PTC India Financial Services Limited

January 03, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	2,200.00 (Rupees Twenty Two hundred crore Only)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Assigned
Short Term Bank Facilities	800.00 (Rupees Eight Hundred Crore Only)	CARE A1+ (A One Plus)	Assigned
Total Facilities	**3,000.00 (Rs. Three Thousand crore only)**		
Non-Convertible Debenture	300.00 (Rupees Three Hundred Crore Only)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale

The rating of PTC India Financial Services Limited (PFS) continues to factor in the parentage support from PTC India Limited (PTC), experienced management team and comfortable capitalization profile of PFS. The rating also factors in the company's diversified funding profile and comfortable liquidity position, maturing loan book with increased proportion of projects in renewable energy sector and adequate profitability. The rating, however, is constrained due to PFS' moderate asset quality profile ((arising primarily out of loans to thermal sector) and concentration of its loan portfolio in terms of sector and borrowers.

Going forward, the continued support and ownership of the promoter PTC, the ability of PFS to manage asset quality, maintain adequate capital adequacy and profitability would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Promoter support: PFS is promoted by PTC, the market leader for power trading solutions in India. PTC, incorporated in 1999, is promoted by National Thermal Power Corporation, Power Grid Corporation of India Limited, Power Finance Corporation Limited and NHPC Limited.

PFS was formed to facilitate private investment in the energy sector and plays an important role in the overall strategy of the PTC group to be a comprehensive power solutions player with financing capabilities. PTC presently own 65% stake in PFS which was increased from 60% in November 2016 after infusion of equity by PTC of Rs.308.77 crore on preferential basis. The Chairman of PTC is also the Chairman of PFS. Thus, PFS gets strong management and operational support from PTC.

Management & board expertise: The board consists of senior officials who have served in various capacities in the power sector. Some of the organizations in which the board members had served in the past include Power Finance Corporation Ltd, Power Grid Corporation Ltd. etc. The board is supported by experienced professional management team heading various departments viz projects, risk management, treasury, legal, finance and accounts etc.

Dr. Ashok Haldia was appointed as the MD & CEO of the company in July 2015.

Comfortable capitalization profile: PFS's CAR continues to be comfortable at 24.09% as on March 31, 2017 and 25.1% as September 30, 2017 (21.77% as on March 31, 2016) as against regulatory requirement of 15%. Gearing of the company has also been comfortable at 3.32 times as on September 30, 2017.

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[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Diversified funding profile: PFS has a well-diversified resource profile. The company has mobilized funds at competitive cost from various lenders and sources. Total borrowings stood at Rs.8,004 crore as on Sep 30, 2017 and included 54.3% through Rupee term Loan, 32% through Short Term Loans, 7.8% through bonds, and 5.79% through ECBs.
Liquidity position: As per the ALM statement as on Sep 30, 2017, there are no negative cumulative mismatches in all the time brackets. While the share of short-term loans is relatively high at around 32%, given PFS' presence in infrastructure financing space, company's policy to maintain liquidity buffer of unutilized bank lines to cover outstanding short term borrowings mitigates the risk.
Adequate profitability although some moderation in lending spreads over last one year: During FY17, company reported PAT of Rs.345.33 crore vs. Rs.391.10 crore in FY16. The company reported NIM and ROTA (adjusted for profit on sale of investment) of 4.80% and 2.10% in FY17 as against 5.05% and 2.42% in FY16. NIM and ROTA stood at 4.37% and 1.89% respectively during H1, FY18. On account of stiff competition in renewable sector and company is also venturing into lending to competitive sectors such as hybrid annuity roads, PFS' lending spreads declined to 2.12% in Q2, FY18 vs. 4.27% in Q2, FY17.

Key Rating Weaknesses
Stress on asset quality largely on account of stress in loans to thermal sector; share of loans to thermal sector in total loan book is declining: PFS's Gross NPA and Net NPA ratio increased to 5.51% and 3.68% respectively as on March 31, 2017 (and further to to 5.92% and 4.28% respectively as on September 30, 2017) vs. 3.40% and 2.35% respectively as on March 31, 2016. PFS's standard restructured advances were Rs.847.06 crore (8.1% of total advances) as on September 30, 2017. Weakness in asset quality is primarily led by stress in loans to thermal sector. Incrementally, the company has not sanctioned fresh loans to the thermal sector and share of loans to thermal sector is declining (18.5% of loan book as on Sep-17 vs. 28% as on Sep-16). Share of loans to RE projects has increased over years (57.6% of loan book as on Sep-17 vs. 46% of loan book as on Sep-17).
The net stressed assets (Net NPA +Standard restructured assets) as a proportion of net-worth stood at around 49% as on March 31, 2017 (51% as on September 30, 2017) as against 30% as on March 31, 2016.
Maturing loan book with higher proportion of commissioned projects: PFS's loan book has grown at healthy pace and stood at Rs.10,550 crore as on Sep 30, 2017 (Rs.8,634 crore as on March 31, 2016). Within power sector the loan book is quite diversified and PFS has lent in various sub sectors in the energy value which include private power generation projects, private transmission and distribution networks, private coal mining and railway sidings associated with large projects, equipment manufacturers and EC contractors. Over the years, PFS has disbursed more funds towards renewable projects which are set up in significantly lesser time as compared to thermal projects, enjoy a preferential tariff and increased government attention.
Concentration risk with exposure to power sector as well as borrower concentration: PFS exposure is majorly in power sector leading to sectoral concentration. However, the lending is well diversified within the power sector. Over the years, the exposure towards thermal energy projects has declined and exposure to renewable energy projects has increased. As on Sep 30, 2017, exposure towards renewable energy projects contributes to 57% of the outstanding loan book with exposure towards thermal energy projects contributing to 21%, hydro energy projects contributing to 2.7% while the others contribute 18.40% of the loan book.
Competition from established players: PFS derives its entire income from the power sector, and faces competition from established players like PFC, REC and other lenders/banks.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for Short-term Instruments
Rating Methodology for Non-Banking Financial Companies
Financial Ratios (Financial Sector)

About the Company

PFS is an Infrastructure Finance Company (IFC), promoted by PTC, with the mandate to provide financing solutions to companies with projects across the entire chain in power sector. PFS was incorporated on September 8, 2006 and was classified as an Infrastructure Finance Company (IFC) with effect from August 23, 2010. The company currently provides financing through equity and debt (short-term and long-term) to the private sector power projects in India. The company also provides fee-based syndication and advisory services. In November, 2016, PTC infused equity share capital of Rs.308.77 crore in PFS, thereby increasing its stake to 65% (60% as on Sep 30, 2016).

During FY17 (refers to the period April 1 to March 31), PFS has reported a PAT of Rs.345.33 crore on a total income of Rs.1,351.84 crore as against a PAT of Rs.391.10 crore on a total income of Rs.1,186.93 crore in FY16. Capital adequacy ratio (CAR) as on March 31, 2017 stood at 24.09% and 25.1% as on Sep 30, 2017. During H1FY18 (refers to the period April 1 to September 30), the company has reported a PAT of Rs.100.86 crore on a total income of Rs.597.20 crore.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total Income	1,186.93	1,351.84
PAT	391.10	345.33
Interest coverage (%)	2.19	2.05
Total Assets	8,816.92	10,731.75
Net NPA (%)	2.35%	3.78%
ROTA (%)	5.03%	3.53%

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	2200.00	CARE A+; Stable
Fund-based - ST-Term loan	-	-	-	800.00	CARE A1+
Debentures-Non Convertible Debentures	-	-	-	300.00	CARE A+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Debentures-Non Convertible Debentures	LT	300.00	CARE A+; Stable	-	1)CARE A+; Stable (23-Jan-17)	1)CARE A+ (06-Nov-15)	1)CARE A+ (28-Oct-14) 2)CARE A+ (18-Apr-14)
2.	Fund-based - LT-Term Loan	LT	2200.00	CARE A+; Stable	-	-	-	-
3.	Fund-based - ST-Term loan	ST	800.00	CARE A1+	-	-	-	-

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