Power Finance Corporation Ltd.

Performance Review – Quarter/Financial Year Ended 31st March 2022

PFC announced its financial result for the quarter/financial year ended 31st March 2022 on 25th May 2022. The performance highlights for Q4'22 and FY'22 are detailed under.

A. Financial Performance

1) Consolidated Financial Performance

- 19% increase in Consolidated Profit After Tax from FY'21 - PAT at Rs. 18,768 cr. for FY'22.vs.Rs.15,716 cr. for FY'21
- 15% increase in Net Interest Income from FY'21 – Net Interest Income at Rs. 30,178 cr. for FY'22 vs.Rs.26,162 cr. for FY'21
- 31 bps reduction in consolidated net NPA ratio from 1.91% in FY 21 to 1.60% in FY'22 due to resolution of stressed assets.
- Reduction in consolidated Gross NPA ratio to 5.02% in FY 22 from 5.29% in FY'21 due to resolution of stressed assets.
- PFC Group has the largest consolidated balance sheet among all CPSEs – Balance sheet size of Rs.7,91,000 cr. as on 31.03.2022

2) Standalone Financial Performance

- PFC registered the highest ever annual profit of Rs. 10,022 cr., a jump of 19% from FY'21-PAT at Rs. 10,022 cr. for FY'22.vs.Rs.8,444 cr. for FY'21.
- Final Dividend of Rs.1.25 per share proposed by Board, taking cumulative dividend this financial year to Rs.12 per share
- PFC maintains CRAR at healthy levels. CRAR as on 31.03.2022 is at 23.48%. Further, even after dividend payment, PFC CRAR will continue to be at a comfortable levels going forward.

- **Key Financial Indicators**
  - Yield on Earning Assets for both Q4'22 & FY'22 saw a reduction of 38 bps and 36 bps respectively viz-a-viz Q4'21/FY 21.

    During FY 22, PFC had reduced interest rate in the range of 75 bps -200 bps to pass on the cost benefit to its borrowers. As the loan portfolio is being re-priced, reduction is seen in the yield. This has led the yield to be on a downward trend during the year and will have consequential impact going forward.

  - The cost for funds for Q4'22 is at 7.05% and for FY'22 is 7.30%, a decrease of 20 bps and 18 bps respectively viz-a-viz Q4'21/FY'21.

    Due to a low interest rate scenario in FY'22, the cost of funds has come down for PFC. However, with the recent rate hike by RBI, the interest rates are on a rising trend, therefore, we envisage PFC's cost of funds to mirror the market scenario.

- With the combined impact of reduction in yield and improvement in cost, the spread and NIM on earning assets for FY ’22 stood at 2.92% and 3.62% respectively. Given PFC’s flexibility in customer pricing, we believe that PFC would be able to manage its spread and NIM in the prevailing rising interest rate environment.

C. Asset Quality

1) Update on NPA Status

- In line with earlier guidance, Rs. 1,569 cr. of stressed assets were resolved during the quarter i.e.
  - Essar Power MP Limited loan of Rs. 1,345 cr. It is a 1200 MW commissioned thermal plant and was resolved under NCLT.
  - RS India Wind Energy loan of Rs.224 cr. It is a 41 MW commissioned plant based on wind energy. Resolution has been achieved through One Time Settlement with the borrower.

  Sufficient provisioning was available on both the loans.

  After including the above two resolutions, a total of 5 stressed assets of Rs. 2,787 cr. were resolved during FY 22 i.e. Essar Power MP (Rs.1,345 cr.), RS India Wind Energy (Rs.224 cr.), GVK Ratle (1,116 cr.), Astonfield Solar (26 cr.) & Krishna Godavari (Rs.76 cr.)

- Through our active resolution efforts, the Net NPA levels are the lowest in 5 years - Net NPA ratio is at 1.76% for FY’22 viz-a-viz 2.09% in FY’ 21.

- The Gross NPA levels has also reduced from 5.70% in FY’21 to 5.61% in FY 22.

2) Update on Resolution Status

- Currently, 23 stressed projects are in Stage III. Out of this 14 projects of Rs.15,338cr. are being resolved through NCLT and the remaining 9 projects of Rs.5,578 cr. are being resolved outside NCLT. A detailed status of major projects under resolution is available in the Investor Presentation for Q4’22/FY’22

- Out of the above 23 projects, 2 projects with outstanding of Rs. 3,027 cr. are in advance stages of resolution under NCLT. In both the cases, bidding process for the project is completed and the resolution plan has been submitted for approval of NCLT.

  The above 2 projects are as under
  - South East UP Power Transmission Company loan of Rs. 2,263 cr. It is transmission project, wherein the phase I of the project is commissioned.
  - Jhabua Power Ltd. loan of Rs. 764cr. It is a 600 MW commissioned thermal project.

  In both the loans, sufficient provisioning has been maintained.

3) Provisioning Status

- The provisioning on Stage III loans is continued to be maintained in the similar range. As on 31.03.2022, the provisioning coverage on Stage III loans is 69%.

D. Power Sector & PFC's Business Outlook

- **Demand Scenario**

  - In FY 22, the power demand stayed impacted due to the effects of the COVID pandemic. Now, with revival of industrial and commercial activities, the demand is rising. Also, with the early onset of summers, the demand has further increased. This can be seen from the following numbers released by Ministry of Power:

    - In FY 22, the energy requirement increased by around 7.8% viz-a-viz FY 21
    - In April 2022, all India power demand met touched 201GW, surpassing the previous levels reached in Jul'21.
    - Further, as per the Ministry of Power data the demand is expected to reach about 215-220 GW in months of May-June.

  - This sudden surge in demand together with challenges in power generation has led to a power crisis in the country. The situation is being closely monitored by the Government and PFC is actively working with them for creating a policy framework to support state and private generation companies in this time of distress.

- **PFC's Business Outlook**

  - In the last 2 years, the economic activity was dampened by pandemic related lockdowns. This slowed down the power demand as well as construction activity, which in turn impacted new CAPEX additions in the power sector. In view of this, a marginal growth was seen in PFC's loan book.

  - The resumption of economic activity and increase in power demand is expected to have a positive impact on the power sector, resulting in new Capex additions in the sector. Therefore, we envisage that PFC's loan growth would gradually improve in sync with the economic growth of India.

E. Borrowing

- As on 31.03.2022, PFC's outstanding borrowing is Rs.3,20,128 cr., out of which 74% are fixed rated liabilities and 26% are floating rating liabilities.

- During the year, PFC capitalized on the low interest rate regime and raised Rs. 35,944 cr. through domestic and international markets for a weighted average maturity of 6.34 years at weighted average marginal cost of 5.27%.

- On foreign currency borrowing front, PFC raised a total of USD eqv. 960 million on a fixed rate basis. As on 31.03.2022, of the total outstanding foreign borrowing portfolio, around 70% of the portfolio is on a fixed rate basis. Such fixed rate portfolio would help insulate PFC's P&L from sudden rate spikes in the international markets.

  Also, to protect PFC's Profit from adverse impact of foreign currency fluctuations, PFC has been actively focusing on hedging its foreign currency borrowings. As on 31.03.2022, around 92% of the portfolio with residual maturity upto 5 year has been hedged for exchange risk and out of this, 100% of USD denominated borrowing has been hedged. Also, nearly 55% of the total foreign currency portfolio has been hedged for exchange risk.

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