December 22, 2022

PTC India Financial Services Limited: Long-term ratings reaffirmed and Negative outlook assigned; short term ratings downgraded; removed from rating watch with negative implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture Programme	39.37	39.37	[ICRA]A+(Negative); Reaffirmed; Removed from rating watch with negative implications and Negative outlook assigned
Non-Convertible Debenture Programme^	159.83	0.00	[ICRA]A+(Negative); Reaffirmed; Removed from rating watch with negative implications; Negative outlook assigned and withdrawn
Commercial Paper	1,000.00	1,000.00	[ICRA]A1; Downgraded from [ICRA]A1+ and removed from rating watch with negative implications
Fund based - Term Loan	1050.00	1050.00	[ICRA]A+(Negative); Reaffirmed; Removed from rating watch with negative implications and Negative outlook assigned
Fund based – Short Term	375.00	375.00	[ICRA]A1; Downgraded from [ICRA]A1+ and removed from rating watch with negative implications
Total	**2,624.20**	**2,464.37**	

**Instrument details are provided in Annexure-I*

^The withdrawal is at the request of the company since the rated instruments have matured and have been fully repaid

Rationale

ICRA had previously placed the ratings for PFS on rating watch with negative implication in January 2022 following PFS's announcement that all three independent directors of the company have resigned citing corporate governance lapses at the company. ICRA notes that the company had stated on record that it refutes the allegations by the outgoing directors and that it has been adhering to the best corporate governance practices under the guidance of its promoter (PTC India Limited), the regulator and the Government of India. On November 4, 2022, the management of PFS had received a forensic audit report from M/s. CNK & Associates LLP (Chartered Accountants) who carried out a third party independent forensic audit on the issues highlighted by the erstwhile Independent Directors. Subsequently, the management also received remarks from Ernst & Young LLP who were the independent advisors to the management in relation to the forensic audit. Further, the company had taken a legal opinion from former Chief Justice of India on the Forensic Audit Report (FAR). All of these disclosures have been made to the stock exchanges. On December 3, 2022, 2 independent directors previously appointed in March 2022 (including chairperson of Audit Committee) resigned citing corporate governance lapses at the company. While the ratings have been removed from watch, ICRA believes that following the recent events, lender confidence could be impacted, which in turn could lead to delayed recovery in the financial flexibility for PFS. Additionally, with the increased oversight by regulatory agencies, normalcy of business operations is expected to be delayed. Further, any adverse stance taken by the lenders and/or regulators would be a key rating monitorable.

The ratings for PTC India Financial Services Limited (PFS) factor in the significant moderation in scale of operations, the continued weakness in the asset quality indicators due to moderation in loan book size in H1FY2023 and the moderate profitability indicators. The profitability could come under pressure if the company is not able to improve the business volumes going forward. The ratings favorably factor in PFS's comfortable capitalisation profile for current scale of operations with a capital to risk weighted assets ratio (CRAR) of 31.7% as on September 30, 2022 as well as its comfortable liquidity position backed by higher on-balance sheet liquidity. ICRA takes note of the board oversight and majority ownership of PTC India

Limited (PTC; ~65% shareholding as on September 30, 2022) in PFS with its Chairman and Managing Director holding the position of Non-Executive Chairman at PFS. PFS has, over the years, benefited from its parentage by way of branding, management and funding support, besides leveraging the established relationships and industry knowledge of its parent, i.e. PTC. Nonetheless, ratings for PFS does not expect any financial support from PTC. The long-term rating is constrained by the significant moderation in the scale of operations, the asset quality due to moderation in loan book size in H1FY2023, which remains a concern though there is improving visibility on the resolution of some key stressed exposures. As on September 30, 2022, the gross and net stage 3 assets reman elevated at 12.3% and 7.5%, respectively partly due to the reduction in the portfolio. Nevertheless, the pace of incremental slippages has slowed down with expectations of improved recoveries. At the absolute level, the gross stage 3 assets aggregated Rs. 920 crore as on September 30, 2022 compared to the peak of Rs. 1,717 crore in March 2018. Further, the company carries an impairment reserve of Rs. 247 crore (27% of gross stage 3) as no September 30, 2022. PFS' relatively modest competitive position in the infrastructure finance segment led to subdued profitability over the past few years as reflected by the sub-par average 3-year return on assets (RoA) and return on equity (RoE) of 0.7% and 4.1%, respectively (1.2% and 5.9%, respectively, in FY2022). Going forward, the company's ability to scale up its business volumes while controlling fresh slippages on a sustained basis and raise funds through diverse sources at competitive rates would remain key rating monitorable.

Key rating drivers and their description

Credit strengths

Comfortable capitalisation for current scale of operations - PFS is comfortably capitalised for the current scale of operations with a net worth of Rs. 2,370 crore, gearing (debt/net worth) of 2.4 times and a CRAR of 31.7% as on September 30, 2022 as compared to a gearing and CRAR of 3.1 times and 26.7%, respectively as on March 31, 2022. The capitalisation profile improved in H1FY2023 with the decline in the portfolio amid calibrated disbursements and sizeable prepayments, supported by modest internal accruals.

Adequate liquidity position, though borrowing mix has moderated in recent years - While PFS' asset-liability maturity (ALM) profile is constrained by the relatively long tenure of its assets, like other infrastructure finance companies, it maintains sufficient liquidity back-up in the form of unutilised bank lines, besides higher on-balance sheet liquidity. While the on-balance sheet liquidity aggregated ~Rs. 1,155 crore as on October 31, 2022, sanctioned and undrawn bank lines stood at ~Rs. 1,100 crore.

However, the increased risk averseness towards the non-banking financial company (NBFC) sector and relatively higher risk premium attached with infrastructure financing, the share of market borrowings for PFS has been impacted. PFS' dependence on banks has increased and challenges in mobilising funds from capital markets at competitive rates cannot be ruled out. As on March 31, 2022, bank borrowings accounted for ~96% of PFS' total borrowings followed debentures and external commercial borrowings (ECB's). Going forward, the company's ability to leverage its established relationships with a wide lender base will remain critical and will be monitorable. Following the recent events, lender confidence could be impacted, which could lead to delayed recovery in PFS' financial flexibility. A prolonged impact, on its ability to mobilise funds especially from the debt markets/money markets at competitive rates will be a credit negative.

Credit challenges

Moderation in scale of operations - Sanctions and disbursements by PFS continued to remain lower in H1FY2023 compared to the levels seen in H1FY2022 and previous years. At the same time, the pace of prepayments remained high in H1FY2023. As a result, the company reported a ~19% on Y-o-Y decline in its loan book as on September 30, 2022. PFS has a modest market share in the infrastructure financing segment with loan assets of Rs. 7,528 crore as on September 30, 2022. ICRA takes note of the board approved loan sanction of Rs. 1,130 crore in December 2022. The availability of funding at competitive rates would be critical for incremental loan book growth and would remain a key monitorable. Overall, while PFS continues to position itself to participate significantly in upcoming solar power and hybrid projects, it is also increasing its focus on taking exposures in other infrastructure segments. Diversification into other infrastructure segments is likely to reduce the sectoral concentration risk, though the company's ability to demonstrate profitable underwriting in newer sectors will remain a monitorable.

Weak asset quality indicators, albeit improving - Notwithstanding the ongoing resolution process for a sizeable proportion of its non-performing exposures and the optical impact of the portfolio rundown, PFS' reported asset quality metrics remain weak. As on September 30, 2022, the gross stage 3 and net stage 3 assets aggregated to 12.3% and 7.5%, respectively, compared to 12.3% and 8.3% respectively, as on March 31, 2022. Further, the gross stage 2% remained elevated at ~7.5% as on September 30, 2022. Nevertheless, the pace of incremental slippages has been relatively controlled and recoveries have been on a positive trajectory. At the absolute level, the gross stage 3 assets aggregated Rs. 920 crore as on September 30, 2022 compared to the peak of Rs. 1,717 crore seen in March 2018 (Rs. 1,054 crore on March 31, 2022). Further, the company carries an impairment reserve of Rs. 247 crore (27% of gross stage 3) as no September 30, 2022. Going forward, the company's ability to continue achieving recoveries from stressed assets and control fresh slippages will remain imperative for an improvement in its asset quality.

Subdued profitability, albeit improving - The company's asset quality challenges coupled with its relatively modest competitive position in the infrastructure finance segment have led to subdued profitability over the past four years. While PFS' lending spreads and net interest margins (NIMs) improved in FY2022, the NIM remained lower at ~3.1% in FY2022 (compared to the level of 4%+ seen till FY2017) due to the elevated level of non-performing loans and the changing product mix. Also, higher provisioning amid the challenging operating environment and incremental provisioning/write-offs on a few stressed accounts continued to result in elevated credit costs and constrained profitability as reflected by the sub-par RoA and RoE of 1.2% and 5.9%, respectively, in FY2022. While the profitability metrics improved in H1FY2023 with NIMs of 3.7% and RoA and RoE of 2.2% and 8.9%, respectively, the improvement was underscored by the significant decline in the scale of operations and the consequent base effect on the ratios in H1FY2023. Going forward, the company's ability to sustain the improvement in the lending spreads amid competitive pressure from banks and other established players remains to be seen as it has a moderate market share in the infrastructure financing segment. It would also be critical for PFS to continue achieving recoveries from stressed assets and control fresh slippages to report a sustained improvement in its profitability and solvency indicators.

Environmental and social risks

Given the service-oriented business, PFS does not face material physical climate risks, they are exposed to environmental risks indirectly through their portfolio of assets. If the entities or businesses on whom PFS has an exposure faces business disruption because of physical climate adversities, or if such businesses face climate transition risks because of technological, regulatory, or customer behavior changes, it could translate into credit risks for PFS. However, such risk is mitigated for PFS through adequate portfolio diversification. With regard to social risks, data security and customer privacy are among the key sources of vulnerabilities for lending institutions as any material lapses could be detrimental to the reputation and invite regulatory censure. Given the nature of business, PFS' exposure to social risks is limited.

Liquidity position: Adequate

PFS' ALM profile remains characterised by cumulative negative mismatches in the medium-term buckets, given the relatively long tenure of the assets, like other infrastructure finance companies. The availability of sufficient on-book liquidity provides comfort. Nonetheless, the company's ability to leverage its established relationships with a wide lender base with the timely renewal of short-term/working capital lines will remain critical and will be a monitorable. ICRA notes that the company is carrying adequate on-balance sheet liquidity of about Rs. 1,155 crore and off-balance sheet liquidity of Rs. 1,100 crore (in the form of undrawn sanctioned bank lines) as on October 31, 2022 compared to a total debt-servicing burden (including principal + interest) of about Rs. 833 crore up to April 30, 2023.

Rating sensitivities

Positive factors – The long-term rating may be upgraded if the company is able to demonstrate a material and sustained improvement in its business volumes, asset quality, profitability (RoA of over 2.5%) and solvency.

Negative factors – Pressure on PFS' rating could arise if there is a prolonged delay in an improvement in its business volumes, asset quality and profitability, and/or a weakening in its liquidity profile. Specifically, a deterioration in the solvency {adjusted net stage 3/net owned funds (NOF)} to over 30% on a sustained basis may result in a negative rating action. Considering the recent developments, any adverse stance taken by the lenders and/or regulators would be a key rating monitorable.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating methodology for non-banking finance companies Policy on withdrawal of credit ratings
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

PTC India Financial Services Limited, incorporated in 2006, provides financial assistance to infrastructure projects with a primary focus on the energy value chain. It is registered as an infrastructure financing NBFC with the Reserve Bank of India. PFS' outstanding loan book was ~Rs. 7,528 crore as on September 30, 2022 compared to Rs. 9,290 crore as on September 30, 2021. As on September 30, 2022 the loan book stood at Rs. 7,528 crore comprising renewable (31%), state power utility (38%), thermal &hydro (6%), transmission (5%) and others (15%).

PFS reported a profit after tax (PAT) of Rs. 103 crore in H1FY2023 compared to Rs. 130 crore in FY2022. Its gross and net stage 3 assets stood at 12.3% and 7.5%, respectively, as on September 30, 2022 compared to 12.3% and 8.3%, respectively, as on March 31, 2022. The company reported a capital adequacy of 31.7% as on September 30, 2022 compared to 26.7% as on March 31, 2022.

PTC India Limited (PTC), a leading player in power trading in India, has a 64.99% stake in PFS as on September 30, 2022. On July 16, 2020, PTC disclosed to stock exchanges that it is desirous of divesting its controlling stake in PFS and invited interest from potential purchaser(s)/investor(s). On November 11, 2021, PFS' management stated that the divestment process has been paused.

Key financial indicators (audited)

PTC India Financial Services Limited	FY2021	FY2022	H1FY2023*
Profit after tax	26	130	103
Net worth	2,120	2,264	2,370
Loan book	10,751	8,060	7,528
Return on assets (%)	0.2%	1.2%	2.2%
Return on net worth (%)	1.2%	5.9%	8.9%
Gross gearing (times)	4.4	3.1	2.4
CRAR (%)	23.9%	26.7%	31.7%
Gross stage 3 (%)	12.5%	12.3%	12.3%
Net stage 3 (%)	7.6%	8.3%	7.5%
Solvency (Net stage 3/Net worth)	36%	32%	23%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; Based on limited review report

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) ^	Dec 22, 2022	Date and Rating in FY2022		Date and Rating in FY2021	Date and Rating in FY2020
						Jan 28, 2022	Jul 23, 2021	Jul 24, 2020	Jul 22, 2019
1	CP	ST	1,000.00	-	[ICRA]A1	[ICRA]A1+@	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	NCD	LT	39.37	39.23	[ICRA]A+ (negative)	[ICRA]A+@	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	NCD	LT	159.83	-	[ICRA]A+ (negative); Withdrawn	[ICRA]A+@	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
4	Fund based - Term Loan	LT	1,050.00	966.52*	[ICRA]A+ (negative)	[ICRA]A+@	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
5	Fund based – Short Term	ST	375.00	300.00*	[ICRA]A1	[ICRA]A1+@	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

*@-Rating watch with negative implications; ^As on September 30, 2022; *As on September 7, 2022*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial Paper Programme	Very Simple
Non-convertible Debentures	Simple
Fund based - Term Loan	Simple
Fund based – Short Term	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details as on September 30, 2022

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE560K07037	Non-convertible Debenture	Jan 27, 2011	10.50%	Jan 26, 2023	30.00	[ICRA]A+(negative)
INE560K07102#	Non-convertible Debenture	Mar 30, 2012	9.15%	Mar 30, 2023	2.33	[ICRA]A+(negative)
INE560K07110$	Non-convertible Debenture	Mar 30, 2012	9.15%	Mar 30, 2023	7.04	[ICRA]A+(negative)
INE560K07136	Non-convertible Debenture	Jun 16, 2015	9.80%	Jun 12, 2022	60.00	[ICRA]A+(negative); withdrawn
INE560K07086	Non-convertible Debenture	Mar 30, 2012	8.93%	Mar 30, 2022	25.31	[ICRA]A+(negative); withdrawn
INE560K07094	Non-convertible Debenture	Mar 30, 2012	8.93%	Mar 30, 2022	74.52	[ICRA]A+(negative); withdrawn
NA^	Commercial Paper	-	-	7-365 Days	1,000.00	[ICRA]A1
NA	Fund based - Term Loan	FY2016	NA	FY2028	1,050.00	[ICRA]A+(negative)
NA	Fund based – Short Term	NA	NA	NA	375.00	[ICRA]A1

Source: Company; ^proposed to be issued; #OustandingRs. 2.29 crore; $ Outstanding Rs. 6.94 crore

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis: Not applicable

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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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