

Policy on Corporate Loan

1) Nature of Financial Assistance

Term loan/ Guarantee assistance shall be extended either for the purpose of equity infusion in new power project or for acquisition of an existing power project. The power project shall include generation, transmission and distribution projects.

2) Eligible Borrowers

All existing borrowers in the power sector whether Government or Private, including State Governments and Holding/ Investment Companies of State Governments.

3) Eligibility Criteria

- (a) Availability of exposure as per PFC's Prudential Norms.
- (b) The borrower should be a Standard Asset in the books of PFC.
- (c) Necessary Approvals to be in place for the new project(s).
- (d) In case of private entity, eligible borrower as per Integrated Project Rating Model of PFC.

Further, in case of private borrowers, the assistance under the facility shall be provided to only those corporate bodies, which have existing power projects and require funds for equity investment in new/expansion power projects, with strict monitoring of end use of loan.

4) Extent of Funding

The extent of funding shall be determined on the basis of appraisal so as to ensure that the cash flows of the borrower are sufficient to service total debt satisfactorily. To the extent possible, the following shall serve as guiding factors for determining the quantum of funding:

(a) In case of borrower being central / state utility seeking to set up new power project(s) on the existing balance sheet or through a SPV, the extent of funding shall be limited to 50% of Present Value (PV) of uncommitted surplus including Return on Equity (ROE) of the commissioned project(s) calculated for a period which is lower of the proposed loan tenor and remaining useful design life of the commissioned project(s). Only those commissioned projects which have satisfactory operational history of three months would be considered. Further, a D/E of 4:1 or less and average DSCR of 1.15 or more shall be ensured for the borrowing entity at the time of appraisal after taking into account the impact of the additional loan.

(b) In case loan is provided to State Govt./Holding Company/Investment Company with 100% ownership of State Govt. or to a Central/state utility for investment in JV projects, the extent of funding shall be limited to 50% of identifiable free cash flows available to such borrowers for a period acceptable to PFC. The free cash flows could be in the nature of free power revenues, dividend, royalty etc.

The discount rate to be used in (a) and (b) above would be the interest rate applicable to 'Term Loans' for 'A' category of borrowers.

(c) In case of borrower being a Private Sector Entity, the quantum of funding shall be decided on the basis of its track record with the lenders and available surplus of the borrower from commissioned projects having at least three months satisfactory operational history in such a way that the projected minimum DSCR of the Borrower remain above 1.2 and D/E ratio does not breach a ceiling of 3:1 during the loan tenor. The aforesaid minimum DSCR and maximum D/E

requirements shall also be stipulated as financial covenants. Further, a higher D/E of 4:1 may be allowed for projects which are within PFC's policy for eligibility under 4:1 policy for RTL.

Subsequently, Integrated Rating and availability of collateral securities may also be used as inputs for deciding the extent of funding.

(d) Projects should be re-appraised on the basis of current performance and realistic situation.

(e) For all categories of borrowers, the financial assistance under this facility would be limited to 50% of the total equity requirement of the new/acquired project.

(f) In case of acquisition of a power project by a borrower, the valuation aspects of the asset being acquired, would also be considered while deciding the loan amount for the borrower.

(g) Overall Sanction Limit for any borrower shall be Rs.1000 crore.

5) Security

PFC shall provide the financial assistance on the comfort of one or more of the following securities depending on appraisal:

A. Primary Security

- First/Second pari-passu charge on the movable and immovable assets of the commissioned project(s)
- State Govt. Guarantee
- Charge on surplus and unencumbered revenues arising out of free/allocated power
- Charge on dividend distribution account of TRA
- Any other acceptable security

B. Collateral security

- Personal Guarantee/Corporate Guarantee of promoters
- Pledge of shares of the existing i.e. parent company or the new company i.e. SPV created for setting up the power project
- First/Second pari-passu charge on the movable and immovable assets of the project(s) which are under commissioning
- Any other acceptable security

Note: For private projects, total security (Primary and/or Collateral) of atleast 125% of the loan amount shall be maintained. The valuation of security shall be carried out as per the procedure being followed for PFC's term loan.

C. Payment security mechanism (PSM)

PSM would be developed in consultation with the borrower with various options such as escrow cover, quadripartite agreement where borrower's bankers as well as the power purchasers are the parties, assignment of PPA, charge on sale of power etc.

6) Loan Tenor & moratorium

A maximum tenor of 10 years subject to availability of adequate cash flows shall be allowed. The door to door maturity (i.e. moratorium period for principal + repayment period) should be

less than 80% of the remaining useful design life of the commissioned project. The normative design life of different types of projects would be considered as per CERC norms.

Normally, a moratorium period upto maximum of six months from loan closing date for principal repayment shall be allowed. No moratorium for interest payment shall be provided. In case, a particular loan under this facility is sanctioned to a power utility for multiple projects, the loan closing dates and first repayment dates shall be fixed separately for each year-wise tranche of disbursement.

7) Disbursement Procedure

The disbursements would be made based on the equity flow requirements of the power project.

Govt. sector projects

(a) The disbursement could be made through direct payment to suppliers or through reimbursement to borrower.

(b) Funds would be released directly into the TRA wherever such TRA is in place.

(c) In case PFC has disbursed loan against project development, the same could be converted into this loan.

(d) PFC would make year wise disbursement of funds under this facility only after the borrower has spent its yearly commitment of funds as agreed at the time of documentation.

Private sector projects

(a) The disbursement of funds shall be routed through TRA. The timing of disbursement shall be decided depending on assessment and requirement on case to case basis.

(b) The occurrence of financial closure of the new project shall be a pre-disbursement condition for extending financial assistance under this facility. If there are number of new projects, disbursement for each shall be linked to its financial closure.

(c) The utilization of the funds shall also be monitored by seeking reports from Lenders' Engineer and Lenders' Financial Advisor of the new project.

8) Interest Rate

The interest rate on this loan would be linked to the interest rate applicable for 'Term loans' for the category/grade of borrower in question depending on appraisal, security offered, financial covenants agreed by the borrower etc.

9) Standard terms & conditions

All the standard terms & conditions and charges/fee of rupee term loan other than those mentioned above shall be applicable mutatis-mutandis for this scheme.