May 10, 2016

Facility	Rating
Issuer Rating	**SMERA AAA (IR)/Stable (Assigned)**

SMERA has assigned long-term issuer rating of **'SMERA AAA (IR)'** **(read as SMERA triple A Issuer Rating)** to PFC Green Energy Limited (PFCGEL). The outlook is '**Stable'**. The rating factors in the strong support of PFCGEL's parent company, Power Finance Corporation (PFC) and the former's strong linkages with PFC on account of the Memorandum of Understanding entered into by both parties. The rating is also driven by PFCGEL's strong asset quality and healthy growth prospects in the renewable energy sector. However, the strengths are partially offset by risks arising from the company's sectoral concentration and limited market share in the renewable energy sector.

PFCGEL, incorporated in 2011, is a non-banking finance company (NBFC) established as a wholly owned subsidiary of PFC. The company is expected to become the primary vehicle through which PFC will finance renewable energy projects. Thus, PFCGEL is likely to play a strategically important role for PFC and hence receive strong support from the same. Further, SMERA believes PFC's major stake (currently 100 per cent) and shared brand image creates strong moral obligation for it to support PFCGEL. The company is also expected to receive strong operational support from PFC in various areas including management, business development, risk management and resource mobilisation. Given the strong synergies, any instance of default by PFC GEL is expected to be perceived as deterioration in the fundamental credit quality of PFC itself. To this end, PFC oversees the operations, management and financial profile of PFC GEL. Further, PFC regularly infuses equity in PFC GEL and the same is expected to continue in future.

PFC's strong credit risk profile is driven by the strong support extended by the Indian government on account of being a navratna company. It is also the nodal agency responsible for the smooth functioning of several government schemes including but not limited to the Integrated Power Development Scheme (IPDS) and Ultra Mega Power Plant Projects. Further, in FY2015, the total Assets under Management (AUM) for PFC stood at over Rs.2 lakh crore – making it one of the largest NBFC in the country. Moreover, any default by PFC is expected to be perceived as a systemic decline in the credit quality of the Government of India itself. To this end, PFC is a systemically important entity of the government and thus the Indian government's support is expected to continue in the long term.

On a standalone basic, PFC draws support from the massive scale of operations along with strong profitability indicators and healthy asset quality. It is also supported by the corporation's high resource mobilisation ability and low cost of borrowing on account of its ability to issue tax free bonds and access various domestic and international markets. The corporation also maintains a healthy liquidity profile. The rating is further strengthened by the robust standalone credit risk profile of PFC GEL. The advances for PFC GEL stood at Rs.89.17 crore as on March 31, 2015 and are expected to grow by over Rs.200 crore in FY2016. The steady growth in the loan book can be attributed to the ability of PFC GEL to jointly finance large power projects in collaboration with PFC. Moreover, PFC GEL's asset book is free of non-performing assets on account of strong risk management systems, well defined and strong lending policies. Further, the company continues to be nearly debt-free and maintains a healthy capital adequacy ratio. However the rating is constrained by PFCGEL's short track record of operations and high sectoral concentration in its asset books.

Rating Sensitivity Factors

- Strong and Timely Support from PFC
- Divestment of Stake by PFC to below majority holding
- Deterioration in the credit risk profile of PFC
- Deterioration in PFC GEL's asset quality and capital adequacy

Outlook: Stable

SMERA believes the outlook on PFC GEL will remain 'Stable' over the medium term on account of the continued support from PFC and robust growth in its asset book along with its ability to maintain a stable asset quality. The outlook may be revised to 'Negative' in case of deterioration in the credit risk profile of PFC and PFC GEL registers worsening of the asset quality, capital adequacy and operational efficiency.

About the PFC Green Energy Limited

PFCGEL, established in 2011, is a wholly-owned subsidiary of PFC. PFCGEL is a non-deposit taking NBFC that provides financial assistance to renewable energy projects. For FY2015 (as per audited financial statements), PFCGEL has sanctioned an amount of Rs.554.78 crore and advances stood at Rs.89.17 crore as on March 31, 2015. The company had revenue from operations of Rs.33.65 crore and PAT of Rs.18.91 crore for FY2015 against revenue from operations of Rs.22.68 crore and PAT of Rs.13.27 crore in FY2014. PFCGEL's net worth stood at Rs.330.15 crore as on March 31, 2015 against Rs.311.24 crore as on March 31, 2014.

About Power Finance Corporation (PFC)

PFC, established in 1986, is one of India's largest infrastructure financing companies. The corporation is strategically important to the Indian government since it plays a key role in the Indian power sector. It has a significant market position and long track record of conducting business in the power financing space. As on March 31, 2015, PFC had advances of Rs.2,17,042crore and revenue from operations of Rs.24,861 crore in FY2015. It reported PAT of Rs.5,959.33 crore in FY2015 against PAT of Rs.5417.75 crore in FY2014.

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