PTC India Financial Services Limited (Revised)

Feb 06, 2019

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)	Reaffirmed
Short Term Bank Facilities	800.00 (Rupees Eight Hundred Crore Only)	CARE A1+ (A One Plus)	Reaffirmed
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 reaffirmation of ratings of PTC India Financial Services Limited (PFS) continues to factor in the parentage support from PTC India Limited (PTC), experienced management team and comfortable capital adequacy levels of PFS. The rating also factors in company's diversified funding profile and maturing loan book with increased proportion of projects in renewable energy sector. The rating, however, is constrained due to PFS' moderate asset quality profile, moderation in profitability levels 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, manage adequate liquidity; 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 around 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. CEO of PTC India Limited is chairman of PFS. The board has three nominees from PTC (including one nominee from PFC, it being shareholder of PTC). The board is supported by experienced professional management team heading various departments viz projects, risk management, treasury, legal, finance and accounts etc. Dr. Pawan Singh is the MD & CEO of the company.

Comfortable capitalization profile: PFS's CAR continues to be comfortable at 20.50% as September 30, 2018, however declined from 21.19% as on March 31, 2018 primarily on account of Ind AS adoption (24.09% as on March 31, 2017). PFS' Tier 1 capital was 15.79% as on September 30, 2018. The tangible net worth of the company decreased from Rs.2,269 cr as on March-18 to Rs.1,727 cr as on Sep-18 on account of Ind AS adoption from FY19. Gearing of the company stands at 6.32 times as on September 30, 2018.

Resource raised from diversified lenders, however share of short term borrowings relatively high impacting liquidity profile of the company: PFS has raised funds from diversified lenders. The company has mobilized funds at competitive cost from various lenders and sources. Total borrowings stood at Rs.10,243 crore as on March 31, 2018 including borrowings from banks / FIs (86% of total borrowings), NCDs (6%) and ECB / others (8%).

As per adjusted ALM statement as on Sep 30, 2018 (assuming no rollover of short term borrowings), there are negative cumulative mismatches in upto 1 year bucket. The mismatches are on account of higher share of short term borrowings (total short borrowings excluding ODs at Rs.2,450 crore as on December 31, 2018) in the overall borrowing mix; however

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

there is no CP outstanding as on Sep-18 and all the outstanding short term borrowings are from banks/FIs. As on Dec 31, 2018, the company had liquidity (bank balance) of Rs.350 crore and unutilized bank lines of Rs.732 crore. Subsequently, the company had also got sanction of long term loan of Rs.1,000 crore from SBI. The company is in process of raising further long term funds to reduce dependence on short term borrowings. The company has received Partial credit enhancement facility of Rs.400 cr from State Bank of India through which it intends to raise NCDs of Rs.2000 cr.

Maturing loan book with higher proportion of commissioned projects: PFS's loan book has grown at healthy pace and stood at Rs.13,365 crore as on Sep 30, 2018 (Rs.10,610 crore as on March 31, 2017). 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 and others. 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.

Key Rating Weaknesses

Stress on 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's Gross NPAs increased from 5.51% as on March 31, 2017 to 6.54% as on March 31, 2018 and further to 6.95% as on September 30, 2018. In addition, PFS's stage-2 assets (as per Ind AS) were 8.8% of loan book as on September 30, 2018. Weakness in asset quality is primarily led by stress in loans to thermal sector. However, with implementation of Ind AS and consequent improvement in provision cover, net NPAs declined from 3.78% as on March 31, 2017 to 3.47% as on September 30, 2018. The company has also created provision cover of 38% on stage 2 assets.

Incrementally, the company has not sanctioned fresh loans to the thermal sector and share of outstanding loans to thermal sector is declining (16% of loan book as on Sep-18 vs. 21.9% as on Sep-17). Share of loans to RE projects has increased over years (59% of loan book as on Sep-18 vs. 57.6% of loan book as on Sep-17).

Moderation in profitability levels following weakness in asset quality: During FY18, company reported PAT of Rs.24.70 crore vs. Rs. 345.33 crore in FY17. PAT during H1, FY19 was Rs.105.65 crore. Company's profitability has moderated on account of weakness in asset quality as well as moderation in NIMs following increase in NPAs as well as competition specifically in RE sector lending.

The company reported NIM and ROTA[2] (adjusted for profit on sale of investment) of 3.65% and 0.21% in FY18 as against 4.80% and 2.10% in FY17. NIM and ROTA stood at 3.08% and 1.65% respectively during H1, FY19.

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 significantly and exposure to renewable energy projects has increased. As on Sep 30, 2018, exposure towards renewable energy projects contributes to 59% of the outstanding loan book with exposure towards thermal energy projects contributing to 16%, hydro energy projects contributing to 2% while the others contribute 23% 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; factoring in financial support, in case of need, from parent company PTC India Limited

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 around 65% (60% as on Sep 30, 2016).

During FY18 (refers to the period April 1 to March 31), PFS has reported a PAT of Rs.24.70 crore on a total income of Rs.1,190.24 crore as against a PAT of Rs. 345.33 crore on a total income of Rs. 1,351.88 crore in FY17. Capital adequacy

[2] NIM and ROTA are as per CARE calculation

ratio (CAR) as on March 31, 2018 stood at 21.19% and 20.48% as on Sep 30, 2018. During H1FY19 (refers to the period April 1 to September 30), the company has reported a PAT of Rs.105.65 crore on a total income of Rs.678.72 crore.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total Income	1,351.8	1,190.2
PAT	345.3	24.7
Interest coverage (%)	1.54	1.15
Total Assets excluding Intangibles and Deferred tax asset	10,731.8	12,822.2
Net NPA (%)	3.78%	4.16
ROTA (%)#	3.53%	0.21

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

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	March- 2028	2200.00	CARE A+; Stable
Fund-based - ST-Term loan	-	-	May-2019	800.00	CARE A1+
INE560K07086	30-Mar-2012	8.93%	30-Mar-2022	300.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Debentures-Non Convertible Debentures	LT	300.00	CARE A+; Stable	-	1)CARE A+; Stable (03-Jan-18)	1)CARE A+; Stable (23-Jan-17)	1)CARE A+ (06-Nov-15)
2.	Fund-based - LT-Term Loan	LT	2200.00	CARE A+; Stable	-	1)CARE A+; Stable (03-Jan-18)	-	-
3.	Fund-based - ST-Term loan	ST	800.00	CARE A1+	-	1)CARE A1+ (03-Jan-18)	-	-

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