

RBI ACCORDS 'INFRASTRUCTURE FINANCE COMPANY' STATUS TO PFC

Reserve Bank of India (RBI) earlier classified Non banking Financial Companies (NBFCs) under 3 categories, namely, Asset Finance Companies (AFC), Loan Companies (LC) and Investment Companies (IC). RBI recently introduced a fourth category of NBFCs as "Infrastructure Finance Companies" (IFC). RBI has extended some benefits in lending/borrowing exposure, risk weight, raising ECB to a NBFC classified as an IFC. In addition to this, NBFC-IFCs can also apply for issuance of infrastructure bonds.

PFC is a systemically important non-deposit accepting/holding NBFC and is currently classified as Loan Company (LC). PFC had requested RBI for categorizing it as IFC. Following this request, RBI has communicated that PFC has been classified as an 'Infrastructure Finance Company' (IFC) with effect from 28 July, 2010.

PFC can now take an additional lending exposure up to 5% of its owned funds in case of a single borrower as well as group of borrowers in the private sector. Banks are one of the major providers of funds to PFC. Exposure of Banks can now be 20% of its capital funds (instead of 15% earlier) including the additional 5% exposure allowed for lending to infrastructure sector. Further, as IFC, risk weight of banks' finance to PFC shall now be 20% vis-à-vis extant risk weight of 100% earlier. Lower risk weight will help PFC in securing competitive interest rates from banks. Moreover, PFC can also apply for issuance of infrastructure bonds.