

Rating Rationale

June 08, 2023 | Mumbai

PTC India Financial Services Limited

Short-term rating downgraded to 'CRISIL A1'; Ratings removed from 'Watch Developing'

Rating Action

Total Bank Loan Facilities Rated	Rs.11000 Crore
Long Term Rating	CRISIL A+/Negative (Removed from 'Rating Watch with Developing Implications'; Rating Reaffirmed)
Short Term Rating	CRISIL A1 (Downgraded from 'CRISIL A1+'; Removed from 'Rating Watch with Developing Implications')

Rs.1000 Crore Commercial Paper	CRISIL A1 (Downgraded from 'CRISIL A1+'; Removed from 'Rating Watch with Developing Implications')
Non Convertible Debentures Aggregating Rs.269.49 Crore	CRISIL A+/Negative (Removed from 'Rating Watch with Developing Implications'; Rating Reaffirmed)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has removed its ratings on the debt instruments and bank facilities of PTC India Financial Services Limited (PFS) from 'Rating Watch with Developing Implications' and assigned a '**Negative**' outlook while reaffirming the long-term rating and debt instrument at 'CRISIL A+'. The rating on commercial paper programme and short term bank facility has been downgraded to '**CRISIL A1**' from 'CRISIL A1+'.

On January 31, 2022, CRISIL Ratings had placed the ratings on the debt instruments of PFS on 'Watch with Developing Implications' following the resignation of three independent directors of the company citing corporate governance lapses. Further, CRISIL Ratings had taken note of similar developments in December 2022 with the resignation of another set of three independent directors (appointed by parent PTC India Limited on interim basis), with two of them also highlighting corporate governance lapses at the company. PFS, in turn, had refuted these allegations.

Three new independent directors were appointed on November 15, 2022. With this, the Board had quorum in place to function as per requirement.

CRISIL Ratings has continued to monitor the impact of these developments, with particular focus on the company's incremental fund raising and thereby on their ability to normalise their business operations.

CRISIL Ratings has now resolved the rating watch. The PFS Board has been able to function for two consecutive quarters (December 2022 and March 2023). Financial results for the year ending March 31, 2023 have also been declared.

The negative outlook on the long-term rating and downgrade in rating on the commercial paper programme reflect the delay in incremental fund raising which has adversely impacted business operations, and in turn, the market position of the company. Disbursements stood at Rs 583 crore in Q4FY23 as against sanctions of Rs 1,563 crore in the same period. The disbursements for fiscal 2023 stood at Rs 2,253 crore as against Rs 3,888 crore in previous fiscal. Consequently, the gross loan book has registered a de-growth of 15.6% in fiscal 2023 and stood at Rs 7,339 crore (Rs 8,686 crore). Further, disbursements have been funded mainly through repayments and prepayments with incremental fund raising being limited to Rs 300 crore since January 2022.

The GNPA increased on sequential basis to 9.7% as on March 31, 2023 (8.3% as on March 31, 2022) as compared to 7.9% as on December 31, 2022 owing primarily to a slippage of Rs 135 crore in Q4FY23. In absolute terms, GNPA remained at similar level of Rs 716 crore as on March 31, 2023 as compared to Rs 724 crore as on March 31, 2022.

CRISIL Ratings will continue to monitor the impact of the ongoing developments on the company's incremental fund raising. Also, the stance taken by the regulators on the company with regard to penal actions, if any, will be a key rating monitorable.

The ratings continue to factor in strong support from the promoter, PTC India Ltd (PTC; rated 'CRISIL A1+'), and the company's adequate capitalisation and earnings profile. These strengths are partially offset by exposure to risks relating to asset quality, given the challenges faced by the power sector and modest market share in the infrastructure financing segment.

Analytical Approach

For arriving at the ratings, CRISIL Ratings has analysed the business and financial risk profile of the company. The ratings also factor in the company's strategic importance to, and strong support likely to be provided by, the promoter, PTC.

Key Rating Drivers & Detailed Description

Strengths:

Expectation of strong support from parent

PFS, promoted by PTC, remains strategically important to the parent, given the latter's objective of operating as an integrated player in the power sector. PFS offers financing solutions to entities in the power sector and complements PTC's role by offering power-trading solutions. PTC has invested Rs 754.77 crore in PFS till date and holds a 64.99% stake in the company as on March 31, 2023. The parent continues to extend branding, strategic, management and funding support to the company. PFS benefits from the parent's strong domain knowledge and healthy customer relationships. PTC's chairman and managing director is PFS's non-executive chairman. Additionally, the company now has two common directors. CRISIL Ratings believes that the parent will support PFS in meeting its debt obligations in a timely manner, in the event of a distress situation. PTC, will also have a strong moral obligation to support the subsidiary given the strong relationships and shared brand name between the two.

Adequate capitalisation

Capital structure is marked by healthy networth of Rs 2,443 crore as on March 31, 2023. Tier 1 capital adequacy ratio (CAR) was at 32.41%, with overall CAR at 33.05% as on March 31, 2023, compared to 26.10% and 26.71%, respectively, as on March 31, 2022. Gearing stood at 2.2 times as on March 31, 2023 (3.1 times as on March 31, 2022), and is expected to remain under 6.0 times on a steady-state basis. The company's capital position also supports asset-side risks. Networth coverage for net non-performing assets (NPAs) was adequate at 8 times as on March 31, 2023 (5.9 times as on March 31, 2022). While the current capitalisation will support near-term growth plans, the ability to raise additional capital to fund large growth plans will remain a key rating monitorable in the near to medium term.

Weaknesses:

Asset quality risks arising from challenges faced by the power sector

PFS faces asset quality challenges, given its concentration in the power sector, weak financial health of state power distribution companies and exposure to private sector thermal power projects. To mitigate the risks, the company pruned its exposure to the thermal segment (which now stands at about 6%), and consequently expanded its renewable energy portfolio, which now accounts for around 29% of the total loan book as on March 31, 2023. However, given the nature of business, around 28% of loans are still under moratorium and the impact of seasoning will be visible only over the medium term. Gross Stage 3 assets stood at 13.59% as on March 31, 2023. Gross NPAs (GNPA) stood at 9.68% as on same date as against 8.29% as on March 31, 2022. In absolute terms, GNPA remained at similar level of Rs 716 crore as on March 31, 2023 as compared to Rs 724 crore as on March 31, 2022.

Nevertheless, the relatively high provision coverage at 57% as on March 31, 2023 (47% as on March 31, 2022) has resulted in net NPA declining to 4.38% as on March 31, 2023 from 4.67% as on March 31, 2022. Credit costs declined to 0.9% (of average assets; annualised) for fiscal 2023 as against 1.6% for fiscal 2022. Consequently, Profit after tax (PAT) was Rs 176 crore with return on average assets (RoA) of 2.1% for fiscal 2023 against Rs 130 crore and 1.2%, respectively, for fiscal 2022.

While PFS has resolution plans in place for large NPAs, and there has been some progress, timelines and ability to effect significant recoveries needs to be monitored. Thus, the impact of asset quality and recoveries on its profitability will remain a key monitorable.

Moderate market share in the infrastructure financing segment with delay in fund raising limiting growth opportunities

PFS has a moderate market share in the infrastructure financing segment, with a gross loan book of Rs 7,339 crore as on March 31, 2023 (Rs 8,686 crore as on March 31, 2022 and Rs 11,094 crore as on March 31, 2021). The decline in loan book was on account of the company not being able to sanction new proposals without a fully functioning board during Q4FY22 and Q1FY23. The company has sanctioned and disbursed loans amounting to Rs 3,854 crore and Rs 2,253 crore, respectively, in fiscal 2023 (Rs 4,150 crore and Rs 3,888 crore, respectively, in corresponding period of previous fiscal). Of these, Rs 2,694 crore and Rs 1,192 crore were the sanctions and disbursements respectively in the second half of fiscal 2023. Furthermore, while the company has been evaluating new loan proposals, discussions on fresh funding have been underway for a while with multiple lenders which are yet to fructify into formal sanction of limits. The company's ability to secure these borrowings in the near term in order to normalise operations and disbursements will need to be monitored.

Liquidity: Adequate

The analysis of the asset liability maturity profile of PFS, as of March 31, 2023, shows nil negative cumulative mismatches in the one-year bucket, without adjusting available unutilised bank lines. As on May 25, 2023, cash balance (of Rs 9.5 crore), fixed deposits investments (of Rs 402.5 crore) and unutilised bank-lines (of Rs 115 crore) should suffice to cover the maturing debt of Rs 374 crore for the next three months.

Outlook: Negative

CRISIL Ratings believes any further delay in incremental fund raising will continue to adversely impact business operations, and in turn, the market position of the company.

Rating Sensitivity factors**Upward factors**

- Material improvement in the credit risk profile of PTC
- Significant improvement in the asset quality and competitive position of PFS, amid comfortable financial risk profile (RoA crosses 2.5% on a sustainable basis)

Downward factors

- Continued pressure on incremental fund raising and consequent impact on the company's business volumes
- Any adverse impact of the stand taken by regulators
- Decline in support from PTC, either by way of decline in its ownership below 50% or in the strategic importance of PFS to PTC
- Significant and consistent increase in delinquencies, impacting profitability

About the Company

PFS was promoted by PTC, to provide financial services and related products and services to companies in the energy value chain. The company was incorporated in September 2006 and commenced operations in May 2007. PFS is registered with the RBI as an infrastructure-financing non-banking financial company. It provides loans (including mezzanine funding) to infrastructure projects with primary focus on renewable projects along with other projects of distribution, transmission, road under hybrid annuity model, sewage treatment and ports. The company also provides non-fund-based products and services to companies in the power sector. As on March 31, 2023, the gross loan book was Rs 7,339 crore comprising 28% to renewables, 6% to thermal and hydro assets and the rest being others (including, transmission, sustainable infrastructure, road projects and state power utility)

For fiscal 2023, PAT was Rs 176 crore on total income (net of interest expense) of Rs 365 crore, as against Rs 130 crore and Rs 389 crore, respectively, for the previous fiscal.

Key Financial Indicators

As on / for the period ended	Units	31-Mar-23	31-Mar-22
Total assets	Rs crore	7634	9516
Total income (net of interest expense)	Rs crore	365	389
PAT (excluding comprehensive income)	Rs crore	176	130
Gross NPA	%	9.7	8.3
Gearing	Times	2.2	3.1
RoA (calculated, annualised)	%	2.1	1.2

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings' complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity levels	Rating assigned with outlook
INE560K07128	Non-convertible debentures	3-Jun-15	9.62% p.a. payable	28-May-25	213.5	Simple	CRISIL A+/Negative

INE560K07102	Non-convertible debentures	31-Mar-12	9.15% p.a. payable annual	30-Mar-27	2.35	Complex	CRISIL A+/Negative
INE560K07110	Non-convertible debentures	31-Mar-12	9.15% p.a. payable cumulative	30-Mar-27	7.14	Complex	CRISIL A+/Negative
NA	Non-convertible debentures^	NA	NA	NA	1.5	Simple	CRISIL A+/Negative
NA	Long Term Bank Facility	NA	NA	31-Dec-27	499.49	NA	CRISIL A+/Negative
NA	Long Term Bank Facility	NA	NA	31-Mar-28	99.79	NA	CRISIL A+/Negative
NA	Long Term Bank Facility	NA	NA	31-Mar-25	16.34	NA	CRISIL A+/Negative
NA	Long Term Bank Facility	NA	NA	31-Mar-28	388.94	NA	CRISIL A+/Negative
NA	Long Term Bank Facility	NA	NA	30-Sep-24	142.76	NA	CRISIL A+/Negative
NA	Long Term Bank Facility	NA	NA	30-Sep-29	434.77	NA	CRISIL A+/Negative
NA	Long Term Bank Facility	NA	NA	31-Mar-25	90.84	NA	CRISIL A+/Negative
NA	Long Term Bank Facility	NA	NA	30-Sep-28	499.79	NA	CRISIL A+/Negative
NA	Long Term Bank Facility	NA	NA	31-Mar-28	136.6	NA	CRISIL A+/Negative
NA	Long Term Bank Facility	NA	NA	31-Mar-29	205.94	NA	CRISIL A+/Negative
NA	Long Term Bank Facility	NA	NA	31-Dec-27	195.82	NA	CRISIL A+/Negative
NA	Long Term Bank Facility	NA	NA	31-Mar-27	372.37	NA	CRISIL A+/Negative
NA	Long Term Bank Facility	NA	NA	30-Sep-31	499.61	NA	CRISIL A+/Negative
NA	Long Term Bank Facility	NA	NA	31-Mar-24	48.85	NA	CRISIL A+/Negative
NA	Long Term Bank Facility	NA	NA	31-Dec-28	89.81	NA	CRISIL A+/Negative
NA	Long Term Bank Facility	NA	NA	31-Dec-27	146.71	NA	CRISIL A+/Negative
NA	Long Term Bank Facility	NA	NA	31-Dec-25	11.13	NA	CRISIL A+/Negative
NA	Long Term Bank Facility	NA	NA	31-Oct-27	628.28	NA	CRISIL A+/Negative
NA	Long Term Bank Facility	NA	NA	31-Dec-26	59.6	NA	CRISIL A+/Negative
NA	Long Term Bank Facility	NA	NA	31-Dec-26	74.55	NA	CRISIL A+/Negative
NA	Long Term Bank Facility	NA	NA	31-Dec-26	89.8	NA	CRISIL A+/Negative
NA	Long Term Bank Facility	NA	NA	31-Dec-26	44.78	NA	CRISIL A+/Negative
NA	Long Term Bank Facility	NA	NA	31-Dec-26	41.84	NA	CRISIL A+/Negative
NA	Long Term Bank Facility	NA	NA	30-Sep-25	192.36	NA	CRISIL A+/Negative
NA	Long Term Bank Facility	NA	NA	30-Sep-26	270.36	NA	CRISIL A+/Negative
NA	Long Term Bank Facility	NA	NA	31-Oct-28	299.69	NA	CRISIL A+/Negative
NA	Commercial paper programme	NA	NA	7-365 days	1000	Simple	CRISIL A1

NA	Proposed Long Term Bank Loan Facility*	NA	NA	NA	3919.18	NA	CRISIL A+/Negative
NA	Line of Credit	NA	NA	NA	600	NA	CRISIL A1
NA	Overdraft Facility	NA	NA	NA	600	NA	CRISIL A1
NA	Working Capital Demand Loan	NA	NA	NA	300	NA	CRISIL A1

^Yet to be raised

*Interchangeable with short-term bank facility

Annexure - Rating History for last 3 Years

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	11000.0	CRISIL A+/Negative / CRISIL A1	14-03-23	CRISIL A1+/Watch Developing / CRISIL A+/Watch Developing	16-12-22	CRISIL A1+/Watch Developing / CRISIL A+/Watch Developing	28-05-21	CRISIL A+/Stable	29-05-20	CRISIL A+/Stable	CRISIL A+/Stable
			--		--	30-11-22	CRISIL A1+/Watch Developing / CRISIL A+/Watch Developing		--	06-05-20	CRISIL A+/Stable	--
			--		--	18-10-22	CRISIL A1+/Watch Developing / CRISIL A+/Watch Developing		--		--	--
			--		--	09-06-22	CRISIL A+/Watch Developing		--		--	--
			--		--	31-01-22	CRISIL A+/Watch Developing		--		--	--
Commercial Paper	ST	1000.0	CRISIL A1	14-03-23	CRISIL A1+/Watch Developing	16-12-22	CRISIL A1+/Watch Developing	28-05-21	CRISIL A1+	29-05-20	CRISIL A1+	CRISIL A1+
			--		--	30-11-22	CRISIL A1+/Watch Developing		--	06-05-20	CRISIL A1+	--
			--		--	18-10-22	CRISIL A1+/Watch Developing		--		--	--
			--		--	09-06-22	CRISIL A1+/Watch Developing		--		--	--
			--		--	31-01-22	CRISIL A1+/Watch Developing		--		--	--
Non Convertible Debentures	LT	269.49	CRISIL A+/Negative	14-03-23	CRISIL A+/Watch Developing	16-12-22	CRISIL A+/Watch Developing	28-05-21	CRISIL A+/Stable	29-05-20	CRISIL A+/Stable	Provisional CRISIL AA+ (CE) /Watch Developing
			--		--	30-11-22	CRISIL A+/Watch Developing		--	06-05-20	CRISIL A+/Stable	--
			--		--	18-10-22	CRISIL A+/Watch Developing		--		--	--
			--		--	09-06-22	CRISIL A+/Watch Developing		--		--	--
			--		--	31-01-22	CRISIL A+/Watch Developing		--		--	--
Tier II Bonds (Under Basel III)	LT		--		--		--	28-05-21	Withdrawn	29-05-20	CRISIL A+/Stable	CRISIL A+/Stable

			--		--		--		--	06-05-20	CRISIL A+/Stable	--
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All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Line of Credit	600	Union Bank of India	CRISIL A1
Long Term Bank Facility	966.47	Bank of India	CRISIL A+/Negative
Long Term Bank Facility	590.63	Bank of Maharashtra	CRISIL A+/Negative
Long Term Bank Facility	1410.34	Canara Bank	CRISIL A+/Negative
Long Term Bank Facility	48.85	Central Bank Of India	CRISIL A+/Negative
Long Term Bank Facility	615.62	Bank of Baroda	CRISIL A+/Negative
Long Term Bank Facility	146.71	The Jammu and Kashmir Bank Limited	CRISIL A+/Negative
Long Term Bank Facility	1072.98	Union Bank of India	CRISIL A+/Negative
Long Term Bank Facility	11.13	Punjab National Bank	CRISIL A+/Negative
Long Term Bank Facility	628.28	State Bank of India	CRISIL A+/Negative
Long Term Bank Facility	89.81	Indian Bank	CRISIL A+/Negative
Overdraft Facility	100	Bank of Baroda	CRISIL A1
Overdraft Facility	400	Indian Bank	CRISIL A1
Overdraft Facility	100	Canara Bank	CRISIL A1
Proposed Long Term Bank Loan Facility&	3919.18	Not Applicable	CRISIL A+/Negative
Working Capital Demand Loan	300	Punjab National Bank	CRISIL A1

& - Interchangeable with short-term bank facility

Criteria Details

Links to related criteria
<u>CRISILs Bank Loan Ratings - process, scale and default recognition</u>
<u>crisils criteria for rating covered bonds</u>
<u>Rating Criteria for Finance Companies</u>
<u>CRISILs Criteria for rating short term debt</u>
<u>Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support</u>

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