Power Finance Corporation Ltd.

Brief on Rs.90,000 cr. Credit Package to DISCOMS

Introduction

Amid the COVID-19 lockdown, the DISCOMs are seeing reduction in revenues collection, which is leading to strain on their cash flows. This is having a cascading impact on the entire power sector value chain. Therefore, to facilitate liquidity flow in the power sector, Govt. of India recently announced a Rs.90,000 cr. credit package to enable DISCOMs to meet their obligations. PFC & REC have been mandated as the key lending partners for the same.

PFC has always been a strategic partner of Government in implementing power sector initiatives and this is one of many such initiatives. We believe this a positive step by the Government as it will strengthen the entire power sector value chain. Further, it is expected that this liquidity infusion would help PFC borrowers to continue to their business operations without any business interruptions.

In this regard, PFC has been receiving a lot of queries on the implementation aspects; funding sources and impact on PFC's lending operations. Accordingly, the salient features of PFC's lending scheme for DISCOMs and the impact of credit package on PFC's business is enumerated under.

Salient Features of PFC Lending Scheme for DISCOMS

1) Rs.90,000 cr. will be lent to DISCOMs in two tranches i.e. 50% in Tranche I and balance in Tranche II by PFC & REC. Accordingly, around Rs.22,500 cr. of disbursements would be released immediately by PFC to DISCOMS under Tranche I.

   Further, loans to DISCOMs are subject to implementation of reforms in future so as to comply on reform conditions like liquidation of dues and subsidies by State Govt, installation of smart meters, improving operational and financial efficiency etc.

2) Lending would be through long term transitional loan with a maximum tenor of 10 years. Principal moratorium can be considered on case to case basis. But in no case moratorium would exceed more than 3 years.

3) The loan amount would be restricted to the outstanding dues of CPSU; Gencos; Transco; IPPs and RE Generators and after considering receivables against electricity bill dues and undisbursed subsidy of DISCOMS from State Government Departments, Companies, bodies, ULIBs, PRIs etc.

4) Payment shall be released directly to CPSU Gencos /RE Gencos/IPPs/ CPSU Transcos based on authorisation of Discoms in this regard.

5) In line with normal business lending operations, interest rate will be charged at PFC's cost of funds plus margins as decided.

6) The loan will be secured with unconditional and irrevocable State Government Guarantee covering the loan amount along with interest and any other charges towards the loan.

Impact of credit package on PFC's Business

PFC believes that this will have a positive impact on PFC's business in view of the following:

1) PFC is expecting to maintain its loan asset growth at similar levels as last years. Accordingly, to sustain its growth level, PFC is expected to cross last year's disbursement levels during FY 20-21.

   Under the lending package, a total of Rs.45,000 cr. is required to be disbursed by PFC. Out of this, around Rs.22,500 crore is expected to be disbursed in the immediate near future. Further, given the COVID-19 situation, it is envisaged that there will be general slowdown in construction activity & setting up of new projects. Due to this, chances are that it may lead to an impact on new sanctions and disbursements of PFC. Therefore, we feel that PFC will be able to accommodate the required disbursements within the disbursements planned for FY 20-21. Also, considering that new lending opportunities would be limited in view of the COVID-19 situation, this lending package is a good business opportunity for PFC to maintain its loan asset growth.

2) For FY 2020-21, PFC has planned for Rs.90,000 cr. fund mobilisation from domestic & international markets. Further, Government has always been supporting PFC for its raising operations. For instance, PFC has got allocation from Govt. under NSSF and Debt ETF, PFC has been allowed to raise 54EC bonds etc. Thus, being a critical partner to the Govt., the Govt. has assured that it will extend its support to PFC as required for this scheme also.

   In view of above, we feel that PFC is well geared to meet the funding needs.

3) All the loans extended under the package will be backed by State Government Guarantee. This will help maintain and boost PFC's CRAR as all this incremental lending will attract lower risk weight of 20% due to government backed guarantee.

Thus, this lending package will not only enable revival of the Power sector but is also an avenue for business growth of PFC.

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