

Rural Electrification Corporation Limited

December 13, 2018

Update on material event

On December 6, 2018, the Cabinet Committee on Economic Affairs gave its 'In Principle' approval for strategic sale of the Government of India's (GoI) existing 52.63% of total paid up equity shareholding in Rural Electrification Corporation (REC) to Power Finance Corporation (PFC) along with transfer of management control. As per release on PIB, the acquisition intends to achieve integration across the Power Chain, obtain better synergies, create economies of scale and have enhanced capability to support energy access and energy efficiency by improved capability to finance power sector. It may also allow for cheaper fund raising with increase in bargaining power for the combined entity. Subsequent to the transaction, REC will become a subsidiary of PFC. While the transaction is not expected to impact financial profile of REC, but given that majority ownership of REC will transfer from GoI to PFC, REC's credit profile will also have linkages with credit profile of PFC. During H1, FY19, REC reported profit after tax (PAT) of Rs.3,233 crore and its Gross and Net NPAs were 7.92% and 4.28% as on September 30, 2018. REC's CAR and Tier 1 capital was 16.14% and 13.89% respectively as on September 30, 2018.

The transaction will impact capitalization profile of PFC with its CAR and Tier 1 capital expected to drop from current levels. PFC's CAR and Tier 1 capital were 17.91% and 14.91% respectively as on September 30, 2018 as against regulatory minimum requirement of 15% and 10% respectively. The modalities of the transaction along with the purchase consideration to be paid to GoI are yet to be finalized. Furthermore, the transaction will require various approvals including regulatory approvals. PFC management is also assessing the funding & transaction structure and consequent impact on PFC's capitalization ratios. Also, PFC is majority owned by GoI (65.64% as on September 30, 2018) and is expected to maintain comfortable capital structure and financial profile backed by expectation of strong support from GoI given PFC's majority sovereign ownership and its strategic importance in development and providing funding to the power sector. During H1, FY19, PFC reported PAT of Rs.2,728 crore and its Gross and Net NPAs were 9.67% and 4.66% as on September 30, 2018.

Ratings assigned to borrowing programmes of PFC and REC factor in majority sovereign ownership and expectation of continued strong support from GoI given their strategic importance for GoI. CARE will closely monitor the developments in this regard and continue to assess any impact on credit & financial profile of PFC & REC.

The previous press release is available on the following link: [Click here](#)

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CIN - L67190MH1993PLC071691