IIFL INDIA PRIVATE CLIENTS

PTC India Fin Services Ltd.

Valuation re-rating to continue

With enhanced confidence in the business, we upgrade our 2-year price target on PFS to Rs80 from Rs65 representing a significant 43% upside from the current price. Since our initiation report at Rs32 released on July 1, 2014, the stock has already delivered 75% return. Government's policy thrust on power sector particularly in the renewable space and encouraging interactions with the management has strengthened our conviction in PFS. In our view, company's loan assets would grow 3x over FY14-17 underpinning a 51% CAGR in pre-exceptional PBT. We believe that PFS can deliver sustainable RoA of 3.3-3.5% and RoE of 17-18% while operating on a comfortable leverage. Current valuation of 1.6x FY17E P/ABV is attractive in this context and represents material room for incremental re-rating.

Management encouraged by Government's policy initiatives and thrust on renewable energy

Fast growing power demand and need to achieve energy security has underpinned new government's policy thrust on developing the country's renewable energy resources. While the Ministry of New and Renewable Energy (MNRE) is aiming for a capacity addition of 30 GW during the 12th Plan period (2012-2017) from various renewable energy sources, the government has set a mammoth target of adding 100 GW over the coming five years. The latter would imply investment of US$100bn and therefore represents debt financing opportunity of US$70bn. The associated investment requirement in the value chain would represent additional funding scope. Government also wants to expand the National Solar Mission and enhance the capacity addition target of 22 GW by 2022.

India's current installed power generation capacity is about 250 GW, of which about 13% (32.4 GW) is based on renewable energy sources. This renewable energy capacity, however, contributes only 6-7% to the electricity generated in the country. The government intends to increase the share of the renewable energy in electricity generation to 12% by 2020.

Financial summary

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Total operating income	2,430	4,142	5,896	8,206
Yoy growth (%)	35.1	70.4	42.4	39.2
Operating profit (pre-provisions)	2,192	3,857	5,483	7,627
Exceptional Item	822	436	0	0
Net profit	2,077	2,644	3,327	4,693
yoy growth (%)	99.4	27.3	25.8	41.1
EPS (Rs)	3.7	4.7	5.9	8.4
Adj. BVPS (Rs)	24.0	25.7	29.5	35.6
P/E (x)	15.2	11.9	9.5	6.7
P/Adj.BV (x)	2.3	2.2	1.9	1.6
ROE (%)	16.1	18.2	19.6	23.2
ROA (%)	5.0	3.9	3.4	3.5
CAR (%)	25.2	19.6	17.2	16.1

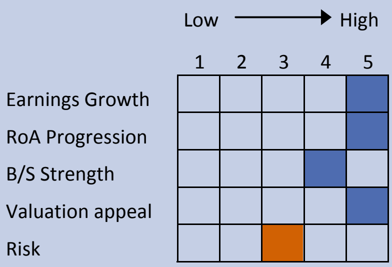
Source: Company, India Infoline Research

Rating:	BUY
Target (2-year):	Rs80
CMP:	Rs56
Upside:	42.9%

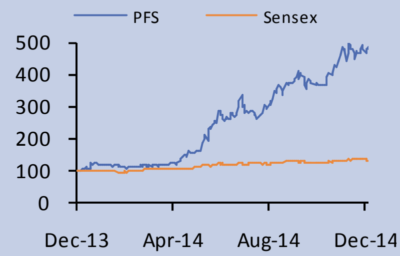
Sector:	Financials
Sector view:	Positive
Sensex:	27351
52 Week h/l (Rs):	60/11
Market cap (Rscr) :	3,223
6m Avg vol ('000Nos):	7,023
Bloomberg code:	PTCIF
BSE code:	533344
NSE code:	PFS
FV (Rs):	10

Price as on Dec 12, 2014

Company rating grid



Share price trend



Share holding pattern

(%)	Mar-14	Jun-14	Sep-14
Promoter	60.0	60.0	60.0
Insti	11.2	8.1	21.1
Others	28.8	31.9	18.9

Research Analyst:
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December 15, 2014

Company Report

PFS's growth trajectory could surprise positively; renewable segment to lead growth

Given substantial sanctions in hand, an impending improvement in the policy environment and company's strong positioning in the renewable energy funding segment, PFS' loan book should continue to grow at a robust pace. In the renewable energy space, which is likely to witness substantial capacity addition in the coming years, PFS has emerged as a preferred funding partner due to its rich understanding and faster turnaround ability. Recently, company has entered into a tie-up with PFC green energy to provide a single window to borrowers developing renewable energy projects under consortium financing so as to achieve speedy financial closure and avoid duplication of work.

In the renewable energy space, PFS has emerged as a preferred funding partner

After closing sanctions worth Rs12bn in H1 FY15, PFS has added sanctions worth Rs20bn so far thereby taking the YTD tally to ~Rs32bn. Of the incremental sanctions added post Sept 30th, 60-70% is for renewable energy projects (largely solar power) and the rest includes a couple of transmission projects. For the full-year, management hopes to achieve sanctions closure of Rs45-46bn which appears highly probable given the year-end rush typically experienced by the company. PFS expects to disburse on the recently sanctioned renewable projects by the end of the fiscal given shorter gestation period of such projects. Further, disbursements on the existing sanction bank should take the annual figure to Rs35-40bn. This would represent a material growth over Rs30bn disbursed during FY14. With disbursements linked to project milestones, PFS has followed a conservative policy of revoking sanctions (~Rs21bn in FY14 and ~Rs9bn in FY15 YTD) where project progress is dissatisfactory or its economic viability has been jeopardized. So the current sanction bank of Rs105bn (nearly 2x loan assets) carries a very high probability of being disbursed.

After closing sanctions worth Rs12bn in H1 FY15, PFS has added sanctions worth Rs20bn

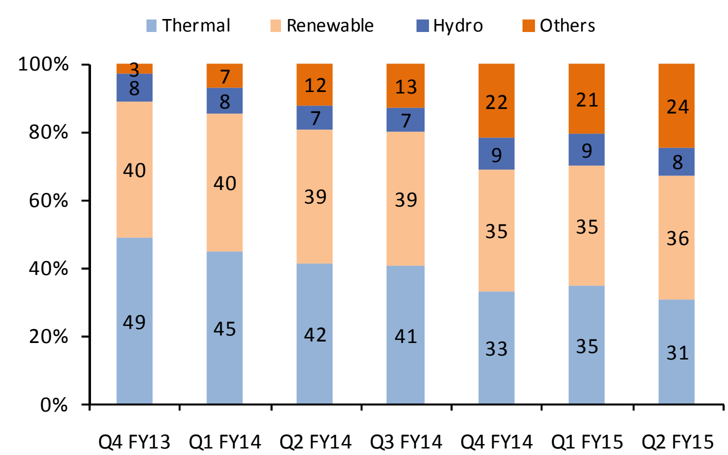
Sanction bank of Rs105bn (nearly 2x loan assets) carries a very high probability of being disbursed.

Annual disbursements to be Rs35-40bn

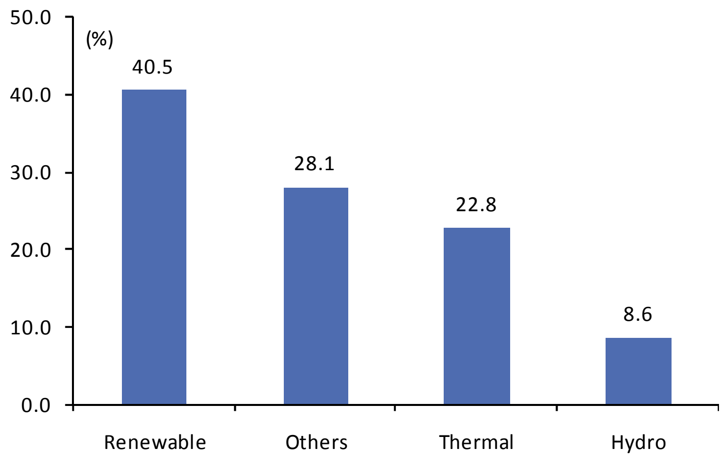
We estimate loan assets to reach Rs77bn by the end of FY15 and double in the subsequent two years thereby crossing Rs150bn by end-FY17; FY14-17 loan CAGR would be strong 46%. More importantly, the share of renewable energy segment in the loan book is likely to increase to 45-50% as compared to 36% currently.

Loan assets to triple by FY17; share of renewable energy segment to increase to 45-50%

Loan mix has shifted away from Thermal Energy

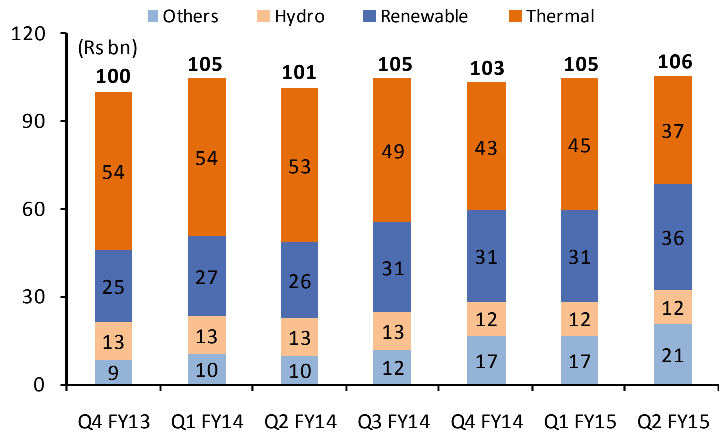


Segmental contribution to loan book expansion over the past 10 quarters

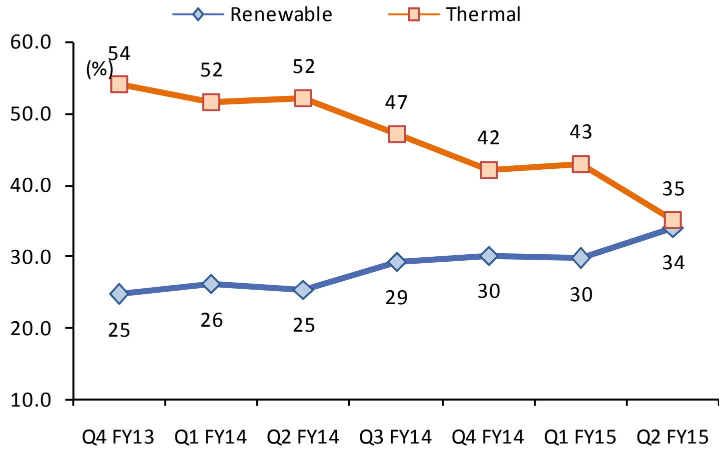


Source: Company, India Infoline Research

Outstanding sanctions - Substantial build-up in Renewable and value chain space

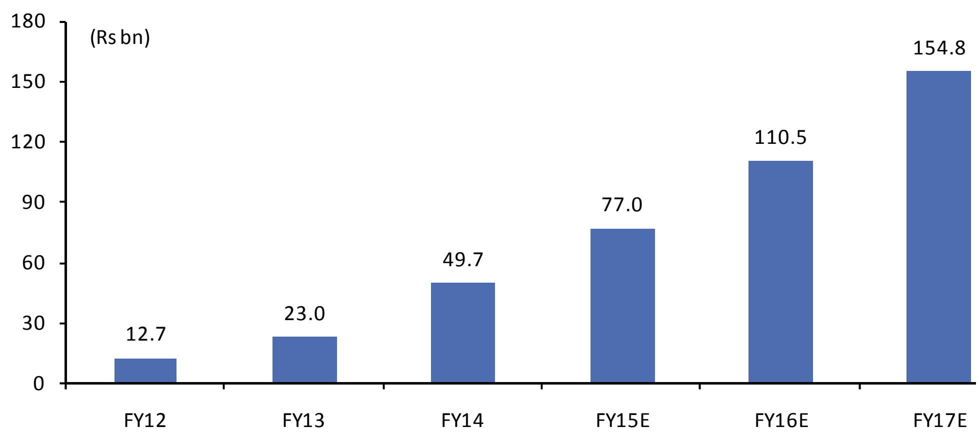


Share of Renewable Energy in outstanding sanctions has increased significantly; Thermal has declined



Source: Company, India Infoline Research

Loan assets to grow 3x over FY14-17



Source: Company, India Infoline Research

Currently well capitalized, but capital raising could happen soon

PFS has a strong balance sheet with CAR at 27% and nearly 100% of it being Tier-1 capital. The recent clarification received from RBI about lower risk capital requirements against exposure to projects having completed one year of operations has provided capital relief. Therefore, despite the book growing from Rs50bn to Rs56bn in H1 FY15, the capital adequacy level has improved. Further, as more projects from the existing portfolio complete their first year of operation, there will be incremental capital release. Also, planned liquidation of profitable project equity investments would augment capital base. Considering all this along with the rapid asset growth company is likely to witness, we believe that PFS would need to raise equity capital in early-to-mid FY16. Management has articulated that company would look to raise capital when CAR falls below 20%.

CAR at 27% and nearly 100% of it is Tier-1 capital

Clarification from RBI with regards to exposure to projects having completed one year of operation has provided capital relief

PFS would need to raise equity capital in early-to-mid FY16

Spreads to be sustained aided by softening of funding cost; NIM to come-off on increasing leverage

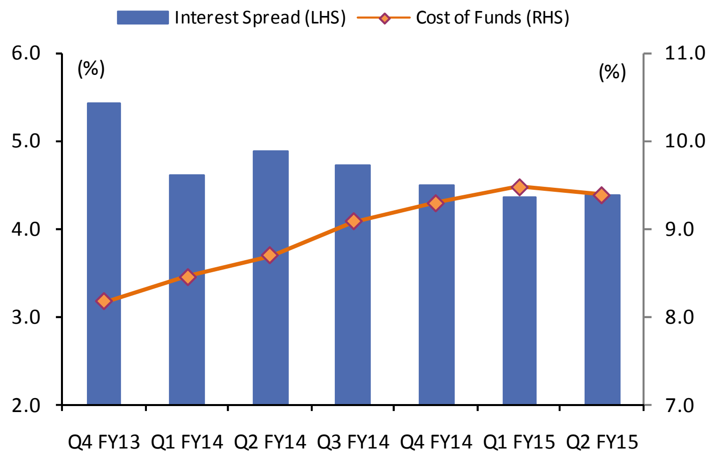
PFS has seen its spread come-off by 100bps over the past six quarters mainly driven by a steep increase in the cost of funds. In the aforesaid period, the share of bank borrowings in overall funding has gone north and the cost of bank funding got dearer on account of uptick in Base Rate and tightening of credit spreads over it. However, since the start of Q2 FY15, company has been able to reduce its borrowing cost by substituting short term bank loans by much cheaper CPs and bargaining lower credit spreads over the Base Rate. As per the company, the current cost of CPs (8.5-8.7%) is ~100bps lower than bank funding thanks to abundant liquidity in the system and highest rating of A1+ (CRISIL) attributed to its papers. PFS expects to see further reduction in borrowing spreads and an imminent reduction cycle in Base Rate would lower the cost of long term bank borrowings significantly over the coming 24 months. This should help company in sustaining loan spreads comfortably in the range of 4-4.5% notwithstanding any increase in competition. On account of increase in balance sheet leverage, NIM obviously would decline.

Spread has come-off in recent quarters due to steep increase in cost of funds

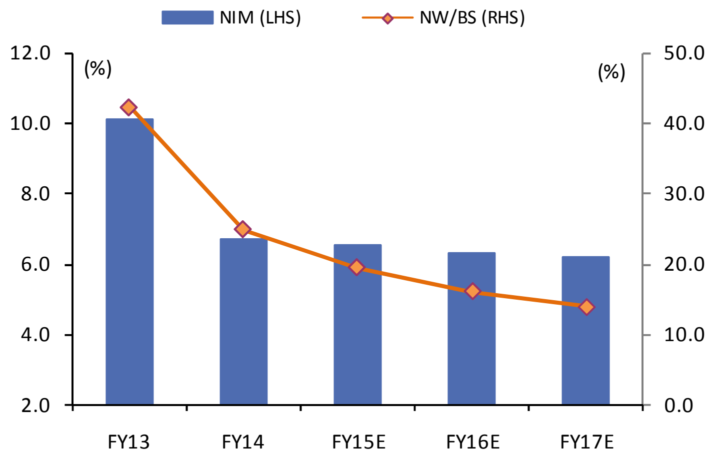
In Q2 FY15, company has been able to reduce its borrowing cost

Further decline in funding cost should help in sustaining loan spreads comfortably in the range of 4-4.5%

Sharp increase in cost of funds impacted spread



NIM to decline to more sustainable level of near 6%



Source: Company, India Infoline Research

Asset quality resilient barring a couple of cases

Though relatively unseasoned, PFS's asset quality has been resilient despite policy impasse impeding progress of various projects in the power sector. Apart from robust appraisal process, focus on renewable energy segment (projects progress smoother), thrust on funding value chain activities and proactive caution (revoked sanctions on impacted projects) has underpinned impressive asset quality performance. The Gross NPLs stand at marginal Rs43mn, just 8 bps of loan assets, and restructured assets are at sub-3% representing only a couple of stressed exposures. It includes company's ~Rs1.1bn loan to Konaseema Gas Power in Seemandhra where operations are standstill due to unavailability of gas supplies from KG-D6. Management expects this account to slip into sub-standard category if the government fails to resolve fuel supply soon through pooling. PFS already holds 15% provisioning against this account and therefore would be required to make little incremental provision when classified as NPL. Another problematic exposure is of ~Rs0.6bn to ICON EPC which is facing cash flows issues due to high debtors (pending receivables from Government for work executed under various schemes).

Asset quality has been resilient despite policy impasse impeding progress of various projects in the power sector

Gross NPLs stand at just 8 bps of loan assets and restructured assets are at sub-3%

Apart from a couple of restructured cases, asset quality outlook remains benign

Project equity investments in pink of health; liquidation to bolster Networth and RoA

PFS's recent write down of Rs310mn against investment in the second phase of RS India wind project (total capacity 83MW and investment of Rs610mn) in Satara would have raised some apprehensions about the health of its other project equity investments. However, barring this case, company has an impressive track record of investing equity in sound projects and exiting them at substantial profits. Since FY11, PFS has divested equity in three projects viz IEX, Meenakshi Energy, Ind-Bharat (Powergencom) making combined gains of Rs2.2bn. Amongst the current portfolio, management hopes to exit Ind-Bharat (Utkal) at significant profits of Rs0.8-1bn in the coming 6-9 months. The valuation of company's 5% stake in IEX is around Rs1.1bn versus a negligible investment cost of Rs15mn but the management is no hurry to sell stake given the exchange's long term growth potential. In the case of RS India wind energy project, the first phase is operational for the past three years and is EBITDA positive. The second phase got delayed and witnessed cost overruns but there remains good scope of project becoming operational in future as land is in place. So by writing down the investment fully, management has adopted a prudent and conservative policy. PFS does not have any loan exposure to the concerned project.

PFS has a track record of investing equity in sound projects and exiting them at substantial profit

Hopes to exit Ind-Bharat (Utkal) at significant profits of Rs0.8-1bn in the coming 6-9 months.

Co's 5% stake in IEX is valued at ~Rs1.1bn versus a negligible investment cost of Rs15mn

Status of current project equity investments

Project	Capacity (MW)	Investment as on 30th Sept 2014 (Rs mn)	Investment Status
Indian Energy Exchange Limited (IEX)	N.A.	15	Operational since June 2008 - PFS holds 5% on fully diluted basis which is currently valued near Rs1.1bn
Ind-Barath Energy (Utkal)	700	1,050	Project execution is at advanced stage and is expected to be commissioned soon - PFS intends to exit in next 6-9 months and expects to realize a profit of Rs0.8-1bn
East Coast Energy Private Limited	1,320	1,330	Construction activities are in progress. Phase I is expected to commissioned by December 2015 and phase II is expected by March 2016 PFS has received FIPB approval to swap its shareholding into shares of holding company
R S India Wind Energy Private Limited	41	300	Phase 1 commissioned for the past three years and is currently EBIDTA positive - In Q2 FY15, PFS wrote-off investment of Rs310mn in Phase 2 of the project due to time and cost overrun
Total		**2,695**	

Source :Company, IIFL Research

Track record of successful exits

Project	Exit Details
Indian Energy Exchange Limited (IEX)	Partial divestment of stake in FY11 and FY12 at total profit of Rs790mn
Meenakshi Energy	Divested stake in FY14 and realized profit of Rs820mn
Ind-Barath (Powergencom)	Divested stake in FY12 and realized profit of Rs610mn

Source: Company, IIFL Research

Valuation will continue to re-rate; Upgrade 2-year target to Rs80

PFS can deliver sustainable RoA of 3.3-3.5% and RoE of 17-18% while operating on a comfortable leverage

Significant room exists for incremental re-rating as current valuation is reasonable at 1.6x FY17E P/ABV

Since our initiation report on PFS at Rs32 released on July 1, 2014, the stock has performed exceptionally well delivering 75% return. Company's healthy performance in H1 FY15, subsequent interactions with the management and government's policy thrust on power sector particularly in the renewable space has strengthened our conviction in the business. We continue to believe that PFS can deliver sustainable RoA of 3.3-3.5% and RoE of 17-18% while operating on a comfortable leverage. Thus, there stands significant room for incremental re-rating over the medium term as the current valuation is reasonable at 1.6x FY17E P/ABV. We upgrade our 2-year price target on PFS to Rs80 from Rs65. The key risk to our view on the stock is a delayed policy resolution by the government which may impact growth and asset quality adversely.

Financials

Income statement

Y/e 31 Mar (Rs mn)	FY14	FY15E	FY16E	FY17E
Income from Operatns	4,639	8,404	12,151	16,799
Interest expense	(2,210)	(4,262)	(6,255)	(8,594)
Net interest income	**2,430**	**4,141**	**5,896**	**8,205**
Total op income	**2,430**	**4,142**	**5,896**	**8,206**
Total op expenses	(238)	(285)	(413)	(579)
Op profit (pre-prov)	**2,192**	**3,857**	**5,483**	**7,627**
Provisions	(166)	(346)	(518)	(622)
Exceptional Items	822	436	0	0
Profit before tax	**2,849**	**3,946**	**4,966**	**7,005**
Taxes	(772)	(1,302)	(1,639)	(2,312)
Net profit	**2,077**	**2,644**	**3,327**	**4,693**

Balance sheet

Y/e 31 Mar (Rs mn)	FY14	FY15E	FY16E	FY17E
Equity Capital	5,621	5,621	5,621	5,621
Reserves	7,868	10,019	12,688	16,461
Shareholder's funds	**13,489**	**15,640**	**18,309**	**22,082**
Long-term borrow	23,523	37,754	55,688	79,355
Deferred tax liab	249	274	383	536
Long term provi	288	317	444	622
Total non-curr liab	**24,060**	**38,345**	**56,515**	**80,513**
Short Term Borrow	14,173	22,748	33,553	47,813
Trade payables	33	33	33	33
Other current liab	1,724	2,768	4,082	5,818
Short term prov	658	921	1,197	1,557
Total current liab	**16,589**	**26,470**	**38,866**	**55,220**
Equity + Liab	**54,138**	**80,455**	**113,690**	**157,815**
Fixed Assets	253	278	306	337
Non-current inv	4,010	2,650	2,650	2,650
Long-term loans/adv	45,308	70,227	100,425	140,594
Other non-curr asset	392	471	565	678
Total non-curr asset	**49,963**	**73,626**	**103,946**	**144,259**
Trade receivables	3	3	3	3
Cash & equivalents	334	878	1,236	1,646
Short-term loan/adv	1,660	2,573	3,679	5,150
Other current assets	2,177	3,375	4,826	6,757
Total Current assets	**4,174**	**6,828**	**9,744**	**13,556**
Total Assets	**54,138**	**80,455**	**113,690**	**157,815**

Key ratios

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Growth matrix (%)				
Net interest income	35.2	70.4	42.4	39.2
Total op income	35.1	70.4	42.4	39.2
Op profit (pre-prov)	36.6	75.9	42.2	39.1
Net profit	99.4	27.3	25.8	41.1
Advances	116.6	54.8	43.5	40.1
Borrowings	144.9	63.6	46.7	43.1
Total assets	87.7	48.6	41.3	38.8
Profitability Ratios (%)				
NIM	6.7	6.5	6.3	6.2
Return on Avg Equity	16.1	18.2	19.6	23.2
Return on Avg Assets	5.0	3.9	3.4	3.5
Per share ratios (Rs)				
EPS	3.7	4.7	5.9	8.4
Adj.BVPS	24.0	25.7	29.5	35.6
DPS	1.0	0.8	1.0	1.4
Valuation ratios (x)				
P/E	15.2	11.9	9.5	6.7
P/Adj.BVPS	2.3	2.2	1.9	1.6
Other key ratios (%)				
Loans/Borrowings	1.3	1.2	1.2	1.2
Cost/Income	9.8	6.9	7.0	7.1
CAR	25.2	19.6	17.2	16.1
Tier-I capital	24.8	18.6	15.2	13.1
Gross NPLs/Loans	0.1	1.9	2.0	1.8
Credit Cost	0.5	0.5	0.6	0.5
Net NPLs/Net loans	0.0	1.6	1.6	1.3
Tax rate	27.1	33.0	33.0	33.0
Dividend yield	1.8	1.4	1.8	2.5

‘Best Broker of the Year’ – by Zee Business for contribution to broking

Nirmal Jain, Chairman, IIFL, received the award for The Best Broker of the Year (for contribution to broking in India) at India's Best Market Analyst Awards 2014 organised by the Zee Business in Mumbai. The award was presented by the guest of Honour Amit Shah, president of the Bharatiya Janata Party and Piyush Goel, Minister of state with independent charge for power, coal new and renewable energy.

'Best Equity Broker of the Year' – Bloomberg UTV, 2011

IIFL was awarded the 'Best Equity Broker of the Year' at the recently held Bloomberg UTV Financial Leadership Award, 2011. The award presented by the Hon'ble Finance Minister of India, Shri Pranab Mukherjee. The Bloomberg UTV Financial Leadership Awards acknowledge the extraordinary contribution of India's financial leaders and visionaries from January 2010 to January 2011.

'Best Broker in India' – Finance Asia, 2011

IIFL has been awarded the 'Best Broker in India' by Finance Asia. The award is the result of Finance Asia's annual quest for the best financial services firms across Asia, which culminated in the Country Awards 2011

Other awards

D&B Decide with Confidence 2012 — BEST BROKING HOUSE WITH GLOBAL PRESENCE

Zee Business 2009, 2012 & 2013 — BEST MARKET ANALYST

D&B Decide with Confidence 2009 — FASTEST GROWING LARGE BROKING HOUSE

AsiaMoney Brokers Poll 2009 — BEST BROKERAGE, INDIA

FinanceAsia Country Awards for Achievement 2008 — BEST BROKER, INDIA

AsiaMoney Brokers Poll 2008 — MOST IMPROVED, INDIA

Recommendation parameters for fundamental reports:

Buy – Absolute return of over +15%

Accumulate – Absolute return between 0% to +15%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

Call Failure - In case of a Buy report, if the stock falls 20% below the recommended price on a closing basis, unless otherwise specified by the analyst; or, in case of a Sell report, if the stock rises 20% above the recommended price on a closing basis, unless otherwise specified by the analyst

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