

PTC India Financial Services

Reco: Buy

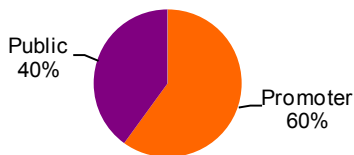
Growth momentum continues, NPA upgradation key positive

CMP: Rs41

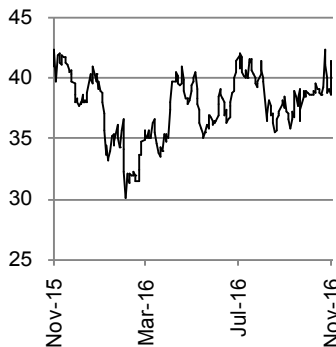
Company details

| | |
|-------------------------------|------------|
| Price target: | Rs55 |
| Market cap: | Rs2,304 cr |
| 52-week high/low: | Rs43/30 |
| NSE volume: (No of shares) | 9.0 lakh |
| BSE code: | 533344 |
| NSE code: | PFS |
| Sharekhan code: | PFS |
| Free float: (No of shares) | 22.48 cr |

Shareholding pattern



Price chart



Price performance

| (%) | 1m | 3m | 6m | 12m |
|--------------------|-----|-----|-----|-------|
| Absolute | 6.4 | 3.1 | 9.6 | -10.8 |
| Relative to Sensex | 9.4 | 5.9 | 2.2 | -15.7 |

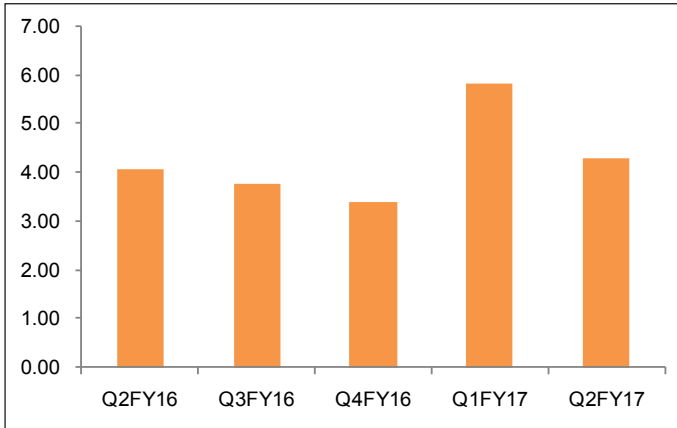
Key points

- Strong income growth helped by disbursements; One NPA upgraded:** PTC India Financial Services (PFS) posted better-than-expected Q2FY2017 results, with growth in total revenue and one NPA upgraded to Standard Asset category. PFS benefited from a one time benefit from asset sales in Q2FY2016 and hence the YoY comparison is strictly not appropriate. PFS saw robust topline growth, with Interest Income increasing by 42% YoY to Rs304.06 crore while the Net Interest Income (NII) grew by 50% QoQ to Rs141.81 crore. The company earned income of Rs11.59 crore by way of premium on redemption of debentures held in one borrower company. During Q2FY2017, Yield on Assets (YOA) stood at 13.19% (up 150BPS QoQ; up 57BPS YoY); Cost of Borrowed Funds (CoF) was at 8.92% (down 12BPS QoQ; down 13BPS YoY); Net Interest Margin (NIM) came in at 6.15% (up 153BPS QoQ; 57BPS YoY) and Spreads stood at 4.27% (up 162BPS QoQ; 70BPS YoY). The upgrade of the NPA account resulted in an extra income of Rs23 crore, which resulted in the optically high YoA, net of which the same would have been at 12.46%, still up 77BPS QoQ. Also, the YoA in Q1FY2017 was lower, primarily due to -Rs17 crore reversal of interest income (because of NPA in Q1FY2017). Currently, PFS' borrowing pattern is skewed toward higher cost banks borrowings, but going forward, the management has guided for a higher share of External Commercial Borrowings (ECB), Commercial Papers (CP) and Institutional borrowing. This, and benefits from a higher credit rating should help it to bring down its CoF.
- Business momentum continues:** Of late, there has been some pressure on PFS' growth due to pre-payment of loans and increased competition from other players. However, there was a robust 30% YoY and 3.8% QoQ growth in Advances to Rs9,418 crore, indicating strong client traction. Total cumulative debt sanctioned at Rs15,725 crore jumped by 15% QoQ and is 1.9x the current loan book. Incremental sanctions of Rs2,475 crore grew by 15.7% QoQ, and were 2.8x incremental sanctions in Q1FY2017. Going forward, growth in the loan book should positively impact profitability as well as the fee income.
- Assets quality performance improves:** PFS saw improvement in bad loans during Q2FY2017, with its Gross Non Performing Assets (GNPA) falling by 23.6% QoQ to Rs402.8 crore and its Net Non Performing Assets (NNPA) falling by 34.6% QoQ to Rs26.5 crore. The decline in NPA was due to one NPA account (total exposure of Rs125 crore; 1200 MW thermal power plant based at Talcher, Odisha) getting upgraded as Standard Asset, resulting in an interest income of Rs23.83 crore. The management has indicated that several other loan accounts are already being worked upon and a resolution may be expected in the near to medium term.
- Outlook & valuation:** Significant efforts have been taken by the RBI as well as the government to revive / facilitate stalled projects in the past few months. These steps, along with an overall economic pick-up will be beneficial to PFS going forward. Also, a high capital adequacy ratio of 23.11% would help PFS to meet its growth requirements in the medium term. We believe that the business has positives in the long run, but in the near term challenges may continue. We maintain our 'Buy' rating with an unchanged Price Target (PT) of Rs55.

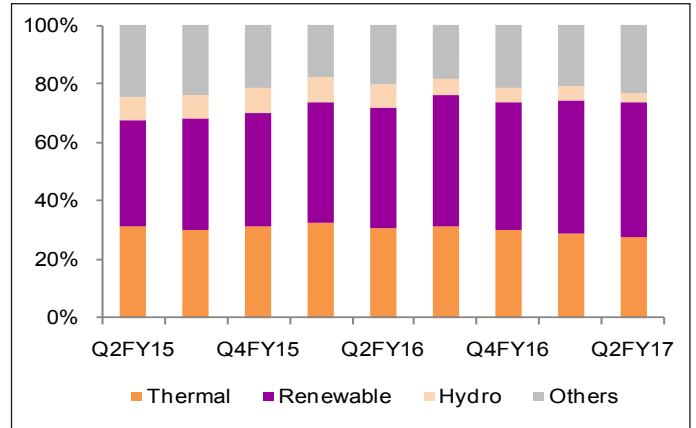
Results

| Particulars | Q2FY17 | Q2FY16 | YoY (%) | Rs cr | |
|-------------------------|--------|--------|---------|--------|---------|
| | | | | Q1FY17 | QoQ (%) |
| Interest income | 304.1 | 214.0 | 42.1 | 252.4 | 20.5 |
| Interest expense | 162.5 | 119.9 | 35.6 | 153.0 | 6.3 |
| Net interest income | 141.5 | 94.1 | 50.3 | 99.4 | 42.3 |
| Non-interest income | 31.4 | 228.2 | -86.3 | 18.9 | 66.3 |
| Net total income | 172.9 | 322.4 | -46.4 | 118.3 | 46.1 |
| Operating expenses | 13.2 | 13.9 | -5.3 | 12.9 | 2.1 |
| Pre-provisioning profit | 159.7 | 308.4 | -48.2 | 105.4 | 51.5 |
| Provisions | 33.6 | 47.1 | -28.7 | 2.2 | 1,429.0 |
| Profit before tax | 126.1 | 261.4 | -51.8 | 103.2 | 22.2 |
| Tax | 41.2 | 50.1 | -17.8 | 35.7 | 15.3 |
| Profit after tax | 84.9 | 211.3 | -59.8 | 67.4 | 25.9 |
| Gross NPAs (%) | 4.29 | 4.07 | 22 bps | 3.77 | 52 bps |
| Loan book | 9,537 | 7,225 | 32.0 | 7,795 | 22.3 |
| NIM | 6.15 | 5.58 | 57 bps | 6.12 | 3 bps |
| Spread | 4.27 | 3.57 | 70 bps | 4.12 | 15 bps |

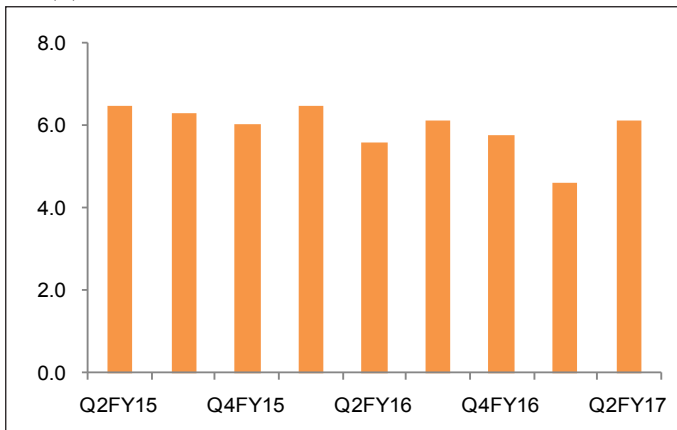
Gross NPA (%)



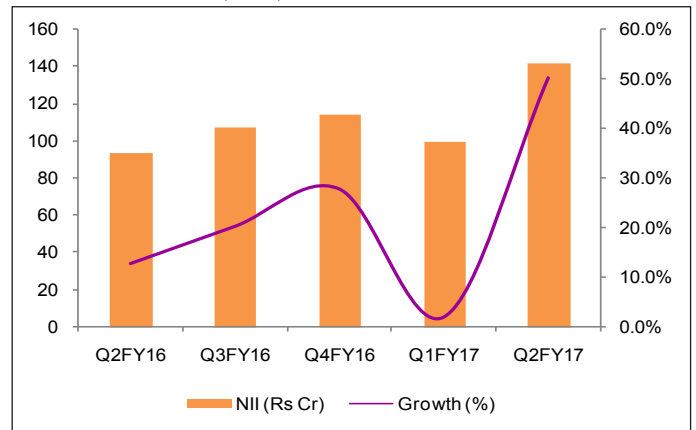
Loan book



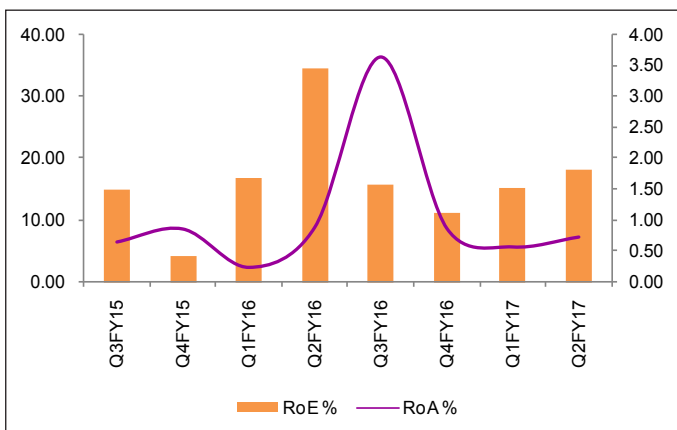
NIM (%)



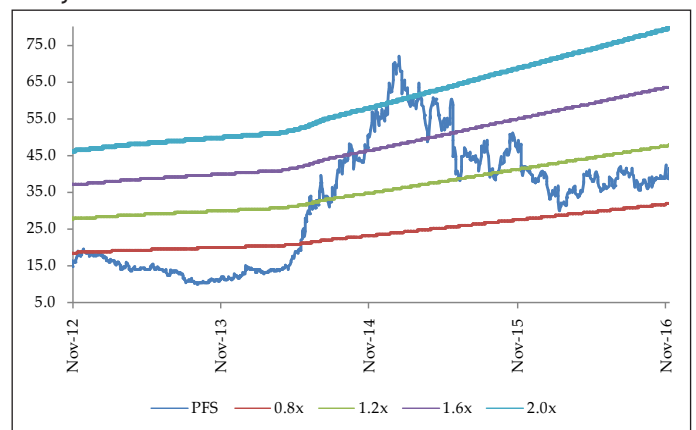
Net interest income (Rs cr)



Return ratios



One-year forward P/BV band



Profit and loss statement

Rs cr

| Particulars | FY14 | FY15 | FY16 | FY17E | FY18E |
|-------------------------|------|------|------|-------|-------|
| Net Interest Income | 212 | 341 | 414 | 527 | 672 |
| Non Interest Income | 126 | 60 | 266 | 123 | 144 |
| Net Total Income | 338 | 401 | 680 | 650 | 816 |
| Operating expenses | 36 | 56 | 53 | 68 | 86 |
| Pre-provisioning profit | 301 | 345 | 627 | 582 | 730 |
| Provisions | 17 | 100 | 95 | 96 | 117 |
| Profit before tax | 285 | 245 | 531 | 486 | 613 |
| Tax | 77 | 84 | 140 | 146 | 184 |
| Profit after tax | 208 | 161 | 391 | 340 | 429 |

Balance sheet

Rs cr

| Particulars | FY14 | FY15 | FY16 | FY17E | FY18E |
|----------------------------------|-------|-------|-------|--------|--------|
| Liabilities | | | | | |
| Capital | 562 | 562 | 562 | 642 | 642 |
| Reserves & Surplus | 787 | 875 | 1,180 | 1,658 | 1,947 |
| Shareholders' funds | 1,349 | 1,437 | 1,743 | 2,300 | 2,589 |
| Borrowings | 3,770 | 4,925 | 6,251 | 9,002 | 11,669 |
| Deferred tax liabilities (net) | 25 | 8 | 0 | 0 | 0 |
| Current liabilities & provisions | 270 | 380 | 829 | 953 | 1,096 |
| Total liabilities | 5,414 | 6,750 | 8,823 | 12,256 | 15,355 |
| Assets | | | | | |
| Fixed assets | 25 | 22 | 18 | 21 | 24 |
| Investments | 401 | 340 | 235 | 247 | 259 |
| Advances | 4,914 | 6,330 | 8,510 | 11,253 | 14,587 |
| Current assets | 73 | 58 | 60 | 735 | 485 |
| Total assets | 5,414 | 6,750 | 8,823 | 12,256 | 15,355 |

Key ratios

| Particulars | FY14 | FY15 | FY16 | FY17E | FY18E |
|--|-------|-------|-------|-------|-------|
| Per share data (Rs) | | | | | |
| Earnings | 3.7 | 2.9 | 7.0 | 5.3 | 6.7 |
| Dividend | 1.0 | 1.0 | 1.2 | 1.5 | 1.9 |
| Book value | 24.0 | 25.6 | 31.0 | 35.8 | 40.3 |
| Spreads (%) | | | | | |
| Yield on assets | 11.8 | 13.2 | 12.4 | 12.1 | 12.0 |
| Cost of funds | 7.8 | 9.2 | 9.1 | 8.7 | 8.5 |
| Net interest margins | 5.9 | 6.1 | 5.6 | 5.3 | 5.2 |
| Operating ratios (%) | | | | | |
| Cost to income | 10.8 | 13.9 | 7.8 | 10.5 | 10.5 |
| Non interest income / net total income | 37.4 | 15.0 | 39.1 | 30.0 | 30.0 |
| Assets/Equity (x) | 4.0 | 4.7 | 5.1 | 5.3 | 5.9 |
| Return ratios (%) | | | | | |
| RoAE | 16.1 | 11.5 | 24.6 | 16.8 | 17.6 |
| RoAA | 5.0 | 2.6 | 5.0 | 3.2 | 3.1 |
| Asset quality ratios (%) | | | | | |
| Gross NPA | 0.1 | 1.3 | 3.5 | 3.9 | 3.6 |
| Net NPA | 0.0 | 1.0 | 2.4 | 2.1 | 1.6 |
| Growth ratios (%) | | | | | |
| Net interest income | 40.9 | 61.0 | 21.6 | 27.3 | 27.4 |
| Pre-provisioning profit | 87.9 | 14.6 | 81.5 | -7.2 | 25.5 |
| Profit after tax | 99.4 | -22.6 | 143.1 | -13.0 | 26.2 |
| Advances | 122.3 | 28.8 | 34.4 | 32.2 | 29.6 |
| Borrowings | 137.6 | 30.6 | 26.9 | 44.0 | 29.6 |
| Valuation ratios (x) | | | | | |
| P/E | 11.1 | 14.3 | 5.9 | 7.7 | 6.1 |
| P/BV | 1.7 | 1.6 | 1.3 | 1.1 | 1.0 |

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