PTC India Financial Services Limited

May 02, 2023

Facilities / Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	0.0	-	Reaffirmed at CARE A (RWD) and withdrawn
Short-term bank facilities	0.0	-	Reaffirmed at CARE A1 (RWD) and withdrawn
Non-convertible debentures	0.0	-	Reaffirmed at CARE A (RWD) and withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed the ratings assigned to the bank facilities and non-convertible debentures (NCDs) issued by PTC India Financial Services Limited (PFS). CARE Ratings has also simultaneously withdrawn the rating on the bank facilities at PFS' request and 'No Objection Certificate' received from the lenders that have extended facilities rated by CARE Ratings. CARE Ratings has also withdrawn rating on NCDs at PFS' request and

The ratings continue to factor in the parentage support from PTC India Limited (PTC) that holds 65% equity stake in PFS as of March 31, 2023, experienced management team, adequate liquidity and adequate capitalisation driven by low disbursements and positive internal accruals. The ratings are, however, constrained by weak asset quality (gross stage 3 of 12% as of December 31, 2022), borrower concentration and uncertainty over adequacy of risk management procedures / credit policies of company.

CARE Ratings continue to place the ratings assigned to the long-term and short-term instruments of PFS under 'Rating Watch with Developing Implications' on account of the uncertainty surrounding the ability of PFS to timely resolve the alleged irregularities and lapses in its credit and operational parameters and any impact of the same on the financial flexibility of the entity and the management's ability to raise incremental funding at competitive costs remains to be ascertained. CARE Ratings notes that PFS currently has a full-functioning board quorum and has reinitiated sanctioning additional loans. Any action or directive from regulatory authorities in respect of alleged corporate governance irregularities remains a key rating monitorable.

Rating sensitivities

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

- Timely resolution of corporate governance issues and meaningful scale-up in the loan book.
- Improvement in the asset quality profile with controlled credit costs and the timely resolution of stage-three assets.
- Improvement in the 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 action by regulatory bodies, adversely impacting the operational and financial profile of PFS, and/or any negative qualifications from the statutory auditor.
- Significant deterioration in the asset quality profile with a slower pace of recoveries and/or incremental slippages.
- Any material changes in the shareholding pattern, leading to a weakening of the credit profile of PFS.
- Weakness in the capitalisation profile with capital adequacy ratio (CAR) falling below 16% and/or gearing rising above 6x.

Analytical approach

Standalone; factoring in 65% shareholding from the parent company, PTC India Limited.

Outlook: Not applicable

Detailed description of the key rating drivers

<u>Key rating strengths</u>

Promoter and managerial support:

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

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 (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 (CERC) under the Electricity Act 2003. For the 9MFY23, PTC (on a standalone basis) reported profit after tax of ₹214.4 crore over the total income of ₹11,518 crore.

PFS was incorporated as a wholly-owned subsidiary of PTC on September 8, 2006. The company was initially promoted to finance projects in the energy value chain; however, it is now mandated to extend financial assistance to other areas of infrastructure, which fall under the ambit of the Reserve Bank of India-Infrastructure Finance Company (RBI-IFC). PTC, at present, owns 65% stake in PFS, which was increased from 60% in November 2016 after an equity infusion of ₹308.77 crore by PTC on a preferential basis.

Going forward, any change in shareholding or dilution in support from parent will be key rating monitorable factor.

Diversified loan book profile:
While the company is present primarily in the power sector, within the 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, and equipment manufacturers. However, during FY21 and FY22, 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 Ratings notes that state discoms, as a group, have shown a 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 the renewable energy sector, and it formed around 28% of the company's overall loan book of ₹7,302 crore as on December 31, 2022 (albeit reduced from 31% of overall loan of ₹7,528 crore as of September 30, 2022). 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 traditional core lending areas such as thermal and hydro projects continue to register a decline.

Overall, CARE Ratings draws comfort from the fact that about 28% of PFS' loan book constitutes renewable energy projects, which carry a must-run status.

Comfortable capitalisation profile:
On the back of sequential positive internal accruals driven by improved operational profitability in 9MFY23, clubbed with a decline in the gross loan book of the company and a resultant decline in the risk-weighted assets, the capitalisation profile remained comfortable with the overall CAR increasing marginally to 33.30% as on December 31, 2022, compared with 26.7% as on March 31, 2022, well above the regulatory minimum requirement of 15%. The debt / tangible equity also improved to 2.3x as of December 31, 2022, from 3.2x as of March 31, 2022, owing to lower borrowing requirement corresponding to decline in loan book.

Going forward, with PFS being in the advanced stage of discussion with public sector undertaking (PSU) lenders to raise additional borrowings, the leverage profile is expected to increase but remain under comfortable level over the medium term.

Diversified lender base:
PFS has a diversified resource profile with funds raised from banks, financial institutions (FIs), the 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 continues to remain at 98% of the total borrowings as of December 31, 2022 (increased from 91% as of March 31, 2022). CARE Ratings notes that PFS, in the last 15 months, has not raised any additional borrowings (excluding sanction of ₹ 300 crore from India Infrastructure Finance Company Limited (rated CARE AAA Stable) from its lender base owing to a slowdown in the sanctioning and disbursal ability,

impacted by corporate governance allegations, and lower demand. Going forward, PFS's ability to raise incremental borrowing from diverse set of lenders will be key rating monitoring factor.

Key rating weaknesses

Instances of alleged corporate governance lapses:

CARE Ratings notes that on January 19, 2022, all three independent directors of PFS – Kamlesh Shivji Vikamsey, Thomas Mathew T, and Santosh B. Nayar – resigned with immediate effect, citing several corporate governance-related lapses at PFS. Various issues raised by the independent directors included issues in the appointment of whole-time directors, lack or delay of disclosures of various information to the board, changes in the terms and conditions of loans without prior approval of the board, and delay in the appointment of board members as per the regulatory requirements for the remuneration 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, ie, PTC India Limited, on its board, and on April 27, 2022, announced that it is has initiated the process to appoint a forensic auditor, and later on, onboarded CNK & Associates LLP in July 2022, to carry out a third-party forensic audit of the issues raised by the ex-independent directors. Also, the Securities and Exchange Board of India (SEBI) had directed the company to ensure that no changes in the existing board structure will be made until the forensic audit is completed.

Later, CNK submitted its final forensic audit report to PFS' management on November 04, 2022, wherein, the report highlighted several instances, among others, of possible evergreening of loan accounts, disproportionate disbursement of funds, improper notice given for convening of board meetings, and its possible impact on financial parameters due to the same.

Thereafter, PFS appointed Ernst & Young LLP (E&Y) for the latter's independent remark on the forensic audit report, wherein, E&Y indicated that there was no financial impact on the accounts of PFS and no indication of fraud or evergreening is visible in the observations made by CNK. Following the same, PFS declared its financial results for the period ending June 30, 2022, and September 30, 2022, which were delayed owing to a delay in outcome of the forensic audit report.

Later, on December 09, 2022, two independent directors, namely, Devendra Swaroop Saksena and Jayant Purushottam Gokhale, resigned from their respective positions citing corporate governance lapses in PFS. The now ex-independent directors, who were earlier appointed by PTC on the board of PFS in January 2022 to address the alleged corporate governance issues, cited observations such as incorrect presentation of financial statements by PFS' management, frequent amendments or revisions in the credit policies for the execution of sanctions, and inadequate amount of notice given to board members for the convening of board meetings as their primary reasons, among others, for resigning from their respective positions.

Further, in February 2023, the company has received a notice from Ministry of Corporate Affairs in relation to the allegation of erstwhile independent directors. CARE Ratings notes that PFS is addressing all inquiries in due course.

Going forward, the ability of PFS to achieve positive growth in overall business profile and financial flexibility, remains a key rating monitorable.

Weak asset quality profile:

While PFS carries a diversified loan portfolio base, its asset quality continues to remain weak, mainly on account of its exposure to 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. However, owing to the wholesale nature of its lending, high sector and borrower-wise concentration risks, the company remains vulnerable to asset quality risks.

During FY22, PFS reported slippages of ₹234 crore (FY21: ₹206 crore), although owing to higher reductions during the year in the form of write-off of loan accounts, the absolute GNPA declined to ₹724 crore, which further declined to ₹580 crore by December 31, 2022, owing to recoveries from high-ticket GNPA accounts. However, with the sequential decline in PFS' loan book, stage-three loan assets, as a percentage of loan book, remained elevated 12% as on December 31, 2022, translating into a weak asset quality profile.

Going forward, with a further decline in the loan book of the company expected, PFS's ability to resolve the existing stage-three assets in a timely manner while 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 the loan book, as PFS reported a gross loan book of ₹7,302 crore as on December 31, 2022, down 25% y-o-y, on the back of higher prepayments from borrowers in the renewable energy sector coupled with negligible disbursements during Q4FY22 and H1FY23.

Furthermore, while PFS reported a rise in net profitability in the nine months ended December 31, 2022, with profit-after-tax (PAT) of ₹139 crore (up 33% Y-o-Y), the profitability of the company remains susceptible to volatility in credit costs towards high-ticket loan accounts. The improvement in profitability metrics during FY22 and 9MFY23 was primarily on account of reduced borrowing costs, as no additional borrowings were availed by PFS during Q4FY22 and 9MFY23, coupled with a reduction in credit costs towards stressed loan accounts, on the back of recoveries, albeit slow timeline of recoveries.

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, the credit concentration risk for PFS remains high. The concentration of the loan book to the top 15 exposures continues to form a substantial proportion of the loan book and net worth. As on September 30, 2022, the top 15 borrowers constituted 60% (47%: September 30, 2021) of the total loan portfolio and 205% (202%: September 30, 2021) of the total adjusted net worth. Also, PFS derives the majority of its income from the power sector and faces competition from other large, established players. Going forward, ability of PFS to diversify its loan book and limit its exposure towards its top borrowers remains a key monitorable.

Liquidity: Adequate
As per the provisional structural liquidity statement dated January 01, 2023, PFS had cash and bank balances of ₹740 crore including HQLA of ₹454 crore. Also, as per the statement, there were positive cumulative mismatches across all the time buckets. Moreover, the current collection efficiency remained above 90% in past six months ending March 31, 2023. Consequently, the ability of the company to maintain healthy collection efficiency while growing its loan portfolio and maintaining an adequate liquidity cushion will remain a key rating monitorable.

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
Short term Instruments
Withdrawal Policy

About the company

Macro-Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Non-Banking Financial Company

Incorporated on September 8, 2006, as a special purpose vehicle (SPV), PFS has been registered as a non-banking finance company-infrastructure finance company (NBFC-ND-IFC) with the Reserve Bank of India (RBI). PFS is promoted by PTC (65% shareholding as on March 31, 2023), 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 private sector power projects in India. The company also provides fee-based syndication and advisory services. In November 2016, PTC infused an equity share capital of ₹308.77 crore in PFS, post that there has been no equity infusion.

Brief Financials (₹ crore)	31-03-2021 (A)	31-03-2022 (A)	9M FY23 (UA)
Total operating income	1139	969	597
PAT	26	130	139
Interest coverage (times)	1.1	1.3	1.6
Total Assets	11,205	9,378	7,759
Net NPA (%)	3.1	4.8	3.2
ROTA (%)	0.2	1.3	2.4*

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'; *annualised

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the 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 the 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	0.0	Withdrawn
Fund-based - ST-Term loan*	-	-	-	-*		
Debentures-Non-convertible Debentures	INE560K07094#	30-Mar-2012	8.93%	30-Mar-2022		
	INE560K07086#	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		

*Revolving facility; #Redeemed on maturity

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE A (RWD) (27-Dec-22) 2)CARE A (CW with Developing Implications) (20-Dec-22) 3)CARE A+; Negative (06-Jun-22)	1)CARE A+; Stable (22-Jan-22) 2)CARE A+; Stable (06-Jan-22)	1)CARE A+; Stable (08-Jan-21)
2	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE A (RWD) (27-Dec-22) 2)CARE A (CW with Developing Implications) (20-Dec-22)	1)CARE A+; Stable (22-Jan-22) 2)CARE A+; Stable (06-Jan-22)	1)CARE A+; Stable (08-Jan-21)

						3)CARE A+; Negative (06-Jun-22)		
3	Fund-based - ST-Term loan	ST	-	-	-	1)CARE A1 (RWD) (27-Dec-22) 2)CARE A1 (CW with Developing Implications) (20-Dec-22) 3)CARE A1+ (06-Jun-22)	1)CARE A1+ (22-Jan-22) 2)CARE A1+ (06-Jan-22)	1)CARE A1+ (08-Jan-21)

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the 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: Lender details

To view the lender wise details of bank facilities please click here

Note on the 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.

Contact us

Media Contact	Analytical Contacts
Name: Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Name: Dinesh Sharma Director **CARE Ratings Limited** Phone: +91-11-4533 3200 E-mail: dinesh.sharma@careedge.in	Name: Gaurav Dixit Director **CARE Ratings Limited** Phone: +91-11-4533 3235 E-mail: gaurav.dixit@careedge.in Name: Neha Kadiyan Associate Director **CARE Ratings Limited** Phone: +91-11-4533 3262 E-mail: Neha.Kadiyan@careedge.in Name: Mohit Sachdeva Assistant Director **CARE Ratings Limited** Phone: +91-11-4533 3202 E-mail: mohit.sachdeva@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information,
please visit www.careedge.in