PTC India Limited

February 25, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term bank facility	150.0	1000.00	[ICRA]A1+; Assigned
Non-fund based limits	2139.0	2500.00	[ICRA]A1+; Assigned
Proposed non-fund based limits	561.0	0.0	-
Commercial paper	100.0	300.00	[ICRA]A1+; Assigned

**Instrument details are provided in Annexure-1*

Rationale

ICRA's rating action favourably factors in the market leadership position of PTC India Limited (PTC) in the domestic power trading market and satisfactory growth in its power trading volumes in 9M FY2019. Though there has been an increase in competition in the power trading business with the introduction of Discovery of Efficient Electricity Price e-Bidding & e-Reverse Auction Portal (DEEP), rise in 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 the power projects in Bhutan. The high margin (relative to short-term trades) long-term trading business is expected to increase, led by operationalisation of wind power capacities (1,050 MW) as part of the wind auction concluded in February 2017 and commencement of sale from stressed power assets (1,900 MW). The rating continues to be supported by the company's stable profitability and experienced management.

ICRA notes that PTC is exposed to significant counterparty credit risks as its main offtakers are state power utilities, most of which are financially weak. PTC tries to mitigate this risk by effectively distributing the power generated to 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, with which it has entered into back-to-back PSAs for sale of power from the respective project on long-term basis. In such cases, the 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 also notes 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 to maintain its market leadership as well as protect its trading margins and ensure timely collections from offtakers and incremental investments in subsidiaries would remain the key rating sensitivity. Hence, the company has started exploiting arbitrage opportunities by use of leverage (and utilisation of cash buffer). In turn, the vulnerability of the company to delay in payments from beneficiaries has heightened. Nevertheless, comfort is drawn from the experienced management and the prudent monitoring of receivables and payables by the same, which would limit the exposure at any given time to the delaying beneficiary.

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. In fact, its share in the short-term market has grown to 37.6% in FY2018 from 31.6% in FY2017[1]. 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 minimisation of risk within its portfolio.

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 the 1,050-MW wind power projects [Solar Energy Corporation of India Limited (SECI) auction], the 1,200-MW Teesta Urja project and 1,900-MW of thermal capacity (under stressed power projects) 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 of 71 in 9M FY2019 and 66 in FY2018 as against 85 in FY2017 and 108 in FY2016.

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 the demand-supply gap in the country and the 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 power offtakers 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), the project developer's supply commitment and credit quality. 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 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.

[1] Central Electricity Regulatory Commission report on Short Term Power Market in India: 2017-18

Ongoing litigation against some power purchase contracts - ICRA has also taken note of the 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.

Liquidity position

PTC's liquidity position remains comfortable with sizeable undrawn working capital limits (~Rs. 700 crore as on December 31, 2018), cushion in drawing power and expectation of steady cash flow from operations. The annual cash accruals are estimated at ~Rs. 350 crore against annual debt repayments of ~Rs. 100 crore.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has consolidated the financials of PTC Energy Limited given the close business, financial and managerial linkages among the same; PTC India Financial Services Ltd has been excluded to make a distinction between trading business and financial services business; however, the analysis of PTC does take into account the ongoing and future funding support likely to be extended by it to the above entities

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 present, it is a Category-I license holder (defined as per CERC guidelines), which permits the highest trading volumes. 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 an investment vehicle – PTC India Financial Services[2] (PFS) – to provide financial solutions in the energy value chain. PTC has also set up another company – PTC Energy Limited (PEL) – which is involved in the development and operations of wind power projects and has a current installed capacity of 288.8 MW.

In FY2018, the company (includes results of PTC Energy Ltd) reported a net profit of Rs. 327.7 crore on an operating income (OI) of Rs. 18,582.3 crore compared with a net profit of Rs. 286.1 crore on an OI of Rs. 14,265.9 crore in the previous year.

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

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)*	14265.9	18582.3
PAT (Rs. Crore)	286.1	327.7
OPBDIT/OI (%)	2.4%	3.4%
RoCE (%)	12.6%	13.8%
Total Debt/TNW (times)	0.4	0.5
Total Debt/OPBDIT (times)	3.6	2.4
Interest Coverage (times)	12.5	4.2

*includes operating and financial lease income

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2019)					Chronology of Rating History for the past 3 years		
					Date & Rating		Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	February 2019	April 2018	-	March 2017	March 2016
1	Short-term bank facility	Short Term	1000.0	293.1	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+
2	Non-fund based limits	Short Term	2500.0	-	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+
3	Proposed non-fund based limits	Short Term	-	-	-	[ICRA]A1+	-	[ICRA]A1+	-
4	Commercial paper	Short Term	300.0	Nil	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+

*as on December 31, 2018

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	-	-	-	1000.0	[ICRA]A1+
NA	Non-fund based limits	-	-	-	2500.0	[ICRA]A1+
NA	Commercial paper	-	-	60 days	300.0	[ICRA]A1+

Source: PTC India Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
PTC Energy Ltd	100.00%	Full Consolidation

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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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