

December 27, 2023

Tamilnadu Transport Development Finance Corporation Ltd: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based – Cash credit	2,625.00	1,125.00	[ICRA]BBB+(CE) (Stable); reaffirmed
Short-term fund based – Working capital demand loan	639.00	2,094.00	[ICRA]A2(CE); reaffirmed
Long-term/Short-term fund based – Unallocated	736.00	781.00	[ICRA]BBB- (Stable)/[ICRA]A3; reaffirmed
Fixed deposit programme	4,000.00	4,000.00	[ICRA]BBB- (Stable); reaffirmed
Total	8,000.00	8,000.00	

Rating without Explicit Credit Enhancement Bank Facilities	[ICRA]BBB-/ [ICRA]A3
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*Instrument details are provided in Annexure I

Rationale

For the [ICRA]BBB+(CE) (Stable) and [ICRA]A2(CE) ratings

The above ratings are based on the unconditional, irrevocable and continuing guarantee provided by the Government of Tamil Nadu (GoTN) for the Rs. 3,219 crore (including Rs. 2,094 crore short-term facilities and Rs. 1,125 crore long-term cash credit facility) bank facilities of Tamilnadu Transport Development Finance Corporation Ltd (TDFC). The Stable outlook on the ratings reflects ICRA's outlook on the GoTN's rating.

Adequacy of credit enhancement

The ratings of the instruments are credit enhanced based on the attributes of the guarantee provided by the GoTN in favour of the said instruments. Although the guarantee is legally enforceable, irrevocable, unconditional and covers the entire amount and tenure of the rated instruments, it lacks a well-defined invocation and payment mechanism. Taking cognisance of the above, ICRA has assigned the ratings of [ICRA]BBB+(CE) (Stable) and [ICRA]A2(CE) to the said instruments against the rating without explicit credit enhancement of [ICRA]BBB-. A change in the rating of the guarantor or in the unsupported rating of TDFC would have a bearing on the ratings of the aforesaid instruments as well. The ratings of these instruments may also change in a scenario whereby, in ICRA's assessment, there is a change in the support from the guarantor or in the strategic importance of the rated entity for the guarantor.

Salient features of the credit enhancement as specified in the guarantee documents

- Capital to risk-weighted assets ratio (CRAR) and other Reserve Bank of India (RBI) guidelines applicable to deposit-taking non-banking financial companies (NBFCs) shall be maintained at all times during the tenure of the rated instruments
- The shareholding of the existing promoters should not get diluted below the current levels or lead to a dilution in the controlling stake without the prior permission of the bank
- Promoter's shares in the company should not be pledged to any bank/NBFC/institution outside the banking arrangement without prior consent of the bank

- Declare dividends for any year except out of profits relating to that year after making all due and necessary provisions and provided further that no default is subsisting in any repayment obligations to the bank

For the [ICRA]BBB- (Stable) and [ICRA]A3 ratings

The ratings for the fixed deposit (FD) programme and non-guaranteed bank facilities derive strength from the ownership and expected financial support from the GoTN. The ratings are, however, constrained by the weak profitability and modest risk profile, given TDFC's weak borrower segment, i.e. the state transport undertakings (STUs). The ratings also consider the concentrated deposit profile of TDFC, with the share of top-20 depositors accounting for 54% of the total deposits as of September 2023. TDFC is significantly dependent on institutions controlled/affiliated with the GoTN for raising deposits. Nevertheless, given its strategic importance, ICRA expects TDFC to receive timely capital and liquidity support from the GoTN as and when required, which remains crucial from a rating perspective.

ICRA notes that a government order was issued in November 2023, providing in-principle approval for the amalgamation of TDFC and Tamil Nadu Power Finance and Infrastructure Development Corporation Limited (TNPFC; rated [ICRA]BBB-(Stable)). The amalgamated entity is expected to cater to the financing needs of various infrastructure sub-sectors within the state of Tamil Nadu and is proposed to be established under the administrative control of the finance department. The process of amalgamation is still in its nascent stages and detailed government orders on the way forward are expected. ICRA would continue to monitor the developments in this regard and would take a rating action, as and when necessary.

Key rating drivers and their description

Credit strengths

GoTN guarantee for rated bank facilities – The ratings for the Rs. 3,219 crore (including Rs. 2,094 crore short-term facilities and Rs. 1,125 crore long-term cash credit facility) bank facilities are based on the strength of the unconditional, irrevocable and continuing guarantee from the GoTN. The Stable outlook on the ratings reflects ICRA's outlook on the rating of the GoTN.

GoTN ownership and support – TDFC is the nodal financing agency for the STUs of Tamil Nadu (TN), which provide road-based transport services. It has raised a capital of Rs. 3,020.3 crore¹ in FY2020-23 from the GoTN, resulting in a steady increase in GoTN's shareholding to 99.4% as of March 2023 (69.7% as of March 2019) with the balance being held by the STUs. The regular capital infusions have helped the company comply with the key regulatory and prudential norms, which became applicable for Government-owned NBFCs since March 2019. TDFC also has access to deposits from GoTN-owned/controlled entities, which upholds its liquidity profile. Given TDFC's strategic importance to the GoTN, ICRA expects it to receive timely capital and liquidity support, as and when required.

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Improvement in capitalisation profile – TDFC's capitalisation profile was characterised by a gearing of 4.4x and a capital adequacy ratio of 20.4% (Tier I – 20.0%) as of March 2023 vis-à-vis 31.4x and 3.6%, respectively, as of March 2019 due to the equity infusion of Rs. 3,020.3 crore during FY2020-23 from the GoTN. ICRA expects timely support from the GoTN for fresh capital infusion into TDFC for meeting its regulatory capital requirements, going forward.

¹ Including Rs. 82.1 crore reported as share application money pending allotment as on March 31, 2023, due to a shortfall of authorised share capital. However, the same was allotted as share capital in April 2023

Credit challenges

Modest risk profile of borrowers and concentration risks – TDFC extends credit to the STUs of TN. Most of the STUs have a weak financial profile as their net worth has eroded due to recurring losses. They are primarily dependent on funds from the GoTN and TDFC for operational support. STUs receive subsidies in the form of reimbursement for student concession bus passes, free travel for women and additional diesel costs from the GoTN. TDFC is exposed to significant borrower concentration risk with the top three borrowers constituting 45% of the total portfolio as of September 2023 (46% as of March 2023 and 45% as of March 2022).

TDFC's auditor has also expressed a qualified opinion, pertaining to the possible evergreening of the loans extended by TDFC to STUs. ICRA notes that until the STUs improve their cash flows and achieve sustainability, it would be critical for the GoTN to continue to support the STUs to ensure they meet their financial obligations in a timely manner.

Weak profitability – As TDFC is a nodal agency, its profitability is weak with limited flexibility for its loans to the STUs. The company typically prices its loans to STUs at a modest spread above its borrowing costs. As such, the net interest margins have been typically low at 0.2% in FY2023 and 0.3% in FY2022 (0.4% in FY2021). The operating expenses remained stable at 0.03% in FY2023 and 0.02% in FY2022 (0.02% in FY2021) as operations are from a single location and managed with a limited employee base, and the credit costs stood at 0.1% in FY2023 and 0.1% in FY2022 (0.1% in FY2021) largely for standard asset provision on the incremental portfolio. Overall, the net profitability stood at 0.2% in FY2023 and 0.2% in FY2022 (0.2% in FY2021) and is expected to remain at similar levels, going forward.

Concentrated deposit profile; critical to diversify funding sources – FDs are the key source of funding for TDFC and accounted for ~70% of its total debt as of March 2023, followed by bank borrowings. Total deposits stood at Rs. 9,503.5 crore as of March 2023, including public deposits (35%); and Rs. 9,589.2 crore as of September 2023, including public deposits (39%). The balance was largely sourced from GoTN-owned/controlled entities and others, including educational institutions and temples. Public deposits comprised 1.0x the net owned fund (NOF) as of March 2023 (1.1x as of March 2022 and 1.1x as of March 2021). The top 20 depositors comprised 54% of the total deposits as of September 2023 (54% as of March 2023 and 54% as of March 2022), reflecting the bulk nature of the deposit profile. Going forward, it would be crucial to diversify the funding profile and maintain public deposits at a prudent level.

Liquidity position: Adequate

For the [ICRA]BBB+(CE) (Stable) and [ICRA]A2(CE) ratings: Adequate

The guarantor (GoTN) did not avail the ways and means advance (WMA) and overdraft (OD) facilities from the RBI from FY2016 to FY2024 (data available till September 2023). Additionally, the GoTN had an investment of Rs. 28 billion in auction treasury bills at the end of September 2023. Based on the aforementioned indicators, the liquidity position of the state government can be inferred to be adequate during the recent years.

For the [ICRA]BBB- (Stable) and [ICRA]A3 ratings: Adequate

TDFC has maintained a cash and bank balance of Rs. 1,430.8 crore as of September 30, 2022, against the estimated deposit maturities of Rs. 1,998.9 crore and bank limits repayment of Rs.1,455.0 crore from October 2023 to March 2024. TDFC also has a line of credit for Rs.500 crore, which would act as a contingency fund and support the liquidity profile. The liquidity profile is also strengthened by the deposits placed by GoTN-owned/controlled entities, which have healthy renewal rates and are expected to be stable.

Rating sensitivities

For the [ICRA]BBB+(CE) (Stable) and [ICRA]A2(CE) ratings

The ratings for the Rs. 3,219.00-crore bank lines would remain sensitive to any movement in the rating or outlook of the guarantor (GoTN).

For the [ICRA]BBB- (Stable) and [ICRA]A3 ratings

Positive factors – ICRA could upgrade TDFC's ratings if the company is able to scale up its operations while maintaining good asset quality and a Tier I capital of 15% on a sustained basis.

Negative factors – Pressure on TDFC's ratings could arise on lower-than-expected support from the GoTN. Non-compliance with key RBI-stipulated requirements for Government-owned NBFCs on a sustained basis or weakening of the liquidity profile would also negatively impact the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-Banking Finance Companies Rating Approach - Explicit Third-Party Support Rating Approach - Implicit Support from Parent or Group
Parent/Group support	<p>The ratings for the guaranteed bank facilities are based on the unconditional and irrevocable guarantee extended by the GoTN.</p> <p>The ratings for the FD programme and non-guaranteed bank facilities factor in TDFC's systemic importance and the expectation of timely financial support from the GoTN, as and when required.</p>
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company.

About the company

TDFC is a GoTN-owned NBFC, with the GoTN holding a stake of 99.4% as of March 2023. It was primarily established with the objective of providing financial assistance to the STUs. TDFC extends loans for working capital and capital expenditure (including the purchase of buses) requirements of the STUs. It also receives various subsidies and grants from the GoTN on behalf of the STUs and transfers the funds to the respective STUs. The company also accepts deposits from government institutions, educational universities, temples and the public. It functions through its head office in Chennai (Tamil Nadu) and has a deposit mobilisation centre in Coimbatore, with a staff of 15 employees as of March 2023.

In FY2023, TDFC reported a net profit of Rs. 36.2 crore on a total asset base of Rs. 19,106.2 crore compared to a net profit of Rs. 33.2 crore on a total asset base of Rs. 15,002.9 crore in FY2022.

Key financial indicators (Ind AS)

Standalone	FY2021	FY2022	FY2023
Total income	802.4	902.6	1,173.4
Profit after tax	24.1	33.2	36.2
Net worth	1,782.5	2,239.2	3,305.0
Loan book	11,924.1	14,045.6	16,449.5
Total managed assets	14,868.6	15,002.9	19,106.2
Return on managed assets	0.2%	0.2%	0.2%
Return on net worth	1.6%	1.7%	1.3%
Managed gearing (times)	6.6	5.6	4.36
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%

Standalone	FY2021	FY2022	FY2023
CRAR	15.3%	16.2%	20.4%

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

About the guarantor

Tamil Nadu (TN) is one of the most industrialised states in India with a diversified manufacturing base, including automobiles and auto components, heavy engineering, electronics, IT, and software. The state performs favourably on various socio-economic and demographic indicators, such as per-capita income (Rs. 2,41,131 in FY2022), literacy rate (80.3% in 2011), urbanisation rate (48.5% in 2011) and poverty rate (22.4% in 2012), compared to the respective national averages (Rs. 1,48,524, 74.0%, 31.2% and 29.5%, respectively).

The GoTN's revenue receipts as a proportion of the gross state domestic product (GSDP) have declined to 10.0% in FY2022 from 10.7% in FY2017 led by the state's own tax revenues (SOTR; by 0.6%), state own non-tax revenues (SONTR; by 0.2%) and the Central tax devolution (by 0.1%). However, during this period, the grants from the Centre relative to GSDP increased by 0.2 percentage points on account of the GST compensation grants.

The GoTN's revenue expenditure increased mildly to 12.2% of GSDP in FY2022 from 11.7% of GSDP in FY2017, largely led by the increase in interest payments. Accordingly, the GoTN's revenue deficit as a proportion of GSDP has more than doubled to 2.3% in FY2022 from 1.0% in FY2017. With low capital spending of 1.2-1.7% of GSDP, the GoTN was able to curtail its fiscal deficit below the Finance Commission targets in four of the six years spanning FY2017-22.

Subsequently, the GoTN's revenue deficit and fiscal deficit narrowed to Rs. 30,476 crore and Rs. 74,525 crore, respectively, in FY2023 revised estimates (RE) from Rs. 46,538 crore and Rs. 81,835 crore, respectively, in FY2022. At 3.2% of GSDP, the GoTN's fiscal deficit in FY2023 RE is expected to have remained within the net borrowing limit recommended by the 15th Finance Commission (including conditional borrowing related to power sector reforms) for that fiscal.

In the budget estimates (BE) for FY2024, the GoTN had a forecast for its revenue deficit to rise to Rs. 37,540 crore from the level projected in FY2023 RE. Along with a ~24% increase in capital spending and net lending in FY2024 BE relative to FY2023 RE, the GoTN's fiscal deficit is budgeted to rise to Rs. 92,075 crore in the same period. Nevertheless, as per the Medium-Term Fiscal Plan statement, the GoTN's fiscal deficit in FY2024 BE would remain under the net borrowing limit recommended by the 15th Finance Commission for this year (including conditional borrowing related to power sector reforms). Reflecting the sustained fiscal deficits and support extended to the power sector, the GoTN's leverage level (excluding GST compensation back-to-back loans) worsened to 31.5% of GSDP in FY2022 from 23.1% in FY2017.

ICRA would analyse the GoTN's provisional actuals for FY2024 to assess the performance of their key fiscal indicators relative to FY2023 BE. The financial health of the GoTN's power sector entities and their impact on the state's finances would continue to be a key monitorable.

Key rating drivers and their description

Credit strengths

Healthy socio-economic indicators – The state's performance on various socio-economic and demographic indicators², such as per capita income (Rs. 2,41,131 in FY2022), literacy rate (80.3% in 2011), urbanisation rate (48.5% in 2011) and poverty rate (22.4% in 2012) were favourable compared to the respective national averages (Rs. 1,50,007, 74.0%, 31.2% and 29.5%, respectively).

² Source: National Statistical Organisation (NSO), Census of India and Rangarajan Committee poverty estimates

Favourable self-reliance – Only a quarter of the GoTN's revenue expenditure³ was covered through Central transfers during FY2017-21.

Credit challenges

Committed expenditure and spending on key subsidies dominate revenue expenditure – Around 63% of the GoTN's revenue spending was towards committed expenditure and food and power subsidies during FY2017-21, which is relatively higher than some of the other states. Such spending has contributed to the large revenue deficits of the GoTN in recent years.

Unfavourable quality of expenditure – The GoTN's quality of expenditure (capital expenditure as a proportion of total expenditure) remained at around 11% during FY2017-21, lower than many other Indian states.

Rising leverage (debt+ guarantees) – Reflecting the sustained fiscal deficits and the support extended to the power sector, the GoTN's leverage had deteriorated to 30.2% of GSDP in FY2021 from 23.1% of GSDP in FY2017. Notably, the non-guaranteed debt of the GoTN's electricity companies was a significant ~6% of GSDP in FY2021.

Rating sensitivities

Positive factors – A sustained improvement in the fiscal balances and relatively lower ranking on the extended leverage levels compared to peer states would lead to a rating upgrade.

Negative factors – Further deterioration in the GoTN's revenue deficits and/or a rise in the leverage levels could lead to a rating downgrade. 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 lead to a rating downgrade.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current Rating (FY2024)			Chronology of Rating History		
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	for the Past 3 Years		
					Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
				Dec-27-23	May-31-22 Dec-29-22	Nov-24-21 Jan-10-22 Mar-21-22	Nov-16-20
1 Long-term fund based – Cash credit	Long term	2,625.00	2,625.00	[ICRA]BBB+(CE) (Stable)	[ICRA]BBB+(CE) (Stable)	[ICRA]BBB+(CE) (Stable)	[ICRA]BBB+(CE) (Stable)
2 Short-term fund based - WCDL	Short term	639.00	639.00	[ICRA]A2(CE)	[ICRA]A2(CE)	[ICRA]A2(CE)	-
3 Long-term/ Short-term fund based – Unallocated	Long term/ Short term	736.00	0.00	[ICRA]BBB-(Stable)/ [ICRA]A3	[ICRA]BBB-(Stable)/ [ICRA]A3	[ICRA]BBB-(Stable)/ [ICRA]A3	-
4 Fixed deposit programme	Long term	4,000.00	4,000.00	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	MA- (Stable)	MA- (Stable)

³ Revenue receipts and expenditure adjusted for double entries of interest from departmental commercial undertakings

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term fund based – Cash credit	Simple
Short-term fund based – Working capital demand loan	Simple
Long-term/Short-term fund based – Unallocated	Not applicable
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 Name	Date of Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit - 1	-	-	-	1,125.00	[ICRA]BBB+(CE) (Stable)
NA	WCDL-1	-	-	-	639.00	[ICRA]A2(CE)
NA	WCDL-2	-	-	-	1,455.00	[ICRA]A2(CE)
NA	Long term/Short term – Unallocated	-	-	-	781.00	[ICRA]BBB-(Stable)/[ICRA]A3
NA	Fixed deposits	-	-	-	4,000.00	[ICRA]BBB- (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

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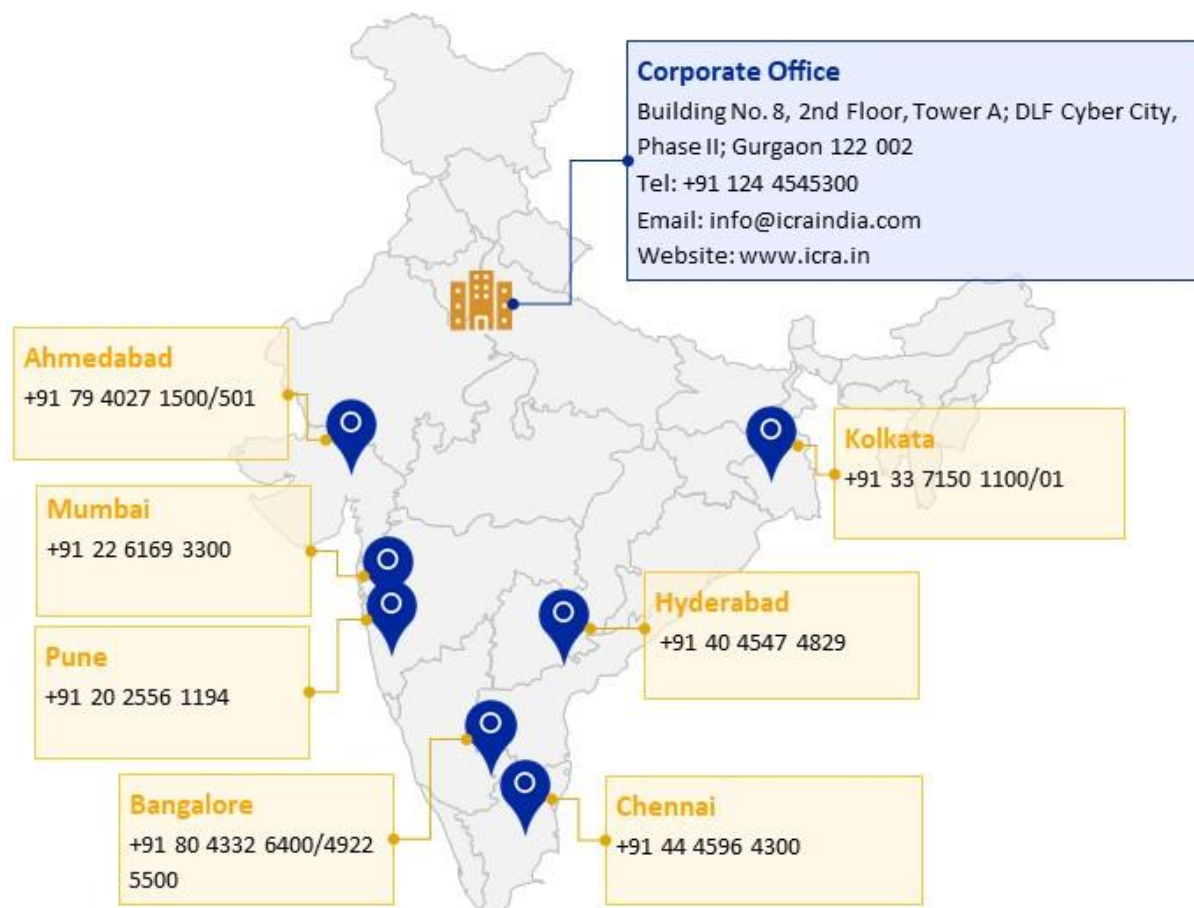


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