July 07, 2017

PTC India Financial Services Limited

Summary of rated instruments

Instruments*	Rated Amount (Rs. crore)	Rating
Fund Based Limits	1,300	[ICRA]A+ (Positive)/ [ICRA]A1+; Reaffirmed
Unallocated Limits	125	[ICRA]A+ (Positive)/ [ICRA]A1+; Reaffirmed
Non-Convertible Debentures Programme	500	[ICRA]A+ (Positive); Reaffirmed

**Instrument details are provided in Annexure-1*

Rating action

ICRA has reaffirmed the [ICRA]A+ (pronounced ICRA A plus) rating for the Rs. 500 crore NCD programme of PTC India Financial Services Limited (PFS). ICRA has also reaffirmed the rating of [ICRA]A+ / [ICRA]A1+ (pronounced ICRA A plus / ICRA A one plus) for the Rs. 1,425 crore long term / short term bank lines of PFS. The outlook on the long term ratings is 'Positive'.

Rationale

The ratings derive significant strength from PFS's parentage (64.99% owned by PTC India Limited (PTC); rated at [ICRA]A1+), its strategic fit with PTC's operations, and the support it receives from PTC in the form of both capital and management. The ratings also factor in the company's experienced management team, comfortable capitalisation, healthy profitability indicators, diversified funding mix and adequate liquidity profile.

The ratings are however constrained by the company's relatively high portfolio vulnerability arising out of its exposure towards private sector borrowers of thermal and large hydro projects which have been impacted by sectoral issues. The stress is reflected in PFS's asset quality indicators; though the company's healthy capitalisation and adequate profitability could provide a cushion for absorbing asset quality related stress to some extent. ICRA also favourably takes note of the steps taken by the management to reduce the portfolio risk by expanding its presence in the renewable energy and other infrastructure sectors; however, increased competitive intensity in the renewable energy segment, with banks and other large infrastructure finance companies also focusing on this segment for incremental growth could exert some pressure on spreads. Overall, the ability of company to grow the business volumes while reducing stressed assets and maintaining profitability would be key rating sensitivity.

Key rating drivers

Credit strengths

- Strong parentage arising from equity holding by PTC (64.99% stake as on March 31, 2017; rated at [ICRA]A1+); support from PTC in the form of capital, operational and management linkages
- Experienced management and operational team; well laid out credit appraisal and monitoring systems
- Diverse funding profile and ability to raise funds from banking channels at competitive cost; however, reliance on banking channels relatively high (~69% of total borrowings as on March 31, 2017)
- Comfortable capitalisation profile (gearing of 3.4 times and CRAR of 24.1% as on March 31, 2017)
- Healthy profitability profile (return on assets of 3.4% and return on net worth of 16.6% during FY2017) supported by adequate net interest margins and lower operating expenses

Credit weaknesses

- Deterioration in asset quality with gross NPAs increasing to 5.5% as on March 31, 2017 from 3.4% as on March 31, 2016; however diversification into renewable energy and other related infrastructure sectors likely to improve the business risk profile over the medium term
- Ability to maintain collections from the thermal and large hydro segments (~26% of book as on March 31, 2017), which is affected by concerns with respect to fuel availability, disputed/competitive power sale tariffs, lack of PPAs, environmental clearances and land acquisition issues

- Weak financial health of state power distribution utilities (discoms) leading to high counter-party risks for generation segment customers; however, effective implementation of Ujwal Discom Assurance Yojana (UDAY) could help discoms improve their financial and liquidity position

- Intense competition from large infrastructure finance companies and banks in the lending segment could lead to pressure on net interest margins; though large funding requirement in the sector, likely to provide adequate business volumes

Description of key rating drivers:

The ratings derives significant strength from PFS's parentage (64.99% owned by PTC; rated at [ICRA]A1+), its strategic fit in PTC's operations, the support it receives from PTC in the form of both capital (PFS received equity of Rs. 308.77 crore from PTC in November 2016) and management linkages (common chairman and two common directors).
Given the ongoing structural challenges and the limited new investments in the thermal and hydro power sectors, the company has been realigning the portfolio towards renewable and other infrastructure related sectors (Share of thermal & large hydro book declined from 41% as on March 31, 2015 to 26% as on March 31, 2017). Within the renewable sectors, the company has largely been disbursing to solar and wind projects (together constituting ~69% of the disbursements in FY2017) while other infrastructure consists of transmission and distribution companies (20%), ports (4%) with the balance (7%) towards thermal, coal mining, roads and hydro projects. The company's portfolio has been growing at a healthy pace (36% in FY2016 and 23% in FY2017) and its total loan book stood at Rs. 10,610 crore as on March 31, 2017. ICRA takes note of PFS's increased focus on renewable energy projects and other non-thermal segments which are expected to be its key growth drivers, going forward.

The structural challenges in the power sector over the last few years have resulted in an increase in the company's overall portfolio vulnerability. This is also reflected in the gross and net NPAs which increased to 5.5% and 3.8% respectively as on March 31, 2017 from 3.4% and 2.4% as on March 31, 2016. PFS's standard restructured advances also increased to 8.0% as on March 31, 2017 from 5.1% as on March 31, 2016. The company's ability to make timely resolutions in the NPA and standard restructured advances as well as maintain collections from the balance thermal and large hydro book would be critical for an improvement in its asset quality profile.

ICRA also takes note of the fact that a significant proportion of PFS's total long term book is under moratorium or yet to be commissioned and thus carry an execution risk. Within the industry segments, only 33% of total long term thermal book was commissioned and none of the project in large hydro was commissioned as on December 31, 2016, which could lead to asset quality related challenges for the company if the structural issues with some projects are not resolved in a timely manner. However, ICRA expects the impending government policy on hydro projects to aid in the revival of some of the stalled projects. ICRA also expects the company's healthy capitalisation and adequate profitability to provide a cushion for absorbing asset quality stress to some extent. PFS's solvency profile (net NPA/ net worth) was moderate at 16.3% as on March 31, 2017.

PFS has a comfortable capitalisation profile as reflected by its gearing of 3.4 times and CRAR of 24.1% as on March 31, 2017, supported by healthy internal accruals, timely equity infusion and sale of investments. ICRA takes not note of PFS's profitable exit from Indian Energy Exchange Limited (IEX) in March 2017 with total net gain of Rs. 131 crore.
PFS has a diversified funding profile, with funding from banks, capital markets (bonds/ commercial papers) and through external commercial borrowings. The company has also been expanding its lender base, which imparts it a greater financial flexibility. As on March 31, 2017, 35% of PFS's borrowings were short term in nature, while most of its portfolio is of long tenures which exposes the company to some asset liability related mismatches. However, the company maintains adequate unutilised bank lines to cover repayment of short term borrowings which along with its relatively low gearing, parentage and adequate financial flexibility is expected to reduce the liquidity risk.

PFS has an adequate profitability profile supported by healthy lending spreads (~3.4% during FY2017) and low operating expenses (~0.50% of ATA). PFS reported return on assets and return on net worth of 3.4% and 16.6% respectively during FY2017 (5.1% and 24.6% respectively during FY2016). The company's profitability during FY2017 was also supported by a one-time profit on sale of equity investments of Rs. 142.6 crore. Overall, the company's ability to maintain asset quality and restrict credit costs would be critical for it to be able to maintain profitability going forward.

Analytical approach:
For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria
ICRA's Credit Rating Methodology for Non-Banking Finance Companies

About the company
PTC India Financial Services Limited (PFS) is promoted by PTC India Limited (PTC), a leading player in power trading in India. PFS was incorporated in September 2006 and started operations in May 2007. PFS provides financial assistance in the form of debt and equity to projects in the energy value chain. The company is registered as a NBFC- Infrastructure Finance Company, with the Reserve Bank of India.

During FY2017, PFS reported a profit after tax of Rs. 345 crore on a total asset base of Rs. 10,752 crore as on March 31, 2017 against a profit after tax of Rs. 391 crore in FY2016 on a total asset base of Rs. 8,822 crore as on March 31, 2016. The company's gross[1] and net NPAs stood at 5.5% and 3.8% respectively as on March 31, 2017.

As on March 31, 2017, the total loan book stood at Rs. 10,610 crore, mainly consisting of exposures to the thermal sector (~23% of the loan book), solar (23%), wind (28%), discoms (~9%) with the balance 26% being across a range of other sectors.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

[1] PFS recognises gross NPA at 120+ DPD

Rating history for last three years:
Table:

S.No	Name of Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years				
		Type	Rated Amount (Rs. in crore)		FY2017	FY2016			FY2015
				Jun-17	Apr-16	Jan-16	Jun-15	Apr-15	Jun-14
1	Bank Lines Programme	Long Term/ Short term	1425	[ICRA]A+ (Positive) /A1+	[ICRA]A+ (Positive) /A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A+ (Stable)
2	NCD Programme	Long Term	500	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	A+ [ICRA](Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
<u>Instrument Details</u>

S.No.	ISIN No.	Name of the instrument (applicable for Market instruments)	Date of issuance	Coupon rate p.a.	Maturity Date	Size of the issue (in Crores)	Current Rating along with Outlook
1	INE560K07037	NCD-3	27 Jan 2011	10.50%	27 Jan 2023	90.00	[ICRA]A+ (Positive)
2	INE560K07045	Infra Bond Series 1 Option I	31 March 2011	8.25%	31 March 2021	42.09	[ICRA]A+ (Positive)
3	INE560K07052	Infra Bond Series 1 Option II	31 March 2011	8.25%	31 March 2021		[ICRA]A+ (Positive)
4	INE560K07060	Infra Bond Series 1 Option III	31 March 2011	8.30%	31 March 2021		[ICRA]A+ (Positive)
5	INE560K07078	Infra Bond Series 1 Option IV	31 March 2011	8.30%	31 March 2021		[ICRA]A+ (Positive)
6	INE560K07086	Infra Bond Series 2 Option I	30 March 2012	8.93%	30 March 2022	159.61	[ICRA]A+ (Positive)
7	INE560K07094	Infra Bond Series 2 Option II	30 March 2012	8.93%	30 March 2022		[ICRA]A+ (Positive)
8	INE560K07102	Infra Bond Series 2 Option III	30 March 2012	9.15%	30 March 2027		[ICRA]A+ (Positive)
9	INE560K07110	Infra Bond Series 2 Option IV	30 March 2012	9.15%	30 March 2027		[ICRA]A+ (Positive)
10	INE560K07136	NCD-5	16 June 2015	9.80%	12 June 2022	150.00	[ICRA]A+ (Positive)
11	-	Overdraft (Punjab National Bank)	22 March 2016	-	NA	300.00	[ICRA]A1+
12	-	Overdraft (Bank of India)	6 March 2017	-	NA	200.00	[ICRA]A1+
	-	Overdraft (HDFC Bank)	07 June 2012		19 July 2017	50.00	[ICRA]A1+
13	-	Term loan (Bank of India)	6 March 2017	-	30 June 2025	450.00	[ICRA]A+ (Positive)
14	-	Term Loan (Punjab National Bank)	29 December 2016	-	31 December 2023	300.00	[ICRA]A+ (Positive)
15	-	Unallocated	NA	NA	NA	125.00	[ICRA]A+ (Positive)/ [ICRA]A1+

Source: PFS; details as on June 28, 2017

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About ICRA Limited:
ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.
Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.
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