May 31, 2021

PTC India Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term Bank Facility	2000.0	2000.0	[ICRA]A1+ reaffirmed
Non-fund Based Limits	3500.0	3500.0	[ICRA]A1+ reaffirmed
Total Bank lines	**5500.0**	**5500.0**	
Commercial Paper	300.0	300.0	[ICRA]A1+ reaffirmed

**Instrument details are provided in Annexure-1*

Rationale

The assigned rating favourably factor in the market leadership position of PTC India Limited (PTC) in the domestic power trading market and satisfactory growth in the long-term (LT) trade business generating relatively higher and stable margins. Steady growth in traded volumes as well as rebate and surcharge income in trading operations supported the company's profitability and return on capital employed on a consolidated basis. For arriving at the rating, ICRA has consolidated the financials of PTC Energy Limited (PEL), given the close business, financial and managerial linkages among them. PTC India Financial Services Ltd (PFS) has been excluded to make a distinction between the trading business and financial services business.

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) segment 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, the experienced PTC management and its prudent monitoring of receivables and payables are expected to limit the exposure at any given time, which in turn offers comfort. The liquidity relief scheme introduced in May 2020 in the form of long tenure loans being made available from Power Finance Corporation Ltd (PFC)/Rural Electrification Corporation Ltd (REC), which is being availed by state-owned distribution companies (discoms), has provided and is expected to continue to provide near-term cash flow support to the discoms to correct the overdues towards the generation entities to a large extent. PTC's liquidity continues to be strong, driven by unutilised drawing power and cash and liquid funds of ~Rs. 1,446 crore as on December 31, 2020.

The performance of PTC's wind business, which is housed in PEL, has remained weak, marked by low generation achieved in 9M FY2021 and continued build-up of receivables primarily on account of delayed payments from Andhra Pradesh (AP) discom (tariff payments currently being made at Rs. 2.43/unit at the interim rate as per AP High Court order dated September 2019, instead of PPA tariff at Rs. 4.84/unit). This, in turn, resulted in an increase in PEL's debt levels (moratorium availed on principal and interest payments in May–August 2020) as on March 31, 2020, which remained elevated in FY2021 as well. While the ongoing tariff issue for wind assets (of 188 MW capacity) in Andhra Pradesh belonging to PEL is sub-judice at APERC, the Divisional bench of AP High Court as well as the Supreme Court, timely resolution of the same, along with the regularity of tariff payments in a sustained manner, remains important for PEL. Nonetheless, the availability of DSRA (two quarter of debt servicing) provides comfort for PEL. PTC, however, has no further fresh investment plans in generation/IPP segment and intends to divest PEL.

ICRA takes note of the limited upside in LT segment, and moderation in margins in the ST segment given the growing share of exchange traded sales. Tie-up of PSAs for 2500 MW Pilot-II scheme of Ministry of Power will add to volumes in 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 33% of the total volume traded by trading licensees in the ST segment in FY2020[1]. 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 fluctuations on account of volatile short-term volumes and margins. PTC enjoys dominant share in real time market introduced in June 2020.

Growth in stable and higher margin long-term trades – PTC has a strong portfolio for LT trade of power, wherein it has back-to-back PPAs with developers and PSAs with discoms for purchase and sale of power, respectively. The overall traded volumes increased by 21% (provisional) YoY in FY2021, within which LT trade sales increased by 11% (provisional). The profitability continues to be supported by net rebate and surcharge income which stood at Rs. 223.2 crore in 9M FY2021 against Rs. 200.4 crore in 9M FY2021.

Effective management of contractual risks – While the LT/MT trade is lucrative by virtue of its relatively higher 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 sale (in case of delay in payments from discoms), rebate for timely payments, late payment surcharge for delay in payments, presence of LCs as a payment security mechanism, termination liabilities, penalty for non-offtake by discom and bank guarantee from project developer guaranteeing supply of agreed power. These terms are back-to-back in nature in both PPAs and PSAs.

Strong liquidity position of PTC – The company's liquidity profile is strong, aided by the presence of sizeable cushion available in its drawing power of Rs 1063 crore and available cash and liquid balances of Rs. 383 crore as on December 31, 2020. The strong operational profile of the core trading business and feed-in tariffs, as well as steady generation for the wind business are expected to result in adequate cash accruals with respect to its debt servicing requirements.

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 presence of contractual safeguards. Although the terms of payment are back to back in both PPAs and PSAs agreements, the company is obligated to make payments to the developer even if payments are delayed by the discom. With strict enforcement of the orders of the Ministry of Power, the discoms provided LCs to PTC since August 2019, (which in turn has provided the same to its developers). Further, implementation of liquidity relief scheme has provided and is expected to continue to aid reduction in 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 delaying discoms. Consequently, the rebate and surcharge income earned by PTC, which is a significant contributor to the company's profitability, is driven by its net receivables position. ICRA notes that at present, this exposure is significantly funded through the company's own net worth, however, increase in exposure can potentially result in increased leverage for the company.

PTC's consolidated TD/OPBITDA stood at 2.7 times in 9MFY2021 against 3.2 times in FY2020 and 2.5 times in FY2019 (Net Debt/OPBITDA stood at 2.3 times in 9MFY2021 as against 2.8 times in FY2020 and 2.2 times in FY2019). The same was on account of improved profitability and reduction in debt at the standalone level during 9M FY2021, despite higher gap between debtors

[1] source Report on Short-term Power Market India: 2019-20, CERC

and creditors (Rs. 2504 crore as on December 31, 2020 against Rs. 2451.25 crore as on March 31, 2020). The net debt improved to Rs 550 crore as on December 31, 2020 as against Rs 624.4 crore as on March 31, 2020. The gross and net receivables position is expected to improve by fiscal year end driven by increased collections from discoms.

The TD/OPBITDA has worsened for PEL (6.3 times in 9M FY2021 as against 5.2 times in FY2020) on account of delay in receipt of payments from Andhra Pradesh discom (188 MW out of total installed capacity of 288.8 MW being supplied to the Andhra Pradesh discom). Continued delays in payments will necessitate additional borrowing. At a consolidated level, the cash flows are expected to remain adequate.

Liquidity position: Strong

PTC's liquidity is **strong** supported by sizeable cushion available in drawing power which stood at ~Rs. 1063 crore, along with cash and liquid balances worth Rs. 383 crore as on December 31, 2020. The strong operational profile of the core trading business and feed-in tariffs for the wind business are expected to result in adequate cash accruals at the consolidated level with respect to the company's debt servicing requirements. The debt repayments pertain to term loans of its subsidiary PEL with annual repayments of ~Rs. 107 crore during FY2022–FY2024.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Negative pressure on PTC's rating could arise if there is a significant build-up of net receivables exposure for a prolonged period of time, resulting in increased leverage and weakening of liquidity profile, thereby leading to a rating downgrade.

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 rating, ICRA has consolidated the financials of PTC Energy Limited (PEL) with PTC, given the close business, financial and managerial linkages among them; PTC India Financial Services Ltd (PFS) has been excluded to make a distinction between trading business and financial services business

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 license holder (defined as per CERC guidelines), which permits the highest volumes of trading. In FY2021, the volume of traded units stood at 80 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	FY2019	FY2020
Operating Income (Rs. crore)	22,841.4	24,018.3
PAT (Rs. crore)	313.9	329.5
OPBDIT/OI (%)	3.2%	3.0%
PAT/OI (%)	1.4%	1.4%
Total Outside Liabilities/Tangible Net Worth (times)	2.1	2.4
Total Debt/OPBDIT (times)	2.5	3.2
Interest Coverage (times)	4.0	3.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

**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*

^Net Debt/ OPBITDA stood at 2.2 times in FY2019 and 2.8 times in FY2020

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Apr 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019	
					May 31, 2021	Sep 25, 2020	Apr 14, 2020	-	Feb 25, 2019	Apr 30, 2018
1	Short-term Bank Facility	Short-term	2000.0	-	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+
2	Non-fund Based Limits	Short-term	3500.0	-	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+
3	Commercial Paper	Short-term	300.0	300.0	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term Bank Facility	Simple
Non-fund Based Limits	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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Short-term Bank Facility	-	-	-	2000.0	[ICRA]A1+
NA	Non-fund Based Limits	-	-	-	3500.0	[ICRA]A1+
INE877F14148	Commercial Paper	22-Jan-21	4.40%	15-Jun-21	150.0	[ICRA]A1+
INE877F14155	Commercial Paper	4-Mar-21	4.40%	18-Jun-21	150.0	[ICRA]A1+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

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

Source: *PTC annual report FY2020*

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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