

CMP: Rs.118
Target: Rs.165

Sensex	17743
Nifty	5296

Stock Data

Equity Cap	29.4cr	
Face Value	Rs.10	
Market Cap.	Rs.3443cr	
Avg. Vol. (2 wk)	7.54lacs	
52 wk	High	Rs.119.5
	Low	Rs.55
EPS	Rs.3.57	
DPS	Rs.0.88	
P/E	32.5	
P/B	1.5	

Share Holding Pattern (%)

Promoter	16.32%
MFs	18.14%
FI/Banks	8.94%
Ins.Cos.	15.64%
FIIs	23.64%
Corporate Bodies	6.74%
Public	10.76%

As on Sep.30, 2009
Analyst

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PTC India Ltd is India's largest power trading company with 54% market share. The company has registered a high CAGR of 35.9% in the units traded over the past seven years to 13,825 MUs during FY'09. During FY'10, the company has recorded a high growth of 31% (YoY) with the achievement of 13,900 MUs being traded during the first eight months of the year.

The company is well positioned to sustain its journey on the high growth trajectory on account of its long term Power Purchase Agreements with the upcoming power projects in the country which would ensure high volume growth for the company under the regulated trading margins environment.

INVESTMENT RATIONALE:
❖ Long Term PPAs Ensure Volume Growth:

In view of the volatility in the short term market, the company has focused on ensuring the volume growth over the years by entering into the long term contracts with the upcoming merchant capacity and captive power plants in the country. At present, the company has signed PPAs for more than 16,314 MW of power which is expected to come up over the next 4 - 5 years. The commissioning of these projects would result in the substantial growth in the volumes traded in the long term.

The company also has outstanding MOUs for about 18,290 MW of capacity which is expected to result in the substantial growth in the traded volumes as a significant portion of these MOUs is expected to get converted into PPAs.

❖ Power Tolling Arrangements To Improve Margins:

As the trading margins are regulated, the company has entered into Power Tolling Arrangement (PTA) with two upcoming power projects with aggregate capacity of 540MW. Under the PTAs, the company would purchase the coal from the Indonesian coal mines and would supply the coal to the plants. The company would pay the energy conversion charges and purchase the power generated. Since the power traded under the arrangement would be sold at prevailing market rates, the margins are expected to be higher as these are not capped by the trading regulations.

❖ Proposed Upward Revision in the Trading Margin Cap:

CERC is currently under the discussion stage for the revision of the trading margin cap. Under the proposal, the licensee shall not charge trading margin exceeding 1.5% of its sale price subject to a maximum of 7 paise per unit, when the sale price exceeds Rs.3 per unit, and of; 4 paise per unit where the sale price is less than or equal to Rs.3 per unit.

❖ **Regional Power Deficit to Sustain for Power Trading:**

The power deficit in India has reached to the level of 11% for FY'09. Even though the government has major capacity expansion plans, the power deficit situation is expected to sustain in the near future at high levels together with the widespread regional disparities in power surplus and deficit. The trading volume is thus expected to sustain driving the short term segment's growth. Moreover, the power exchanges which are currently providing trading only in 'Day Ahead' market are expected to introduce 'Week Ahead' and 'Month Ahead' markets also, which would improve the volume growth. IEX has already introduced the 'Week Ahead' Trades.

❖ **Strong Balance Sheet and Low Leverage:**

The company has negligible leverage of 0.01x and the cash reserves of the company is also high at Rs.1051.6cr which provides the stability to the balance sheet of the company. The cash flow of the company over the future years is also expected to remain high on account of the low capex.

VALUATION

PTC is currently the market leader in the power trading business and is expected to maintain its lead over the future years on account of its long term PPAs entered with various upcoming merchant power based and captive power plants in the country. The long term PPAs ensure the volume growth for the company in a business which essentially derives its growth on the basis of the higher volumes. The Power Tolling Arrangements with the upcoming power plants in the country is a unique innovation and would improve the operating margin of the company in the long term.

At the current market price of Rs.118 as on 6th Jan'10, the stock trades at a PE of 33x based on FY09EPS of Rs.3.57. *Mata Research* expects the EPS to increase to Rs.6.03 in FY11E and Rs.10.75 in FY'12. The stock is expected to achieve the target of Rs.165 over the next 12-15 months. At target price of Rs.165, it discounts FY12E earnings by 15.3x. We initiate the coverage on the stock with the 'Buy' recommendation.

COMPANY PROFILE

*Strong promoters – NTPC, PGCIL,
PFC and NHPC*

Power Trading Corporation India Ltd is the leading provider of the power trading solutions in India.

The focus of the company is to develop a commercially and functionally vibrant power trading market in the country by taking a lead in the business of purchase of electrical power from Independent Power Producers (IPPs), Captive Power Plants (CPPs), Central & State Sector Utilities, SEBs, etc. on short or long term basis, and sale of power to SEBs, Power Distribution Companies, and other bulk consumers.

*To spearhead powder trading
operation in the country*

The company is promoted by NTPC, PGCIL, PFC and NHPC and was incorporated on 16th April'99, on account of the need for an institution that would contribute towards reducing the mismatches between the demand and supply arising in various regions of the country through by leading as trading solutions provider.

*Market Leader in Power Trading
Business to an Integrated service
Provider*

Since July'2001, the company started the trading of power on the sustainable basis providing the optimum value services to both, the buyers and sellers. The company focused on the small and the medium sized projects promoted by Independent Power Producers.

In 2002-03, the company signed MOUs with the developers of the projects like Lower and Middle Kolab hydro power plants in Orissa, Vemagiri Gas based power plant in A.P, together with the larger projects like Maithon Thermal Power plant in Jharkhand and West Seti HEP in Nepal. The company came with its IPO in 2004.

*Introduced various power trading
products*

PTC has conceptualized the product modules like Round the Clock, Evening Peak, Night Off Peak, Afternoon Off Peak, 18 hours a day Off Peak, among others to meet the requirements of the customers in various time schedules.

*Designated nodal agency for cross-
border power trading*

The company prudently realizing the growing thrust on the power capacity addition in the country has focused on entering into the long term PPAs with the upcoming IPPs and Captive Power Plants to ensure the volume growth in the future.

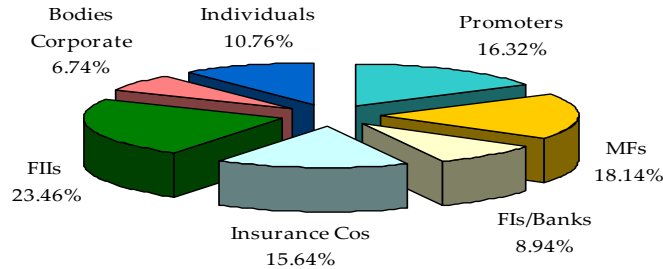
PTC has been designated as the nodal agency for the cross border trading of power with Nepal and Bhutan.

Gradually, the company has emerged not only as the provider of short term as well as long term power trading solutions but also the complete energy solutions provider.

Through its 77.6% subsidiary, PTC Financial Services Ltd., the company has now focused on acquiring equity stakes in various power ventures in the country as well as providing debt funding for the upcoming power projects.

SHAREHOLDING PATTERN (As on 30th Sep'09)

Widespread Shareholding Pattern



The major promoters of the company are NTPC, PFC, NHPC and Powergrid. The shareholding of the company is well diversified with the promoters holding a low share.

QIP to Fund Equity Investments

QIP-2009: The company on 27th May'09, issued 66.665lacs shares of Rs.10 each at a price of Rs.75 per share aggregating to about Rs.500cr. The total paid up equity share capital of the company after the QIP has increased from 22.742cr to 29.408cr at a face value of Rs.10 each. The purpose of the QIP was to raise the funds for the equity investments in the upcoming power projects in the country by launching a third party fund in a JV. Ashmore Group (U.K.) has been selected as the JV partner for the formation of the fund. The Fund structure and Joint Venture Agreement etc. are under negotiation with the JV partner Ashmore for finalization.

BUSINESS DESCRIPTION:

❖ Co-ordination With Participants:

PTC being a power trader has to continuously maintain an efficient system of monitoring the energy scenario in the country. Its analyses the regions and producers having the surplus power availability and regions and utilities with deficiency. The company may distribute the power purchased from one utility to one or more buyers. Similarly, it may sell the power purchased from many sellers to a single or more buyers. It also ensures an efficient transmission across the length and breadth of the country through its co-ordination with the major power transmission units like Powergrid Corporation of India.

❖ Agreements for the Sale and Purchase of Power:

PTC enters into agreement with the seller and buyers for the purchase and sale of a defined capacity of power or any other mutually agreed quantum of power, for the short term as well as the power under long term PPAs, for a specified period of time at the Delivery Point.

❖ Delivery Point:

The Delivery Point in case of regional transmission system is the Commercial Metering Point at the Central Transmission Utility in the region. In case of sale of energy outside the regional transmission

system, the Delivery Point is the Commercial Metering Point at the end of the inter-regional transmission system between the two regions.

❖ **Tariff Determination:**

PTC being a power trader undertakes the function of matching the buying and the selling price of the power. PTC charges a trading margin with the concerned parties for the service provided for the trading of power based upon the mutually agreed terms of the contract. However, the trading margin for PTC shall not exceed 4 paise per unit.

❖ **Transmission Charges To Be Borne By Buyer or Seller:**

The transmission losses, transmission charges, Regional Load Dispatch Centre (RLDC) charges, or any other charges for the sale of power upto the delivery point are borne by the seller whereas such charges beyond the delivery point for other regions and/or SEBs or State PSUs if any, would be paid by the buyers to Powergrid, SEBs or State PSUs. The transmission charges are included into the prices at which PTC buys or sells the power.

❖ **Grid Management:**

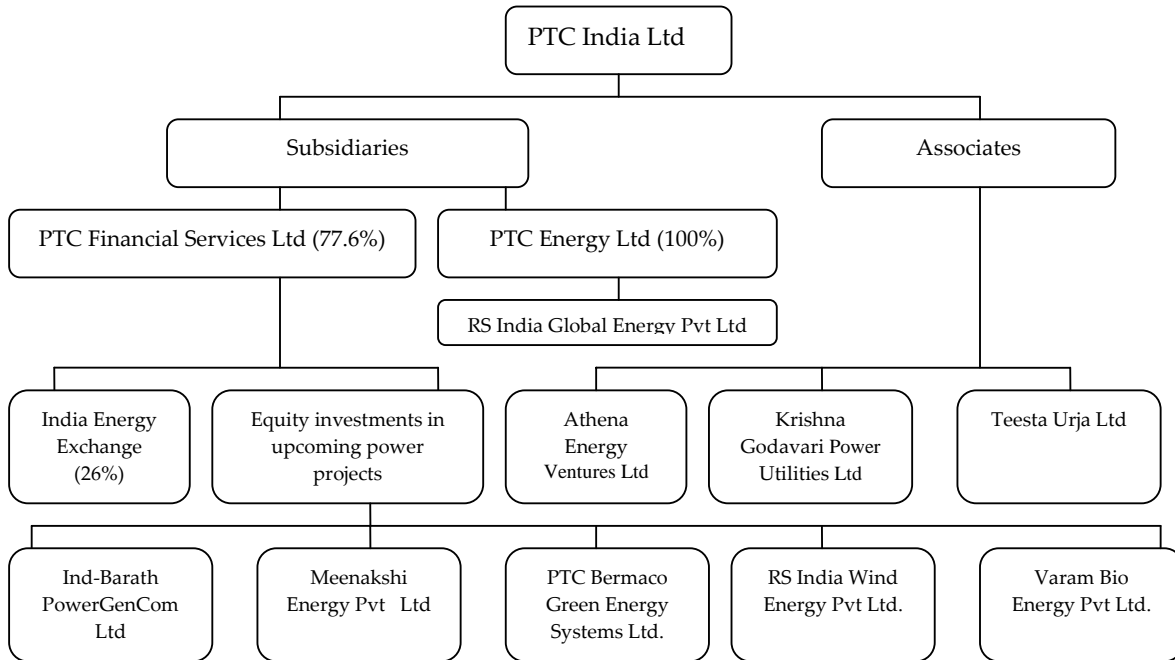
PTC, for efficient transmission of electricity, operates in co-ordination with transmission system operators. Powergrid currently operates five Regional load Dispatch Centres (RLDCs) in the country which are utilized for the inter-regional transmission of power. Apart from the RLDCs, there are State Load Dispatch Centre (SLDCs) which manage the transmission of power within the state. RLDCs and SLDCs monitor the power demand and supply situation in the various regions of the country and maintain data on the real time basis.

The transmission companies charge the power traders the wheeling charges for the utilization of their transmission system which is effectively paid by the seller upto the delivery point and by the buyer for the transmission from the delivery point.

❖ **Rebate for Timely Payment:**

PTC offers rebate at about 2% of the billed amount for the prompt payment within 7 days of the presentation of the bills by PTC and similarly the seller also allows rebate to PTC if the payment is transferred by PTC within 10 days of the receipt of the monthly bill by PTC.

CORPORATE STRUCTURE:



SUBSIDIARIES

❖ PTC Financial Services Ltd:

PFS was incorporated in mid FY'08 as an investment arm of the company for the investment in the power sector and allied areas. PFS during FY'09, had sanctioned financial assistance of Rs.721cr as equity as well as debt to 15 projects in the renewable as well as non-renewable segments.

As of now, PFS has the total committed equity funding of Rs.453.8cr for the capacity creation of about 3579MW and the total committed debt funding of Rs.468.1cr for the capacity creation of 3239MW.

❖ PTC Energy Ltd:

PTC incorporated PTC Energy Ltd in Aug'08, to undertake various activities related to the business of power generation, distribution, transmission, import of coal, power tolling arrangements and other allied works. PTC Energy Ltd also provides consultancy services across the entire gamut of power sector value chain.

BUSINESS PROFILE:

PTC's business today includes short, medium term, long term (incl. cross border trading, and trading of power through India Energy Exchange, IEX).

PTC is now emerging as an integrated services provider and is entering in the field of the consultancy services, power tolling arrangements and equity and debt investments in the upcoming power sector projects.

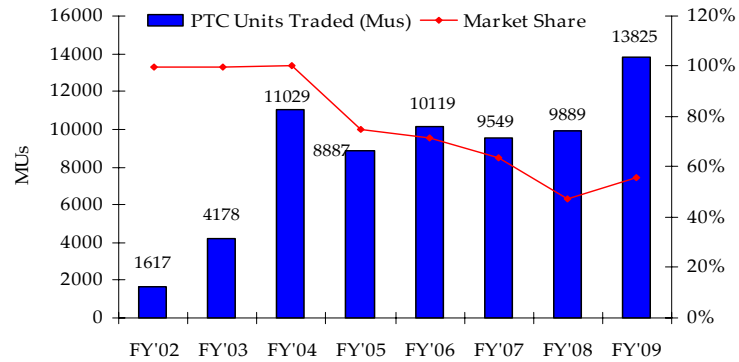
Emerging as Integrated Service Provider

GROWTH PATH:

Substantial Growth in Volumes

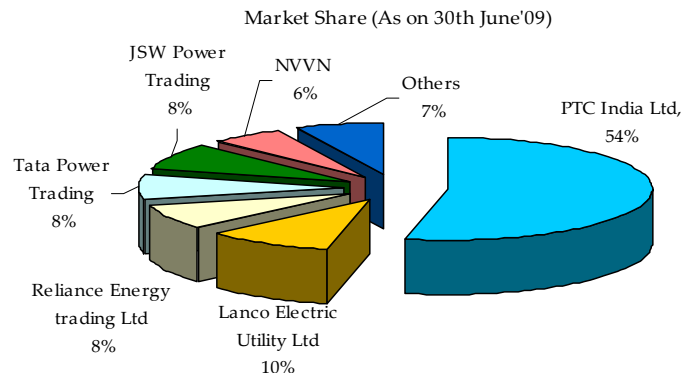
The units traded by PTC have recorded an excellent growth from 1617MUs in FY'02 to 13825 MUs in FY'09 at a CAGR of 36% over the last seven years. The market share of PTC has although declined over the past few years on account of the entry of the new players like NTPC Vidyut Vyapar Nigam Ltd, Tata Power Trading Co. Ltd, Adani Enterprises Ltd, Reliance Energy Trading (P) Ltd, Lanco Electric Utility Ltd, JSW Power Trading Co. Ltd etc. However, during FY'09, the market share of the company improved to 56% as against 47% in FY'08 on account of the high growth in the units traded of 39.8% for FY'09 during the year.

During FY'10, the company has traded 13,900 MUs during the Apr'09 to Nov'09 period registering a high growth of 31% (YoY) for the period which reflects the high growth in the short term trading segment.



To Maintain Market Leadership despite increasing competition

Even though the emergence of the new power players has resulted in the decline in the market share of the company till FY'08, the crucial differentiating factor in case of PTC and the other players, which also have their distribution arms, is that these players have focused on the trading of the power in their own area of operations for the management of the shortfall or the surplus power in their areas of distribution and particularly for their distribution arms. On the other hand, PTC being a core power trading company has focused on the power trading business on the pan-India basis.



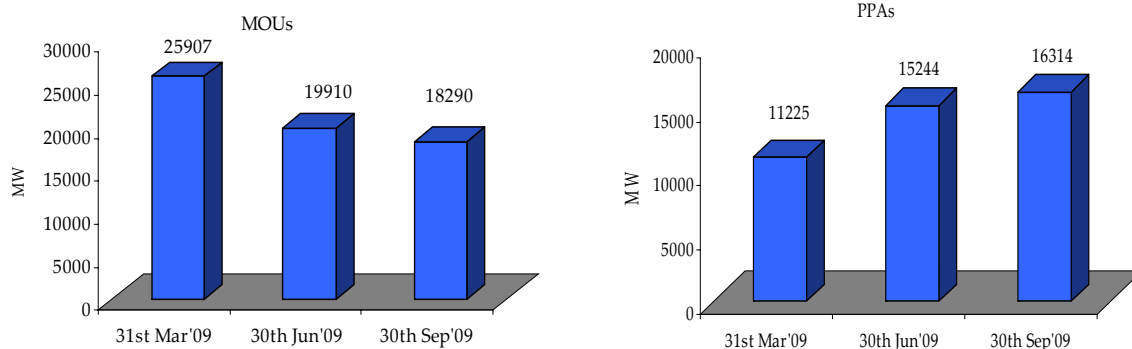
INVESTMENT RATIONALE:

❖ Long Term PPAs to Drive the Growth:

The trading margins in the power trading business have been capped by CERC at 4 paise per unit. Thus, the power trading business is essentially a volume game.

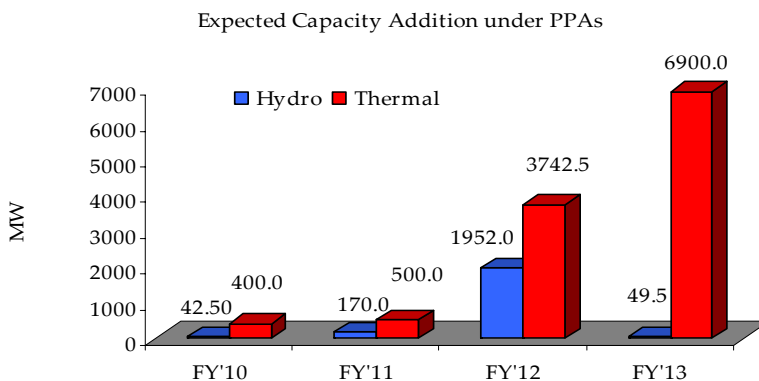
The company has focused on the long term PPAs to ensure the volume growth over the next few years. As of now, the company has signed PPAs for more than 16,313.5MW of capacity.

The company also had outstanding MOUs for about 18,290 MW of capacity which is expected to result in the substantial growth in the traded volumes over the next few years. Over the past few quarters there has been substantial growth in the MOUs turning into the PPAs which is a positive sign for the company as the PPAs ensure volume growth.



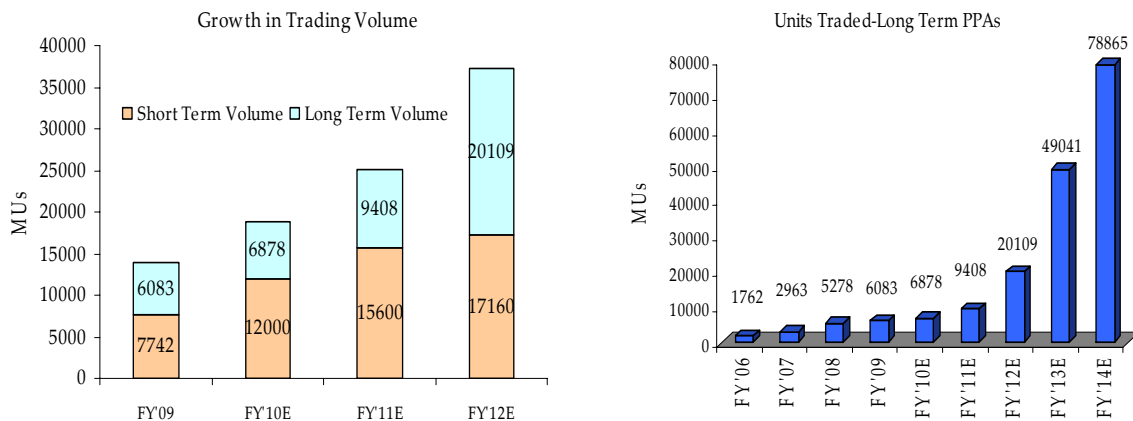
The high growth in the capacity under the PPAs coming into effect is expected to lead to substantial growth in the units traded by the company as the long term PPAs ensure the volume growth.

A substantial addition to the capacity under PPAs is coming into effect in FY'12 and FY'13.



Mata Research expects the units traded under the long term PPAs would achieve high growth particularly after FY'12 as the capacity under the PPAs gets commissioned. We expect the capacity addition of 70% of the planned capacity addition for every year and the remaining capacity to be coming into effect in the next year. The short term volumes are also expected to grow at a healthy pace by 55% for FY'10, 25% for FY'11 and 10% for FY'12 on account of the sustained demand for the short term power with the emergence of the new variants of the short term contracts like 'Term Ahead' and 'Week Ahead' contracts on the energy exchanges.

The share of the long term volumes in the total power traded by PTC is expected to rise substantially over the next three years. The total volume traded by the company is expected to rise at the excellent pace of 39.17% CAGR over the next three years from 13,825MUs in FY'09 to 37,269 MUs in FY'12 which would drive the growth of the company over the next few years.



❖ PTC Participating in Competitive Bidding Process:

PTC has participated in competitive bidding invited by States of Rajasthan, Punjab, Maharashtra etc. for procurement of power. These are presently under various stages of tender process. PTC would also be participating in the competitive bidding invited in Karnataka, Gujarat and Bihar.

For Haryana competitive bid, PTC has been awarded 300 MW and signed agreement with two DISCOMS of Haryana for sale of 150 MW capacity each. PTC is also participating in Reliance Infra tender invited for Medium term (1-7 years) of capacity 700 MW and Long term (more than 7 years) of 1000 MW capacity supply of power.

❖ Sustained Growth in Short Term Trading in the Near Future:

The total units traded during Apr'09 to Nov'09 have registered a growth of 31% (YoY) with 13,900 MUs traded for the period. The major portion of the growth for FY'10 is expected to be contributed by the short term volume as the commissioned capacity under PPAs at present is only

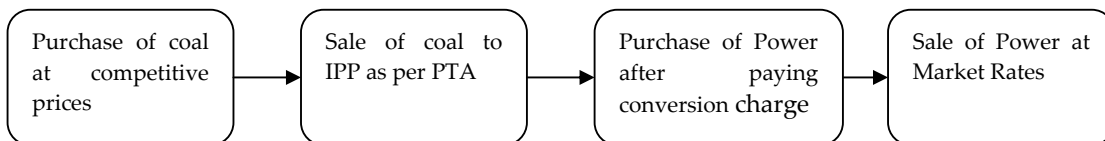
37MW apart from the 1416 MW of PPA capacity with Bhutan HEPs. The total power traded under the long term PPAs during FY'09 was 6083 MUs. In case of Bhutan plants, there was a decline in the power traded during the current year, still the company managed to register high growth of 31% (YoY) for Apr'09-Nov'09 on account of high growth in short term volumes.

Post FY'10, the growth in the short term traded volumes is expected to sustain on account of the higher proportion of the power expected to be traded through the exchanges. Power exchanges currently are operating only a single product in the 'Day Ahead' Market. However, with the expected introduction of the Week Ahead and the Month Ahead Markets in the near future, the volumes in the exchange traded volumes are expected to improve substantially. At present, about 10% of PTC's trade volume is being traded through the power exchanges.

❖ Power Tolling Arrangements-An Innovative Foray:

Under the Power Tolling Arrangement, PTC would import the coal from the individual suppliers and arrange for the aggregate amount to be sold to the power plants for processing.

The following chart shows the mechanism of the PTAs.



PTC has entered into MOU with the Indonesian coal mine for the supply of 1 mn tonnes of thermal coal annually for a period of (15+5) years.

PTC has signed two PTAs at present. First PTA has been signed with Simhapuri Thermal Power Plant 270 MW which is expected to be commissioned in FY'11. Second PTA has been signed with Meenakshi Group for its 270 MW coal based plant.

The Power Tolling Arrangement mechanism also provides the opportunity to the company for the assured volume growth, even though the current capacity under contract under this mechanism is low. The company may further enhance the capacity under the arrangement as and when the opportunity arises. The arrangement is beneficial for the company as it has to pay only the conversion charges and the sale of the power would be at the market rates.

The power purchased under the mechanism is not under the trading margin cap of 4 paise per unit that is imposed on the traded power. Thus, the margins in the segment are expected to be better than the traded power business. Thus, the overall operating margins are expected to improve with the increasing contribution from the business.

❖ Investments in the upcoming Power Projects:

The investment arm of the company, PTC Financial Services Ltd, has substantial investments in the upcoming power projects in the country as committed equity as well as debt funding. The upcoming projects of the company would ensure the revenue stream for the company.

The equity as well as the debt funding in these projects provides not only the revenue visibility in the form of interest and dividend but also ensures the volume growth in the form of long term PPAs.

A. Investments By PFS:

PFS Projects-Equity

Project	Type	Stake	Committed Funding (Rs Cr)	Actual/Expected Commissioning
India Energy Exchange	Exchange	26%	6.9	June'08
Varam Bioenergy Pvt Ltd	Biomass	26%	4.4	Feb'09
Ind Barath Powergencom	Thermal	26%	55.6	Unit I:Aug'09, Unit II:Nov'09, Unit III:Mar'10
Wind Project	WTG	37%	3.4	NA
Thermal Project (1270MW)	Thermal	26%	88.3	FY'13
Biomass Project	Biomass	26%	1.1	NA
Thermal Project (1320MW)	Thermal	NA	120.0	FY'13
Wind Project	Wind	37%	54.0	Phase I:Dec'09; Phase II:Oct'10
Thermal Project	Thermal	13%	105.0	Unit I:Dec'11; Unit II:Mar'12
Total			438.7	

PFS Projects-Debt

Project	Type	Capacity (MW)	Committed Funding (Rs Cr)	Actual/Expected Commissioning
1	Thermal-Coal	54	50	July'10
2	Thermal-Biomass	10	16.25	July'10
3	Thermal-Coal	350	50	Oct'10
4	Thermal-Biomass	10	8.33	July'11
5	Thermal-Coal	1320	0.083	May'12
6	Thermal-Coal	1080	70	Nov'12
7	Thermal-Coal	120	120	Nov'11
8	Thermal-Coal	270	120	Dec'12
9	Thermal-Biomass	10	17.25	Mar'11
10	Hydro	15	16.3	July'11
	Total	3239	468.2	

B. Investments by PTC Energy Ltd:

PTC Energy Ltd's three JVs for the upcoming Power Projects have been approved.

Particulars	Project 1	Project 2	Project 3
State	Orissa	Karnataka	Orissa
Capacity (MW)	700	450	1050
PeL's Proposed Equity (%)	26%	26%	26%
PEL's Proposed Equity (RsCr)	207	100.1	236.6
EPC	Awarded	Awarded for 150 MW	Awarded for 350 MW
Commercial Operations Date (COD)	1st Jan'12; 31st Mar'12	1st Apr'11; 1st July'11;1st May'12	1st Oct'12; 1st Jan'13;1st Apr'13

Hydro Power Potential	
Country	MW
Mynmar	100000
Nepal	83000
Bhutan	23760

Source:CEA

❖ **Nodal Agency for The Cross Border Trade of Power:**

PTC India Ltd has been designated as the nodal agency for the cross border trade of power.

The neighboring countries of India like Nepal, Bhutan and Mynmar have immense potential for the hydro power segment which presents an opportunity for the company to enter long term PPAs with the upcoming projects in these countries.

The company currently has long term PPA for the purchase of power from Bhutan for the capacity of 1416 MW. The total power purchased from Bhutan constituted 42.55% of the total power traded by the company and contributed 17.4% to the trading revenue of the company in FY'09. The company has also entered into the long term PPA with the West Seti Project in Nepal of capacity 750 MW out of which the whole production is to be exported to India.

❖ **CERC Considering the Upward Revision of Trading Margin:**

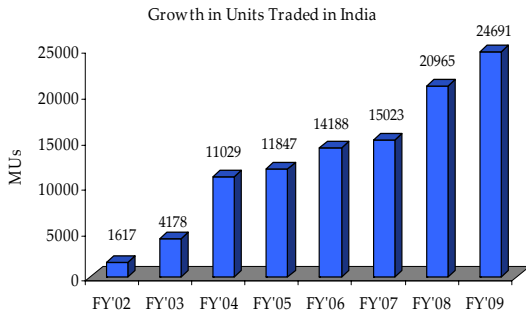
CERC is currently under the discussion stage for the revision of the trading margin cap. Under the proposal, the licensee shall not charge trading margin

- (i) exceeding 1.5% of its sale price subject to a maximum of 7 paise per unit, when the sale price exceeds Rs.3 per unit, and of;
- (ii) 4 paise per unit where the sale price is less than or equal to Rs.3 per unit where the sale price is less than or equal to Rs.3 per unit.

The final hearing in the matter has been made and the decision is awaited by the Supreme Court. If the trading margin cap is modified, it would be a major boost for the profitability of the power trading companies. However, the trading margins are also based on the negotiations with the trading parties and the actual improvement in the trading margins may not be up-to the maximum limit of the trading margin. Still, any upward revision would be beneficial for the power trading companies which have been demanding the revision in the trading margin since a long time on the grounds that it is too low to sustain the trading business and undertake the credit and market risks associated with the business.

INDUSTRY ANALYSIS

❖ High Growth in Units Traded in India:



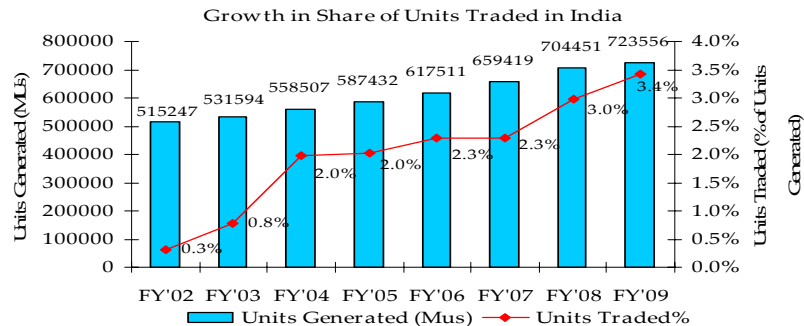
The units traded in the country are registering high growth over the past few years on account of the development of the trading market in the country. PTC has contributed to the growth in the units traded in the country in a big way and the emergence of the new trading players has also contributed to the growth.

The total units traded in the country have registered a high growth of 47.6% CAGR over the past seven years.

Source: CERC

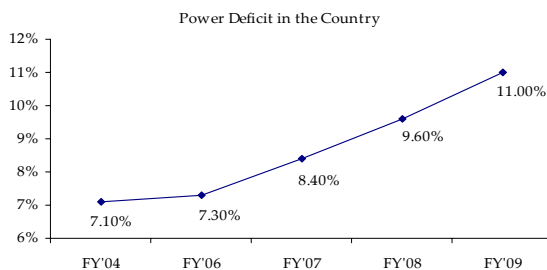
❖ Growth in Proportion of Traded Units:

The proportion of the total units traded in the country as a proportion of the total units generated has increased continuously over the past few years. The share of the units traded in the country is expected to continue to increase over the next few years on account of the major capacity addition coming on the merchant capacity basis.



Source: CEA and CERC

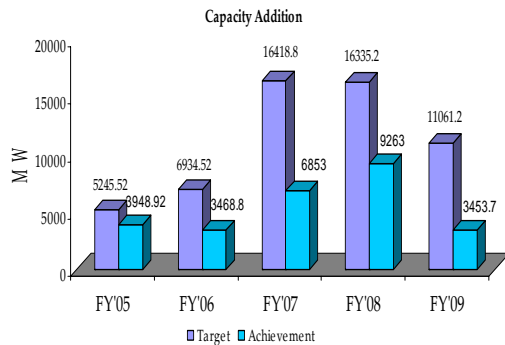
❖ Power Deficit Scenario to Continue:



The power deficit in the country has been continuously rising over the past few years and is expected to continue to remain at the high levels on account of the increasing demand for the power and the persistent delays in the commissioning of the power plants under construction as against the planned commissioning schedule. The regional disparities are expected to sustain and thus, the trading volumes are also expected to rise in future.

Source: CEA

❖ **Capacity Addition Delays Contributing to Power Deficit:**

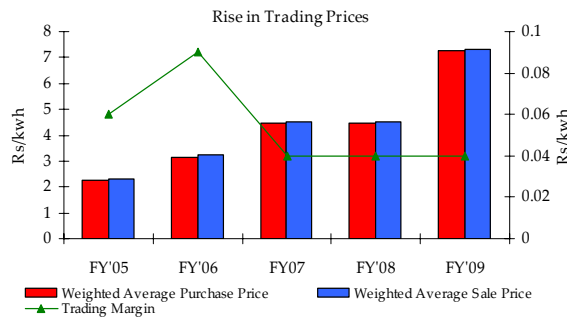


The capacity addition in the country has fallen short of the target consistently over the past few years, which is a major reason for the power shortage in the country.

The planned capacity addition for the XIth Plan period is 78,700MW. However, as on 30th Nov'09, the capacity addition during the XIth Plan was 23,520MW. The government has set the target for the addition of 1,00,000 MW of capacity in the XIIth Plan period.

Source: CEA

❖ **Rise in The Trading Prices and Fixation of Margin:**



The weighted average price of the electricity traded has been computed based upon the volume traded by the trading licensees and the corresponding prices.

There has been a high surge in the average trading price for FY'09. On the other hand, the trading margin has been fixed by CERC in FY'07 and since then the trading margin is unchanged at 4 paise per unit. Earlier, the trading licensees were being able to charge higher trading margins.

Source: CEA

❖ **Regulatory Environment in Power Trading:**

The wholesale market for electricity in India is completely voluntary by design as none of the market participants is obliged to operate through a restricted and compulsory market. This is because the buyer is free to choose from any of the options like Long Term PPA based mechanisms, Medium Term, Short Term bilateral trades, Day Ahead market (through the power exchange), Real time mechanisms (UI).

Further, the rules regarding standards of supply are liberal, permitting greater flexibility to utilities on demand side response.

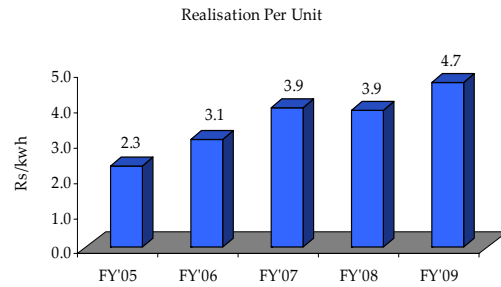
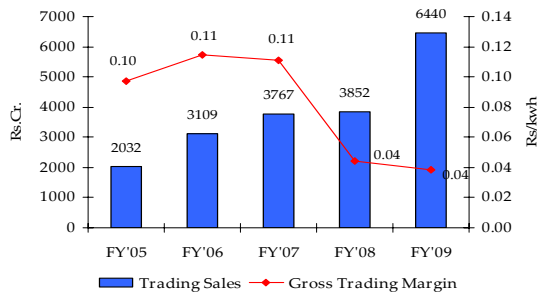
This has lead to:

- Short Term Market growth
- Captive segment / trading industry growth.
- 2 Power Exchanges becoming fully operational
- Volumes have increased, players have increased
- Day Ahead products functional and Term Ahead products under process.

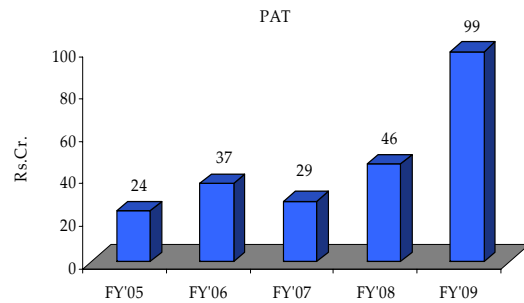
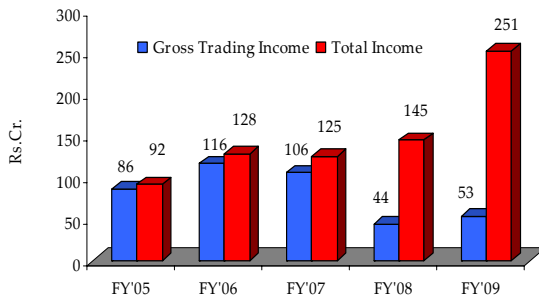
FINANCIAL PERFORMANCE:

❖ Robust Growth Being Sustained By Higher Volumes:

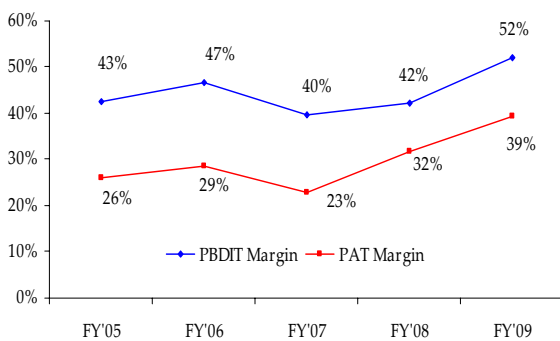
The power trading business essentially being a volume game, the high growth of 11.7% CAGR over the past four years in the units traded by the company has resulted in the high growth of 33.4% CAGR in the trading sales over the same period on account of the higher growth in the average realization per unit of the power over the last few years.



The Gross Trading Income (Trading Sales-Trading Purchases) of the company declined on account of the fixation of the trading margin at 4 paise per unit by CERC in FY'07. However, in FY'09, the trading income improved on account of the high growth in the units traded during the year (39.8%YoY).



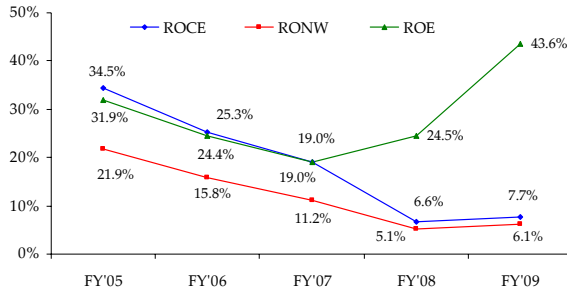
❖ High Margins Over the Years:



The trading margin in the power trading business being fixed at 4 paise per unit, we have focused on the operating margin and the PAT margin calculated on the total income (Gross Trading Income + Other Income).

The operating and PAT margins have improved significantly over the past three years on account of the high growth in the other income. Moreover, in the power trading business the other expenditure are largely fixed and rise less than proportionately with the growth in income.

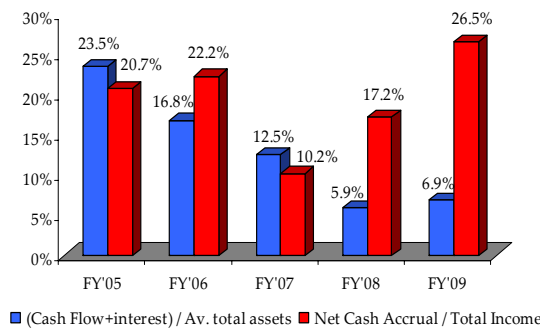
❖ **Return Ratios Consolidating:**



The return ratios have started consolidating after declining till FY'08. The decline in the return ratios was on account of the high growth in the total capital employed in FY'08 as against the growth in PAT.

However, for FY'09, the return ratios have stabilized on account of the high growth in PAT. As on March 31, 2009, the company had an investment in its subsidiaries and JV aggregating Rs.553cr, which are investing in power or power related ventures, the return from which would accrue in the next 2-3 years when the projects get commissioned.

❖ **High Cash Accruals Enhancing Funding Capacity:**



The company has been able to generate sufficient cash flows over the past few years. The gross cash accrual to the average assets ratio has declined till FY'08 on account of the high growth in the total capital employed.

The net cash accrual to total income ratio of the company has improved significantly over the past two years on account of the increased cash accrual after the stabilization of the trading margin since FY'08.

❖ **Maintains Debt Free Status:**

The company has managed and is expected to maintain its debt free status as power trading is not a capital intensive business. Thus, the balance sheet of the company is strong with the leverage being 0.01x and the cash as on 31st mar'09 being Rs.1051.6cr.

❖ **DuPont Analysis-Improving ROE:**

The DuPont Analysis shows that the ROE has improved mainly on account of the growth in the average assets to average equity ratio. The profit margins of the company are improving but the Assets Turnover has declined as the cash with company is not productively deployed. The company sold its investments during FY'09 which increased its cash liquidity and operating assets. ROE is expected to improve significantly as the cash would be deployed along with the fund raised during FY'10 through a QIP of Rs. 500 cr.

Particulars	FY'06	FY'07	FY'08	FY'09
Net Profit / Sales	0.29	0.23	0.32	0.39
Sales / Average Assets	3.46	2.36	1.41	0.38
Av. Assets / Average Equity	0.25	0.35	0.55	2.89
ROE	0.24	0.19	0.24	0.44

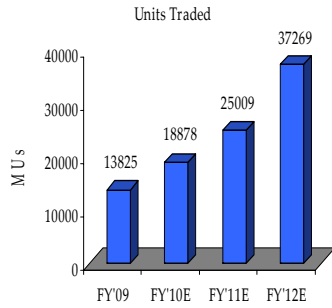
Financial Performance (H1FY'10):

- During H1FY'10, the company has registered high growth of 100% in Gross Trading Income on the back of the high growth of 35% in the units traded by the company during the period.
- The other income during the period has remained flattish as the company has sold most of its marketable investments during the last year.

<i>Rs Cr</i>			
Particulars	H1FY'10	H1FY'09	Growth %
Per Unit Realisation (Rs/unit)	4.6	4.1	
MUs Traded	10592	7846	
Income from Operations	4829.9	3234.4	
Less : Power Purchase	4769.0	3204.0	
Gross Trading Income	60.8	30.4	100%
Other Operating Income	1.4	1.8	
Other Income	44.1	43.9	
Total Income	106.3	76.0	40%
Employee Cost	9.9	4.4	
Other Expenses	6.5	6.1	
Total Expenditure	16.4	10.5	57%
EBITDA	89.9	65.6	37%
Interest	0.1	1.7	
Depreciation	2.7	3.1	
PBT	87.1	60.8	
Tax	22.8	9.1	
PAT	64.3	51.7	24%

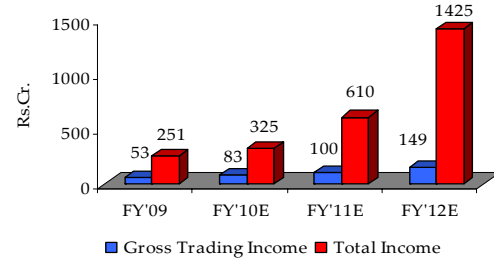
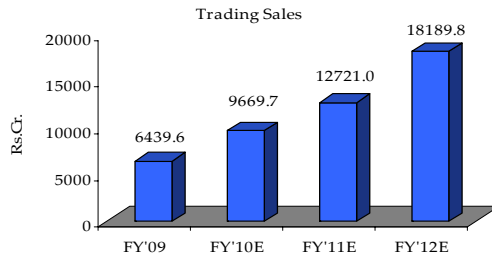
FINANCIAL PROJECTIONS:

❖ High Volume Growth To Propel Revenue Growth:



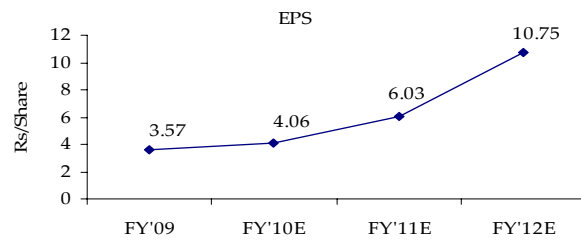
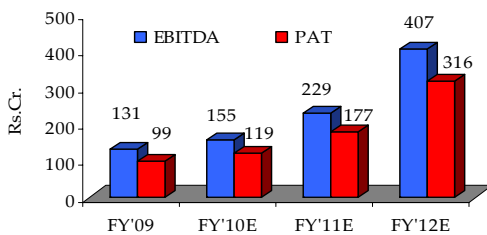
The quantum of total units traded by the company is expected to register an excellent growth at an estimated CAGR of 39.2% over the next three years to 37,269 MUs in FY'12 as against 13,825 MUs in FY'09. The commissioning of the power plants under the PPAs is expected to sustain even higher growth post FY'12.

On account of the stupendous growth in the number of units traded the Gross Trading Income (Trading Sales-Trading Purchases) of the company is expected to record a high growth at a CAGR of 41% over FY'09-FY'12E to Rs.149.1cr. The total income of the company is expected to achieve the high growth of 78.3% CAGR over FY'09-FY'12E to Rs.1425.4cr.

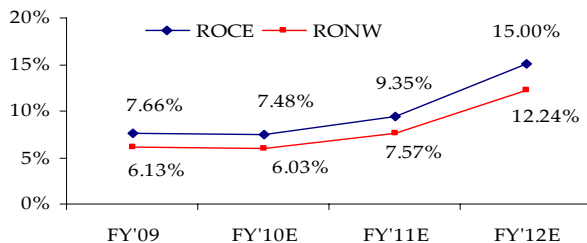


❖ Profit Figures to Record High Growth:

The profit figures for the company are expected to achieve high growth on account of the volume growth and the consequent high growth in the total income.

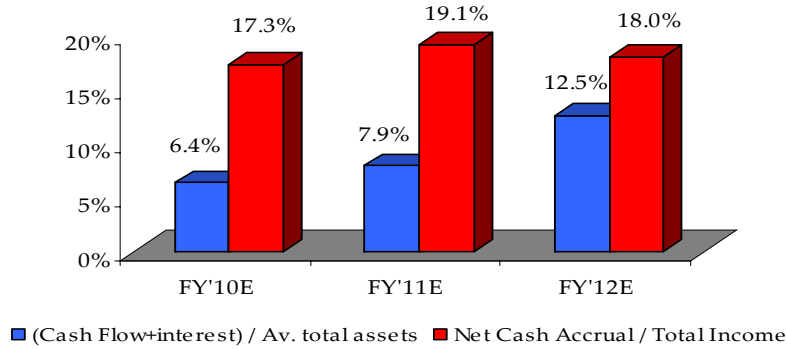


❖ Return Ratios to Improve:



The company is expected to achieve high return ratios going forward on account of high Pat growth. The company's RONW in the past has been lower than its ROCE which effectively means that the company has underutilized its debt raising capacity. The trend is expected to continue in the future as the company is expected to generate sufficient cash flows and is not expected to increase its leverage position.

❖ **Cash Accrual to Continue at High Levels:**



The cash accruals of the company are expected to remain at the high levels despite the significant investment plans in the forthcoming power projects in the country through the associates and subsidiary companies. The debt free status of the company ensures that the company can conveniently look forward to deploy its cash accrual for the investment plans.

VALUATION

PTC is currently the market leader in the power trading business and is expected to maintain its lead over the future years on account of its long term PPAs entered with various upcoming merchant power based and captive power plants in the country.

The Power Tolling Arrangements with the upcoming power plants in the country is a unique innovation and would improve the operating margin of the company in the long term as the operations under PTAs are not governed by power trading regulations.

The proposed upward revision in the trading margin cap provides further potential upside to the profitability of the company.



At the current market price of Rs.118 as on 6th Jan'10, the stock trades at a PE of 33x based on FY09EPS of Rs.3.57. *Mata Research* expects the EPS to increase to Rs.6.03 in FY11E and Rs.10.75 in FY'12. At target price of Rs.165, it discounts FY12E earnings by 15.3x.

FINANCIAL PERFORMANCE

Profit & Loss Account

Rs. Cr.

Particulars	2006	2007	2008	2009
Gr. Trading Inc.	116.3	105.9	44.0	53.2
Other Inc	12.0	19.3	100.9	198.2
Total Inc	128.3	125.1	144.9	251.3
Cost Sales	68.2	75.6	83.9	120.6
PBDILT	60.1	49.6	61.0	130.8
Dep	1.4	1.3	1.6	6.2
PBILT	58.7	48.3	59.4	124.5
Fin.charge	1.6	2.6	1.7	2.5
EBIT	57.0	45.7	57.8	122.0
Extra Items	-4.0	-6.5	-1.8	-0.1
PBT	53.0	39.2	56.0	121.9
Less: Tax	16.4	10.6	9.8	22.8
PAT	36.6	28.6	46.2	99.1

Balance Sheet

Rs. Cr.

Particulars	2006	2007	2008	2009
Assets				
F.Assets	18.3	17.5	54.6	47.6
Invest	191.3	211.1	1382.2	552.5
NCA	35.0	35.2	98.8	1115.7
C.A.	228.9	263.5	324.8	1425.9
CurLiab.	194.0	228.2	226.0	310.2
Total Cap.	244.6	263.9	1535.6	1715.8
Liabilities				
Share Cap	150.0	150.0	227.4	227.4
Reserves	98.3	115.6	1264.1	1332.2
Min.Int.	-3.7	-1.7	44.1	136.2
Net Worth	244.6	263.9	1535.6	1695.8
Term Liab	0.0	0.0	0.0	20.0
Total Cap.	244.6	263.9	1535.6	1715.8

Key Ratios

Particulars	2006	2007	2008	2009
Gr Tot Inc.	40.1%	-2.5%	15.8%	73.4%
Gro PAT	52.9%	-21.9%	61.7%	114.6%
PBDIT Mar	46.8%	39.6%	42.1%	52.0%
PAT Mar	28.5%	22.8%	31.9%	39.4%
ROCE	25.3%	19.0%	6.6%	7.7%
RONW	15.8%	11.2%	5.1%	6.1%
Gearing (x)	0.00	0.00	0.00	0.01
Ov. Gearing (x)	0.00	0.00	0.00	0.01
Current Ratio (x)	1.18	1.15	1.43	4.60
Interest Cov.(x)	35.78	18.86	35.96	49.04
Drs. Turnover	1.65	0.96	0.85	0.94
Sales Per Share	8.55	8.34	6.37	11.05
EPS (Rs.)	1.32	1.03	1.67	3.57
Cash EPS (Rs.)	2.48	1.95	2.26	4.83
DPS (Rs.)	0.51	0.94	1.00	1.55
BV(Rs)	16.30	17.59	67.52	74.57

Cash Flow Statement

Rs. Cr.

Particulars	2006	2007	2008	2009
Profit After Tax	36.6	28.6	46.2	99.1
Depreciation	1.4	1.3	1.6	6.2
Misc Exo w/o	0.0	0.0	0.0	0.0
Change in WC	0.0	0.0	12.3	(89.3)
Op Cash Flow	38.0	29.8	60.0	16.0
(Inc)/Dec in Gr Block	(0.2)	(0.5)	(37.9)	0.9
(Inc)/Dec in CWIP	(0.1)	0.0	(0.6)	0.2
(Inc)/Dec in Invet.	6.7	(19.8)	(1171.1)	829.7
Csh Fl. Invest. Act	6.4	(20.3)	(1209.5)	830.7
Payment of Div.	(8.7)	(16.5)	(26.6)	(41.3)
Iss.of Equity Cap.	0.1	0.0	1204.3	0.0
Inc/Dec in Min. Int.	0.0	0.0	44.1	93.9
Inc. in Term Liab.	0.0	0.0	0.0	20.0
Csh Fl. Fr. Fin. Act.	(8.6)	(16.5)	1221.8	72.6
Op. Cash Balance	9.7	59.4	48.2	124.0
Cl. Cash Balance	61.8	40.9	120.6	1041.5

FINANCIAL PROJECTIONS

Operational Performance

Particulars	2009	2010E	2011E	2012E
Gr. Trading Inc.	53.2	83.1	100.0	149.1
Other Inc*	198.2	241.4	509.6	1276.3
Total Inc	251.3	324.5	609.6	1425.4
Cost Sales	120.6	169.2	380.3	1018.2
PBDILT	130.8	155.3	229.3	407.2
Dep	6.2	5.6	8.1	9.1
PBILT	124.5	149.6	221.3	398.1
Fin.charge	2.5	2.2	2.2	7.7
EBIT	122.0	147.4	219.1	390.4
Extra Items	-0.1	0.0	0.0	0.0
PBT	121.9	147.4	219.1	390.4
Less: Tax	22.8	28.0	41.6	74.2
PAT	99.1	119.4	177.5	316.2

Balance Sheet

Rs. Cr.

Particulars	2009	2010E	2011E	2012E
Assets				
F.Assets	47.6	52.5	54.9	56.4
Invest	552.5	788.0	991.8	1087.7
NCA	1115.7	1446.0	1398.4	1718.4
C.A.	1425.9	1811.0	1864.4	2293.6
Curr. Liab.	310.2	365.0	466.1	575.2
Total Cap. Emp.	1715.8	2286.4	2445.1	2862.5
Liabilities				
Share Cap	227.4	294.1	294.1	294.1
Reserves	1332.2	1816.2	1924.8	2172.3
Minority interest	136.2	156.2	206.2	276.2
Net Worth	1695.8	2266.4	2425.1	2742.5
Term Liab	20.0	20.0	20.0	120.0
Total Cap. Emp.	1715.8	2286.4	2445.1	2862.5

Key Ratios

Particulars	2009	2010E	2011E	2012E
Gr Tot Inc.	73.4%	29.1%	87.9%	133.8%
Gro PAT	114.6%	20.5%	48.6%	78.2%
PBDIT Mar	52.0%	47.9%	37.6%	28.6%
PAT Mar	39.4%	36.8%	29.1%	22.2%
ROCE	7.7%	7.5%	9.4%	15.0%
RONW	6.1%	6.0%	7.6%	12.2%
Gearing (x)	0.01	0.01	0.01	0.04
Ov. Gearing (x)	0.01	0.01	0.01	0.04
Current Ratio (x)	4.60	4.96	4.00	3.99
Int. Coverage (x)	49.04	68.02	100.59	51.70
Drs. Turnover	0.94	0.85	1.39	2.80
Sales Per Share	11.05	11.03	20.73	48.47
EPS (Rs.)	3.57	4.06	6.03	10.75
Cash EPS (Rs)	4.83	4.25	6.31	11.06
DPS (Rs.)	1.55	2.00	2.00	2.00
BV(Rs)	74.57	77.07	82.46	93.26

Cash Flows
Rs. Cr.

Particulars	2009	2010E	2011E	2012E
Profit After Tax	99.1	119.4	177.5	316.2
Depreciation	6.2	5.6	8.1	9.1
Misc Exo w/o	0.0	0.0	0.0	0.0
Change in WC	(89.3)	(96.2)	(82.3)	(90.2)
Op. Cash Flow	16.0	28.9	103.2	235.1
(Inc)/Dec in Gr.Bl.	0.9	(10.0)	(10.0)	(10.0)
(Inc)/ Dec in CWIP	0.2	(0.5)	(0.5)	(0.5)
(Inc)/Dec. in Invest	829.7	(235.4)	(203.8)	(95.9)
Csh Flw Invest Act	830.7	(245.9)	(214.3)	(106.4)
Payment of Div.	(41.3)	(68.8)	(68.8)	(68.8)
Issue of Eq. Cap.	0.0	500.0	0.0	0.0
Inc/Dec Min.Int.	93.9	20	50	70
Inc. in Term Liab.	20.0	0.0	0.0	100.0
Csh Fl. fr. Fin. Act.	72.6	451.2	(18.8)	101.2
Op Cash Bal.	124.0	1051.5	1285.7	1155.7
Cl. Cash Bal.	1041.5	1285.7	1155.7	1385.6

* The other income includes income from interest, dividend and Power Tolling Arrangement.

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