



Recommendation : Subscribe

Sector – NBFC

Bidding Details

Price Band – Rs 26 - Rs 28
Face value – Rs 10
Bid Size – 250 and in multiple thereof
Issue Opens – Mar. 16, 2011
Issue Closes – Mar. 18, 2011

Retail Applications Details

No. of Shares – 7000 shares or 28 lots
Application Money – Rs 1, 96,000
(At the higher side of the band)

Issue Size –Rs 407.42 Cr – Rs 438.76 Cr

Issue Allocation

Category	% of Issue	Shares
Fresh issue		127500000
Offer for sale		29200000
Net Issue to Public	100%	156700000
QIB's	50%	78350000
Non Institutional	15%	23505000
Retail	35%	54845000

Shareholding Pattern (%)

	Pre-Issue	Post-Issue
Promoters	100%	77.32%
Public	-	22.68%

Shares Outstanding (Cr.)

Pre-Issue	Post-Issue
434,583,335	562,083,335

Issue Type - 100% Book Built Issue

Grade – Crisil Rating 3/5 denoting Average Fundamentals

Book Running Lead Managers

SBI Capital Markets Ltd
JM Financial Consultants Pvt. Ltd
ICICI Securities Ltd
Almondz Global Securities Ltd
Aventus Capital Pvt. Ltd

Registrar- Karvy Computershare Pvt. Ltd

Listing – BSE, NSE

IPO of PTC India Financial services Ltd. provides an opportunity to invest in high potential power sector of India. The company is a subsidiary of and is promoted by PTC, market leader for power trading solutions in India. The company has a unique business model under which it provide financial products and services to projects across all areas of the energy value chain. The company enjoys various advantages of being NBFC and IFC, that helps it to have more flexibility in raising and disbursing funds compared to banks. The company is expected to capitalize upon its inherited domain knowledge which brings expertise in identifying investment opportunities in power sector. The company has shown exponential growth both in terms of asset size as well as profits since its inception. At the higher end of price band, the issue is available at 23.9x the annualize earnings of 6M ended September 2010. We advice investors with long term horizon to subscribe the issue for handsome appreciation.

Investment Rationale

Unique Business Model

The company is a one stop solution provider offering a comprehensive range of financial products and services that add value throughout the life cycle of projects across all areas of the energy value chain. The company is one of the few financial institutions in India that provide both equity and debt financing including short-term and long-term debt as well as structured debt financing, for power projects in India. The company provides fee-based services including syndication services and advisory services such as techno-economic feasibility studies for power projects in India.

Brand Synergies & Goodwill gives access to Business Opportunities

The company is a subsidiary of and is promoted by PTC, which is the market leader for power trading solutions in India and provides comprehensive solutions for the power sector. The company with its affiliates provides comprehensive solutions in the energy value chain including services such as power trading, co development, fuel-intermediation, consulting and is in the process of setting up an energy equity fund. The synergies among the group entities help them to have an early access to potential business opportunities, ability to understand and efficiently cater to the needs of the developers.

NBFC & IFC status

NBFC and IFC status brought greater flexibility in comparison to its competitors particularly banks and enable them to efficiently capitalize upon financing opportunities that arise. The company in comparison to banks can provide wider range of debt financing that is subject to fewer restrictions. As an IFC the company is entitled to lend up to 25% of its owned funds to a single borrower in the infrastructure sector, compared to 20% of owned funds by other NBFCs that have not been granted IFC status. Furthermore IFC status empowers the company to raise capital through issuance of infrastructure bonds at comparatively lower yields which ultimately reduces cost of funds.

Inherited domain knowledge brings expertise in identifying investment opportunities

The company has an inherited power sector knowledge and experience which helps in identifying investment opportunities. The company has an exclusive focus on power sector which act as a competency in the form of better understanding of specific requirement of power developers and build strong relationships and chosen as a preferred financing provider for power projects. In addition the company gets benefitted from sound industry knowledge.

Business Analysis

Focused on entire energy value chain

The company is a one stop solution provider offering a comprehensive range of financial products and services that add value throughout the life cycle of projects across all areas of the energy value chain. This has enabled the company to establish itself as a preferred financing provider for power projects. The company has financed or approved financing arrangements for various projects, including power generation, equipment supply and fuel source projects. It has also invested in India's first nationwide automated and online electricity trading platform. It is one of the few financial institutions in India that provide both equity and debt financing, including short-term and long-term debt as well as structured debt financing, for power projects in India. It also provides fee-based services including syndication services and advisory services such as techno-economic feasibility studies for power projects in India. In addition, in March 2010 it commenced carbon credit financing against CERs.

Strategic Investments and Debt financing

Principal Investments: The company makes strategic equity investments in companies in the energy value chain in India, both in greenfield and brownfield projects. All of principal investments have been in private unlisted companies. Current portfolio of principal investments is mostly greenfield projects, which typically involve between two and five years of development activity prior to commencement of commercial operations.

Debt Finance: The company also provides fund based and non-fund based debt financing, including short-term and long-term debt, as well as structured debt financing. In addition to financing project companies, the company also provides bridge financing to promoters of power projects.

(Rs Million)	Current Status	Approved Proposals	Sanctioned Proposals
Principal Investments	4186.23	5641.66	4827.67
Debt Finance	5951.15	22567.30	11198.72

Advantages of being IFC status

The company has been recently classified by the RBI as one of the few Infrastructure Finance Companies (IFCs) in India, which improves its ability to raise funds on a cost-competitive basis and take higher debt exposure in power projects. The IFC status enables the company to avail External Commercial Borrowings (ECBs) up to 50% of its Owned Funds without prior RBI approval.

In this connection, the company has already entered into a financing arrangement with a German company DEG for an external commercial borrowing of an aggregate amount of US\$ 26.00 million (Rs. 1165.06 million) for the financing of renewable energy projects. It has also entered into a letter agreement with International Finance Corporation for a proposed loan of US\$ 50.00 million (Rs. 2240.5 million) to support and expand lending program to renewable energy projects.

The company also has option for issuance of infrastructure bonds at comparatively lower yields, as holders of such bonds are entitled to certain tax benefits

Excellent Growth

The company has shown excellent growth in recent years resulting in a robust balance sheet that is expected to provide a foundation for future growth.

Particulars (Rs Million)	FY 08	FY 09	FY 10	CAGR
Total Assets	1128.33	6305.46	9590.37	191.54%
Total Income	31.38	116	534.9	312.86%
Profit after Tax	16.41	85.3	254.32	293.86%

Capitalizing upon the existing brand name of parent company

The company is a subsidiary of and is promoted by PTC, which is the market leader for power trading solutions in India and provides comprehensive solutions for the power sector. As the PTC is an established brand name in the Indian power sector, therefore the company is expected to draw further benefit from the associated goodwill. The company's power sector knowledge and experience enables it to identify investment opportunities with high potential and effectively manage risks associated with such opportunities. Its exclusive focus on the power sector has enabled it to develop strong relationships and become a preferred financing provider for power projects, particularly for smaller and medium sized projects, compared to competitors that are not similarly focused on the power sector. The management team has significant experience in the power sector and the financial services industry, which enables it to identify specific requirements of power project developers and offer structured products and services while effectively managing associated risks and maintaining competitive margins.

Company's growth directly linked to power sector growth in India

The company's financial results are significantly affected by general economic conditions prevailing in India and in particular by developments in the power sector, including increases in the demand for power and expectations for power-related projects and increased investments in integrated power projects in India. A total capacity addition of 78,700 MW is planned for the 11th Five-Year Plan which should result in significant investments in the power generation sector. According to the White Paper on Strategy for Eleventh Plan, prepared by the Central Electricity Authority and Confederation of Indian Industry, August 2007, the total fund requirement has been assessed to Rs. 10.32 trillion. The company will be a prime beneficiary from the increased growth of, and investment into, the Indian power sector.

Focus on renewable energy and other emerging segments of the power sector.

As of December 31, 2010 the company had approved aggregate equity commitment of Rs. 822.11 million for four companies and aggregate debt commitment of Rs. 3273.30 million for 12 companies in the renewable energy sector. In addition, the company has sanctioned financing against CERs to two renewable energy companies. There is significant investment potential in the renewable energy sector in India. India has large untapped potential across the renewable space with a current installed capacity of 17,173.90 MW out of an estimated technical potential of 84,776 MW (Source: Ministry of New and Renewable Energy).

Healthy Net Interest margin and Capital Adequacy Ratios

The company has been able to showcase healthy net interest margin due to it being able to access low cost funds.

	Year Ended Mar'2009			Year ended Mar'2010			Nine months ended Dec 2010		
	Average Balance	Interest Income/ Expense	Average yield/ cost	Average Balance	Interest Income/ Expense	Average Yield/ cost	Average Balance	Interest Income/ Expense	Average Yield/ cost
Total Interest earning assets	25.75	4.56	17.71%	1588.22	302.08	19.02%	3474.23	546.99	15.74%
Total interest bearing liabilities	1.1	0.13	11.82%	1060.39	112.41	10.60%	2811.48	285.81	10.17%
Net Interest Income	24.65	4.43	17.97%	527.82	189.67	35.93%	662.75	261.18	39.41%
Net Interest Margin	-	-	17.20%	-	-	11.94%	-	-	7.52%

Also the company maintains its capital adequacy ratios above the minimum levels of 15.0% prescribed by the RBI for IFCs. Capital adequacy ratios were 97.90%, 275.36%, 88.30% and 60.57% as of March 31, 2008, 2009 and 2010, and December 31, 2010, respectively which shows increased potential for growth in advances.

Effective risk management framework

The company has institutionalized its project appraisal process and systems and has implemented the Advanced Internal Risk Scoring Model developed by ICRA Management Consulting Services Limited for the assessment and mitigation of credit risk. These processes and systems include a detailed appraisal methodology, identification of risks and suitable structuring of credit risk mitigation measures. It uses a range of quantitative as well as qualitative parameters as a part of the appraisal process to make a sound assessment of the extent of underlying credit risk in a project. The company has adopted various risk management policies, including a credit risk management policy, asset liability management policy, operational risk management policy, interest rate policy and a policy for investment of surplus funds.

As of December 31, 2010, the company did not have any non-performing assets in our outstanding loan portfolio.

About the Company

The company is an Indian non-banking financial institution promoted by PTC (holding 77%) to make principal investments in, and provide financing solutions for, companies with projects across the energy value chain. It is one of the few financial institutions in India that provide both equity and debt financing, including short-term and long-term debt, as well as structured debt financing. With a focus on infrastructure development, it offers an integrated suite of services including provision financing to, and make investments in, private sector Indian companies in the power sector, including for power generation, equipment supply and fuel source projects. The company is currently focused primarily on power generation projects in India. It also provides fee-based syndication and advisory services as well as carbon credit financing against certified emissions reduction (CER).

Peers Analysis

Peers (6M FY11)	PTCFSL	IDFC	PFC	Shriram Transport	Reliance Capital
Sale (Rs Cr)	53.6	2,085.0	4,935.5	2,523.0	692
EBITDA (Rs Cr)	33.5	1,900.3	4,883.4	1,937.0	518
EBITDA Margins (%)	62%	91%	98.9%	77%	75%
PAT (Rs Cr)	25.5	626.4	1,353.2	588.0	112.28
PAT Margins (%)	47%	30%	27%	23%	16%
CMP (Rs)	28.0	145.0	231.0	709.0	567
Equity Cap (Rs Cr)	434.6	1,300.0	1,148.0	26.7	246
Networth (Rs Cr)	635.9	6,823.0	13,260.0	347.8	6956
Face Value (Rs)	10.0	10.0	10.0	10.0	11.0
Shares outstandings (Cr)	43.5	130.0	114.8	2.7	22.4
Annualized EPS (Rs)	1.2	9.6	23.5	76.8	78.8
PE (x)	23.9	15.2	9.8	9.2	7.2

The company enjoys premium over other players as it has unique business model and zero NPAs.

Income Statement

Income Statement (Rs Cr)				
	Full Year Ending	31-Mar-08	31-Mar-09	31-Mar-10
Net Revenue		3.14	14.0	53.5
	<i>Net Revenue Growth</i>	NA	344.3%	283.4%
Total Expenditure		1.99	5.2	5.1
	<i>As a % age of Net Revenue</i>	0.63	37.5%	9.6%
EBITDA		1.15	8.7	48.4
	<i>EBITDA Margins</i>	37%	62.5%	90.4%
Depreciation & Amortization		0.01	0.0	0.1
Total operating Exp.		2.00	5.3	5.2
EBIT		1.14	8.7	48.3
	<i>EBIT Margins</i>	36%	62.4%	90.3%
Other Income		-	0.00	0.00
	<i>As a % age of Net Revenue</i>	0.0%	0.0%	0.0%
Interest		-	0.0	11.6
EBT		1.14	8.68	36.70
	<i>EBT Margins</i>	0.36	62.2%	68.6%
	<i>As a % age of EBT</i>	-	0.0%	0.0%
Provision for tax		(0.50)	0.2	11.3
PAT		1.64	8.53	25.45
	<i>PAT Growth</i>	NA	420.1%	198.4%
	<i>PAT Margins</i>	52.23%	61.15%	47.58%
No. of shares outstandings (cr)		90.0	434.6	434.6
EPS (Basic) (Rs)		0.18	0.20	0.59

Balance Sheet

Balance Sheet (Rs in Cr)	12M	12M	12M
As on	31-Mar-08	31-Mar-09	31-Mar-10
SOURCES OF FUNDS:			
Share Capital	90.00	434.58	434.58
Share Warrants & Outstandings	0.00	0.10	1.24
Total Reserves	20.58	174.66	200.11
Shareholder's Funds	110.58	609.35	635.94
Secured Loans		20.00	310.80
Total Debts	0.00	20.00	310.80
Total Liabilities	110.58	629.35	946.74
APPLICATION OF FUNDS :			
LOANS (Non Current Assets)	0.00	20.00	266.20
Gross Block	0.05	0.09	35.05
Less: Accumulated Depreciation	0.01	0.03	0.08
Net Block	0.04	0.06	34.97
Current Assets, Loans & Advances			
Cash and Bank	0.14	408.69	234.47
Loans and Advances	0.32	0.74	11.84
Total Current Assets	0.50	410.11	251.07
Total Current Liabilities	2.25	1.20	7.92
Net Current Assets	-1.75	408.91	243.14
Deferred Tax Assets / Liabilities	0.50	0.36	-4.38
Total Assets	110.58	629.35	946.74

For Further Details/Clarifications please contact

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