

An aerial photograph of a large industrial power plant at sunset. The sky is a mix of orange, yellow, and blue. The plant features several tall, cylindrical cooling towers and a central smokestack emitting a plume of white smoke. The facility is illuminated with warm lights, and a river or lake is visible in the foreground. The overall scene is a mix of industrial and natural elements.

Power Finance Corporation: Credit Profile Overview

May 29, 2019

Key drivers of credit profile (*CRISIL AAA/Stable/CRISIL A1+*)

- **Supporting Factors**

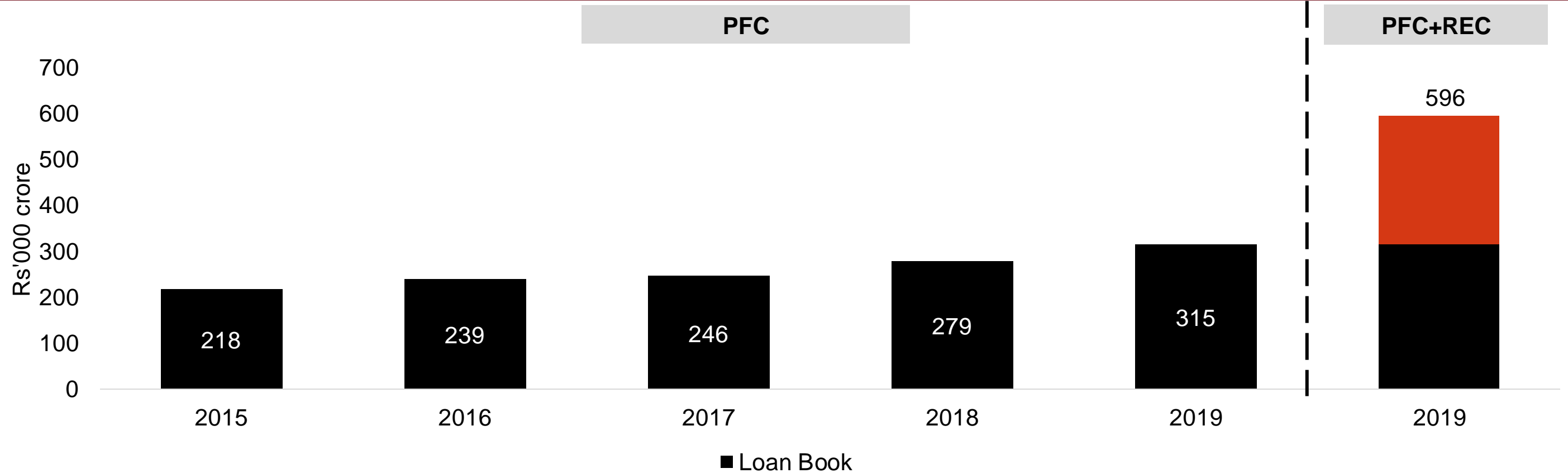
- Dominant market position and role in power financing segment
- Adequate resource profile
- Adequate capitalisation
- Strategic importance to and majority ownership by Government of India

- **Monitorables**

- Inherent vulnerability in asset quality, and sectoral and customer concentration

Dominant market position and role in the power financing segment

Steady growth in loan book



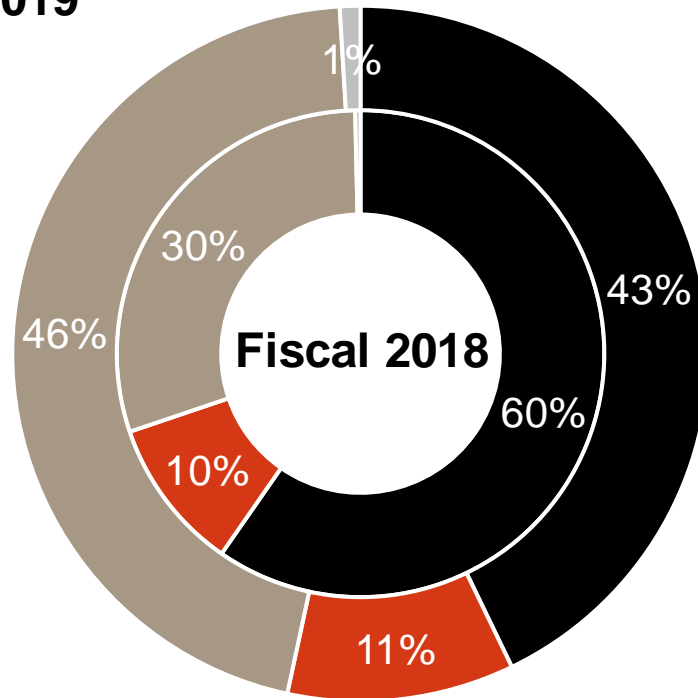
Number in boxes indicate total loan book outstanding
Source: Company reports

- Largest financier in the power space with a market share (including REC Ltd) of around 31%
- Nodal agency and key role for implementing government's policies for the power sector

Incremental disbursements driven by transmission and distribution

Incremental disbursements towards T&D segment

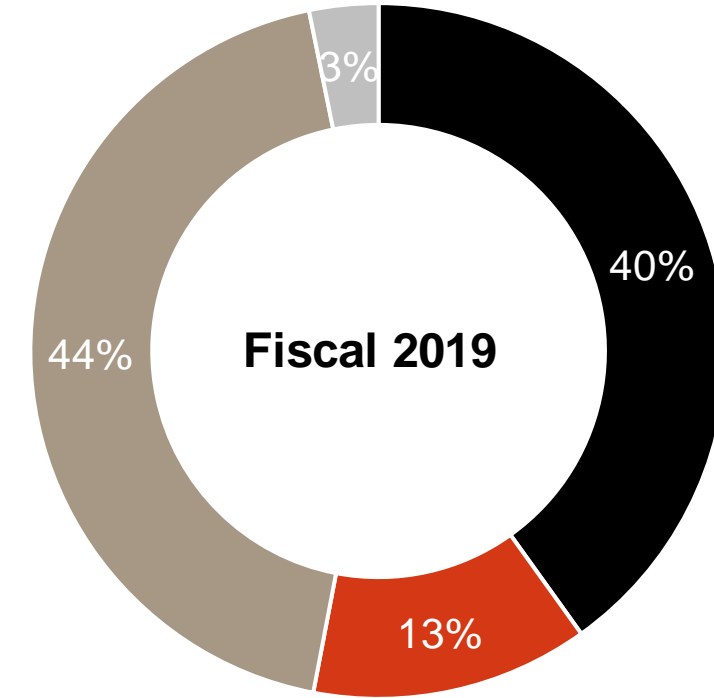
Fiscal 2019



PFC

- Generation
- Transmission
- Distribution
- Others

PFC+REC

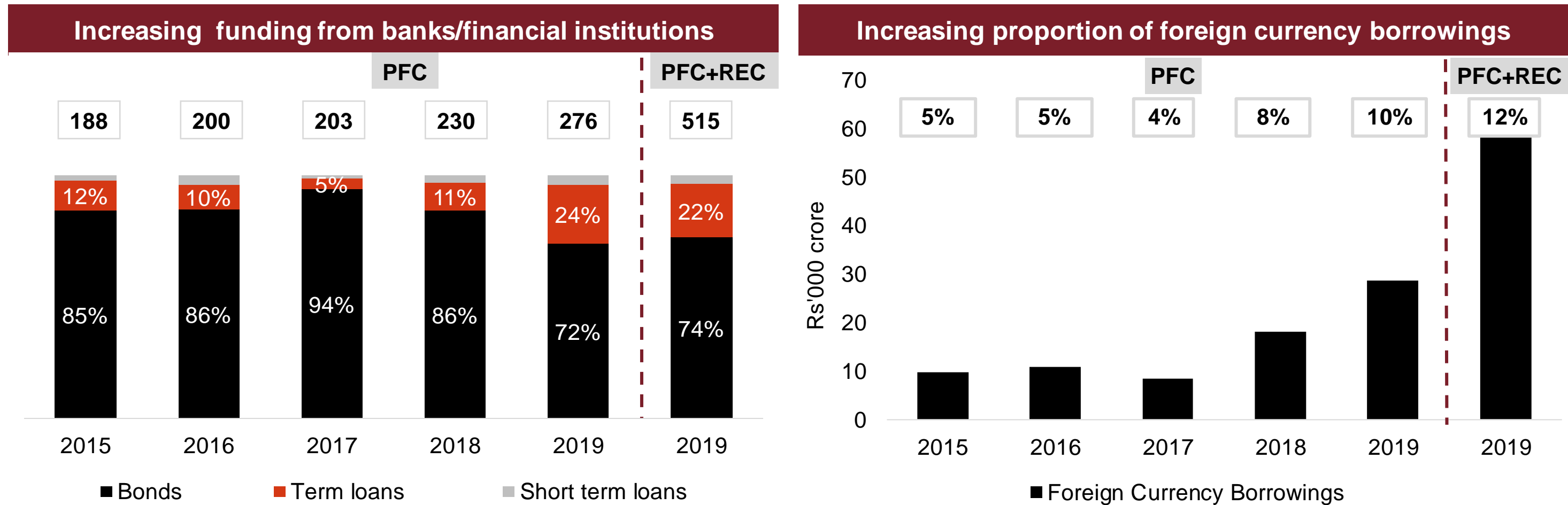


Source: Company reports

- On a consolidated basis (including REC), T&D segment forms about 57% of the incremental disbursements
- Within generation, increased focus towards renewables segment (solar and wind)

Ratings

Adequate resource profile with diversified investor base



Figures in boxes represent total borrowing outstanding for the period ended March 31 in Rs.'000 crore

Source: Company reports

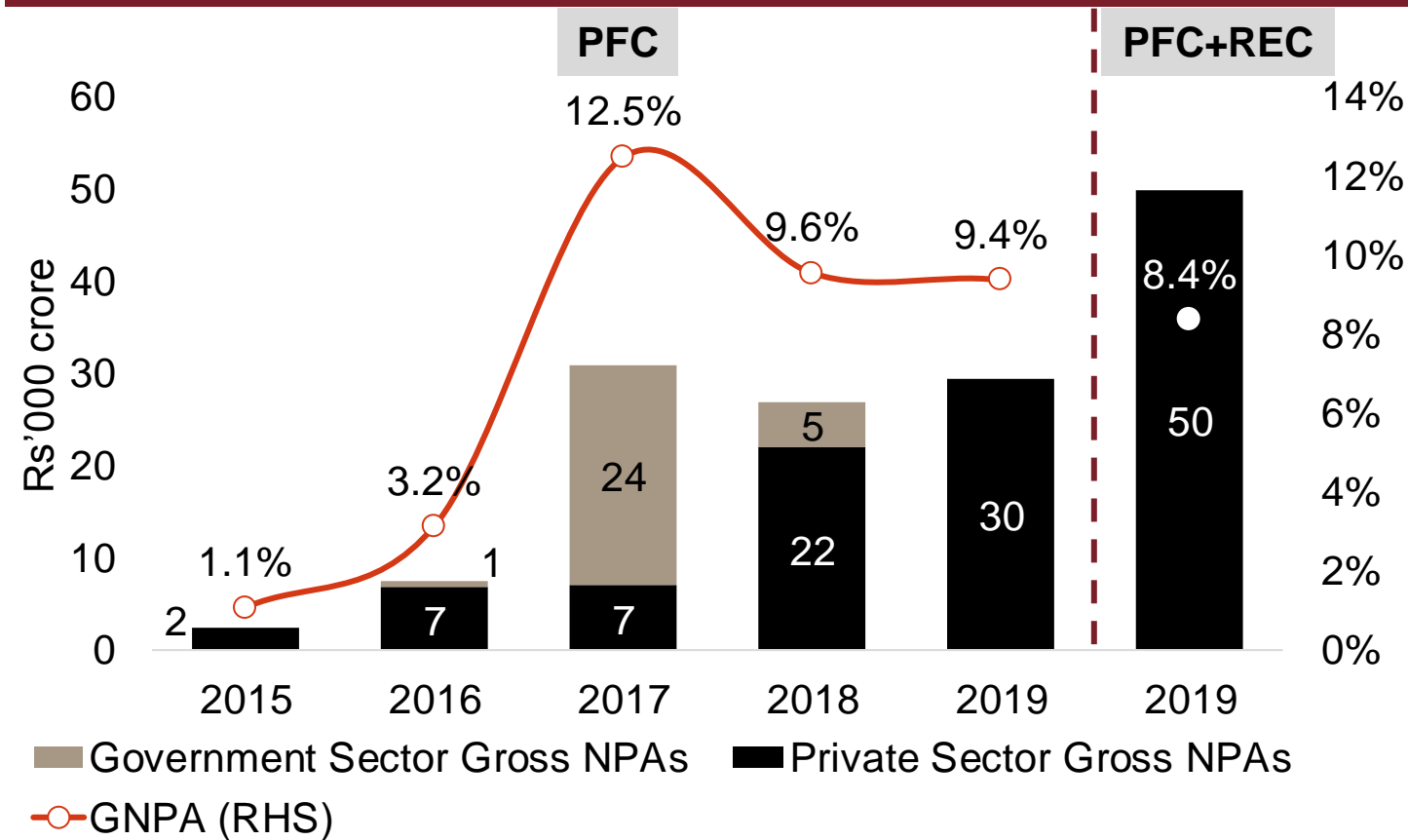
Figures in boxes represent foreign currency borrowing as a % of total borrowings

- **Wide acceptability of PFC's and REC's instruments across investors including pension funds and gratuity funds**
- **Cost of funds have remained competitive; benefitted from access to low cost 54 EC bonds**
- **Foreign borrowings have more than tripled in the past three years**

Ratings ■ Increasing proportion being hedged for exchange rate risk - 62% as of March 2019 from 22% as of March 2017

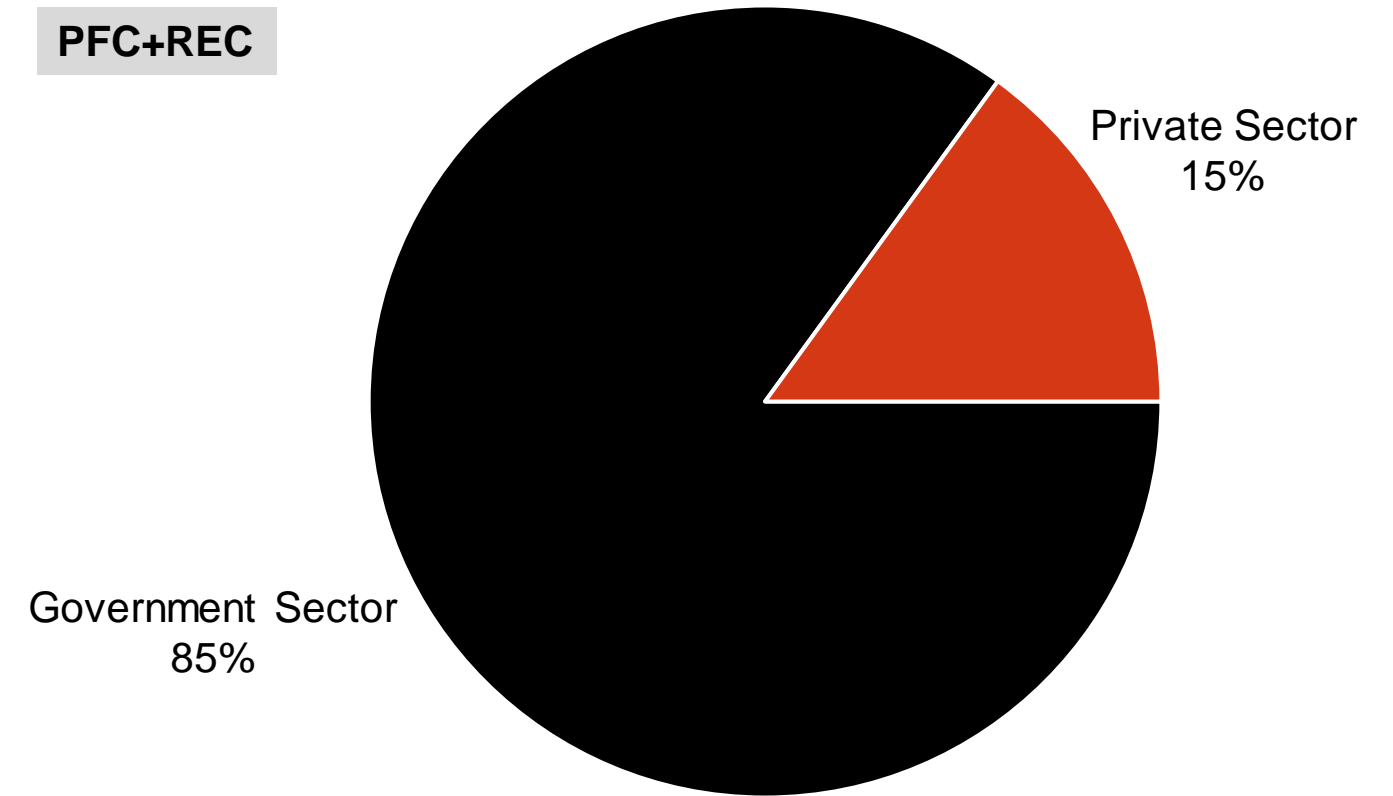
Inherent vulnerability in asset quality with concentration...

Gross non-performing assets primarily from private sector



Gross NPAs for fiscal 2019 are as per Ind-AS
 Increase in gross NPAs in 2017 due to realignment with RBI norms

Majority of portfolio is towards government sector



Source: Company reports; Government Sector: Central, State and Joint Sector

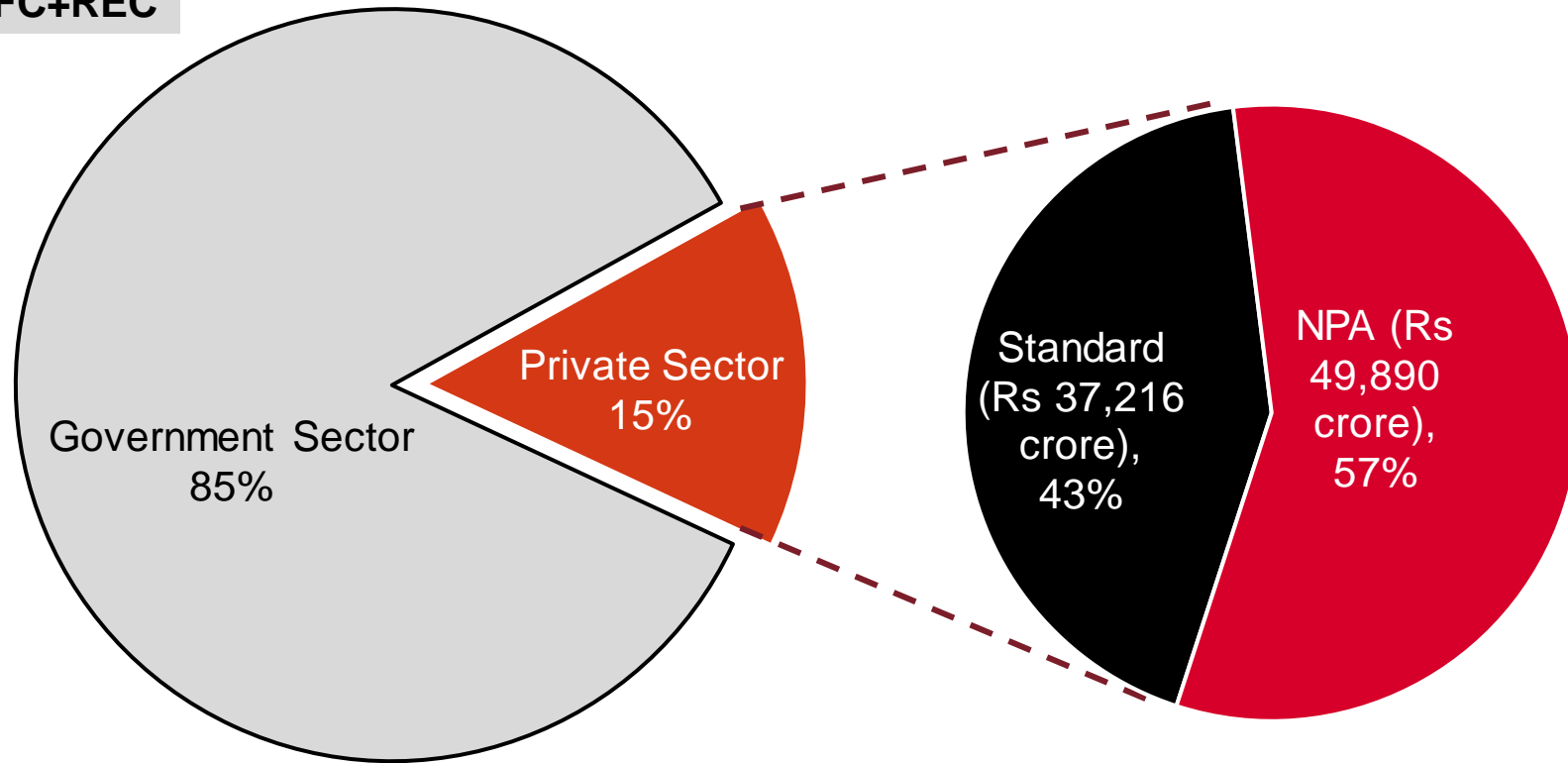
- Loan book remains chunky and concentrated with the top 20 customers accounted for 28% of advances
- Inherently weak credit risk profile of some borrowers with risks emanating primarily from private sector
- Adequate asset protection mechanism in place for government sector loans

Ratings

...private sector exposures remain a monitorable

About 57% of the private sector exposures remain under stress

PFC+REC



Projects being resolved through reference to NCLT, one time settlement (OTS), sale of assets to domestic and foreign bidders

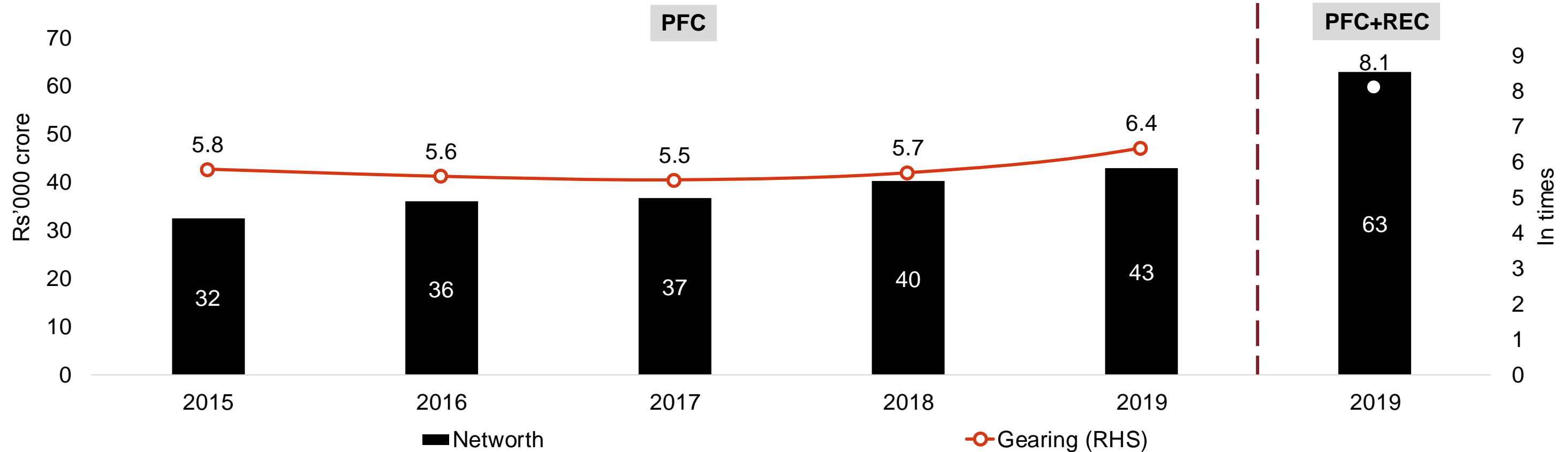
Provisioning coverage ratio as on March 2019 : ~50%

Source: Company reports

- **Resolution of the stressed power projects remains a key monitorable**
 - Nevertheless, company is making progress on several of these accounts

Adequate capitalization, supported by healthy internal accruals

Sizeable consolidated net worth, gearing increase on account of acquisition of REC



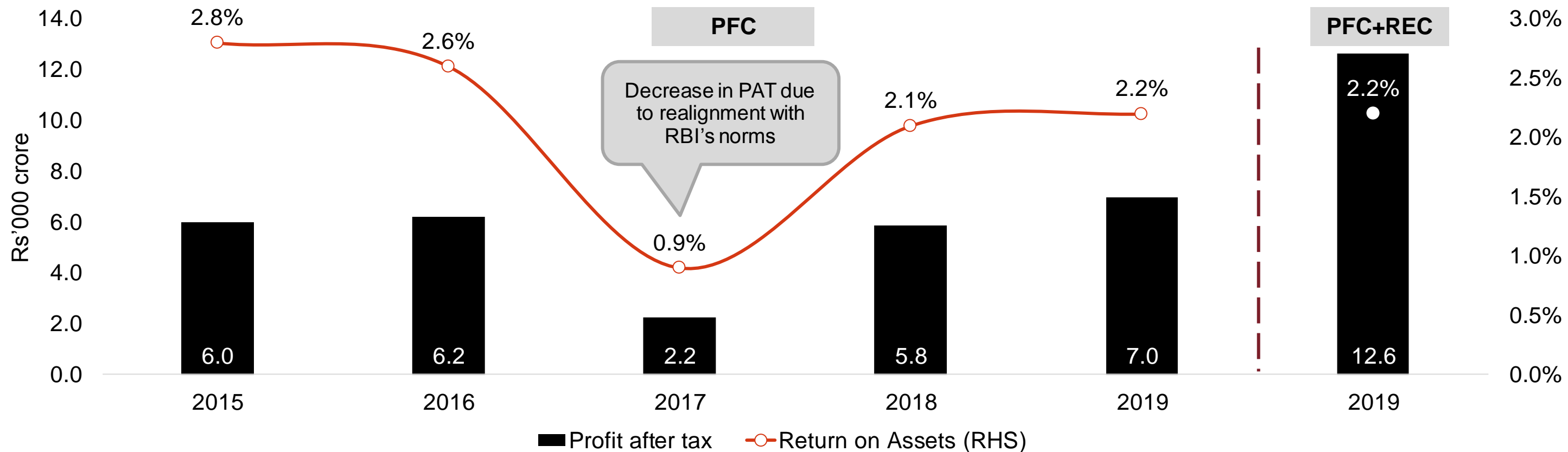
Source: Company reports; For fiscal 2019, net worth is as per Ind-AS

- **Capitalisation ratio remains adequate and above regulatory requirements as on March 2019**
 - Tier 1 ratio at 11.73% and overall capital adequacy ratio at 17.09% (after deducting excess of 10% of investment in REC)
- **Net worth coverage for net NPAs remains at 2.5 times for the combined entity as on March 2019**
 - Net worth coverage for net NPAs for PFC stood at 3.0 times as on March 2019

Ratings

Moderate earnings profile

Earnings profile marked by stability in returns

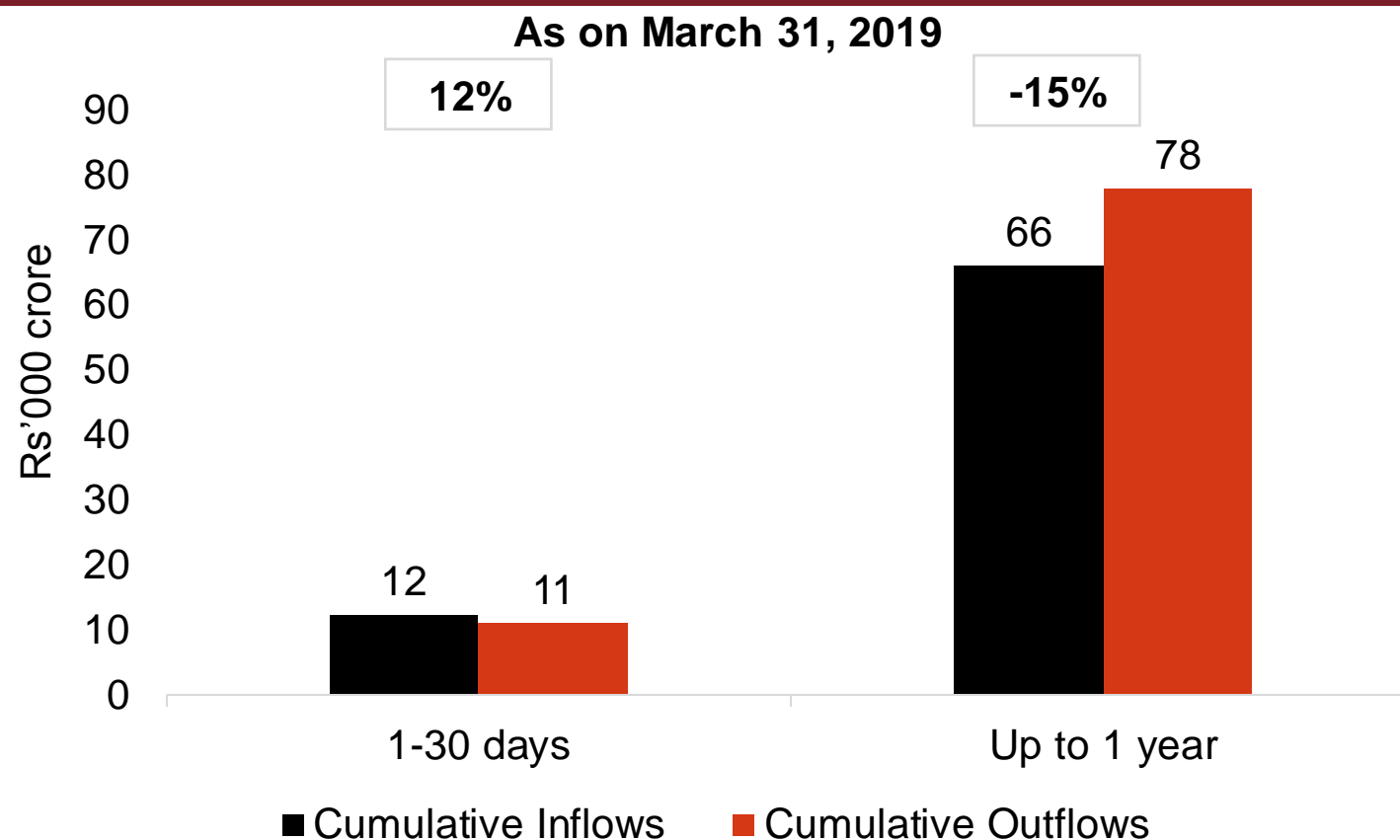


For fiscal 2019, earnings is as per Ind-AS
Source: Company reports

- ROA and ROE for the last five years has been 2.1% and 15.3% respectively; income streams have limited diversity

Adequate liquidity

Adequately matched asset liability maturity profile*



*Standalone Structural Liquidity Statement of PFC as on March 2019
 Number in boxes indicate the cumulative mismatch as a % of cumulative outflows
 Source: Company reports

Liquidity Position as on March 31, 2019

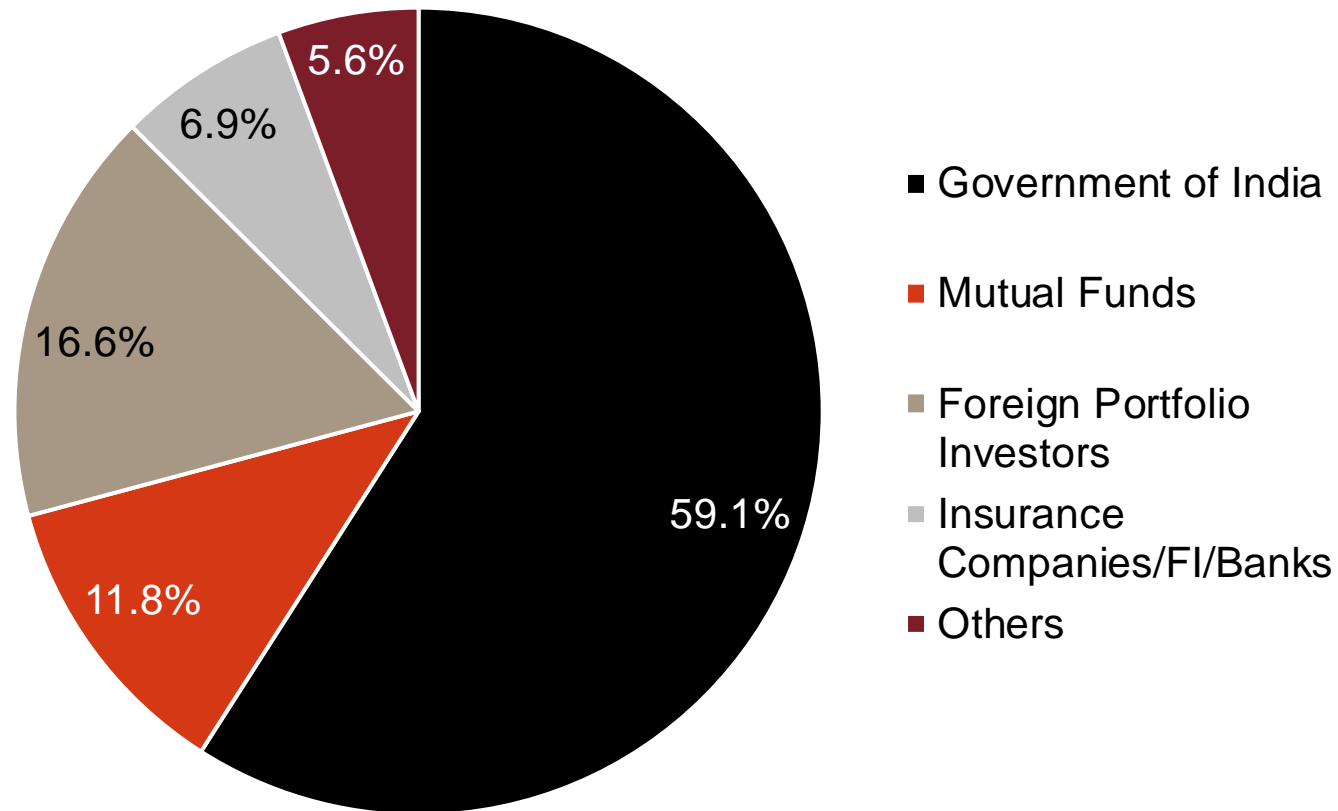
Particulars	Rs crore
Total debt maturities till September 30, 2019	43,620
- Of which commercial papers	5,500
Business Repayments (Inflows)	35,341
Cash and Bank balance/Liquid investments	1,404
Undrawn bank lines	6,950

Funds raised Sept'18 to Mar'19	Rs crore
Commercial Paper	23,861
Bonds	22,445
Term Loans	35,411
Total	81,717

- PFC has sufficient unutilised bank lines to take care of gaps, if any, in their ALM profile

Expectation of strong support from majority shareholder, GoI

Shareholding pattern as of March 2019



Source: Company reports

Key role in implementing government's policies for the power sector

- Nodal agency for various government initiatives for power sector
- Key role in financing to SPUs, which form a key part of the Indian power sector

Financial and operational support

- Access to central plan allocation funds for recovering dues from SPUs
- Special status access to low cost resources like 54 EC bonds, tax free bonds
- Presence of government representatives on the board

To conclude – PFC’s credit profile continues to be strong and stable

- **Strategic importance to and majority ownership by, Government of India**
- **PFC will continue to play a critical role in implementing government policies related to financing the Indian power sector**
- **Strong position in the infrastructure-financing segment**
- **Adequate resource profile with a diversified investor base**
- **Adequate capitalisation to provide healthy coverage against asset side risks**

Thank you

Disclaimer

CRISIL has taken due care and caution in compilation of the data for this document. Information has been obtained by CRISIL from sources which it considers reliable. However, CRISIL does not guarantee the accuracy, adequacy or completeness of any information on which this document is based and is not responsible for any errors in transmission or omissions or for the results obtained from the use of this document. CRISIL, especially states that it has no financial liability whatsoever to the subscribers/users/transmitters/distributors of this product.

A CRISIL rating is not a recommendation to purchase, sell or hold an instrument, nor does it comment on the price or suitability for an investor nor does it involve an audit by CRISIL. CRISIL may revise, modify this document without notice as a result of changes in circumstances or information or unavailability of information.

© **CRISIL All rights reserved**

About us

About CRISIL Limited

CRISIL is an agile and innovative, global analytics company driven by its mission of making markets function better. We are India's foremost provider of ratings, data, research, analytics and solutions. A strong track record of growth, culture of innovation and global footprint sets us apart. We have delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers.

We are majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

About CRISIL Ratings

CRISIL Ratings is part of CRISIL Limited ("CRISIL"). We pioneered the concept of credit rating in India in 1987. CRISIL is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI"). With a tradition of independence, analytical rigour and innovation, CRISIL sets the standards in the credit rating business. We rate the entire range of debt instruments, such as, bank loans, certificates of deposit, commercial paper, non-convertible / convertible / partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 24,500 large and mid-scale corporates and financial institutions. CRISIL has also instituted several innovations in India in the rating business, including rating municipal bonds, partially guaranteed instruments and microfinance institutions. We also pioneered a globally unique rating service for Micro, Small and Medium Enterprises (MSMEs) and significantly extended the accessibility to rating services to a wider market. Over 1,10,000 MSMEs have been rated by us.

CRISIL Privacy

CRISIL respects your privacy. We may use your contact information, such as your name, address, and email id to fulfil your request and service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit www.crisil.com/privacy.