

June 14, 2024

PTC India Financial Services Limited: Ratings downgraded to [ICRA]A- (Negative)/ [ICRA]A2+

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); downgraded from [ICRA]A+ (Negative)
Commercial paper	1,000.00	1,000.00	[ICRA]A2+; downgraded from [ICRA]A1
Fund based – Term loan	1,225.35	1,225.35	[ICRA]A- (Negative); downgraded from [ICRA]A+ (Negative)
Fund based – Short-term	100.00	100.00	[ICRA]A2+; downgraded from [ICRA]A1
Long-term unallocated bank facilities	99.65	99.65	[ICRA]A- (Negative); downgraded from [ICRA]A+ (Negative)
Total	2,434.37	2,434.37	

*Instrument details are provided in Annexure I

Rationale

The ratings downgrade for PTC India Financial Services Limited (PFS) factors in the significant decline in the lending book, as its ability to mobilise funds has remained constrained over the past few years, following the concerns of corporate governance issues highlighted by independent directors in January 2022. Further, the audit qualifications for the period ended on March 31, 2024, highlighted further corporate governance issues like conducting few meetings with shorter notice and delays in signing and finalisation of minutes of audit committee and board meetings, along with ineffective and inadequate quality, quantity and timelines of information flow between the company and its board members. Consequently, lender confidence is likely to be affected resulting in continued impact on its ability to mobilise funds, which will moderate the loan book size.

The capitalisation profile for PFS is comfortable for the current scale of operations, with a gearing of 1.5 times as on March 31, 2024, and an 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 March 31, 2024) in the company. However, ICRA does not expect any financial support to PFS from PTC. PFS' reported asset quality indicators remain weak, albeit some improvement in gross and net stage 3% of 12.8% and 6.1%, respectively, as on March 31, 2024, from 13.6% and 8.0%, respectively, as on March 31, 2023, due to no incremental slippages and some recoveries in FY2024.

PFS' relatively modest competitive position in the infrastructure finance segment led to subdued profitability over the past few years, reflected in the subpar average 3-year (FY2022-FY2024) return on assets (RoMA) and return on equity (RoE) of 1.8% and 6.6%, respectively. The improvement in FY2024 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 for improving its credit profile.

The Negative outlook on the long-term rating reflects ICRA's expectations of continued weakness in business growth and consequent decline in the loan book size and subdued earnings profile.

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. 2,539 crore, gearing (debt/net worth) of 1.5 times and a CRAR of 43.1% as on March 31, 2024, compared with a gearing and CRAR of 2.1 times and 33.1%, respectively, as on March 31, 2023. The capitalisation profile improved in FY2024 with the decline in the portfolio amid limited disbursements and repayments, supported by modest internal accruals. The solvency (net stage 3/net worth) improved to 12% on March 31, 2024, 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 FY2024 compared with the previous years. The loan book declined to Rs. 5,395 crore on March 31, 2024 from Rs. 7,339 crore on March 31, 2023 (Rs. 8,650 crore on March 31, 2022).

In the past, concerns raised by the independent directors wherein they highlighted certain corporate governance issues, led to an adverse impact on ability to mobilise incremental funds. Consequently, incremental fund raising has been limited since January 2022 and, hence, disbursements have been funded primarily through repayments and prepayments. Disbursements were limited to Rs. 585 crore in FY2024 due to the delays in securing long-term funding from lenders during the year. Continued inability to mobilise funds could result in further moderation in the loan book size and weakened competitive positioning and funding diversity. Further, while the company has been focusing on strengthening the senior management, it is yet to appoint Chief Compliance Officer and Chief Executive Officer (CEO). 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 in June 2023.

Weak, albeit improving, asset quality – PFS' reported asset quality metrics remain weak with the ongoing resolution process for a sizeable proportion of its stage 3 assets and the base impact of the portfolio rundown. As on March 31, 2024, the gross and net stage 3 assets stood elevated at 12.8% and 6.1%, respectively, compared with 13.6% and 8.0%, respectively, as on March 31, 2023, due to no incremental slippages and some recoveries in FY2024. At the absolute level, the gross stage 3 assets aggregated Rs. 769 crore as on March 31, 2024 compared with the peak of Rs. 1,717 crore in March 2018 (Rs. 1,009 crore as on March 31, 2023). While PFS has resolution plans for large stage 3, 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 indicators.

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 FY2024. The NIM improved to 4.5% in FY2024 from 3.7% in FY2023 due to the decline in gearing levels and recoveries from some non-performing accounts. However, credit costs as a share of average assets increased to 1.2% in FY2024 from 0.9% in FY2023, owing to base effect and increase in provision cover against stage 3 accounts. Overall, the company reported RoMA and RoE of 2.1% and 6.5%, respectively, in FY2024 compared with 2.0% and 7.5%, respectively, in FY2023.

Going forward, the company's ability to grow the business volumes while sustaining the improvement in lending spreads amid competitive pressure from banks and other established players remains to be seen, given the funding constraints currently being faced by the company. 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

Environmental considerations: 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.

Social considerations: 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. PFS had on-book liquidity of Rs. 1,560 crore as on June 2, 2024, with inflows from advances of Rs. 561 crore expected over six months between April 30, 2024 and October 31, 2024 against repayment obligations (including interest) of Rs. 736 crore during this period. ICRA notes that the company had off-balance sheet liquidity of Rs. 150 crore (in the form of undrawn sanctioned bank lines) as on June 2, 2024.

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 – Any prolonged delay in 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
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. 5,395 crore as on March 31, 2024 compared to Rs. 7,339 crore as on March 31, 2023. As on March 31, 2024, the loan book comprises renewable (20%), thermal and hydro power (7%), transmission (21%), distribution (30%), roads (9%) and others (14%).

PFS reported a profit after tax (PAT) of Rs. 161 crore in FY2024 compared with Rs. 176 crore in FY2023. Its gross and net stage 3 assets stood at 12.8% and 6.1%, respectively, as on March 31, 2024, compared to 13.6% and 8.0%, respectively, as on March 31, 2023. The company reported a capital adequacy of 43.1% as on March 31, 2024, 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 the stock exchanges that it was interested in 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	FY2022	FY2023	FY2024
	Audited	Audited	Audited
Total income	969	797	776
Profit after tax	130	176	161
Total Assets	9,516	7,634	6,525
Return on assets	1.2%	2.0%	2.1%
Gross gearing (times)	3.1	2.1	1.5
Gross stage 3	12.3%	13.6%	12.8%
CRAR	26.7%	33.1%	43.1%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amounts 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 (FY2025)				Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date and Rating in FY2025	Date and Rating in FY2024		Date and Rating in FY2023	Date and Rating in FY2022	
					Jun 14, 2024	Dec 21, 2023	Jun 30, 2023	Dec 22, 2022	Jan 28, 2022	Jul 23, 2021
1	Commercial paper	Short-term	1,000.00	-	[ICRA]A2+	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1+@	[ICRA]A1+
2	Non-convertible debentures	Long-term	9.37	8.94	[ICRA]A-(Negative)	[ICRA]A+(Negative)	[ICRA]A+(Negative)	[ICRA]A+(Negative)	[ICRA]A+@	[ICRA]A+(Stable)
3	Unallocated bank facilities	LT	99.65	-	[ICRA]A-(Negative)	[ICRA]A+(Negative)	[ICRA]A+(Negative)			
4	Fund based – Term loan	LT	1,225.35	1,225.35	[ICRA]A-(Negative)	[ICRA]A+(Negative)	[ICRA]A+(Negative)	[ICRA]A+(Negative)	[ICRA]A+@	[ICRA]A+(Stable)
5	Fund based – Short term	ST	100.00	10.00	[ICRA]A2+	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1+@	[ICRA]A1+

@ – Rating Watch with Negative Implications; 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 May 31, 2024

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
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]A2+
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]A2+

Source: Company; ^Proposed to be issued; #Rs. 2.19 crore outstanding as on March 31, 2024 – earliest call option date is March 31, 2024; \$Rs. 6.60 crore outstanding as on 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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