PTC India Financial Services Limited (Revised)

June 06, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	2,900.00	CARE A+; Negative (Single A Plus; Outlook: Negative)	Reaffirmed; Outlook revised from Stable
Short-term bank facilities	100.00	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	**3,000.00 (₹ Three thousand crore only)**		
Non-convertible debentures	159.61	CARE A+; Negative (Single A Plus; Outlook: Negative)	Reaffirmed; Outlook revised from Stable
Total long-term instruments	**159.61 (₹ One hundred fifty-nine crore and sixty-one lakh only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of the ratings for the bank facilities and non-convertible debentures (NCDs) of PTC India Financial Services Limited (PFS) continues to factor in the vintage and parentage profile of the company along with its comfortable capitalisation 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 PFS' weak asset quality with gross non-performing asset (GNPA) ratio of 8.28% as on December 31, 2021. Also, due to unavailability of the requisite Board to approve new sanctions in Q4FY22 and first half of Q1FY23, incremental disbursements have remained negligible, which may lead to further contraction in loan book and deterioration in headline asset quality numbers.

Furthermore, diversity of loan portfolio of the company remains to be monitored on account of increasing exposure towards state power distribution and transmission companies (DISCOMs), as a percentage of overall loan book, clubbed with sequential decline in the overall loan portfolio owing to high prepayment trend witnessed from borrowers belonging to the renewable energy sector.

CARE Ratings Limited (CARE Ratings) notes that on January 19, 2022, all three independent directors of PFS (Mr Kamlesh Shivji Vikamsey, Mr Thomas Mathew T., and Mr Santosh B. Nayar) resigned with immediate effect citing several corporate governance-related issues. Various issues raised by the independent directors included issues in appointment of whole-time director, lack/delay of disclosures of various information to board, change in terms and conditions of loans without prior approval of the board and delay in appointment of board member as per the regulatory requirements for renumeration committee. PFS and its parent, PTC India, had refuted the allegations prima facie, citing factual inaccuracies. PFS later on March 30, 2022, appointed four independent directors from its parent company, i.e., PTC India Limited, on its board and on April 27, 2022, announced that it is has initiated the process to appoint M/s. CNK & Associates LLP to carry out third-party forensic audit of the issues raised by the ex-independent directors. Also, SEBI has directed the company to ensure that no changes in the existing board structure shall be made until the forensic audit is completed. Consequently, publication of audited annual results is delayed and the statutory auditor has refused to provide their modified opinion for Q3FY2022 results pending status of various enquiries.

The revision in outlook reflects more than expected delay in resolution of corporate governance issues, if any, raised by the three ex-independent directors and its negative impact on the credit profile of the company. Due to unavailability of the requisite Board to approve new sanctions in Q4FY22 and first half of Q1FY23, incremental disbursements have remained negligible, which may lead to further contraction in loan book. Furthermore, with the various ongoing enquiries and increased oversight by regulatory agencies, business profile of PFS is expected to be impacted, which in turn may lead to moderation in the credit profile of the company. CARE Ratings shall continue to monitor any developments in regards to the outcome of the forensic audit and risk management committee report, stance of the regulators and the auditor, and its impact on the overall credit profile of PFS.

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

Rating sensitivities

Positive factors – Factors that could, individually or collectively, lead to a review for positive rating action/upgrade:
- Meaningful scale up in the loan book and consequent improvement in the income profile.
- Improvement in the asset quality profile with controlled credit costs and timely resolution of stage three assets.
- 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:
- Any observations in the forensic audit report and/or from regulatory bodies, that could have a material impact on the operational profile of PFS.
- 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 the capitalisation profile with capital adequacy ratio (CAR) falling below 16% and/or gearing rising above 6x.
- Further moderation in loan book with decline in the overall asset under management (AUM).
- Any negative qualifications from the statutory auditor.

Outlook: Negative

The outlook for the long-term instruments of PFS has been revised from 'Stable' to 'Negative' on account of delay in resolution of corporate governance allegations, raised by the three ex-independent directors and its negative impact on the credit profile of the company. Due to unavailability of the requisite Board to approve new sanctions in Q4FY22 and first half of Q1FY23, incremental disbursements have remained negligible, which may lead to further contraction in loan book and consequent impact of the same on interest income profile of the company for the coming quarters.
Furthermore, with the various ongoing enquiries and increased oversight by regulatory agencies, business profile of PFS is expected to be impacted, which in turn shall lead to moderation in the credit profile of the company.

Detailed description of the key rating drivers

<u>Key rating strengths</u>

Promoter and managerial support: PFS is promoted by 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 (rated 'CARE AAA; Stable'), NTPC Ltd (rated 'CARE AAA; Stable/CARE A1+'), Power Finance Corporation Ltd (rated 'CARE AAA; Stable/CARE A1+'), and Power Grid Corporation of India Ltd (rated 'CARE AAA; Stable/CARE 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-FY21, PTC (on standalone basis) reported 28% Y-o-Y rise in net profits to ₹410 crore on the back of marginal growth in the total revenue to ₹16,992 crore.

PFS was incorporated as a wholly-owned subsidiary of PTC on September 8, 2006. The company was initially promoted to finance projects in energy value chain; however, it is now mandated to extend financial assistance to other areas of infrastructure, which fall under the ambit of Reserve Bank of India-Infrastructure Finance Company (RBI-IFC). PTC presently owns 65% stake in PFS, which was increased from 60% in November 2016 after equity infusion of ₹308.77 crore by PTC on preferential basis.
Going forward, the ability of the company to address all corporate governance-related allegations while ensuring timely disclosure of the observations from forensic audit report remains a key rating monitorable.

Diversified loan book profile: While the company is present primarily in the 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 9MFY22, 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. However, CARE notes that state DISCOMS, as a group has shown comfortable track record in terms of repayment of loans, and hence asset quality risk from the segment is expected to be minimal.
PFS also carries considerable loan assets that are towards renewable energy sector and it formed around 33% of the company's overall loan book of ₹9,800 crore as on December 31, 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, continue to register decline. Going forward, with expected decline in the loan book size of the company

in Q4FY22 and Q1FY23 on the back of slowdown in disbursements, the ability of PFS to maintain similar share of diversity in loan book remains a key rating monitorable.
Overall, CARE Ratings draws comfort from the fact that about 32% of PFS' loan book constitutes renewable energy projects, which carry a must-run status. End December 31, 2021, out of a total loan book of ₹9,800 crore, ₹5,838 crore were towards term loans to special purpose vehicles (SPVs), including renewable projects of ₹3,199 crore, out of which ₹3,830 crore (39% of total loans) were commissioned projects.

Comfortable capitalisation 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, capitalisation profile remained comfortable with overall CAR and Tier-I CAR increasing marginally to 26.06% and 25.61%, respectively, as on September 30, 2021, compared with 23.95% and 23.55%, respectively, as on March 31, 2021, well above the regulatory minimum requirement at 15% and 10%, respectively. Although end-December 31, 2021, owing to an uptick in loan book size to ₹9,800 crore (Unaudited) and the consequent rise in risk weighted assets, clubbed with decline in net profitability during the quarter, overall CAR declined to 22.50% as on December 31, 2021.

End-FY21, PFS' gearing (total debt /tangible net worth) stood at 4.49x, down from 4.66x in FY20. The gearing ratio further improved to 3.34x end September 30, 2021, owing to rise in the net-worth base coupled with decline in the borrowings by 22% Y-o-Y to ₹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 capitalisation 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, financial institution (FI), bond market and external commercial borrowings (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 the total borrowings end-FY21, up from 67% end fiscal 2018. Also, the short-term borrowings are cash-credit and overdraft (CC/OD) and working capital demand loan (WCDL) lines from the banks coupled with commercial paper instruments which formed the rest 9%. During FY21 and 9MFY22, PFS received fresh sanctions of ₹3,100 crore 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, the total borrowings of PFS also came down and stood at ₹7,163 crore as on September 30, 2021, reduced from ₹9,167 crore as on September 30, 2020 (₹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, including electric mobility, power distribution, etc. As per the 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 the wholesale nature of its lending, high sector and borrower-wise concentration risks, the company remains vulnerable to the asset quality risks. During FY21, PFS reported slippages of ₹206 crore, which after factoring in reductions during the year, led to an increase in its absolute GNPA to ₹824 crore, up 11% Y-o-Y when compared with ₹745 crore as on March 31, 2020. Consequently, owing to higher GNPAs, which was further exacerbated by moderation in the loan book of the company, GNPA and NNPA, as a percentage, increased to 7.64% as on March 31, 2021, while NNPA decreased to 3.04% (3.59% as on March 31, 2020) on account of increased provisioning.
Furthermore, end-9MFY22, asset quality profile of PFS witnessed further moderation with GNPA ratio rising to 8.28%, owing to sequential decline in the loan portfolio of the company, thus leading to denominator effect. End-December 31, 2021, provision coverage ratio maintained by the company improved to 69%, compared with 62% as on March 31, 2021. Going forward, with resolution of few stage three accounts expected in Q1FY23, coupled with proposed write-off to the tune of Rs.330 crore (from existing provisions), asset quality profile of the company is expected to remain range-bound, given no further slippages.
The weakness in asset quality is primarily led by stress in the 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 end-FY22.
Going forward, with further decline in the loan book of the company expected, PFS's ability to resolve the existing stage-three assets in a timely manner whilst ensuring no additional slippages remains a key rating monitorable.

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 ₹10,751 crore as on March 31, 2021 (down

2% Y-o-Y), which declined further to ₹9,800 crore end-December 31, 2021, on the back of higher prepayments from borrowers in the renewable energy sector.
Furthermore, while PFS reported rise in net profitability in nine months ended December 31, 2021, with profit after tax (PAT) of ₹105 crore (up 32% Y-o-Y), profitability of the company declined significantly in Q3FY22 to ₹6.93 crore (down 67% Y-o-Y) owing to surge in impairment costs towards stage-three assets of IL&FS Tamil Nadu Power Company Limited (ITPCL) and Danu Wind Park Private Limited, on the back of delay in resolution proceedings of the said assets. Also, with loan book size of the company expected to decline further end-FY22, and the consequent impact of the same on interest income of the company, profitability profile of the company is expected to be moderate going forward.
As a result, the ability of the company to scale up its loan book significantly and improve its profitability metrics going forward remains a key rating monitorable.

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 September 30, 2021, top 15 borrowers constituted 47% (33%, September 2020) of the total loan portfolio and 202% (185%, September 2020) 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 per the provisional structural liquidity statement dated March 31, 2022, PFS had cash and bank balances of ₹860 crore in the form of current and fixed deposits. Also, as per the statement, there were positive cumulative mismatches across all time buckets. Moreover, 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 and maintaining adequate liquidity cushion would remain a key rating monitorable.

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 the RBI. PFS is promoted by PTC (65% shareholding as on December 31, 2019), with the mandate to provide financing solutions to companies with projects across the entire chain in the 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 ₹308.77 crore in PFS, post that there has been no equity infusion.
As on May 27, 2022, after significant delay due to absence of a board meeting, PFS announced financial results for the quarter ending December 31, 2022, wherein it reported a decline in net profitability to ₹6.9 crore (down 67% Y-o-Y).

Brief Financials (₹ crore)	FY20(A)	FY21 (A)	9MFY22 (UA)
Total income	1364.25	1139.45	737.38
PAT	109.99	25.60	105.00
Gearing [Debt/tangible net-worth](times)	4.66	4.49	3.36*
Total assets excluding intangibles and deferred tax asset	11516.18	11,454.80	NA
Net NPA (%)	3.62	3.04	NA
ROTA (%)#	0.90	0.22	1.75*

A: Audited; UA: Unaudited, #ROTA is as per CARE Ratings' calculation
*reported

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

Covenants of the rated instruments/facilities: Detailed explanation of the 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 (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	September 2028	2900.00	CARE A+; Negative
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+; Negative
	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 ₹109.2 crore as on December 31, 2021
#redeemed on maturity, pending withdrawal

Annexure-2: Rating history of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) & Rating(s) assigned in 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Debentures-Non-convertible Debentures	LT	159.61*	CARE A+; Negative	-	1)CARE A+; Stable (22-Jan-22) 2)CARE A+; Stable (06-Jan-22)	1)CARE A+; Stable (08-Jan-21)	1)CARE A+; Stable (14-Feb-20)
2	Fund-based - LT-Term Loan	LT	2900.00	CARE A+; Negative	-	1)CARE A+; Stable (22-Jan-22) 2)CARE A+; Stable (06-Jan-22)	1)CARE A+; Stable (08-Jan-21)	1)CARE A+; Stable (14-Feb-20)
3	Fund-based - ST-Term loan	ST	100.00	CARE A1+	-	1)CARE A1+ (22-Jan-22) 2)CARE A1+ (06-Jan-22)	1)CARE A1+ (08-Jan-21)	1)CARE A1+ (14-Feb-20)

* Outstanding amount ₹109.2 crore as on December 31, 2021

Annexure-3: Detailed explanation of covenants of the rated instruments/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 instruments: CARE Ratings 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.

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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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