May 31, 2023

PTC India Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short term – Fund-based facilities-Cash credit	2,000.00	2,000.00	[ICRA]A1+; reaffirmed
Short term- Non-fund based facilities – Others	3,500.00	3,500.00	[ICRA]A1+; reaffirmed
Total	**5,500.00**	**5,500.00**	
Commercial paper	300.00	300.00	[ICRA]A1+; reaffirmed

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the rating favourably factors in the market leadership position of PTC India Limited (PTC) in the domestic power trading market and its healthy trade margins despite the moderation in trading volumes. While the net surcharge income moderated due to the implementation of the Late Payment Surcharge Scheme, 2022, higher collections from discoms have improved the company's liquidity. Additionally, the company's profitability is supported by the stable and growing income from consultancy services. Going forward, while the surcharge income is expected to moderate on expectations of timely payments from discoms that may lower the surcharge income, the liquidity position is expected to remain strong. Volume addition in long-term trade (LTT)/medium-term trade (MTT, signing of PSAs for 2,500-MW Pilot II scheme and potential for new LT PPAs with renewable energy developers) will also improve and support the profitability.

The resolution of the long-standing dispute with Andhra Pradesh (AP) discom significantly reduced the receivables for PTC Energy Limited (PEL) in FY2023. For arriving at the ratings, ICRA has consolidated the financials of PTC Energy Limited (PEL), given the close business, financial and managerial linkages between them. PTC India Financial Services Ltd (PFS) has been excluded to make a distinction between the trading and the financial services businesses. PTC has not extended any loan or corporate guarantee to PFS till date and the assigned rating does not factor in any financial support to PFS. Any extraordinary support to PFS that affects the company's liquidity/coverage metrics will be a key monitorable. ICRA has also taken note of the matters related to corporate governance in PFS raised by the former Independent Directors of PFS and PTC and will continue to monitor the developments in this regard.

The rating continues to be supported by the company's ability to manage contractual and payment-related risks inherent in the power trading business. The contractual terms in both the power purchase agreements (PPAs) and power sale agreements (PSAs) in the LT and medium term (MT) segments are back to back in nature. PTC, however, is exposed to significant counterparty credit risks as its main offtakers are state power utilities, most of which are financially weak. Nevertheless, an experienced management and a prudent monitoring of receivables and payables by the management is expected to limit the exposure at any given time. PTC's liquidity continues to be strong, driven by unutilised limits and cash and liquid funds of ~Rs. 1284 crore as on March 31, 2023 on a consolidated basis

The performance of PTC's wind business, which is housed under PEL, has remained steady. The receivables have come down as the dues are being recovered through 12 monthly instalments beginning August 2022 from the Andhra Pradesh (AP) discom (payments were previously made at an interim rate of Rs. 2.43/unit as per the AP High Court order dated September 2019, instead of a PPA tariff at Rs. 4.84/unit). This has also decreased PEL's debt levels. Moreover, the availability of a two-quarter DSRA provides comfort for PEL. PTC, however, has no further investment plans in the generation/IPP segment and intends to divest PEL and the process in underway.

ICRA takes note of the limited upside in the LT segment and moderation in margins in the ST segment, given the growing share of exchange-traded sales. A tie-up of PSAs for the 2,500 MW Pilot-II scheme of the Ministry of Power will add to the volumes in the MT segment. The rating reflects the benefits that PTC will derive by virtue of its leading market position in the power trading segment, as well as its ability to effectively manage its contractual and payment-related risks and also limit its net receivables exposure (receivables less payables) to discoms.

Key rating drivers and their description

Credit strengths

Dominant share in short-term trade despite competition – PTC is the largest player in the Indian power trading market, with a market share of 45% of the total volume traded by trading licensees in the ST segment in FY2022. The company is likely to maintain its dominant market position despite intense competition. PTC benefits from its significant presence in long-term and medium-term trade, which helps to cushion any fluctuation in short-term volumes and margins. PTC has a dominant share in the real-time market introduced in June 2020.

Stable trading margins in LTT/MTTs– PTC has a strong portfolio for LT power trade, wherein it has back-to back PPAs with the developers and PSAs with discoms for the purchase and sale of power, respectively. The profitability is mainly derived from LTT/MTT trade as their contribution in absolute terms to the overall gross margins is more than 80% and provides stability to the volatile short-term trade margins which vary with the market prices on the power exchanges. The trading margins continue to be healthy for the company. The surcharge income declined to Rs. 180 crore in FY2023 against Rs. 350 in FY2022 due to timely payments from discoms. Going forward, addition of volumes in the LTT/MTT segments should improve the profitability and add stability to the company's trading margins.

Effective management of contractual risks – While the LT/MT trade is lucrative because of its relatively high and stable margins, it carries significant contractual risks on both the PPA and the PSA side. PTC with its long track record and strong connect with utilities has effectively managed these risks by having contractual safeguards in place, such as allowing third-party sales (in case of delays in payments from discoms), rebate for timely payments, late payment surcharge for delays in payments, presence of LCs as a payment security mechanism, termination liabilities, penalty for non-offtake by a discom and bank guarantee from the project developer guaranteeing supply of agreed power. These terms are back-to-back in nature in both the PPAs and the PSAs.

Strong liquidity position – The company's liquidity profile is strong, aided by sizeable cushion in its drawing power as the utilization was ~10% at the end of FY2023 and available cash and liquid balances of ~Rs. 1,284 crore as on March 31, 2023 on a consolidated basis. The strong operational profile of the core trading business, the feed-in tariffs and steady generation from the wind business are expected to result in adequate cash accruals for its debt servicing requirements. The liquidity position is expected to remain comfortable.

Credit challenges

Significant counterparty risks due to poor financial health of discoms – PTC is exposed to counterparty credit risks of its offtakers— the state power utilities. The risk is mitigated to an extent by the distributed profile of its counterparties and the presence of contractual safeguards. Although the terms of the payment are back to back in both the PPAs and the PSAs, the company is obligated to make payments to the developer even if the discoms delay their payments. With strict enforcement of the orders of the Ministry of Power, the discoms have been providing LCs to PTC since August 2019, (which in turn has provided the same to its developers). Further, the implementation of the liquidity relief scheme has reduced the receivables from the discoms.

Increase in leverage and exposure to discoms – The company takes exposure to discoms relying on its ability to ultimately realise its dues from the discoms delaying their payments. Consequently, the rebate and surcharge income earned by PTC, which is a significant contributor to the company's profitability, is driven by its net receivable position. ICRA notes that at present, this exposure is significantly funded through the company's own net worth. However, a higher exposure can potentially increase the company's leverage.

PTC's standalone TD/OPBITDA stood at 0.5 times in FY2023 against 2.0 times in FY2022 on account of improved collections from debtors, lower debt at the standalone level and reduced gap between debtors and creditors (Rs. 1,404 crore as on March 31, 2023, against Rs. 2,453 crore as on March 31, 2022). The gross and net receivable position is expected to be range-bound by fiscal-end, driven by increased collections from discoms.

PEL's TD/OPBITDA improved to 5.2 times in FY2023 from 6.4 times in FY2022 on account of significant collection of payments from the Andhra Pradesh discom (188 MW out of total installed capacity of 288.8 MW being supplied to the Andhra Pradesh discom). The timely payments reduced the borrowing. At a consolidated level, the cash flows are expected to remain adequate. ICRA notes that the actual recovery from the Andhra Pradesh discom began from August 2022 after the implementation of the revised Late Payment Surcharge Rules 2022.

Environmental and Social Risks

Environmental considerations: PTC India Limited exhibits low environmental risks as majority of its revenues are derived from power trading and has a low exposure towards lack of availability of natural resources, the possibility of not meeting the desired emission norms and carbon transition risks.

Social considerations: PTC India Limited has low social risks as it is largely engaged in the business of power trading which involves the purchase and sale of power from the developers to the discoms. A small portion of its overall business is wind power which is generated through PTC Energy as these projects are commissioned and no further capacity addition is planned, it is not likely to impact the society.

Liquidity position: Strong

PTC's liquidity is strong, supported by sizeable undrawn sanctioned limits along with cash and liquid balances worth ~Rs. 1,284 crore as on March 31, 2023 on a consolidated basis. The strong operational profile of the core trading business and the feed-in tariffs for the wind business are expected to result in adequate cash accruals at the consolidated level to meet the company's debt servicing requirements. The debt repayments pertain to the term loans of its subsidiary PEL with annual repayments of ~Rs. 115 crore during FY2024–FY2026.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on PTC's rating could arise if there is a significant build-up of net receivables for a prolonged period of time, increasing the leverage and weakening the liquidity profile.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Consolidation and Rating approach
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of PTC Energy Limited (PEL) with PTC, given the close business, financial and managerial linkages between them; PTC India Financial Services Ltd (PFS) has been excluded to make a distinction between the trading and the financial services businesses.

About the company

PTC India Limited was founded in 1999 to promote power trading in the country. The company's promoters are Power Grid Corporation of India Limited (PGCIL), NTPC Limited (NTPC), Power Finance Corporation Limited (PFC) and NHPC Limited (NHPC). PTC has been the pioneer in developing and implementing the concept of power trading in India. At present, it is a category-I licence holder (defined as per CERC guidelines), which permits the highest volumes of trading. In FY2023, the volume of traded units stood at 70.6 billion. Over the years, PTC has diversified its service offering in the power sector by setting up an investment vehicle—PFS— for providing financial solutions in the energy value chain. PTC has also set up another company—PEL—which is involved in the development and operations of wind power projects and has an installed capacity of 288.8 MW.

Key financial indicators (audited)

PTC Consolidated*	FY2022	FY2023
Operating income	34558.8	32025.9
PAT	422.4	383.8
OPBDIT/OI	2.4%	2.1%
PAT/OI	1.2%	1.2%
Total outside liabilities/Tangible net worth (times)	2.2	1.6
Total debt/OPBDIT (times)	3.2	2.1
Interest coverage (times)	4.7	4.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

**Adjusted Financials - Financials of PTC and PEL have been consolidated while capital invested (by PTC) in PFS has been adjusted from the investments and net worth of PTC. In addition, operating income includes agency revenue.*

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 as on May 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					May 31, 2023	May 31, 2022	May 31, 2021 and Jan 28, 2022	Apr 14, 20220 and Sep 25, 2020
1	**Fund-based facilities**	Short term	2000.0	-	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**
2	**Non-fund based facilities**	Short term	3500.0	-	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**
3	**Commercial paper**	Short term	300.00		**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based facilities- Cash credit	Simple
Non-fund based facilities – Others	Very Simple
Commercial paper	Very Simple

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

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Short term – Fund-based facilities- Cash credit**	NA	NA	NA	2000.00	[ICRA]A1+
NA	**Short term- Non-fund based facilities – Others**	NA	NA	NA	3500.00	[ICRA]A1+
NA	**Commercial paper- Proposed**	NA	NA	NA	300.00	[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
PTC India Limited	100.00% (rated entity)	Full Consolidation
PTC Energy Limited	100%	Full Consolidation

Source: Company

Note: ICRA has taken a consolidated view of the parent PTC, and PEL while assigning the rating. PFS has been excluded to make a distinction between trading business and financial services business.

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About ICRA Limited:

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