

## Rating Rationale

October 30, 2023 | Mumbai

### PTC India Financial Services Limited

*Long-term rating downgraded to 'CRISIL A/Negative'; short-term rating reaffirmed*

#### Rating Action

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

Rs.1000 Crore Commercial Paper	CRISIL A1 (Reaffirmed)
Non Convertible Debentures Aggregating Rs.269.49 Crore	CRISIL A/Negative (Downgraded from 'CRISIL A+/Negative')

*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 downgraded its rating on the long-term bank facilities and non convertible debentures of PTC India Financial Services Limited (PFS) to '**CRISIL A/Negative**' from 'CRISIL A+/Negative'. The rating on the short term bank facilities and commercial paper programme has been reaffirmed at 'CRISIL A1'.

The rating action reflects the continued delay in incremental fund raising, which has led to PFS limiting its lending activity thereby impacting business operations. The company did not make any substantial disbursements during May-September 2023 due to lack of fresh funding. Challenges in raising funds are primarily attributable to corporate governance concerns raised earlier by independent directors.

In a bid to address concerns, the company has taken several steps. Firstly, the company focused on strengthening the senior management. Over the period till June 2023, the company appointed an Executive Director (Credit), a head for Internal Audit and a head for Human Resources amongst others. However, on June 20, 2023, pursuant to the direction of the Reserve Bank of India (RBI), the then Managing Director & CEO, Dr. Pawan Singh proceeded on leave. Consequently, the PFS Board named Mr. Mahendra Lodha, who was holding the position of Director (Finance) & Chief Financial Officer (CFO), to take over the functions and responsibilities of MD & CEO on interim basis.

Since then, the company has continued to further strengthen the senior management with the appointment of an Executive Director (Project Monitoring, Disbursement and Recovery) and a Chief Compliance Officer in October 2023. CRISIL Ratings also understands that the appointment of a regular MD and CEO is at advance stages of completion.

Secondly, the company has continued to focus on collections – especially on resolution of delinquent accounts (classified as gross stage 2 and stage 3) – and maintain high liquidity levels. Till date, 2 of the top 5 gross stage 3 loan accounts are either resolved or fully provided. The gross stage 2 book as on June 30, 2023 has also seen 3 out of a total of 7 accounts being repaid fully as on date.

Lastly, the company has continued their engagement with existing and new lenders to address any concerns and resume resource mobilisation.

Incremental fund raising has been limited to Rs 300 crore since January 2022 and hence, disbursements have been funded mainly through repayments and prepayments. Overall disbursements for fiscal 2023 stood at Rs 2,253 crore against sanctions of Rs 3,854 crore (Rs 3,888 crore and Rs 4,150 crore, respectively, for fiscal 2022). Disbursements for the first quarter of fiscal 2024 stood at Rs 332 crore and reduced to Rs 78 crore during the second quarter. Consequently, gross loan book declined by 15.6% in fiscal 2023 and stood at Rs 7,339 crore (Rs 8,686 crore as on March 31, 2022) and further

declined by 2% to Rs 7,175 crore in 1H FY24. The loan book may further decline in this fiscal in light of stoppage of disbursements unless the company is able to mobilise fresh funding from lenders.

The 'Negative' outlook on the long-term rating factors the prolonged delay in augmenting debt funding, and its resultant impact on the company's growth and overall business performance. CRISIL Ratings will continue to monitor the business performance, with particular focus on the company's incremental fund raising and, thereby, its ability to normalise operations. Additionally, the stance taken by the regulators on PFS will continue to remain a key rating monitorable.

Earlier, on January 31, 2022, CRISIL Ratings had previously 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. Earlier, three new independent directors were appointed on November 15, 2022. With this, the Board had quorum in place to function as per requirement. The rating watch was resolved on June 8, 2023, post release of fiscal 2023 results, with the ratings placed on a negative outlook to monitor for incremental fund raising and resumption of steady growth in lending.

The ratings reflect the expectation of strong support from its 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 related 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 its ratings, CRISIL Ratings has analysed the business and financial risk profiles of PFS on a standalone basis. The ratings also factor in the company's strategic importance to, and expectation of strong support from promoter, PTC.

### **Key Rating Drivers & Detailed Description**

#### **Strengths:**

#### **Expectation of strong support from the parent**

PFS remains strategically important to PTC, 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 September 30, 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 the non-executive chairman of PFS. Additionally, the company now has two common directors including non-executive chairman. The parent will support PFS in meeting its debt obligation in a timely manner, in the event of a distress situation. PTC will also have a moral obligation to support the subsidiary given the strong relationships and shared brand between the two.

#### **Adequate capitalisation**

Capital structure is supported by a healthy network of Rs 2,475 crore as on September 30, 2023 (Rs 2,443 crore as on March 31, 2023). Tier-1 capital adequacy ratio (CAR) was 37.7%, with overall CAR at 38.6% as on September 30, 2023, compared with 32.4% and 33.1%, respectively, as on March 31, 2023. Gearing stood at 1.9 times as on September 30, 2023 (2.4 times as on March 31, 2023) and is expected to remain under 6.0 times on a steady-state basis. Capital position also supports asset-side risks. Network coverage for net non-performing assets (NPAs) was adequate at 5.0 times as on September 30, 2023 (8.0 times as on March 31, 2023). 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 over the medium term.

#### **Weaknesses:**

#### **Delay in raising funds limiting growth opportunities**

PFS has a moderate market share in the infrastructure financing segment, with a gross loan book of Rs. 7,175 crore as on September 30, 2023 (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's inability to sanction new proposals due to non-availability of a fully functioning board during the fourth quarter of fiscal 2022 and the first half of fiscal 2023. Furthermore, the company's disbursements were modest at Rs 410 crore during 1HFY24 due to lack of fresh funding. Its sanctioned and disbursed loans amounted 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 the corresponding period 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. Ability to secure these borrowings in the near term to normalise operations and disbursements will need to be a key rating monitorable.

#### **Exposure to asset quality risks arising from challenges faced by the power sector**

PFS' asset quality remains vulnerable to its concentration in the power sector, weak financial health of state power distribution companies. To mitigate these risks, the company pruned its exposure to the thermal segment (which now stands at about 6%), and consequently expanded its renewable energy portfolio, which accounted for around 28% of the total loan

book as on March 31, 2023. However, given the nature of the business, around 18% of loans (~Rs 1300 crore) are still under moratorium (of which Rs 1000 crore are to state owned entities) and the impact of seasoning will be visible only over the medium term. Gross Stage 3 assets stood at 13.7% as on September 30, 2023. Gross NPAs (GNPAs) stood at 10.0% as on same date against 9.7% as on March 31, 2023. In absolute terms, GNPA remained at a similar level of Rs 720 crore as on September 30, 2023, compared with Rs 716 crore as on March 31, 2023.

Provision coverage remained healthy at around 62% as on September 30, 2023 (57% as on March 31, 2023), even as net NPA stood at 4.1% as on September 30, 2023, versus 4.5% as on March 31, 2023. Credit costs declined to 0.9% (of average assets; annualised) for fiscal 2023 from 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. Credit cost further improved to 0.5% during the first half of fiscal 2024 and the company reported a PAT of 97 crore with an annualised ROA of 2.6%.

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

#### **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 limits. As on October 9, 2023, cash balance (Rs 14.6 crore) and fixed deposit investments (Rs 401 crore) should suffice to cover debt repayments for the next three months.

#### **Outlook: Negative**

Any further delay in incremental fund raising will continue to impact business operations and, in turn, market position.

#### **Rating Sensitivity Factors**

##### **Upward Factors**

- Traction in fund raising at optimal pricing enabling resumption of business operations
- 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 business operations
- 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 incorporated in September 2006 and commenced operations in May 2007. It is promoted by PTC to provide financial services and related products to companies in the energy value chain. PFS is registered with the Reserve Bank of India 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 September 30, 2023, gross loan book was Rs 7,175 crore, comprising 29.0% towards renewables, 6.6% to thermal and hydro assets and the rest being others (including, transmission, sustainable infrastructure, road projects and state power utility).

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

For the first half of fiscal 2024, PAT stood at Rs 97 crore on total income (net of interest expense) of Rs 181 crore, against Rs 103 crore and Rs 184 crore, respectively, for the corresponding period previous fiscal.

#### **Key Financial Indicators**

As on / for the period ended	Unit	Sep 30, 2023	Mar 31, 2023	Mar 31, 2022
Total assets	Rs crore	7361	7634	9516
Total income (net of interest expense)	Rs crore	181	365	389
PAT (excluding comprehensive income)	Rs crore	97	176	130
Gross Stage 3	%	13.7	13.6	12.3
Gearing	Times	1.9	2.4	3.1
RoA (calculated, annualised)	%	2.6	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](http://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	28-06-23	CRISIL A+/Negative / CRISIL A1	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
			--	08-06-23	CRISIL A+/Negative / CRISIL A1	30-11-22	CRISIL A1+/Watch Developing / CRISIL A+/Watch Developing	--	--	06-05-20	CRISIL A+/Stable	--
			--	14-03-23	CRISIL A1+/Watch Developing / CRISIL A+/Watch Developing	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	28-06-23	CRISIL A1	16-12-22	CRISIL A1+/Watch Developing	28-05-21	CRISIL A1+	29-05-20	CRISIL A1+	CRISIL A1+
			--	08-06-23	CRISIL A1	30-11-22	CRISIL A1+/Watch Developing	--	--	06-05-20	CRISIL A1+	--
			--	14-03-23	CRISIL A1+/Watch Developing	18-10-22	CRISIL A1+/Watch Developing	--	--	--	--	--
			--	--	--	09-06-22	CRISIL A1+/Watch Developing	--	--	--	--	--
			--	--	--	31-01-22	CRISIL A1+/Watch Developing	--	--	--	--	--
Non Convertible	LT	269.49	CRISIL A/Negative	28-06-23	CRISIL A+/Negative	16-12-22	CRISIL A+/Watch	28-05-21	CRISIL A+/Stable	29-05-20	CRISIL A+/Stable	Provisional CRISIL

Debtentures							Developing					AA+ (CE) /Watch Developing
			--	08-06-23	CRISIL A+/Negative	30-11-22	CRISIL A+/Watch Developing		--	06-05-20	CRISIL A+/Stable	--
			--	14-03-23	CRISIL A+/Watch Developing	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	--

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

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