**July 23, 2021**

# 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 | 199.20 | 199.20 | [ICRA]A+ (Stable); reaffirmed |
| Non-convertible Debentures | 121.68 | - | [ICRA]A+ (Stable); reaffirmed and withdrawn |
| Commercial Paper | 1,000.00 | 1,000.00 | [ICRA]A1+; reaffirmed |
| Commercial Paper | 750.00 | - | [ICRA]A1+; reaffirmed and withdrawn |
| 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 |

**Instrument details are provided in Annexure-1*

## Rationale

The ratings continue to consider PTC India Financial Services Limited's (PFS) comfortable capitalisation profile with a capital to risk weighted assets ratio (CRAR) of 24.1% as on March 31, 2021 as well as its comfortable liquidity position backed by higher on-balance sheet liquidity and sizeable undrawn bank lines. The ratings also consider the company's improving sectoral diversification with exposure to the power generation segment[1] declining to about 54% as on March 31, 2021 from 78% three years ago. ICRA is cognizant of PTC India Limited's (PTC[2]; rated [ICRA]A1+) disclosure stating that it is desirous of divesting its controlling stake in PFS. 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% as on June 30, 2021) in PFS with its Chairman and Managing Director holding the position of Non-Executive Chairman at PFS. 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 visibility on the resolution of key stressed exposures. As on March 31, 2021, the gross and net stage 3 assets aggregated 12.5% and 7.6%, respectively. Nevertheless, the pace of incremental slippages has slowed down and there are expectations of improved recoveries. At the absolute level, the gross stage 3 assets aggregated Rs. 1,346 crore as on March 31, 2021 compared to the peak level of Rs. 1,717 crore in March 2018. Further, PFS' exposure to the thermal and hydropower sectors declined to 12% as of March 31, 2021 from 35% five years ago. Going forward, the company's ability to continue recoveries from stressed assets and control fresh slippages will remain imperative for a recovery in its asset quality. In this regard, it is noted that a sizeable proportion of the company's non-performing loan book is under resolution and the reported asset quality metrics are expected to improve considerably in the near term.

While reaffirming the ratings, ICRA notes that the asset quality challenges coupled with PFS' relatively modest competitive position in the infrastructure finance segment have led to subdued profitability over the past four years. In FY2021, incremental provisioning 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 0.2% and 1.2%, respectively (0.8% and 5.3%, respectively, in FY2020).

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[1] *Thermal, renewable and hydro*

[2] *Promoted by Power Grid Corporation of India Limited {PGCIL; rated [ICRA]AAA (Stable)}, NTPC Limited {NTPC; rated [ICRA]AAA (Stable)}, Power Finance Corporation Limited {PFC; rated [ICRA]AAA (Stable)} and NHPC Limited {NHPC; rated [ICRA]AAA (Stable)}*

ICRA has withdrawn the ratings for Rs. 121.68 crore NCD programme and Rs. 750 crore CP programme at the request of the company and in accordance with ICRA's policy on withdrawal of credit ratings. While corresponding NCD instruments/ISINs stand fully redeemed basis publicly available information and/or confirmation from the company, there is no amount outstanding against the rated CP programme.

## 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. 2,120 crore, Total Debt/Tangible Net Worth (TNW) of 4.4x, Net Debt/TNW of 4.0x and a CRAR of 24.1% as of March 31, 2021. The capitalisation improved in the last two years 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 the 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 the last three years. Going forward, PFS is expected to maintain a gearing of less than 6x at all times.

**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 in the power sector, especially the thermal power sector which accounted for a significant proportion (40%) of its loan book as on March 31, 2015. ICRA, however, notes that most of the sanctions by PFS in the last three years have been towards sectors such as renewable energy, transport, transmission & distribution, etc, with no fresh sanctions in the thermal segment. As a result, PFS' exposure to the thermal and hydropower sectors declined to 12% as of March 31, 2021 from 35% five years ago. Besides the lack of incremental sanctions in these sectors, the decline was driven by recoveries and write-offs of some of the exposures in these segments.

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 as well as 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 profitable underwriting in newer sectors will remain a monitorable.

**Comfortable liquidity position, though borrowing profile has witnessed moderation in recent years** – While PFS' asset-liability maturity (ALM) profile is constrained by the relatively long tenure of the assets, like other infrastructure finance companies, it is maintaining sufficient liquidity back-up in the form of unutilised bank lines, besides higher on-balance sheet liquidity. While the on-balance sheet liquidity aggregated 9% of the borrowings as on March 31, 2021, sanctioned and undrawn working capital lines aggregated 18% of borrowings outstanding as on May 31, 2021. However, the increased risk averseness towards the non-banking financial company (NBFC) sector has impacted the share of market borrowings for PFS. Nonetheless, 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. 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

**Weak asset quality** – Notwithstanding the ongoing resolution process for a sizeable proportion of non-performing exposures and the optical impact of portfolio stagnation, PFS' reported asset quality metrics remain elevated. As on March 31, 2021, the gross and net stage 3 assets aggregated 12.5% and 7.6%, respectively. Further, the gross stage 2% remained elevated at 8.6% as on March 31, 2021 compared to 4.1% as on March 31, 2018 (though 13% lower YoY on an absolute basis).

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 five years ago. Consequently, its gross stage 3 assets increased to 13.3% as on March 31, 2018, from the low single-digit level earlier, though the stress was largely restricted to the thermal and hydropower project portfolios. Nevertheless, the pace of incremental slippages has slowed down and there are expectations of improved recoveries. At the absolute level, the gross stage 3 assets aggregated Rs. 1,346 crore as on March 31, 2021 compared to the peak level of Rs. 1,717 crore in March 2018. Further, PFS' exposure to the thermal and hydropower sectors declined to 12% as of March 31, 2021 from 35% five years ago. Going forward, the company's ability to continue recoveries from stressed assets and control fresh slippages will remain imperative for a recovery in its asset quality. In this regard, it is noted that a sizeable proportion of the company's non-performing loan book was under resolution in Q1 FY2022.

**Subdued profitability** – The asset quality challenges coupled with PFS' relatively modest competitive position in the infrastructure finance segment have led to subdued profitability over the past four years. While PFS' lending spreads and net interest margins (NIMs) improved in the last two years following the repricing of loans, the NIM remained lower at about 3% (compared to the level of 4%+ seen till FY2017) due to the elevated level of non-performing loans and the 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 0.2% and 1.2%, respectively, in FY2021.

Going forward, the company's ability to sustain the improved lending 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 to report a sustained improvement in its profitability and solvency indicators.

## Liquidity position: Adequate

PFS' ALM profile remains characterised by cumulative negative mismatches in the near-and-medium-term buckets, given the relatively long tenure of the assets, like other infrastructure finance companies. The availability of sufficient liquidity back-up in the form of unutilised bank lines (sanctioned and undrawn working capital lines aggregated 18% of borrowings outstanding as on May 31, 2021) and the track record of continued relationships with lenders with the timely renewal of short-term/working capital lines provide comfort.

Also, ICRA notes that the company is carrying increased on-balance sheet liquidity (9% of borrowings outstanding as on March 31, 2021) and has curtailed its dependence on money market borrowings (commercial paper (CP) borrowings aggregated 3% of total borrowings as on March 31, 2021). As on March 31, 2021, PFS carried on-balance sheet liquidity of about Rs. 830 crore and off-balance sheet liquidity of Rs. 1,115 crore (in the form of undrawn sanctioned working capital lines) compared to a total debt-servicing burden (including principal + interest) of about Rs. 2,200 crore up to September 30, 2021 (without assuming rollover of working capital loans from banks).

## Rating sensitivities

**Positive factors** – 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 while maintaining a sufficient capitalisation cushion of over 3%. Also, the rating remains 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 factors** – 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 (adjusted net stage 3/NOF) to over 30% on a sustained basis 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<br>Impact of Parent or Group Support on an Issuer's Credit Rating<br>Policy on Withdrawal of Credit Ratings |
| **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.<br><br>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. 10,808 crore as on March 31, 2021 compared to Rs. 11,053 crore as on March 31, 2020. The outstanding loan book constitutes exposures to the renewable energy sector (42%; excluding hydropower), thermal and hydro energy plants (13%), and other infrastructure segments encompassing power transmission and distribution, roads, ports, etc.

PFS reported a profit after tax (PAT) of Rs. 26 crore in FY2021 compared to Rs. 110 crore in FY2020. Its gross and net stage 3 assets stood at 12.5% and 7.6%, respectively, as on March 31, 2021 compared to 8.7% and 5.1%, respectively, as on March 31, 2020. The company reported capital adequacy of 24.1% as on March 31, 2021 compared to 23.6% in March 2020.

Currently, PTC India Limited (PTC), a leading player in power trading in India, has a 64.99% shareholding in PFS. 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).

### Key financial indicators

| Amounts in Rs. crore | FY2019 | FY2020 | FY2021 |
|---|---|---|---|
| | Audited | Audited | Audited |
| PAT | 184 | 110 | 26 |
| Net worth | 2,067 | 2,115 | 2,120 |
| Loan book | 13,321 | 11,053 | 10,808 |
| Total assets | 13,923 | 12,121 | 12,161 |
| Return on average assets (%) | 1.3% | 0.8% | 0.2% |
| Return on average net worth (%) | 9.2% | 5.3% | 1.2% |
| Gearing (times) | 5.3 | 4.4 | 4.4 |
| CRAR (%) | 21.9% | 23.6% | 24.1% |
| Gross stage 3 (%) | 10.1% | 8.7% | 12.5% |
| Net stage 3 (%) | 5.4% | 5.1% | 7.6% |
| Net stage 3/Net worth (%) | 33% | 26% | 36%* |

***Source:*** *Financial statements of PFS; All figures and ratios are as per ICRA's calculations/adjustments; * The adjusted ratio stands at 29% if a sizeable stage 3 asset for which a resolution plan has been approved is excluded*

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 (Rs. crore) | Jul 23, 2021 | FY2021 | FY2020 | FY2019 |
| | | | | | | Jul 23, 2020 | Jul 22, 2019 | Jun 01, 2018 |
| 1 | CP | ST | 1,000.00 | -* | **[ICRA]A1+** | **[ICRA]A1+** | **[ICRA]A1+** | **[ICRA]A1+** |
| 2 | CP | ST | 750.00 | -* | **[ICRA]A1+ Withdrawn** | **[ICRA]A1+** | **[ICRA]A1+** | **[ICRA]A1+** |
| 3 | NCD | LT | 199.20 | 199.20^ | **[ICRA]A+ (Stable)** | **[ICRA]A+ (Stable)** | **[ICRA]A+ (Stable)** | **[ICRA]A+ (Stable)** |
| 4 | NCD | LT | 121.68 | -^ | **[ICRA]A+ (Stable) Withdrawn** | **[ICRA]A+ (Stable)** | **[ICRA]A+ (Stable)** | **[ICRA]A+ (Stable)** |
| 5 | Long-term Fund Based | LT | 1,050.00 | NA | **[ICRA]A+ (Stable)** | **[ICRA]A+ (Stable)** | **[ICRA]A+ (Stable)** | **[ICRA]A+ (Stable)** |
| 6 | Short-term Fund Based | ST | 375.00 | NA | **[ICRA]A1+** | **[ICRA]A1+** | **[ICRA]A1+** | **[ICRA]A1+** |

***Source:*** *ICRA research; *As of July 19, 2021; ^As of May 31, 2021*

*Note: 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 |

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-1: Instrument details

| ISIN | Instrument Name | Date of Issuance/ Sanction | Coupon Rate/ Yield | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| INE560K07037 | Non-convertible Debenture | Jan 27, 2011 | 10.50% | Jan 26, 2023 | 30.00 | [ICRA]A+ (Stable) |
| INE560K07136 | Non-convertible Debenture | Jun 16, 2015 | 9.80% | Jun 12, 2022 | 60.00 | [ICRA]A+ (Stable) |
| INE560K07086 | Non-convertible Debenture | Mar 30, 2012 | 8.93%/ 9.15% | Mar 30, 2022 | 25.31 | [ICRA]A+ (Stable) |
| INE560K07094 | Non-convertible Debenture | Mar 30, 2012 | | Mar 30, 2022 | 74.52 | [ICRA]A+ (Stable) |
| INE560K07102 | Non-convertible Debenture | Mar 30, 2012 | | Mar 30, 2022 | 2.33 | [ICRA]A+ (Stable) |
| INE560K07110 | Non-convertible Debenture | Mar 30, 2012 | | Mar 30, 2022 | 7.04 | [ICRA]A+ (Stable) |
| INE560K07045 | Infra Bond Series 1 Option I | 31-Mar-11 | 8.25% | Mar 31, 2021 | 11.91 | [ICRA]A+ (Stable) Withdrawn |
| INE560K07078 | Infra Bond Series 1 Option IV | 31-Mar-11 | 8.30% | Mar 31, 2021 | 1.12 | [ICRA]A+ (Stable) Withdrawn |
| INE560K07060 | Infra Bond Series 1 Option III | 31-Mar-11 | 8.30% | Mar 31, 2021 | 0.21 | [ICRA]A+ (Stable) Withdrawn |
| INE560K07052 | Infra Bond Series 1 Option II | 31-Mar-11 | 8.25% | Mar 31, 2021 | 28.85 | [ICRA]A+ (Stable) Withdrawn |
| NA^ | Non-convertible Debenture | - | - | - | 79.59 | [ICRA]A+ (Stable) Withdrawn |
| NA* | Commercial Paper | - | - | 7-365 Days | 1,000.00 | [ICRA]A1+ |
| NA* | Commercial Paper | - | - | 7-365 Days | 750.00 | [ICRA]A1+ Withdrawn |
| NA | Long-term Fund Based | FY2016 | NA | FY2028 | 1,050.00 | [ICRA]A+ (Stable) |
| NA | Short-term Fund Based | NA | NA | NA | 375.00 | [ICRA]A1+ |

***Source:*** *ICRA research; *Nil outstanding as on July 19, 2021; ^Not placed*

## Annexure-2: List of entities considered for consolidated analysis: 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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## ICRA Limited

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