No: 1:05:138:I:CS
Dated: 27.06.2020

National Stock Exchange of India Limited, Listing Department, Exchange Plaza, Bandra – Kurla Complex, Bandra (E) **MUMBAI – 400 051.** नेशनल स्टॉक एक्सचेंज ऑफ इंडिया लिमिटेड लिस्टिंग विभाग, एक्सचेंज प्लाजा, बांद्रा-कुर्ला कॉम्प्लेक्स, बांद्रा (पू), मुंबई-400 051	**Bombay Stock Exchange Limited,** Department of Corporate Services, Floor – 25, PJ Towers, Dalal Street, **MUMBAI – 400 001.** बंबई स्टॉक एक्सचेंज लिमिटेड, कॉर्पोरेट सेवाएं विभाग, मंजिल-25, पी .जे .टावर्स, दलाल स्ट्रीट, मुंबई-400 001

Sub: Intimation pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulation, 2015

Madam/Sir,

This is to inform you that S&P Global Ratings on 26th June 2020 has downgraded PFC's Company credit rating from BBB-/negative outlook to BB+/stable outlook. The rating has been issued after the withdrawal of S&P rating mandate by PFC. PFC's Credit Rating from Moody's and Fitch continue to be at the investment grade of Baa3 and BBB- respectively. Further, all the issuances under PFC's MTN/GMTN are now rated by Moody's and Fitch.

PFC's Perspective on Rating Action of S&P is attached herewith and the same is also available on our website at the following URL:

https://pfcindia.com/Home/VS/10201

This is submitted for your information and record.

Thanking you,

Yours faithfully,
For Power Finance Corporation Ltd.

MANOHAR BALWANI
Digitally signed by MANOHAR BALWANI
Date: 2020.06.27 15:35:07 +05'30'

(Manohar Balwani)
CGM (CP) & Company Secretary
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Power Finance Corporation Ltd.

Company's Perspective on Rating Action of S&P

S&P Global Ratings on 26th June 2020 has downgraded PFC credit rating from BBB-/negative outlook to BB+/stable outlook. The rating has been issued by S&P after the withdrawal of S&P rating mandate by PFC.

Further, PFC's international bond issuance (including Green Bond 2017) under the GMTN programme are being rated by only Moody's & Fitch. PFC's Credit Rating from Moody's and Fitch continue to be at the investment grade of Baa3 and BBB- respectively.

This document is intended to share PFC's views on the recent rating action of S&P Global Ratings. The views and opinion expressed herein are solely of PFC and do not reflect the standpoint of any other entity.

India weak economic conditions trigger rating change – PFC financial position intact

The rating change by S&P has been triggered primarily to reflect the weakening general economic conditions in India due to COVID-19 and the consequential slowdown in power sector. Recently, S&P has also revised its fiscal 2021 GDP growth projections for India to a 1.8%, compared with its earlier expectation of 3.5%. Thus, S&P perception on weakening macro-economic condition of India has mainly prompted it to revise PFC's credit rating and is not to reflect any change perceived by S&P in the financial position of PFC.

PFC continues to be fundamentally strong

In the above context, we would like to enumerate further on PFC's business strength.

1. **Strategic Importance to GOI**

   PFC is a key partner of Government of India for power sector financing and implementing power sector reforms. PFC has been playing a crucial role in facilitating funding for varied schemes of GOI for improvement and revival of the sector like COVID 19 liquidity package for DISCOMs; IPDS; UDAY, ITP etc. Therefore, PFC is a critical arm of the Govt. for the development of Indian Power Sector.

   With majority Govt. shareholding and our strategic importance to GOI, we strongly believe that Govt. will continue to extend all its support to PFC on both operational and financial front. Therefore, with strong government support, we are confident that PFC would be able to smoothly sail through this current COVID downturn.

2. **Well managed liquidity profile**

   PFC has well established presence in domestic market. PFC by leveraging its high credit worthiness and strong relationships with the lenders, is able to continuously access funding from the domestic market even during the period of stress in the economy. This is evidenced from the fact that during the IL&FS crisis in September'2018, when most of the NBFC's were facing difficulties in raising funds from the market, PFC faced no challenges in arranging funds from the market. Even during the current lockdown, PFC has continued to augment funds from the domestic market. Since April'20, PFC has raised close to Rs.29,000 cr. from the domestic markets through mix of bonds and terms loans. Also, PFC is actively pursuing with banks for sanction of term loans. Presently, PFC has Rs.9,500 cr. of term loan sanctions in pipeline. Thus, till now, PFC has raised/tied up around 42% of the total approved funding requirement of Rs.90,000 cr. envisaged for FY 20-21 .

   On the inflow side, although the cash inflows are currently constrained due to moratorium granted to our borrower, however we are not facing any challenge on the liquidity front. Also, it is worth mentioning that PFC has already met around 50% of its debt servicing obligation for FY 20-21.

   Further, in terms of liquidity, PFC has Rs.11,000 cr. worth of line of credit available from Banks. Also, with 5% increase in group exposure limit announced by RBI, PFC would be able to leverage additional funding support from the Banks.

   On capital front also, our capital adequacy is well above the 15% minimum regulatory threshold at 16.96 %. Thus, our balance sheet is well capitalised and we are not envisaging any requirement for capital infusion in the near future.

   Therefore, PFC is well placed in terms of liquidity for smooth business operation and we are not envisaging any stress on the liquidity side.

3. **Robust earning profile**

   PFC group has a dominant market position in power sector financing space. Our lending is largely to Government sector power utilities, which are the major players in power sector. At present, around 83% of our loan assets belong to the Government sector who have been regular in servicing. Further, during FY 19-20, our lending indicators i.e. yield and spread have remained in the stable range of around 10.60% and 2.90% respectively. Going forward, we expect them to be at the similar levels. Also, we are expecting our loan asset growth at a similar rate as previous year. In view of this, we expect no major impact on our revenues.

In view of above, we believe that PFC is placed in a comfortable position to maintain a sustainable business performance.

Power sector poised for revival post lock down

In regard to the Power sector, we would like to elucidate on the steps being taken by the Govt. for the revival of the power sector:

1. In this unprecedented COVID 19 situation, economies around the world are witnessing a downturn and India is no less averse to it. Power is one of the most critical components of Indian economy and the impact of economic slowdown is also being felt by the Indian power sector.

2. During the initial COVID phase, when India was under complete the lockdown, the power demand was tepid. However, as the lock down is easing and with resumption of economic activity, electricity demand is expected to improve.

   Citing the media reports, peak demand is seeing an upward trend, the peak power demand in the month of May (166.42 GW) saw a 25% increase compared to the month of April (132.77 GW). Thus, with further increase in commercial and industrial activities, power demand is expected to pick up pace and restore to the earlier levels.

3. To mitigate the adverse effects of the COVID lockdown, Govt. is proactively introducing measures to address the short term impact of lockdown as well as to bring about structural reforms in the power sector as mentioned under:

   a) To ease out the operational challenges being faced by various power sector entities, various measure have been take like reduction in late payment surcharge; waiver of fixed charges and interstate charges; ensuring "must run" status to renewable energy generation facilities etc.

   b) To boost the liquidity flow in the sector, Govt. announced a Rs.90,000 cr. credit package for DISCOMs to ease out the stress on their cash flows. We believe that this a positive step for PFC, as it will enable PFC borrowers to continue their business operations without any business interruptions and thereby ensuring timely recovery of our dues.

   c) With an aim to improve the situation of distribution sector, recently, Govt. has announced for privatization all power distribution companies in Union Territories (UT). It is envisaged to improve operational and financial efficiency in distribution sector, which historically has been dominated by Government entities.

   d) Further, two key policies i.e. Electricity Amendment Bill and the Tariff policy are under active consideration of Govt. The Electricity bill seeks to set up electricity contract enforcement authority, provide direct subsidy transfer; creating a National Renewable Energy Policy etc. While, the New tariff policy focuses on improving consumer rights, promoting industry and ensuring the sustainability of the sector. Introduction of these policies is expected to bring about a wave of long term reforms in the sector.

4. Also, it is worth highlighting the following:

   a) India's installed power generation capacity as of May 2020 is at 370.5 GW, which is 3.8% higher than the same period a year ago.

   b) India will reach its CoP 21 commitment of taking up the level of non-fossilised fuel in country's total energy mix to 40% a decade earlier in the year 2020 itself and plan to take up this level to 50% by 2030 now. The country has already reached 37% level.

   Thus, with plethora of initiatives being taken by the Government, the power sector is expected to move on a revival trajectory going forward.

Therefore, considering the inherent business strength of PFC, comfortable liquidity position and the envisaged revival of power sector, going forward also, we expect the operations to continue as usual.

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