20 January 2015

PTC India Financial Services

Improving sanctions, high NIM, stable asset quality; Buy

Rating: **Buy**
Target Price: ₹87
Share Price: ₹68

Key takeaways

Strong loan growth, higher sanctions. With its loan book up 75.4% yoy (6% qoq) to ₹58.8bn, PTC India Financial Services is on track to maintain its growth momentum. Strong growth continued in the renewables (up 71% yoy) and "others" categories (up 261% qoq). The share of thermal has gone down 1,073bps yoy to 30.2%. This is the result of a conscious strategy to focus on shorter-gestation projects. Outstanding sanctions grew only 19% yoy (up 18% qoq) due to fresh sanctions in the renewables and "others" segments. We expect a 38% CAGR in loans over FY14-17, driven by the financial service company's niche position in energy.

High NIM continues, likely to persist. After bottoming out at 6.2% in Mar'14, NIM has been steadily improving. It touched 6.3% in 3QFY15. The greater share of the higher-yielding "other" category helped support lending yields. The IFC is also diversifying its borrowing mix. The share of commercial paper during the quarter increased to 17% of the borrowing mix. Ahead, we expect the high NIM to persist.

Asset quality sound, greater provisioning for its equity investment. With no further slippages, asset quality is sound. Also, the IFC did not restructure any assets during the quarter. Strong domain expertise, manageable levels of restructured assets (2.6%) and healthy underwriting standards are likely to keep credit costs in check.

Our take. On our higher loan-growth assumptions, we raise our FY16e/FY17e earnings, respectively, 4% and 6.3%. On the brighter outlook in renewables financing and the higher expected RoEs, we raise our target to ₹87 (₹62 earlier) and value the company at 2.5x FY17e BV (1.8x earlier). Its robust loan growth, stable asset quality and high capital adequacy could drive a higher core RoE of 21% by FY17, compared to 11% in FY14. We reiterate a Buy. Our target is based on the two-stage DDM (CoE: 17.2%; earlier 17.9%). **Risk.** Delay in power-sector reforms, regulatory risks.

Quarterly results (YE: Mar)	3QFY14	3QFY15	% yoy	9MFY14	9MFY15	% yoy
Net interest income (₹ m)	549	896	63.1	1,469	2,509	70.8
Non-interest income (₹ m)*	849	111	(87.0)	936	311	(66.8)
Operating expenses (₹ m)	60	91	50.5	170	154	(9.8)
Cost-to-income (%)	4.3	9.0	469bps	7.1	5.4	(163)bps
Pre-provisioning profit (₹ m)	1,338	916	(31.6)	2,234	2,666	19.3
Provisions (₹ m)	12	87	644.2	53	464	774.3
PBT (₹ m)	1,327	829	(37.5)	2,181	2,202	1.0
Tax (₹ m)	258	281	9.0	538	702	30.5
PAT(₹ m)	1,069	548	(48.7)	1,643	1,500	(8.7)
EPS (₹)	1.9	1.0	(48.7)	1.4	2.9	101.8

*Source: Company, Anand Rathi Research ,*includes extraordinary one-time gain of ₹898m*

Key data	PTCIF IN / PTCN.BO
52-week high / low	₹73/ ₹14
Sensex / Nifty	28262 / 8551
3-m average volume	US$3.4m
Market cap	₹38bn / US$616mn
Shares outstanding	562.1m

Shareholding pattern (%)	Dec-14	Sep-14	Jun-14
Promoters	60.0	60.0	60.0
- of which, Pledged	-	-	-
Free Float	40.0	40.0	40.0
- Foreign Institutions	9.8	8.0	4.9
- Domestic Institutions	3.3	3.2	3.2
- Public	26.9	28.8	31.9

Estimates revision (%)	FY16e	FY17e
NII	3.9	5.9
PAT	4.0	6.3
RoE(bps)	66	100

Financials (YE: Mar)	FY15e	FY16e
Net interest income (₹ m)	3,367	4,559
Net profit (₹ m)	2,074	2,955
EPS (₹)	3.7	5.3
Growth (%)	50.4	42.5
PE (x)	18.4	12.9
PABV (x)	2.7	2.5
RoE (%)	14.7	18.8
RoA (%)	3.1	3.2
Dividend yield (%)	1.8	2.2
Net NPA (%)	0.9	1.3

Source: Anand Rathi Research

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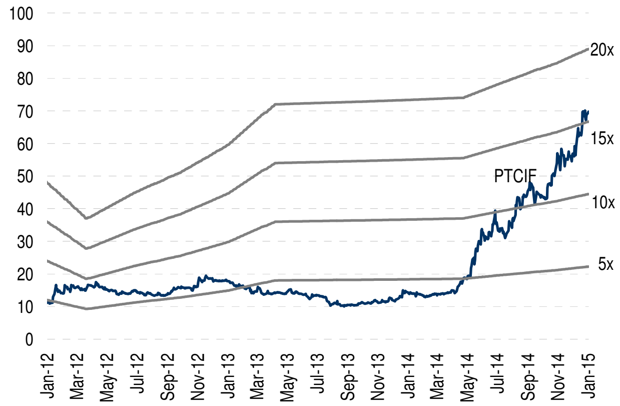
Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Net interest income	1,536	2,057	3,367	4,559	5,967
NII growth (%)	85.6	33.9	63.7	35.4	30.9
Non-interest inc	263	1,194	637	786	1,012
Total income	1,799	3,252	4,005	5,344	6,979
Total inc. growth (%)	(22.9)	80.8	23.2	33.5	30.6
Oper. expenses	173	210	340	454	593
Operating profit	1,626	3,042	3,664	4,890	6,386
Oper.profit growth (%)	(22.8)	87.1	20.5	33.5	30.6
Provisions	73	193	569	608	701
PBT	1,553	2,849	3,095	4,282	5,685
Tax	511	772	1,021	1,328	1,876
PAT	1,041	2,077	2,074	2,955	3,809
PAT growth (%)	(32.4)	99.4	(0.2)	42.5	28.9
FDEPS (₹/sh)	1.9	2.5	3.7	5.3	6.8
DPS (₹/sh)	0.4	1.0	1.2	1.5	2.0

Source: Company, Anand Rathi Research

Fig 4 – PE band



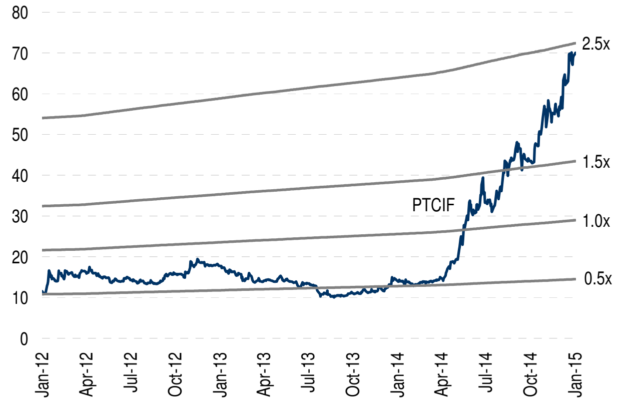
Source: Bloomberg, Anand Rathi Research

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Share capital	5,621	5,621	5,621	5,621	5,621
Reserves & surplus	6,632	7,866	9,150	11,119	13,612
Borrowings	15,324	37,696	60,503	80,998	106,424
Current liab. & prov.	1,262	2,704	3,792	5,333	7,358
Total liabilities	28,847	53,889	79,066	103,071	133,015
Advances	21,471	46,968	71,013	94,224	122,880
Investments	5,442	4,010	3,630	2,430	2,873
Cash & bank bal	1,851	2,659	4,025	5,870	6,553
Fixed & other assets	83	253	399	546	708
Total assets	28,847	53,889	79,066	103,071	133,015
No. of shares (m)	562	562	562	562	562
Borrowings growth (%)	114.0	146.0	60.5	33.9	31.4
Advances growth (%)	66.3	118.8	51.2	32.7	30.4

Source: Company, Anand Rathi Research

Fig 5 – Price-to-book band



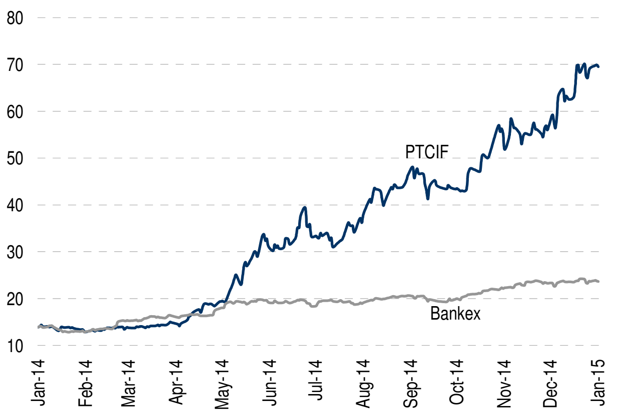
Source: Bloomberg, Anand Rathi Research

Fig 3 – Key ratios

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
NIM (%)	6.4	5.0	5.1	5.0	5.1
Other inc. / total inc. (%)	14.6	36.7	15.9	14.7	14.5
Cost-income (%)	9.6	6.4	8.5	8.5	8.5
Provision coverage (%)	100.0	100.0	47.0	43.9	42.5
Dividend payout (%)	21.6	40.8	32.5	28.5	29.5
Credit-Borrowings (%)	71.4	80.3	85.2	86.0	86.6
Investment-deposit (%)	n.a	n.a	n.a	n.a	n.a
Gross NPA (%)	-	0.3	1.6	2.1	2.6
Net NPA (%)	-	0.1	0.9	1.3	1.6
BV (₹)	21.8	24.0	26.3	29.8	34.2
Adj BV (₹)	21.8	24.0	25.1	27.6	30.8
CAR (%)	42.0	24.9	17.5	14.9	13.1
RoE (%)	8.7	16.1	14.7	18.8	21.2
RoA (%)	4.3	5.0	3.1	3.2	3.2
Dividend yield (%)	0.6	1.5	1.8	2.2	2.9

Source: Company, Anand Rathi Research

Fig 6 – PTCIF vs. Bankex



Source: Bloomberg

Result Highlights

Fig 7 – 3QFY15 Results vs Expectations

(₹ m)	3QFY15	3QFY15e	Var %	3QFY14	YoY %	2QFY15	QoQ %
Net interest income	896	876	2.2	549	63.1	834	7.4
Pre-provisioning profits*	916	895	2.3	1,338	(31.6)	949	(3.5)
PAT*	548	528	3.8	1,069	(48.7)	381	43.7

*Source: Company, Anand Rathi Research, * excludes extraordinary gains*

Fig 8 – 3QFY15 Results

(₹ m)	3QFY15	3QFY14	% Chg	9MFY15	9MFY14	% Chg
Net interest income	896	549	63.1	2,509	1,469	70.8
Non-interest income	111	849	(87.0)	311	936	(66.8)
Operating costs (%)	91	60	50.5	154	170	(9.8)
Pre-provisioning profits	916	1,338	(31.6)	2,666	2,234	19.3
PAT	548	1,069	(48.7)	1,500	1,643	(8.7)

	3QFY15	3QFY14	YoY	2QFY15	QoQ
Loan	58,830	33,540	75.4	55,510	6.0
Sanctions	124,490	104,620	19.0	105620	17.9
Disbursements	6,610	2,450	169.8	7,960	(17.0)
Gross NPA %	0.1	0.2	(13)bps	0.1	(2)bps
Net NPA %	0.0	0.0	0	0.0	0
NPA coverage %	100.0	100	-	100	-
Capital adequacy %	25.94	34.68	(874)bps	26.8	(86)bps

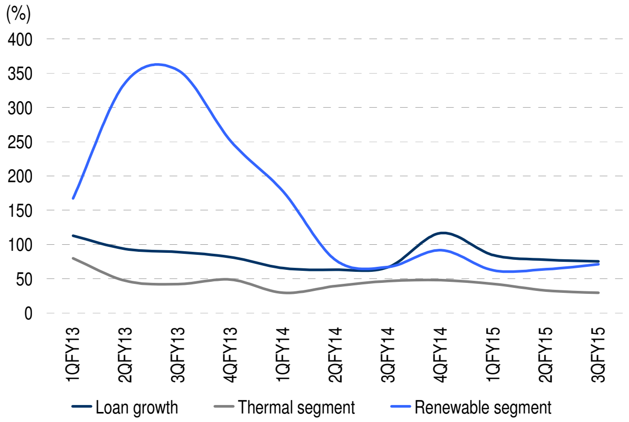
Source: Company,

Strong credit growth, sanctions rise

With its loan book up 75.6% yoy (6% qoq) to ₹58.8bn, PTC India Financial Services has maintained its growth momentum. Robust growth was seen in the renewables (up 71% yoy) and "others" (up 225% qoq) segments. The company's focus on shorter-gestation projects has led to the proportion of 'thermal' in the loan book declining 1,073bps yoy to 30.2%. Disbursements in the quarter showed traction, increasing 170% yoy.

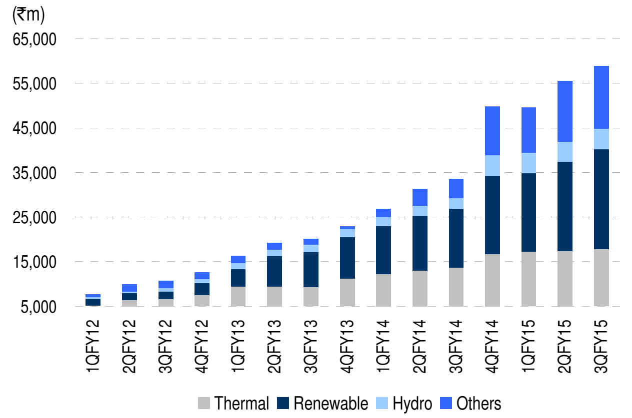
During the quarter, outstanding sanctions grew 19% yoy, with traction in both the renewables and "others" segments. Sanctions in renewables increased 63% yoy and in "others" shot up 93% yoy. The share of sanctions in the shorter-gestation projects of renewables financing and "others" increased to 58%, up from 41% a year ago.

Fig 9 – Healthy loan growth continues



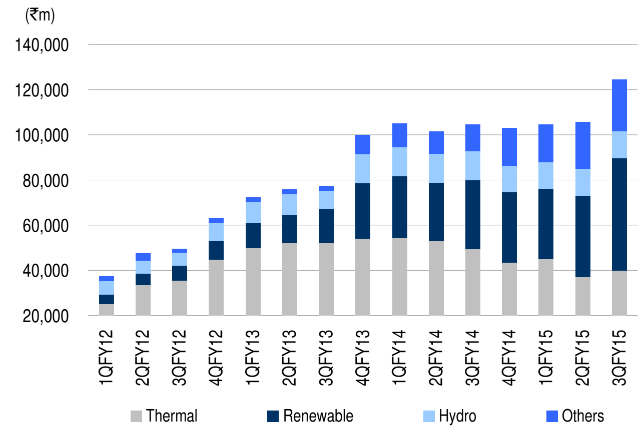
Source: Company, Anand Rathi Research

Fig 10 – Loan mix diversifying – shift to renewable



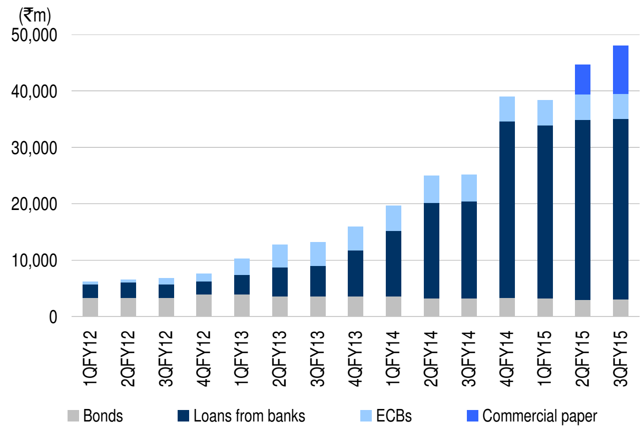
Source: Company, Anand Rathi Research

Fig 11 – Sanctions, too, diversifying – proportion of thermal decreasing



Source : Company

Fig 12 – Increasing proportion of Commercial paper in borrowing mix



Source: Company, Anand Rathi Research.

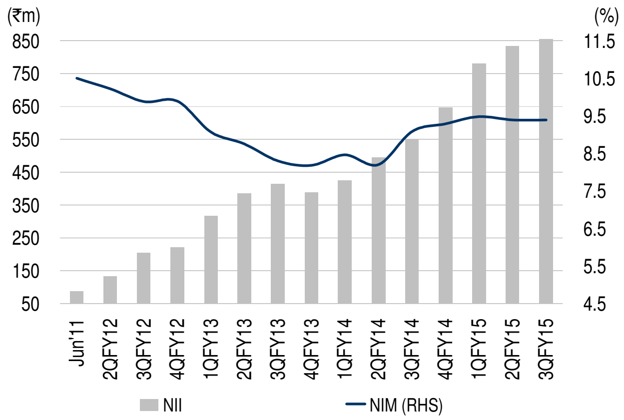
The strong parent, PTC India, engaged in trading in several short- and long-term power projects, is likely to continue to help its financial-services arm by way of easy access to its pipeline of projects for financing and of domain expertise in the power sector. We expect 38% loan growth over FY14-17.

NIM sturdy, likely to continue

In the past several quarters, NII has been steadily rising. After bottoming out at 6.2%, NIM has stabilised. It touched 6.3% in 2QFY15, ahead of peers. The greater proportion of loans in the higher-yielding "others" category helped support lending yields.

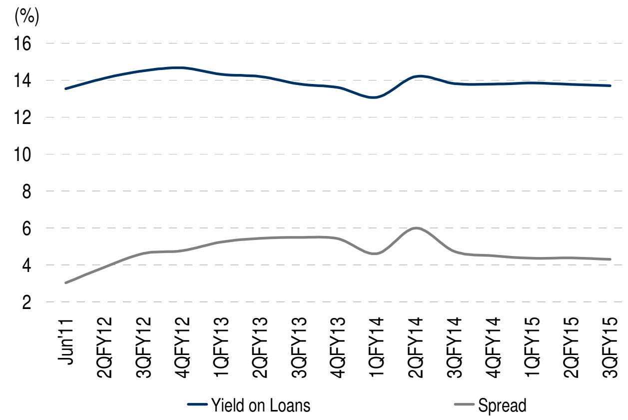
The IFC is diversifying its borrowing mix. During the quarter it raised money in the form of commercial paper. The proportion has increased to 17% of the borrowing mix. The IFC had not issued any commercial paper throughout the previous year (FY14). Ahead, with the rising percentage of higher-yielding short-term loans counter-balancing the greater cost of bank borrowings, we expect NIM to be steady.

Fig 13 – Consistent improvement in NII



Source: Company, Anand Rathi Research

Fig 14 – Spreads continue to be high



Source: Company, Anand Rathi Research

Asset quality stable, high capital adequacy reassuring

Asset quality has been steady during the quarter, with no further slippages. The IFC has a best-in-class 100% NPA coverage. No loans were rescheduled during the quarter, and the restructured portfolio outstanding is now 2.8% of loans. PFS provides for 50-bp standard asset provisioning, higher than the 40bps mandated by the regulator.

Ahead, we conservatively build in credit costs of 50bps over FY15/FY16 (30bps in FY14). The healthy underwriting standards and best-in-class capital adequacy of 26% would protect it against additional delinquencies.

Valuations

On our higher loan-growth assumptions, we raise our FY16e/FY17e earnings, respectively, 4% and 6.3%. On the brighter outlook in renewables financing and the higher anticipated RoEs, we raise our target to ₹87 (₹62 earlier) and value the company at 2.5x FY17e BV (1.8x earlier). The robust loan growth, stable asset quality and high capital adequacy could drive a higher core RoE of 21% by FY17, compared to 11% in FY14. We reiterate a Buy. Our target is based on the two-stage DDM. We reduce our cost of equity to 17.2% (earlier 17.9%), as we assign a lower risk premium of 8% (8.5% earlier) and a risk-free rate of 8% (8.5% earlier).

Fig 15 – Past one-year-forward P/BV

Source: Bloomberg, Anand Rathi Research

Risks

- Delay in power-sector reforms would affect loan growth and asset quality.
- As NBFCs are highly regulated entities, regulatory constraints could cut into profitability.

Financials

We expect a 38% CAGR in credit over FY14-17, with a 40.3% CAGR in adjusted net profit over the same period.

Fig 16 – Income Statement

Year-end: Mar (₹ m)	FY13	FY14	FY15e	FY16e	FY17e
Interest income	2,602	4,267	7,492	10,410	13,623
Interest expended	1,066	2,210	4,124	5,851	7,656
Net interest income	**1,536**	**2,057**	**3,367**	**4,559**	**5,967**
Growth (%)	85.6	33.9	63.7	35.4	30.9
Non-interest income	263	1,194	637	786	1,012
Total income	**1,799**	**3,252**	**4,005**	**5,344**	**6,979**
Non-interest income / total income (%)	14.6	36.7	15.9	14.7	14.5
Operating expenses	**173**	**210**	**340**	**454**	**593**
Employee expenses	58	74	120	183	299
Other expenses	115	136	221	271	294
Pre-provisioning profit	**1,626**	**3,042**	**3,664**	**4,890**	**6,386**
Growth (%)	(22.8)	87.1	20.5	33.5	30.6
Provisions	73	193	569	608	701
Profit before tax	**1,553**	**2,849**	**3,095**	**4,282**	**5,685**
Taxes	511	772	1,021	1,328	1,876
Tax rate (%)	32.9	27.1	33.0	31.0	33.0
Profit after tax	**1,041**	**2,077**	**2,074**	**2,955**	**3,809**
Growth (%)	(32.4)	99.4	(0.2)	42.5	28.9
Number of shares (m)	562.1	562	562	562	562
Earnings per share	1.9	3.7	3.7	5.3	6.8

Source : Company, Anand Rathi Research

Fig 17 – Balance Sheet

Year-end: Mar (₹ m)	FY13	FY14	FY15e	FY16e	FY17e
Share capital	5,621	5,621	5,621	5,621	5,621
Reserves and surpluses	6,640	7,866	9,150	11,119	13,612
Net worth	**12,261**	**13,486**	**14,771**	**16,740**	**19,233**
Borrowings	15,324	37,696	60,503	80,998	106,424
Minority Interest	-	-	-	-	-
Total loans	**15,324**	**37,696**	**60,503**	**80,998**	**106,424**
Total liabilities	**28,847**	**53,88**	**79,066**	**103,071**	**133,015**
Advances	21,471	46,968	71,013	94,224	122,880
Investments	5,442	4,010	3,630	2,430	2,873
Cash & bank balances	679	334	733	1,200	950
Fixed & other assets	1,255	2,577	3,690	5,216	6,312
Total assets	**28,847**	**53,889**	**79,066**	**103,071**	**133,015**

Source : Company, Anand Rathi Research