

September 28, 2021

The Tamilnadu Industrial Investment Corporation Limited: Ratings reaffirmed; Rating withdrawn for Bond programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bond Programme	150.0	-	[ICRA]A-(CE) (Stable); reaffirmed and withdrawn
Fixed Deposits	500.0	500.0	MA (Stable); reaffirmed
Long-term Bank Facilities	1,100.0	1,100.0	[ICRA]BBB+ (Stable); reaffirmed
Total	1,750.0	1,600.0	
Rating without Explicit Credit Enhancement			[ICRA]BBB+

*Instrument details are provided in Annexure-1

Rationale

The ratings consider The Tamilnadu Industrial Investment Corporation Limited's (TIIC) status as a Government of Tamil Nadu (GoTN)-owned entity (72.1% stake as of March 31, 2021), its established track record of operations and its current capital profile characterised by a low gearing of 1.3x (provisional) as of March 31, 2021. The ratings also factor in the stable net profitability indicators supported by the low leverage, improvement in operating efficiencies and range-bound credit costs.

The ratings are constrained by the moderate scale and geographically concentrated operations with a portfolio of ~Rs. 1,355 crore as of March 31, 2021 (~Rs. 1,072 crore as of March 31, 2020). ICRA takes note of the improvement in the asset quality indicators with gross non-performing assets (GNPAs) of 2.7% (provisional) as of March 2021 compared to 8.7% as of March 2020. The improvement resulted from increased focus on recoveries, loan book growth and higher write-offs. Considering the stress faced by micro, small and medium enterprises (MSMEs) in the current subdued operating environment, TIIC's ability to keep the credit costs under control and maintain its profitability, as the leverage is expected to increase in the near-to-medium term, remains to be seen.

ICRA has reaffirmed and withdrawn the rating on the Rs. 150.0-crore bond programme as the same has been fully redeemed and there is no amount outstanding against the rated instrument. The rating has been withdrawn as per ICRA's policy on the withdrawal and suspension of credit ratings.

Key rating drivers and their description

Credit strengths

GoTN-owned entity with established track record of operations – TIIC, which was incorporated in 1949, is a state financial corporation (SFC) that provides financial assistance to MSMEs in Tamil Nadu. It raised equity of ~Rs. 137 crore from the GoTN and GoTN-owned entities during FY2015-FY2020. The GoTN ownership (72.1% stake as of March 31, 2021) provides TIIC with access to financial and managerial support from the GoTN. TIIC's board comprises Indian Administrative Service (IAS) officers and other representatives from various departments of the GoTN. As TIIC is the operating agency for several government schemes for the MSME segment, ICRA expects support from the GoTN to be forthcoming, as and when required.

Low leverage at present; expected to increase in view of the growth expectation – The capital profile is characterised by a gearing of 1.3x (provisional) as of March 31, 2021 (1.1x as of March 31, 2020). The gearing improved from 2.8x as of March

2018 largely due to the capital infusion of Rs. 100 crore by SIPCOT¹ and TIDCO² during FY2019-FY2020 while the portfolio declined during this period. Considering the growth expectation of 45-50% during FY2022-FY2023, ICRA expects the leverage to increase over the next few years but to remain below 5.0x during the said period.

Stable profitability indicators – The net profitability {profit after tax (PAT)/average managed assets (AMA)} was largely stable at 2.2% (provisional) in FY2021 (2.2% in FY2020) supported by low leverage, improving operating efficiencies and range-bound credit costs. The operating profitability improved in FY2021 with the moderation in operating expenses even as the interest margins declined to 6.3% (provisional) from 6.9% in FY2020. TIIC's operating expenses declined to 3.3% (provisional) in FY2021 from 4.0% in FY2020 while the credit costs stood at 0.7-0.8% during FY2020-FY2021. Going forward, the ability to maintain good net profitability as the leverage increases while keeping the credit costs under control in a subdued operating environment, remains to be seen.

Credit challenges

Moderate scale and geographically concentrated operations – TIIC's portfolio grew by 26% YoY and stood at ~Rs. 1,355 crore (provisional) as of March 2021 compared to Rs. 1,072 crore as of March 2020. Term loans comprised 79% of the overall portfolio, followed by bill finance (7%), working capital loans and other loans (the balance) as of March 31, 2020. The company expects the portfolio to reach ~Rs. 2,000 crore by March 2022 and ~Rs. 3,000 crore by March 2023. As an SFC, TIIC's operations are expected to be regionally concentrated in Tamil Nadu.

Notwithstanding the improvement, sustained asset quality performance is a monitorable – The gross and net NPAs improved and stood at 2.7% (provisional) and 1.6% (provisional), respectively, as of March 31, 2021 compared to 8.7% and 6.5%, respectively, as of March 31, 2020. The NPAs (including one-year write-offs) stood at 5.4% as of March 2021 (10.3% as of March 2020). On a one-year lagged basis, the NPAs (including write-offs) would be ~7% as of March 31, 2021. The improvement in the gross NPA% was due to the company's increased focus on recoveries through closer monitoring of overdue accounts, introduction of one-time settlement schemes, etc., loan book growth and higher write-offs (~Rs. 40 crore in FY2021). The average recoveries from bad debt during FY2019-FY2021 were about 2-3% of the average portfolio vis-à-vis sub-1% during FY2016-FY2018. Considering the stress faced by MSMEs in view of the Covid-19 pandemic-induced business disruptions, the sustainability of the asset quality performance remains to be seen.

Liquidity position: Adequate

The ALM profile, as of March 2021, reflects positive cumulative mismatches up to the less-than-one-year bucket. As on August 31, 2021, TIIC had about Rs. 110 crore of working capital lines from various banks, which are largely unutilised, and ~Rs. 200 crore of undrawn term loans, thus providing comfort on the liquidity front. As of March 31, 2021, banks comprised ~61% of the total borrowings and the rest comprised of fixed deposits. The top 10 deposits comprised ~59% of the total deposits and were largely from GoTN owned/controlled entities.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company is able to scale up its operations while controlling its asset quality and capital profile.

Negative factors – Pressure on the ratings could arise in case of lower-than-expected support from the GoTN or weakening in the risk profile of the GoTN. A sustained weakening in the asset quality impacting earnings would also negatively impact the ratings.

¹ State Industries Promotion Corporation of Tamilnadu Limited (SIPCOT)

² Tamilnadu Industrial Development Corporation Limited (TIDCO)

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies Impact of Parent or Group Support on an Issuer's Credit Rating Policy on Withdrawal of Credit Ratings
Parent/Group Support	The ratings factor in TIIC's strategic importance to the GoTN and the expectation of timely financial support from the GoTN, if required
Consolidation/Standalone	Standalone

About the company

Established in 1949, TIIC (a GoTN undertaking; GoTN's stake as on March 31, 2021 – 72.1%) provides financial assistance in the form of long-term and working capital requirements to micro, small, medium and large enterprises. Most of the company's sanctions and disbursements are towards the MSME segment. TIIC also encourages lending to first-generation entrepreneurs in the above-mentioned segment. The company extends financial support for setting up new units and for the expansion or modernisation of existing units, including enterprises, in the service sector. The GoTN implements several subsidy/incentive schemes for entities in the MSME segment through TIIC.

Key financial indicators – IGAAP

	FY2020	FY2021 (P)
Total income (Rs. crore)	163.0	157.6
Profit after tax (Rs. crore)	30.2	32.1
Net worth (Rs. crore)	547.9	580.1
AUM (Rs. crore)	1,072.3	1,355.3
Total managed assets (Rs. crore)	1,339.5	1,554.1
RoMA (%)	2.2%	2.2%
Return on net worth (%)	5.9%	5.7%
Gearing (reported; times)	1.1	1.3
Gross NPA (%)	8.7%	2.7%
Net NPA (%)	6.5%	1.6%
CRAR (%)	47.8%	NA

Source: Company, ICRA Research; P – Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S. No.	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					Sep-28-2021	Sep-28-2020	Jun-14-2019	-	
1	Long-term – Fund based term loan	Long Term	483.5	483.5	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	
	Long-term-fund based cash credit	Long Term	110.0	110.0	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	
	Long term unallocated	Long Term	506.5	506.5	[ICRA]BBB+ (Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+ (Stable)	-	
2	Fixed Deposits	Medium Term	500.0	500.0	MA(Stable)	MA(Stable)	MA(Stable)	-	
3	Bond Programme	Long Term	150.0	0.0	[ICRA]A-(CE) (Stable); reaffirmed and withdrawn	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	-	

Complexity level of the rated instrument

Instrument	Complexity Indicator
Bank Facilities	Simple
Fixed Deposit Programme	Very Simple
Bond Programme	Not Applicable

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 analysing 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 are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Fixed Deposits	-	-	-	500.00	MA (Stable)
-	Cash Credit	-	-	-	110.00	[ICRA]BBB+ (Stable)
-	Term loan – 1	Mar-16	-	Mar-23	52.00	[ICRA]BBB+ (Stable)
-	Term loan – 2	Sep-16	-	Sep-23	26.00	[ICRA]BBB+ (Stable)
-	Term loan – 3	Jan-21	-	Jan-26	200.00	[ICRA]BBB+ (Stable)
-	Term loan – 4	Oct-16	-	Oct-23	5.50	[ICRA]BBB+ (Stable)
-	Term loan – 5	Mar-21	-	Mar-26	200.00	[ICRA]BBB+ (Stable)
-	Proposed limits	-	-	-	506.50	[ICRA]BBB+ (Stable)
INE638F0802 1	Bond Programme	Mar-07-14	9.85%	*	150.00	[ICRA]A-(CE) (Stable); withdrawn

* Call option exercise on March 06, 2021 and the amount has been fully redeemed

Source: Company

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

ANALYST CONTACTS

Karthik Srinivasan
+91-22-6114 3444
karthiks@icraindia.com

A M Karthik
+91-44-4596 4308
a.karthik@icraindia.com

Subhashree Ravi
+91-44-4297 4324
subhashree.ravi@icraindia.com

Shaik Abdul Saleem
+91 44 4596 4325
shaik.saleem@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)
info@icraindia.com

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



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