March 28, 2017

PTC India Limited

Instrument	Rated Amount (in crore)	Rating Action
Non Fund Based Limits	2139 (revised from 2550)	[ICRA]A1+; reaffirmed
Proposed Non Fund Based Facilities	561 (earlier nil)	[ICRA]A1+; reaffirmed
Short-term Bank Facility	150 (revised from 300)	[ICRA]A1+; reaffirmed
Commercial Paper	100	[ICRA]A1+; reaffirmed

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has reaffirmed [ICRA]A1+ (pronounced ICRA A one plus) rating assigned to the Rs. 2139 Crore[1] (revised from Rs 2550 crore) non-fund based limits, Rs. 150 crore (revised from Rs 300 crore) short-term bank facility, Rs 561 crore unallocated facilities and Rs. 100 Crore Commercial Paper Program of PTC India Limited (PTC)†.

Detailed Rationale

ICRA's rating action favorably factors in the market leadership position of PTC in the domestic power trading market and satisfactory growth in its power trading volumes in 9M FY2017. While the competition in the power trading business has been increasing with the introduction of DEEP (Discovery of Efficient Electricity Price e-Bidding & e-Reverse Auction portal), increasing trade through power exchanges as well competition from other power trading companies, PTC continues to drive its competitive advantage from being an early mover in the industry with established clientele and status as a nominated power trading company of Government of India (GoI) for power projects in Bhutan. ICRA has also taken note of PTC's long term tie ups of power through power purchase agreement (PPAs) signed with under construction power projects in the country to the tune of around 11.5 Giga Watt (GW), which is likely to result in healthy and stable growth prospects in the long-term. While, the company so far has entered into corresponding power supply agreement (PSAs) for close to only 7.3 GW, in ICRA's opinion off take/market risks for PTC are mitigated by large power deficits across the country and PTC's core competency in matching power demand-supply. High volume long term trading business is expected to increase significantly at the back of (contracted[2]) projects commissioned in FY2017 and also operationalization of wind power capacities as part of the recently concluded wind auction (February 2017) expected to be commissioned in 18 months. The rating action has also drawn comfort from the considerable recoveries made by PTC from Tamil Nadu Electricity board (TNEB). The company continues to remain debt free. The rating continues to be supported by the company's stable profitability, experienced management and its strong parentage**.**

PTC has made sizeable investments during 9M FY2017 in its subsidiaries PTC India Financial Services Ltd[3] (Rs 308 cr) and Rs 441 crore in PTC Energy Limited (PEL). Additional Rs 73 crore will be invested in PEL by end of March 2017. PEL has installed 50 MW wind power capacity in March 2016 and another 238.8 MW wind power capacity is scheduled to be completed in March 2017. These investments have

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[1] 1 crore =100 lacs= 10 million

†For complete rating scale and definitions, please refer to ICRA's Website, www.icra.in, or any of the ICRA Rating Publications

[2] Power Purchase Agreement and Power Sale Agreement in place

[3] [ICRA]A+ (Positive)/ [ICRA]A1+ assigned in March 2016

brought down its liquid cash balances which stood at Rs 227.51 crore in December 2016. Further, as against the steady operating earnings of the power trading business, the variability of earnings from wind power projects is high on account of fluctuating PLFs. With the steady addition to cash flows, cash balances are expected to be recouped over time, however continued aggressive expansions in wind business may increase the vulnerability of operating earnings (consolidated). Available cash balances as on mid-March 2017 stood at ~Rs 650 crore.

ICRA notes that PTC is exposed to significant counter-party credit risks given that its main off takers are the state power utilities most of which are in weak financial shape. PTC tries to mitigate this risk by effectively distributing its offtake across multiple counterparties and seasonal reversal of buy and sell positions of state power utilities also acts as a natural hedge for the business. ICRA also notes that in few cases PTC would be exposed to supply commitment and credit quality of a project developer where it has entered into a back to back power supply agreement (PSA) for sale of power from the respective project on long term basis. In such cases, complete coverage of liabilities (for delays in projects commissioning, liabilities in event of seller event of default etc) by way of performance bank guarantee will be crucial given the fact that project special purpose vehicles (SPV's) will not have any cash flows prior to completion. ICRA has also taken note of ongoing litigations with respect to few operational and under construction power projects where power generation costs have increased. PTC has signed PSAs for these power projects however the contingency risks are mitigated by the presence of back to back terms in PPAs on the termination liabilities' front. Further, it should be noted that off late a couple of those disputed PPAs have been resolved by revising the tariff rates upward in the PPAs and corresponding PSAs.

Going forward, PTC's ability in maintaining its market leadership while protecting its trading margins, ensuring timely collections from its off takers and incremental investments in subsidiaries would remain key rating sensitivities.

Key rating drivers

Credit Strengths

- Early mover in power trading in India with a strong brand and leadership position in the power trading market
- Recovery of past dues from Uttar Pradesh Power Corporation Limited (UPPCL) along with surcharge and from Tamil Nadu Electricity board (TNEB)
- Financial flexibility arising from zero debt position and cash & liquid investments
- Significant growth in trading volumes of PTC in FY2016 driven by growth in volumes across all segments especially short term trade
- Sizeable long term capacities commissioned in FY2017 will fuel growth in this stable and high margin segment. Incremental growth to be derived from wind power capacities of 1050 MW from the recently concluded auctions for which PTC is the nodal agency for sale and purchase of power
- Presence in relatively stable volume and high-margin long term trade segment through long term PPA to the tune of 11.5 GW lends visibility and stability to trading volumes of PTC going forward; however, PTC remains exposed to the risk of delay in commissioning of underlying projects and ability to sign PSAs in a timely manner
- Well defined regulatory framework and favourable regulatory developments in recent past such as increase in cap for short term trading (impacting profitability positively) and narrowing of grid frequency under the UI norms (impacting volumes positively).
- Strong ownership structure given that POWERGRID, NTPC, PFC, and NHPC are the promoters of the company. The company has an experienced and well qualified management team.

Credit Weakness

- Increasing competition from other power trading companies, power exchanges and introduction of DEEP portal; however, PTC drives its competitive advantage from being an early mover in the industry with established clientele, and status as a nominated power trading company of government of India (GoI) for three hydro based power projects in Bhutan.
- Sizeable investments aggregating Rs 748 crore in 9M FY2017 has significantly brought down the liquid cash and marketable securities of the company and the same stood at ~Rs 228 crore as on December 31, 2016, thus increasing the risk towards funding of credit exposure to weak discoms; the same improved to ~Rs 650 crore by mid-March 2017.
- Exposure to market risks arising from take or pay provisions in PPAs; however this risk is mitigated by demand-supply gap in country and realizable/manageable levels of guaranteed tariffs.
- Exposed to supply commitment and credit quality of a corresponding project developer; however, ICRA notes that under the competitive bidding regime, presence of bank guarantees from project developers against the bank guarantee submitted by PTC mitigates this risk to some extent
- Litigation pending against a few power purchase contracts; any adverse developments on these litigations could impact PTC's long term growth trajectory.
- Significant counterparty risks given the poor financial health of distribution companies (PTC's main consumers) and absence of a payment security mechanism in the form of LCs
- Susceptibility of trading operations to open access and transmission corridor availability risks

Detailed Description of key rating drivers highlighted above:

PTC began its power trading operations in 2000 as a pioneer in the Indian power trading business. In FY 2002, trade volume for PTC totalled 1.62 MUs and involved solely short term trade (STT). PTC's trading volumes have increased steadily over the years in line with increase in market size as well as PTC's ability to corner a large chunk of this market. During FY2016, the company traded a total of 42.4 billion units of which 37% was through long term trade, 6.1% was through medium term and rest through short term.

Long term trade segment provides higher visibility to volumes as well as opportunity to earn higher trading margins. To capture the growth opportunity under the long term trade segment PTC has worked on ways to increase long term access to power by (i) entering into long term PPAs with upcoming independent power plants (IPPs (ii) pursuing PTC own investments in power projects, by acquiring equity holdings or through subsidiary (and (iii) developing cross border relationships. Under the long term trade, PTC benefits from absence of any cap on the segment (except for CBT trade where margins are capped at 4 paisa/unit), though margins remains subjected to any regulatory intervention by way of imposition of cap in future. In addition, the volumes growth under the long term trade remains susceptible to any considerable delays in commissioning of the contracted capacities.

PTC is exposed to counter party credit risks of its main off takers- the state power utilities. These risks get exacerbated from the absence of a payment security mechanism by obtaining LCs from these state utilities and inadequate financial strength of most of these state power utilities. PTC tries to mitigate this risk by effectively distributing its offtake across multiple counterparties and seasonal reversal of buy and sell positions of state power utilities also acts as a natural hedge for the business.

Despite increased competition in short term trade through other traders, exchanges and introduction of DEEP, PTC, with its stable client base and reputation of a credit worth off-taker, has maintained a steady market share over the years.

In addition, with significant long term capacities commissioned in FY2017 and incremental capacities of 1050 MW (wind power capacities from recently concluded auction) to be commissioned in FY2019, the share of long term power trade is expected to improve which is likely to result in improvement and stability of earnings from this business.

Analytical approach: Not Applicable

Links to applicable Criteria

Corporate Credit Rating –A Note on Methodology
http://www.icra.in/Files/Articles/2009-October-Rating-Corp-Rating-Methodology.pdf.

About the Company:
PTC India Limited (PTC) was founded in 1999 to promote power trading in the country. The company's promoters are Power Grid Corporation of India Limited ("POWERGRID"), 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. Presently, it is a Category I license holder (defined as per CERC guidelines) which permits highest volumes of trading. Over years, PTC has also diversified its service offering in power sector by setting up an investment vehicle "PTC India Financial Services (PFS)" for providing financial solutions in energy value chain, by acquiring minimal stakes in power generation projects, by setting up energy exchanges through PFS, and venturing into power tolling services. To fund these investments and maintain funds adequacy, PTC has raised equity through two rounds of qualified institutional placement of approximately Rs 1199 crores in January 2008 and Rs 499 crores in May 2009.

During 9M FY2017, the company has reported operating income of Rs. 10805.6 crore and net profit of Rs. 212.1 crore as against operating income of Rs. 9493.4 crore and net profit of Rs. 199.1 crore in 9M FY2016. In FY2016, PTC reported a net profit of Rs. 190.0 crore on net sales of Rs. 12268.4 crore, as against a net profit of Rs. 233.6 crore on an net sales of Rs. 12798.7 crore in the previous year FY 2015.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:
Table: Rating History

S.No	Name of Instrument	Current Rating (2017)			Chronology of Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crores)	Date & Rating	Date & Rating in FY2016	Date & Rating in FY2015	Date & Rating in FY2014
				March 2017	March 2016	October 2014	October 2013
1	Non Fund Based Limits	Short Term	2139	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Short-term Bank Facility	Short Term	150	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Commercial Paper	Short Term	100	[ICRA]A1+	[ICRA]A1+	-	-
4	Unallocated	Short Term	561	[ICRA]A1+	-	-	-

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

Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Non Fund Based Limits	-	-	-	2139.00	[ICRA]A1+
Short Term Bank Facility^	-	-	-	150.00	[ICRA]A1+
Proposed Non Fund Based Limits*	-	-	-	561.00	[ICRA]A1+
Commercial Paper*	-	-	-	100.00	[ICRA]A1+

^No amount outstanding
*Yet to be placed

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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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