September 25, 2020

PTC India Limited: [ICRA]A1+ assigned to enhanced bank lines

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term Bank Facility	2055.0	2000.0	[ICRA]A1+; Assigned
Non-fund Based Limits	1945.0	3500.0	[ICRA]A1+; Assigned
Total Bank lines	**4000.0**	**5500.0**	
Commercial Paper	300.0	300.0	[ICRA]A1+; outstanding

**Instrument details are provided in Annexure-1*

Rationale

The assigned rating favourably factor 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 (LT) and medium-term (MT) trade business. Steady growth in traded volumes as well as rebate and surcharge income in trading operations have supported the company's profitability and return on capital employed on a consolidated basis. 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.

With operationalisation of capacities in both MT and LT segments, the overall traded volumes grew by 6.15% YoY in FY2020, despite the dampening of demand towards the end of FY2020 on account of Covid-19-induced lockdown. Growth in MT and LT traded volumes has also buffered the overall decline in traded volumes led by reduced short-term (ST) traded volumes in Q1 FY2021. The rating continues to be supported by the company's ability to manage contractual and payment-related risks inherent in power trading business. With significant uncertainty regarding the receipt of payments from beneficiaries, the company has judiciously brought down its net receivables (receivables less payables) to Rs. 1,918.1 crore as on June 30, 2020 from Rs. 2,451.3 crore as on March 31, 2020, resulting in an improvement in net debt position at a standalone level to Rs 59.6 crore as on June 30, 2020 from Rs 625.2 crore as on March 31, 2020.

PTC, however, is exposed to significant counterparty credit risks as its main offtakers 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 is expected to limit the exposure at any given time, which in turn offers comfort. Further, the liquidity relief scheme dated May 2020 in the form of long tenure loans to be made available from PFC/REC, which is being availed by state-owned distribution utilities, would provide cash flow support in the near term to correct the overdues towards the generation entities to a large extent.

With an increase in the gap between receivables and payables due to delayed payments from the discoms and increased scale of operations, the company's leverage level on a standalone basis has increased (Net debt/ OPBITDA has increased from 0.5 times in FY2019 to 1.4 times in FY2020 while gross debt has increased from Rs 312.7 crore as on March 31, 2019 to Rs 832.6 crore as on March 31, 2020). Further, the receivables have continued to increase in case of PEL on account of delay in payments from Andhra Pradesh discom (tariff payments currently being made at Rs. 2.43/unit at interim rate as per AP High Court order dated September 2019, instead of PPA tariff at Rs. 4.84/unit), which in turn has resulted in an increase in debt levels of PEL (moratorium availed on principal and interest payments in May–August 2020) as on March 31, 2020. While the ongoing tariff issue for wind assets (of 188 capacity) in Andhra Pradesh belonging to PEL is sub judice at APERC as well as Divisional bench of AP High Court, timely resolution of the same along with the regularity of tariff payments in sustained manner remains important for PEL. Nonetheless, the availability of DSRA (two quarter of debt servicing) and access to undrawn working capital limits provides comfort for PEL. The company, however, has no further fresh investment plans in generation/IPP segment and intends to divest PEL.

ICRA notes that the limited ability of the company to increase its contracted capacity in the LT segment, increase in capacity in the MT segment and threat from the growing share of power exchange in the ST segment. The rating reflects the benefits that PTC will derive by virtue of its leading market position in power trading segment, as well as its ability to effectively manage its contractual and payment-related risks and also limit its net receivables exposure (receivables less payables) to discoms.

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 ST segment in FY2019 (out of 37 power trade licensees). The company is likely to maintain its dominant market position despite intense competition. PTC benefits from its significant presence in long- and medium-term trade, which buffers any fluctuations on account of volatile short-term volumes and margins. PTC has the dominant share in real time market introduced in June 2020.

Growth in stable and higher margin long- and medium-term trades - PTC has a strong portfolio for LT trade of power, wherein it has back-to-back power purchase agreements (PPAs) with developers and power sale agreements (PSAs) with discoms for purchase and sale of power, respectively. The overall traded volumes grew by 6.1% YoY in FY2020, while the LT traded sales grew by 10.6% during this period, backed by commercialisation of new capacities. Power flow commenced from the 720-MW Mangdechhu project in Bhutan, which resulted in a 45.5% increase in cross-border trade volumes in FY2020. The medium-term volumes too have grew on account of commencement of supply from the 1900-MW stressed thermal power assets. Even though the ST traded volumes have been impacted in Q1 FY2021 on account of weakened demand, the fall in overall traded volumes has been buffered by an increase in LT sales. PTC has been selected as the aggregator for 2500 MW Pilot –II stressed power projects; tying up of the same with discoms will improve volumes in MT segment going forward.

Effective management of contractual risks - While the LT/MT trade is lucrative by virtue of its 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 contractual safeguards in place, 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 PPAs and PSAs.

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. 1,179.2 crore (standalone), while cash and liquid balances stood at ~Rs. 341.5 crore (standalone) as on June 30, 2020. The strong operational profile of the core trading business and feed-in tariffs as well as steady generation for the wind business are 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 discoms - 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 PPAs and PSAs 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, LCs 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. Implementation of Rs 90,000 crore liquidity relief scheme is likely to bring down the current high level of receivables from discoms.

Increase in leverage and exposure to discoms – PTC's consolidated TD/OPBITDA has increased to 3.2 times in FY2020 from 2.5 times in FY2019. 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. 2,451.25 crore as on March 31, 2020 (Rs. 1,769.2 crore as on March 31, 2019). With improvement in net receivables, the net debt at PTC standalone level improved to Rs. 59.6 crore as on June 30, 2020 from Rs. 625.2 crore as on March 31, 2020. ICRA believes that PTC will control its absolute gap in debtors and creditors to limit its exposure to discoms and maintain the current debt levels. TD/OPBITDA has worsened for PEL (5.2 times in FY2020 against 4.7 times in FY2019) on account of delay in receipt of payments from Andhra Pradesh discom (188 MW out of total installed capacity of 288.8 MW being supplied to the Andhra Pradesh discom, timely payments for balance 100 MW from other discoms). Continued delays in payments can result in elevated leverage for debt servicing for PEL. At a consolidated level, the cash flows are expected to remain adequate.

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. 1,179.2 crore, and cash and liquid balances stood at ~Rs. 341.5 crore (at standalone level) as on June 30, 2020. The strong operational profile of the core trading business and feed-in tariffs for the wind business are expected to result in adequate cash accruals at the consolidated level with respect to the company's debt servicing requirements. The debt repayments pertain to term loans of its subsidiary 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, thereby leading to a rating downgarde.

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) with PTC, 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

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 FY2020, the volume of traded units stood at 66.3 billion. Over the years, PTC has diversified its service offering in the power sector by setting up investment vehicle—PFS[1]—for providing financial solutions in the energy value chain. PTC has also set up another company—PEL—which is involved in the development and operations of wind power projects and has a current installed capacity of 288.8 MW.

In FY2020, as the company (on a consolidated basis) achieved a net profit of Rs. 329.5 crore on an operating income (OI) of Rs. 24,018.3 crore compared to a net profit of Rs. 313.9 crore on an OI of Rs. 22,841.4 crore in the previous year.

Key financial indicators (audited)*

	FY2019	FY2020
Operating Income (Rs. crore)	22,841.4	24,018.3
PAT (Rs. crore)	313.9	329.5
OPBDIT/OI (%)	3.2%	3.0%
RoCE (%)	15.7%	14.0%
Total Outside Liabilities/Tangible Net Worth (times)	2.1	2.4
Total Debt/OPBDIT (times)^	2.5	3.2
Interest Coverage (times)	4.0	3.3
DSCR	2.2	2.0

*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

^Net Debt/ OPBITDA stood at 2.2 times in FY2019 and 2.8 times in FY2020

[1] Rated [ICRA]A+ (Stable)/A1+ in July 2020. For rating rationale click here

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Current Rating (FY2021) Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating 25-September 2020	Date & Rating 14-April 2020	Chronology of Rating History for the past 3 years: Date & Rating in FY2020	Date & Rating in FY2019: 25-February 2019	Date & Rating in FY2019: 30-April 2018	Date & Rating in FY2018
1	Short Term Bank Facility	Long Term	2000.00	320.8*	**[ICRA]A1+**	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+	-
2	Non Fund Based Limits	Short Term	3500.00	-	**[ICRA]A1+**	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+	-
5	Commercial Paper	Short Term	300.00	80.00*	**[ICRA]A1+**	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+	-

**as on June 30, 2020*

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	-	-	-	2000.00	[ICRA]A1+
NA	Non-fund Based Limits	-	-	-	3500.00	[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 (**C**apital invested by PTC in PFS has been adjusted from the Investments and Net worth of PTC)

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About ICRA Limited:

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