April 14, 2020

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	1000.0	2055.0	[ICRA]A1+; Reaffirmed
Non-fund Based Limits	2500.0	1945.0	[ICRA]A1+; Reaffirmed
Total Bank lines	**3500.0**	**4000.0**	
Commercial Paper	300.0	300.0	[ICRA]A1+; Reaffirmed

**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 relatively higher and stable margin long-term and medium-term trade business. Steady growth in volumes as well as rebate and surcharge income and significant unutilised working capital limits contributed to the company's strong liquidity position. The rating continues to be supported by the company's ability to manage contractual risks inherent in trading business**.** ICRA notes that on account of decreased industrial and commercial demand in the near (during lockdown) to medium term, the traded volumes for PTC too will be impacted. However, this will be more pronounced in the (lower margin) short-term trade business and impact on overall profitability is expected to be minimal.

PTC is exposed to significant counterparty credit risks as its main off-takers are state power utilities, most of which are financially weak. Nevertheless, the experienced management and prudent monitoring of receivables and payables on part of the management, which would limit the exposure at any given time, especially in the current scenario wherein collections of distribution companies will be impacted in the near to medium term, offers comfort.

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 37% of the total volume traded by trading licensees in the short-term in FY2019 out of 37 power trade licensees. The company is likely to maintain its dominant market position despite intense competition. The overall share of power traded by trading licensees (33%) though is lower than the power traded though power exchanges which stood at 37% in FY2019. The share of power traded on exchanges has consistently increased and since FY2017 has been higher than the power traded by licensees. Trade through power exchanges also includes the trade carried out by trading licensees. PTC benefits from its significant presence in long-term and medium-term trade, which buffers any fluctuations on account of volatile short-term volumes and margins.

Growth in stable and higher margin long-term and medium-term trades - PTC has a strong portfolio for long-term trade of power, wherein it has back-to-back power purchase agreement (PPA) with the developer and power sale agreement (PSA) with the discoms for purchase and sale of power, respectively. The overall traded volumes grew by 9.6% YoY in FY2019, while the long-term traded sales grew by 13.8% during this period backed by commercialisation of new capacities. In 9M FY2020 as well, long-term traded volumes grew by 6.1% YoY despite the overall subdued demand in the country. Power flow commenced from the 720-MW Mangdechhu project in Bhutan, which resulted in an increase in cross-border trade volumes to 5.2 billion units (BUs) in 9M FY2020 against 4.0 BUs in 9M FY2019. The medium-term volumes too have grown on account of commencement of supply from the 1900-MW stressed thermal power assets.

Effective management of contractual risks - While the long-term/medium-term trade is lucrative by virtue of 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 in place contractual safeguards 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, bank guarantee from project developer guaranteeing supply of agreed power. These terms are back to back in nature in both PPA and PSA.

Strong liquidity position of PTC – The liquidity profile of the company is strong, aided by the presence of sizeable cushion available in its working capital limits. The cushion in working capital limits stood at ~Rs. 935 crore while cash and liquid balances stood at ~Rs 300 crore as on December 31, 2019. The available cushion and liquid funds balances are expected to be moderated by weaker collections towards end of March 2020 on account of novel coronavirus (Covid-19) crisis and its impact on the collections of distribution companies. Strong operational profile of the core trading business and feed-in tariffs and steady generation for the wind business is expected to result in adequate cash accruals with respect to the company's debt servicing requirements.

Credit challenges

Significant counterparty risks, given poor financial health of distribution companies - PTC is exposed to counterparty credit risks of its off takers — 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 power purchase and sale agreements, the company is obligated to make payments to the developer even if payments are delayed by the discom. With strict enforcement of Ministry of Power since August 2019, Letter of Credit have been provided by discoms to PTC (which in turn has provided the same to its developers). However, this has not deterred the build-up of dues for PTC and for the sector as a whole.

Increase in leverage and exposure to discoms - While PTC earns rebate and surcharge income, increased exposure to discoms has resulted in higher debt on the books of the company. At a standalone level, the gap between debtors and creditors stood at Rs. 1,769.2 crore as on March 31, 2019 against Rs. 1,039.1 crore as on March 31, 2018. This gap has further increased to Rs. 2,000 crore as on December 31, 2019. However, the net gap in terms of number of days has remained the same in 9M FY2020 (~28 days in 9M FY2020 and FY2019). Given the ongoing lockdown due to the Covid-19 crisis and its impact on the collections of distribution companies this gap is expected to be higher in both absolute terms as well as in terms of number of days in FY2020. ICRA believes that given the current expectation of weak realisations from distribution companies, PTC will control its absolute gap in debtors and creditors to limit its exposure to discoms and maintain the current debt levels.

Liquidity position: Strong

PTC's liquidity is **strong** supported by sizeable cushion available in working capital limits. The cushion in working capital limits stood at ~Rs. 935 crore while cash and liquid balances stood at ~Rs 300 crore as on December 31, 2019. The liquidity position is expected to be moderated on account of weaker collections towards end of March 2020 on account of Covid-19 crisis, however is expected to continue to remain Strong. Strong operational profile of the core trading business and feed-in tariffs for the wind business is expected to result in adequate cash accruals with respect to the company's debt servicing requirements. The debt repayments pertain to term loans of subsidiary PTC Energy Limited (PEL) with annual repayments of ~Rs. 102 crore during FY2021–FY2023.

Rating sensitivities

Positive triggers – Not applicable

Negative triggers – 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.

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 ratings, 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 trading business and financial services business; ICRA has taken into account the lack of funding support from parent PTC to each of these subsidiaries under "business as usual" scenario

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 FY2019, the volume of traded units stood at 62.5 billion. Over the years, PTC has diversified its service offering in power sector by setting up investment vehicle — PFS [1]— for providing financial solutions in energy value chain. PTC has also set up another company —PEL — which is involved in development and operations of wind power projects and has a current installed capacity of 288.8 MW.

In FY2019, as the company achieved a net profit of Rs. 313.9 crore on an operating income (OI) of Rs. 22,814.4 crore as compared to a net profit of Rs. 327.7 crore on an OI of Rs. 18,582.3 crore in the previous year.

[1] Rated [ICRA]A+ (Stable)/A1+ in July 2019

Key financial indicators (audited)*

	FY2018	FY2019
Operating Income (Rs. crore)	18,582.3	22,841.4
PAT (Rs. crore)	327.7	313.9
OPBDIT/OI (%)	3.4%	3.2%
RoCE (%)	16.6%	15.7%
Total Outside Liabilities/Tangible Net Worth (times)	1.9	2.1
Total Debt/OPBDIT (times)	2.4	2.5
Interest Coverage (times)	4.2	4.0
DSCR	3.3	2.2

*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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating 14-April 2020	Date & Rating in FY2020	Date & Rating in FY2019 25-February 2019	30-April 2018	Date & Rating in FY2018
1	Short Term Bank Facility	Long Term	2055.00	545.00*	**[ICRA]A1+**	-	[ICRA]A1+	[ICRA]A1+	-
2	Non Fund Based Limits	Short Term	1945.00	-	**[ICRA]A1+**	-	[ICRA]A1+	[ICRA]A1+	-
3	Commercial Paper	Short Term	300.00	25.00*	**[ICRA]A1+**	-	[ICRA]A1+	[ICRA]A1+	-

**as on December 31, 2019*

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Short Term Bank Facility	-	-	-	2055.00	[ICRA]A1+
NA	Non Fund Based Limits	-	-	-	1945.00	[ICRA]A1+
NA	Commercial Paper	-	6.5-7.5%	Upto 90 days	300.00	[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
PTC India Financial Services	64.99%	Limited Consolidation (Capital invested by PTC in PFS has been adjusted from the Investments and Net worth of PTC)

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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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