

Annexure I

CARE assigns 'CARE IPO Grade 4' to the proposed IPO of PTC India Financial Services Ltd.

Grading

Particulars	No. of equity shares	Grading
IPO Grading	15.7 crore*	'CARE IPO Grade 4'

*including an offer for sale by selling shareholders of 2.9 crore shares

CARE has assigned a 'CARE IPO Grade 4' to the proposed Initial Public Offer (IPO) of PTC India Financial Services Ltd. (PFS). 'CARE IPO Grade 4' indicates 'Above Average Fundamentals'. CARE assigns IPO grades on a scale of Grade 5 to Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals. CARE's IPO grading is an opinion on the fundamentals of the issuer. The grade assigned to any individual issue represents a relative assessment of the 'fundamentals' of the issuer.

Grading Rationale

The grading reflects the strengths that the company derives from its parent PTC India Limited (PTC) and the strong growth potential for the company given its strategic positioning in the power sector. The grading also reflects PFS' experienced board of directors and management and the good corporate governance practices adopted by the company including presence of various committees and independence of the board. The grading considers sound financial management of the company reflected in tie up of long term funding for financing of long gestation power projects along with comfortable capital adequacy and access to diverse sources of institutional funding.

The grading is however moderated due to low seasoning of the portfolio, high concentration risk due to relatively small balance sheet size and exposure to project risks. However these risks are mitigated to some extent due to the PFS' expertise in appraising power sector projects. The grading is also constrained due to the relatively recent operational setup and evolving risk management systems.



Background and Company Profile

PFS is an Infrastructure Finance Company (IFC), promoted by PTC India, with the mandate to provide financing solutions to companies with projects across the entire energy chain. The company provides financing to private sector power generation projects in India. PFS was incorporated on September 8, 2006 and was classified as an Infrastructure Finance Company (IFC) with effect from August 23, 2010. As on March 31, 2010, major shareholders of the company include PTC India Limited (77.6%), GS Strategic Investments Limited (11.2%) and Macquarie India Holdings Limited (11.2%).

Management

The management team comprises of senior managers having wide experience in the power sector. Mr. Tantra Narayan Thakur, Chairman and Founder of PFS, has been the Chairman of PTC since 2000. He has more than 30 years of experience in treasury and financial management as a member of the Indian Audit and Accounts Service. He has also previously served as a Director (Finance and Financial Operations), Power Finance Corporation Limited, where he was responsible for mobilizing resources for on-lending to power projects.

Dr. Ashok Haldia, Whole-time director and Chief Financial Officer of PFS, has prior experience of project financing and industrial financing policy; public sector policy reforms, power sector reform, restructuring and financing. He previously served as Secretary, the Institute of Chartered Accountants of India for almost a decade and has also been associated with the Bureau of Public Enterprises, State Enterprises Department, Government of Rajasthan and Power Finance Corporation Ltd.

Mr. Vijay Singh Bisht, Senior Vice President and Head (Debt division) has over 24 years of experience in techno economic/financial appraisal of power projects. He previously served at Power Finance Corporation Limited as Deputy General Manager and was responsible for the commercial appraisal of power projects and marketing of debt portfolio in Eastern and North Eastern region of India.

The board consists of senior officials and IAS officers who have served in various capacities in the power sector. Some of the entities in which the board members have served include Power Finance Corporation Limited, Ministry of Power (Government of India), Ministry of Finance (Government of India), Maharashtra State Electricity Board and NHPC Limited.

Strategic positioning in the Power sector

The projected demand in the power sector presents significant growth opportunities for power specialist financing companies in India. According to the Twelfth Plan of the planning commission, the required funding for power generation projects alone is estimated to be approximately Rs.495,083 crore. As a subsidiary of PTC, PFS derives benefits from PTC's industry knowledge and network both in terms of business origination and investment appraisals.

Corporate Governance

PFS has adopted good corporate governance practices that include presence of various committees and independence of the board of directors. PFS has constituted various committees including audit committee, shareholders/investors grievance committee, nomination committee, asset liability management committee, remuneration committee and an IPO committee which have directors of the company as members. PFS has six independent directors (out of eleven directors) which constitute majority of the board.

Financial Management

PFS has a sound asset liability management policy and diversified resource profile. Asset liability profile is comfortable as there is no cumulative mismatch in any of the buckets. PFS has raised long term funding for its long gestation projects and funds equity investments through its net worth. Term loans with a maturity of 9-15 years constitute the majority of the borrowings. PFS has also entered into External Commercial Borrowings (ECB) agreement with Deutsche Investitions - UND Entwicklungsgesellschaft MBH (US\$26 million with a tenure of 12 years) and has signed a term sheet with International Finance Corporation (US\$50 million with a tenure of 11 years) for on-lending to renewable energy projects. The IFC status granted by RBI to PFS in August 2010 provides the company more flexibility in terms

of funding as IFCs can issue infrastructure bonds at comparatively lower yields and are allowed to raise ECBs up to 50.00% of their owned funds without prior RBI approval. The company has also been able to raise equity at regular intervals over the years and counts Goldman Sachs and Macquarie Group as institutional investors.

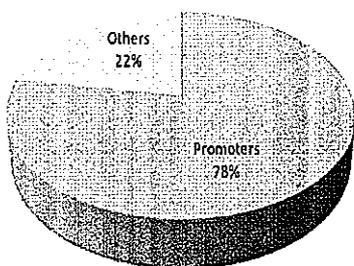
Asset Quality and Risk Management Systems

Asset quality concerns remain with low seasoning of the portfolio while the risk management systems of the company are still evolving due to the relatively short history of the company. The company started operations in 2007 and has built up its book substantially in the past 2 years. As on September 30, 2010, PFS did not have any non performing assets. Majority of the projects in the company’s equity and debt portfolio are in pre-commissioning stage due to which the asset quality is exposed to high project completion risk. Moreover, the company also faces high concentration risk due to small asset base with top ten individual borrowers accounting for 98% of the total outstanding loans as of September 30, 2010. However, the above risks are mitigated to a certain extent due to the company’s sector expertise. Also the company is in the process of raising equity which will increase its balance sheet size thereby reducing the portfolio concentration.

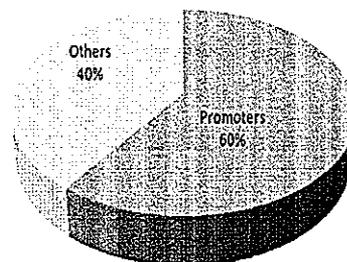
IPO Issue Details

Issue details	No. of shares (in crore)
Public Issue	15.67
Fresh Issue	12.75
Offer for Sale	2.92

Pre-Issue Shareholding



Post-Issue Shareholding



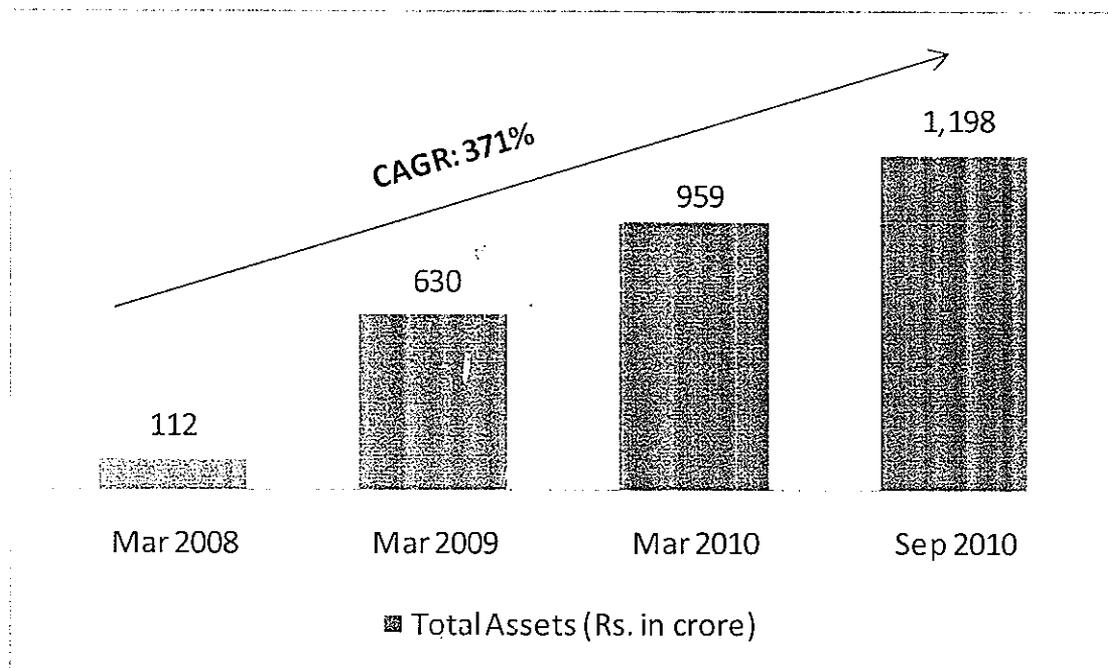
PFS is proposing to issue 15.67 crore shares including an offer for sale by selling 2.92 crore shares and the balance constituting fresh equity. PFS will not receive any proceeds from the offer for sale. PFS plans to utilize the funds mobilized through initial public offering (IPO) to augment its capital base to meet future capital requirements arising out of growth in the company's business.

Financial Performance of PFS

	(Rs. crore)		
As on / Period ended	31.03.09 (A)	31.03.10 (A)	30.09.10 (A)
Consolidated	12 m	12 m	6 m
Income from investments	10.3	21.3	13.5
Interest income	0.4	27.5	34.3
Other income	0.9	4.7	5.8
Total income	11.6	53.5	53.6
Interest expense & fin charges	0.0	11.6	16.0
Operating expenses	2.9	5.1	1.4
Depreciation and impairment of fixed assets	0.0	0.0	2.7
Total provision / write offs	-	-	-
PBT	8.7	36.7	33.5
Tax	0.2	11.2	8.0
PAT	8.5	25.5	25.5
Net worth	609.0	635.9	660.8
Total debt	20.0	310.8	522.0
Total assets	630.2	959.0	1,198.2
Overall gearing (times)	0.03	0.49	0.79
Interest coverage before provisions, writeoffs and depreciation (times)	484.56	4.17	3.26
Capital adequacy (%)	275.36	88.30	60.98
Interest income/ Avg. Interest earning assets (A)*	1.14	15.81	13.96
Interest / Avg. Borrowed Funds (B)*	0.18	7.02	7.69
Interest spread (A-B)	0.96	8.79	6.26
Net interest margin (%)*	0.12	2.34	2.93
PAT / Total Income (PAT margin)*	73.53	47.58	47.59
Total Income / Avg. Total Assets (%)*	3.12	6.73	9.94
Operating Expenses/Avg. Total Assets (%)*	0.78	0.65	0.26
Return on total assets (ROTA) (%)*	2.30	3.20	4.73
Return on net worth (RONW) (%)*	2.37	4.09	7.87
Gross NPA ratio (%)	Nil	Nil	Nil
Net NPA ratio (%)	Nil	Nil	Nil

*Ratios are annualized for the period 1st April 2010 to 30th September 2010

Majority of the income was through financing activity with interest income contributing more than 50% of total income for FY10. Income from investments increased significantly in H1FY11 due to profits realized from stake sale in one of the equity investments. PFS has managed to borrow long term funds at very low costs due to its parentage. Operating costs are low as PFS is a corporate finance business with limited distribution channel costs. Gearing is maintained at low levels and capital adequacy is comfortable with a reported figure of 60.9% as on September 30, 2010. The company has built up its portfolio substantially over the last two years.



Industry Outlook

According to the Monthly Review (October 2010) of the Central Electricity Authority (CEA), the total installed power generation capacity in India was 167,278 MW as of August 31, 2010. The peak power deficit was 12.7% and total energy deficit was 10.1% in FY10. The target capacity addition in the Eleventh plan (FY2008-Fy2012) was of 78,700 MW out of which 22,302 MW of capacity addition was achieved in first 3 years of the plan. The overall (generation, transmission, distribution and r&m projects) funding requirements for the Eleventh and Twelfth plan are Rs.10,59,515 crore and Rs.11,00,000 crore respectively.

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Moreover, in order to promote further development in the power sector, The Electricity Act was enacted in 2003. The Electricity Act covered major issues involving generation, distribution, transmission and trading in power. Some of the major growth initiatives include making electricity generation a non-licensed activity allowing the independent power producers (IIP) to sell power directly to consumers and removing restrictions on setting up of power plant by captive generation acts. The act was further amended in 2007 to exempt captive power generation plants from licensing requirements for supply to any licensee or consumer.

Major investments are needed to meet the capacity targets in the country and the enactment of Electricity Act, 2003 removes some of the important regulatory bottlenecks that prevailed in the sector. Companies having specialist power knowledge will have a significant advantage in selecting investment opportunities in the sector. PFS as a subsidiary of PTC, will be in a strong position to leverage on PTC's sector expertise and industry network for its growth.

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