

April 29, 2024

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 (FD) 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 18.7% while its public deposits to net owned funds (PD to NoF) ratio stood at 1.14 times (provisional) as of December 2023.

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 the instances of minor delays in debt servicing by TANGEDCO to its lenders during FY2021-FY2023. 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.

ICRA notes that a government order for the amalgamation of TNPFC and Tamilnadu Transport Development Finance Corporation Limited (TDFC) was issued in November 2023, in an effort to have a single infrastructure project financing entity under the GoTN. This would be under the administrative control of the GoTN's Finance Department. The amalgamation would be subject to various regulatory clearances. Until the amalgamation is concluded, given its strategic importance, ICRA expects TNPFC to receive timely capital and liquidity support from the GoTN, as and when required, which remains crucial from a rating perspective.

ICRA also takes note of the draft circular for government-owned non-banking financial companies (NBFCs) proposing the withdrawal of the existing exemptions from credit concentration norms¹. Currently, TNPFC's exposure is entirely to TANGEDCO, i.e. about 600% of its Tier I capital. If the circular is notified, the company would have to reduce the same to less than 25%, which could constrain its ability to sustain incremental disbursements to TANGEDCO. ICRA also takes note of the proposed demerger of TANGEDCO into three entities. ICRA would continue to monitor any development on these aspects, going forward.

¹ https://www.rbi.org.in/Scripts/bs_viewcontent.aspx?Id=4372

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 28% of TANGEDCO's borrowings outstanding as of March 2023. 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. During FY2019-FY2022, TNPFC received a total equity infusion of Rs. 3,677 crore from the GoTN to comply with various regulatory and prudential requirements, which are applicable for Government-owned NBFCs. ICRA also notes that TNPFC has access to deposits from the GoTN and GoTN-controlled entities, which upholds its liability and liquidity profile.

The company's board largely comprises Indian Administrative Services (IAS) officers from various departments of the GoTN. A government order was issued for the amalgamation of TDFC and TNPFC in November 2023, in an effort to have a single infrastructure project financing entity under the GoTN. A new and sizeable entity with the existing assets is proposed to be established under the administrative control of the Finance Department. The arrangement is in the initial stage at present, and further government orders are expected to show the way forward.

Adequate capitalisation profile – TNPFC's capitalisation profile is adequate with a gearing of 5.5 times (provisional) as of December 2023 (6.0 times as of March 2023), improving significantly over the last five years from 14.0 times as of March 2019. Its CRAR also improved to 18.7% (provisional) as of December 2023 (15.9% as of March 2023) from 7.2% as of March 2019 on the back of capital infusions from the GoTN and better internal accruals. The capital profile is expected to remain adequate in the medium term, given the modest growth expectations.

Credit challenges

Significant borrower concentration risk – TNPFC extends loans only to TANGEDCO at present. As of March 2023, funding from TNPFC accounted for 28% of TANGEDCO's total borrowings. ICRA takes note of the instances of minor delays in debt servicing by TANGEDCO to lenders during FY2021-FY2023. 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.

ICRA also takes note of the draft circular for government-owned NBFCs proposing the withdrawal of existing exemptions from credit concentration norms. Currently, TNPFC's exposure is entirely to TANGEDCO, i.e. about 600% of its Tier I capital. If the circular is notified, the company would have to reduce the same to less than 25%, which could constrain its ability to sustain incremental disbursements to TANGEDCO. Further, ICRA takes note of the proposed demerger of TANGEDCO into three entities. ICRA would continue to monitor any development on these aspects, going forward.

Improved profitability indicators; sustainability to be seen – TNPFC's profitability remained low due to limited pricing flexibility with TANGEDCO till FY2019. TNPFC lends to TANGEDCO at competitive rates and provides additional rebates, leading to modest interest margins. The net profitability, however, improved slightly to 2.0% in FY2023 as well as 9M FY2024 from the average of 1.3% during FY2020-FY2023 and 0.4% during FY2016-FY2019. Lower cost of deposits and significant improvement in the leverage supported the higher margins. The credit cost is low as there are no overdues from TANGEDCO. Notwithstanding the improvement in the recent past, 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 FDs constituting 100% of the total borrowings as of December 2023. Within FDs, public deposits constituted about 23% as of December 2023 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 38% of the total deposits as of December 2023. ICRA notes that the PD to NoF ratio was 1.14 times (provisional) as of December 2023, within the regulatory threshold of 1.5 times.

Liquidity position: Adequate

TNPFC had a cash and bank balance of Rs. 865.0 crore and liquid investments of Rs. 3,532.9 crore as of February 2024 compared to its deposit maturities of Rs. 4,252.5 crore during March-May 2024. 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 December 2023, accounting for 38% of the total deposits, were largely GoTN-owned/controlled entities. ICRA expects timely support from the GoTN to maintain an adequate liquidity profile, going forward.

Rating sensitivities

Positive factors – Improvement in the risk profile of the GoTN or TANGEDCO and a sustained improvement in the earnings, funding and capital profile would 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
Parent/Group support	The rating factors in TNPFC's strategic importance to the GoTN and the expectation of timely financial support from the GoTN, if required
Consolidation/Standalone	For arriving at the rating, ICRA has considered the standalone financial statements of TNPFC

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 2023).

TNPFC reported a net profit of Rs. 1,017 crore in FY2023 on a total asset base of Rs. 51,355 crore compared to a net profit of Rs. 762 crore on a total asset base of Rs. 48,524 crore in FY2022. For 9M FY2024 (provisional), the company reported a profit after tax of Rs. 762 crore on a total asset base of Rs. 51,634 crore.

Key financial indicators (audited)

TNPFC	FY2022	FY2023	9M FY2024*
Total income	4,133	4,781	3,234
PAT	762	1,017	762
Total managed assets	48,524	51,355	51,634
Return on managed assets	1.7%	2.0%	2.0%
Managed/ Adjusted/ Reported gearing (times)	6.5	6.0	5.5
Gross stage 3	0.0%	0.0%	0.0%
CRAR	15.1%	15.9%	18.7%

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current rating (FY2025)					Chronology of rating history for the past 3 years			
Instrument	Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022
				Apr 29, 2024	Apr 21, 2023 Dec 27, 2023	Jun 08, 2022	Apr 05, 2022	Apr 06, 2021
1 Fixed deposit programme	Long term	44,224.58	44,224.58	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	MA-(Stable)	MA-(Stable)

Complexity level of the rated instruments

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

Source: Company

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

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About ICRA Limited:

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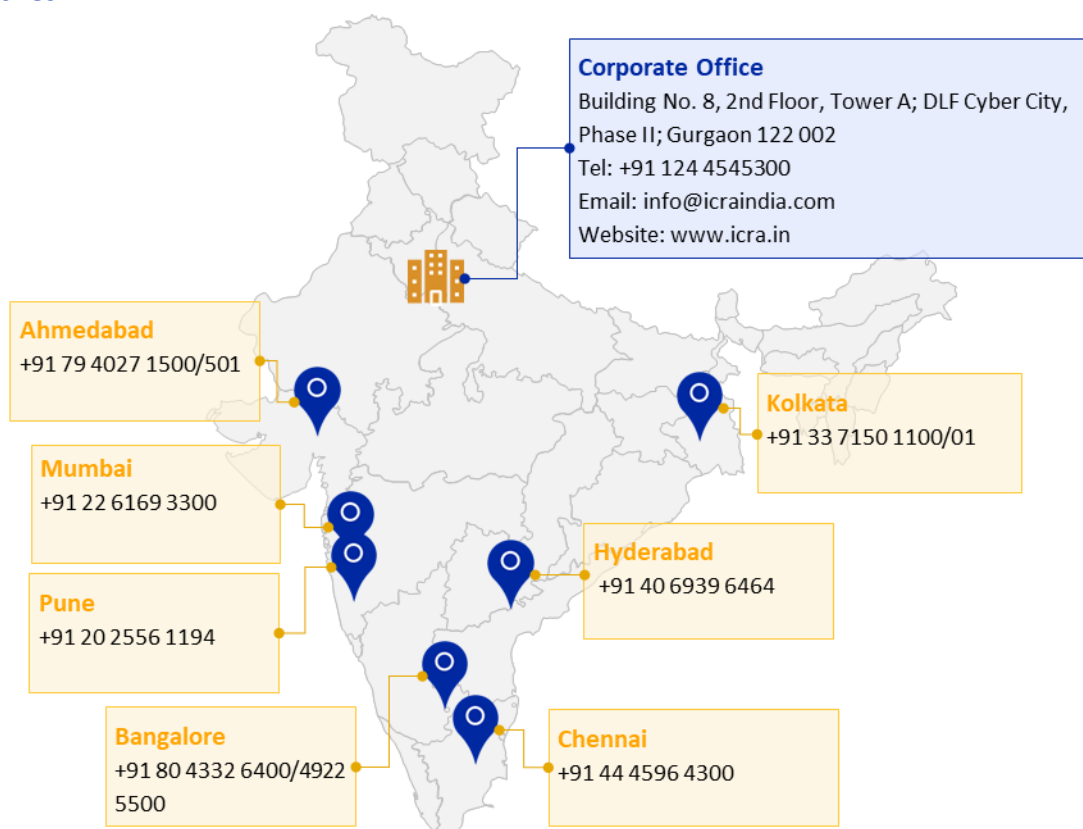


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