

## Power Finance Corporation Limited

February 21, 2020

### Ratings

Instruments	Amount (Rs. Cr)	Rating <sup>1</sup>	Rating Action
Long term market borrowing programme for FY20	88,000 (enhanced from Rs.69,000 cr)	<b>CARE AAA; Stable (Triple A; Outlook: Stable)</b>	<b>Reaffirmed</b>
Short term market borrowing programme for FY20	2,000	<b>CARE A1+ (A One Plus)</b>	<b>Reaffirmed</b>
Commercial Paper issue for FY20	10,000	<b>CARE A1+ (A One Plus)</b>	<b>Reaffirmed</b>

Details of instruments in Annexure-1

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the market borrowing programme of Power Finance Corporation Limited (PFC) factor in the majority ownership (55.99% stake as on Dec 31, 2019) by the Government of India (GoI) and PFC's strategic importance to GoI, in the development of power infrastructure in India. The rating also draws comfort from PFC's quasi sovereign status that allows it to have a diversified resource profile, adequate profitability and capitalization metrics. However the rating also factors in the risk associated with weakness in PFC's asset quality by way of exposure to private sector, high exposure to weak state power utilities and high sector as well as borrower concentration risks.

With respect to the acquisition of Government of India's (GoI) existing 52.63% equity shareholding in REC Limited by PFC, the acquisition transaction was completed on March 28, 2019 with PFC making a payment of Rs.14,500 crore to GoI. Post the transaction, REC becomes a subsidiary of PFC. PFC is expected to maintain comfortable capital structure and financial profile backed by expectation of continued strong support from GoI;

### Rating Sensitivities

Going forward, any material change in the shareholding pattern leading to reduced support from GoI is a key rating sensitive. On a standalone basis; PFC's ability to manage adequate capitalization, asset quality, maintain adequate liquidity, and profitability would be the factors to be considered

### Negative factors

- Any material change in the shareholding pattern and/or reduced expectation of support from GoI
- Further deterioration in the asset quality profile
- Weakness in the capitalization 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 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's schemes such as 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 R-APDRP scheme (subsumed into Integrated Power Development Scheme (IPDS)) that is aimed at strengthening and up-gradation of sub transmission and distribution network. Additionally the Ministry of Power (MoP) has initiated tariff-based competitive bidding process for development and strengthening of transmission system through private sector participation. PFC Consulting Limited (PFCL), a wholly owned subsidiary of PFC, has been nominated as 'Bid Process Coordinator' by Ministry of Power, Govt. of India for the development of independent transmission projects.

##### Diversified resource profile

As a quasi-sovereign financial institution, PFC is able to manage a well-diversified resource profile and can mobilize funds at cost effective rates from various sources such as external commercial borrowings (ECB), domestic financial institutions, long-

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

term bonds, bank loans, commercial paper, infrastructure bonds and tax free bonds. Since it's a non-deposit accepting NBFC, it has accepted no public deposits and no perpetual debt instruments were issued by PFC in fiscal 2019. End fiscal 2019; PFC's borrowings stood at Rs 275,692 crore, up 20% Y-o-Y. The resource profile remained well diversified with 65% of funds emanating from bonds, followed by loans from banks forming another 17% and foreign currency borrowings at 10%. The share of commercial paper remains low at just 3% of total borrowings.

As a quasi-financial institution, PFC has been able to control its borrowings costs. For the quarter ending Dec 31, 2019, the company's average borrowing costs (annualized) stood at 7.8%. Overall the share of foreign currency bonds has been gradually rising and formed 10% of total borrowings end fiscal 2019 as against 8% an year ago and 4% two years ago. End December 2019, the share of foreign borrowings stood at 14%. To mitigate foreign exchange risks, PFC has hedged 67% of the foreign currency portfolio with residual maturity up-to five years. In 9M ended December 2019, the company raised Rs 63,790 crore of funds, of which 75% were domestic raised and remaining 25% were foreign borrowings. In Q3, PFC raised USD 250 million for five year tenure.

#### **Adequate capitalization**

As on Dec 31, 2019, PFC's Tier 1 and total CAR remained adequate at 14.37% and 19.32% respectively, up from 11.73% and 17.09% respectively reported as on March 31, 2019, though down from 16.98% and 19.9% respectively reported end fiscal 2018. On account of Ind AS adoption from Q1, FY19, PFC's net worth declined by around Rs.3,000 crore (primarily on account of expected credit loss or ECL adjustment) and as a result PFC's overall Tier-1 and CAR capital reduced in fiscal 2019 though remains well above the regulatory minimum requirement of 10% and 15% respectively. End December 2019, the company's Tier 1 and total CAR stood at 14.37% and 19.32% respectively.

#### **Stable profitability metrics**

End fiscal 2019, PFC reported net profit of Rs 6,953 crore on total income (net of interest expenses) of Rs 9,459 crore as against net profit of Rs 4,387 crore on total income (net of interest expenses) of Rs 8,606 crore an year ago. While there was some margin contraction with net interest margin at 3.07% end fiscal 2019 as against 3.19% for fiscal 2018, the overall profitability was supported by provision reversals.

#### **Key Rating Weakness**

##### **Growth in credit portfolio with moderation in asset quality**

End fiscal 2019, PFC's loan book stood at Rs 314,667 crore, up 18.3% Y-o-Y that further increased to 3,32,962 crore as on Dec 31, 2019. The growth in government sector loans (83% of loans outstanding as on March 31, 2019) remained high with such loans up 14% Y-o-Y, while the private sector loans grew by 5% during the year. In the last couple of years, the share of government sector exposure has constituted majority of PFC's loan portfolio and hovering at around 83% while the share of private sector loans has remained around 17-18%.

PFC is exempted from following single entity/group exposure norms and concentration limits that are applicable to non-banking finance companies. Subsequently PFC faces high concentration risk with advances to top 20 borrowers constitution 60% of total loans outstanding as on March 31, 2019 as against 58% as on March 31, 2018 and 62.5% end fiscal 2017. Overall, in the last four years till March 31, 2019, the loan book has grown at a four year CAGR of 10%, of which the generation loans grew at a four year CAGR of 7%, while the transmission loans were up 17% (mainly due to lower base). The share of loans towards generation continues to form largest chunk though its share has come down to 71% end March 31, 2019, as against 76% two years ago. End December 31, 2019, PFC's gross loan book stood at Rs 332,692 crore, up 12% Y-o-Y or 2% Q-o-Q. The trend in composition of loan book remains broadly same with government sector contributing to 83% of loans while the share of private sector loans remains unchanged at 17%. For the nine months ending December 31, 2019, the total disbursements stood at Rs 47,246 crore, up 4.6% Y-o-Y, of which ~57% are towards generation, ~33% in distribution and ~10% in transmission.

PFC's reported asset quality metrics continue to be weak with gross non-performing assets (GNPA) and NNPA at 9.39% and 4.55% as on March-19 as against 9.57% and 7.39% reported an year ago. With the reduction in net NPA, PFC's provision coverage ratio (CARE adjusted) have improved to 49% as on March 31, 2019 as against 23% a year ago. Of the total loans, 82% are government sector loans where the servicing of loans is regular and there is no stress. Of the private sector exposure constituting the remaining 18% (as on March 31, 2019), about half of the loans are stressed. So the weakness in loans remains confined to PFC's private sector loan portfolio. Also, the company's book is majorly secured (63%) by either tangible assets or guaranteed by banks/government. The share of guaranteed portfolio has doubled during the year, while the remaining fifth of loans remain unsecured. End Dec 2019, the reported GNPA and NNPA stood at 8.3% and 3.9% respectively and reported a CARE adjusted provision coverage ratio of 53%.

### Liquidity: Adequate

As on September 30, 2019, there are negative cumulative mismatches of Rs.15,655 crore in upto 1 year bucket. However, PFC's ability to effectively raise funds in a cost effective manner and financial flexibility arising out of majority sovereign ownership provides comfort to the liquidity profile. PFC had unutilized bank lines to the tune of Rs.5,270 crore as on January 20, 2020. Also, PFC's ability to mobilize resources from diversified sources and financial flexibility arising from GoI ownership provides cushion to the liquidity profile.

**Analytical approach:** Standalone, factoring in timely equity support from Government of India given PFC is majority owned by GoI and plays strategic role in power sector financing and development in India

### 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](#)

[CARE's methodology for Short-term Instruments](#)

[CARE's Methodology for Factoring Linkages in Ratings](#)

### About the company

PFC was set up in the year 1986 as a Financial Institution (FI) 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 the year 2010, RBI had classified the company as 'Infrastructure Finance Company (NBFC-ND-IFC)'. The product portfolio of PFC includes financial products and services like rupee term loan, short-term loan, equipment lease financing and transitional financing services, etc, for various power projects in 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)	FY18 (A)	FY19 (A)
Total operating income	25,980	28,851
PAT	4,387	6,953
Interest coverage (times)	1.34	1.52
Total Assets	2,75,360	3,40,794
Net NPA (%)	7.93	4.79%
ROTA (%)	1.63%	2.26%

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

## Annexure-1: Details of Instruments/Facilities

Instrument	ISIN NO.	Coupon Rate	Issue Date	Principal Redemption Date	Principal Amount (Rs. crore)	Rating assigned along with Rating Outlook
186	INE134E08KA5	8.7900%	30-Apr-19	29-Apr-34	2,578.90	CARE AAA; Stable
187(A)	INE134E08KB3	8.20%	27-May-19	27-May-22	1,605.00	CARE AAA; Stable
187(B)	INE134E08KC1	8.85%	27-May-19	25-May-29	1,982.10	CARE AAA; Stable
188	INE134E08KD9	8.10%	04-Jun-19	04-Jun-24	691.10	CARE AAA; Stable
189	INE134E08KE7	8.15%	08-Aug-19	08-Aug-34	4,035.00	CARE AAA; Stable
190	INE134E08KF4	8.25%	06-Sep-19	06-Sep-34	4,016.00	CARE AAA; Stable
191	INE134E08KG2	7.35%	15-Oct-19	15-Oct-22	3,735.00	CARE AAA; Stable
192	INE134E08KH0	7.42%	19-Nov-19	19-Nov-24	3,000.00	CARE AAA; Stable
193	INE134E08KI8	7.93%	31-Dec-19	31-Dec-29	4,710.50	CARE AAA; Stable
PFC Capital Gain Bonds Series III	INE134E07810	5.75%	30-04-2019	30-04-2024	48.91	CARE AAA; Stable
PFC Capital Gain Bonds Series III	INE134E07828	5.75%	31-05-2019	31-05-2024	72.72	CARE AAA; Stable
PFC Capital Gain Bonds Series III	INE134E07836	5.75%	30-06-2019	30-06-2024	81.73	CARE AAA; Stable
PFC Capital Gain Bonds Series III	INE134E07844	5.75%	31-07-2019	31-07-2024	117.29	CARE AAA; Stable
PFC Capital Gain Bonds Series III	INE134E07851	5.75%	31-08-2019	31-08-2024	105.73	CARE AAA; Stable
PFC Capital Gain Bonds Series III	INE134E07869	5.75%	30-09-2019	30-09-2024	102.03	CARE AAA; Stable
PFC Capital Gain Bonds Series III	INE134E07877	5.75%	31-10-2019	31-10-2024	92.09	CARE AAA; Stable
PFC Capital Gain Bonds Series III	INE134E07885	5.75%	30-11-2019	30-11-2024	89.96	CARE AAA; Stable
PFC Capital Gain Bonds Series III	INE134E07893	5.75%	31-12-2019	31-12-2024	93.08	CARE AAA; Stable
Commercial Paper issue FY20					10,000.00	CARE A1+
Proposed/ Utilised					62,842.87	CARE AAA; Stable

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Borrowings-Market Borrowing Programme	LT	11219.50	CARE AAA; Stable	1)CARE AAA; Stable (03-Oct-19)	1)CARE AAA; Stable (13-Dec-18) 2)CARE AAA; Stable (26-Sep-18)	1)CARE AAA; Stable (06-Oct-17)	1)CARE AAA; Stable (13-Dec-16) 2)CARE AAA (07-Oct-16)
2.	Borrowings-Market Borrowing Programme	LT	8674.00	CARE AAA; Stable	1)CARE AAA; Stable (03-Oct-19)	1)CARE AAA; Stable (13-Dec-18) 2)CARE AAA; Stable (26-Sep-18)	1)CARE AAA; Stable (06-Oct-17)	1)CARE AAA; Stable (13-Dec-16) 2)CARE AAA (07-Oct-16)
3.	Debt-Subordinate Debt	LT	3800.00	CARE AAA; Stable	1)CARE AAA; Stable (03-Oct-19)	1)CARE AAA; Stable (13-Dec-18) 2)CARE AAA; Stable (26-Sep-18)	1)CARE AAA; Stable (06-Oct-17)	1)CARE AAA; Stable (13-Dec-16) 2)CARE AAA (07-Oct-16)
4.	Borrowings-Market Borrowing Programme	LT	34434.00	CARE AAA; Stable	1)CARE AAA; Stable (03-Oct-19)	1)CARE AAA; Stable (13-Dec-18) 2)CARE AAA; Stable (26-Sep-18)	1)CARE AAA; Stable (06-Oct-17)	1)CARE AAA; Stable (13-Dec-16) 2)CARE AAA (07-Oct-16)
5.	Borrowings-Market Borrowing Programme	LT	13880.00	CARE AAA; Stable	1)CARE AAA; Stable (03-Oct-19)	1)CARE AAA; Stable (13-Dec-18) 2)CARE AAA; Stable (26-Sep-18)	1)CARE AAA; Stable (06-Oct-17)	1)CARE AAA; Stable (13-Dec-16) 2)CARE AAA (07-Oct-16) 3)CARE AAA / CARE A1+ (14-Apr-16)
6.	Borrowings-Market Borrowing Programme	LT	41115.00	CARE AAA; Stable	1)CARE AAA; Stable (03-Oct-19)	1)CARE AAA; Stable (13-Dec-18) 2)CARE AAA; Stable (26-Sep-18)	1)CARE AAA; Stable (06-Oct-17)	1)CARE AAA; Stable (17-Mar-17) 2)CARE AAA; Stable (13-Dec-16) 3)CARE AAA (17-Nov-16) 4)CARE AAA (07-Oct-16) 5)CARE AAA (09-Jun-16) 6)CARE AAA (24-May-16)

								7)CARE AAA (14-Apr-16)
7.	Short Term Instruments- Short Term Borrowing	ST	0.00	CARE A1+	-	-	1)CARE A1+ (06-Oct-17)	1)CARE A1+ (17-Mar-17) 2)CARE A1+ (13-Dec-16) 3)CARE A1+ (17-Nov-16) 4)CARE A1+ (07-Oct-16) 5)CARE A1+ (09-Jun-16) 6)CARE A1+ (24-May-16) 7)CARE A1+ (14-Apr-16)
8.	Borrowings-Market Borrowing Programme	LT	33118.00	CARE AAA; Stable	1)CARE AAA; Stable (03-Oct-19)	1)CARE AAA; Stable (13-Dec-18) 2)CARE AAA; Stable (26-Sep-18)	1)CARE AAA; Stable (01-Mar-18) 2)CARE AAA; Stable (06-Oct-17) 3)CARE AAA; Stable (20-Sep-17) 4)CARE AAA; Stable (04-Sep-17) 5)CARE AAA; Stable / CARE A1+ (25-Apr-17)	-
9.	Short Term Instruments- Short Term Borrowing	ST	1925.00	CARE A1+	1)CARE A1+ (03-Oct-19)	1)CARE A1+ (13-Dec-18) 2)CARE A1+ (26-Sep-18)	1)CARE A1+ (06-Oct-17) 2)CARE A1+ (20-Sep-17) 3)CARE A1+ (04-Sep-17) 4) (25-Apr-17)	-
10.	Borrowings-Market Borrowing Programme	LT	80000.00	CARE AAA; Stable	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)		
11.	Short Term Instruments- Short Term Borrowing	ST	4000.00	CARE A1+	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)	-	-
12.	Commercial Paper	ST	13000.00	CARE A1+	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)	-	-
13.	Borrowings-Market Borrowing Programme	LT	88000.00	CARE AAA; Stable	1)CARE AAA; Stable (11-Nov-19) 2)CARE AAA; Stable (03-Oct-19)	1)CARE AAA; Stable (28-Mar-19)	-	-
14.	Short Term Instruments- Short Term Borrowing	ST	2000.00	CARE A1+	1)CARE A1+ (11-Nov-19) 2)CARE A1+ (03-Oct-19)	1)CARE A1+ (28-Mar-19)	-	-
15.	Commercial Paper	ST	10000.00	CARE A1+	1)CARE A1+ (11-Nov-19) 2)CARE A1+ (03-Oct-19)	1)CARE A1+ (28-Mar-19)	-	-

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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