



PTC India Financial Services Limited

ICRA has assigned an 'IPO Grade 4', indicating above average fundamentals to the proposed initial public offering of PTC India Financial Services Limited (PFS). ICRA assigns IPO grading on a scale of IPO Grade 5 through IPO Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals. PFS is proposing to come out with an Initial Public Offer of 15.67 crore number of equity shares of face value Rs 10/- at a yet to be determined premium. The IPO constitute fresh issue of 12.75 crore number of equity shares by PFS and offer for sale of 2.92 crore number of equity shares by existing shareholder Macquarie India Holdings Limited. The offer will constitute 27.88% of the fully diluted post issue paid up equity share capital of the company. Following the IPO the shareholding of the promoters (PTC) will reduce from 77.6% to 60%. The offer would be made through the 100% book building route. Of the net offer, 50% is reserved for Qualified Institutional Buyers (QIBs), 15% for non-institutional investors and 35% for the retail investors. Post IPO, the shares will be listed on the National Stock Exchange and Bombay Stock Exchange. The objects of the offer are to augment the capital base of PFS to meet future capital requirement and to achieve the benefits of listing on the Stock Exchanges.

The above average fundamental grading factors in the high growth prospects of PFS given sizeable fund requirement of the power sector backed by strong capacity addition plans of Independent Power Producers (IPPs). In addition, PFS' close association with PTC, a leading power trading company in India, likely to offer adequate growth opportunities to PFS. Further, PFS is well positioned to leverage the robust growth potential in the segment given its diversified product mix i.e. term lending, direct equity investments and mezzanine/intermediate funding and benefits arising from adequate power sector knowledge deriving from PTC and its experienced senior management team. However, PFS is a relatively small size company, compared to other power sector financiers, and also has limited track record as its started operations in May-2007, but PTC's power sector knowledge alongwith PFS' experienced management team likely to ensure quality of appraisals and selection of good investments. In addition, relatively small networth of PFS also limits its exposure to small share in consortium lending or a reasonable share in small to medium size power projects, though with the augmentation of the company's capital base through its proposed IPO and Infrastructure Finance Company (IFC) status is likely to help company to certain extent.

PFS has long-term credit rating of LA+ (Positive) and short-term rating of A1+ from ICRA. PFS has diversified funding profile and raises funds at relatively competitive rates from banks and other investors, though its cost of funds is higher than leading power sector financiers and banks. PFS' intends to mitigate the impact of higher cost of funds by maintaining higher lending rates in some cases and also higher margins in mezzanine/ intermediate financing. As on September 30, 2010, PFS has total portfolio of Rs.1,023 crore; around 41% of PFS' portfolio represented equity investments in project companies followed by mezzanine/intermediate financing (38%) and term lending book (21%). Independent Power Producers (IPPs) are the main customers of PFS in all three segments. Going forward, the proportion of term lending book is likely to increase significantly from the current level as PFS will start disbursing the funds from the existing sanctions which are in different stages of implementation.

PFS' return on networth, has been lower than other players in the industry, at around 4% in 2009-10 and 8% in H1 2010-11. The return on networth of PFS is relatively low as large chunk of its assets are blocked in equity investments in project companies, which are not fetching any return as of now. Despite the expected shift in portfolio in favour of low earning term loans, return on net worth of PFS is likely to improve once PFS starts liquidating the equity / mezzanine portfolio as and when these become operational. However, given the long gestation period of power projects, impact on earnings may be visible with a lagged effect.

As on September 30, 2010, PFS has sanctioned debt commitments of Rs.1,882 crore and had portfolio outstanding of Rs.605 crore. As regard direct equity investments, PFS sanctioned total investments of Rs.484 crore and had portfolio outstanding of Rs.418 crore.

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About the Company

PTC India Financial Services Limited (PFS) was promoted by PTC India Limited (PTC), a leading player in power trading activity in India. PFS was incorporated in September 2006 and started operations in May 2007. PFS is engaged in the business of providing financial assistance both in the form of debt and equity to projects in the entire energy value chain. As on September 30, 2010, PTC owned 77.6% equity stake in PFS; other shareholders of the company are GS Strategic Investments Limited (11.2%), and Macquarie India Holdings Limited (11.2%). The company is registered as a ND SI NBFC-IFC, Infrastructure Finance Company, with Reserve Bank of India (RBI). During the year ended March 31, 2010 PFS reported a net profit of Rs. 25.45 crore on an asset base of Rs. 993 crore as against a profit of Rs. 8.53 crore on an asset base of Rs. 631 crore in the previous year. During H1 2010-11, PFS reported profit after tax of Rs.25.51 crore on total asset base of Rs.1198 crore as on September 30, 2010 against profit after tax of Rs.25.45 crore in FY 2009-10 on total asset base of Rs.959 crore as on March 31, 2010. As on September 30, 2010 the company had a capital adequacy of 60.98%, which comprised 100% of Tier 1 Capital.

About PTC India Limited

PTC India Limited (PTC) was established by National Thermal Power Corporation (NTPC), Power Grid Corporation (PGC), NHPC, and Power Finance Corporation in 1999 to promote inter-State trading in power and provide power advisory services. As of now, these four institutions combining together hold around 16% stake in the company and remaining is with Insurance companies, Mutual Funds, Foreign Institutional investors and Indian Public. PTC mobilised equity capital of Rs. 1,199 crore in Jan-08 by issuing around 7.4 crore equity shares at Rs.155 per share and another Rs. 500 crore in May-09 through Qualified Institutional Placements (QIP) by issuing around 6.7 crore shares at Rs.75 per share. The company's share is currently trading at Rs.82 (as on February 27, 2011) and based on H1 2010-11 financial results its currently trading at P/E of around 18 times and P/B of around 1.1 times.

PTC India currently derives most of its revenue from power trading business. Currently, the core power trading business is skewed towards short term and short to medium term trades. The company reported profit after tax of Rs.94.10 crore in FY 2010 on total asset base of Rs.2598.50 crore against profit after tax of Rs.90.97 on total asset base of Rs.1913.37 crore as on Mar-09. During H1 2010-11, the company reported profit after tax of Rs.67.20 crore.

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Disclosure: A Member of the Board of Directors of ICRA Limited is also an Independent Director on the Board of Directors of PTC India Financial Services Limited. This Director was not involved in any of the discussions and processes related to the IPO Grading of PTC India Financial Services Limited.

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