Merger of PFC and REC

Why in news?

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Union Cabinet has approved the sale of a majority stake in Rural Electrification Corporation (REC) to Power Finance Corporation (PFC).

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What is brief roles of REC and PFC?

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- **REC -** Rural Electrification Corporation is a Navratna Company functioning under the purview of the Ministry of Power.
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- It takes the role of public Infrastructure Finance Company in India's power sector and promotes rural electrification projects across India.
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- The company provides loans to Central/ State Sector Power Utilities, State Electricity Boards, Rural Electric Cooperatives, NGOs and Private Power Developers.
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- **PFC -** Power Finance Corporation is an Indian financial institution.
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- It comes under Navratna category and wholly owned by the Government of India.
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- PFC is essentially a state-run non-banking financial company that focuses on power infrastructure, while REC is an implementation and finance company with a focus on generation.
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What is the plan on sale of stakes?

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- According the Union cabinet's plan PFC will take over a 52.63 per cent stake

in REC, leaving only 6 per cent with the government, and thus have control over the management of REC.
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- This decision will create a single state-run company that will dominate the power finance sector, particularly lending to renewable energy projects.
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- In future, REC will depend on PFC when it comes to raising capital.
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- In essence, this will count as a takeover although the government has insisted that the two companies would be allowed to hold on to their distinct identities.
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- This plan will help the government to raise as much as Rs 140 billion and thus move closer to the Rs 800 billion disinvestment target that was set in the Union Budget for 2018-19.
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What are the concerns with this move?

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- Earlier proposal on this regard was the exact opposite for REC to buy PFC, now this was reversed on advice from the Union power ministry.
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- Union finance ministry is interested only in the funds that this transaction would bring the exchequer.
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- With respect to earlier examples if one government-run company buys a stake in another, it does not reduce state control over the economy.
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- It is just one more way for cash reserves in the public sector to be tapped by the government to finance its own spending.
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- This is neither the real purpose of disinvestment nor is it good for the companies and sectors involved.
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- In this case, it is particularly disturbing as the purchasing company will have to take on extra debt to finance the purchase and both companies have heavily burdened balance sheets.
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- PFC has non-performing assets on its books worth 14,000 Mw, for example, this purchase is only likely to burden the joint entity further.
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What is the way forward?

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- Given the state of the power sector, PFC has better use for any capital it can raise than to transfer it to the government.
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- The government's claim that the post-takeover entity will be able to raise capital more cheaply is questionable, as there are probabilities of down grade of rating for both PFC and REC.
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- Thus the decision must be re-examined, and the regulators involved including the Competition Commission of India, Securities and Exchange Board of India.
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- Apart from this Reserve Bank of India should demonstrate their independence in this matter.
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Source: Business Standard

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