PTC India Financial Services Limited

February 14, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating1**	**Rating Action**
Long Term Bank Facilities	2,700.00 (enhanced from Rs.2,200) (Rupees Twenty Seven hundred crore only)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	300.00 (reduced from Rs.800) (Rupees Three Hundred Crore only)	CARE A1+ (A One Plus)	Reaffirmed
Total 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 & 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 Dec 31, 2019, experienced management team, adequate capitalization profile with overall CAR at 23.02% as on Dec 31, 2019, diversified funding profile and maturing loan book with increased proportion of projects in renewable energy sector. The rating, however, is constrained by PFS' moderate asset quality profile with GNPA at 7.22% as on Dec-19, stretched liquidity profile with negative cumulative mismatches in the near term bucket, moderate financial profile with return on total assets (RoTA) at 1.42% as on Dec 31, 2019 and wholesale nature of its lending leading to high sectoral and borrower wise concentration of 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. Although PFS's management has stated that the dilution of stake by PTC in PFS is not envisaged in near term. 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 the 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
- Improvement in the liquidity profile with positive cumulative mismatches in the near to medium term buckets

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 GNPA rising above 8%
- Weakness in the capitalization profile with CAR going below the minimum regulatory requirement and gearing rising above 7 times

Detailed description of the key rating drivers

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

Key Rating Strengths

Promoter support: PFS is promoted by PTC, a leading power trading solutions provider in India. Incorporated in 1999, PTC was established in 1999 through an initiative of 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. PTC is promoted by National Thermal Power Corporation, (NTPC) Power Grid Corporation of India Limited, Power Finance Corporation Limited (PFC) and NHPC Limited. PTC has a category I license, which permits unlimited trading in power, issued by the Central Electricity Regulatory Commission under the Electricity Act 2003.

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 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 infrastructure 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. Subsequently, as per the past approval (enabling clause) of the shareholders of PTC, it can dilute its holding in PFS up to a maximum of 26%. The management of PFS, in its discussion with CARE has stated that divestment of stake by PTC in PFS is not envisaged in the near term. 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: PFS's CAR continues to be adequate with Tier I CAR and overall CAR at 18.69% and 21.92% respectively as on March 31, 2019 and at 22.09% and 23.02% respectively as on Dec 31, 2019, well above the regulatory minimum requirement at 10% and 15% respectively. 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%; this has helped the company in augmenting its loan book while maintaining healthy CAR. The capitalization profile is supported by tangible net worth of Rs.1,880 crore and overall gearing at 5.81 times as on March 31, 2019; however reduced to Rs.1,850 crore (on account of increase in deferred tax assets) and 5.6 times respectively as on Sep 30, 2019 as against tangible net worth of Rs.1,657 crore and overall gearing at 6.17 times as on March 31, 2018. 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.

Resource raised from diversified lenders, however share of bank borrowings remains relatively high: The lender base of PFS remains diversified with fund raised through varied sources however bank borrowings form the major chunk of total borrowings at around 86.6% of the total borrowings as on Dec-19, followed by short term borrowings from financial institutions forming 5.8%, borrowings through bonds contributing 4.5% and remaining 3.2% through external commercial borrowings (ECBs). In consonance with loan book consolidation, the total borrowings of PFS also came down and stood at Rs.9,748.3 crore as on Dec 31, 2019 reduced from Rs.10,922.4 crore as on March 31, 2019. Of the total borrowings as on Dec 31, 2019, short term borrowings form around 19% as on Dec 31, 2019

Higher proportion of renewable projects: While the company is present primarily in power sector and its book is concentrated to 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 which are set up in significantly lesser time as compared to thermal projects, enjoy a preferential tariff and increased government attention. PFS has also collaborated with International Finance Corporation (IFC; World Bank Group entity) to provide infrastructure financing for renewable energy projects in India. However the company had 6.4% of its loans as on September 30, 2019 in renewable sector in Andhra Pradesh and impending uncertainty in renewable energy norms of Andhra Pradesh Government remains an overhang.

The loan book of PFS grew at a decelerated rate of 7% y-o-y to reach Rs.12,644 crore as on March 31, 2019 and further to Rs.12,830 crore as on Sep 30, 2019. As on Sep 30, 2019, renewable sector projects form maximum at around 52% of the loan book, followed by other sectors contributing 32%, thermal project contributing 14% and hydro energy projects forming remaining 2% The slowdown in pace of growth in loan book is on account of rising borrowing costs of PFS that led to lower fund mobilization by PFS in fiscal 2019. Also PFS was a consolidation phase till March-19 and transitioned to cost plus pricing method from reference rate pricing method for determining lending rates.

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, although incrementally company is not focusing on lending to thermal and hydro projects. Also, with issues related to renewable energy projects in Andhra Pradesh, we expect asset quality concerns to remain elevated. End fiscal 2019, the absolute gross and net non-performing assets (NPA) of PFS improved to Rs.804.68 crore (-4% Y-o-Y) and Rs.403.22 crore (-22% Y-o-Y) however the asset quality deteriorated in 9MFY20 with Gross NPA and Net NPA rising to Rs.866.05 crore and Rs.444.32 crore as on December 31, 2019 on account of fresh slippages of Rs.150 crore in the NPA bucket though partially counteracted by recoveries from NPA. The GNPA% and NNPA% improved to 6.04% and 3.12% respectively as on March 31, 2019 from 6.54% and 4.16% respectively as on March 31, 2018, however deteriorated to 7.22% and 3.84% respectively as on December 31, 2019.

In addition, PFS's stage-3 assets (as per Ind AS) were 8.4% of loan book as on December 31, 2019. 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 to 3.84% as on December 31, 2019 (from 4.16% as on March 31, 2018). The company has also created provision cover of 53.36% on stage 3 assets. Incrementally, since 2012, the company has not sanctioned fresh loans to the thermal sector and share of outstanding loans to thermal sector is declining (12% of loan book as on Dec-19 vs. 16% as on Dec-18).

Moderate financial profile: The financial profile of PFS remains moderate marked by de-growth in total income (net of interest expense) to Rs.399.2 crore (-20% Y-o-Y) in FY19 on account of margin compression. The profitability of the company though improved on a year on year basis mainly due to reduced provisioning expenses. End fiscal 2018; the company incurred higher provision cost of Rs.610 crore (due to adoption of IND AS) as against provision cost of Rs.61 crore in FY19. As a result, PFS reported net profit after tax (PAT) of Rs.184 crore (as per IND AS) for the year ending March 31, 2019 as against net losses of Rs.100.2 crore in FY18 (PAT of Rs.24.70 crore in FY18 as per iGAAP). The net interest margin (NIM) and return on total assets (RoTA) stood at 2.72% and 1.47% in FY19 vs. 3.87% and (0.88) % respectively in FY18. During 9MFY20, PFS reported PAT of Rs.103 crore on total income (net of interest expense) of Rs.312 crore. Company's profitability moderated in fiscal 2019 on account of persistent weakness in asset quality as well as moderation in margins following increase in NPAs as well as competition specifically in RE sector lending. However in fiscal 2020, the margins have been on an improving trend as the company has transitioned to cost plus pricing method. Additionally PFS is down-selling some of its existing accounts which are lower in yield and replacing those with high yield projects to increase its spreads. In nine months ending December 31, 2019, PFS's down sell loan accounts amounted to Rs.550 crore

Borrower concentration risk and competition from established players: Being an infrastructure financing company, credit concentration risk for PFS remains high. As on Sep 30, 2019, top 15 borrowers of PFS (Rs.3,938 crore) constituted 31% of the total loan portfolio and 213% of the total net worth, which is a substantial proportion of loan book and 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 tangible net worth (*adjusted for deferred tax asset and intangible assets*) (Rs.1,850 crore as on March 31, 2019) as compared to other lenders (PFC, REC, IREDA, other lenders) active in this segment.

Liquidity: Stretched
As per adjusted Asset and Liability Management (ALM) statement dated Dec 31, 2019 (assuming no rollover of short term borrowings and excluding any unutilized bank lines (LT/ST)), there are negative cumulative mismatches in all the time buckets up-to 5 years. There are negative cumulative mismatches of Rs.1,003 crore and Rs.1,152 crore in upto 3 months bucket and upto 6 months bucket respectively. The mismatches are on account of higher share of short term borrowings (total short borrowings at Rs.1,869 crore as on December 31, 2019) in the overall borrowing mix; however there is no commercial paper outstanding as on Dec-19 and all the outstanding short term borrowings are from banks/FIs. As on Dec 31, 2019, the company had total outflows of Rs 2,924 crore for the next six months (incl loan commitments pending disbursals of Rs 209

crore) against which it had bank balance of Rs.62 crore, inflows from advances of Rs.1,496 crore, high quality liquid assets (HQLA) in the form of fixed deposits amounting to Rs.40 crore and unutilized bank lines of Rs.1,503 crore. The company is in process of raising further long term funds to reduce dependence on short term borrowings. Also, PFS availed Partial Credit Enhancement (PCE) facility from State Bank of India which would support to raise bonds upto Rs.2,000 crore.

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
Short Term Instruments
Rating Methodology - Non Banking Finance Companies (NBFCs)
Financial Ratios – Financial Sector

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.

PFS's loan book stood at Rs.12,644 crore (+7% Y-o-Y) as on March 31, 2019 and Rs.12,830 crore as on September 30, 2019. Of the total loan book outstanding as on Sep 30, 2019, renewable energy projects contribute 52, thermal book at 14%, other sectors book 32%. Others included loans to hybrid energy projects, transmission projects, loans to discoms. During FY19, PFS reported net profit after tax (PAT) of Rs.184 crore (as per IND AS) on total income (net of interest expense) of Rs.392 crore during FY19 vs. net loss of Rs.100 crore on total income (net of interest expense) of Rs.500 crore
during FY18 on account of higher provision cost of Rs.610 crore during FY18. During 9MFY20, PFS reported PAT of Rs.103 crore on total income (net of interest expense) of Rs.312 crore.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
	IND AS	IND AS
Total Income	1,185.2	1,336.5
PAT	(100.2)	184.1
Interest coverage (times)	0.78	1.3
Total Assets excluding Intangibles and Deferred tax asset	12,032.6	13,006.7
Net NPA (%)	4.16	3.12
ROTA (%)#	(0.88)	1.47

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	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	2700.00	CARE A+; Stable
Fund-based - ST-Term loan	-	-	May 2020	300.00	CARE A1+
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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Debentures-Non Convertible Debentures	LT	159.61	CARE A+; Stable	-	1)CARE A+; Stable (06-Feb-19)	1)CARE A+; Stable (03-Jan-18)	1)CARE A+; Stable (23-Jan-17)
2.	Fund-based - LT-Term Loan	LT	2700.00	CARE A+; Stable	-	1)CARE A+; Stable (06-Feb-19)	1)CARE A+; Stable (03-Jan-18)	-
3.	Fund-based - ST-Term loan	ST	300.00	CARE A1+	-	1)CARE A1+ (06-Feb-19)	1)CARE A1+ (03-Jan-18)	-

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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