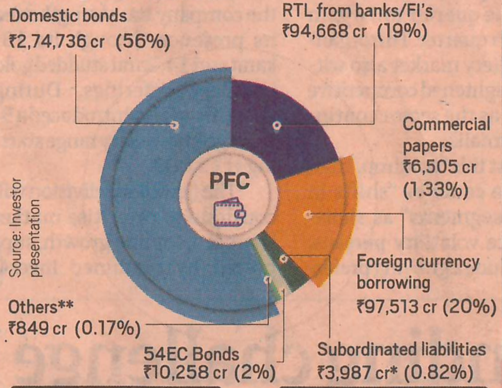
REGULATORY EXPOSURE LIMIT LIKELY TO BE A CAUSE FOR CONCERN

PFC-REC merger may dent incremental bond demand

CHRISTINA TITUS
Mumbai, July 3

IN NUMBERS

Borrowing mix as on 31.03.2026

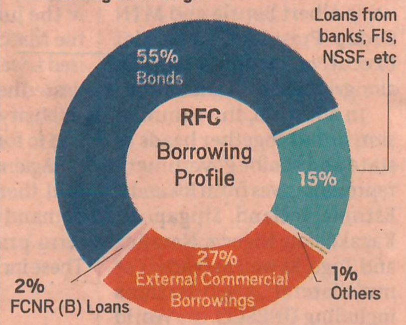


₹4,88,516 cr
Outstanding Borrowings as on 31.03.2026

97%
Exchange risk hedged on total FCL portfolio

*Includes perpetual debt; ** Consists of loan against deposits, overdraft, cash credit

Outstanding borrowings



Nearly 99% of the total foreign currency borrowings are hedged.

- Both entities raised ₹1.43 lakh crore through bond issuances in FY26
- Further clarity on the share-swap ratio and other implementation details awaited

THE PROPOSED MERGER of Power Finance Corporation (PFC) and REC could dampen incremental demand for the bonds of the combined entity, as several institutional investors may approach regulatory exposure limits once the two issuers become a single entity, market participants said.

The boards of PFC and REC approved the merger on June 28.

"When the actual merger happens, demand from some actively-managed funds could ease as they may hit investment limits and be unable to increase their exposure. While the long-term outlook is unlikely to change materially, the near-term slowdown in incremental demand could result in a marginal rise in bond yields," said Anurag Mittal, head of fixed income at UTI Mutual Fund.

Under the Securities and Exchange Board of India (Sebi) regulations, a standard mutual fund scheme cannot invest more than 10% of its net asset value (NAV) in debt instruments issued by a single entity. As a result, the merged entity may have to diversify its funding sources or recalibrate its issuance strategy, Mittal said.

"If mutual fund demand falls because of single-issuer limits, issuers are likely to shift their supply strategy to better accommodate other large domestic investors such as pension funds and the Employees' Provident Fund Organisation (EPFO)," he added.

As of March 31, PFC's domestic bond borrowings stood at ₹2.75 lakh crore, accounting for 56% of its funding mix. REC's domestic bond borrowings were ₹2.77 lakh crore, representing 55% of its total borrowings, according to the companies' investor presentations.

Together, the two entities raised ₹1.43 lakh crore through bond issuances in FY26, accounting for about 13% of total corporate bond issuances during the year, according to Prime Database.

Ajay Manglunia, executive director at Capri Global Capital, said issuance volumes could decline modestly after the merger, potentially affecting the broader corporate bond market given the combined entity's size.

"Investors who could previously buy bonds from two separate issuers will face concentrated exposure after the merger, which could curb incremental demand," he said.

Radhavi Deshpande, chief investment officer at Kotak Mahindra Life Insurance, does not expect a significant change in overall issuance. However, she said investors constrained by single-issuer limits could redirect investments to other high-quality corporate bonds. "I expect existing holdings will be grandfathered. We are awaiting further clarity on the share-swap ratio and other implementation details."

The merger will be carried out through a share-swap ratio of 88 fully paid-up equity shares of PFC, with a face value of ₹10 each, for every 100 fully paid-up equity shares of REC with a face value of ₹10 each.