PTC India Financial Services Ltd.	
No. of shares (crore)	56.2
Mkt cap (Rs crs)	2840
Current price (Rs)(27/3/2015)	50.5
Price target (Rs)	64
52 week H/L (Rs.)	73.2/13.9
Book value/share (Rs.)(FV. 10)	26.6
P/BV (FY15e/16e)	1.9/1.6
P/E (FY15e /16e)	15.7/11.3
Beta	1.5
EPS Growth (FY14/15e /16e)	20.5/44.1/39.0
ROE (FY14/15e /16e)	16.1*/12.6/15.2
Daily Volume (avg.weekly)	196627
BSE Code	53344
NSE Code	PFS
Bloomberg	PTCIF IN

*ROE includes extraordinary income

Shareholding pattern	%
Promoters	60.0
MFs / Banks / FIs	3.4
Foreign	11.0
Govt. Holding	0.0
Non-Promoter Corp.	6.9
Total Public	18.8
Total	**100.0**

As on Dec 31, 2014

Recommendation

Buy

Analyst

Priyanka Somani

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Company Background

PTC India Financial Services Limited (PFS) is a non-banking finance company with the objective of devoting itself mainly for providing financial solutions to projects in the energy value chain.

Highlights

- India has the fifth largest power generation portfolio worldwide with a power generation capacity of 245 GW. Majority of the credit by PFS (70% incremental loans) going forward shall be deployed towards the renewable energy sector namely solar energy and wind energy projects Current renewable energy contribution stands at 31.70 GW of the total installed capacity of 245 GW in the country as on 31.03.2014 .Wind energy is the largest renewable energy source in India. The Jawaharlal Nehru National Solar Mission aims to generate 20,000 MW of solar power by 2022, creating a positive environment among investors keen to tap into India's potential.
- PTC India Financial Services has a loan book of Rs 5883 crore as on 31st December 2014. We expect this to touch Rs 7000 crore and Rs 10500 crore in FY15 and FY16 respectively. The company has shown a credit growth (CAGR) of 88% between FY11 and FY14. For the year 2015e and 2016e we expect the the net interest income of Rs 291 crore (yoy growth of 46%) and Rs 436 crore (yoy growth of 50%).The net profit (excluding extraordinary income) is expected to grow by 44% in FY15 and about 39% in FY16.
- The stock currently trades at 1.9x FY15e BV and 1.6xFY16e BV. We are hopeful that the company will achieve the expected growth rates as a result of combination of suitable investment climate, capacity addition (especially in renewable energy), policy support and as falling interest rates push up demand for funds from power sector. Therefore, we recommend a 'BUY' with the target price of Rs 64 based on 2.4x FY15e BV and 2x FY16e BV, within a time horizon of 9-12 months.

Figures in Rs crs	FY12	FY13	FY14	FY15e	FY16e
Net Interest Income	60.20	144.70	199.04	290.55	435.83
Non Interest Income	173.86	35.21	126.16	56.99	62.69
Pre-Provision Profits	206.27	160.45	301.44	322.75	463.81
Extraordinary Income	127.24	0.00	82.16	0.00	0.00
Net Profit	26.80	104.16	125.55	180.97	251.47
EPS (FV.10)	0.48	1.85	2.23	3.22	4.47

Indian Power Sector

Power or electricity is one of the most critical components of infrastructure and one of the prime drivers of economic growth and social development. India is the fifth largest producer and consumer of electricity in the world after US, China, Japan and Russia. The Indian power sector is one of the most diversified in the world. Sources for power generation range from commercial sources such as coal, lignite, natural gas, oil, hydro and nuclear power to other viable non-conventional sources such as wind, solar and agriculture and domestic waste.

The demand for electricity in the country has been growing at a rapid rate and is expected to grow further in the years to come. Indian power sector recorded a capacity addition of about 20,000 MW during FY 2013-14 taking the total installed power generation capacity in the country to about 243,000 MW as at 31st March 2014. The government's policy measures aimed at improving fuel availability and the financial health of state utilities have helped revive the power sector. It is felt that Indian government's FY13 and FY14 policy measures towards solving two key issues - fuel risk and poor financial health of state power utilities are yielding positive results. The investment climate is very positive in the power sector. Due to policy liberalization, the sector has witnessed higher investment flows than envisaged. The Power Ministry has set a target for adding about 76,000 MW of electricity generation capacity in the 12th Plan (2012–17) and about 93,000 MW in the 13th Plan (2017–2022).

The new government's resolve to pursue economic reforms is set to catalyze the power sector's revival. The stimulation is also seeing an increase in the number of foreign companies interested in participating in the Indian projects. The focus on solving the coal impasse by increasing coal production and assuring coal supply to power plants makes the government's priorities clear. The increased allocation to power in the plan outlay is crucial for sustained growth recovery. The investors have welcomed the move to extend the 10-year tax holiday and the proposed restoration of 'accelerated depreciation' which is expected to go a long way in encouraging investments into the sector. Comprehensive measures for enhancing domestic coal production, more washeries to improve the quality of delivered coal and rationalization of coal linkages are all expected to yield positive results.

India is blessed with an abundance of sunlight, water and biomass and the government is committed to increasingly tap this potential for generation of electricity. The composition of renewable power in the country's installed generation capacity is expected to increase going forward since renewable energy sources and technologies have potential to provide solutions to the long-standing energy problems. India is increasingly adopting responsible renewable energy techniques and taking positive steps towards carbon emissions, cleaning the air and ensuring a more sustainable future. PFS focuses on attractive opportunities across the infrastructure sector.

Company Profile

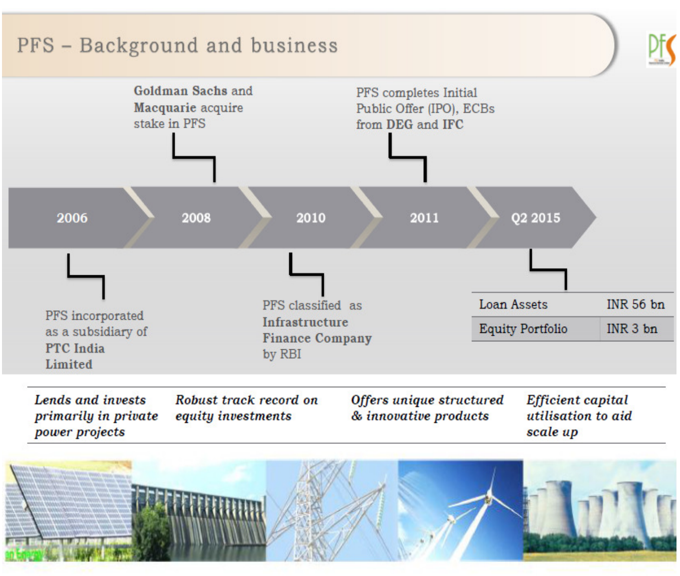
PTC India Financial Services Limited (PFS) is a systematically important non-deposit taking non-banking finance company registered with Reserve Bank of India (RBI) and set-up to devote itself mainly for providing financial solutions to projects in the energy value chain. The company has also been accorded the status of Infrastructure Finance Company (IFC) by the RBI in August 2010. PTC India Financial services (PFS), leveraging its parent PTC's strong industry experience in the power sector, is poised for healthy growth with focus on renewable energy.

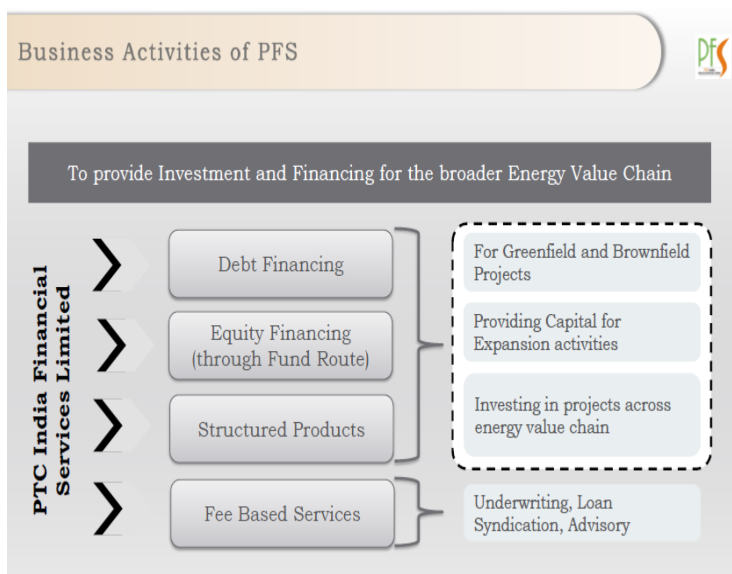
PFS specializes in financing small & medium power projects and has increased its focus on the renewable energy chain where larger banks/NBFCs have lower attention. Majority of the loans are to private players or for PPP projects, which enables PFS to maintain robust asset quality.PTC India Financial Services was incorporated on September 8, 2006 as a public limited company. The company received its certificate for commencement of business in March 2007. In 2009-10, it commenced its debt financing business while in 2010-11 it was accorded the status of infrastructure finance company (IFC) by the RBI. The company, in the same year successfully completed its IPO at a share price of Rs 28 and mobilized Rs 352 crore. PE investor - Macquarie India Holdings Ltd also offered its share along with the fresh issue, post which it ceased to be the controlling shareholder. Both initial PE investors GS Strategic Investments Ltd and Macquarie India Holdings Ltd ceased to be shareholders of the company by June 2014.

PFS' management team comprises veterans from the power as well as finance industry. As on date, the company has a small integrated team of 14 people who are actively involved in the daily operations of the company.

Promoter Background

PTC India Ltd (PTC) was established in 1999 by the Government of India as a public-private initiative with the primary focus on promoting power trading to optimally utilize existing resources, attract viable investments in the power sector on the strength of multi-buyer model and create a power market among India and neighboring countries. PTC has maintained the largest market share since inception. The company was promoted by public sector majors in the industry namely NTPC, Power Grid, PFC and NHPC .As on March 2014, the net worth of PTC stood at Rs 2500 crore.





Investment Rationale

Strategic Equity Investments

Status of significant equity investments

Project	Capacity (MW)	Outstanding as at 30th Sept 2014 (Rs. crore)	Investment Status
Indian Energy Exchange Limited	N.A.	1.52	• Operational since June 2008. • PFS holds 5% on fully diluted basis in the Company.
Ind Barath Energy (Utkal) Limited	700	105.00	• Project execution is at advanced stage and is expected to be commissioned in current year.
East Coast Energy Private Limited	1,320	133.38	• Construction activities are in progress. Cost overrun for the project has been approved by the lead FI. • PFS has received FIPB approval to swap its shareholding into shares of holding company.
R S India Wind Energy Private Limited	99	61.12	• Phase I (41.25 MW) is commissioned. • WTG manufacturing facility housed in a group company is commissioned.
Total		301.02	

Thrust on funding renewable energy projects

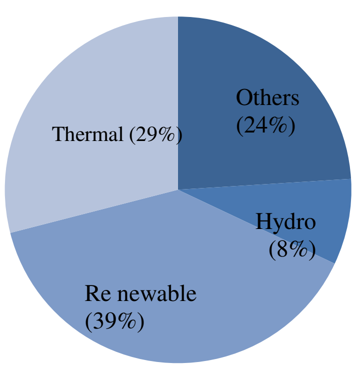
India has the fifth largest power generation portfolio worldwide with a capacity of 245 GW. Economic growth, increasing prosperity, a growing rate of urbanization and rising per capita energy consumption has widened access to energy in the country. Current renewable energy contribution stands at 31.70 GW of the total installed capacity of 245 GW in the country as on 31.03.2014 .Wind energy is the largest renewable energy source in India. The Jawaharlal Nehru National Solar Mission aims to generate 20,000 MW of solar power by 2022, creating a positive environment among investors keen to tap into India's potential. The country offers unlimited growth potential for the solar photovoltaic industry. India is endowed with vast potential for solar energy and is rapidly emerging as a major manufacturing hub for solar power plants. It is expected that the annual PV-installed capacity will grow at a CAGR of around 49.5% between 2010 and 2014 to reach 1,500 MW by the end of 2014.Wind energy accounts for nearly 70% (21.1 GW) of installed capacity, thereby making India the world's fifth largest wind energy producer. The Government of India has set a capacity addition target of 30 GW, which will take the total renewable capacity to almost 55GW by the end of 2017. This includes 15 GW from wind power, 10 GW from solar power, 2.9 GW from biomass power and 2.1 GW from small hydro power. Currently, 39% of PFS' loan book comprises of renewable energy.

Government Initiatives – Focus on Budget

With the target for Renewable Energy increased substantially to 1,75,000 MW by 2022 (including 1,00,000 MW from solar power; 60,000 MW from wind, 10,000 MW from biomass and 5,000 MW from small hydroelectric projects), the Budget, in a sense, reinforced the resolve of the government to push for clean and green energy. The increase in clean energy cess to Rs 200 per tonne of coal from the present Rs 100 per tonne will increase the tariff for thermal electricity by around 5 paisa per unit, but would also double the resources in the national clean energy fund and provide additional impetus to the clean and green energy vision. The announcement of five ultra mega power projects of 4,000 MW each in plug-and-play mode, i.e., with all clearances in place pre-bidding, envisages a total investment of Rs 1 lakh crore. The move towards building larger projects, which bring in economies of scale, efficient fuel utilisation and faster capacity addition, is a step in the right direction. With prerequisites like fuel, land and approvals in place, the development cycle of the projects will reduce considerably and will also lead to effective utilisation of existing natural resources as only what can be provided for will get planned.

Another positive for renewable energy is the tax pass-through status considered for alternative investment funds in categories 1 and 2, and the clarity on General Anti-Avoidance Rules — that they will not be implemented with retrospective effect. A large portion of equity investment in renewable energy is expected to come from private equity capital, which is sourced from global markets. These clarifications are expected to provide a further impetus to private equity inflows into the sector. With economies of scale favouring larger developers, the size per project of renewable projects (wind and solar) is also expected to increase in coming quarters. Lots of projects are presently stuck because of fresh capital. Establishment of a national infrastructure fund with an initial corpus of Rs 20,000 crore from the government may provide some help to the sector. Also, with non-banking financial companies being brought into the ambit of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, the recovery process of NBFCs will become more robust and help the company get better control over non-performing assets.

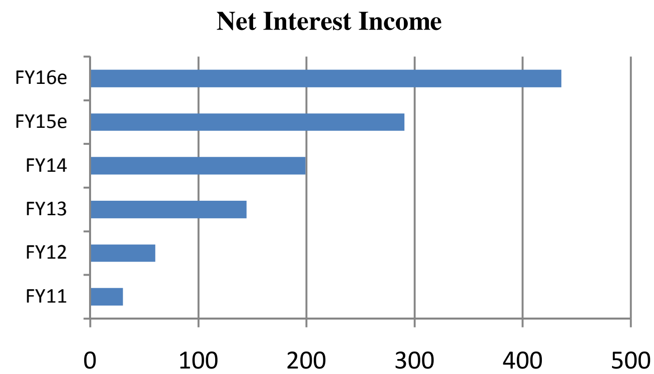
PFS Loan Book Break Up



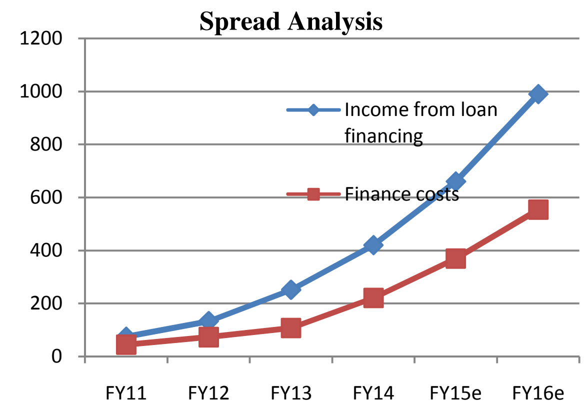
VGF mechanism

So far, the government has been supporting solar power projects through the generation based incentives (GBI) and bundling scheme wherein solar energy was bundled with conventional energy. However, in view of the prevailing uncertainty about adequate availability of the central government's unallocated conventional power, MNRE has mooted the idea of tapping the clean energy fund to subsidize the solar sector through the viability gap funding (VGF) mechanism. The National Clean Energy Fund (NCEF) is proposed to be used as a viability gap funding measure to ensure project viability to make available solar power at an affordable tariff in the range of Rs 5 to Rs 6 per unit. Under the VGF, the developer will be provided a viability gap fund based on his bid. The upper limit for VGF is 30% of the project cost or Rs 2.5 crore/MW, whichever is lower. The developer will be required to indicate his preliminary estimate of project cost to government .The developer has to put his own equity of at least Rs 1.5 crore/MW. PFS aims to tap these project developers and fund the project to the extent of 70%. Hence, for a project cost of Rs 8 crore/MW assuming debt equity of 70:30, PFS will provide Rs 5 crore. Under VGF, the government will subsidize developers up to Rs 2.5 crore/MW, which is ~50% of loan advanced by PFS. The VGF mechanism, therefore, provides an opportunity for healthy growth in advances with lowest risk to developer as it is expected to receive funding from the government that can be used to repay loans.

Financials



Source: PFS, CD Equisearch



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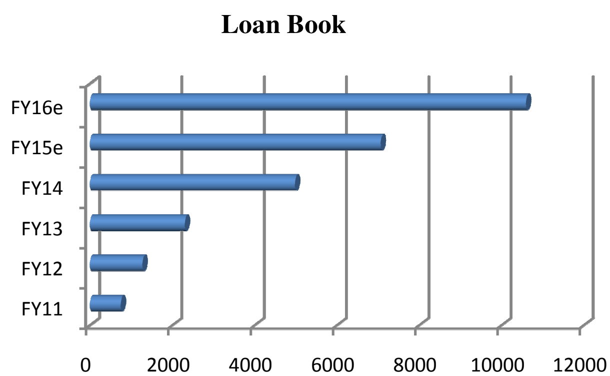
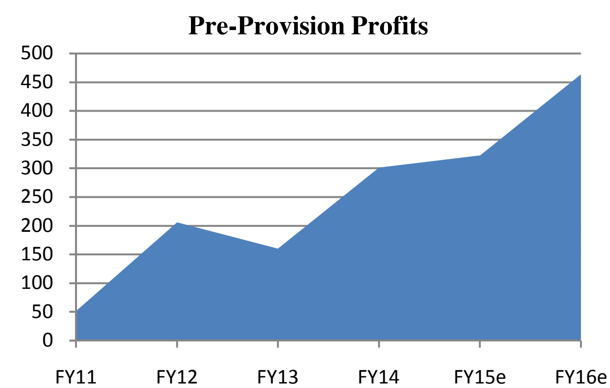


Source: PFS, CD Equisearch



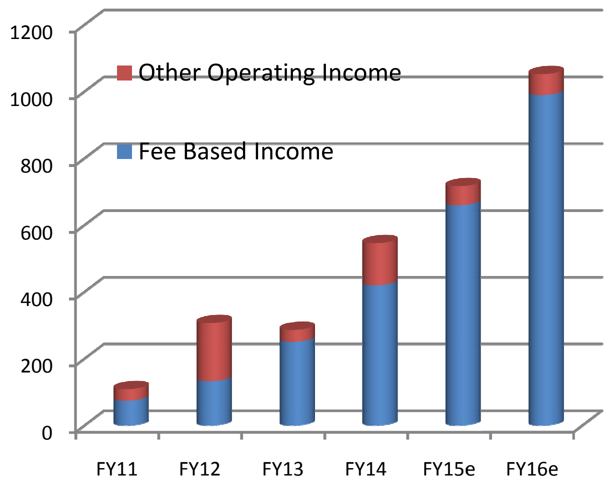
Source: PFS, CD Equisearch

Loan book and asset quality

PTC India Financial Services has a loan book of Rs 5883 crore as on 31st December 2014. We expect this to touch Rs 7000 crore and Rs 10500 crore in FY15 and FY16 respectively. The company has shown a credit growth (CAGR) of 88% between FY11 and FY14. Majority of the loans (70% incremental loans) going forward shall be deployed towards the renewable energy sector namely solar energy and wind energy projects. The advantage with to set up a solar project is that the revenue is assured for 25 years which is the period for which Power Purchase Agreement (PPA) are signed. The technology is such that a solar project has a life of 25 years since India is fortunate enough to get sunlight for 330 days in a year.

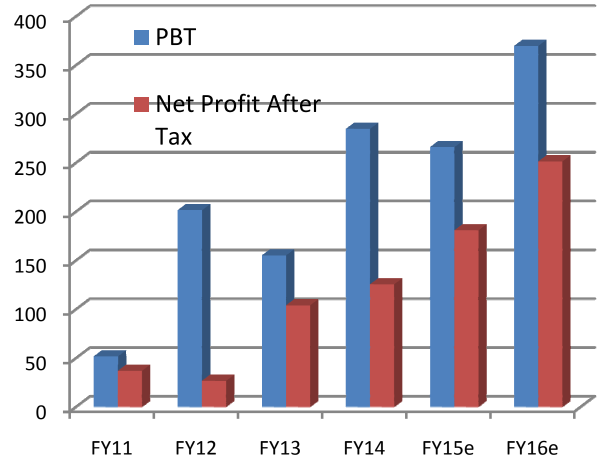
The company has historically maintained nil non-performing assets and we expect stability in the same going forward as the renewable energy projects get quickly executed and operational. However there could be delays in projects relating to conventional energy. PFS maintains a healthy capital adequacy ratio of 25.23 %(as on 31st March 2014) which is above the regulatory requirement by RBI of 15%.The company is expected to remain well capitalized by maintaining its TIER 1 capital at 25%.

Income Bifurcation



Source: PFS, CD Equisearch

Profits



Source: PFS, CD Equisearch

Profitability

PFS finances the advances it extends from a mix of infrastructure bonds (5%), NCDs (3%) and bank loans, (81%) . The average cost of funds for FY14 was 9.1% and for the half year FY15 the cost of funds was around 9.4% which we expect will stabilize around the same levels .The average yield on interest bearing assets and net interest margins (NIMs) for FY14 was 13.6% and 6.9% respectively. For the year 2015e and 2016e we expect the spreads to maintain the same trend .The Net interest income touched Rs 200 crore mark in FY 2014. The total operating income for the same year was Rs 325.20 crore out of which Rs 82.16 is extra-ordinary income from profit on sale of investments. For the year 2015 and 2016e we expect the the net interest income of Rs 291 crore (yoy growth of 46%) and Rs 436 crore (yoy growth of 50%).The net profit exclusive of extraordinary income is expected to grow by 44% in FY15 and about 39% in FY16.

The profits are expected to grow in the light of expanding asset base and loan book with the maximum incremental lending towards the renewable energy sector. The ROE and ROA for FY14 was 9.8% and 3%. Going forward, ROE is expected to increase to 12.8% in FY15 and ROA is expected to stabilize around 3%. The cost to income ratio is expected to witness a declining trend and maintain around 7%.

Valuations

PFS is a cyclical stock with a beta of 1.5. It has a high degree of systematic risk and so the stock returns are more volatile than the index. The book value per share of the stock is Rs 26.58 and TTM P/BV is 1.9. This book value factors in the extraordinary income from profit of sale of investments. Though the company unlocks value through disinvestments, we have not factored the same in our projections. Therefore as and when the management decides to book profits from investments the book value shall increase and the forward P/BV shall decrease. The current forward P/BV for FY15e and FY16e are 1.9 and 1.6 respectively.

Risks and Concerns

Issues with Distribution and Transmission chain

There are huge plans to set up solar power projects, and capacity will reach 100,000 MW for solar alone by FY22. However, there are not many simultaneous plans to set up large transmission and distribution lines to support the power production. Distribution sector is the weakest link in the power sector value chain and is threatening to derail the entire process of power sector reforms. While the power generation sector in the country is struggling to meet burgeoning demand, the distribution sector has been reeling under losses. Hence, even though we are assuming solar capacity of ~20000 MW will be added by FY17, there may be downside risk to the same due to lack of distribution facilities

Existing state discoms continue to be under pressure

Major challenges currently being faced by the distribution sector include accumulated losses of most discoms across the country and their poor net worth, which is severely hindering their finances. This can severely affect the PPAs entered into by companies and, in turn, delay the date of commencement.

Under achievement of targets set by government

While the progress so far in the Twelfth Plan has been decent, any shortfall in achievement of the thermal or renewable energy target can affect the loan growth of the company. PFS is a preferred financier for renewable energy projects which is the core focus area for the future. Currently, the Ministry of New and Renewable Energy is providing various fiscal incentives such as generation based incentives, accelerated depreciation, concessional excise and customs duties for the promotion of renewable energy sources in the country, which has led to increased private sector participation. Withdrawal of any incentives may impact the growth of the developers and, in turn, PFS' growth and margins.

Past equity investments may turn bad

The company's equity investment book stands at Rs 301 crore as on 31st September 2014. There are four projects where it has provided equity. Most projects have reached the completion stage. Therefore, there is very limited risk of equity investment being monetized at a loss. However, any contingency in any of these projects may require a write-down affecting profits for that year.

Risk Management

Credit risk management policy provides for identification and assessment of credit risk, assessment and management of portfolio credit risk, and risk monitoring and control. The issues relating to the establishment of exposure limits for various categories, for example, based on geographical regions, fuel, industry wise, rating wise are also covered. The policy also deals with rating models aiming at high quality, consistency and uniformity in the appraisal of proposals.

The objectives of Asset Liability Management Policy are to align market risk management with overall strategic objectives, articulate current interest rate view and determine pricing, mix and maturity profile of assets and liabilities. The asset liability management policy involves preparation and analysis of liquidity gap reports and ensuring preventive and corrective measures. It also addresses the interest rate risk by providing for duration gap analysis and control by providing limits to the gaps.

Interest rate policy provides for risk based pricing of the debt financing by the company. It provides the basis of pricing the debt and the manner in which it can be structured to manage credit risk, interest rate risk and liquidity risk, while remaining competitive.

Quarterly Results

Figures in Rs crores

	Q3FY15	Q3FY14	% chg.	9MFY15	9MFY14	% chg.
Income from loan financing	195.38	112.63	73.5	540.80	290.28	86.3
Finance costs	111.37	61.19	82.0	302.65	156.23	93.7
Net Interest Income	**84.01**	**51.44**	**63.3**	**238.16**	**134.04**	**77.7**
Non Interest Income	16.65	88.42	-81.2	43.84	106.43	-58.8
Total Operating Income	**100.66**	**139.86**	**-28.0**	**281.99**	**240.47**	**17.3**
Operating Expenses	9.06	5.23	73.2	20.32	15.50	**31.1**
Pre-Provision Profits	**91.60**	**134.63**	**-32.0**	**261.68**	**224.97**	**16.3**
Provisions	8.71	1.96	344.7	46.41	9.81	372.9
PBT	**82.90**	**132.67**	**-37.5**	**215.26**	**215.16**	**0.0**
Extraordinary Income	-	-	-	0.00	82.16	-100.0
Tax	28.09	25.76	9.0	70.21	53.82	30.4
Net Profit After Tax	**54.80**	**106.90**	**-48.7**	**145.06**	**79.17**	**83.2**
EPS(FV.10)	**0.98**	**1.90**	**-48.7**	**2.58**	**1.41**	**83.2**

Income Statement

Figures inRs crores

	FY12	FY13	FY14	FY15e	FY16e
Income from loan financing	132.95	251.31	419.99	659.78	989.67
Finance costs	72.8	106.6	221.0	369.23	553.84
Net Interest Income	**60.20**	**144.70**	**199.04**	**290.55**	**435.83**
Non Interest Income	173.86	35.21	126.16	56.99	62.69
Total Operating Income	**234.06**	**179.90**	**325.20**	**347.54**	**498.51**
Operating Expenses	27.79	19.45	23.76	24.79	34.70
Pre-Provision Profits	**206.27**	**160.45**	**301.44**	**322.75**	**463.81**
Provisions	4.63	5.16	16.56	56.62	94.00
PBT	**201.64**	**155.29**	**284.88**	**266.13**	**369.81**
Extraordinary Income	127.24	-	82.16	-	-
Tax	47.60	51.13	77.17	85.16	118.34
Net Profit	**26.80**	**104.16**	**125.55**	**180.97**	**251.47**
EPS(FV.10)	**0.48**	**1.85**	**2.23**	**3.22**	**4.47**

Balance Sheet

Figures in Rs crores

	FY12	FY13	FY14	FY15e	FY16e
Sources of funds	**1955.62**	**2899.03**	**5413.76**	**7571.71**	**11160.42**
Shareholder's Funds	**1163.27**	**1226.14**	**1348.90**	**1529.86**	**1781.34**
Share Capital	562.08	562.08	562.08	562.08	562.08
Reserves and Surplus	601.19	664.06	786.81	967.78	1219.25
Non Current Liabilities	**699.73**	**971.93**	**2406.00**	**3934.00**	**6338.65**
Long Term Borrowings	687.97	945.66	2352.30	3867.00	6261.65
Deferred Tax Liabilities	5.04	14.27	24.87	27.00	27.00
Long term provisions	6.73	12.00	28.84	40.00	50.00
Current Liabilities	**92.62**	**700.97**	**1658.86**	**2107.84**	**3040.42**
Short term borrowings	28.10	586.80	1417.30	1872.24	2794.62
Trade Payables	6.57	3.46	3.32	3.60	3.80
Other Current Liabilities	57.94	84.37	172.45	175.00	180.00
Short term provisions	0.01	26.33	65.79	57.00	62.00
Application of funds	**1955.62**	**2899.03**	**5413.76**	**7571.71**	**11160.42**
Non Current Assets	**1554.15**	**2656.62**	**4996.33**	**6914.78**	**10227.10**
Fixed Assets	**25.82**	**22.61**	**25.31**	**23.57**	**24.73**
Non Current Investments	421.10	529.22	401.02	405.00	550.00
Long Term Loans and Advances	1093.83	2072.20	4530.78	6430.53	9568.86
Other Non Current Assets	13.39	32.59	39.23	55.68	83.52
Current Assets	**401.47**	**242.40**	**417.43**	**656.93**	**933.32**
Current Investments	0.00	14.99	0.00	56.00	20.00
Trade Receivables	0.62	0.28	0.26	0.6	0.8
Cash and Bank balances	198.13	67.92	33.44	55.71	95.59
Short term loans and advances	138.99	42.30	165.97	235.56	353.35
Other current assets	63.73	116.91	217.75	309.05	463.58

Financial Ratios

	FY12	FY13	FY14	FY15e	FY16e
Growth Ratios (%)					
Net Interest Income	99.5	140.3	37.6	46.0	50.0
Total Operating Income	261.3	-23.1	80.8	6.9	43.4
Pre Provision Profits	298.7	-22.2	87.9	7.1	43.7
Net Profit	-27.6	288.6	20.5	44.1	39.0
EPS	-27.6	288.6	20.5	44.1	39.0
Loan Book	71.6	80.8	116.6	41.9	50.0
Return Ratios (%)					
ROE	2.3	8.7	9.8	12.6	15.2
ROE (incl. extraordinary income)	13.2	8.7	16.1	12.6	15.2
ROA	1.4	4.3	3.0	2.8	2.7
ROA (incl . Extraordinary income)	7.9	4.3	5.0	2.8	2.7
Margins (%)					
Cost To Income Ratio	11.9	10.8	7.3	7.1	7.0
Net Interest Margin (% of loan book)	7.4	8.5	6.9	7.1	7.2
PPP (% of operating income)	88.1	89.2	92.7	92.9	93.0
Asset Quality (%)					
Provisions(% of loan book)	0.4	0.2	0.3	0.8	0.9
Net NPA	0.0	0.0	0.0	0.0	0.0
Valuation Ratios					
P/BV	0.8	0.6	0.6	1.9	1.6
P/E	34.1	7.5	6.3	15.7	11.3

Recommendation

India is the fourth largest importer of oil and the sixth largest importer of petroleum products and LNG globally. The increased use of indigenous renewable resources is expected to reduce India's dependence on expensive imported fossil fuels. The government is playing an active role in promoting the adoption of renewable energy resources by offering various incentives, such as generation- based incentives (GBIs), capital and interest subsidies, viability gap funding, concessional finance, fiscal incentives etc. The National Solar Mission aims to promote the development and use of solar energy for power generation and other uses, with the ultimate objective of making solar energy compete with fossil-based energy options. The objective of the National Solar Mission is to reduce the cost of solar power generation in the country through long-term policy, large scale deployment goals, aggressive R&D and the domestic production of critical raw materials, components and products. Renewable energy is becoming increasingly cost-competitive compared to fossil fuel-based generation. PTC India Financial services (PFS), leveraging its parent PTC's strong industry experience in the power sector, is poised for healthy growth with focus on renewable energy. About 39% of PFS' loan book comprises of renewable energy and 70% of incremental loans going forward shall be deployed towards the renewable energy sector namely solar energy and wind energy projects.

Wind energy equipment prices have fallen dramatically due to technological innovation, increasing manufacturing scale and experience curve gains. Prices for solar modules have declined by almost 80% since 2008 and wind turbine prices have declined by more than 25% during the same period. The government has created a liberal environment for foreign investment in renewable energy projects. The establishment of a dedicated financial institution – the Indian Renewable Energy Development Agency, makes for renewed impetus on the promotion, development and extension of financial assistance for renewable energy and energy efficiency/conservation projects.

PTC India Financial Services has a loan book of Rs 5883 crore as on 31st December 2014. We expect this to touch Rs 7000 crore and Rs 10500 crore in FY15 and FY16 respectively. For the year 2015e and 2016e we expect the spreads to maintain the same trend. The Net interest income touched Rs 200 crore mark in FY 2014. The total operating income for the same year was Rs 325.20 crore out of which Rs 82.16 is extra-ordinary income from profit on sale of investments. For the year 2015 and 2016 we expect the net interest income of Rs 291 crore (yoy growth of 46%) and Rs 436 crore (yoy growth of 50%).The net profit (excluding extraordinary income) is expected to grow by 44% in FY15 and about 39% in FY16.

The stock currently trades at 1.9x FY15e BV and 1.6xFY16e BV. We are hopeful that the company will achieve the expected growth rates as a result of combination of suitable investment climate, capacity addition (especially in renewable energy), policy support and as falling interest rates push up demand for funds from power sector. Therefore, we recommend a 'BUY' with the target price of Rs 64 based on 2.4x FY15e BV and 2x FY16e BV, within a time horizon of 9-12 months.

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