

Corporate Announcement / Credit rating Action by the International Rating Agencies

1. Corporate Announcement

Board of Directors took note of Department of Investment and Public Asset management, Ministry of Finance, Government of India O.M. dated 11th December, 2018 enclosing therewith a copy of PIB release dated 06th December, 2018, regarding cabinet decision on the 'In-principle' approval for the strategic sale of the GoI's existing 52.63% of total paid-up equity shareholding in REC Ltd. to PFC Ltd. along with transfer of the management control.

2. Credit rating Action by the International rating Agencies (copies as below)

- a. Moody's reviews Power Finance Corporation for downgrade.
- b. S&P revised the outlook of PFC from Stable to Negative
- c. S&P placed 'BBB-' Ratings on Credit Watch Negative on acquisition of REC Ltd.

Rating Action: Moody's reviews Power Finance Corporation and REC Limited for downgrade

13 Dec 2018

Singapore, December 13, 2018 -- Moody's Investors Service has today placed on review for downgrade the Baa3 issuer ratings of Power Finance Corporation Limited (PFC) and REC Limited (REC)

At the same time, Moody's has placed on review for downgrade the (P)Baa3 foreign currency senior unsecured MTN program ratings and Baa3 foreign currency senior unsecured ratings of PFC and REC.

Moody's has also placed on review for downgrade PFC and REC's standalone credit profiles of ba3.

RATINGS RATIONALE

The review for downgrade is driven by the decision by the government of India (Baa2 stable) on 6 December 2018 to grant an 'in principle' approval for PFC acquisition of the government's entire 52.6% stake in REC. Upon completion of the transaction REC will become a subsidiary of PFC.

The acquisition by PFC of the government's stake in REC is credit negative for PFC, because it will materially weaken its consolidated capital ratios .

While the transaction could also create some operational synergies, as both PFC and REC operate in the same business segment, Moody's believes that the negative impact from lower capital levels will outweigh any potential synergies.

The review for downgrade of PFC's standalone credit profile will focus on the extent of decline in the post-transaction consolidated capital ratios of PFC. Specifically, Moody's review will assess (1) whether PFC will be required to make an open offer to minority investors in REC, and thus acquire a stake greater than just the 52.6% government stake; (2) the price that PFC will have to pay to acquire this stake, including any premium that it would have to pay over and above REC's prevailing market valuations; (3) any actions by PFC to mitigate the negative impact on its capital ratios, for example by raising new equity, although Moody's deems such measures as unlikely; and (4) the impact of the transaction on the company's liquidity profile, particularly its ability to raise sufficient funding to finance the transaction.

The review for downgrade of REC's standalone credit profile will focus on the impact of the transaction on the company's liquidity profile, particularly its ability to manage its liquidity profile in the event that change of control clauses in some of its outstanding bonds trigger accelerated repayments.

A downgrade of the companies' standalone credit profiles will lead to downward pressure on their issuer ratings.

Further, with PFC replacing the government as the main controlling shareholder in REC, affiliate support from PFC, rather than government support, would be the main way in which REC's ratings would receive an uplift from its standalone credit profile. Accordingly, negative pressure on PFC's ratings would translate into negative pressures on REC's ratings.

At the same time, the support anchor for REC will be PFC's final ratings rather than its standalone credit profile. As PFC's final ratings will continue to benefit from government support, REC's will ratings benefit from implicit government support in this rating architecture.

The review for both entities will also focus on any material and tangible evidence of operational synergies created by the transaction.

WHAT COULD MOVE THE RATING UP

An upgrade of PFC's and REC's standalone credit profile is unlikely, given the review for downgrade.

Nevertheless, PFC's standalone credit profile could be upgraded if there is a substantial improvement in its

asset quality and capitalization.

PFC's issuer ratings could be upgraded if its standalone credit profile is upgraded by more than one notch.

REC's standalone credit profile could be upgraded if there is a substantial improvement in its asset quality and capital. Following the transaction, REC's issuer rating though will remain at the same level as that of PFC, unless its standalone credit profile is higher than PFC's issuer rating, a scenario that is unlikely based on its current financial metrics.

WHAT COULD MOVE THE RATING DOWN

PFC's standalone credit profile, and hence the issuer rating, could be downgraded if there is a material reduction in its consolidated capital ratios because of its acquisition of a majority stake in REC. Further, the rating could face negative pressure if (1) the financial strength of state-run power utilities deteriorates significantly; (2) the company's asset-liability mismatch deteriorates; (3) there is any indication of change in its exclusive focus on financing the power sector, which could imply a reduced policy role; and (4) the asset quality problems in the company's loans to the private sector exacerbate.

REC's standalone credit profile rating could face negative pressure if (1) the financial strength of the state-run power utilities deteriorates significantly; (2) the proportion of secured versus unsecured borrowings increase (while this metric has been declining, it is still high on an absolute basis); (3) its asset-liability mismatch deteriorates; (4) there is any indication of change in the company's exclusive focus on financing the power sector, which could imply a reduced policy role; or (5) the asset quality problems in the company's loans to the private sector exacerbate.

REC's issuer rating could be downgraded if PFC acquires a majority stake in the company and PFC's issuer rating is downgraded

The methodologies used in these ratings were Finance Companies published in December 2018, and Government-Related Issuers published in June 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

Power Finance Corporation Limited is headquartered in New Delhi, and reported total assets of INR2.86 trillion (\$43 billion) at the end of March 2018.

REC Limited is headquartered in New Delhi, and reported total assets of INR2.46 trillion (\$37 billion) at the end of March 2018.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal

entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moody's.com for additional regulatory disclosures for each credit rating.

Srikanth Vadlamani
VP - Senior Credit Officer
Financial Institutions Group
Moody's Investors Service Singapore Pte. Ltd.
50 Raffles Place #23-06
Singapore Land Tower
Singapore 48623
Singapore
JOURNALISTS: 852 3758 1350
Client Service: 852 3551 3077

Graeme Knowd
MD - Banking
Financial Institutions Group
JOURNALISTS: 852 3758 1350
Client Service: 852 3551 3077

Releasing Office:
Moody's Investors Service Singapore Pte. Ltd.
50 Raffles Place #23-06
Singapore Land Tower
Singapore 48623
Singapore
JOURNALISTS: 852 3758 1350
Client Service: 852 3551 3077



© 2018 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section

761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

RatingsDirect®

Research Update:

Power Finance Corp. Ltd. Outlook Revised To Negative From Stable; 'BBB-' Rating Affirmed

Primary Credit Analyst:

Michael D Puli, Singapore (65) 6239-6324; michael.puli@spglobal.com

Secondary Contact:

Amit Pandey, Singapore (65) 6239-6344; amit.pandey@spglobal.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria

Related Research

Ratings List

Research Update:

Power Finance Corp. Ltd. Outlook Revised To Negative From Stable; 'BBB-' Rating Affirmed

Overview

- PFC's capitalization is at the lower end of our threshold for a strong assessment, and we could revise our assessment down if the company grows loans faster and retains less capital than we expect.
- We do not factor in a potential merger of PFC with another Indian government-owned finance company, REC Ltd.
- We are revising our rating outlook on PFC to negative from stable. At the same time, we are affirming our 'BBB-' long-term issuer credit rating on PFC. We are also affirming the 'BBB-' long-term issue rating on PFC's outstanding debt.
- The negative outlook on PFC reflects a one-in-three chance that the company will not sustain a RAC ratio above our threshold of 9.5% over the next 12-18 months.

Rating Action

On Nov. 30, 2018, S&P Global Ratings revised its outlook on Power Finance Corp. (PFC) to negative from stable. At the same time, we affirmed our 'BBB-' long-term issuer credit rating on the India-based power finance company. We also affirmed the 'BBB-' long-term issue rating on PFC's outstanding debt.

Rationale

We revised the outlook to negative to reflect our view that PFC's capitalization is at the lower end of our threshold for a strong assessment, and we could revise our assessment down if the company grows loans faster and retains less capital than we expect.

We expect PFC's risk-adjusted capital (RAC) ratio to be 9.5%-10.0% over the period next 12-18 months. Our lower RAC ratio limit for a bank's capital and earnings to be assessed as strong is 9.5%. PFC's RAC ratio was 10.1% as at March 31, 2018. A lower capital and earnings assessment would weaken our assessment of PFC's stand-alone credit profile (SACP) to 'bb' from 'bb+', which would lead to a downgrade to 'BB+', other factors remaining unchanged.

Substantial uncertainty remains around the timing of resolution of stressed assets, reversal of provisions for such assets, and the government's request for dividends. These could put downside pressure on the RAC ratio.

We affirmed the rating to reflect our assessment of PFC's SACP at 'bb+', and our view that the company has an extremely high likelihood of timely and sufficient extraordinary support in the event of financial distress. High business risks from PFC's concentration in the electricity sector and the weak credit quality of borrowers constrain its SACP. The company's regulatory Tier 1 ratio of 14.9% as of Sept. 30, 2018, is better than peers'.

Our outlook and ratings on PFC do not factor in a potential merger of the company with REC Ltd.

Outlook

The negative outlook on PFC reflects a one-in-three chance that the company will not sustain a RAC ratio above 9.5% over the next 12-18 months.

We expect no change in our assessment of PFC's business position, risk profile, and funding and liquidity. In our view, government support is also unlikely to change over the next 12-18 months.

Downside scenario

We would lower the rating if PFC's RAC ratio sustains below 9.5%. The RAC ratio could fall if the company has higher growth or lower capital retention than we forecast.

Although unlikely, we would also lower the rating on PFC if the company's link with the government weakens. A privatization of PFC would lead to our reassessment of this link.

Upside scenario

We would revise the outlook on PFC to stable if the company sustains a RAC ratio above 9.5% and downside risks associated with loan growth and capital retention abate.

An upgrade of PFC is unlikely over the next two years.

Ratings Score Snapshot

	To	From
Issuer Credit Rating:	BBB-/Negative/--	BBB-/Stable/--
Stand-Alone Credit Profile:	bb+	bb+
Anchor:	bb	bb
•Entity-Specific Anchor Adjustment:	(+1)	(+1)
•Business Position:	Adequate (0)	Adequate (0)

•Capital, Leverage, and Earnings:	Strong (+1)	Strong (+1)
•Risk Position:	Moderate (-1)	Moderate (-1)
•Funding and Liquidity:	Adequate and Adequate (0)	Adequate and Adequate (0)
•Comparable Rating Analysis	(0)	(0)
External Influence:	+1	+1
•Government Influence:	+1	+1
•Group Influence:	0	0
•Guarantees or Other External Influences:	0	0
•Rating Above The Sovereign:	0	0

Related Criteria

- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Financial Institutions - General: Issue Credit Rating Methodology For Nonbank Financial Institutions And Nonbank Financial Services Companies, Dec. 9, 2014
- Criteria - Financial Institutions - General: Nonbank Financial Institutions Rating Methodology, Dec. 9, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- General: Assumptions For Liquidity Stress Test Analysis Under "Nonbank Financial Institutions Rating Methodology", March 22, 2018

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Power Finance Corp. Ltd. Issuer Credit Rating	BBB-/Negative/--	BBB-/Stable/--

Ratings Affirmed

Research Update: Power Finance Corp. Ltd. Outlook Revised To Negative From Stable; 'BBB-' Rating Affirmed

Power Finance Corp. Ltd.
Senior Unsecured

BBB-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2018 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

RatingsDirect®

Research Update:

Power Finance Corp. 'BBB-' Ratings Placed On CreditWatch Negative On Acquisition Of REC Ltd.

Primary Credit Analyst:

Michael D Puli, Singapore (65) 6239-6324; michael.puli@spglobal.com

Secondary Contact:

Amit Pandey, Singapore (65) 6239-6344; amit.pandey@spglobal.com

Table Of Contents

Overview

Rating Action

Rationale

CreditWatch

Related Criteria

Ratings List

Research Update:

Power Finance Corp. 'BBB-' Ratings Placed On CreditWatch Negative On Acquisition Of REC Ltd.

Overview

- The government of India has approved Power Finance Corp.'s (PFC) acquisition of REC Ltd. The deal will likely strengthen PFC's market share and business franchise, although a debt-funded acquisition could undermine PFC's capitalization.
- We are placing our 'BBB-' long-term issuer credit rating on PFC on CreditWatch with negative implications.
- We aim to resolve the CreditWatch placement within the next three to six months, once we have clarity on PFC's plan and timeline for acquiring REC.

Rating Action

On Dec. 12, 2018, S&P Global Ratings placed its 'BBB-' long-term issuer credit rating on India-based Power Finance Corp. on CreditWatch with negative implications. We also placed our 'BBB-' issue rating on the bank's senior unsecured debt on CreditWatch with negative implications.

Rationale

We placed the ratings on CreditWatch due to uncertainty around PFC's funding of its proposed acquisition of REC Ltd. We understand this deal is part of the government's divestment target. A debt-funded acquisition could undermine PFC's capitalization, but the total impact will depend upon the actual outlay and funding plans, which are currently unknown. In our view, somewhat lower capitalization could be offset by an improvement to the finance company's business franchise. However, a risk-adjusted capital (RAC) ratio below 7% will almost certainly result in a downgrade.

On Nov. 30, 2018, we revised our outlook on PFC to negative from stable. This reflected a one-in-three chance that the company will not sustain a RAC ratio above our threshold of 9.5% over the next 12-18 months. This outlook did not incorporate a potential acquisition of REC.

Now that a proposed acquisition has been approved by the government, we are assessing the potential impact on PFC ratings. Substantial uncertainty remains around the timing of the acquisition, although we believe the government is keen to have it completed before the current financial year ends in March 31, 2019. Furthermore, we understand that the government is working out how the

deal will progress and will communicate this strategy to PFC.

We aim to resolve the CreditWatch status over the next three to six months. We will look for additional information on:

- purchase price;
- funding mix;
- time frame for completion;
- expected regulatory capital ratios; and
- PFC's strategy to support its business franchise and internal capital generation.

CreditWatch

We aim to resolve the CreditWatch placement within the next three to six months once we have clarity on the transaction's timing, cost, organizational structure and synergies, funding mix, impact on capitalization, and when the finance company receives relevant regulatory approvals.

We may lower our rating on PFC if a moderate weakness in capitalization is not offset by an improvement in business franchise. In a scenario that PFC's capitalization drops so sharply that RAC declines below 7%, we will very likely lower the rating.

We may affirm our rating if we believe the post-consolidated business franchise has sufficiently improved to offset a decline in capitalization.

Related Criteria

- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Financial Institutions - General: Issue Credit Rating Methodology For Nonbank Financial Institutions And Nonbank Financial Services Companies, Dec. 9, 2014
- Criteria | Financial Institutions | General: Nonbank Financial Institutions Rating Methodology, Dec. 9, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011

- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

CreditWatch	To	From
Power Finance Corp. Ltd. Issuer Credit Rating	BBB-/Watch Neg/--	BBB-/Negative/--
Power Finance Corp. Ltd. Senior Unsecured	BBB-/Watch Neg	BBB-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2018 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.