PTC India Financial Services Limited

December 20, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	2,900.00	CARE A (CW with Developing Implications) (Single A) (Under Credit watch with Developing Implications)	Revised from CARE A+; Negative (Single A Plus; Outlook: Negative); Placed on Credit watch with Developing Implications
Short-term bank facilities	100.00	CARE A1 (CW with Developing Implications) (A One) (Under Credit watch with Developing Implications)	Revised from CARE A1+ (A One Plus); Placed on Credit watch with Developing Implications
Total bank facilities	**3,000.00 (₹ Three thousand crore only)**		
Non-convertible debentures	159.61	CARE A (CW with Developing Implications) (Single A) (Under Credit watch with Developing Implications)	Revised from CARE A+; Negative (Single A Plus; Outlook: Negative); Placed on Credit watch with Developing Implications
Total long-term instruments	**159.61 (₹ One hundred fifty-nine crore and sixty-one lakh only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the ratings assigned to the long-term and short-term instruments of PTC India Financial Services Limited (PFS) factor in alleged corporate governance issues, which creates uncertainty over the risk management procedures and credit policies of PFS. Furthermore, the impact of the same on PFS's resource raising ability and impact, if any, on existing borrowings remains to be seen. Consequently, any action or directive from regulatory authorities in respect of these observations remains a key rating monitorable.

Also, CARE Ratings Limited (CARE Ratings) takes note of the impact of the said allegations on its overall loan book growth owing to absence of a full board quorum during Q4FY22 and Q1FY23. Consequently, with a reducing loan book, the headline asset quality numbers have remained elevated for PFS with reported gross non-performing assets (GNPA) of 7.68% as on September 30, 2022.

That said, the ratings continue to take into account PFS' adequate liquidity profile, experienced management team, and adequate capitalisation profile aided by positive internal accruals.

CARE Ratings has placed the ratings assigned to the long-term and short-term instruments of PFS under 'Credit Watch with Developing Implications' on account of alleged corporate governance issues and any impact of the same on the financial flexibility of the entity and the management's ability to raise incremental funding at competitive costs remains to be ascertained. CARE Ratings notes that while PFS currently has a full functioning board quorum, and eligible to provide additional loan sanctions, CARE Ratings will continue to monitor the developments surrounding the business profile and financial flexibility of the entity, and will take a view on the ratings once the exact implications of the above on the company are certain.

Rating sensitivities

Positive factors – Factors that could, individually or collectively, lead to a review for positive rating action/upgrade:

- Meaningful scale-up in the loan book driven by sizeable growth in loan disbursements and sanctions
- Improvement in the asset quality profile with controlled credit costs and the timely resolution of stage three assets.
- Improvement in the operational profitability, with return on total assets (RoTA) above 2% on a sustained basis.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Negative factors – Factors that could, individually or collectively, lead to a review for negative rating action/downgrade:

- Any action by regulatory bodies, adversely impacting the operational and financial profile of PFS, and/or any negative qualifications from the statutory auditor.
- Further deterioration in the asset quality profile with a slower pace of recoveries and/or incremental slippages.
- Any material changes in the shareholding pattern, leading to a weakening of the credit profile of PFS.
- Weakness in the capitalisation profile with capital adequacy ratio (CAR) falling below 16% and/or gearing rising above 6x.

Detailed description of the key rating drivers

Key rating strengths

Promoter and managerial support:

PFS is promoted by PTC India Limited (PTC), a leading power trading solutions provider in India. PTC was established in 1999 through an initiative of the Government of India (GoI), in consonance with the Mega Power Policy, to establish a power market in India as well as to act as a credit mitigating agency for mega power projects by buying electricity from them through long-term power purchase agreements (PPAs) and sell the same through back-to-back power sale agreements (PSAs) to various state utilities. The promoters of PTC are NHPC Ltd (rated 'CARE AAA; Stable'), NTPC Ltd (rated 'CARE AAA; Stable/CARE A1+'), Power Finance Corporation Ltd (rated 'CARE AAA; Stable/CARE A1+'), and Power Grid Corporation of India Ltd (rated 'CARE AAA; Stable/CARE A1+'). PTC has a category I license, which permits unlimited trading in power, issued by the Central Electricity Regulatory Commission (CERC) under the Electricity Act 2003. For the year ended FY22, PTC (on a standalone basis) reported a marginal rise in net profits, by 4% y-o-y to ₹410 crore, while the total revenue of the company declined by 8% y-o-y to ₹15,638 crore.

PFS was incorporated as a wholly-owned subsidiary of PTC on September 8, 2006. The company was initially promoted to finance projects in the energy value chain; however, it is now mandated to extend financial assistance to other areas of infrastructure, which fall under the ambit of the Reserve Bank of India-Infrastructure Finance Company (RBI-IFC). PTC, at present, owns 65% stake in PFS, which was increased from 60% in November 2016 after an equity infusion of ₹308.77 crore by PTC on a preferential basis.

Diversified loan book profile:

While the company is present primarily in the power sector, within the power sector, the loan book is diversified and PFS has lent in various sub-sectors in the energy value chain, which include private as well as state power generation and transmission corporates, state distribution networks, private coal mining and railway sidings associated with large projects, equipment manufacturers. However, during FY21 and FY22, PFS disbursed more funds towards state distribution companies that belonged primarily towards the states of Andhra Pradesh, Telangana, and Rajasthan, and thus, carry a comparatively riskier asset quality profile. However, CARE Ratings notes that state discoms, as a group, have shown a comfortable track record in terms of repayment of loans from the above states, and hence, asset quality risk from the segment is expected to be minimal.

PFS also carries considerable loan assets that are towards the renewable energy sector and it formed around 31% of the company's overall loan book of ₹7,528 crore as on September 30, 2022. Also, in its bid to de-carbonise its loan book, PFS has been changing its portfolio mix by increasingly focussing on lending to "other" sectors, such as loans to hybrid energy projects, transmission projects, electric mobility, and other loans. On the other hand, the lending to PFS's traditional core lending areas such as thermal and hydro projects continues to register a decline.

Going forward, with an expected decline in the loan book size of the company in Q3FY23 on the back of a slowdown in disbursements, the ability of PFS to maintain a similar share of diversity in its loan book remains a key rating monitorable. Although. CARE notes that PFS currently has a loan sanction pipeline of Rs.5,600 crore.

Overall, CARE Ratings draws comfort from the fact that about 31% of PFS' loan book constitutes renewable energy projects, which carry a must-run status.

Comfortable capitalisation profile:

On the back of sequential positive internal accruals driven by improved operational profitability in H1FY23, clubbed with a decline in the gross loan book of the company and a resultant decline in the risk-weighted assets, the capitalisation profile remained comfortable with the overall CAR and Tier-I CAR increasing marginally to 31.74% and 31.33%, respectively, as on September 30, 2022, compared with 26.06% and 25.61% respectively, as on September 30, 2021, well above the regulatory minimum requirement of 15% and 10%, respectively. Going forward, with the sequential decline in the loan book and positive internal accruals, the capitalisation profile is expected to remain adequate.

In light of the slow-down in loan sanctioning and disbursal process following the absence of a full board quorum during Q4FY22 and a major part of H1FY23, the need to raise additional borrowings to fund lending operations has declined. As a result, the leverage profile of PFS has improved sequentially, with an overall gearing of 2.41x as on September 30, 2022, as compared with 3.34x as on September 30, 2021. Going forward, with PFS being in the advanced stage of discussion with public sector undertaking (PSU) lenders to raise additional borrowings, the leverage profile is expected to remain around 3x in the near term.

Diversified lender base:
PFS has a diversified resource profile with funds raised from banks, financial institutions (FIs), the bond market, and external commercial borrowings (ECBs). Owing to its infra and project financing, the company largely relies on financing via long-term resources to ensure asset liability positive matches. Accordingly, the share of long-term borrowings continues to remain at 91% of the total borrowings end-FY22. Also, the short-term borrowings are cash credit (CC) and overdraft (OD) and working capital demand loan (WCDL) lines from the banks coupled with commercial paper (CP) instruments, which formed the rest 9%. CARE Ratings notes that PFS, in the last 12 months, has not raised any additional borrowings from its lender base owing to a slowdown in the sanctioning and disbursal ability, impacted by corporate governance allegations, the absence of a full board quorum, and lower loan sanctioning in H1FY23. However, with PFS now having a full board quorum, CARE Ratings expects the pace of additional borrowings for the company to pick up gradually, while some impact of the said issues will be visible in the form of elevated borrowing costs.

Key rating weaknesses
Instances of alleged corporate governance lapses:
CARE Ratings notes that on January 19, 2022, all three independent directors of PFS resigned citing several corporate governance-related lapses at PFS. PFS and its parent, PTC India, had refuted the allegations prima facie, citing factual inaccuracies. PFS later, on March 30, 2022, appointed four independent directors from its parent company, i.e. PTC India Limited, on its board for a temporary basis, and on April 27, 2022, announced that it is has initiated the process to appoint a forensic auditor, and later on, onboarded CNK & Associates LLP in July 2022, to carry out a third-party forensic audit of the issues raised by the ex-independent directors. Also, the Securities and Exchange Board of India (SEBI) had directed the company to ensure that no changes in the existing board structure will be made until the forensic audit is completed.

Later, CNK submitted its final forensic audit report to PFS' management on November 04, 2022, wherein, the report highlighted several instances, among others, of possible evergreening of loan accounts, disproportionate disbursement of funds, improper notice given for convening of board meetings, and its possible impact on financial parameters due to the same.

Thereafter, PFS appointed Ernst & Young LLP (E&Y) for the latter's independent remark on the forensic audit report, wherein, E&Y indicated that there was no financial impact on the accounts of PFS and no indication of fraud or evergreening is visible in the observations made by CNK. PFS further took legal opinion from various legal professionals (including former Chief Justice of India) and industry veterans, which highlighted that there was no mention of any fraud, mala fide intention, diversion of funds etc, and no instances of possible evergreening were visible.
Following the same, PFS declared its financial results for the period ending June 30, 2022, and September 30, 2022, which were delayed owing to a delay in outcome of the forensic audit report.

Later, in December 2022, three independent directors resigned from their respective positions, out of which two resigned citing corporate governance lapses in PFS. The now ex-independent directors, who were earlier appointed by PTC on the board of PFS in March 2022 to reconstitute the board and address the alleged corporate governance issues, cited observations such as incorrect presentation of financial statements by PFS' management, frequent amendments or revisions in the credit policies for the execution of sanctions, and inadequate amount of notice given to board members for the convening of board meetings as their primary reasons, among others, for resigning from their respective positions. In response to the above allegations, PFS stated that board meetings were conducted with the consent of all directors (including ex-independent directors) and any revision/amendment in policies or provisioning was as per Board approved directive. PFS also stated that currently it has a full functioning board quorum and is in compliance with all statutory requirements necessary for a NBFC.

Going forward, the ability of PFS to achieve positive growth in overall business profile and financial flexibility, remains a key rating monitorable.

Weak asset quality profile:
While PFS carries a diversified loan portfolio base, its asset quality continues to remain weak, mainly on account of its exposure to thermal and hydro projects clubbed with slippages from certain renewable energy borrowers; hence, the company has been consciously trying to bring down the share of such loans while increasingly focusing on financing in segments, including electric mobility, power distribution, etc. However, owing to the wholesale nature of its lending, high sector and borrower-wise concentration risks, the company may remain vulnerable to asset quality risks.

During FY22, PFS reported slippages of ₹234 crore (FY21: ₹206 crore), although owing to higher reductions during the year in the form of write-off of loan accounts, the absolute GNPA declined to ₹724 crore, which further declined to ₹578 crore by September 30, 2022, owing to recoveries from high-ticket GNPA accounts. However, with the sequential decline in PFS' loan book, stage-three loan assets, as a percentage of loan book, remained elevated 12.3% as on September 30, 2022, translating into a weak asset quality profile.

The weakness in asset quality is primarily led by stress in the loans to the thermal sector; however, the management has stated that it aims to bring down the share of loans towards the thermal sector to 5% of the loan book by end-FY23.

Going forward, with a decline in the loan book of the company, PFS's ability to resolve the existing stage-three assets in a timely manner while ensuring no additional slippages remains a key rating monitorable.

Moderate financial profile, albeit improving profitability:
The financial profile of PFS remains moderate, marked by sequential and significant de-growth in the loan book, as PFS reported a gross loan book of ₹7,528 crore as on September 30, 2022, down 22% y-o-y, on the back of higher prepayments from borrowers in the renewable energy sector coupled with negligible disbursements during Q4FY22 and H1FY23.

Furthermore, while PFS reported a rise in net profitability in the six months ended September 30, 2022, with profit-after-tax (PAT) of ₹103 crore (up 5% Y-o-Y), the profitability of the company remains susceptible to volatility in credit costs towards high-ticket loan accounts. The improvement in profitability metrics during FY22 and H1FY23 was primarily on account of reduced borrowing costs, as no additional borrowings were availed by PFS during Q4FY22 and H1FY23, coupled with a reduction in credit costs towards stressed loan accounts, on the back of recoveries, albeit slow timeline of recoveries.

As a result, the ability of the company to scale up its loan book significantly and improve its profitability metrics going forward, remains a key rating monitorable.

Borrower concentration risk and competition from established players:
Being into infrastructure lending, the credit concentration risk for PFS remains high. The concentration of the loan book to the top 15 exposures continues to form a substantial proportion of the loan book and net worth. As on September 30, 2022, the top 15 borrowers constituted 60% (47%: September 30, 2021) of the total loan portfolio and 205% (202%: September 30, 2021) of the total adjusted net worth. Also, PFS derives the majority of its income from the power sector and faces competition from other large, established players. Going forward, ability of PFS to diversify its loan book and limit its exposure towards its top borrowers remains a key monitorable.

Liquidity: Adequate
As per the provisional structural liquidity statement dated September 30, 2022, PFS had cash and bank balances of ₹638 crore in the form of current and fixed deposits. Also, as per the statement, there were positive cumulative mismatches across all the time buckets. Moreover, on an annual basis, the collection efficiency remained above 97%. As on 15 December 2022, PFS was having cash balance of Rs.113 crore, fixed deposit investment of Rs.1,050 crore.

Consequently, the ability of the company to maintain collections above 95% while growing its loan portfolio and maintaining an adequate liquidity cushion will remain a key rating monitorable.

Analytical approach

Standalone; factoring in 65% shareholding from the parent company, PTC India Limited.

Applicable criteria

[Criteria on assigning Outlook and Credit watch to Credit Ratings](#)
[CARE's Policy on Default Recognition](#)
[CARE Methodology for Non-Banking Financial Companies](#)
[Financial Sector –Financial Ratios](#)
[Policy for rating short-term instruments](#)

About the company

Incorporated on September 8, 2006, as a special purpose vehicle (SPV), PFS has been registered as a non-banking finance company-infrastructure finance company (NBFC-ND-IFC) with the Reserve Bank of India (RBI). PFS is promoted by PTC (65% shareholding as on December 31, 2019), with the mandate to provide financing solutions to companies with projects across the entire chain in the power sector. The company currently provides financing through equity and debt (short-term and long-term) to private sector power projects in India. The company also provides fee-based syndication and advisory services. In November 2016, PTC infused an equity share capital of ₹308.77 crore in PFS, post that there has been no equity infusion.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	H1FY23 (UA)
Total income	1139.45	968.74	403.05
PAT	25.60	129.98	103.22
Gearing [debt/TNW] (times)	4.49	3.19	2.41
Total assets (excluding intangibles and deferred tax asset)	11,454.80	9,484.60	8,048.45
Net NPA (%)	3.04	4.67	7.53
ROTA (%)#	0.22	1.24	2.35[#]

A: Audited; UA: Unaudited, #annualised, *reported.

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

<table>
<tr><th>Name of the Instrument</th><th>ISIN</th><th>Date of Issuance</th><th>Coupon Rate</th><th>Maturity Date</th><th>Size of the Issue (₹ crore)</th><th>Rating Assigned along with Rating Outlook</th></tr>
<tr><td>Fund-based - LT-Term Loan</td><td>-</td><td>-</td><td>-</td><td>September 2028</td><td>2900.00</td><td>CARE A (CW with Developing Implications)</td></tr>
<tr><td>Fund-based - ST-Term loan</td><td>-</td><td>-</td><td>-</td><td>March 2023</td><td>100.00</td><td>CARE A1 (CW with Developing Implications)</td></tr>
<tr><td rowspan="4">Debentures-Non-convertible Debentures</td><td>INE560K07086[#]</td><td>30-Mar-2012</td><td>8.93%</td><td>30-Mar-2022</td><td rowspan="4">159.61*</td><td rowspan="4">CARE A (CW with Developing Implications)</td></tr>
<tr><td>INE560K07094[#]</td><td>30-Mar-2012</td><td>8.93%</td><td>30-Mar-2022</td></tr>
<tr><td>INE560K07102</td><td>30-Mar-2012</td><td>9.15%</td><td>30-Mar-2027</td></tr>
<tr><td>INE560K07110</td><td>30-Mar-2012</td><td>9.15%</td><td>30-Mar-2027</td></tr>
</table>

*Outstanding amount ₹9.23 crore as on September 30, 2022.
#Redeemed on maturity, pending withdrawal.

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Debentures-Non-convertible debentures	LT	159.61*	CARE A (CW with Developing Implications)	1)CARE A+; Negative (06-Jun-22)	1)CARE A+; Stable (22-Jan-22) 2)CARE A+; Stable (06-Jan-22)	1)CARE A+; Stable (08-Jan-21)	1)CARE A+; Stable (14-Feb-20)
2.	Fund-based - LT-Term loan	LT	2900.00	CARE A (CW with Developing Implications)	1)CARE A+; Negative (06-Jun-22)	1)CARE A+; Stable (22-Jan-22) 2)CARE A+; Stable (06-Jan-22)	1)CARE A+; Stable (08-Jan-21)	1)CARE A+; Stable (14-Feb-20)
3.	Fund-based - ST-Term loan	ST	100.00	CARE A1 (CW with Developing Implications)	1)CARE A1+ (06-Jun-22)	1)CARE A1+ (22-Jan-22) 2)CARE A1+ (06-Jan-22)	1)CARE A1+ (08-Jan-21)	1)CARE A1+ (14-Feb-20)

*Outstanding amount ₹9.23 crore as on September 30, 2022

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:

Name of the Instrument	Detailed Explanation
A. Financial covenants	
I. Capital adequacy	Overall CRAR >= 15%, with Tier-I >= 12%
B. Non-financial covenants	
I. Shareholding	Shareholding of PTC India Limited, directly or indirectly, will not fall below 51% of the issued paid up capital of PFS

Annexure-4: Complexity level of the various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1.	Debentures-Non-convertible debentures	Simple
2.	Fund-based - LT-Term loan	Simple
3.	Fund-based - ST-Term loan	Simple

Annexure-5: Bank lender details for this company

To view the lender-wise details of the bank facilities, please click here.

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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