September 22, 2017

PTC India Financial Services Limited

Summary of rated instruments

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

*Instrument details are provided in Annexure-1

Rating action

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

Rationale

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

The long-term ratings are however constrained by the company's high portfolio vulnerability arising out of its exposure to private sector borrowers in 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 and by tightening its lending norms; 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 company's ability to grow the business volumes while reducing stressed assets and maintaining profitability would be a key rating sensitivity.

Key rating drivers

Credit strengths

- **Healthy capitalisation supported by strong parentage:** PFS's capitalisation profile remained adequate with Tier 1 and total CRAR of 23.80% and 24.75% as on June 30, 2017 and a gearing of 3.36 times as on June 30, 2017. PFS is 64.99% owned by PTC and has received regular capital support from the parent, the latest being an equity infusion of Rs. 308.77 crore in December 2016. ICRA expects support from the parent to continue going forward as well.
- **Experienced Board and senior management team:** PFS has an experienced management and operational team with key members having over 20 years of experience in project financing, academics and finance.

- **Diverse funding profile:** PFS has a diversified funding profile, with funding from banks, capital markets (bonds and 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 June 30, 2017, 26% 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 reduces the liquidity risk.
- **Healthy profitability profile:** PFS has an adequate profitability profile supported by healthy lending spreads (~2.75% during Q1FY2018) and low operating expenses (~0.43% of ATA). PFS reported return on assets and return on net worth of 3.21% and 18.69% respectively during FY2017 and 0.71% and 12.91% in Q1FY2018 (4.43% and 24.6% respectively during FY2016). 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.

Credit weaknesses

- **Deterioration in asset quality:** 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 reflected in the increase in PFS's gross and net NPAs to 5.83% and 4.11% respectively as on June 30, 2017 from 5.51% and 3.78% as on March 31, 2017 (3.4% and 2.35%as on March 31, 2016). However, diversification into renewable energy and other related infrastructure sectors likely to improve the company's business risk profile over the medium term.
- **Ability to maintain collections from the thermal and large hydro segments:** Thermal and large hydro segment constituted around 24% of the company's outstanding portfolio as on June 30, 2017; these exposures, affected by concerns with respect to fuel availability, disputed/competitive power sale tariffs, lack of PPAs, environmental clearances and land acquisition issues. Further, a significant proportion of the company's book is under moratorium or yet to be commissioned and thus carries an execution risk which could lead to asset quality related challenges if the structural issues with some projects are not resolved in a timely manner. Also, weak financial health of state power distribution utilities (discoms) leads 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. Overall, the company's ability to maintain collections from exposures would be critical for an improvement in its asset quality profile going forward and would be a key rating sensitivity.

- **Heightened competitive intensity to exert pressure on margins:** Stiff competition from large infrastructure finance companies and banks in the lending segment could lead to pressure on net interest margins; however, the large funding requirement in the sector is likely to provide adequate business volumes.

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.

For FY2017, PFS reported a profit after tax (PAT) of Rs. 345 crore on a total asset base of Rs. 10,752 crore as on March 31, 2017 as compared with a PAT of Rs. 391 crore in FY2016 on a total asset base of Rs. 8,822 crore as on March 31, 2016. For Q1FY2018, PFS reported PAT of Rs 79 crore as compared with Rs. 67 crore in Q1FY2017. The company's gross and net NPAs stood at 5.83% and 4.11% respectively as on June 30, 2017. The company's total loan book stood at Rs. 10,963 crore as on June 30, 2017.

Key Financial Indicators:

	FY2016	FY2017	Q1FY2017	Q1FY2018
Net interest income	921.41	1113.69	252.40	282.96
Profit before tax	531.44	528.68	103.17	121.15
Profit after tax	391.10	345.33	67.45	79.21
Net advances	8,634	10,610	9,074	10,963
CRAR	21.77%	24.09%	21.00%	24.75%
Gearing (times)	3.93	3.36	4.01	3.36
% Net profit/Average total assets	4.43%	3.21%	0.72%	0.71%
% Return on net worth	24.60%	18.69%	15.24%	12.91%
% Gross NPAs	3.40%	5.51%	5.83%	5.83%
% Net NPAs	2.35%	3.78%	4.53%	4.11%

Rating history for last three years:
Table:

S.No	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years				
		Type	Rated Amount (Rs. in crore)			FY2017	FY2016			FY2015
				Sept-17	Jun-17	Apr-16	Jan-16	Jun-15	Apr-15	Jun-14
1	Bank Lines Programme	Long Term/ Short term	1,425	[ICRA]A+ (Positive) /A1+	[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)	[ICRA]A+ (Positive)	A+ [ICRA](Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	CP Programme	Short Term	1,500	[ICRA]A1+	-	-	-	-	-	-

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-

Instrument Details

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 September 20, 2017

Analyst Contacts

Rohit Inamdar
+91-124-4545847
rohit.inamdar@icraindia.com

Manushree Saggar
+91-124-4545316
manushrees@icraindia.com

Rohit Gupta
+91-124-4545372
rohit.gupta@icraindia.com

Relationship Contact

L. Shivakumar (+91-22-30470005)
shivakumar@icraindia.com

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.

For more information, visit **www.icra.in**

ICRA

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai
Mr. L. Shivakumar
Mobile: +**91 9821086490**
Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata
Mr. Jayanta Roy
Mobile: **+91 9903394664**
Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai
Mr. Jayanta Chatterjee
Mobile: +**91 9845022459**
Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore
Mr. Jayanta Chatterjee
Mobile: +**91 9845022459**
Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad
Mr. L. Shivakumar
Mobile: +**91 9821086490**
Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231

Pune
Mr. L. Shivakumar
Mobile: +**91 9821086490**
Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-25561231

Hyderabad
Mr. Jayanta Chatterjee
Mobile: +**91 9845022459**
Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500