

Stock Update

Mixed quarter

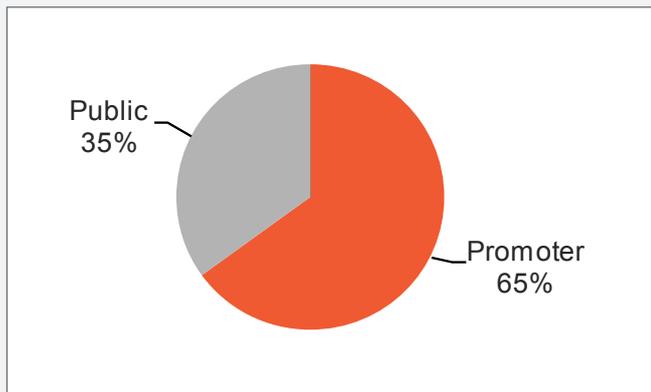
PTC India Financial Services

Reco: Hold | CMP: Rs19

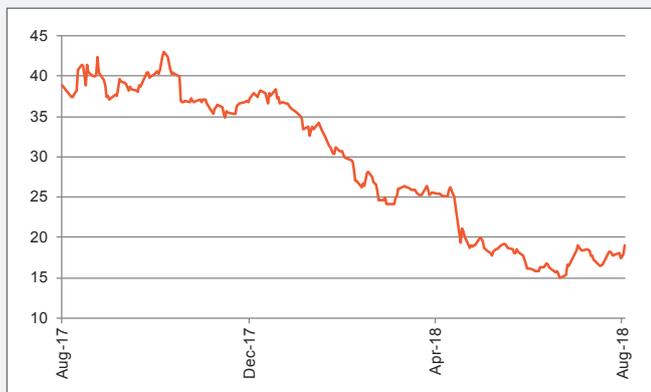
Company details

Price target:	Rs21
Market cap:	Rs1,220 cr
52-week high/low:	Rs44/14
NSE volume: (No of shares)	12.9 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	3.7	-9.1	-40.1	-50.4
Relative to Sensex	-0.1	-18.4	-47.6	-60.3

Key points

- ♦ **Subdued operating performance:** PTC India Financial Services (PFS) posted mixed performance for Q1FY2019. Net interest income (NII) declined by 27.8% y-o-y to Rs. 98.6 crore, mainly impacted by margin contraction, but witnessed positive performance on the growth side.

During the quarter, net interest margin (NIM) declined by 28 BPS q-o-q and 192 BPS y-o-y to 2.85%, while interest spread declined by 159 BPS y-o-y to 1.16%. Provisions for the quarter jumped by 20.2% y-o-y to Rs. 17.1 crore. Consequently, net profit for the quarter declined by 22.7% y-o-y to Rs. 55.9 crore.

- ♦ **Loan book traction steady, asset quality deteriorates:** During Q1FY2019, PFS witnessed steady loan book traction as advances growth stood at 21.9% y-o-y, while disbursement growth was also healthy at 25.6% y-o-y. Loans sanctioned during the quarter increased by 166% y-o-y, indicating improved pipeline. Loan book growth was driven by 31% rise in renewable energy loans and 28% uptick in other loan portfolio, indicating healthy diversification. Of late, PFS has been looking to diversify its lending book into newer segments such as roads and ports, which may or may not directly be related to the power sector. We believe this strategy can be helpful in sustaining growth and de-couple from sector-specific vagaries. Loans to thermal-based power segment have seen a steady decline from 21% of the portfolio to 16% of the book over the past one year. Asset quality for the quarter has declined as GNPA ratio for the quarter jumped by 114 BPS q-o-q and 185 BPS y-o-y to 7.68%. Gross additions to NPA remained at elevated levels at Rs. 187.6 crore.

- ♦ **Outlook:** PFS has reported a mixed performance with healthy loan growth; however, asset quality and operating performance remained weak. The outlook on thermal and hydro power remains weak; however, diversification into new streams would help sustain the growth momentum. The power sector as such has been witnessing stress due to various issues and many of the cases may be taken to IBC/NCLT. The outlook continues to be murky therein. Hence, in the near term, elevated provisions requirements are likely to continue.

- ♦ **Valuation:** The stock currently trades at low valuation of 0.4x its FY2020E book value, reflecting concerns over asset quality going ahead as PFS has a considerable exposure to the power segment. We maintain our Hold rating on the stock with a price target (PT) of Rs. 21.

Result			Rs cr
Particulars	Q1FY19	Q1FY18	YoY %
Interest income	313.8	299.6	4.8
Interest expense	215.2	162.9	32.1
Net interest income	98.6	136.7	-27.8
Net total income	110.0	137.2	-19.9
Operating expenses	8.8	12.4	-29.4
Pre-provisioning profit	101.2	124.8	-18.9
Provisions	17.1	14.2	20.2
Profit before tax	84.1	110.6	-23.9
Tax	28.1	38.2	-26.2
Profit after tax	55.9	72.4	-22.7
Gross NPAs (%)	7.68	5.83	185 bps
Loan book	13,361	10,963	21.9
NIM	2.85	4.77	-192 bps

QoQ numbers not comparable due to shift to IND-AS

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