

April 21, 2023

Tamil Nadu Power Finance and Infrastructure Development Corporation Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fixed deposit programme	44,224.58	44,224.58	[ICRA]BBB-(Stable); reaffirmed
Total	44,224.58	44,224.58	

*Instrument details are provided in Annexure I

Rationale

The rating for Tamil Nadu Power Finance and Infrastructure Development Corporation Limited's (TNPFC) fixed deposit programme continues to derive strength from the ownership and expected financial support from the Government of Tamil Nadu (GoTN). The rating, however, remains constrained by the significant borrower concentration risk, moderate profitability and concentrated deposit profile. ICRA notes that the capital profile has improved steadily over the last few years backed by sizeable equity infusions by the GoTN. TNPFC had a capital adequacy ratio (CRAR) of 15.3% while its public deposits to net owned funds (PD to NoF) ratio stood at 1.47 times (provisional) as of December 2022. However, with the increased mobilisation of public deposits, the PD to NoF ratio breached the regulatory threshold in February 2023 (1.81 times as on February 14, 2023) and is expected to have remained above 1.5 times as of March 2023 as well. In the near term, timely and adequate capital support from the GoTN would be critical for maintaining sufficient buffers over the regulatory CRAR and PD to NoF ratio.

Currently, Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO; rated [ICRA]A-(CE) (Stable)) is the only borrower in TNPFC's lending portfolio. ICRA notes that TANGEDCO's financial profile remains weak as it continues to incur substantial losses owing to inadequate tariff rates, low capacity addition/utilisation over the years, moderately weak operational efficiency, and the high cost of power purchase. ICRA takes note of an instance of a minor delay in debt servicing by TANGEDCO to TNPFC in FY2021¹. Notwithstanding the same, ICRA takes comfort from the strategic importance of TANGEDCO to the state's power sector due to which it has continued receiving support from the GoTN over the years.

Key rating drivers and their description

Credit strengths

GoTN ownership and support – TNPFC, wholly-owned by the GoTN, is a key financing entity for the state's power generation and distribution company – TANGEDCO. It accounted for about 27% of TANGEDCO's borrowings outstanding as of March 2022. Given its strategic importance, ICRA expects TNPFC to receive timely capital and liquidity support from the GoTN and GoTN-controlled entities, as and when required. In FY2019, FY2020, FY2021 and FY2022, TNPFC received equity infusions of Rs. 1,200 crore, Rs. 1,640 crore, Rs. 437 crore and Rs. 400 crore, respectively, from the GoTN to comply with various regulatory and prudential requirements, which are applicable for Government-owned non-banking financial companies (NBFCs).

The company has requested additional capital from the GoTN, which is needed for supporting its capital profile and for meeting various regulatory/prudential requirements in the near term. ICRA also notes that TNPFC has access to deposits from the GoTN

¹ Minor delays were highlighted by the auditor in TANGEDCO's FY2021 annual report; dues were paid off subsequently

and GoTN-controlled entities, which upholds its liability and liquidity profile. TNPFC's board largely comprises Indian Administrative Services (IAS) officers from various departments of the GoTN.

Credit challenges

Loan concentrated to one borrower – TNPFC extends loans only to TANGEDCO at present, thereby exposing itself to significant borrower concentration risk. As of March 2022, funding from TNPFC accounted for 27% of TANGEDCO's total borrowings. ICRA notes that the concentration towards TANGEDCO is expected to remain, going forward, as the exposure diversification plan is postponed. There was an instance of a minor delay in debt servicing by TANGEDCO in the past. ICRA, however, takes comfort from the strategic importance of TANGEDCO to the state's power sector due to which it has continued receiving support from the GoTN over the years. However, any material deterioration in TANGEDCO's credit profile would be a key rating sensitivity.

Timely capital infusion key for meeting regulatory and growth requirements – TNPFC's capitalisation profile has improved over the years with a gearing of 6.5 times (provisional) as of December 2022 and March 2022, improving significantly over the last five years from 30.3 times as of March 2018. Its CRAR also improved to 15.3% (provisional) as of December 2022 (15.2% as of March 2022) from 7.2% as of March 2019 on the back of capital infusions from the GoTN and better internal accruals. In Q4 FY2023, TNPFC requested the GoTN for additional equity for meeting the capital adequacy and other prudential regulations applicable for Government-owned entities; however, the same is yet to be received. In the near term, the timeliness and extent of capital support from the GoTN would be a key monitorable.

Subdued profitability indicators – TNPFC's profitability had remained low in the past due to limited pricing flexibility with TANGEDCO till FY2019. The net profitability improved over the last three years and stood at 1.7% in FY2022 (three-year average of 1.3% during FY2020-FY2022) vis-à-vis the prior three-year average of 0.4% during FY2017-FY2019) as the cost of deposits reduced and the leverage improved substantially, post the equity infusions. Nevertheless, the profitability moderated to 1.0% (provisional) in 9M FY2023 as interest yields have not grown in line with the cost of funds. The credit cost remains low as there are no overdues at present. Notwithstanding the improvement in the profitability over the last few years, the sustainability of the same remains to be seen as TNPFC's earnings would be dependent on its pricing flexibility with TANGEDCO.

Concentrated deposit profile – TNPFC's borrowing profile is concentrated with fixed deposits (FDs) constituting 100% of the total borrowings as of December 2022. Within FDs, public deposits constituted about 24% as of December 2022 with the rest largely from the GoTN and GoTN-controlled entities. ICRA notes that TNPFC's depositor profile is concentrated towards government entities, including educational institutions, municipal corporations and infrastructure development institutions managed by the GoTN. The top 20 depositors accounted for about 39% of the total deposits as of March 2022.

ICRA also notes that the PD to NoF ratio was 1.47 times (provisional) as of December 2022, within the regulatory threshold of 1.5 times. However, with the increased mobilisation of public deposits, the PD to NoF ratio breached the regulatory threshold in February 2023 (1.81 times as on February 14, 2023) and is expected to have remained above 1.5 times as of March 2023 as well. In the near term, timely and adequate capital support from the GoTN would be critical for maintaining the regulatory norms.

Liquidity position: Adequate

TNPFC had cash and bank balances of Rs. 862.3 crore and liquid investments of Rs. 5,573.6 crore as of February 2023 compared to its deposit maturities of Rs. 8,501.5 crore during March-August 2023. The liquidity profile is also supported by the deposits placed by the GoTN-owned/controlled entities, which are expected to be stable. The top 20 depositors as of March 2022, accounting for 39% of the total deposits, are largely GoTN-owned/controlled entities. ICRA expects timely support from the GoTN to maintain an adequate liquidity profile, going forward.

Rating sensitivities

Positive factors – ICRA could upgrade the rating or revise the outlook to Positive if there is an improvement in the risk profile of the GoTN or TANGEDCO. A sustained improvement in the earnings, funding and capital profile would also positively impact the rating.

Negative factors – Pressure on the rating could arise in case of lower-than-expected support from the GoTN or a material deterioration in the credit profile of TANGEDCO. Non-compliance with key Reserve Bank of India (RBI) stipulated requirements for Government-owned NBFCs on a sustained basis or weakening of the liquidity profile would also negatively impact the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies Implicit Support from Parent or Group
Parent/Group support	The assigned rating factors in TNPFC's strategic importance to the GoTN and the expectation of timely financial support from the GoTN, if required
Consolidation/Standalone	Not applicable

About the company

TNPFC is wholly owned by the GoTN. Incorporated in 1991 as a deposit-accepting NBFC, TNPFC mobilises funds through public and institutional deposits for funding power and infrastructure projects in Tamil Nadu (TN). It currently provides loans only to TANGEDCO. TNPFC's funding profile comprises deposits from public and state government institutions (100% of the borrowings as of December 2022).

TNPFC's portfolio registered a 5-year compound annual growth rate (CAGR) of 14% during FY2017-FY2022. It reported a net profit of Rs. 762 crore in FY2022 on a total asset base of Rs. 48,521 crore compared to a net profit of Rs. 396 crore on a total asset base of Rs. 43,491 crore in FY2021. For 9M FY2023 (provisional), the company reported a profit after tax of Rs. 383 crore on a total asset base of Rs. 51,892 crore.

Key financial indicators (audited)

TNPFC	FY2021	FY2022	9M FY2023*
Total income	3,883	4,134	3,643
Profit after tax	396	762	383
Net worth	5,265	6,393	6,776
Total managed portfolio	39,985	42,072	45,907
Total managed assets	43,491	48,521	51,892
Return on managed assets	1.0%	1.7%	1.0%
Return on net worth	8.2%	13.1%	7.8%
Gearing (times)	7.2	6.5	6.5
Gross stage 3	0.0%	0.0%	0.0%
Net stage 3	0.0%	0.0%	0.0%
Solvency (Net stage 3/Net worth)	0.0%	0.0%	0.0%
CRAR	13.3%	15.2%	15.3%

Source: Company, ICRA Research; *Provisional; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021
					Apr 21, 2023	Jun 08, 2022	Apr 05, 2022	Apr 06, 2021	Nov 30, 2020
1	Fixed deposit programme	Long-term	44,224.58	44,224.58	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	MA-(Stable)	MA-(Stable)	MA-(Stable)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fixed deposit programme	Very 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 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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fixed deposit	-	-	-	44,224.58	[ICRA]BBB-(Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not applicable

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