PTC India Financial Services Limited (Revised)

January 08, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	2,800.00 (enhanced from Rs.2,700) (Rupees Twenty Eight hundred crore only)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	200.00 (reduced from Rs.300) (Rupees Two Hundred Crore only)	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**3,000.00 (Rs. Three Thousand crore only)**		
Non-Convertible Debenture	159.61 (Rupees One Hundred Fifty-Nine Crore and Sixty one lakhs only)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale and key rating drivers

The ratings reaffirmation for the bank facilities and non-convertible debentures of PTC India Financial Services Limited (PFS) continues to factor in the parentage support from PTC India Limited (PTC) that held 65% in PFS as on September 30, 2020, experienced management team, adequate capitalization profile with overall CAR at 24.06% as on September 30, 2020, diversified funding profile and maturing loan book with about 85% of its gross portfolio as on March 31, 2020 in projects that are operational and commissioned. Also the company has been de-carbonising its book with loans towards renewable energy projects constituting about a half of loan book.

The rating, however, is constrained by high portfolio vulnerability arising from increased slippages in FY 21 with PFS' moderating asset quality profile with GNPA at 8.46% as on Sep-20. Also the company faces stretched liquidity[2] profile with negative cumulative mismatches in the long term bucket, albeit above statutory requirement, moderate financial profile with annualised return on total assets (RoTA) at 1.05% as on Sep 30, 2020 (0.94% as on March 31, 2020) and wholesale nature of its lending leading to high sector and borrower wise concentration risks in its loan portfolio.

CARE takes note of the fact that 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. PTC, in its annual report for 2019, 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. As a result, PTC may not have the capacity to continue and/ or to fund further its non-banking finance company business which needs periodic infusions. Following that, in its filing dated 16th July 2020, PTC stated that it has received requisite internal approvals to reinitiate the process of exploring opportunities for monetizing the company's investment in PFS. Further, in its BSE filing dated September 11, 2020, PTC stated that it has received non-binding interest from certain potential investors. Pursuant to the latest development, CARE will continue to closely monitor any changes in shareholding pattern of PFS and will take appropriate rating action, if needed.

Rating Sensitivities

Going forward, any material change in the shareholding pattern leading to reduced support from PTC is a key rating sensitive. On a standalone basis; PFS' ability to manage its asset quality, maintain adequate liquidity, capital adequacy and profitability would be factors to be considered

Positive factors

- Raising of equity capital to support the growth plans of the company and maintain the capitalization profile with gearing below 6 times on a sustainable basis
- Improvement in asset quality profile and profitability metrics of the company
- Meaningful growth in loan book
- Improvement in the liquidity profile with positive cumulative mismatches in the near to medium term buckets

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

[2] *Liquidity* profile after deducting committed but unutilized bank lines from the scheduled inflows

Negative factors

- Any material change in the shareholding pattern leading to weakening of credit profile of PFS
- Further deterioration in the asset quality profile with slower pace of recoveries and/or incremental slippages
- Weakness in the capitalization profile with CAR going below the minimum regulatory requirement

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 2020 PTC (on standalone basis) reported 22% Y-o-Y rise in net profits to Rs 320.1 crore on the back of 21% Y-o-Y growth in total revenues to Rs 16,488.3 crore.

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. The Chairman and Managing Director of PTC is the Non-Executive Chairman of PFS. PFS has a strong board of senior officials who have served in various capacities in the power sector. The board includes three nominee directors from PTC India Limited, five independent directors and two executive directors. The board is supported by strong senior management team headed by Dr. Pawan Singh, Managing Director & CEO of the company.

PFS has benefitted from PTC's immense market knowledge in the power sector both in originating new business and also in appraisal of projects. Also, owing to PTC's majority ownership, PFS is able to obtain funds at relatively lower costs. However, PTC in its annual report mentioned about monetization of its investment in PFS as PTC would need capital to grow its own business and therefore will not have the capacity to continue and/ or to fund further a NBFC business that will need periodic infusions for its business. Further, PTC in its annual general meeting (AGM) on Sep 30, 2019, submitted the resolution to monetize its investment in PFS; however the resolution was not passed with majority. Although in its filing dated 16th July 2020, the parent company PTC stated that it has received requisite internal approvals to reinitiate the process of exploring opportunities for monetizing the company's investment in PFS. Further in its BSE filing dated September 11, 2020, PTC stated that it has received non-binding interest from certain potential investors. CARE will closely monitor the developments in this regard and continue to assess any impact on credit and financial profile of PFS.

Adequate capitalization profile
The capitalization profile of PFS is adequate with tier 1 and total CAR at 23.03% and 23.61% respectively end FY 20, up from 18.69% and 21.92% respectively end FY 19, well above the regulatory minimum requirement at 10% and 15% respectively. For the quarter ending September 30, 2020, the capitalization profile of the company improved slightly and it reported a sequential uptick in its overall capital adequacy ratio (CAR) to 24.06% as compared to 23.75% as on June 30, 2020. The marginal improvement in the CAR level was due to rise in tangible net-worth to Rs 2,049.4 crore (up 17% Y-o-Y) as on September 30, 2020. The improvement in capital ratios was also on account of loan book de-growth that led to decline in risk weighted assets. This coupled with positive internal accruals helped bolster company's capitalization metrics in spite of it not being able to receive any capital infusion from parent in the last few years.

As per RBI guidelines, the assets covering Public Private Partnership (PPP) and post Commercial Operation Date (COD) projects that have completed one year of satisfactory commercial operations are allowed a risk weight of 50%. End FY20, the company had Rs 6,345 crore or 59% of portfolio comprises projects that have completed one year of satisfactory conduct post their commissioning. This has helped the company in maintaining healthy CAR.

End FY 20, PFS' gearing (total debt /tangible net worth) was 4.66 times, down from 5.81 times in FY 19. The gearing ratio further improved to 4.47 times end H1 FY 21 owing to rise in net-worth base coupled with decline in borrowings. Also, since PTC has explicitly stated that it will not have the capacity to continue and/ or to fund further a NBFC business that will need periodic infusions for its business, PFS 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. The company had nil CP outstanding as on March 31, 2020, while end Sept 2020, the proportion of CP in total borrowings stood at 3% of Rs 300 crore. 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 H1 FY 21, up from 67% end fiscal 2018. Also, the short term borrowings are CC/OD and WCDL lines from banks. In FY 20, PFS received fresh sanctions of long term loans of Rs 500 crore each from Bank of India and Canara Bank and a sanction of long term loan of Rs 100 crore from United Bank of India. In consonance with loan book consolidation, the total borrowings of PFS also came down and stood at Rs.9,170 crore as on Sept 30, 2020, reduced from Rs. 9,257 crore as on March 31, 2020 (Rs 10,922 crore as on March 31, 2019).

Higher proportion of renewable projects

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 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 that are set up in significantly lesser time as compared to thermal projects, enjoy a preferential tariff and increased government attention. End FY20, the company's gross loan book stood at Rs 10,847 crore, of which 51% was towards renewable energy projects followed by 36% towards "other projects", 11% in thermal and remaining 2% in hydro loans. 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, loans to discoms (Corporates) 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 half of book-constitute renewable energy projects which are commissioned projects and have a must run status. End FY 20, the company had 85% of its net portfolio or Rs 9,306 crore in projects that are operational and commissioned. Also, of the total book, Rs 6,345 crore or 59% of portfolio comprises projects that have completed one year of satisfactory conduct post their commissioning.

Key Rating Weaknesses

Weak asset quality; largely on account of stress in loans to thermal sector; though share of loans to thermal sector in total loan book is declining

PFS' asset quality continues to remain weak mainly on account of its exposure in thermal and hydro projects; hence the company has been consciously trying to bring down the share of such loans while increasingly focusing on financing in renewable and other segments. 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 more vulnerable to asset quality risks. During FY 20, PFS reported reduction in its absolute GNPA to Rs 744.8 crore, down 7.5% Y-o-Y driven by lower slippages and higher recoveries/write offs. However, owing to loan book reduction from Rs 13,374 crore in FY19 to Rs 10,847 crore in FY20 leading to denominator effect, the reported gross and net NPA ratios increased to 6.77% and 3.62% respectively in FY20 (6.04% and 3.12% respectively in FY19). Moreover, end H1FY21, asset quality stress further elevated with gross NPA and net NPA ratio rising to 8.46% and 4.74% respectively on account of slippages towards one loan account having an exposure worth Rs 206.9 crore as on September 30, 2020. The company's provision coverage ratio also remains range bound at around 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 15% in FY19 to 18% in FY20. 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 FY21 end from the current 11% as on September 30, 2020.

Moderate financial profile

The financial profile of PFS remains moderate marked by de-growth in loan book in FY 20. End FY 20, the company reported net profit of Rs 110 crore (down 40% Y-o-Y) on total income (net of interest expenses) of Rs 421 crore (up 7% Y-o-Y). While the company's net loans continued downward trajectory and stood at Rs 10,369 crore, down 18% Y-o-Y, the margins improved mainly on account of higher asset yields as the company has transitioned to risk based pricing model. Per management, the new risk based pricing model entails a reasonable margin for risk premium that is dependent upon the credit rating of the borrower. Owing to resilient top-line growth, the company reported a pre-provision operating profit (PPOP) of Rs 367 crore, up 8% Y-o-Y. Although the strong results were partially counteracted by sharp rise in provisioning costs that increased by more than threefold to Rs 195 crore during the year. This was on account of some accounts being referred for liquidation by the NCLT and incremental Covid-19 related provisions. As a result, the company's credit costs as a percentage of average assets stood at 1.68% end FY 20, as against 0.48% previous fiscal. Consequently, the company reported a decline in RoTA and RoNW to 0.94% and 5.53% respectively in FY20 (from 1.47% and 10.41% respectively in FY19).

Moreover, on a half yearly basis, PFS reported 8% Yo-Y decline in total income (net of interest expenses), down from Rs 210.3 crore in H1FY20 to Rs 193.8 crore in H1FY21 owing to loan book reduction with net loans at Rs 10,483.65 crore (Rs 12,097.70 crore as on September 30, 2019) and lower business volume due to lockdown affected economy. However, despite a declining top line performance, PFS was able to generate PAT of Rs 58.42 crore (down 2.5% Y-o-Y) in H1FY21 due to marginal improvement in net interest margins on account of higher asset yield yields as the company has transitioned to risk based pricing model, owing to which RoA and RoNW stood at 0.97% and 6.14% respectively as on September 30, 2020. Although, the rising credit provisioning cost (as a % of total assets) of 1.36% in H1FY21 (1.68% in FY20) remains a key hurdle in profitability growth.

Borrower concentration risk and competition from established players

Being an infrastructure finance company, the company faces high credit concentration risk. 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, 2020, top 15 borrowers (Rs.3,794 crore) constituted 33% (31% Sep-19) of the total loan portfolio and 185% (213% Sep-19) of the total net worth. Also, PFS derives majority of its income from the power sector and faces competition from other large, established players. PFS' ability to take exposure to large projects is further limited due to the small size of its net worth (Rs.2,049 crore as on September 30, 2020) as compared to other lenders (PFC, REC, IREDA, other lenders) active in this segment.

Liquidity: Stretched

As on October 30, 2020, PFS had cash and bank balances worth Rs 148.2 crore along with fixed deposits receipts (FDR) worth Rs 450.1 crore. As per the Asset Liability Maturity (ALM) statement dated September 30, 2020, it had asset inflows of Rs 2,110 crore (excluding Rs 2,335 crore worth of committed bank lines) for the next 12 months against which it had scheduled debt repayment outflows worth Rs 3,185 crore (excluding loan commitments of Rs 102 crore) for the next 12 months) due to which the liquidity profile of the company appears stretched. However, despite having granted moratorium to 50% of its loan book as on March 31, 2020, PFS maintained adequate liquidity in the form of High Quality Liquid Assets (HQLA), well above the 50% statutory requirement. Consequent to which, PFS paid off Rs 220 crore worth of availed moratorium relief in Q3FY21. Also, the ready availability of committed but unutilised bank lines at competitive rates helps mitigate liquidity concerns to some extent.

COVID-19 Impact:

Owing to the COVID-19 imposed lockdown, PFS reported a 73% Y-o-Y fall in disbursements from Rs 1,580 crore in H1FY20 to Rs 434 crore in H1FY21, however per management, disbursement activity has picked up since Sep-20 and the company has disbursed around Rs 800 crore worth of loans in Q3FY21. Also, in view of the Reserve Bank of India (RBI)'s move to allow banks, NBFCs and HFCs to offer six month moratorium to borrowers (till August 31, 2020), the company had initially given moratorium to borrowers that constituted about 50% of its loan book. As on 31st August, 2020, around 39% of PFS's loan portfolio was under moratorium. Also, the company had availed moratorium period for the period of Jun-20 to Aug-20 from some of its lenders as a part of the COVID-19 – Regulatory Package announced by the RBI on March 27, 2020 and May 22, 2020. CARE has not recognized this instance as a default, as the same is permitted by the RBI as part of the relief measures announced recently. The non-recognition of default for the payment of principal/interest is as per the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020.

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
Criteria for Short Term Instruments
CARE Methodology for Non-Banking Financial Companies
Financial Sector –Financial Ratios
Linkage of Parent support

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, 2020, the company's net loans stood at Rs 10,483 crore down 13% Y-o-Y as the company decided to de-carbonize its balance sheet by reducing its thermal exposure while increasingly focusing on other sectors such as road, transmission, distribution and new sustainable area such as water treatment, waste handling and drinking water system. Also, for H1 FY 21, the company reported PAT of Rs 58.4 crore on total income (net of interest expenses) of Rs 193.8 crore.

Brief Financials (Rs. crore)	FY19(A)	FY20(A)
Total Income	1,336.50	1364.25
PAT	184.13	109.99
Gearing [Debt/Tangible net-worth](times)	5.81	4.66
Total Assets excluding Intangibles and Deferred tax asset	13006.70	11995.09
Net NPA (%)	3.19	3.62
ROTA (%)#	1.47	0.94

A: Audited; #ROTA is as per CARE Calculation

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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		-	-	-	2800.00	CARE A+; Stable
Fund-based - ST-Term loan		-	-	-	200.00	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		

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Debentures-Non Convertible Debentures	LT	159.61	CARE A+; Stable	-	1)CARE A+; Stable (14-Feb-20)	1)CARE A+; Stable (06-Feb-19)	1)CARE A+; Stable (03-Jan-18)

2.	Fund-based - LT-Term Loan	LT	2800.00	CARE A+; Stable	-	1)CARE A+; Stable (14-Feb-20)	1)CARE A+; Stable (06-Feb-19)	1)CARE A+; Stable (03-Jan-18)
3.	Fund-based - ST-Term loan	ST	200.00	CARE A1+	-	1)CARE A1+ (14-Feb-20)	1)CARE A1+ (06-Feb-19)	1)CARE A1+ (03-Jan-18)

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 the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based - ST-Term loan	Simple

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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