mix is expected to increase (currently ~57%), which will put pressure on spreads going forward. We expect NIMs to fall at ~5.5-5.1% in FY16E & FY17E respectively. Opex to loan book has remained flattish at 0.34% (2bps q-o-q & down 20bps y-o-y).

#### Asset quality remains stable

Historically, the company had negligible GNPA's until Q2 FY16 where two accounts had to be provisioned for. We view this as a one off & do not expect any large slippages going forward. In Q3FY16, GNPA & NNPA in absolute terms remained flat at Rs. 294crs and Rs. 216crs respectively. In % terms, GNPA & NNPA declined to 3.8% & 2.8% (4.9% & 3.0% q-o-q) respectively. Annualised credit cost fell by 243bps q-o-q (42bps y-o-y), as provisions fell by 93% q-o-q (61% y-o-y). We expect asset quality to improve going forward as the portfolio is gradually shifting towards renewable sector which has lower asset quality risks due to faster execution, lower gestation period, no fuel risk and government support.

#### Valuation

With large growth opportunities in renewable energy project financing, we expect ROA & ROE to be at 2.9% & 15.4% respectively for FY17E.

At CMP PFS is trading at P/B multiple of 1.0x its FY16E BV of Rs. 31 and 0.9x its FY17E BV of Rs. 35. We recommend a BUY rating with a target of Rs. 46 by March 2017. We have valued the business at FY19 BV (justified P/BV multiple of 1.4x and discounting it back to FY17E). We have lowered our assigned multiple in the investment activity due to increase in country premium.

### Quarterly Performance:

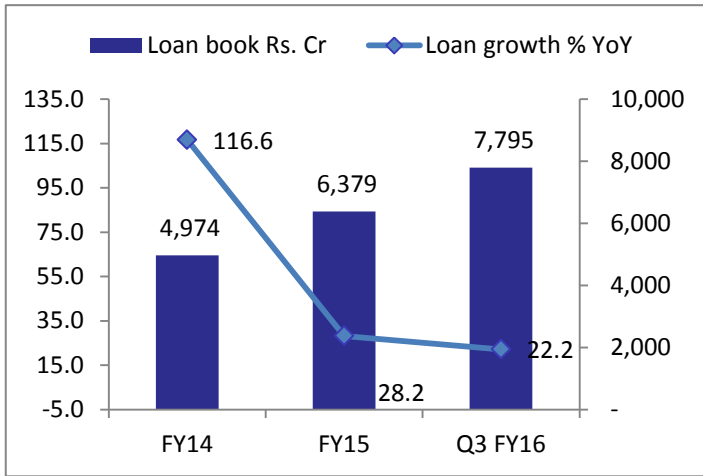
Particulars ₹Cr	Q3 FY16	Q3 FY15	y-o-y	Q2 FY16	q-o-q	FY15	FY14	y-o-y
Interest Income	233	195	19%	214	9%	742	420	77%
Interest Expenses	126	106	19%	120	5%	401	208	92%
Net Interest Income	108	90	20%	94	15%	341	212	61%
Other Income	15	17	-12%	21	-31%	60	44	37%
Total Income	117	101	16%	108	8%	385	243	58%
Operating Expenses	7	8	-16%	6	15%	35	17	103%
PPOP*	110	93	19%	103	7%	350	226	55%
Depreciation	1	1	5%	1	1%	4	4	1
Total Provisions	3	9	-61%	47	-93%	100	19	919%
Extraordinary Income	-	-	NA	207	NA	-	82	NA
PBT	106	83	28%	261	-60%	245	285	-14%
Taxes	36	28	29%	50	-28%	84	77	9%
PAT	69	55	27%	211	-67%	161	208	-23%
Adj. PAT	69	55	96%	75	-8%	161	153	11%

\*PPOP - Pre-Provisioning Operating profits



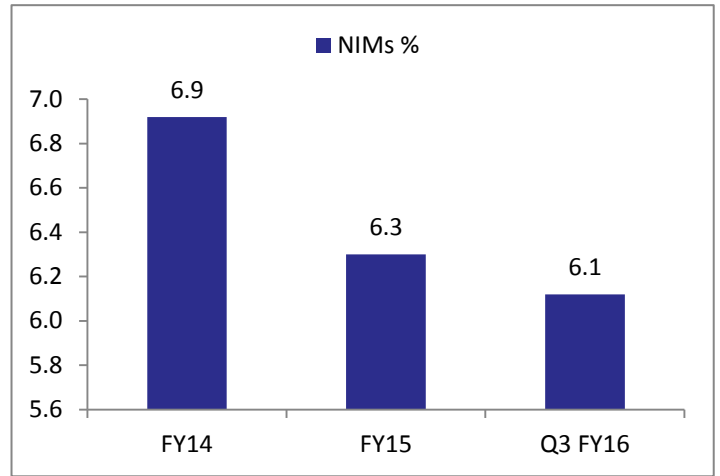
### Graphs for important parameters

#### Steady growth in Loan book continues



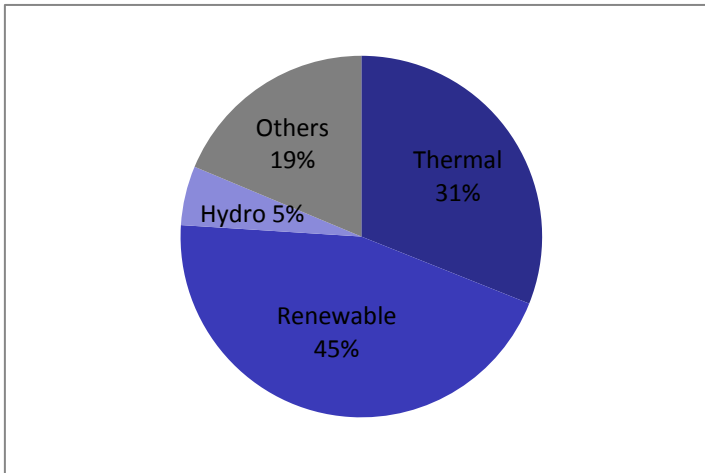
Source: Company

#### Improvement in NIMs



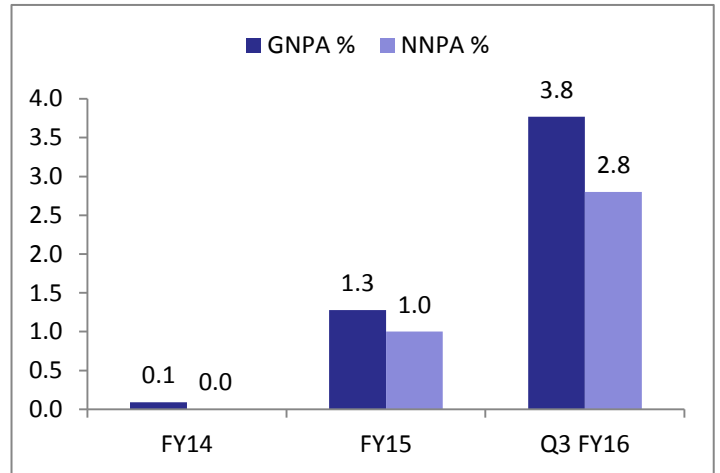
Source: Company

#### Portfolio mix for Q3 FY16



Source: Company

#### Stable Asset Quality



Source: Company



**QUARTERLY PERFORMANCE:**

Particulars ₹ Cr	Dec-15	Dec-14	y-o-y	Sept-15	q-o-q	FY15	FY14	y-o-y
Interest Income	233	195	19%	214	9%	742	420	77%
Interest Expenses	126	106	19%	120	5%	401	208	92%
Net Interest Income	108	90	20%	94	15%	341	212	61%
Forex loss (on ECB borrowings)	6	6	1%	7	-20%	16	13	29%
Other Income	15	17	-12%	21	-31%	60	44	37%
Total Income	117	101	16%	108	8%	385	243	58%
Operating Expenses	7	8	-16%	6	15%	35	17	103%
Employee	3	3	-7%	2	14%	10	7	36%
Others	4	5	-22%	3	16%	25	10	153%
Operating Profits before provisions	110	93	19%	103	7%	350	226	55%
Depreciation	1	1	5%	1	1%	4	4	-1%
Exceptional Items	-	-	N/A	207	N/A	-	82	N/A
Total Provisions	3	9	-61%	47	-93%	100	19	435%
PBT	106	83	28%	261	-60%	245	285	-14%
Taxes	36	28	29%	50	-28%	84	77	9%
PAT	69	55	27%	211	-67%	161	208	-23%
Adj. PAT	69	55	27%	75	-8%	161	178	-10%
EPS	1.2	1.0	27%	3.8	-67%	2.9	3.7	-23%
Adj. EPS	1.2	1.0	27%	1.33	-9.8%	2.9	3.2	-9%
Asset Quality								
GNPA Rs. Cr	294	4	6753%	294	0%	82	4	1804%
NNPA Rs. Cr	216	-	-	216	0%	63	-	NA
GNPA %	3.77	0.07	370	4.07	-30	1.28	0.09	119
NNPA %	2.8	0.0	280	3.0	-23	1.0	0.0	100
Credit Cost %	0.17	0.59	-42	2.61	-243	1.57	0.38	119
Ratios %								
Cost to Income ratio	5.75	7.96	-221	5.39	36	9.13	7.12	201
Tax Rate	34.29	33.89	41	19.17	1512	34.42	27.09	733
RoA %	3.44	3.4	4	11.24	-780	2.38	3.84	-146
RoE %	15.87	14.91	96	52.44	-3657	11.55	16.13	-458
CAR (Basel III) %	23.58	25.94	-236	25.16	-158	23.71	25.23	-152
Opex to Loan book	0.34	0.54	-20	0.32	2	0.55	0.35	20
Margins %								
Yield on Advances	12.96	13.69	-73	12.62	34	13.71	13.64	7
Cost of Deposits	8.84	9.39	-55	9.05	-21	9.38	9.07	31
NIMs	6.12	6.29	-17	5.58	54	6.3	6.92	-62
Balance Sheet								
Adjusted Net worth*	1,484	1,433	4%	1,484	0%	1,374	1,349	2%
Adj. BV*	26	25	4%	26	0%	24	24	2%
Capital	562	562	0%	562	0%	562	562	0%
Net Worth	1,700	1,433	19%	1,700	0%	1,437	1,349	7%
FV	10	10		10		10	10	
Loan Disbursement	905	661	37%	684	32%	2,493	3,071	-19%
Loan Sanctioned	1,522	2,354	-35%	1,901	-20%	4,112	2,520	63%
Loan Outstanding	7,795	5,883	33%	7,225	8%	6,379	4,974	28%

Source: Company, Dimensional Securities

\*Adj. Net worth is adjusted for NNPA



## RoA Tree Analysis:

Particulars	Dec-15	Sep-15	Jun-15	Mar-15	Dec-14	FY15	FY14
Interest Income	13.6%	12.7%	14.3%	13.2%	15.9%	12.2%	10.1%
Interest Expenses	7.3%	7.1%	7.9%	7.3%	8.6%	6.6%	5.0%
Net Interest Income	6.3%	5.6%	6.4%	5.9%	7.3%	5.6%	5.1%
Forex loss (on ECB borrowings)	0.3%	0.4%	0.3%	0.2%	0.5%	0.3%	0.3%
Other Income	0.9%	1.3%	0.6%	1.1%	1.4%	1.0%	1.1%
Total Income	6.8%	6.4%	6.7%	6.8%	8.2%	6.3%	5.8%
Operating Expenses	0.4%	0.3%	0.3%	1.2%	0.7%	0.6%	0.4%
Employee	0.2%	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%
Others	0.2%	0.2%	0.2%	1.0%	0.4%	0.4%	0.2%
Operating Profits before provisions	6.4%	6.1%	6.3%	5.6%	7.6%	5.7%	5.4%
Depreciation	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Total Provisions	0.2%	0.4%	0.1%	3.5%	0.7%	1.6%	0.4%
PBT	6.1%	17.9%	6.2%	2.0%	6.8%	4.0%	6.9%
Taxes	2.1%	3.0%	2.1%	0.9%	2.3%	1.4%	1.9%
PAT (RoA)	4.0%	12.5%	4.0%	1.0%	4.5%	2.6%	5.0%
Adj. PAT (RoA)	4.40	4.4%	4.0%	1.0%	4.5%	2.6%	4.3%
Average Assets/ Average Equity	17.7%	4.30	4.37	4.37	3.68	4.37	3.23
RoE	13.6%	53.9%	17.6%	4.5%	16.4%	11.5%	16.1%
Adj. RoE	7.3%	19.1%	17.6%	4.5%	16.4%	11.5%	13.8%

Source: Company, Dimensional Securities

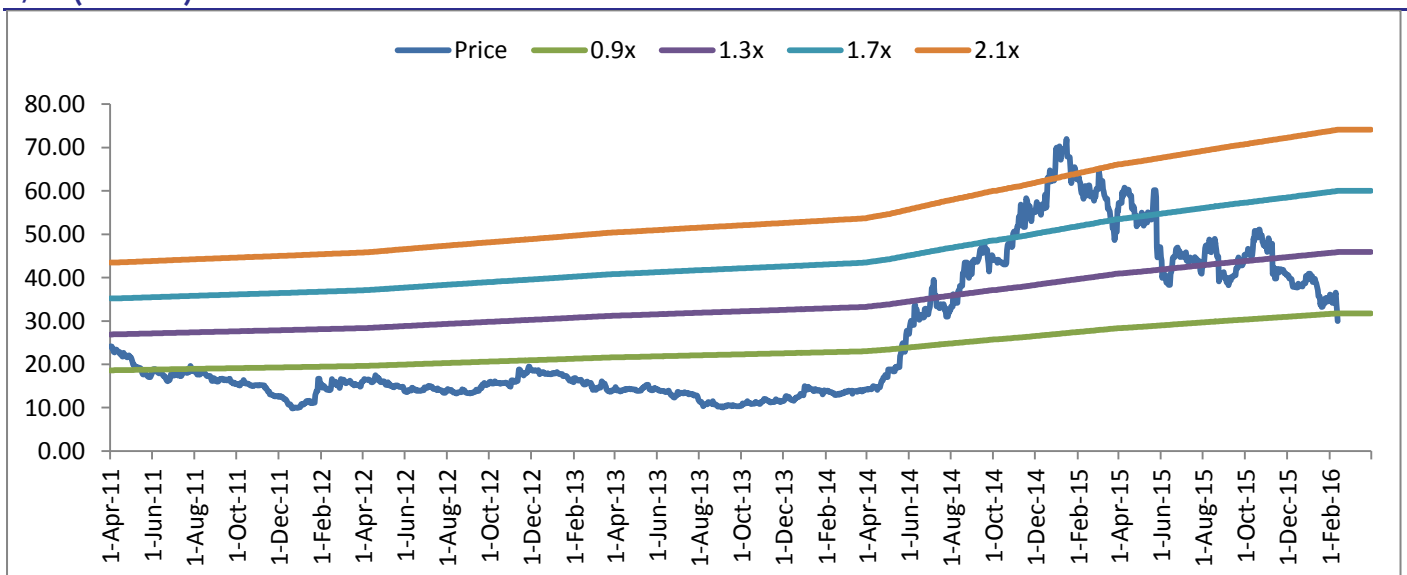
## OUTLOOK & VALUATION: -

PFS reported robust performance with a) strong loan book growth led by renewables segment, b) improvement in NIMs and c) improved asset quality. With focus on renewable sector which has low asset quality issues, PFS can grow with stable asset quality.

With large growth opportunities in renewable energy project financing, we expect ROA & ROE to be at 2.9% & 15.4% respectively for FY17E. The key risk is refinancing risk for commissioned projects at lower rates.

At CMP PFS is trading at P/B multiple of 1.0x its FY16E BV of Rs. 31 and 0.9x its FY17E BV of Rs. 35. We recommend a BUY rating with a target of Rs. 46 by March 2017. We have valued the business at FY19 BV (justified P/BV multiple of 1.4x and discounting it back to FY17E). We have lowered our assigned multiple in the investment activity due to increase in country premium.

### P/BV (Forward)



Source: Dimensional Securities

**PROFIT & LOSS STATEMENT:**

Particulars (Rs. in crs)	FY14	FY15	FY16E	FY17E	FY18E
Interest Income	420	742	909	1,112	1,338
Interest Expenses	208	401	506	638	768
Net Interest Income (NII)	212	341	403	474	571
Other Operating income (OI)	44	60	59	66	79
Total Income (NII + OI)	256	401	461	540	649
Provisions	17	39	56	49	51
Other Operating Expenses	24	101	29	32	38
Loss on Foreign currency	13	16	22	22	22
Total Expenses	53	156	107	104	111
Profit from Operation	203	245	354	437	539
Exceptional items	82	-	207	-	-
PBT	285	245	561	437	539
Tax	77	84	160	151	186
PAT	208	161	402	286	352
Adj. PAT	153	161	250	286	352

Source: Company, Dimensional Securities

**RATIO ANALYSIS**

Particulars	FY14	FY15	FY16E	FY17E	FY18E
<b>Operational Ratios (₹)</b>					
EPS	3.7	2.9	7.1	5.1	6.3
Book Value	24.0	25.6	31.6	35.5	40.4
DPS	1.0	1.0	1.0	1.0	1.1
<b>Spread Analysis</b>					
Yield on Loans	11.6%	13.1%	12.5%	12.3%	12.2%
Cost of Borrowings	7.8%	9.2%	8.9%	8.8%	8.7%
Interest Spread	3.8%	3.8%	3.6%	3.5%	3.5%
NIM	5.8%	6.0%	5.5%	5.2%	5.2%
<b>Asset Quality</b>					
GNPA%	0.1%	1.3%	3.6%	2.2%	2.3%
NNPA%	0.1%	1.0%	2.7%	1.0%	0.8%
<b>Profitability Ratios</b>					
Adj. RoE	11.2%	12.6%	25.0%	15.2%	16.5%
Adj. RoA	3.5%	2.9%	3.2%	3.0%	3.1%
<b>Productivity Ratios (x)</b>					
Total Assets/Equity	3.2	4.4	4.8	5.0	5.4
Debt / Equity	2.8	3.4	3.7	4.0	4.3
<b>Valuation Ratios</b>					
P/E (x)	3.8	19.3	4.3	6.0	4.9
P/B (x)	0.6	2.2	1.0	0.9	0.8
Dividend Yield	0.6	2.1	1.0	0.9	0.7

Source: Company, Dimensional Securities

**BALANCE SHEET:**

Particulars (Rs. in crs)	FY14	FY15	FY16E	FY17E	FY18E
<b>EQUITY AND LIABILITIES</b>					
Share Capital	562	562	562	562	562
Total Reserves	787	875	1,211	1,431	1,711
Shareholder's Funds	1,349	1,437	1,773	1,993	2,273
Long-Term Borrowings	2,352	3,765	4,879	5,888	7,066
Def. Tax Liabilities (net)	25	8	8	8	8
Long Term Provisions	29	68	125	174	225
Total Non-Current Liabilities	2,406	3,841	5,011	6,070	7,299
<b>Current Liabilities</b>					
Other Current Liabilities	172	241	325	403	484
Short Term Borrowings	1,417	1,160	1,301	1,775	2,129
Short Term Provisions	66	68	133	199	271
Total Current Liabilities	1,659	1,472	1,763	2,380	2,888
Total Liabilities	5,414	6,750	8,547	10,444	12,460
<b>ASSETS</b>					
<b>Non-Current Assets</b>					
Fixed Assets	25	22	20	21	20
Non-current investments	401	340	235	250	250
Long term loans & advances	4,531	5,485	6,788	8,338	10,235
Other non-current assets	39	35	35	35	35
Total Non-Current Assets	4,996	5,882	7,078	8,644	10,540
<b>Current Assets</b>					
Trade Receivables	0	1	8	8	8
Cash and Bank	33	23	71	204	106
Other Current Assets	218	636	1,145	1,290	1,445
Short Term Loans & Advances	166	208	245	298	361
Total Current Assets	417	868	1,469	1,800	1,920
Total Assets	5,414	6,750	8,547	10,444	12,460

Source: Company, Dimensional Securities



## ANALYST CERTIFICATION

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