PTC India Financial Services Limited

January 06, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	2,900.00 (Enhanced from 2,800.00)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	100.00 (Reduced from 200.00)	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**3,000.00 (Rs. Three Thousand Crore Only)**		
Non-Convertible Debentures	159.61	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Total Long Term Instruments	**159.61 (Rs. One Hundred Fifty-Nine Crore and Sixty-One Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings for bank facilities and non-convertible debentures of PTC India Financial Services Limited (PFS) continues to factor in the vintage and parentage profile of the company along with its comfortable capitalization and resource profile. Also, the ratings continue to take into account PFS's adequate liquidity profile, experienced management team and its diversified loan portfolio.

The ratings are, however constrained by weak asset quality with gross NPA% of 8.84% as on September 30, 2021. Also, loan portfolio of the company remains vulnerable on account of increasing exposure towards state power distribution and transmission companies (DISCOMs) clubbed with sequential decline in overall loan portfolio owing to high prepayment trend witnessed from borrowers belonging to renewable energy sector.

Also, CARE takes note of the fact that earlier, PTC India Limited (PTC) as per its annual report for FY18-19 and as per submission in Annual General Meeting (AGM) on Sep 30, 2019 mentioned about monetizing its stake in PFS, wherein the former had reasoned that since its own capital requirements would increase in the coming years, the current capital base of PTC may be inadequate to support its enhanced scale of operations and hence it would need to allocate capital for its core operations. However, as per latest disclosures, the aforementioned divestment plan has been called off by PTC and the company continues to remain majority shareholder in PFS, with 65% equity shareholding as on September 30, 2021.

Rating Sensitivities

Positive factors: *Factors that could, individually or collectively, lead to a review for positive rating action/upgrade:*

- Meaningful scale up in loan book and consequent improvement in income profile
- Improvement in asset quality profile with controlled credit costs
- Improvement in operational profitability with return on total assets (RoTA) above 2% on a sustained basis

Negative factors: *Factors that could, individually or collectively, lead to a review for negative rating action/downgrade:*

- Further deterioration in the asset quality profile with slower pace of recoveries and/or incremental slippages
- Any material changes in the shareholding pattern leading to weakening of credit profile of PFS
- Weakness in capitalization profile with capital adequacy ratio falling below 16% and/or gearing rising above 6 times
- Further moderation in loan book with decline in overall AUM

Detailed description of the key rating drivers

Key Rating Strengths

Promoter and managerial support:

PFS is promoted by PTC India Limited (PTC), a leading power trading solutions provider in India. PTC was established in 1999 through an initiative of the Government of India (GoI), in consonance with the Mega Power Policy, to establish a power market in India as well as to act as a credit mitigating agency for Mega Power Projects by buying electricity from them through long term Power Purchase Agreements (PPAs) and sell the same through back-to-back Power Sale Agreements (PSAs) to various state utilities. The promoters of PTC are NHPC Ltd (CARE AAA; Stable), NTPC Ltd (CARE AAA; Stable/A1+), Power Finance Corporation Ltd (CARE AAA; Stable/ A1+), and Power Grid Corporation of India Ltd (CARE AAA; Stable A1'+). PTC has a category I license, which permits unlimited trading in power, issued by the Central Electricity Regulatory Commission under the Electricity Act 2003. For the year ended FY 2021 PTC (on standalone basis) reported 28% Y-o-Y rise in net profits to Rs.410 crore on the back of marginal growth in total revenues to Rs.16,992 crore.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

PFS was incorporated as a wholly owned subsidiary of PTC on September 8, 2006. The operations of the company were started in 2007 as a systemically important non-deposit taking NBFC (NBFC-ND-SI) and later PFS was classified as an Infrastructure Finance Company (IFC) with effect from August 23, 2010. The company was initially promoted to finance projects in energy value chain but now it is mandated to extend financial assistance to other areas of infrastructure which fall under the ambit of RBI-IFC. PTC presently owns 65% stake in PFS which was increased from 60% in November 2016 after equity infusion of Rs.308.77 crore by PTC on preferential basis. PFS has a strong board of senior officials who have served in various capacities in the power sector. The board includes two nominee directors from PTC India Limited, three independent directors and one executive director. The board is supported by strong senior management team headed by Dr. Pawan Singh, Managing Director & CEO of the company.

Diversified loan book profile

While the company is present primarily in power sector, within power sector the loan book is diversified and PFS has lent in various sub sectors in the energy value chain which include private as well as state power generation and transmission corporates, state distribution networks, private coal mining and railway sidings associated with large projects, equipment manufacturers and EC contractors. However, during FY21 and H1FY22, PFS disbursed more funds towards state distribution companies that belonged primarily towards the states of Andhra Pradesh, Telangana and Rajasthan and thus carry a comparatively riskier asset quality profile.

Although, PFS, in its vision to become a green and sustainable power infrastructure financing company, also carries considerable loan assets that are towards renewable energy sector and it formed around 28% of the company's overall loan book of Rs.9,290 crore as on September 30, 2021. Also, in its bid to de-carbonise its loan book, PFS has been changing its portfolio mix by increasingly focussing on lending to "other" sectors such as loans to hybrid energy projects, transmission projects, electric mobility and other loans. On the other hand, the lending to PFS's traditionally core lending areas such as thermal/hydro projects, continued to register decline.

Overall, CARE draws comfort from the fact that about 28% of PFS' loan book constitutes renewable energy projects which are commissioned and have a must run status. End FY21, the company had 41% of its overall loan portfolio or Rs.3,836 crore in projects that are operational and commissioned as compared to 85% for FY20.

Comfortable capitalization profile:

On the back of sequential positive internal accruals driven by improved operational profitability in H1FY22, clubbed with decline in gross loan book of the company and resultant decline in risk weighted assets, capitalization profile remained comfortable with overall capital adequacy ratio (CAR) and Tier-I CAR increasing marginally to 26.06% and 25.61% respectively as on September 30, 2021, compared to 23.95% and 23.55% respectively as on March 31, 2021, well above the regulatory minimum requirement at 15% and 10% respectively.

End FY21, PFS' gearing (total debt /tangible net worth) stood at 4.49 times, down from 4.66 times in FY20. The gearing ratio further improved to 3.34 times end September 30, 2021 owing to rise in net-worth base coupled with decline in borrowings by 22% Y-o-Y to Rs.7,163 crore. Also, while PTC India has called off its divestment plans in PFS and would continue to maintain majority shareholding in the latter, PFS, as an alternate move, is looking for strategic investor to augment the capital base and support its growth plans. Hence, the ability of the company to support growth while simultaneously maintaining adequate level of capitalization without any near-term equity infusion remains a key rating sensitive.

Diversified lender base

PFS has a diversified resource profile with funds raised from banks, FI, bond market and ECBs. Owing to its infra and project financing, the company largely relies on financing via long term resources to ensure asset liability positive matches. Accordingly, the share of long-term borrowings has risen to 91% of total borrowings end FY 21, up from 67% end fiscal 2018. Also, the short-term borrowings are CC/OD and WCDL lines from banks coupled with commercial paper instruments which formed the rest 9%. During FY21 and H1FY22, PFS received fresh sanctions of Rs.2,400 from multiple PSU banks at competitive rates which in turn has helped PFS in reducing its overall interest costs. Although, in consonance with loan book consolidation, total borrowings of PFS also came down and stood at Rs.7,163 crore as on September 30, 2021, reduced from Rs. 9,167 crore as on September 30, 2020 (Rs.9,174 crore as on March 31, 2021).

Key Rating Weaknesses

Weak asset quality profile

PFS' asset quality continues to remain weak mainly on account of its exposure in thermal and hydro projects clubbed with slippages from certain renewable energy borrowers; hence the company has been consciously trying to bring down the share of such loans while increasingly focusing on financing in segments like electric mobility, power distribution etc. Per management, PFS has implemented an Early Warning Signal (EWS) framework with an objective of identifying stress in the loan portfolio and avoids slippages of such loans into NPA categories. However, owing to wholesale nature of its lending leading, high sector and borrower wise concentration risks, the company remains vulnerable to asset quality risks. During FY21, PFS reported slippages of Rs.206 crore, which after factoring in reductions during the year, led to an increase in its absolute GNPA to Rs.824 crore, up 11% Y-o-Y when compared to Rs.745 crore as on March 31, 2020. Consequently, owing to higher gross NPAs, which was further exacerbated by moderation in loan book of the company, reported gross NPA and net NPA, as a %, increased to 7.64% as on March 31, 2021 while net NPA decreased to 3.04% (3.59% as on Mar-20) on account of increased provisioning.

Furthermore, end H1FY22, asset quality profile of PFS witnessed further moderation with gross NPA and net NPA ratio rising to 8.84% and 3.21% despite reduction in absolute amount, owing to sequential decline in loan portfolio of the company, thus leading to denominator effect. End September 30, 2021, provision coverage ratio maintained by the company improved to 66%, compared to 46% as on September 30, 2020.

In addition, the sum of company's gross stage-2 and stage-3 assets (as per Ind AS and as a % of loan book) increased from 18% in FY20 to 22% in FY21. Weakness in asset quality is primarily led by stress in loans to thermal sector; however the management has stated that it aims to bring down the share of loans towards thermal sector to 5% of the loan book by FY22 end.

Moderate financial profile, albeit improving profitability
The financial profile of PFS remains moderate marked by sequential and significant de-growth in loan book as PFS reported gross loan book of Rs.10,751 crore as on March 31, 2021 (down 2% Y-o-Y), which declined further to Rs.9,290 crore end September 30, 2021 on the back of higher prepayments from borrowers in the renewable energy sector.
However, while PFS reported a sharp dip in net profitability to Rs.26 crore in FY21, down from Rs.110 crore in FY20 on account of lower interest income and increased provisioning, operational profitability for the company improved in H1FY22 as it reported PAT of Rs.98 crore. The higher profitability in H1FY22, despite lower interest income of Rs.478 crore (down 15% Y-o-Y), was driven by lower interest expenses on the back of improving interest rate environment in the country clubbed with declining credit costs during the period.
Consequently, return ratios for the company improved with return on total assets (RoTA) and return on net-worth (RoNW) of 1.87% (annualized) and 9.35% (annualized) respectively as on September 30, 2021. Although, the ability of the company to maintain positive operational metrics along strong return ratios going forward remains a key rating sensitivity.

Borrower concentration risk and competition from established players
Being into infrastructure lending, credit concentration risk for PFS remains high. The concentration of loan book to top 15 exposures continues to form a substantial proportion of loan book and net worth. As on Sep 30, 2021, top 15 borrowers constituted 47% (33% Sep-20) of the total loan portfolio and 202% (185% Sep-20) of the total net worth. Also, PFS derives majority of its income from the power sector and faces competition from other large, established players.

Liquidity: Adequate
As on September 30, 2021, PFS had cash and bank balances of Rs.369 crore in the form of current and fixed deposits. Also, as per the asset liability maturity (ALM) statement dated September 30, 2021, there were no negative cumulative mismatches. Overall collection efficiency declined to 92% in the month of September 2021 (98% in Aug-21), though it has improved in the recent months. Also, on an annual basis collection efficiency remained above 97%. Consequently, the ability of the company to maintain collections above 95% whilst growing its loan portfolio would remain a key rating sensitivity.

Analytical approach: Standalone; factoring in 65% shareholding from parent company PTC India Limited

Applicable Criteria
Criteria on assigning Outlook and Credit watch to Credit Ratings
CARE's Policy on Default Recognition
CARE Methodology for Non-Banking Financial Companies
Financial Sector –Financial Ratios
Policy for rating short-term instruments

About the Company
Incorporated on September 8, 2006 as a Special Purpose Vehicle (SPV), PTC India Financial Services Limited (PFS) has been registered as a Non-Banking Finance Company – Infrastructure Finance Company (NBFC-ND-IFC) with RBI. PFS is promoted by PTC (65% shareholding as on Dec 31, 2019), with the mandate to provide financing solutions to companies with projects across the entire chain in power sector. 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, post that there has been no equity infusion. As on September 30, 2021, the company's net loans stood at Rs.8504 crore down 19% Y-o-Y.

Brief Financials (Rs. crore)	FY20(A)	FY21 (A)	H1FY22 (UA)
Total Income	1364.25	1139.45	496.29
PAT	109.99	25.60	98.07
Gearing [Debt/Tangible net-worth](times)	4.66	4.49	3.34
Total Assets excluding Intangibles and Deferred tax asset	11516.18	11,454.80	9,457.75
Net NPA (%)	3.62	3.04	3.30
ROTA (%)#	0.90	0.22	1.87

A: Audited; UA: Unaudited, #ROTA is as per CARE Calculation

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	-	2900.00	CARE A+; Stable
Fund-based - ST-Term loan		-	-	-	100.00	CARE A1+
Debentures-Non Convertible Debentures	INE560K07086	30-Mar-2012	8.93%	30-Mar-2022	159.61*	CARE A+; Stable
	INE560K07094	30-Mar-2012	8.93%	30-Mar-2022		
	INE560K07102	30-Mar-2012	9.15%	30-Mar-2027		
	INE560K07110	30-Mar-2012	9.15%	30-Mar-2027		

* Outstanding amount Rs.109.2 crore as on December 31, 2021

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Debentures-Non Convertible Debentures	LT	159.61*	CARE A+; Stable	-	1)CARE A+; Stable (08-Jan-21)	1)CARE A+; Stable (14-Feb-20)	1)CARE A+; Stable (06-Feb-19)
2	Fund-based - LT-Term Loan	LT	2900.00	CARE A+; Stable	-	1)CARE A+; Stable (08-Jan-21)	1)CARE A+; Stable (14-Feb-20)	1)CARE A+; Stable (06-Feb-19)
3	Fund-based - ST-Term loan	ST	100.00	CARE A1+	-	1)CARE A1+ (08-Jan-21)	1)CARE A1+ (14-Feb-20)	1)CARE A1+ (06-Feb-19)

* Outstanding amount Rs.109.2 crore as on December 31, 2021

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Debentures-Non Convertible Debentures	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - ST-Term loan	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact
Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Gaurav Dixit
Contact no.: +91-11–4533 3235
Email ID: gaurav.dixit@careedge.in

Relationship Contact
Name: Swati Agrawal
Contact no.: +91-11-4533 3200
Email ID: swati.agrawal@careedge.in

About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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