'CareEdge BBB+/Stable' rating assigned to Power Finance Corporation Limited

USD 8 billion global medium-term notes^	**CareEdge BBB+/Stable**
Long-term foreign currency issuer rating	**CareEdge BBB+/Stable**

^Assuming the notes issued under the programme would be senior and rank pari passu with the issuer's other senior debt obligations. Facility-specific rating would be evaluated based on the instrument features once finalised closer to issuance.

CareEdge Global has assigned a '**CareEdge BBB+/Stable'** long-term foreign currency issuer rating to Power Finance Corporation Limited (PFC). It has also assigned the same rating to PFC's global medium-term notes (GMTN).

Rationale

PFC benefits from the majority ownership of the Government of India (GoI; rated CareEdge BBB+/Stable 'Unsolicited'), which holds a 56% stake in the company as of March 31, 2026. PFC's systemic importance as India's largest public sector financial institutions, its dominant role in financing the power sector, high socio-political relevance, and strong public perception underscore a high moral obligation of the GoI to provide the company support in times of financial distress. Consequently, there is a likelihood of strong extraordinary sovereign support, if required, resulting in PFC's credit profile being equated to that of the sovereign.

PFC is a strategically important entity for the GoI, given its central role in providing long-term funding to generation, transmission, distribution, and renewable energy projects. Along with REC Limited, PFC is a key financing and implementation partner for GoI schemes such as the Revamped Distribution Sector Scheme (RDSS), Ultra Mega Power Projects (UMPP), and Late Payment Surcharge (LPS) support to distribution companies. The GoI's administrative oversight through the Ministry of Power combined with PFC's policy role in strengthening India's power infrastructure results in a high degree of strategic alignment and an expectation of support.

PFC's core credit profile is healthy, supported by its dominant position in power sector financing, large scale, diversified resource profile, adequate capitalisation, healthy profitability, and strong financial flexibility. However, these strengths are partly offset by high sector and borrower concentration, particularly sizeable exposure to state power utilities with weak credit profiles. Although asset quality has improved through the resolution of legacy stressed assets and high provision coverage, the portfolio remains vulnerable to state-level fiscal pressures and project-level stress owing to tariff under-recoveries or subsidy delays.

Outlook

The stable outlook for PFC, in line with the sovereign of India, reflects CareEdge Global's expectation of continued support from the GoI and the company's ongoing strategic importance in India's power sector financing framework. The rating outlook for PFC will move in tandem with CareEdge Global's sovereign rating outlook for India.

Rating sensitivities

Upward factors

- Any upward revision in the sovereign rating or outlook for India by CareEdge Global

Downward factors

- Any downward revision in the sovereign rating or outlook for India by CareEdge Global
- Material dilution in the GoI's support philosophy or a significant decrease in its shareholding below the majority mark

Analytical approach

CareEdge Global has evaluated PFC's business and financial risk profile on a consolidated basis, including REC and its other subsidiaries, considering the business and financial linkages as well as the shared strategic importance of PFC and REC to the GoI. CareEdge Global has equated PFC's rating with the GoI's rating, using its criteria for rating government-related entities (GRE).

Key rating drivers

Strengths

Majority ownership, high criticality, and strong GoI support

Incorporated in 1986 as a financial institution dedicated to power sector financing under the Ministry of Power, PFC was wholly owned by the GoI until its listing in 2007. It continues to be majority owned by the GoI. The company is classified as an infrastructure finance company by the Reserve Bank of India (RBI) and is a Maharatna Central Public Sector Enterprise (CPSE).

CareEdge Global also notes that following the ongoing merger between PFC and REC, the combined entity will become largest power financiers in India, with an asset base of more than Rs 12 trillion. This merger is expected to drive operational synergies and strategic alignment with the GoI's power sector priorities and energy transition target. Post merger, the merged entity is expected to maintain the "Government Company" status.

PFC plays a pivotal role in financing India's power infrastructure across generation, transmission, distribution, and renewable energy. The power sector is critical to India's economic development, and PFC remains one of the key government-linked institution that supports long-tenor funding to the industry. Beyond commercial lending, PFC acts as a policy financing and implementation vehicle for the GoI's power sector priorities.

Any potential distress or failure of PFC would have significant systemic implications, including disruption in power sector financing, weakened investor confidence in GoI-linked issuers, and heightened contagion risk across the public sector financial institutions. Given this close linkage, the GoI has a strong moral obligation to extend timely financial support to PFC, if required. Accordingly, PFC's rating is equated with India's sovereign rating.

Dominant position in power sector financing

PFC is one of the most important financiers of India's power sector, underpinned by its large scale of operations, long-standing franchise, and strategic position as a government-linked lender. PFC Group is the largest NBFC group in India, with a consolidated loan asset book of around Rs 11.6 trillion as of March 2026.

PFC's scale has strengthened over time through organic growth and the acquisition of a majority stake in REC in 2019. PFC currently holds 52.6% in REC, and the proposed merger of PFC and REC is expected to create a single, focused institution with larger financing capability and deeper sector reach.

Adequate capitalisation and moderate leverage

PFC maintains an adequate capitalisation profile, with satisfactory cushion over the minimum regulatory requirements. As of March 31, 2026, it reported a capital adequacy ratio (CAR) of 23.4% and Tier-I capital ratio of 21.9% (while REC had a CAR of 23.1% and Tier-I capital ratio of 21.3%), providing sufficient headroom for growth.

In FY26, the company's consolidated net worth crossed Rs 1.7 trillion, supported by healthy internal accruals. The combined net worth remained strong, supported by the profitability of PFC and REC. The comfortable capital profile provides a buffer against sector concentration, large-ticket exposures, and potential stress in the power sector.

Diversified resource profile

PFC has a diversified resource profile and strong funding flexibility, given its government-related entity status. The company mobilises funds from domestic bonds, bank loans, commercial paper, capital gain tax exemption bonds (Section 54EC), foreign currency borrowings, infrastructure bonds, tax-free bonds, external commercial borrowings, and international agencies.

As of March 31, 2026, PFC's total outstanding borrowings on a standalone basis amounted to around Rs 4.9 trillion (consolidated: Rs 9.9 trillion), with a domestic-to-foreign borrowing mix of 80:20. Around 65% of total borrowings were fixed rate liabilities, providing stability to the liability profile amid volatile interest rates. PFC's foreign currency borrowing was around USD 26.1 billion, diversified across USD, JPY and EUR, with around 97% of the foreign currency portfolio hedged.

Healthy profitability metrics, aiding internal accruals

PFC's profitability metrics are healthy, supported by stable spreads, strong operating efficiency, and contained credit costs. On a consolidated basis, the PFC Group reported profit after tax of Rs 336 billion in FY26, highest among NBFC peers, aiding strong internal accrual generation. The company reported yield of 10.0% and cost of funds of 7.4%, translating into a healthy spread of 2.6% and net interest margin of 3.6%, while return on assets (RoA) remained stable at 2.5-3.0% over the past five fiscals.

Return on net worth remains robust at 30% (excluding minority interest) and 20% on an adjusted basis, reflecting strong core earnings generation. Operating efficiency benefits from the wholesale lending model and lean cost structure, resulting in low opex and controlled credit costs. While profitability is expected to remain healthy, spreads may remain range-bound in the near term due to competitive pricing, refinancing by banks, prepayments, and foreign exchange-related volatility.

Weaknesses

Sector and borrower concentration, with vulnerability to asset quality pressure

PFC's lending is highly concentrated in the power sector (86% of the portfolio – transmission and distribution at 43%, conventional generation 29%, renewable energy 14%), exposing it to sectoral risks such as tariff discipline, subsidy dependence, distribution companies' (discoms) finances, fuel linkages, project execution, and regulatory dynamics.

Borrower concentration also remains high, given the large-ticket nature of infrastructure lending. PFC's top 10 borrowers accounted for around 35% of total advances as of March 31, 2026. Therefore, stress in a few large borrowers or projects could lead to volatility in asset quality and credit costs. PFC also has a sizeable exposure to state power utilities, which have historically exhibited weak credit profiles. Government-sector borrowers accounted for around 80% of loan assets as of March 31, 2026, while overall private sector exposure increased to 20% from 15% as of March 31, 2024, led partly by growth in renewable energy lending. Despite nil NPAs as of March 31, 2026, the credit profiles of government-backed borrowers remain reliant on sustained state support, tariff discipline, and timely subsidies.

Asset quality vulnerability is more visible in the private sector book. PFC's consolidated gross Stage-3 assets stood at around 0.7% of total advances as of March 31, 2026, down from 1.6% as of March 31, 2025, following resolution of large, stressed accounts. However, the entire credit-impaired portfolio was from the private sector book, and around 6% of private sector loans were recognised as Stage-3 assets, with provision coverage of around 82%.

While overall asset quality has improved materially over recent years, risks from concentrated exposures and potential fresh slippage persist. Diversification into non-power infrastructure continues to evolve and its prudent scaling will be crucial.

Liquidity

PFC's liquidity profile is comfortable, with a cash balance of Rs 47 bn as of March 31, 2026, down from Rs 97 bn as of March 2025. Additionally, it has investments of Rs 155 billion, which can be liquidated if required. Liquidity is supported by predictable loan repayments, access to bank lines, strong domestic bond market access, international market access, and investor confidence in its government-linked status. Despite a long-tenor loan book, there are no cumulative negative mismatches other than a minor mismatch in the 3-to-6-month bucket, as of March 31, 2026.

Environmental, social and governance (ESG) considerations

PFC's ESG profile strengthens its credit profile through its role in financing India's energy transition. The company has materially scaled up its renewable energy portfolio, with the renewable loan book increasing to Rs 901 billion in FY26, representing 32% of the generation book. PFC has also supported around 66 GW of renewable capacity as of FY26 and is increasingly participating in emerging areas such as hybrid renewable projects, battery energy storage, and pump storage projects. Its increasing role in green financing, energy transition, and storage-linked projects supports its long-term sustainability profile.

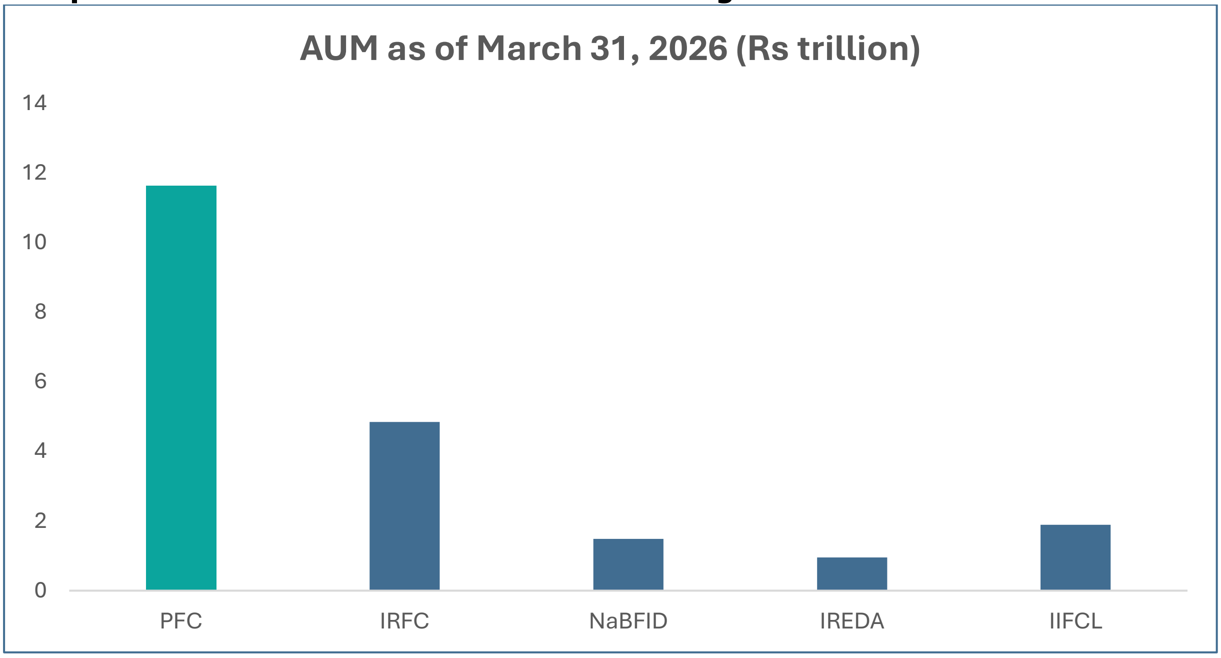
Social risks, including cybersecurity, data protection and operational resilience, are important given PFC's role as a large financial institution. Governance is supported by majority GoI ownership, Maharatna CPSE status, Ministry of Power oversight, listed-entity disclosure requirements, independent director representation, and public sector operating standards.

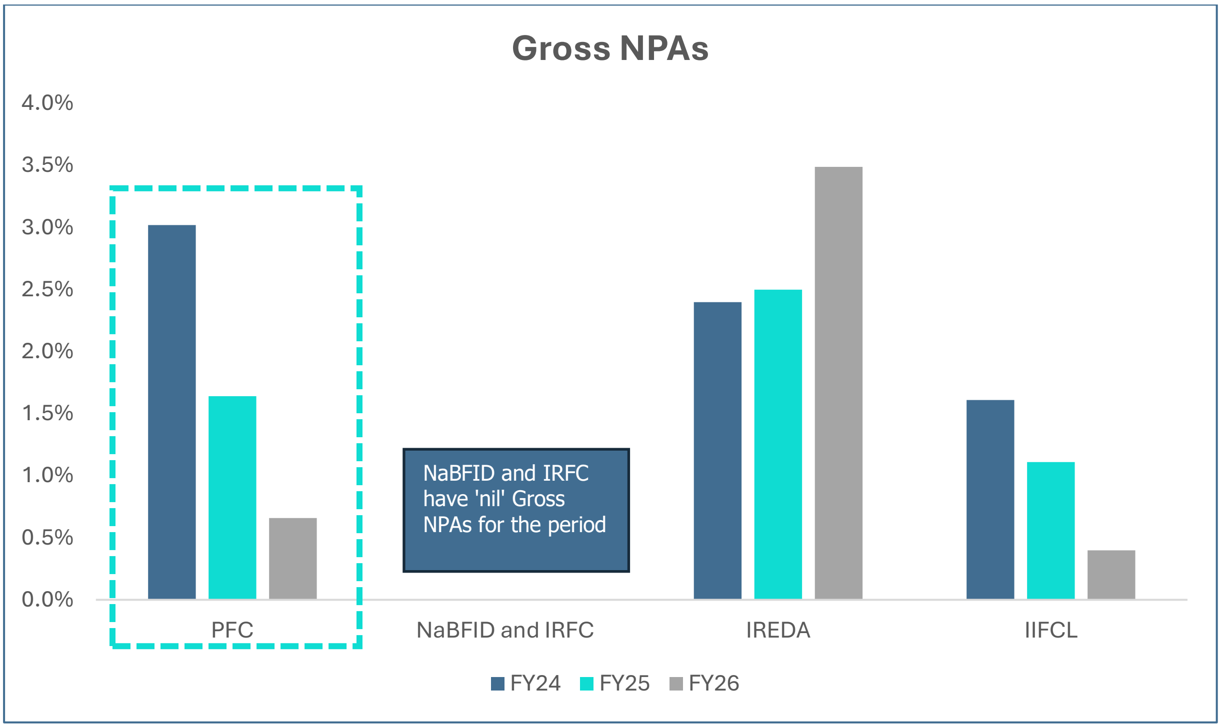
About the company

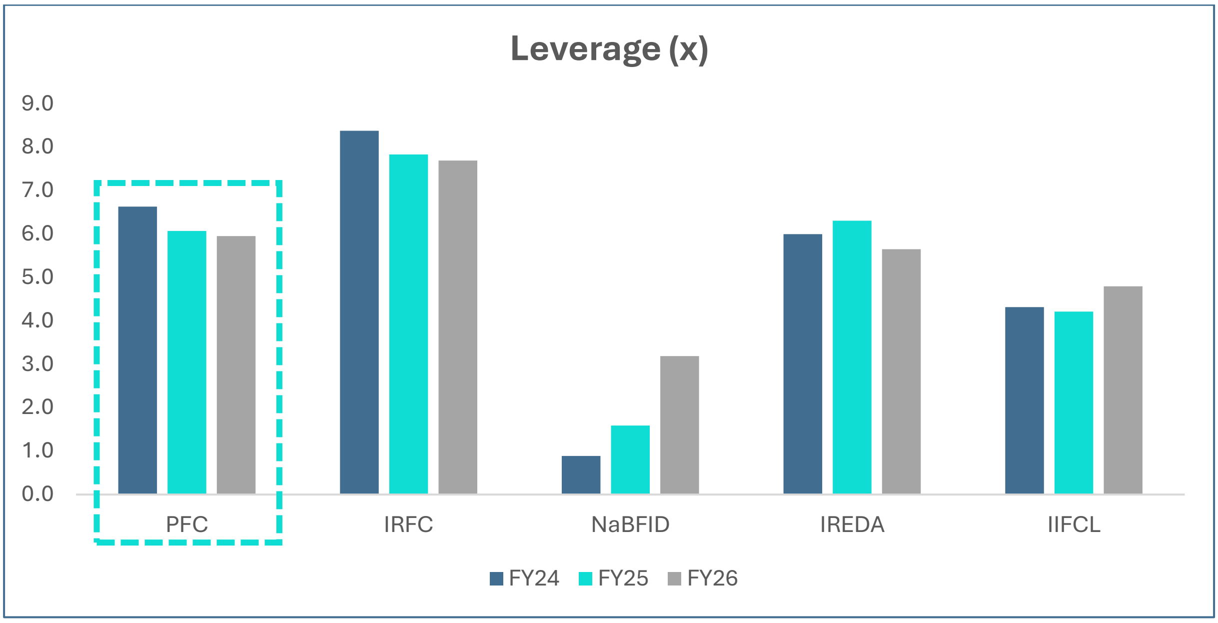
Incorporated in 1986 as a specialised financial institution for the power sector, PFC operates under the administrative control of the Ministry of Power, GoI. Classified as an infrastructure finance company by the RBI, it is a Maharatna CPSE with majority government ownership (~56% as of March 31, 2026). The company provides short- and long-term financing across generation, transmission, distribution, renewable energy and related infrastructure, catering to a diversified borrower base comprising central/state utilities, discoms, transmission entities, private developers, and government departments.

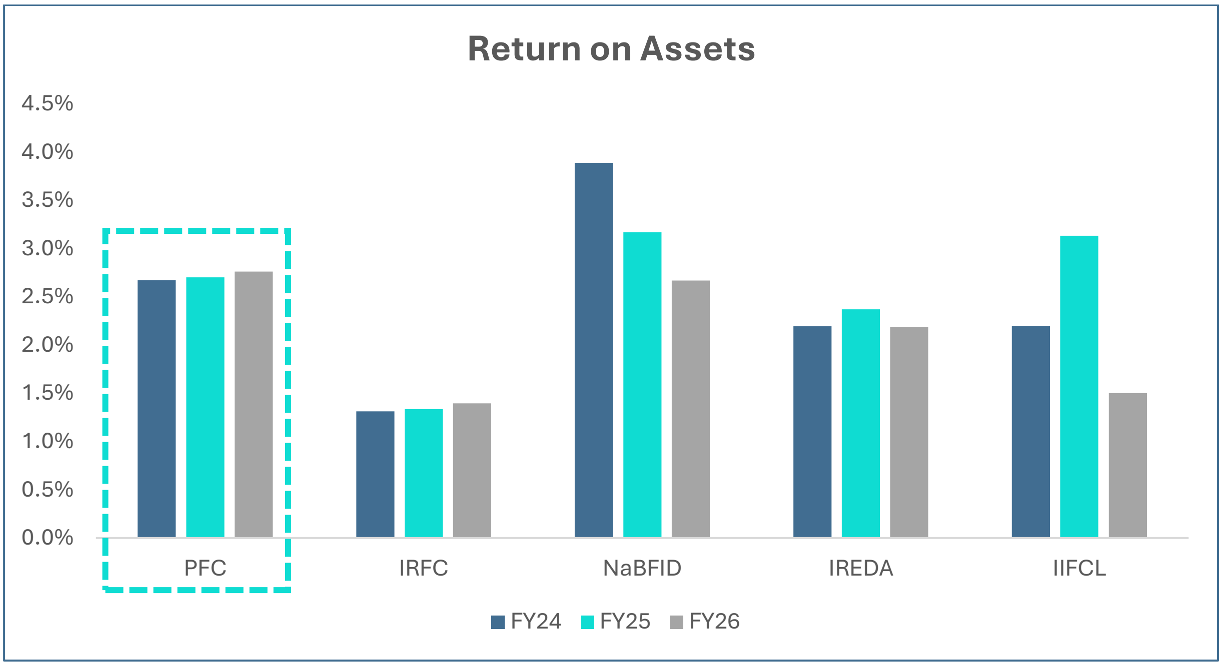
In March 2019, PFC acquired a majority stake in REC Limited (52.6% as of March 31, 2026), strengthening its position as a key nodal agency for major GoI schemes. The PFC Group reported consolidated loan assets of Rs 11.6 trillion (standalone: Rs 5.8 trillion) as of March 31, 2026. The proposed merger of REC and PFC, which received Presidential approval in June 2026, is expected to further consolidate its dominant position in power sector financing, subject to requisite clearances.

Comparison with other Public Sector Undertakings









Key financial metrics (consolidated)

Particulars	Unit	March 31, 2024	March 31, 2025	March 31, 2026
AUM	Rs trillion	9.9	11.1	11.6
Profit after tax	Rs billion	265	305	336
CAR	%	25.4	22.1	23.4
GNPA	%	3.0	1.6	0.7
NNPA	%	0.9	0.4	0.1
RoA	%	2.7	2.8	2.8

Solicitation status

The rating is solicited. The management has provided information to and held meetings with the CareEdge Global analytical team for the rating.

Details of the instrument

Instrument	ISIN	Date of issuance	Coupon rate (%)	Maturity date	Issue size	Rating
Global medium-term notes	-	-	-	-	USD 8 billion	CareEdge BBB+/Stable

Rating history

Instrument	Type	Rating	Date
Global medium-term notes	Long-Term Foreign Currency	CareEdge BBB+/Stable	June 21, 2026
Issuer rating	Long-Term Foreign Currency	CareEdge BBB+/Stable	June 21, 2026

Criteria applied

CareEdge Global's Government Related Entity Rating Methodology

CareEdge Global's Financial Institutions Rating Methodology

CareEdge Global's Consolidation Methodology

Analytical contacts

Ankit Kedia
ankit.kedia@careedgeglobal.com

Sanchit Arora
sanchit.arora@careedgeglobal.com

Smit Doshi
smit.doshi@careedgeglobal.com

Media contact

Mradul Mishra
mradul.mishra@careedge.in

About Us

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CareEdge Global IFSC Limited
(A subsidiary of CARE Ratings Ltd.)
501, FlexOne, GIFT SEZ, Block 15, Gandhinagar, Gujarat – 382050, India. Phone: +91-79-6519 0701 l www.careedgeglobal.com
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