July 22, 2019

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	500.00	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	**3,675.00**	**3,495.88**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings continue to factor in PTC India Financial Services Limited's (PFS) parentage in the form of PTC India Limited (PTC; rated [ICRA]A1+), the company's adequate capitalisation and track record of funding projects in the power sector and raising borrowings from diverse sources. PFS is a 64.99%-subsidiary of PTC, which is the leading provider of power trading solutions in India. This augurs well for the company as it can leverage the parent's established relationships and industry knowledge, besides benefiting from branding, management, and funding support. Further, while PFS' asset liability maturity pattern continues to be characterised by cumulative negative mismatches in the near-and-medium-term buckets, given the relatively longer tenure of its assets and sizeable dependence on short-term borrowings, it should be able to fund the gaps from available unutilised bank lines. ICRA notes that the company intends to raise sizeable long-term funds to reduce its dependence on short-term borrowings. This would be visible over the medium term.

The long-term rating is, however, constrained by the asset quality pressures, which though subsiding, remain a concern. PFS' concentrated exposure towards the power sector, especially the thermal power sector, which used to account for over 30% of its loan book four years ago, resulted in increased vulnerability amid structural challenges in the power sector. Consequently, the non-performing portfolio increased significantly during FY2017 and FY2018, primarily due to the stress in the thermal and hydro project portfolio. Nevertheless, the pace of incremental slippages has moderated and recoveries have been on a positive trajectory during the past one year. This led to a moderation in the stage 3 asset level to 10.1% as of March 31, 2019 from 13.4% in the year-ago period. Furthermore, with the implementation of Ind-AS and the consequent recognition of stress, the provision cover ratio (PCR) improved to 49% as on March 31, 2019. As a result, the net stage 3 assets also declined to 5.4% as of March 31, 2019 from 6.7% in the year-ago period. ICRA draws comfort from PFS' changing portfolio mix in favour of renewable energy and other infrastructure segments. The exposure to the thermal and hydropower sector has declined to 15% as of March 31, 2019 from 40% four years ago.

The rating action also considers the profitability pressure witnessed by PFS in FY2018 and FY2019, though some improvement is likely in the near term. PFS' yields moderated during the past two years, due to increased competition in the renewable power finance segment and the reversal in interest income on restructured assets and slippages. During this period, the cost of funds had also moderated in the interim, albeit to a lower extent, before increasing again in

FY2019. Thus, the profit margins have remained under pressure with net interest margins (NIMs) of 2.5%[1] and 3.6%, respectively, in FY2019 and FY2018, compared to 4.7% in FY2017. This, coupled with higher credit costs following fresh slippages, resulted in a net loss in FY2018. Though the credit costs abated in FY2019, the profitability remained subdued with RoA and RoE of 1.3% and 9.2%, respectively. Nevertheless, ICRA notes that PFS has repriced a sizeable portion of its portfolio, and it also intends to ramp up its fee-based income. Thus, some improvement in profitability is expected in the near term, though the company's ability to sustain the same amid competitive pressure from banks and other established players remains to be seen. It would also be critical for the company to continue recoveries from stressed assets and control fresh slippages in order to report a sustained improvement in its profitability indicators.

Outlook: Stable

ICRA believes PFS will maintain its credit risk profile over the medium term with the expectation of a steady pace of recoveries and no major incremental asset-side shocks. Further, the company is expected to maintain a prudent capital structure through timely equity raise to support its envisaged portfolio growth. Also, ICRA expects PFS' parent, PTC, to be willing to extend support to the company, if needed, given the shared name and the importance that PFS holds for PTC.

The outlook may be revised to Positive in case of a favourable resolution of the stressed assets and hence a material improvement in the asset quality in addition to a sustainable improvement in profitability to healthy levels while maintaining prudent leverage. The outlook may be revised to Negative in case of a deterioration in the asset quality leading to the weakening of capitalisation and/or liquidity, or a longer-than-expected delay in the expected resolution/recoveries from current stressed assets. Also, dilution in PFS' importance to PTC or weakening of the credit profile of the parent could warrant a rating/outlook change.

Key rating drivers

Credit strengths

Parentage in the form of PTC – PFS is a 64.99%-subsidiary of PTC, which is the leading provider of power trading solutions in India and is promoted by NTPC Limited, Power Grid Corporation of India Limited, Power Finance Corporation Limited and NHPC Limited. As one of PTC's missions is the incentivisation of the development of power projects by providing services on a holistic basis, PFS remains strategically important to it. PFS benefits from its parentage by way of branding, management, and funding support, besides leveraging the established relationships and industry knowledge of PTC.

ICRA believes PTC will maintain board oversight and majority ownership in PFS. Currently, the companies have two common directors with PTC's Chairman and Managing Director being PFS' Non-Executive Chairman. It is noted that PFS' board consists of senior officials who have served in various capacities in the power and financial sectors, and is supported by an experienced management and operational team with the key members having more than 20 years of experience in the power financing sector. Also, ICRA expects PTC to be willing to extend support to PFS, if needed, given the shared name. PTC currently holds a 64.99% stake in PFS, which had increased in November 2016 from 60%, after the infusion of about Rs. 308-crore equity by PTC.

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[1] *If average of monthly earning assets and interest-bearing liabilities are considered, NIM will be 2.98% for FY2019, 4.05% for FY2018 and 5.26% for FY2017. Adjusting for the reversal of interest income on stressed assets, NIM would have been higher at 4.79% for FY2018 and 5.27% for FY2017*

Changing portfolio mix in favour of renewable and other infrastructure segments – Continued focus on financing projects in the renewable energy sector and other related infrastructure sectors is likely to improve PFS' business risk profile over the medium term. ICRA notes that within the power sector, PFS has extended finance across sub-sectors including renewable energy (59% share of the portfolio as on March 31, 2019) and thermal power generation projects (13%), private transmission projects and distribution companies. However, over the last few years, it has disbursed more funds towards renewable energy projects, which carry relatively lower execution risk and fuel risk, besides enjoying high Government focus. Going forward, the company is expected to continue to grow in the renewable space while diversifying into other infrastructure segments; though growth is likely to remain calibrated.

Adequate capitalisation – PFS' capitalisation profile is characterised by a gearing of 5.3 times and CRAR of 21.9% with a net worth of Rs. 2,067 crore as of March 31, 2019. Herein, it is noted that the capitalisation level has moderated over the past few years, as reflected by an increase in gearing from 4.0 times in March 2016 and 3.6 times in March 2017. Besides the impact of the transition to Ind-AS and the consequently higher provisioning, the moderation in the capital structure has also been driven by strong portfolio growth since 2015, notwithstanding the stagnation in FY2019. Nevertheless, PFS' reported capital adequacy remained comfortable as on March 31, 2019 with a CRAR of 21.9%. Moreover, the company is expected to maintain a gearing of less than 6 times at all times. ICRA understands that PFS' parent, PTC, is willing to dilute its stake to 51%, if required, to raise equity capital for achieving the envisaged portfolio growth without a major increase in leverage from the current level. The company's ability to raise additional capital to support its strong growth plans over the medium term will remain a key monitorable.

Demonstrated track record of raising funds from diverse sources though dependence on banks increased in past few years – PFS has a track record of tapping funds from diversified sources including banks, capital markets, financial institutions and through external commercial borrowings (ECBs). It has also been expanding its lender base, which augurs well for its financial flexibility. As on March 31, 2019, 77% of PFS' borrowings were long term. Bank borrowings accounted for the majority (86%) of the total borrowings, as on March 31, 2019, followed by loans from financial institutions, debentures and ECBs. Thus, while PFS' asset liability maturity pattern continues to be characterised by cumulative negative mismatches in the near-and-medium-term buckets, given the relatively long tenure of its assets and sizeable (23%) dependence on short-term borrowings, the availability of unutilised bank lines, track record of continued relationships with lenders, and financial flexibility led by adequate drawing power and parentage, provide comfort. ICRA notes that the company intends to raise sizeable long-term funds to reduce its dependence on short-term borrowings over the medium term.

Credit challenges

Asset quality pressure remains, though subsiding – The structural challenges in the power sector, coupled with the delays in resolutions, resulted in increased portfolio vulnerability for PFS (2015 onwards). This was because of 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 13.4% and 6.7%, respectively, as on March 31, 2018, from the low single-digit levels earlier, though this stress was largely restricted to the thermal and hydro project portfolio constituting 19% of the loan portfolio as on March 31, 2018. Nevertheless, the pace of incremental slippages has moderated, and recoveries have been on a positive trajectory. Further, PFS' exposure to the thermal and hydropower sector declined to 15% as of March 31, 2019 from 40% four years ago. While PFS witnessed two fresh slippages in FY2019, it was successful in resolving four stressed accounts. Overall, Rs. 239 crore was recovered and Rs. 385 crore was written off by the company in FY2019. This led to a moderation in the stage 3 asset level to 10.1% from 13.4% in the year-ago period. Furthermore, with the implementation of Ind-AS and the consequent recognition of stress, the PCR stands improved at 49%. As a result, the net stage 3 assets also declined to 5.4% from 6.7% in the year-ago period.

Going forward, the company's ability to grow the loan book while maintaining adequate profitability and controlling credit costs would remain a monitorable. ICRA is cognisant of a Rs. 184-crore exposure to IL&FS Tamil Nadu Power Company Limited, which has been classified under the Amber category as the entity can meet its obligations to senior secured financial creditors and operational creditors. The company also has exposure to few other stressed corporate groups, and any further slippages or deterioration in the performance of these accounts would remain a key monitorable.

Subdued profitability, though some improvement likely in near term – PFS' yields were moderate at 9.8%[2] and 9.6% in FY2019 and FY2018, respectively, compared to 11.6% in FY2017, owing to increased competition in the renewable power finance segment, besides the reversal in interest income on restructured assets and slippages. During the same period, the cost of funds[3] had also moderated in the interim, albeit to a lower extent, before increasing again in FY2019 to the FY2017 level. Thus, the spreads and hence NIM have remained under pressure with NIMs of 2.5%[4] and 3.6%, respectively, in FY2019 and FY2018 compared to 4.7% in FY2017. This, coupled with the higher credit cost booked in FY2018 following fresh slippages, resulted in a net loss in FY2018 (as per restated results under Ind-AS). Though the credit cost abated in FY2019 due to a moderation in the pace of fresh slippages and the favourable trajectory of recoveries, the profitability remained subdued with RoA and RoE of 1.3% and 9.2%, respectively, in FY2019.

ICRA notes that PFS has repriced ~50% of its portfolio in the past few months with an increase of up to 130 bps in lending rates, and it intends to ramp up its fee-based income. Thus, some improvement in profitability is expected in the near term. However, the company's ability to sustain the same 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 indicators.

Liquidity position

PFS' asset liability maturity pattern remains characterised by cumulative negative mismatches in the near-and-medium-term buckets, given the relatively long tenure of its assets and sizeable (23%) dependence on short-term borrowings. Nevertheless, the availability of unutilised bank lines (~Rs. 840 crore as of March 31, 2019), continued relationships with lenders with a track record of timely renewal of working capital lines, and financial flexibility on account of its parentage, provide comfort. Further, ICRA notes that PFS received fresh sanctions of long-term loans aggregating Rs. 1,300 crore in FY2019, which has increased the proportion of long term loans in its borrowing mix to ~77% from ~65% a year ago. Also, with the company receiving sanction for Rs. 400 crore partial credit enhancement[5] from State Bank of India, ICRA expects that the PFS will be able to raise further long-term debt at a competitive rate, which would support the overall ALM profile.

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[2] *If the average of the monthly earning assets is considered, yields including fee will be 9.96% for FY2019, 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*

[3] *If the average of the monthly interest-bearing liabilities is considered, the cost of funds was 8.61% for FY2019, 8.18% for FY2018 and 8.79% for FY2017*

[4] *If the average of the monthly earning assets and interest-bearing liabilities are considered, NIM will be 2.98% for FY2019, 4.05% for FY2018 and 5.26% for FY2017. Adjusting for the reversal of interest income on stressed assets, NIM would have been higher at 4.79% for FY2018 and 5.27% for FY2017*

[5] *Which will cover bond issue of up to Rs. 2,000 crore*

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies
Parent/Group Support	ICRA expects PFS' parent, PTC, to be willing to extend support to PFS, if needed, given the shared name and PFS' importance for PTC
Consolidation/Standalone	Standalone

About the company

PTC India Financial Services Limited (PFS), incorporated in 2006, provides financial assistance to projects in the energy value chain. It is registered as an infrastructure financing NBFC with the Reserve Bank of India. PTC India Limited (PTC), a leading player in power trading in India, has a 64.99% share in PFS.

PFS reported a profit after tax (PAT) of Rs. 184 crore in FY2019 compared to a net loss of Rs. 100 crore in FY2018. Its gross and net stage III assets stood at 10.1% and 5.4%, respectively, as on March 31, 2019 compared to 13.4% and 6.7%, respectively, as on March 31, 2018. The company reported capital adequacy of 21.9% as on March 31, 2019.

Key financial indicators

	FY2017 (Audited)	FY2018 (Audited)	FY2019 (Audited)
Accounting standard	Ind-AS*	Ind-AS	Ind-AS
Total income	1,352	1,185	1,337
Profit after tax	345	-100	184
Net worth	2,266	1,939	2,067
Advances	10,610	12,816	13,321
CRAR (%)	24.1%	21.2%	21.9%
Gearing (times)	3.6	5.3	5.3
Return on net worth (%)	17.2%	-4.8%	9.2%
Gross stage III (%)	7.0%	13.4%	10.1%
Net stage III (%)	4.3%	6.7%	5.4%
Net stage III / Net worth	19.6%	41.4%	33.0%

Source: PFS' financial results, ICRA research; Amounts in Rs. Crore; P&L as per I-GAAP, Balance Sheet as per Ind-AS

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
					July 2019	Jun 2018	Sept 2017	April 2016
1	Commercial Paper Programme	ST	1,750.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
2	Long-term fund-based	LT	1,050.00	927.97*	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)
3	Short-term fund-based	ST	375.00	22.43*	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	NCD Programme	LT	320.88	320.88*	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)

*Note: LT: Long term, ST: Short term; *As of March 31, 2019*
Source: ICRA research

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	114.73	[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	120.00	[ICRA]A+(Stable)
INE560K07045	Infra Bond Series 1 Option I	31-Mar-11	8.25%	31-Mar-21	26.15	[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)
-	Fund-based Term Loan	FY2016	-	FY2028	1,050.00	[ICRA]A+(Stable)
-	Fund-based Short Term	-	-	-	375.00	[ICRA]A1+
-	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.

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