PTC India Financial Services Ltd

June 01, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture Programme	500.00	500.00	[ICRA]A+ Reaffirmed; Outlook revised to Stable from Positive
Commercial Paper	1,500.00	1,750.00	[ICRA]A1+; Reaffirmed
Fund based - Term Loan	550.00	1050.00	[ICRA]A+ Reaffirmed; Outlook revised to Stable from Positive
Fund based – Short Term	750.00	375.00	[ICRA]A1+; Reaffirmed
Unallocated	125.00	0.00	-
Total	**3,425.00**	**3,675.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the rating of [ICRA]A+ (pronounced ICRA A plus) for the Rs. 500-crore non-convertible debenture (NCD) programme of PTC India Financial Services Ltd (PFS). ICRA has reaffirmed a short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the commercial paper programme of Rs. 1,750-crore (enhanced from Rs. 1,500 crore) of PFS. ICRA has also reaffirmed the rating of [ICRA]A+/A1+ for the Rs. 1,425-crore long-term/short-term bank lines of PFS. The outlook on the long-term rating has been revised from Positive to Stable.

Rationale

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

The long-term ratings are, however constrained by the company's portfolio vulnerability arising from its exposure to private sector borrowers in thermal and large hydro projects, which have been impacted by sectoral issues and the consequent impact on the company's asset quality indicators. With the recent changes by the RBI in the framework for the resolution of stressed assets, whereby the RBI has discontinued all the earlier schemes for the same; though the said guidelines are not specifically applicable to NBFC-IFCs such as PFS, resolution of assets where PFS is a part of consortium lending with banks could get impacted. However, such stress is likely to be restricted to its thermal and large hydro projects (constituting 19% of the loan portfolio as on March 31, 2018), as significant part of the stressed assets (~90%) as on March 31, 2018 are from the thermal and large hydro projects, and the NPAs on the balance book are lower at ~2.3% indicating relatively better credit quality. 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.

Outlook: Stable

The rating revision from Positive to Stable, factors in the longer-than-expected delay in the resolution of the company's stressed assets in the thermal and hydro sector and the consequent deterioration in asset quality and profitability of the company. ICRA has also taken note of the recent changes by RBI in the framework for resolution of stress assets, though the said guidelines are not specifically applicable to NBFC-IFCs such as PFS, resolution of assets where PFS is a part of consortium lending with banks could get impacted if the resolution plans are not agreed upon by all lenders and implemented within the specific timeline. In light of this, ICRA expects that the profitability to remain under pressure over the short to medium term owing to increased credit costs. The outlook may be revised to Positive if there is favourable resolution of stressed assets in a timely manner and significant and sustained improvement in profitability indicators. The outlook may be revised to Negative if there is further deterioration in the company's asset quality indicators and its profitability indicators.

Key rating drivers

Credit strengths

Experienced management team and board of directors – PFS has an experienced management and operational team with key members having more than 20 years of experience in the power financing sector. The company's well laid out appraisal and monitoring systems have enabled it to establish itself as one of the preferred lenders in the power sector.

Healthy capitalisation supported by strong parentage – PFS has a healthy capitalisation profile with a gearing of 4.38 times and CRAR of 21.19% as on March 31, 2018. 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. The company capitalisation profile is further supported by ability of the company to raise capital through capital issuance.

Strong financial flexibility and comfortable liquidity profile – Owing to its parentage and market position, PFS has been able to raise funds at competitive rates (weighted average cost of funds is competitive at 8.18% as on March 31, 2018). The company has 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.

Around 35% of PFS's borrowings as on March 31, 2018 were short term in nature, while most of its portfolio is of long tenures which exposes the company to some asset liability related mismatches which are under the limits as prescribed by RBI. 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 mitigate the liquidity risk to large extent.

Credit challenges

High portfolio vulnerability likely to keep asset quality under pressure – The structural challenges in the power sector over the last few years and longer-than-expected delays in resolution have resulted in an increase in the company's overall portfolio vulnerability. Consequently, PFS' gross and net NPAs increased to 6.54% and 4.16% respectively as on March 31, 2018 from 5.51% and 3.78% as on March 31, 2017. With the recent changes by the RBI in the framework for the resolution of stressed assets, whereby the RBI has discontinued all the earlier schemes for the same; though the said guidelines are not specifically applicable to NBFC-IFCs such as PFS, resolution of assets where PFS is a part of consortium lending with banks could get impacted. However, such stress is likely to be restricted to its thermal and large hydro projects (constituting 19% of the loan portfolio as on March 31, 2018). Further diversification into renewable energy and other related infrastructure sectors likely to improve the company's business risk profile over the medium term. Overall, PFS's ability to grow its loan book while maintaining adequate profitability and controlling credit cost would be a key rating sensitivity going forward.

Subdued profitability due to higher credit cost – PFS' yield moderated to 9.91%[1] in FY2018 from 11.69% in FY2017 owing to reversal in interest income on restructured assets and fresh slippage in FY2018. At the same time, the cost of funds also moderated to 7.64%[2] in FY2018 from 8.51% in FY2017, albeit to a lower extent, leading to a decline in spreads and hence, net interest margin, which stood at 3.58%[3] in FY2018 compared to 4.80% in FY2017. Adjusting for the reversal in interest income on the stressed accounts, the NIMs would have been higher at 4.27% for FY2018. The other income also declined in FY2018 compared to FY2017 (as company made a profit of Rs. 131 crore by selling stake in Indian Energy Exchange Limited in FY2017). The provisions for the company increased by 153% in FY2018 compared to FY2017 following fresh slippages. Consequently, PFS's profitability declined significantly in FY2018 with return on asset of 0.21% and return on equity of 1.02% (3.53% and 16.60% in FY2017). Going forward, it would be critical for the company to recover from these stressed assets and control fresh slippages in order to report an improvement in the profitability indicators, till then elevated credit costs are likely to keep the overall profitability subdued for the company. ICRA expects the profitability of the company to remain under pressure as company has to create additional provision on stressed assets.

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. PFS is registered as an NBFC-infrastructure finance company with the RBI.

During FY2018, PFS reported profit after tax (PAT) of Rs. 25 crore on a total asset base of Rs. 12,893 crore, as on March 31, 2018, compared to PAT of Rs. 345 crore in FY2017 on a total asset base of Rs. 10,752 crore, as on March 31, 2017. The company's gross and net NPAs stood at 6.54% and 4.16%, respectively, as on March 31, 2018.

[1] *If average of monthly earning assets is considered, yields will be 10.29% for FY2018 and 12.10% for FY2017. Adjusting for the reversal of interest income on stressed assets, the yields would have been higher at 11.03% for FY2018 and 12.11% for FY2017.*

[2] *If average of monthly interest-bearing liabilities is considered, cost of fund will be 8.18% for FY2018 and 8.79% for FY2017*

[3] *If average of monthly earning assets and interest-bearing liabilities are considered, net interest margin will be 4.05% for FY2018 and 5.26% for FY2017. Adjusting for the reversal of interest income on stressed assets, the net interest margin would have been higher at 4.79% for FY2018 and 5.27% for FY2017*

Key financial indicators (audited)

	FY2017	FY2018
Total income	1,352	1,190
Profit after tax	345	25
Net worth	2,419	2,340
Total assets	10,752	12,893
CRAR	24.09%	21.19%
Gearing (times)	3.36	4.38
Return on net worth (%)	18.69%	1.04%
Gross NPAs (%)	5.51%	6.54%
Net NPAs (%)	3.78%	4.16%
Net NPA/Net worth	16.29%	22.18%

Source: PFS

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating June 2018	Date & Rating in FY2018 Sept 2017	Date & Rating in FY2017 April 2016	Date & Rating in FY2016 Jan 2016
1	Commercial Paper Programme	Short Term	1,750.00	-	[ICRA]A1+	[ICRA]A1+	-	-
2	Fund based – Term loan	Long Term	1,050.00	962.25	[ICRA]A+ (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	-
3	Fund based – Short term	Short Term	375	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Unallocated	Short Term/ Long Term	0	-	-	[ICRA]A+ (Positive)/A1+	[ICRA]A+ (Positive)/A1+	[ICRA]A1+
5	NCD Programme	Long Term	500.00	375.44	[ICRA]A+ (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)

Source: ICRA

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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE560K07045	Infra Bond Series 1 Option I	31-Mar-11	8.25%	31-Mar-21	11.91	[ICRA]A+ (Stable)
INE560K07052	Infra Bond Series 1 Option II	31-Mar-11	8.25%	31-Mar-21	28.85	[ICRA]A+ (Stable)
INE560K07060	Infra Bond Series 1 Option III	31-Mar-11	8.30%	31-Mar-21	0.21	[ICRA]A+ (Stable)
INE560K07078	Infra Bond Series 1 Option IV	31-Mar-11	8.30%	31-Mar-21	1.12	[ICRA]A+ (Stable)
INE560K07086	Infra Bond Series 2 Option I	30-Mar-12	8.93%	30-Mar-22	38.19	[ICRA]A+ (Stable)
INE560K07094	Infra Bond Series 2 Option II	30-Mar-12	8.93%	30-Mar-22	110.39	[ICRA]A+ (Stable)
INE560K07102	Infra Bond Series 2 Option III	30-Mar-12	9.15%	30-Mar-27	2.61	[ICRA]A+ (Stable)
INE560K07110	Infra Bond Series 2 Option I V	30-Mar-12	9.15%	30-Mar-27	8.41	[ICRA]A+ (Stable)
INE560K07037	NCD Series 3	27-Jan-11	10.50%	26-Jan-23	90.00	[ICRA]A+ (Stable)
INE560K07136	NCD Series 5	16-Jun-15	9.80%	12-Jun-22	150.00	[ICRA]A+ (Stable)
	Fund based - TL	2015-16		2027-28	1050.00	[ICRA]A+ (Stable)
	Fund based – ST				375.00	[ICRA]A1+
NA	Commercial Paper Programme	NA	NA	7 – 365 days	1,750	[ICRA]A1+

Source: PFS

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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.

For more information, visit www.icra.in

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