

ICICI Securities Limited  
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Q1FY22 result review and  
earnings revision

## Power

Target price: Rs150

### Earnings revision

(%)	FY22E	FY23E
Sales	↑ 8.9	↑ 14.0
EBITDA	↑ 0.3	↑ 4.8
EPS	↑ 0.3	↑ 4.2

### Target price revision

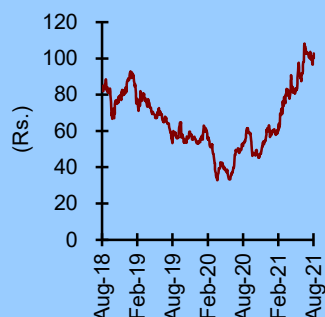
Rs150 from Rs135

### Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	16.2	16.2	16.2
Institutional investors	41.6	44.5	44.4
MFs and other	3.8	3.4	2.4
Insurance			
Cos/FIs	9.1	9.1	7.7
FIs	28.7	32.0	34.3
Others	42.2	39.3	39.4

Source: NSE

### Price chart



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INDIA

## PTC India

**ICICI Securities**

**BUY**

**Maintained**

**Rs100**

### Medium-term volumes to pick up soon

PTC India's (PTC) 21% YoY increase in trading volumes in Q1FY22 at 22.9BU resulted in 13.6% YoY increase in its reported PAT to Rs769mn. The increase in volumes is primarily attributed to 47% jump in short-term volumes to 13.1BU despite challenges due to lockdown. However, medium and long term volumes declined 2% to 9.8BU. Trading margin (ex-rebate and surcharge) declined 33% to 2.9p/kW due to higher short-term transactions on demand uncertainty and seasonal variations. There was 36% YoY increase in surcharge to Rs282mn, while rebates were 97% higher YoY at Rs231mn. PTC is in the final stages of signing PPA/PSA for 1,070MW out of 2,500MW Pilot-II 3-year tender. Consultancy business performed well with revenue up 78% YoY to Rs90mn; will be one of the key growth areas, particularly post the IL&FS energy consulting business acquisition completion. We maintain BUY, but increase our target price to Rs150/sh (earlier: Rs135/sh) as we upgrade our volume assumptions and also assign higher value to its investments.

- **Higher short-term volumes push overall volumes:** In Q1FY22, revenue was up 7.9% YoY at Rs45.7bn, while EBITDA was Rs1.1bn, up 15.7% YoY. Reported PAT was Rs769mn, up 13.6% YoY. Factors impacting the profit for the quarter: 1) 21% YoY growth in volumes at 22.9BU buoyed by 47% increase in ST volumes at 13.1BU (bilateral volumes were up 101% at 3.2BU) due to demand uncertainty and seasonal variations, 2) 21% increase in medium-term volumes to 1.6BU but 5% decline in long-term volumes at 8.2BU, 3) rebate/ surcharge at Rs231mn/Rs282mn was up 97%/36%, and 4) core margins were 33% lower at 2.9p/kWh vs 4.3p/kWh mainly due to higher proportion of ST volumes and withdrawal of one-off gains booked in earlier quarters for Bangladesh cross border trades. Receivables increased due to seasonality to Rs78.1bn at Q1FY22-end vs Rs58.3bn at FY21-end, but are lower than Q1FY21 levels of >Rs90bn.
- **Company to participate in revamped discom scheme and other upcoming opportunities:** PTC has 8 clients, which it serves in strengthening distribution systems, which is a part of the scheme. PTC will play a role once more details on the scheme and the associated projects come up. There are advisory and related-opportunities through the scheme. As a result of the implementation of the scheme, collection improvement for discoms will help improve PTC's receivables. In case of delicensing of distribution as well, PTC will have an opportunity as and when there are further developments. Other growth areas include cross-border trade, opportunities arising post the implementation of Power Market Regulations, 2021 and the consultancy business, which will gain significantly post completion of acquisition of IL&FS' energy consultancy business. PPA/PSA for 1,070MW for Pilot-II scheme will be signed with the states shortly. PTC has confirmed orders from three discoms for the same. This will result in growth in medium-term volumes.
- **Sale of non-core businesses** is still under consideration but has been delayed. The company has, however, mentioned that it is still pursuing potential buyers.
- **Valuation:** We maintain **BUY** but increase our SoTP-based target price to Rs150/sh (earlier: Rs135/sh), as we upgrade our volume assumptions and also assign higher value to its investments. Divestment of non-core holdings will unlock value and re-rate the stock price meaningfully, which is trading at FY23E P/BV of 0.7x and dividend yield of 8.1%.

Market Cap	Rs29.4bn/US\$396mn	Year to Mar	FY20	FY21	FY22E	FY23E
Reuters/Bloomberg	PTCI.BO/PTCIN IN	Revenue (Rs mn)	164,430	169,633	235,091	279,441
Shares Outstanding (mn)	296.0	Rec. Net Inc. (Rs mn)	3,201	4,102	4,132	4,764
52-week Range (Rs)	108/45	EPS (Rs)	10.8	13.9	14.0	16.1
Free Float (%)	83.8	% Chg YoY	22.0	28.2	0.7	15.3
FII (%)	34.3	P/E (x)	9.2	7.2	7.1	6.2
Daily Volume (US\$/'000)	2,642	CEPS (Rs)	10.9	14.0	14.1	16.2
Absolute Return 3m (%)	11.1	EV/E (x)	8.2	5.6	6.5	5.7
Absolute Return 12m (%)	111.4	Dividend Yield (%)	5.5	7.5	7.5	8.1
Sensex Return 3m (%)	13.3	RoCE (%)	8.9	9.6	8.8	9.6
Sensex Return 12m (%)	44.5	RoE (%)	9.1	11.1	10.6	11.5

Please refer to important disclosures at the end of this report

**Table 1: Q1FY22 earnings review (standalone)***(Rs mn)*

	Q1FY22	Q1FY21	Q4FY21	YoY (%)	QoQ (%)
Net Sales	45,698	42,338	33,286	7.9%	37.3%
Other Operating Income	514	286	2,641	79.6%	-80.5%
<b>Total Income</b>	<b>46,212</b>	<b>42,624</b>	<b>35,927</b>	<b>8.4%</b>	<b>28.6%</b>
Cost of Purchase	44,717	41,440	32,489	7.9%	38%
Staff cost	133	104	122	28.2%	8.5%
Other operating expenses	161	28	1,414	480.1%	-88.6%
Other expenditure	112	111	164	0.9%	-31.9%
<b>EBITDA</b>	<b>1,090</b>	<b>942</b>	<b>1,738</b>	<b>15.7%</b>	<b>-37.3%</b>
<b>EBITDA Margins</b>	<b>2.4%</b>	<b>2.2%</b>	<b>4.8%</b>		
<b>Adjusted EBITDA</b>	<b>577</b>	<b>617</b>	<b>347</b>	<b>-6.5%</b>	<b>66.4%</b>
Depreciation	8	6	8	29.3%	-7.4%
Other Income	47	24	65	97.5%	-28.6%
<b>Profit before Tax and exceptional items</b>	<b>1,036</b>	<b>913</b>	<b>1,664</b>	<b>13.5%</b>	<b>-37.8%</b>
Exceptional items	0	0	603		
<b>Profit before Tax</b>	<b>1,036</b>	<b>913</b>	<b>1,062</b>	<b>13.5%</b>	<b>-2.4%</b>
Tax	267	236	428	13.1%	-37.6%
<b>Profit after Tax</b>	<b>769</b>	<b>677</b>	<b>633</b>	<b>13.6%</b>	<b>21.3%</b>
<b>Adjustments</b>					
Sales	45,980	42,624	34,417	7.9%	33.6%
Rebate disallowed	231	117	260	96.9%	-11.2%
Surcharge received	282	208	1,131	35.5%	-75.1%
Consultancy income	90	51	91	76.5%	-0.6%
<b>Adjusted Sales</b>	<b>45,377</b>	<b>42,248</b>	<b>32,936</b>	<b>7.4%</b>	<b>37.8%</b>
Units sold	22,911	18,918	16,279	21.1%	40.7%
<b>Sales/unit (Rs/unit)</b>	<b>1.98</b>	<b>2.23</b>	<b>2.02</b>	<b>-11.3%</b>	<b>-2.1%</b>
Purchase cost	44,717	41,440	32,489	7.9%	37.6%
Units purchased	22,911	18,918	16,279	21.1%	40.7%
<b>Purchase cost/unit (Rs/unit)</b>	<b>1.95</b>	<b>2.19</b>	<b>2.00</b>	<b>-10.9%</b>	<b>-2.2%</b>
<b>Margin (Rs/unit)</b>	<b>0.0288</b>	<b>0.0427</b>	<b>0.0274</b>	<b>-32.6%</b>	<b>5.1%</b>
Units traded (MUs)					

Source: Company data, I-Sec research

## Analyst call takeaways

- **Margins:** Prices of exchange became lucrative for discoms to shift to exchanges, and due to this, margins declined. Most discoms did not tie up for their Q1FY22 power requirements and were procuring from the exchanges or through bilateral. As a result, MT-LT volumes were lower and ST volumes were higher, which impacted the overall margins. This is expected to reverse in the near future. But it is important to be involved in the short-term market as well if there is an opportunity and not much additional cost is required.
- **RTM** clocked 1,871MU in Q1FY22, which was 40% of the total traded volume. PTC's share of GTAM market is 30-40%.
- PTC has 700 retail clients (major industrial and commercial consumers). There is a potential to capitalise on this large client base by providing more products and services. This can potentially be one of the high growth areas.
- **Consultancy** (unfulfilled) orderbook is Rs1.5bn. The business has signed a few marquee contracts including a 5-year consultancy contract, an engineering consultancy contract with Talcher Fertilisers, among others. Focus is to provide consulting, energy management, demand forecasting, power portfolio planning etc. in addition to trading to discoms. The business clocked Rs290mn revenue in FY21. PTC has started a technology and consultancy center for developing technology and consultancy products.
- **Unsold RE power:** PTC will be interested in working with projects which have unsold power. It is trying to develop products to contribute in RE medium-to-long term space.
- **Cross border:** Power plants across the border, especially in Bhutan, Nepal, will come up in the next 2-3 years. PTC will be one of the major players in the cross border trade as it has been earlier.
- **Pilot-II 2,500MW auctions:** PPA/PSA for 1,070MW will be signed with the states shortly. PTC has confirmed orders from three discoms for the same. Will strive to get more volumes.
- **Power market regulations:** PMR-21 will widen the market and plenty of new products can be introduced. There is a possibility of introducing market coupling and also other international products.
- **Power exchange:** Chief of operations appointed with consultants in place. Will be operational in FY22 itself. Exchange has received license in May'21. PTC's shareholding is bound by PMR and will continue to abide by it.
- **IL&FS energy consulting business acquisition:** Orderbook is Rs1bn. Will get experienced advisory people, which will help the existing set up.
- **Will benefit from MBED and market coupling:** MBED as well as market coupling will be important for PTC's core business growth going forward. MBED is more a dispatch mechanism rather than a market. Dispatch will be from the least variable cost plant first. Role of exchanges will be very important, and subsequently intermediaries will also have a role. Solar PSAs will not be affected in the beginning as MBED will initially start with conventional power plants. Effective dates are not yet notified.

- **Revamped distribution sector Rs3trn scheme:** PTC has 8 clients, which it serves in strengthening distribution systems, which is a part of the scheme. PTC will play a role once more details on the scheme and the associated projects come up. There are advisory and related opportunities through the scheme. As a result of the implementation of the scheme, collection improvement for discoms will help improve PTC's receivables.
- **Delicensing of distribution:** PTC will have an opportunity as and when there are further developments in this area.
- **Divestment:** PEL divestment process is ongoing and is in advanced stages of completion. There is an intent to divest PFS but the environment currently is not favourable and there has been no material development. For Teesta Urja, one of the shareholders has approached PTC and is currently in discussion.
- **Receivables** as of 30<sup>th</sup> Jun'21 was Rs78.11bn vs Rs58.33bn at FY21-end. This increase is due to seasonality. In Q1FY22, the daily turnover increased by an average of Rs120mn, and working capital at 30 days resulted in increase in net working capital by Rs4bn.

## Change in earnings estimate

**Table 2: Earnings revision (consolidated)**

(Rs mn, year ending March 31)

	FY22E			FY23E		
	Previous	Revised	% chg	Previous	Revised	% chg
Sales	215,918	235,091	8.9	245,216	279,441	14.0
EBITDA	5,111	5,127	0.3	5,325	5,580	4.8
PAT (Rs)	4,120	4,132	0.3	4,573	4,764	4.2

Source: Company data, I-Sec research

## Valuation

**Table 3: Valuation summary**

Particulars	Rs (mn)	Value per share (Rs/sh)
PTC – FY23 post-tax core earnings	4,284	
P/E multiple (x)	8	
Standalone value	34,274	116
PTC Financial Services	3,250	11
Value of other investments*	7,000	24
<b>SoTP</b>	<b>44,524</b>	<b>150</b>

\* Note: PTC's total book value of investments in subsidiaries (including PFS) is Rs16bn

Source: I-Sec research

We maintain BUY but increase our SoTP-based target price to Rs150/sh (earlier: Rs135/sh), as we upgrade our volume assumptions and also assign higher value to its investments. Divestment of non-core holdings will unlock value and re-rate the stock price meaningfully, which is trading at FY23E P/BV of 0.7x and dividend yield of 8.1%.

## Key risks

Downside risks to our call: i) Delay in operationalisation of LT/MT PPAs, and ii) delay in sale of non-core assets.

## Financial summary (standalone)

Table 4: Profit &amp; loss statement

(Rs mn, year ending March 31)

	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>Total Income</b>	<b>127,987</b>	<b>140,748</b>	<b>181,890</b>	<b>132,960</b>	<b>164,430</b>	<b>169,633</b>	<b>235,091</b>	<b>279,441</b>
<b>Operating Expenses</b>	<b>124,952</b>	<b>137,665</b>	<b>178,273</b>	<b>128,842</b>	<b>160,068</b>	<b>163,356</b>	<b>229,964</b>	<b>273,862</b>
<b>EBITDA</b>	<b>3,036</b>	<b>3,083</b>	<b>3,618</b>	<b>4,119</b>	<b>4,362</b>	<b>6,277</b>	<b>5,127</b>	<b>5,580</b>
% margins	2.4%	2.2%	2.0%	3.1%	2.7%	3.7%	2.2%	2.0%
Depreciation & Amortisation	35	27	29	30	29	28	28	28
Gross Interest	19	16	16	1,430	550	278	100	100
Other Income	460	1,050	875	1,317	442	(315)	510	900
<b>Recurring PBT</b>	<b>3,442</b>	<b>4,091</b>	<b>4,448</b>	<b>3,975</b>	<b>4,225</b>	<b>5,656</b>	<b>5,509</b>	<b>6,352</b>
Add: Extraordinaries	-	-	-	-	-	-	-	-
Less: Taxes	1,106	1,181	1,256	1,352	1,024	1,553	1,377	1,588
<b>Net Income (Reported)</b>	<b>2,336</b>	<b>2,910</b>	<b>3,193</b>	<b>2,623</b>	<b>3,201</b>	<b>4,102</b>	<b>4,132</b>	<b>4,764</b>
<b>Recurring Net Income</b>	<b>2,336</b>	<b>2,910</b>	<b>3,193</b>	<b>2,623</b>	<b>3,201</b>	<b>4,102</b>	<b>4,132</b>	<b>4,764</b>

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>Assets</b>								
Total Current Assets	35,669	41,732	38,857	50,580	71,409	63,752	70,207	72,953
of which cash & cash eqv.	1,615	7,409	4,215	947	2,090	4,181	5,454	7,428
Total Current Liabilities & Provisions	21,590	28,472	23,453	30,850	44,872	37,454	41,976	42,313
<b>Net Current Assets</b>	<b>14,079</b>	<b>13,260</b>	<b>15,403</b>	<b>19,730</b>	<b>26,537</b>	<b>26,298</b>	<b>28,231</b>	<b>30,641</b>
<b>Investments</b>	<b>13,611</b>	<b>16,961</b>	<b>16,161</b>	<b>16,043</b>	<b>16,175</b>	<b>19,574</b>	<b>19,574</b>	<b>19,574</b>
Strategic/Group								
Others								
<b>Net Fixed Assets</b>	<b>246</b>	<b>247</b>	<b>233</b>	<b>221</b>	<b>208</b>	<b>211</b>	<b>183</b>	<b>155</b>
of which Capital Work-in-Progress	-	-	-	-	-	-	-	-
<b>Total Assets</b>	<b>27,936</b>	<b>30,468</b>	<b>31,798</b>	<b>35,994</b>	<b>42,920</b>	<b>46,083</b>	<b>47,987</b>	<b>50,370</b>
<b>Liabilities</b>								
<b>Borrowings</b>	-	7	7	3,135	8,326	9,569	9,569	9,569
<b>Deferred Tax Liability/(Asset)</b>	(69)	(280)	(407)	(424)	(538)	(508)	(508)	(508)
Equity Share Capital	2,960	2,960	2,960	2,960	2,960	2,960	2,960	2,960
Face Value per share (Rs)	10	10	10	10	10	10	10	10
Reserves & Surplus	25,045	27,780	29,237	30,324	32,172	34,061	35,966	38,348
<b>Net Worth</b>	<b>28,005</b>	<b>30,740</b>	<b>32,197</b>	<b>33,284</b>	<b>35,132</b>	<b>37,021</b>	<b>38,926</b>	<b>41,308</b>
<b>Total Liabilities</b>	<b>27,936</b>	<b>30,468</b>	<b>31,798</b>	<b>35,994</b>	<b>42,920</b>	<b>46,083</b>	<b>47,987</b>	<b>50,370</b>

Source: Company data, I-Sec research

Table 6: Quarterly trend

(Rs mn, year ending March 31)

	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Total Revenues	26,513	49,733	47,499	34,646	32,553	42,624	56,245	34,837	33,286	45,698
EBITDA	930	1,020	1,412	910	1,021	942	2,009	1,588	1,738	1,090
Margin (%)	3.5	2.1	3.0	2.6	3.1	2.2	3.6	4.6	4.8	2.4
Other income	219.6	34.7	363.1	31.3	24.2	35.2	215.3	7.5	65	47
Add: Extraordinaries	(1.3)	-	(0.1)	(1.2)	(10.0)	-	(0.2)	-	(603)	-
<b>Net profit</b>	<b>539</b>	<b>628</b>	<b>1,349</b>	<b>583</b>	<b>642</b>	<b>677</b>	<b>1,662</b>	<b>1,130</b>	<b>633</b>	<b>769</b>

Source: Company data, I-Sec research

**Table 7: Cashflow statement**

(Rs mn, year ending March 31)

	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Operating Cashflow	1,860	2,257	1,387	2,397	3,500	4,761	3,743	3,992
Working Capital Changes	(3,752)	6,612	(5,336)	(7,595)	(5,664)	2,330	(660)	(436)
Capital Commitments	(9)	(28)	(15)	(18)	(15)	(31)	-	-
<b>Free Cashflow</b>	<b>(1,900)</b>	<b>8,841</b>	<b>(3,964)</b>	<b>(5,216)</b>	<b>(2,180)</b>	<b>7,060</b>	<b>3,083</b>	<b>3,556</b>
<b>Cashflow from Investing Activities</b>	<b>1,371</b>	<b>(2,315)</b>	<b>1,659</b>	<b>4</b>	<b>(240)</b>	<b>(3,992)</b>	<b>410</b>	<b>800</b>
Issue of Share Capital	-	-	-	-	-	-	-	-
Buyback of shares	-	-	-	-	-	-	-	-
Inc (Dec) in Borrowings	-	7	-	3,127	5,191	1,243	-	-
Dividend paid	(651)	(740)	(888)	(1,184)	(1,628)	(2,220)	(2,220)	(2,382)
Extraordinary Items	-	-	-	-	-	-	-	-
<b>Chg. in Cash &amp; Bank balances</b>	<b>(1,181)</b>	<b>5,793</b>	<b>(3,193)</b>	<b>(3,268)</b>	<b>1,143</b>	<b>2,091</b>	<b>1,273</b>	<b>1,974</b>

Source: Company data, I-Sec research

**Table 8: Key ratios**

(Year ending March 31)

	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>Per Share Data (Rs)</b>								
EPS(Basic Recurring)	7.9	9.8	10.8	8.9	10.8	13.9	14.0	16.1
Diluted Recurring EPS	7.9	9.8	10.8	8.9	10.8	13.9	14.0	16.1
Recurring Cash EPS	8.0	9.9	10.9	9.0	10.9	14.0	14.1	16.2
Dividend per share (DPS)	2.2	2.5	3.0	4.0	5.5	7.5	7.5	8.0
Book Value per share (BV)	94.6	103.8	108.8	112.4	118.7	125.1	131.5	139.6
<b>Growth Ratios (%)</b>								
Operating Income	(2.2)	10.0	29.2	(26.9)	23.7	3.2	38.6	18.9
EBITDA	12.1	1.6	17.3	13.8	5.9	43.9	(18.3)	8.8
Recurring Net Income	15.0	24.6	9.7	(17.8)	22.0	28.2	0.7	15.3
Diluted Recurring EPS	15.0	24.6	9.7	(17.8)	22.0	28.2	0.7	15.3
Diluted Recurring CEPS	14.4	23.9	9.7	(17.6)	21.7	27.9	0.7	15.2
<b>Valuation Ratios</b>								
P/E	12.6	10.1	9.2	11.2	9.2	7.2	7.1	6.2
P/CEPS	12.4	10.0	9.1	11.1	9.1	7.1	7.1	6.1
P/BV	1.1	1.0	0.9	0.9	0.8	0.8	0.8	0.7
EV / EBITDA	9.2	7.2	7.0	7.7	8.2	5.6	6.5	5.7
EV / Operating Income	0.2	0.2	0.1	0.2	0.2	0.2	0.1	0.1
EV / Op. FCF (pre -Capex)	(14.7)	2.5	(6.4)	(6.1)	(16.4)	4.9	10.9	8.9
<b>Operating Ratios</b>								
Employee cost / Revenue (%)	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.2
Operating expenses / Revenue (%)	97.6	97.8	98.0	96.9	97.3	96.3	97.8	98.0
Other Income / PBT (%)	13.4	25.7	19.7	33.1	10.5	(5.6)	9.3	14.2
Effective Tax Rate (%)	(32.1)	(28.9)	(28.2)	(34.0)	(24.2)	(27.5)	(25.0)	(25.0)
WC / Total Assets (%)	50.4	43.5	48.4	54.8	61.8	57.1	58.8	60.8
Inventory Turnover	NM	NM	NM	NM	NM	NM	NM	NM
Receivables (days)	92.0	84.8	65.6	129.5	150.7	125.6	98.7	84.0
Payables (days)	3.2	0.1	0.1	0.2	0.2	0.2	0.1	0.1
D/E Ratio (%)	(5.8)	(24.1)	(13.1)	6.6	17.7	14.6	10.6	5.2
<b>Profitability Ratios (%)</b>								
Rec. Net Income Margins	1.8	2.1	1.8	2.0	1.9	2.4	1.8	1.7
RoCE	8.4	9.5	10.0	12.5	8.9	9.6	8.8	9.6
RoNW	8.3	9.5	9.9	7.9	9.1	11.1	10.6	11.5
Dividend Payout	27.9	25.4	27.8	45.1	50.9	54.1	53.7	50.0
Dividend Yield	2.2	2.5	3.0	4.0	5.5	7.5	7.5	8.1
EBITDA Margins	2.4	2.2	2.0	3.1	2.7	3.7	2.2	2.0

Source: Company data, I-Sec researchh

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