Power Finance Corporation Limited

March 28, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Market Borrowing Programme for FY23	62,000.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Assigned
Total Long-term Instruments	**62,000.00 (Rs. Sixty two thousand crore)**		
Commercial Paper issue for FY23	15,000.00	CARE A1+ (A One Plus)	Assigned
Short-term Market Borrowing Programme for FY23	5,000.00	CARE A1+ (A One Plus)	Assigned
Total Short-term Instruments	**20,000.00 (Rs. Twenty thousand crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the market borrowing programmes of Power Finance Corporation Limited (PFC) continues to factor in the majority ownership (55.99% stake as on December 31, 2021) by the Government of India (GoI) and PFC's strategic importance to GoI, in the development of power infrastructure in India. The ratings also draw comfort from PFC's quasi sovereign status that allows it to have a diversified resource profile and adequate profitability and capitalisation metrics. The ratings also factor in the risk associated with PFC's asset quality by way of exposure to the private sector, high exposure to weak state power utilities and high borrower concentration.

Rating Sensitivities

Going forward, any material changes in the shareholding pattern leading to reduced support from the GoI is a key rating sensitivity. On a standalone basis, PFC's ability to maintain adequate capitalisation, asset quality, liquidity, and profitability would be the factors to consider.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Any material changes in the shareholding pattern and/or reduced expectation of support from the GoI
- Further significant deterioration in the asset quality profile
- Weakness in the capitalisation profile with CAR going below regulatory minimum

Detailed description of the key rating drivers

Key Rating Strengths

Government ownership and status of nodal agency

As a public financial institution, PFC enjoys patronage from and support of the GoI because of the pivotal role it plays in financing power projects of both, the state and private sector, thereby being instrumental in strengthening the power infrastructure of the country. PFC continues to be a strategically important entity for the government as it is the nodal agency for various GoI schemes, such as the Ultra Mega Power Project (UMPP) scheme that is aimed at meeting India's power requirement, with each UMPP having a capacity of 4,000 megawatts (MW) or above, and the operationalisation of the Restructured Accelerated Power Development and Reform Programme (R-APDRP scheme that was subsumed into the Integrated Power Development Scheme (IPDS)) that is aimed at strengthening and upgradation of the sub-transmission and distribution network. Additionally, the Ministry of Power (MoP) has initiated a tariff-based competitive bidding process for the development and strengthening of the transmission system through private sector participation. PFC Consulting Limited (PFCCL), a wholly owned subsidiary of PFC, has been nominated as Bid Process Coordinator by the MoP, GoI for the development of independent transmission projects.

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

As on March 25, 2022, the board of PFC comprised eight directors which included three whole-time Directors, four non-executive independent directors and one non-executive nominee director. The management team of PFC comprises highly experienced, senior individuals who possess strong knowledge and vast experience in the power sector.

Diversified resource profile

As a quasi-sovereign financial institution, PFC is able to manage a well-diversified resource profile and can mobilise funds at cost-effective rates from various sources such as external commercial borrowings (ECB), domestic financial institutions, long term bonds, bank loans, commercial papers, infrastructure bonds, and tax-free bonds. Since it is a non-deposit accepting non-banking finance company (NBFC), it has accepted no public deposits. As on December 31, 2021, the total outstanding borrowings of PFC stood at Rs. 3,23,549 crore (-0.20% y-o-y and +1.08% q-o-q). The resource profile remained well-diversified, with 59% of funds emanating from domestic bonds, followed by loans from banks/FIs forming another 20%, and foreign currency borrowings at 17%, as on December 31, 2021. Commercial paper-backed borrowings, as on December 31, 2021, were nil and the remaining were borrowed in the form of subordinated bonds and 54 EC bonds. Also, to manage foreign currency risks, 91% of the exchange risk hedging has been done for foreign currency loans, with residual maturity up to five years. Owing to its policy role and government ownership, PFC has been able to control its borrowing costs. For the quarter ended December 31, 2021, the company's weighted average cost of borrowing stood at 7.18%, down from 7.48% a year ago.

Furthermore, during 9MFY22, PFC raised US$ 625 million through a foreign currency term loan for a five-year tenure with fixed rate coupon.

Adequate capitalisation

As on December 31, 2021, the company's Tier-1 and total CAR stood at 19.07% and 22.68%, respectively, from 16.60% and 20.21%, respectively, a year ago. The sequential improvement in capital adequacy was driven by the issuance of hybrid debt (perpetual bonds) that bolstered PFC's total CAR, coupled with healthy internal accruals.

As a part of its liquidity relief package, the GoI announced Rs. 90,000 crore liquidity injection to state discoms in the form of state government-guaranteed loans, through PFC and REC, to clear outstanding dues of power generation and transmission companies. This was later enhanced to Rs. 1,25,000 crore. As of September 30, 2021, PFC and REC have together sanctioned loans aggregating to around Rs. 1,35,000 crore of which disbursements stood at around Rs 85,000 crore. As on the same date, PFC had alone sanctioned Rs. 68,914 crore under this scheme while disbursements stood at Rs.36,439 crore. Since these loans can be granted only if they are backed by state guarantee (state government guaranteed exposures carry risk weights of 20%), there is likely to be a positive impact of the same on the company's capitalisation levels.

Stable profitability metrics

PFC reported net profits of Rs. 7,412 crore in 9MFY22, as against Rs. 8,444 crore in FY21. Although there has been decline a in cost of funds, corresponding moderation in yields leads the company to report stable spreads of around
3%.

For the quarter ended December 31, 2021, PFC's net profit increased by 2% y-o-y to Rs. 2,380 crore on total income of Rs. 9,632 crore, however, on quarterly basis, the net profit declined by 14% q-o-q.

ESG initiatives

PFC has financial products like term loan, buyer's line of credit, lease financing, etc, including financing of renewable energy projects, which are sustainable and environmentally benign. While sanctioning loans, the company stipulates conditions, including interalia environmental clearances. Various pan-India initiatives have also been taken by PFC, like financial aid to district administrations, support to frontline workers and conducting awareness programmes as a part of its social responsibility

Key Rating Weaknesses

Growth in credit portfolio though asset quality risks prevail

As on December 31, 2021, PFC's standalone gross loan book stood at Rs. 3,71,649 crore, up by 1.81% y-o-y. The trend in composition of loan book remains broadly the same, with the government sector contributing to 83.41% while the share of the private sector at 16.59% of gross loans, as on December 31, 2021. The government sector loans grew by 1.30% y-o-y while the private sector grew by 4.50% YOY. The breakup of gross loans by the segment shows that generation loans (conventional) constituted 59% of the portfolio, transmission and distribution formed another 8% and 33% respectively while other loans were at 1% as on December 31, 2021.

PFC is exempted from following single entity/group exposure norms and concentration limits for state sector entities that are applicable to NBFCs. Subsequently, PFC faces high concentration risk with advances to the top 10 borrowers (pertaining to state sector) constituting about 46% of the total gross loans outstanding or 326% of the net worth at the end of FY21. PFC's reported asset quality metrics, though remaining weak, have been on a mending trend, with GNPA at 5.70% at the end of fiscal 2021, as against 8.08% at the end of fiscal 2020 and 9.39% at the end of fiscal 2019. However, as on December 31, 2021, the asset quality has deteriorated, with increase in GNPA% to 6.06% as on December 31, 2021, up from 5.67% as on September 30, 2021. The rise in the NNPA% was relatively moderate to 2.00% as on December 31, 2021, from 1.92% as on September 30, 2021, due to improved provision coverage. The weakness in loans remain confined to PFC's private sector loans only. The total GNPA stood at Rs. 22,505 crore, as on December 31, 2021, emanating entirely from the private sector. An analysis of Stage-III accounts, as on December 31, 2021, shows that GNPAs together constitute about 38% of PFC's net worth, down from 41% a year ago.

Liquidity: Adequate

As on December 31, 2021, the structural liquidity position of PFC had positive mismatches in all buckets up to one year. As on December 31, 2021, the company (on a standalone basis) had a liquidity cushion of Rs 15,963 crore (Rs 7235 crore of cash and equivalents and liquid investments and Rs 8,728 crore of unutilised cash credit lines) as against debt obligation of Rs 13,800 crore in the next three months through March 2022

Analytical approach:

Standalone, factoring in the timely equity support from the GoI, given PFC is majorly owned by the GoI and plays a strategic role in the power sector financing and development in India.

Applicable Criteria

CARE's Policy on Default Recognition
Rating Methodology: Notching by factoring linkages with Government
Financial Ratios – Financial Sector
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Criteria for Short Term Instruments
Rating Methodology - Non Banking Finance Companies (NBFCs)

About the Company

PFC was set up in the year 1986 as a financial institution dedicated to power sector financing. The corporation was notified as a public financial institution in 1990 under the Companies Act, 1956. Until 1996, PFC lent exclusively to the public sector entities. Since 1996, it has expanded its customer profile to include private sector power utilities and projects. In 2010, RBI had classified the company as an Infrastructure Finance Company (NBFC-ND-IFC). The product portfolio of PFC includes financial products and services like rupee term loans, short-term loans, equipment lease financing and transitional financing services, etc, for various power projects in the generation, transmission and distribution sector. PFC's clients mainly include central power utilities, state power utilities, private power sector utilities (including independent power producers), joint sector power utilities and power equipment manufacturers.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
TOI	33,371	37,767	28,717
PAT	5,655	8,444	7,412
Total Assets	3,61,787	3,92,084	NA
Net NPA (%)	3.80	2.09	2.00
ROTA (%)	1.60	2.24	NA

A: Audited; UA: UnAudited; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Long term Market Borrowing Programme (FY23) - Proposed	NA	NA	NA	NA	62,000.00	CARE AAA; Stable
Commercial Paper issue (FY23) - Proposed	NA	NA	NA	NA	15,000.00	CARE A1+
Short term Market Borrowing Programme (FY23) - Proposed	NA	NA	NA	NA	5,000.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Borrowings-Market Borrowing Programme	LT*	11219.50	CARE AAA; Stable	1)CARE AAA; Stable (06-Jul-21)	1)CARE AAA; Stable (01-Oct-20)	1)CARE AAA; Stable (03-Oct-19)	1)CARE AAA; Stable (13-Dec-18) 2)CARE AAA; Stable (26-Sep-18)
2	Borrowings-Market Borrowing Programme	LT	8674.00	CARE AAA; Stable	1)CARE AAA; Stable (06-Jul-21)	1)CARE AAA; Stable (01-Oct-20)	1)CARE AAA; Stable (03-Oct-19)	1)CARE AAA; Stable (13-Dec-18) 2)CARE AAA; Stable (26-Sep-18)
3	Debt-Subordinate Debt	LT	3800.00	CARE AAA; Stable	1)CARE AAA; Stable (06-Jul-21)	1)CARE AAA; Stable (01-Oct-20)	1)CARE AAA; Stable (03-Oct-19)	1)CARE AAA; Stable (13-Dec-18) 2)CARE AAA; Stable (26-Sep-18)
4	Borrowings-Market Borrowing Programme	LT	34434.00	CARE AAA; Stable	1)CARE AAA; Stable (06-Jul-21)	1)CARE AAA; Stable (01-Oct-20)	1)CARE AAA; Stable (03-Oct-19)	1)CARE AAA; Stable (13-Dec-18) 2)CARE AAA; Stable (26-Sep-18)
5	Borrowings-Market Borrowing Programme	LT	13880.00	CARE AAA; Stable	1)CARE AAA; Stable (06-Jul-21)	1)CARE AAA; Stable (01-Oct-20)	1)CARE AAA; Stable (03-Oct-19)	1)CARE AAA; Stable (13-Dec-18) 2)CARE AAA; Stable (26-Sep-18)
6	Borrowings-Market Borrowing Programme	LT	41115.00	CARE AAA; Stable	1)CARE AAA; Stable (06-Jul-21)	1)CARE AAA; Stable (01-Oct-20)	1)CARE AAA; Stable (03-Oct-19)	1)CARE AAA; Stable (13-Dec-18) 2)CARE AAA; Stable (26-Sep-18)

7	Borrowings-Market Borrowing Programme	LT	33118.00	CARE AAA; Stable	1)CARE AAA; Stable (06-Jul-21)	1)CARE AAA; Stable (01-Oct-20)	1)CARE AAA; Stable (03-Oct-19)	1)CARE AAA; Stable (13-Dec-18) 2)CARE AAA; Stable (26-Sep-18)
8	Short Term Instruments-Short Term Borrowing	ST*	1925.00	CARE A1+	1)CARE A1+ (06-Jul-21)	1)CARE A1+ (01-Oct-20)	1)CARE A1+ (03-Oct-19)	1)CARE A1+ (13-Dec-18) 2)CARE A1+ (26-Sep-18)
9	Borrowings-Market Borrowing Programme	LT	80000.00	CARE AAA; Stable	1)CARE AAA; Stable (06-Jul-21)	1)CARE AAA; Stable (01-Oct-20)	1)CARE AAA; Stable (03-Oct-19)	1)CARE AAA; Stable (28-Mar-19) 2)CARE AAA; Stable (13-Dec-18) 3)CARE AAA; Stable (05-Dec-18) 4)CARE AAA; Stable (05-Nov-18) 5)CARE AAA; Stable (26-Sep-18) 6)CARE AAA; Stable (03-Apr-18)
10	Short Term Instruments-Short Term Borrowing	ST	4000.00	CARE A1+	1)CARE A1+ (06-Jul-21)	1)CARE A1+ (01-Oct-20)	1)CARE A1+ (03-Oct-19)	1)CARE A1+ (28-Mar-19) 2)CARE A1+ (13-Dec-18) 3)CARE A1+ (05-Dec-18) 4)CARE A1+ (05-Nov-18) 5)CARE A1+ (26-Sep-18) 6)CARE A1+ (24-Apr-18) 7)CARE A1+

								(03-Apr-18)
11	Commercial Paper-Commercial Paper (Standalone)	ST	13000.00	CARE A1+	1)CARE A1+ (06-Jul-21)	1)CARE A1+ (01-Oct-20)	1)CARE A1+ (03-Oct-19)	1)CARE A1+ (13-Dec-18) 2)CARE A1+ (05-Dec-18) 3)CARE A1+ (05-Nov-18) 4)CARE A1+ (26-Sep-18) 5)CARE A1+ (24-Apr-18)
12	Borrowings-Market Borrowing Programme	LT	88000.00	CARE AAA; Stable	1)CARE AAA; Stable (06-Jul-21)	1)CARE AAA; Stable (01-Oct-20)	1)CARE AAA; Stable (21-Feb-20) 2)CARE AAA; Stable (11-Nov-19) 3)CARE AAA; Stable (03-Oct-19)	1)CARE AAA; Stable (28-Mar-19)
13	Short Term Instruments-Short Term Borrowing	ST	2000.00	CARE A1+	1)CARE A1+ (06-Jul-21)	1)CARE A1+ (01-Oct-20)	1)CARE A1+ (21-Feb-20) 2)CARE A1+ (11-Nov-19) 3)CARE A1+ (03-Oct-19)	1)CARE A1+ (28-Mar-19)
14	Commercial Paper-Commercial Paper (Standalone)	ST	10000.00	CARE A1+	1)CARE A1+ (06-Jul-21)	1)CARE A1+ (01-Oct-20)	1)CARE A1+ (21-Feb-20) 2)CARE A1+ (11-Nov-19) 3)CARE A1+ (03-Oct-19)	1)CARE A1+ (28-Mar-19)
15	Borrowings-Market Borrowing Programme	LT	98000.00	CARE AAA; Stable	1)CARE AAA; Stable (06-Jul-21)	1)CARE AAA; Stable (07-Jan-21) 2)CARE AAA; Stable (27-Nov-20)	1)CARE AAA; Stable (23-Mar-20)	-

						3)CARE AAA; Stable (01-Oct-20)		
16	Short Term Instruments-Short Term Borrowing	ST	-	-	-	1)Withdrawn (27-Nov-20) 2)CARE A1+ (01-Oct-20)	1)CARE A1+ (23-Mar-20)	-
17	Commercial Paper-Commercial Paper (Standalone)	ST	15000.00	CARE A1+	1)CARE A1+ (06-Jul-21)	1)CARE A1+ (07-Jan-21) 2)CARE A1+ (27-Nov-20) 3)CARE A1+ (01-Oct-20)	1)CARE A1+ (23-Mar-20)	-
18	Short Term Instruments-Short Term Borrowing	ST	5000.00	CARE A1+	1)CARE A1+ (06-Jul-21)	1)CARE A1+ (07-Jan-21)	-	-
19	Commercial Paper-Commercial Paper (Standalone)	ST	15000.00	CARE A1+	1)CARE A1+ (06-Jul-21)	1)CARE A1+ (30-Mar-21)	-	-
20	Short Term Instruments-Short Term Borrowing	ST	5000.00	CARE A1+	1)CARE A1+ (06-Jul-21)	1)CARE A1+ (30-Mar-21)	-	-
21	Borrowings-Market Borrowing Programme	LT	80000.00	CARE AAA; Stable	1)CARE AAA; Stable (06-Jul-21)	1)CARE AAA; Stable (30-Mar-21)	-	-
22	Borrowings-Market Borrowing Programme	LT	62000.00	CARE AAA; Stable				
23	Short Term Instruments-Short Term Borrowing	ST	5000.00	CARE A1+				
24	Commercial Paper-Commercial Paper (Standalone)	ST	15000.00	CARE A1+				

*Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- Not Applicable

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

Sr. No	Name of instrument	Complexity level
1	Borrowings-Market Borrowing Programme	Simple
2	Commercial Paper-Commercial Paper (Standalone)	Simple
3	Short Term Instruments-Short Term Borrowing	Simple

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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.

Annexure 5: Bank Lender Details for this Company

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

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About CARE Ratings Limited:

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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