

December 21, 2023

PTC India Financial Services Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture programme	9.37	9.37	[ICRA]A+ (Negative); reaffirmed
Non-convertible debenture programme [^]	30.0	0.0	[ICRA]A+ (Negative); reaffirmed and withdrawn
Commercial paper	1,000.00	1,000.00	[ICRA]A1; reaffirmed
Fund based – Term loan	1,316.05	1,225.35	[ICRA]A+ (Negative); reaffirmed
Fund based – Short term	100.00	100.00	[ICRA]A1; reaffirmed
Long-term unallocated bank facilities	8.95	99.65	[ICRA]A+ (Negative); reaffirmed
Total	2,464.37	2,434.37	

*Instrument details are provided in Annexure I; [^]The withdrawal is at the request of the company since the rated instruments have matured and have been fully repaid

Rationale

The ratings factor in PTC India Financial Services Limited's (PFS) comfortable capitalisation profile, with a gearing of 1.9 times as on September 30, 2023, as well as its adequate liquidity position backed by higher on-balance sheet liquidity. ICRA takes note of the majority stake held by PTC India Limited (PTC; ~65% shareholding as on September 30, 2023) in the company. PFS has, over the years, benefited from its parentage by way of branding and management support, besides leveraging the established relationships and industry knowledge of its parent. Nonetheless, its ratings do not consider any financial support from PTC.

The Negative outlook on the long-term ratings reflects the weakness in the asset quality indicators due to the decline in the loan book size in H1FY2024. ICRA notes the resignation of independent directors wherein they highlighted certain corporate governance issues which led to an adverse impact on ability to mobilise incremental funds. In this regard, a prolonged impact on its ability to mobilise funds resulting in further moderation in loan book size will be a credit negative. Over the past couple of years, lender confidence has been affected by various corporate governance related concerns, which were highlighted by the regulator and erstwhile independent directors of the company. In this regard, a prolonged impact on its ability to mobilise funds, resulting in further moderation in the loan book size, will be a credit negative.

The reduction in the book size has also affected PFS' reported asset quality indicators (gross and net stage 3 assets remain elevated at 13.7% and 7.4%, respectively, as on September 30, 2023). Nevertheless, the pace of incremental slippages has slowed down and the expectation of recoveries has improved. PFS' relatively modest competitive position in the infrastructure finance segment led to subdued profitability over the past few years as reflected by the sub-par average 3-year (FY2021-FY2023) return on assets (RoA) and return on equity (RoE) of 1.1% and 4.9%, respectively. The improvement in H1FY2024 was largely on the back of the lower leverage, Nil slippages, and resolution on some stressed accounts. Going forward, the company's ability to scale up its business volumes, while controlling fresh slippages on a sustained basis, and raise funds through diverse sources at competitive rates would be imperative.

ICRA has reaffirmed and withdrawn the rating assigned to the Rs. 30-crore non-convertible debenture (NCD) programme as the instruments have matured and fully repaid. The rating has been withdrawn at the request of the company and as per ICRA's policy on the withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Comfortable capitalisation for current scale of operations – PFS is comfortably capitalised for the current scale of operations with a net worth of Rs. 2,475 crore, gearing (debt/net worth) of 1.9 times and CRAR of 38.6% as on September 30, 2023 (gearing and CRAR of 2.1 times and 33.1%, respectively, as on March 31, 2023). The capitalisation profile improved in H1 FY2024 with the decline in the portfolio. The solvency (net stage 3/net worth) improved marginally to 20% on September 30, 2023 from 23% on March 31, 2023 owing to limited slippages and the increased provision against stage 3 accounts.

Credit challenges

Moderation in loan book size due to delay in fund raising, though liquidity is adequate – PFS' sanctions and disbursements remained constrained in FY2023 and H1 FY2024 compared to the previous years. The loan book size declined to Rs. 7,175 crore on September 30, 2023 from Rs. 7,339 crore on March 31, 2023 and Rs. 8,650 crore on March 31, 2022. This was due to the company's inability to sanction new proposals in the absence of a fully functioning board in Q4 FY2022 and Q1 FY2023. ICRA takes note of the company's focus on strengthening the senior management, including the appointment of an Executive Director (Credit), Executive Director (Monitoring), Head of Internal Audit and Head of Human Resources among others, over the past 15 months. However, on June 20, 2023, pursuant to the Reserve Bank of India's (RBI) direction, the Managing Director & Chief Executive Officer (CEO), Dr. Pawan Singh, proceeded on leave, and Mr. Mahendra Lodha, Director (Finance) & Chief Financial Officer (CFO), took additional charge of the functions and responsibilities of the MD & CEO on an interim basis.

While disbursements picked up in the subsequent quarters of FY2023, they remained modest in relation to the past. Disbursements were limited to Rs. 410 crore in H1 FY2024 due to the delays in securing long-term funding from lenders. ICRA notes the resignation of independent directors wherein they highlighted certain corporate governance issues which led to an adverse impact on ability to mobilise incremental funds. In this regard, a prolonged impact on its ability to mobilise funds resulting in further moderation in loan book size will be a credit negative.

Weak, albeit improving, asset quality – Notwithstanding the ongoing resolution process for a sizeable proportion of its stage 3 and stage 2 assets and the base impact of the portfolio rundown, PFS' reported asset quality metrics remain weak. As on September 30, 2023, the gross and net stage 3 assets stood at 13.7% and 7.4%, respectively, compared to 13.6% and 8.0%, respectively, as on March 31, 2023. Further, the gross stage 2% remained elevated at ~5% as on September 30, 2023 (6% on March 31, 2023). Nevertheless, the pace of incremental slippages has been relatively controlled and recoveries have been on an improving trajectory. At the absolute level, the gross stage 3 assets aggregated Rs. 996 crore as on September 30, 2023 compared to the peak of Rs. 1,717 crore in March 2018 (Rs. 1,005 crore on March 31, 2023). While PFS has resolution plans for large stage 3 and stage 2 accounts, and there has been some progress, its ability to achieve adequate recoveries from stressed assets on a timely basis and control fresh slippages will remain imperative for an improvement in its asset quality.

Subdued profitability over past few years – The company's asset quality challenges, coupled with its relatively modest competitive position in the infrastructure finance segment, have led to subdued profitability over the past few years. PFS' lending spreads and net interest margins (NIMs) improved in FY2023. The NIM improved to 3.7% in FY2023 from 3.1% in FY2022 due to the decline in the gearing levels and recoveries from some non-performing accounts. Further, credit costs declined to 0.9% in FY2023 from 1.5% in FY2022 owing to controlled slippages, resulting in an improvement in the RoA and RoE to 2.0% and 7.5%, respectively, in FY2023 from 1.2% and 5.9%, respectively, in FY2022. While the profitability metrics improved in H1 FY2024 with NIMs of 4.0% and RoA and RoE of 2.4% and 7.9%, respectively, this was underscored by the lower leverage and limited credit costs following nil slippages.

Going forward, the company's ability to grow the business volumes while sustaining the improvement in the lending spreads amid competitive pressure from banks and other established players remains to be seen as it has a moderate market share in the infrastructure financing segment. It would also be critical for PFS to continue achieving recoveries from stressed assets and control fresh slippages to report a sustained improvement in its profitability and solvency indicators.

Environmental and social risks

Given the service-oriented nature of its business, PFS does not face material physical climate risks though it is exposed to environmental risks indirectly through its portfolio of assets. If the entities or businesses, to which PFS has an exposure, face business disruptions because of physical climate adversities or if they face climate transition risks because of technological, regulatory or customer behaviour changes, the same could translate into credit risks for PFS. However, such risk is mitigated for PFS through adequate portfolio diversification. With regard to social risks, data security and customer privacy are among the key sources of vulnerability for lending institutions as material lapses could be detrimental to their reputation and invite regulatory censure. Given the nature of its business, PFS' exposure to social risks is limited.

Liquidity position: Adequate

PFS' ALM, profile remains characterised by cumulative negative mismatches across all buckets, given the relatively long tenure of the assets, like other infrastructure finance companies. The availability of sufficient on-book liquidity provides comfort. Nonetheless, the company's ability to leverage its established relationships with a wide lender base and the timely renewal of short-term/working capital lines will remain critical and will be a key monitorable. As per the ALM statement, PFS had on-book liquidity of Rs. 457 crore as on October 31, 2023, with inflows from advances of Rs. 1,509 crore expected over the next one year against repayment obligations (including interest) of Rs. 1,780 crore during this period. ICRA notes that the company had adequate on-balance sheet liquidity of about Rs. 687 crore and off-balance sheet liquidity of Rs. 90 crore (in the form of undrawn sanctioned bank lines) as on December 1, 2023.

Rating sensitivities

Positive factors – The company's ability to demonstrate a material and sustained improvement in its business volumes, asset quality, profitability (RoA of over 2.5%) and solvency would be a credit positive.

Negative factors – A prolonged delay in an improvement in the asset quality and profitability and/or weakening of the capitalisation and liquidity profile could be a credit negative. Specifically, a deterioration in the solvency (adjusted net stage 3/net owned fund) to over 30% on a sustained basis may result in a negative rating action. Continued pressure on incremental fund raising and the consequent impact on business operations would also be negative factors.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating methodology for non-banking finance companies Policy on withdrawal of credit ratings
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

PTC India Financial Services Limited, incorporated in 2006, provides financial assistance to infrastructure projects with a primary focus on the energy value chain. It is registered as an infrastructure financing NBFC with the Reserve Bank of India. PFS' outstanding loan book was ~Rs. 7,175 crore as on September 30, 2023 compared to Rs. 7,339 crore as on March 31, 2023. As on September 30, 2023, the loan book comprised renewable (29%), thermal and hydro power (7%), transmission (21%), distribution (24%), roads (9%) and others (11%).

PFS reported a profit after tax (PAT) of Rs. 97 crore in H1 FY2024 compared to Rs. 176 crore in FY2023. Its gross and net stage 3 assets stood at 13.7% and 7.4%, respectively, as on September 30, 2023 compared to 13.6% and 8.0%, respectively, as on

March 31, 2023. The company reported a capital adequacy of 38.6% as on September 30, 2023 compared to 33.1% as on March 31, 2023.

PTC India Limited (PTC), a leading player in power trading in India, had a 64.99% stake in PFS as on September 30, 2023. On July 16, 2020, PTC had disclosed to stock exchanges that it is desirous of divesting its controlling stake in PFS and invited interest from potential purchaser(s)/investor(s). On November 11, 2021, PFS' management stated that the divestment process has been paused.

Key financial indicators (audited)

PTC India Financial Services Limited	FY2021	FY2022	FY2023	H1 FY2024
	Audited	Audited	Audited	Unaudited
Profit after tax	26	130	176	97
Net worth	2,120	2,264	2,443	2,475
AUM	11,094	8,686	7,339	7,175
Return on assets (%)	0.2%	1.2%	2.0%	2.4%
Return on net worth (%)	1.2%	5.9%	7.5%	7.9%
Gross gearing (times)	4.4	3.1	2.1	1.9
CRAR (%)	23.9%	26.7%	33.1%	38.6%
Gross stage 3 (%)	12.5%	12.3%	13.6%	13.7%
Net stage 3 (%)	7.6%	8.3%	8.0%	7.4%
Solvency (Net stage 3/Net worth)	36%	32%	23%	20%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)					Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) ^	Date and Rating in FY2024		Date and Rating in FY2023	Date and Rating in FY2022		Date and Rating in FY2021
					Dec 21, 2023	Jun 30, 2023		Dec 22, 2022	Jan 28, 2022	
1	CP	ST	1,000.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1+@	[ICRA]A1+	[ICRA]A1+
2	NCD	LT	9.37	8.94	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+@	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	NCD	LT	30.00	-	[ICRA]A+ (Negative); withdrawn	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+@	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
4	Unallocated bank facilities	LT	99.65	-	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)				
5	Fund based – Term loan	LT	1,225.35	1,225.35	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+@	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
6	Fund based – Short term	ST	100.00	10.00	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1+@	[ICRA]A1+	[ICRA]A1+

@ – Rating Watch with Negative Implications; ^As on November 30, 2023; LT – Long term; ST – Short term

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial paper programme	Very Simple
Non-convertible debentures	Simple
Fund based – Term loan	Simple
Fund based – Short term	Simple
Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details as on November 30, 2023

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE560K07037	Non-convertible debenture	Jan 27, 2011	10.50%	Jan 26, 2023	30.00	[ICRA]A+ (Negative); withdrawn
INE560K07102#	Non-convertible debenture	Mar 30, 2012	9.15%	Mar 30, 2027	2.33	[ICRA]A+ (Negative)
INE560K07110\$	Non-convertible debenture	Mar 30, 2012	9.15%	Mar 30, 2027	7.04	[ICRA]A+ (Negative)
NA^	Commercial paper	-	-	7-365 Days	1,000.00	[ICRA]A1
NA	Fund based – Term loan	FY2016	NA	FY2028	1,225.35	[ICRA]A+ (Negative)
NA	Unallocated bank facilities	NA	NA	NA	99.65	[ICRA]A+ (Negative)
NA	Fund based – Short term	NA	NA	NA	100.00	[ICRA]A1

Source: Company; ^Proposed to be issued; #Rs. 2.23 crore outstanding as on March 31, 2023 – earliest call option date is March 31, 2024; \$Rs. 6.71 crore outstanding as on March 31, 2023 – earliest call option date is March 31, 2024

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis: Not applicable

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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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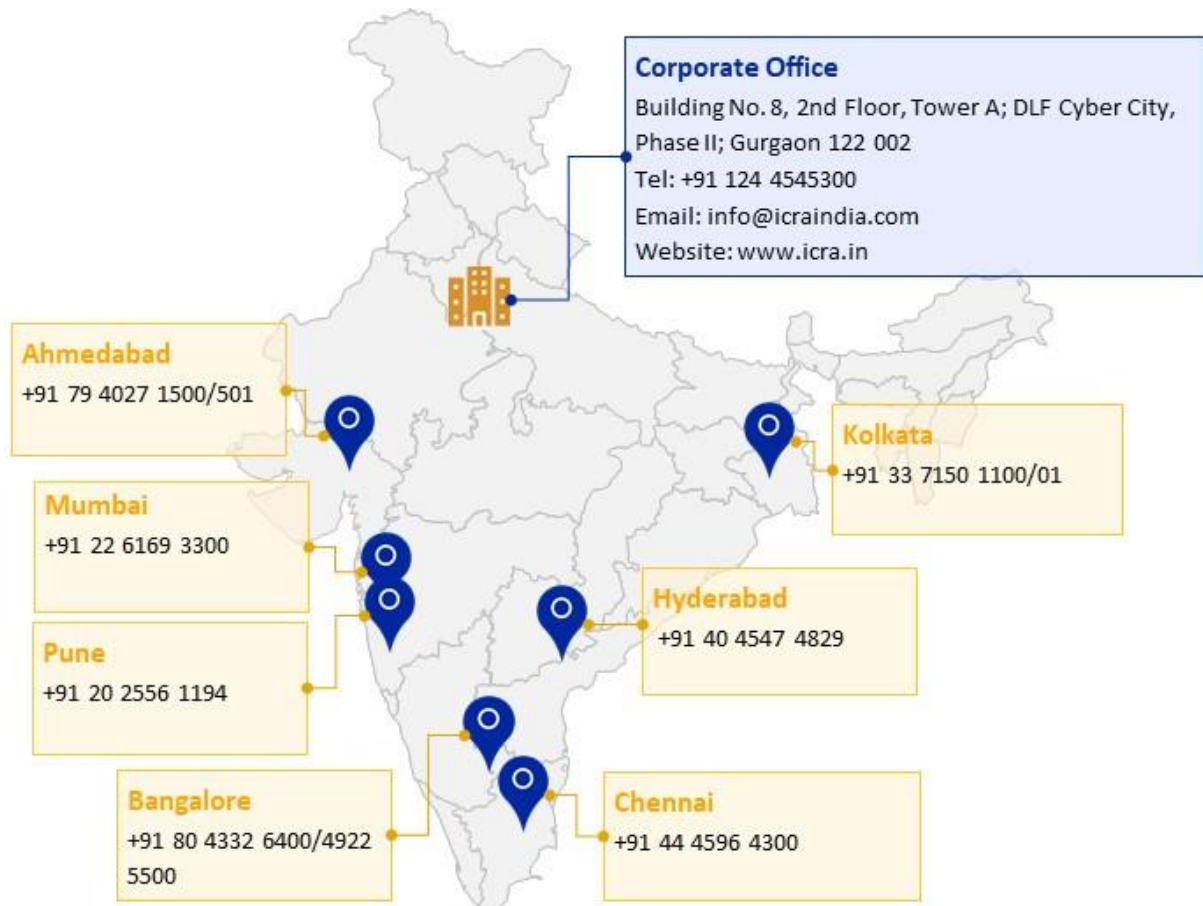
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