PTC India Limited

April 30, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term bank facility	150.0	150.0	[ICRA]A1+; Reaffirmed
Non-fund based limits	2139.0	2139.0	[ICRA]A1+; Reaffirmed
Proposed non-fund based limits	561.0	561.0	[ICRA]A1+; Reaffirmed
Commercial paper	100.0	100.0	[ICRA]A1+; Reaffirmed

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 150-crore[1] short-term bank facility, Rs. 2,139-crore non-fund based limits, Rs. 561-crore proposed non-fund based limits and Rs. 100-crore commercial paper programme of PTC India Limited (PTC)[2].

Rationale

ICRA's rating action favourably factors in the market leadership position of PTC in the domestic power trading market and satisfactory growth in its power trading volumes in 9M FY2018. Though the competition in the power trading business has been increasing with the introduction of Discovery of Efficient Electricity Price e-Bidding & e-Reverse Auction portal (DEEP), increasing trade through power exchanges as well as competition from other power trading companies, PTC continues to enjoy a competitive advantage as an early mover in the industry with an established clientele and status as a nominated power trading company of the 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 11.4 Giga Watt (GW), which is likely to result in healthy and stable growth prospects in the long term. While, the company has so far entered into corresponding power supply agreement (PSAs) for only 7.9 GW, in ICRA's opinion offtake/market risks for PTC are mitigated by large power deficits across the country and its core competency in matching power demand and supply. High margin (relative to short-term trades) long-term trading business is expected to increase significantly on the back of (contracted[3]) projects commissioned in FY2017 and also operationalisation of wind power capacities as part of the wind auction concluded in February 2017 and expected to be commissioned in FY2019. The rating action also draws comfort from the considerable recoveries made by PTC from Tamil Nadu Electricity board (TNEB) and improvement in the overall receivable position over the previous year. The company remains debt free. The rating continues to be supported by the company's stable profitability, and experienced management.

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[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

3 Power Purchase Agreement and Power Sale Agreement in place

ICRA notes that PTC is exposed to significant counterparty credit risks as its main offtakers are the state power utilities, most of which are financially weak. PTC tries to mitigate this risk by effectively distributing the power generated across multiple counterparties. Moreover, the seasonal reversal of the buy and sell positions of state power utilities acts as a natural hedge for the business. ICRA also notes that in a few cases PTC would be exposed to supply commitment and credit quality of a project developer, wherein it has entered into back-to-back PSAs 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 the event of seller event of default etc.) by way of performance bank guarantee will be crucial as project special purpose vehicles (SPVs) do not have any cash flows prior to completion. ICRA has also taken note of the ongoing litigations for a few operational and under-construction power projects, wherein the power-generation costs have increased. Though PTC has signed PSAs for these power projects, the contingency risks are mitigated by the presence of back-to-back terms in power purchase agreements (PPAs) on the termination liabilities front.

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

Key rating drivers

Credit strengths

Dominant share in short-term trade despite competition - Increased competition following the introduction of DEEP for short-term trading and higher volumes on power exchanges have not impacted PTC's short-term trading volumes, which have grown from ~24 billion units in FY2016 to ~26 billion units in FY2017. As per the Central Electricity Authority (CEA) report, PTC's share in the short-term market has grown to 31.6% in FY2017 from 29.3% in FY2016 and stood at 36.83% in February 2018. Furthermore, PTC's portfolio is diversified into long-term (and small amount of medium-term trades) and cross-border trading, which provide stability to its earnings and result in distribution and thereby minimisation of risk within its portfolio.

Sizeable long-term capacities commissioned in FY2017 drive long-term trade volumes in 9M FY2018 - All three segments, namely short term, long term and medium term, have witnessed increase in FY2017. The long-term segment, however, witnessed the highest absolute growth (19.57 billion units in FY2017 from 15.75 billion units in FY2016) led by commissioning of long-term capacities (Maruti Clean Coal and MB Power, Madhya Pradesh, TRN Energy, DB Power, Chhattisgarh) during the year. Scaling up of these capacities (up to the contracted quantity) has driven long-term volumes in 9M FY2018 as well.

Long-term volumes to increase further and drive revenues and profitability - The long-term volumes are expected to witness strong growth in the next couple of years led by operationalisation of various other projects, which include 1,050-MW wind power under [Solar Energy Corporation of India Limited (SECI) auction], 1,200-MW Teesta Urja and the recently announced bidding for 2,500-MW of thermal capacity for a three-year term. Addition of these capacities will further improve the proportion of high-margin LT segment in the overall portfolio.

Improvement in receivable position - Given PTC's exposure to financially weak state distribution companies (or discoms), the counterparty credit risk for it is significant. Nevertheless, the receivable position of the company has improved with the average debtor days coming down to 66 days in 9M FY2018 from 108 days in FY2016 and 84 days in FY2017. The gap between debtor and creditors stood at ~Rs. 911 crore as on December 31, 2017.

Financial flexibility arising from zero debt position - PTC continues to remain debt free aided by its significant net worth (Rs. 3,074.9 crore) as on March 31, 2017, which affords it considerable financial flexibility. In addition, the improvement in receivable position has led to a stronger liquidity profile in FY2017 and 9M FY2018, which is further augmented by the presence of sizeable cash and liquid investments of Rs. 751.1 crore as on December 31, 2017.

Credit challenges

Exposure to market risks arising from take-or-pay provisions in PPA - As a long-term power offtaker, PTC is contractually obliged to a developer to offtake the committed quantum of power. Hence, it remains exposed to market risks if the distribution company (in the corresponding PSA) fails to offtake power. The risk, however, is mitigated by demand-supply gap in the country and realisable/manageable levels of guaranteed tariffs which afford a third-party sale.

Exposure to supply commitment and credit quality of project developer - As a long-term power supplier, PTC is contractually obliged to a power offtaker to supply the committed quantum of power in a timely and consistent manner, at the agreed tariff rates. In cases where the PPA is with under-construction power projects under a separate SPV, PTC would be exposed to the ability of the project developer to manage its power costs of generation (in line with the agreed tariffs), project developers' supply commitment and credit quality. Complete coverage of liabilities (for delays in projects commissioning, liabilities in event of seller event of default etc) by way of performance bank guarantee etc. will be crucial given the fact that the SPV will not have any cash flows prior to completion.

Significant counterparty risks given the poor financial health of distribution companies - PTC is exposed to counterparty credit risks of its main offtakers – the state power utilities. These risks are exacerbated by the absence of a payment security mechanism by obtaining letter of credit (LC) 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. Also, the seasonal reversal of buy and sell positions of state power utilities acts as a natural hedge for the business.

Litigation pending against some power purchase contracts - ICRA has also taken note of ongoing litigations with respect to a few operational and under-construction power projects, wherein power generation costs have increased. However, these risks are mitigated by the presence of back-to-back terms in PPAs and PSAs on the penalty of non-performance/termination liabilities front.

Susceptibility of trading operations to open access and transmission corridor availability risks - Availability of timely transmission corridor and open access are imperative for trading business. In addition, PTC remains subjected to increasing competition/congestion for transmission corridor. Nonetheless, under short-term arrangement non-availability of transmission corridor is considered as force majeure and for long-term arrangements comfort can be drawn from enabling provisions of long-term open access regulations in place.

Regulatory provisions restrict PTC from participating in long term competitive bids - Significant gap exists with respect to the contracted capacity in the PPAs that PTC has signed with the developers and the corresponding capacity of the PSAs entered into with distribution companies. On account of delays in commissioning, the company is not exposed to offtake commitment in its PPAs (for the uncontracted PSA capacity). However, its ability to increase its long-term portfolio is reduced as it can no longer participate in long-term bids.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Corporate Credit Rating Methodology

Rating Methodology for Trading Companies

About the company

PTC 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 presently, it is a Category-I license holder (defined as per CERC guidelines), which permits highest volumes of trading. In FY2017, the volume of traded units stood at 48.3 billion. Over the years, PTC has diversified its service offering in the power sector by setting up investment vehicle PTC India Financial Services[4] (PFS) for providing financial solutions in the energy value chain. PTC has also set up another company PTC Energy Limited (PEL), which is involved in development and operations of wind power projects and has a current installed capacity of 288.8 MW.

In FY2017, the company reported a net profit of Rs. 290.0-crore on an operating income (OI) of Rs. 14,221.6-crore compared with a net profit of Rs. 234.5-crore on an OI of Rs. 12,640.9-crore in the previous year.

Key financial indicators (audited)

	FY2016	FY2017
Operating Income (Rs. crore)	12,640.9	14,221.6
PAT (Rs. crore)	234.5	290.9
OPBDIT/ OI (%)	2.4%	2.2%
RoCE (%)	12.5%	13.8%
Total Debt/ TNW (times)^	0.0	0.0
Total Debt/ OPBDIT (times)^	0.0	0.0
Interest coverage (times)^	152.6	188.0
NWC/ OI (%)	10.5%	4.2%

*includes operating and financial lease income

^financial lease has not been treated as debt and hence the corresponding interest expense is not a part of interest coverage

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

[4] Rated [ICRA]A+ (Positive)/[ICRA]A1+ in September 2017

Rating history for last three years

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating April 2018	Chronology of Rating History for the past 3 years: Date & Rating in FY2017 March 2017	Date & Rating in FY2016 March 2016	Date & Rating in FY2015 October 2014
1	Short-term bank facility	Short Term	150.0	Nil	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Non-fund based limits	Short Term	2139.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Proposed non-fund based limits	Short Term	561.0	-	[ICRA]A1+	[ICRA]A1+	-	-
4	Commercial paper	Short Term	100.0	Nil	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[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: 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	-	-	-	150.0	[ICRA]A1+
NA	Non-fund based limits	-	-	-	2139.0	[ICRA]A1+
NA	Proposed non-fund based limits	-	-	-	561.0	[ICRA]A1+
NA	Commercial paper	-	-	-	100.0	[ICRA]A1+

Source: PTC

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Siddhartha Kaushik
+91 124 4545 323
siddhartha.kaushik@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6169 3300
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
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