Power Finance Corporation Limited (Revised)

November 27, 2020

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Market Borrowing Programme FY21	81,880.00* (Enhanced from 70,000.00)	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Total Long Term Instruments	**81,880.00 (Rs. Eighty-One Thousand Eight Hundred Eighty Crore Only)**		
Commercial Paper issue FY21	8,120.00 (Reduced from 15,000.00)	CARE A1+ (A One Plus)	Reaffirmed
Short Term Market Borrowing Programme FY21	- (reduced from 5,000.00)	-	Withdrawn@
Total Short Term Instruments	**8,120.00 (Rs. Eight Thousand One Hundred Twenty Crore Only)**		

Details of instruments in Annexure-1

**The Long Term Market Borrowing Program FY21 includes public issue of taxable non-convertible debentures aggregating upto Rs.10,000 crore*

@CARE has withdrawn the rating assigned to the Short Term Market Borrowing Program FY21 of Power Finance Corporation Limited with immediate effect as per company's request as it has not mobilised any funds against the assigned rating and there is no amount outstanding against this instrument

Detailed Rationale & Key Rating Drivers

The ratings assigned to the market borrowing programmes of Power Finance Corporation Limited (PFC) factor in the majority ownership (55.99% stake as on September 30, 2020) 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 ratings also factor 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 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: Factors that could lead to negative rating action/downgrade:

- 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 (PFCCL), 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-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 2020. End fiscal 2020, the total outstanding borrowings of PFC stood at Rs 303,452 crore, (+10.1% Y-o-Y). The resource profile remained well diversified with 61% of funds emanating from domestic bonds, followed by loans from banks forming another 19% and foreign currency borrowings at 16%. As on March 31, 2020, the share of commercial paper remained nil as against 4% previous fiscal. To mitigate foreign exchange risks, PFC has hedged 66% of the foreign currency portfolio with residual maturity up-to five years. Owing to its policy role and government ownership, PFC has been able to control its borrowings costs. For the year ending March 31, 2020, the company's weighted average cost of borrowing stood at 7.79%., marginally down from 7.95% a year ago. End September 2020, the borrowings stood at Rs 3,24,054 crore (+3.6% Q-o-Q or +14.8% Y-o-Y), of which domestic borrowing constituted 86% of total funding profile while the remaining 14% is from foreign currency sources. In March 2020, RBI permitted all lending institutions to allow a moratorium of three months on payment of installments in respect of all term loans outstanding as on March 1, 2020 (further extended till August 31, 2020). In that respect, PFC has not availed any moratorium from any of its lenders.

Adequate capitalization

As on March 31, 2020, the company's Tier 1 and total CAR stood at 12.45% and 16.96% respectively, from 11.73% and 17.09% respectively an year ago. End September 30, 2020, PFC's total CAR improved to 18.18%. 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.

Stable profitability metrics

For the year ended March 31, 2020, PFC's net profit declined by 18.7% Y-o-Y to Rs 5,655 crore on total income (net of interest expenses) of Rs 11,507 crore, up 17.8% Y-o-Y. Inspite of increase in topline, the company's bottom-line came down due to sharp rise in translation loss amid rupee depreciation and also due to almost three fold rise in provisioning costs. Overall, the company reported 6.9% Y-o-Y rise in net interest income to Rs 10,097 crore on the back of loan growth though partially offset by margin contraction. The company's PPoP grew by a modest 2.7% Y-o-Y however owing to provisions rising to Rs 991 crore (as against Rs 871 crore reversals an year ago), the company's profit before tax came down by 16.5% Y-o-Y to Rs 8193 crore. Although PFC had exercised the option under section115BAA of the Income Tax Act, 1961 to pay corporate tax at a reduced rate. Consequently, PAT for FY20 is suppressed due to re-measurement of deferred tax assets at reduced rates.

For the quarter ended Sept 30, 2020, PFC reported PAT of Rs. 2,085.1 crore (+80.6% Y-o-Y or +22.7% Q-o-Q) on total income (net of interest expenses) of Rs. 3,399.3 crore (+31.7% Y-o-Y) on the back of improvement in loan yields and strong 14% Y-o-Y loan growth. The strong results were supported by translation gain of Rs.428 crore as against losses of Rs.561 crore for the corresponding quarter last year and loss of Rs. 233 cr last quarter. High provisioning costs in Q2 FY21 at Rs.953 cr as against Rs. 353 cr in Q1 FY21 led to increase in total expenses. The provision expenses rose by 144% Y-o-Y or 39% Q-o-Q leading to company's pre-provision operating profit at Rs. 3,449 crore (63% Y-o-Y). .

Key Rating Weakness

Growth in credit portfolio though asset quality risks prevail

End fiscal 2020, PFC's standalone gross loan book stood at Rs 344,905 crore, up 10% Y-o-Y or 4% 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%. The government sector loans grew by 10% Y-o-Y, slightly decelerated pace of growth compared to last year while the private sector grew by 7% Y-o-Y as against 5% Y-o-Y growth reported last 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%. The breakup of gross loans by segment shows that generation loans (conventional), constituted 58% of portfolio, transmission and distribution formed another 30% and renewable at 11% . Of the total loan book end FY 20, about 21% of loans are bank/government guaranteed, up from 19% a year ago. The share of unsecured loans stood at 17% end FY 2020 however majority of such book remains exposed to government sector. End Q2 FY 2020, the gross loan book further increased to Rs. 3,71,158 crore, up 14% Y-o-Y or 5% Q-o-Q, of which government loans constituted 84% while the remaining 16% were towards private sector. In June 2020, GoI, as a part of its Covid-19 relief package, had announced liquidity injection of Rs 90,000 crore to the State discoms in the form of State Government guaranteed loans through REC and PFC to clear the outstanding dues of Power Generation and Transmission Companies. PFC has already sanctioned amounts of more than Rs 59,067 crores till Oct 31, 2020 as part of this liquidity package to discoms.

PFC is exempted from following single entity/group exposure norms and concentration limits for state sector entities that are applicable to non-banking finance companies. Subsequently PFC faces high concentration risk with advances to top 10 borrowers (pertaining to state sector) constituting about 39% of total gross loans outstanding or 299% of networth end FY 20. PFC's reported asset quality metrics, though remaining weak, has been on a mending trend with GNPA at 8.08% end fiscal 2020 as against 9.32% end fiscal 2019 and 10.04% end fiscal 2018. While provision coverage remained broadly unchanged, the net NPA stood at 3.57% as on March 31, 2020 as against 4.2% a year ago. During the year, the company resolved two projects namely RattanIndia Amrawati and GMR Chattisgarh aggregating to approximately Rs 2700 crore. As a result, the absolute amount of GNPA declined by 5.6% Y-o-Y to Rs 27871 crore. The CARE adjusted provision coverage ratio remained almost unchanged from last year at 47% (48.5% end fiscal 2019). The weakness in loans remains confined to PFC's private sector loans only. The total GNPA stood at Rs 27,781 crore, emanating entirely from private sector. On the other hand, all the government loans (84% of loans) are regular in servicing.

End Sep 2020, the gross and net NPA was down 10% Y-o-Y and 16% Y-o-Y respectively. Post COVID lockdown, PFC has successfully resolved and upgraded 2 stressed assets i.e. Essar Power Transmission loan of Rs. 438 cr. and Suzlon Energy loan of Rs. 915 cr. Sufficient provisioning was available against these projects. Owing to resolution, coupled with steady loan growth thereby leading to denominator effect led to company GNPA% and NNPA % coming down to 7.15% and 3.12% respectively from 9.05% and 4.28% respectively an year ago. The CARE adjusted provision coverage ratio stood at 56%. On consolidated basis (incl REC), the GNPA and NNPA stood at 6.21% and 2.60% respectively as on Sept 30, 2020.

Liquidity: Adequate

As per ALM on September 30, 2020, there are no cumulative mismatches upto 5 years. 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 of approx. Rs.4660 cr as on Sep 30, 2020.

Covid-19 impact

In line with RBI's notification, PFC and its subsidiary REC have put in place a board approved policy framework according to which the borrowers can avail maximum of three month moratorium on the payment of interest and or principal on term loans falling due between 1st March and 31st May 2020 that was extended to further 31st Aug, 2020. In pursuance of the moratorium policy, an amount of Rs 11,497 crores falling due till 30th June 2020 (including the amount pertaining to the first moratorium period) has been deferred. For all such accounts where the moratorium has been granted, the moratorium period has been excluded from the number of days past-due for asset classification. Additionally in June 2020, GoI, as a part of its Covid-19 relief package, had announced liquidity injection of Rs 90,000 crore to the State discoms in the form of State Government guaranteed loans through REC and PFC to clear the outstanding dues of Power Generation and Transmission Companies. PFC has already sanctioned amounts of more than Rs 59,067 crores till 31st Oct 2020 as part of this liquidity package to discoms.

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
Criteria for Short Term Instruments
CARE Methodology for Non-Banking Financial Companies
Financial Sector –Financial Ratios
Rating Methodology: Notching by factoring linkages with Government
Policy on Withdrawal of 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)	FY 19 (A)	FY 20 (A)
Total operating income	28,851	33,248
PAT	6,953	5,655
Total Assets	3,40,794	3,61,787
Net NPA (%)	4.55%	3.80%
ROTA (%)	2.26%	1.60%

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

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Long Term Market Borrowing Programme FY21	-	-	-	81880.00	CARE AAA; Stable
Short Term Market Borrowing Programme FY21	-	-	-	0.00	Withdrawn
Commercial Paper issue FY21	-	-	-	8120.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Borrowings-Market Borrowing Programme	LT	11219.50	CARE AAA; Stable	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)	1)CARE AAA; Stable (06-Oct-17)
2.	Borrowings-Market Borrowing Programme	LT	8674.00	CARE AAA; Stable	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)	1)CARE AAA; Stable (06-Oct-17)
3.	Debt-Subordinate Debt	LT	3800.00	CARE AAA;	1)CARE AAA; Stable	1)CARE AAA; Stable	1)CARE AAA; Stable	1)CARE AAA; Stable

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
				Stable	(01-Oct-20)	(03-Oct-19)	(13-Dec-18) 2)CARE AAA; Stable (26-Sep-18)	(06-Oct-17)
4.	Borrowings-Market Borrowing Programme	LT	34434.00	CARE AAA; Stable	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)	1)CARE AAA; Stable (06-Oct-17)
5.	Borrowings-Market Borrowing Programme	LT	13880.00	CARE AAA; Stable	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)	1)CARE AAA; Stable (06-Oct-17)
6.	Borrowings-Market Borrowing Programme	LT	41115.00	CARE AAA; Stable	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)	1)CARE AAA; Stable (06-Oct-17)
7.	Short Term Instruments-Short Term Borrowing	-	-	-	-	-	-	1)CARE A1+ (06-Oct-17)
8.	Borrowings-Market Borrowing Programme	LT	33118.00	CARE AAA; Stable	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)	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+ (01-Oct-20)	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)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
								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 (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)	-
11.	Short Term Instruments-Short Term Borrowing	ST	4000.00	CARE A1+	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)	-
12.	Commercial Paper-Commercial Paper (Standalone)	ST	13000.00	CARE A1+	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)	-
13.	Borrowings-Market	LT	88000.00	CARE	1)CARE AAA;	1)CARE AAA;	1)CARE AAA;	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
	Borrowing Programme			AAA; Stable	Stable (01-Oct-20)	Stable (21-Feb-20) 2)CARE AAA; Stable (11-Nov-19) 3)CARE AAA; Stable (03-Oct-19)	Stable (28-Mar-19)	
14.	Short Term Instruments-Short Term Borrowing	ST	2000.00	CARE A1+	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.	Commercial Paper-Commercial Paper (Standalone)	ST	10000.00	CARE A1+	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)	-
16.	Borrowings-Market Borrowing Programme	LT	81880.00	CARE AAA; Stable	1)CARE AAA; Stable (01-Oct-20)	1)CARE AAA; Stable (23-Mar-20)	-	-
17.	Short Term Instruments-Short Term Borrowing	ST	-	-	1)CARE A1+ (01-Oct-20)	1)CARE A1+ (23-Mar-20)	-	-
18.	Commercial Paper-Commercial Paper (Standalone)	ST	8120.00	CARE A1+	1)CARE A1+ (01-Oct-20)	1)CARE A1+ (23-Mar-20)	-	-

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of the 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 has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name: Mr. Gaurav Dixit
Group Head Contact no: 011- 45333235
Group Head Email ID: gaurav.dixit@careratings.com

Relationship Contact
Ms. Swati Agrawal
Contact no.: +91-11-4533 3200
Email ID: swati.agrawal@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**