July 24, 2020

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 Debentures	320.88	320.88	[ICRA]A+(Stable); reaffirmed
Commercial Paper	1,750.00	1,750.00	[ICRA]A1+; reaffirmed
Long-term Fund Based	1,050.00	1,050.00	[ICRA]A+(Stable); reaffirmed
Short-term Fund Based	375.00	375.00	[ICRA]A1+; reaffirmed
Total	**3,495.88**	**3,495.88**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings continue to consider PTC India Financial Services Limited’s (PFS) comfortable capitalisation with a gearing of 4.4x and a capital to risk weighted assets ratio (CRAR) of 23.6% as on March 31, 2020. Further, while the company’s cash inflows have been impacted by the moratorium granted to around 50% of the loan book for up to six months, it is noted that PFS is maintaining sufficient liquidity backup. As on June 30, 2020, the company had on-balance sheet liquidity of Rs. 316 crore and off-balance sheet liquidity of Rs. 1,440 crore compared to its total debt-servicing burden of Rs. 1,945 crore up to March 2021. While reaffirming the ratings, ICRA has also taken cognizance of the improving sectoral diversification with PFS’ exposure to the power generation segment (thermal, renewable and hydro) declining to about 63% as on March 31, 2020 from 78% two years ago. While PFS continues to position itself to participate significantly in upcoming solar power projects, it is also increasing its focus on taking exposures in transmission and road projects and is exploring upcoming sustainable infrastructure finance areas as well. This diversification into other infrastructure segments is likely to decrease the sectoral concentration risk, though the company’s ability to demonstrate effective underwriting in newer sectors will remain a monitorable.

ICRA has taken note of the disclosure by PTC India Limited (PTC) that it is desirous of divesting its controlling stake in PFS and is inviting interest from potential purchaser(s)/investor(s). ICRA will continue to monitor the developments with respect to the same and take appropriate rating action once more clarity emerges. Meanwhile, PTC continues to maintain board oversight and majority ownership (64.99%) in PFS with PTC's Chairman and Managing Director being PFS' Non-Executive Chairman. PFS has, over the years, benefited from its parentage by way of branding, management and funding support, besides leveraging the established relationships and industry knowledge of its parent i.e. PTC.

The long-term rating is, however, constrained by the asset quality pressure, which remains a concern despite the improving trajectory. Given the concentrated exposure towards the power sector which is facing structural challenges, PFS’ non-performing portfolio increased significantly during FY2017 and FY2018, post which the pace of incremental slippages moderated. While the gross stage 3 asset level moderated to 8.7% as of March 31, 2020 from 13.4% in March 2018, the gross stage 2% has increased in the past two years and stood elevated at 9.6% as on March 31, 2020 compared to 4.1% as on March 31, 2018. Thus, PFS remains exposed to increased portfolio vulnerability, given the regulatory uncertainties that surfaced in the past two years and the structural challenges in the power sector. ICRA also notes that a part of the reduction in the gross Stage 3 assets was because of write-offs and the recovery rate for stressed assets was around 40%. The elevated credit costs along with a modest competitive position in the infrastructure finance segment have kept PFS' profitability profile under pressure.

While PFS' blended lending yield and net interest margin (NIM) improved in FY2020 following the repricing of loans, the NIM remained lower at about 3% (compared to the level of 4%+ seen till FY2017) due to elevated level of non-performing loans and changing product mix. Also, higher provisioning amid the challenging operating environment and incremental provisioning/write-offs on a few stressed accounts continued to result in elevated credit costs and constrained profitability as reflected by the sub-par return on assets (RoA) and return on equity (RoE) of 0.8% and 5.3%, respectively, in FY2020. Going forward, the company's ability to sustain the improved lending yields/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 recoveries from stressed assets and control fresh slippages in order to report a sustained improvement in its profitability and solvency indicators.

Key rating drivers and their description

Credit strengths

Comfortable capitalisation – PFS is adequately capitalised for the current scale of operations with a net worth of Rs. 2,115 crore, a gearing of 4.4x and a CRAR of 23.6% as of March 31, 2020. The capitalisation improved in FY2020 due to portfolio degrowth amid calibrated disbursements and sizeable prepayments. Although the capitalisation had remained adequate earlier, it had moderated during the preceding few years as reflected by an increase in the gearing to a peak of 5.3x in March 2019 from 4.0x in March 2016. Besides the impact of the transition to Ind-AS and the consequent higher provisioning, the moderation in the capital structure resulted from the strong portfolio growth during 2015 to 2018 before the stagnation/degrowth seen in FY2019 and FY2020. While PFS is expected to maintain a gearing of less than 6x at all times, ICRA understands that PFS' parent (PTC) is looking to divest its stake in the company. Hence, PFS would need a new set of investors for fresh capital raise. The company's ability to raise additional capital to support its growth plans over the medium term will remain a key monitorable.

Improving sectoral diversification – The structural challenges in the power sector and the delays in resolutions resulted in increased portfolio vulnerability for PFS (2015 onwards), given the high concentration towards the power sector, especially the thermal power sector which used to account for a significant proportion of PFS' loan book. ICRA, however, notes that most of the sanctions by PFS in FY2019 and FY2020 have been towards sectors such as renewable energy, transport, transmission & distribution, etc, with no fresh sanctions in the thermal segment during the last three years. As a result, PFS' exposure to the thermal and hydropower sectors declined to 13% as of March 31, 2020 from 40% five years ago. Besides the lack of incremental sanctions in these sectors, the decrease was also driven by recoveries and write-offs.

Overall, while PFS continues to position itself to participate significantly in upcoming solar power projects, it is also increasing its focus on taking exposures in transmission and road projects and is exploring upcoming sustainable infrastructure finance areas like sewage treatment plants, water infrastructure, electric mobility, etc. Diversification into other infrastructure segments is likely to decrease the sectoral concentration risk, though the company's ability to demonstrate effective underwriting in newer sectors will remain a monitorable. ICRA notes that the share of the power generation segment (thermal, renewable and hydro) in the company's portfolio has already declined to about 63% as on March 31, 2020 from 78% two years ago. Within the power sector, PFS has financed projects across sub-sectors including renewable and thermal power generation projects, private transmission projects and distribution companies. However, over the last few years, it has disbursed more funds towards renewable energy projects, which carry a relatively lower execution risk and fuel risk, notwithstanding the increased regulatory risks in the recent past.

Comfortable liquidity position, and adequate borrowing profile, notwithstanding the moderation in recent years – Notwithstanding the curtailed cash inflows in H1 FY2021 due to the moratorium granted to around 50% of the loan book for up to six months, it is noted that PFS is maintaining sufficient liquidity backup. As on June 30, 2020, the company had on-balance sheet liquidity of Rs. 316 crore and off-balance sheet liquidity of Rs. 1,440 crore (in the form of undrawn sanctioned bank lines) compared to its total debt-servicing burden of Rs. 1,945 crore up to March 2021. While PFS shored up its liquidity in March 2020 by raising long-term loans from public sector banks, prepayments also supported the liquidity build-up in Q4 FY2020. Further, while the impact of the ongoing risk averseness towards the NBFC sector on PFS cannot be ruled out given the trajectory of the portfolio, the share of bank borrowings and the cost of funds over the past two years, it is noted that PFS has demonstrated a track record of tapping funding from diverse sources including banks, debt/money markets, NBFCs and development finance institutions (DFIs) in the past.

ICRA observes that PFS' dependence on commercial paper (CP) borrowings has declined significantly in the past 18 months with only two CP issuances during this period. Going forward, the company's ability to leverage its established relationships with a wide lender base will remain critical and will be a monitorable. A prolonged impact, if any, on its ability to mobilise funds from debt markets/money markets at competitive rates will be a credit negative.

Credit challenges

Asset quality challenges – Notwithstanding the improvement in the past two years, PFS continues to face asset quality challenges as reflected by the gross stage 3 and net stage 3 assets of 8.7% and 5.1%, respectively, as on March 31, 2020. Further, while the gross stage 3% declined from a peak level of 13.3% in March 31, 2018, the gross stage 2% increased during the past two years and stood elevated at 9.6% as on March 31, 2020 compared to 4.1% as on March 31, 2018. Thus, PFS remains exposed to increased portfolio vulnerability, given the regulatory uncertainties that surfaced in the past two years, the structural challenges in the power sector and the delays in resolutions. PFS' portfolio vulnerability increased from FY2015, given the high concentration towards the power sector, especially the thermal power sector which used to account for over 30% of the company's loan book four years ago. Consequently, PFS' gross and net stage 3 assets increased to 13.3% and 6.8%, respectively, as on March 31, 2018, from the low single-digit levels earlier, though the stress was largely restricted to the thermal and hydropower project portfolios. Nevertheless, the pace of incremental slippages has moderated and recoveries have been on a positive trajectory. Further, PFS' exposure to the thermal and hydropower sectors declined to 13% as of March 31, 2020 from 40% five years ago.

Going forward, the company's ability to grow the loan book while controlling the credit costs would remain a monitorable. ICRA notes that PFS has exposure to a few stressed corporate groups and any further slippages or deterioration in the performance of these accounts would remain a key monitorable.

Subdued profitability – The asset quality challenges coupled with PFS' relatively modest competitive position in the infrastructure finance segment have led to subdued profitability. While PFS' blended lending yield and NIM improved in FY2020 following the repricing of loans, the NIM remained lower at about 3% (compared to the level of 4%+ seen till FY2017) due to elevated level of non-performing loans and changing product mix. Also, higher provisioning amid the challenging operating environment and incremental provisioning/write-offs on a few stressed accounts continued to result in elevated credit costs and constrained profitability as reflected by the sub-par RoA and RoE of 0.8% and 5.3%, respectively, in FY2020.

Going forward, the company's ability to sustain the improved lending yields/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 recoveries from stressed assets and control fresh slippages in order to report a sustained improvement in its profitability and solvency indicators.

Liquidity position: Adequate

Notwithstanding the curtailed cash inflows in H1 FY2021 due to the moratorium granted to around 50% of the loan book for up to six months, it is noted that PFS is maintaining sufficient liquidity back-up. As on July 01, 2020, the company had on-balance sheet liquidity of Rs. 316 crore and off-balance sheet liquidity of Rs. 1,440 crore (in the form of undrawn sanctioned bank lines) compared to its total debt-servicing burden of Rs. 1,945 crore up to March 2021.

ICRA notes that even in the normal course of business, PFS' asset liability maturity (ALM) profile is characterised by cumulative negative mismatches in the near-and-medium-term buckets, given the relatively long tenure of the assets of infrastructure finance companies. Nevertheless, the availability of sufficient liquidity back-up in the form of unutilised bank lines and the track record of continued relationships with lenders with the timely renewal of short-term/working capital lines provide comfort.

Rating sensitivities

Positive triggers – The long-term rating may be upgraded if the company is able to demonstrate a material and sustained improvement in its asset quality, profitability (RoE of over 12%) and solvency (net stage 3/net owned funds (NOF)) while maintaining a sufficient capitalisation cushion of over 3%. Also, the ratings remain sensitive to a change in PFS' ownership and ICRA will continue to monitor the developments in this regard and will take appropriate action as more clarity emerges on the same.

Negative triggers – The ratings may be downgraded if there is a prolonged delay in an improvement in the asset quality and profitability, and/or weakening of the capitalisation and liquidity profile. Specifically, a deterioration in the solvency (net stage 3/NOF) to over 30% may result in a negative rating action. The ratings remain sensitive to a change in PFS' ownership and ICRA will continue to monitor the developments in this regard and will take appropriate action as more clarity emerges on the same.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	PFS has, over the years, benefited from its parentage by way of branding, management, and funding support, besides leveraging the established relationships and industry knowledge of its parent i.e. PTC. ICRA has, however, taken note of PTC's disclosure to the stock exchanges that it seeks to divest its controlling stake in PFS and invites interest from potential purchaser(s)/investor(s). ICRA will continue to monitor the developments with respect to the same and take appropriate rating action once more clarity emerges.
Consolidation/Standalone	Standalone

About the company

PTC India Financial Services Limited (PFS), 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. 11,005 crore as on March 31, 2020 compared to Rs. 13,321 crore as on March 31, 2019.

Currently, PTC India Limited (PTC), a leading player in power trading in India, has a 64.99% stake in PFS. However, on July 16, 2020, PTC disclosed to stock exchanges that it is desirous of divesting its controlling stake in PFS and invited interest from potential purchaser(s)/investor(s).

PFS reported a profit after tax (PAT) of Rs. 110 crore in FY2020 compared to Rs. 184 crore in FY2019. Its gross and net stage III assets stood at 8.7% and 5.1%, respectively, as on March 31, 2020, compared to 10.1% and 5.4%, respectively, as on March 31, 2019. The company reported capital adequacy of 23.6% as on March 31, 2020 (21.9% in March 2019).

Key financial indicators (audited)

	FY2018	FY2019	FY2020
PAT	(100)	184	110
Net worth	1,939	2,067	2,115
Loan book	12,816	13,321	11,005
Total assets	13,377	13,923	12,121
Return on average assets (%)	-0.8%	1.3%	0.8%
Return on average net worth (%)	-4.8%	9.2%	5.3%
Gearing (times)	5.3	5.3	4.4
CRAR (%)	21.2%	21.9%	23.6%
Gross stage 3 (%)	13.4%	10.1%	8.7%
Net stage 3 (%)	6.7%	5.4%	5.1%
Net stage 3/NOF (%)	41%	35%	27%

Source: PFS' financial results, ICRA research; Note: Amounts in Rs. crore; All figures and ratios are as per ICRA's calculations/adjustments

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					July 24, 2020	Jul 22, 2019	Jun 01, 2018	Sept 22, 2017
1	Commercial Paper Programme	ST	1,750.00	300	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Fund Based – Term Loan	LT	1,050.00	956.27	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Positive)
3	Fund Based – Short Term	ST	375.00	126	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	NCD Programme	LT	320.88	241.37	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Positive)

*Source: ICRA research; Note: LT: Long term, ST: Short term; *As on June 30, 2020*

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE560K07102	Infra Bond Series 2 Option III	30-Mar-12	9.15%	30-Mar-27		[ICRA]A+(Stable)
INE560K07086	Infra Bond Series 2 Option I	30-Mar-12	8.93%	30-Mar-22		[ICRA]A+(Stable)
INE560K07094	Infra Bond Series 2 Option II	30-Mar-12	8.93%	30-Mar-22		[ICRA]A+(Stable)
INE560K07110	Infra Bond Series 2 Option I V	30-Mar-12	9.15%	30-Mar-27		[ICRA]A+(Stable)
INE560K07136	NCD Series 5	16-Jun-15	9.80%	12-Jun-22	241.37	[ICRA]A+(Stable)
INE560K07045	Infra Bond Series 1 Option I	31-Mar-11	8.25%	31-Mar-21		[ICRA]A+(Stable)
INE560K07078	Infra Bond Series 1 Option IV	31-Mar-11	8.30%	31-Mar-21		[ICRA]A+(Stable)
INE560K07060	Infra Bond Series 1 Option III	31-Mar-11	8.30%	31-Mar-21		[ICRA]A+(Stable)
INE560K07052	Infra Bond Series 1 Option II	31-Mar-11	8.25%	31-Mar-21		[ICRA]A+(Stable)
INE560K07037	NCD Series 3	27-Jan-11	10.50%	26-Jan-23	60.00	[ICRA]A+(Stable)
NA	Fund-based Term Loan	FY2016	-	FY2028	1,050.00	[ICRA]A+(Stable)
NA	Fund-based Short Term	-	-	-	375.00	[ICRA]A1+
NA	Commercial Paper	-	-	7-365 days	1,750.00	[ICRA]A1+

Source: PFS

Annexure-2: List of entities considered for consolidation: 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.

For more information, visit www.icra.in

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