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PFC PLANS TO BORROW RS 7,000 CRORE FROM DOMESTIC BANKS TO FUND REC DEAL

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NEW DELHI: State-run Power Finance Corp (PFC) plans to fund its acquisition of REC by borrowing Rs 7,000 crore from domestic banks, for which negotiations have begun, and is likely to moderate its dividend pay out as well as disbursements to loan accounts this financial year. The company is also banking on a special dividend from REC Ltd after the acquisition, said a government official.

It is not expected to raise funds through issue of shares this year as the borrowings along with internal resources and several other steps will enable the firm to fund the Rs 14,000 crore buyout as well as manage the capitalisation issue, the official said.

Credit rating agencies have put the company on credit watch after announcement of the deal. Moody's Investor Service Thursday said it has placed the ratings of PFC and REC on review for downgrade. ICRA has placed debt programmes of both companies under watch till valuation of the deal.

The Union cabinet last week approved sale of government's stake in REC to PFC along with transfer of management control, in a deal estimated to raise over Rs 14,000 crore disinvestment proceeds. A ministerial committee comprising finance minister Arun Jaitley, power minister RK Singh and road transport minister Nitin Gadkari will work out modalities of the acquisition based on proposals submitted by a committee of secretaries.

"PFC borrowed Rs 77,000 crore from the market last FY and normally borrows Rs 65,000-70,000 crore in a year. Therefore, it should not have liquidity concerns while raising funds for the operations and acquisition deal," he said.

About Rs 500 crore capital is likely to be released by the end of this month through merger of the company's renewable energy arm PFC Green Energy. "All these measures along with unwinding of its stressed assets should help the company in sailing through the buyout of REC," he said.

The official said given the higher capital adequacy and bigger balance sheet, PFC is in a better position to manage the risk on capitalisation ratios. "PFC may have to raise tier-II capital, which is a normal market borrowing in the form of subordinated debt. The company has informed us that being a regular whole sale market borrower this should not be a significant challenge," a MoF official said.

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