

June 30, 2021

## Tamil Nadu Generation and Distribution Corporation Ltd: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Bonds Programme	3,335.8	3,335.8	[ICRA]A-(CE) (Stable); Reaffirmed
Non-Convertible Bonds Programme	80.7	0.00	[ICRA]A-(CE) (Stable); Reaffirmed and withdrawn
<b>Total</b>	<b>3,416.5</b>	<b>3,335.8</b>	

<b>Rating Without Explicit Credit Enhancement</b>	<b>[ICRA]BB+</b>
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\*Instrument details are provided in Annexure-1

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

### Rationale

The above rating of Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO / 'the entity') is based on the strength of the unconditional and irrevocable guarantee extended by the Government of Tamil Nadu (GoTN) to the rated instrument over its entire tenure. The Stable outlook on this rating reflects ICRA's outlook on the rating of the guarantor, GoTN.

ICRA has withdrawn the rating assigned to the Rs. 80.7 crore bond programme of TANGEDCO as there is no amount outstanding against these rated instruments. The rating has been withdrawn at the request of the company and as per ICRA's policy on the withdrawal and suspension of credit ratings.

### Adequacy of credit enhancement

The rating of the instrument is based on the credit substitution approach whereby the rating of the guarantor has been translated to the rating of the said instrument. The guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenure of the rated instrument and has a well-defined invocation and payment mechanism. Given these attributes, the guarantee provided by GoTN is adequately strong to result in an enhancement in the rating of the said instrument to [ICRA]A-(CE) against the rating of [ICRA]BB+ without explicit credit enhancement. In case the rating of the guarantor was to undergo a change in future, the same would reflect in the rating of the aforesaid instrument as well.

### Salient covenants related to the credit enhancement, as specified in the guaranteed documents

- » TANGEDCO has opened an escrow account (in nature of trust and retention account) with the designated bank and shall credit the adequate funds in the escrow account for servicing the bondholders at least five working days prior to the service date (T), for payment of principal and/or interest. In case TANGEDCO does not deposit the sufficient funds into the escrow account, at least five working days prior to forthcoming due date (T-5) or put them in investments (deposits of Banks or investments in highest rated debt instruments, which are rated AAA for long-term or A1+ for short-term by ICRA and are further lien to the Trustee or bond holders with a maturity date of T-1 working day), TANGEDCO shall intimate in writing to the Deputy Secretary of Government (Budget/Finance) and/or Designated Official of GoTN, with a copy to the Trustee and ICRA, indicating the forthcoming service date (T), amount payable to the bond holder as interest and /or principal on the said date and also request GoTN to ensure that adequate funds are available in the escrow account for servicing the bondholders on the forthcoming due date.

- » Notwithstanding the obligation of TANGEDCO to intimate GoTN and the Trustee about the clear fund balance in the escrow account, 45 working days prior to the service date (T), the Trustee shall send notices to the Finance Secretary and/or Designated Official of GoTN and TANGEDCO, with a copy to ICRA, indicating the forthcoming service date (T), amount payable to the bondholders as interest and /or principal on the said date and also request GoTN to ensure that adequate funds are available in the escrow account for servicing the bondholders as per the payment mechanism.
- » The Trustee will monitor the balance in the escrow account including invested funds at 30, 15 and 5 working days prior to every service date (T) for the payment of interest and /or principal. In the event the balance in the designated account, after taking into account the invested funds as provided, are inadequate, the Trustee shall send further notices to GoTN and TANGEDCO.

## Key rating drivers and their description

### Credit strengths

**State ownership and support** – TANGEDCO came into existence following the debundling of the erstwhile Tamil Nadu Electricity Board (TNEB) in 2010. It is responsible for generation and distribution of power in Tamil Nadu and is strategically important to the state power sector. It is held entirely by the GoTN, which has supported the distribution company (discom) through regular infusion of funds in the form of equity or interest-free unsecured loans. The rated bond programmes are also supported by an unconditional and irrevocable guarantee provided by GoTN towards debt servicing.

### Credit challenges

**High financial risk profile of TANGEDCO on standalone basis** – Financial profile of TANGEDCO remains weak as it continues to incur substantial losses owing to the inadequate tariff rates, low capacity addition/utilisation over the years, moderately weak operational efficiency and the high cost of power purchase. Over the last three years (FY2018, FY2019 and FY2020), the gap between the Average Cost of Supply and the Average Rate of Realisation (ACS-ARR gap) increased considerably primarily due to inadequate tariff rates and rising overheads along with increase in employee costs and financial expenses.

Sizeable cash losses and significant reliance on external borrowings have resulted in a highly leveraged capital structure and weak debt protection metrics. The discom had reported cash losses of Rs. 9,190 crore in FY2020 (PY Rs. 10,207 crore) owing to the continuing gap between tariff income and revenue expenses. The losses have increased in FY2021, partly due to the adverse impact of Covid-19. The gap between Average Cost of Supply and Average Rate of Realisation (ACS-ARR gap), has increased over the years despite the rising subsidies over the years. However, ACS-ARR gap witnessed a slight moderation in FY2020. The borrowing levels have also increased significantly over the last three years to Rs. 1,24,413 crore (PY: Rs. 113487 crore) as on March 31, 2020 from Rs. 101173 crore as on March 2018. Of the total debt outstanding on March 31, 2020 around Rs. 103100.8 crore was from banks and FIs, which further increased to around Rs. 124974.6 crore as on March 31, 2021. TANGEDCO is currently in the process of submitting a tariff revision petition with TNERC, which has witnessed delays. TANGEDCO's ability to increase the tariff rates and maintain the cost of supply remains crucial to improve the return indicators and ICRA would continue to monitor the developments related to this.

## Key rating drivers and their description (Guarantor)

### Credit Strengths

**Healthy socio-economic indicators** – The state's performance on various socio-economic and demographic indicators<sup>1</sup>, such as per-capita income (Rs. 2,18,599 in FY2020), literacy rate (80.3% in 2011), urbanisation rate (48.5% in 2011) and poverty rate (22.4% in 2012) was more favourable than the respective national averages (Rs. 1,34,186, 74.0%, 31.2% and 29.5%, respectively).

<sup>1</sup> Source: National Statistical Organization (NSO), Census of India and Rangarajan Committee poverty estimates

**Favourable self-reliance:** Nearly 60% of the GoTN's revenue expenditure<sup>2</sup> was covered through its own revenues (state own tax revenues, or SOTR, and state own non-tax revenues, or SONTR) during FY2016-FY2020, indicating a healthy level of self-reliance.

**Fiscal deficit within Finance Commission (FC) norms:** During the 14th Finance Commission's award period of FY2016-FY2020, the GoTN's fiscal deficit remained below the FC recommended cap of 3.0% of GSDP in all the years, except FY2020 when it rose to 3.3% of GSDP. In addition, the FY2022 fiscal deficit is budgeted (as per the Interim Budget presented in February 2021) to remain under the net borrowing limit set by the Ministry of Finance on the recommendations of the 15th Finance Commission.

## Credit Challenges

**Decline in own tax effort:** Following low SOTR growth from FY2014 to FY2020, the GoTN's own tax revenues have moderated from 7.6% of GSDP in FY2014 to 6.8% of GSDP in FY2016, and further to 5.8% in FY2020.

**Committed expenditure and spending on key subsidies dominate revenue expenditure:** Around 63% of the GoTN's revenue spending has been on committed expenditure, and food and power subsidies during FY2016-FY2020, which is relatively higher than that of some of the other states. Given the sticky nature of these items, a higher outgo on them tends to reduce the flexibility to lower revenue expenditure in response to moderation in revenues.

**Sustained revenue deficits:** The GoTN has recorded sustained revenue deficits since FY2014, the size of which has increased from 0.2% of GSDP in FY2014 to 1.9% of GSDP in FY2020.

**Rising leverage levels (debt<sup>3</sup>+guarantees):** Reflecting the sustained fiscal deficits and support extended to the power sector, the GoTN's leverage levels have deteriorated to 24.1% of GSDP and 4.1x SOTR in FY2020 from 22.3% of GSDP and 3.3x SOTR in FY2016.

## Liquidity position: Adequate

### For the [ICRA]A-(CE) (Stable) rating: Adequate

The GoTN did not avail the WMA and OD facilities from the Reserve Bank of India (RBI) during FY2016-FY2021. Additionally, the GoTN had an investment of Rs. 2,000 crore in auction treasury bills and Rs. 40 crore in Government securities at the end of March 2021. Based on the aforementioned indicators, the liquidity position of the state government can be inferred to be adequate in recent years.

### For rating without explicit credit enhancement: Stretched

Due to continued losses and high repayment obligations and capex plans, the liquidity position of TANGDECO is stretched; however, the continued support from GoTN and funds under the Government's Atmanirbhar Package provide some support to the liquidity profile. The GoTN has also provided unconditional and irrevocable guarantee extended by the GoTN to the rated instrument over its entire tenure.

## Rating sensitivities

### For the [ICRA]A-(CE) (Stable) rating

The rating assigned to the Rs. 3,335.8-crore Non-Convertible Bonds Programmes of TANGDECO would remain sensitive to any movement in the rating or outlook of the guarantor, i.e., GoTN.

<sup>2</sup> Revenue receipts and expenditure adjusted for double entries of interest from departmental commercial undertakings

<sup>3</sup> Includes internal debt, loans from the Centre, provident fund, etc.

## Rating sensitivities (for GoTN)

**Positive factors:** Sustained improvement in the fiscal balances and leverage levels of the GoTN could trigger a rating upgrade.

**Negative factors:** Sustained deterioration in the GoTN's revenues, leading to the continuation of sizeable revenue deficits, and/or a rise in leverage levels could lead to a rating downgrade. An increase in the debt outstanding of the state power sector entities (either supported or unsupported by the GoTN), leading to a significant worsening of the consolidated leverage levels of the state government and its power entities could also be a negative rating trigger.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Power Distribution Utilities Approach for rating debt instruments backed by third-party explicit support</a> <a href="#">Policy on Withdrawal of Credit Ratings</a>
Parent/Group Support	The rated facilities of TANGEDCO are backed by an unconditional and irrevocable guarantee from the GoTN
Consolidation/Standalone	Standalone

## About the company

Under the reorganisation and transfer scheme of TNEB under the Tamil Nadu Electricity (Reorganization and Reforms) Transfer Scheme 2010 issued by the GoTN with effect from November 1, 2010, TNEB has been reorganised into TNEB Limited (the holding company), Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO) and Tamil Nadu Transmission Corporation Limited (TANTRANSCO). TANGEDCO is the largest utility in the country in terms of the number of consumers and one of the top few state utilities in terms of energy sales. As on March 31, 2021, TANGEDCO had an installed capacity of about 7,164 MW, which largely consisted of thermal power plants (~60%) and hydel capacity (~30%) apart from gas-based capacity and a few windmills. TANGEDCO also sources a significant portion of its requirement from central power sector utilities, such as National Thermal Power Corporation Limited, Neyveli Lignite Corporation Limited and Nuclear Power Corporation of India Limited, besides independent power producers in the state. Other sources from where power is purchased include captive generating units, co-generation units and wind mills.

## About the guarantor: GoTN's Finances

Tamil Nadu is one of the more industrialised states of India and performs favourably on various socio-economic indicators compared to several other states.

The GoTN's revenue receipts as a proportion of its GSDP eased from 10.9% in FY2016 to 9.4% in FY2020, chiefly reflecting a decline in its own-tax effort (from 6.8% to 5.8% of GSDP) in the same period. However, its revenue expenditure remained relatively higher at 11.9% of GSDP in FY2016 and 11.3% of GSDP in FY2020, led by substantial spending on subsidy and welfare schemes. Accordingly, the GoTN's revenue deficits rose from Rs. 11,986 crore or 1.0% of GSDP in FY2016 to a considerable Rs. 35,909 crore or 1.9% of GSDP in FY2020. Nevertheless, with modest capital outlay and net lending relative to the GSDP, the GoTN was able to curtail its fiscal deficit below the FC-set targets during FY2016-FY2020. Led by sustained fiscal deficits and support extended to the power sector, the GoTN's leverage levels have deteriorated to 24.1% of GSDP and 4.1x SOTR in FY2020 from 22.3% of GSDP and 3.3x SOTR in FY2016.

Amid the Covid-19 pandemic, there was a sharp YoY increase in the revenue expenditure of the GoTN and a modest rise in its revenue receipts in FY2021, widening its revenue deficit to Rs. 65,994 crore in the revised estimates (RE) for that fiscal. Subsequently, the Interim Budget presented on February 23, 2021 (prior to the Legislative Elections held in the state in May 2021), projected a healthy 21.3% growth in its revenue receipts and a modest 5.5% rise in its revenue expenditure in the budget estimates (BE) for FY2022. Accordingly, the GoTN's revenue deficit is expected to narrow to Rs. 41,417 crore in FY2022

BE, while remaining substantial. However, the resurgence of the Covid-19 infections in the country, including in Tamil Nadu, in the first two months of FY2022 is likely to have dampened consumption of various discretionary goods and services. This poses a risk to the healthy growth in revenues projected for FY2022, as well as to the budgeted improvement in the revenue deficit of the ongoing fiscal.

While the FY2022 Interim Budget had projected an 11.1% rise in capital outlay and net lending, the GoTN's fiscal deficit was budgeted to decline to Rs. 84,202 crore in FY2022 from Rs. 1,04,498 crore in FY2021 RE. As per the medium term fiscal plan published with FY2022 interim budget, the GoTN expects its fiscal deficit to be within the net borrowing limit set for FY2022.

Following the completion of the state legislative elections, the newly formed Government would likely present a final Budget for FY2022 by July 2021. ICRA would closely assess the revenue projections in the same, especially in light of the expected negative impact of the second surge of Covid-19 on economic activities in Q1 FY2022. Moreover, ICRA will analyse the expenditure priorities of the Government and their impact on the fiscal position of the state. ICRA will continue to monitor the financial health of the state's power sector entities, given the support extended by the GoTN to such entities.

### Key financial indicators (audited) - TANGEDCO

TANGEDCO	FY2019	FY2020
Operating Income (Rs. crore)	61666.7	65177.1
PAT (Rs. crore)	-12623.4	-11964.9
OPBDIT/OI (%)	-3.2%	0.2%
PAT/OI (%)	-20.5%	-18.4%
Total Outside Liabilities/Tangible Net Worth (times)	-3.7	-3.5
Total Debt/OPBDIT (times)	-57.9	793.9
Interest Coverage (times)	-0.2	0.0

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

## Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years					
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019			
				June 30, 2021	Jun 29, 2020	22 Nov, 2019	Feb 14, 2019	Feb 01, 2019 Oct 08, 2018	Jun 07, 2018	
1 Bonds	Long-term	150.0	-	-	-	-	Withdrawn	Provisional [ICRA]BBB+ (SO) (Stable)	Provisional [ICRA]BBB+ (SO) (Stable)	
2 Bonds	Long-term	3,335.8	3,298.4	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	[ICRA]A-(SO) (Stable)	[ICRA]A-(SO) (Stable)	[ICRA]A-(SO) (Stable)	
3 Bonds	Long-term	80.7 <sup>#</sup>	0.0	[ICRA]A-(CE) (Stable); withdrawn	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	[ICRA]A-(SO) (Stable)	[ICRA]A-(SO) (Stable)	[ICRA]A-(SO) (Stable)	
4 Bonds	Long-term	530.9	-	-	-	-	-	-	Withdrawn	
5 Bonds	Long-term	400.0	-	-	-	-	-	-	Withdrawn	

<sup>#</sup> The O/s bonds have been completely redeemed and fully repaid on 06 February 2021, as confirmed by the issuer and Debenture Trustee

## Complexity level of the rated instrument

Instrument	Complexity Indicator
INE340M09010 – Bond	Simple
INE340M08111 – Bond	Simple
INE340M08129 – Bond	Simple
INE340M08137 – Bond	Simple
INE340M08145 – Bond	Simple
INE340M08152 – Bond	Simple
INE340M08160 – Bond	Simple
INE340M08178 – Bond	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [Click Here](#)

**Annexure-1: Instrument details**

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
INE340M09010	Bonds	Jan 2011	8.65%	20% - Feb 2017, 20% - Feb 2018, 20% - Feb 2019, 20% - Feb 2020, 20% - Feb 2021	80.70	[ICRA]A- (CE) (Stable); withdrawn
INE340M08111	Bonds	Jan 2014	10.50%	30% - Feb 2022, 30% - Feb 2023, 40% - Feb 2024	633.50*	[ICRA]A- (CE) (Stable)
INE340M08129	Bonds	July 2014	9.72%	30% - July 2022, 30% - July 2023, 40% - July 2024	1000.00*	[ICRA]A- (CE) (Stable)
INE340M08137	Bonds	Dec 2014	9.20%	30% - Dec 2022, 30% - Dec 2023, 40% - Dec 2024	1000.00*	[ICRA]A- (CE) (Stable)
INE340M08145	Bonds	May 2015	9.00%	30% - Jun 2023, 30% - Jun 2024, 40% - Jun 2025	501.80*	[ICRA]A- (CE) (Stable)
INE340M08152	Bonds	Jan 2016	10.00%	30% - Feb 2024, 30% - Feb 2025, 40% - Feb 2026	50.00*	[ICRA]A- (CE) (Stable)
INE340M08160	Bonds	Dec 2016	9.70%	30% - Dec 2024, 30% - Dec 2025, 40% - Dec 2026	40.00*	[ICRA]A- (CE) (Stable)
INE340M08178	Bonds	Mar 2017	9.25%	30% - Mar 2025, 30% - Mar 2026, 40% - Mar 2027	73.10*	[ICRA]A- (CE) (Stable)
Not placed	Bonds	NA	NA	NA	37.40*	[ICRA]A- (CE) (Stable)

**Source:** Company; \*Part of the Rs 3335.80 crore Bond Programme rated by ICRA

**Annexure-2: List of entities considered for consolidated analysis – Not applicable**

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