June 28, 2024

Tamil Nadu Generation and Distribution Corporation Ltd: Rating reaffirmed

Summary of rating(s) outstanding

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. Crore)	Rating Action
Non-convertible bond programme - I	633.50	0.00	[ICRA]A-(CE) (Stable); reaffirmed and withdrawn
Non-convertible bond programme - II	2,664.90	1,243.08	[ICRA]A-(CE) (Stable); reaffirmed
Non-convertible bond programme - III	37.40	0.00	[ICRA]A-(CE) (Stable); reaffirmed and withdrawn
Total	**3,335.80**	**1,243.08**	

**Instrument details are provided in Annexure-1*

Rating Without Explicit Credit Enhancement	[ICRA]BB

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 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.

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 of the rated facility

» *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 the payment of principal and/or interest. In case TANGEDCO does not deposit the sufficient funds in the escrow account, at least five working days prior to the forthcoming due date (T-5), or put them in investments (investments in highest rated debt instruments or deposits of banks, which are rated AA for long term or A1+ for short term by ICRA, and are further lien to the trustee or bondholders 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 bondholder 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), the 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, by (T-5) working days, the trustee shall forthwith invoke the guarantee issued by GoTN*

The rating without credit enhancement of [ICRA]BB factors in the weak financial profile of TANGEDCO, with continued losses owing to the inadequate tariffs in relation to the cost of supply due to the significant lag in tariff order issuance and subdued utilisation of its generation assets. The large cash losses and significant reliance on external borrowings has resulted in a highly leveraged capital structure and weak debt protection metrics. Notwithstanding this, owing to the approved tariff hike as per the latest tariff order issued in September 2022, the net loss of the entity reduced substantially in FY2024. Going forward, the losses would be subject to subsequent tariff hikes commensurate with the movement of power purchase costs. Additionally, the liquidation plan for the regulatory assets recognised in the tariff order would also determine the financial position of the discom in the upcoming years.

ICRA takes note of the 22-day delay towards paying Rs. 438.66 crore of principal and interest due on the loan availed from Power Finance Corporation (PFC) in FY2023 with the dues being paid subsequently, as mentioned by the auditor in the annual report. This does not impact ICRA's rating on TANGEDCO's bond programme, as it backed by a guarantee from GoTN.

Further, the Government of Tamil Nadu (GoTN) announced the bifurcation of Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO) into two separate entities for generation and distribution along with the formation of a new entity for the renewable energy business. As per the GoTN's order dated January 24, 2024, the current operations of TANGEDCO will be divided into two separate entities, i.e., Tamil Nadu Power Generation Corporation Limited (TNPGCL) as the thermal power generation entity and Tamil Nadu Power Distribution Corporation Limited (TNPDCL; through renaming of TANGEDCO) as the distribution entity. Further, Tamil Nadu Green Energy Corporation Limited (TNGECL) will be incorporated through integrating the renewable wing of TANGEDECO and the merger of Tamil Nadu Energy Development Agency (TEDA) with TNGECL. TANGEDCO will continue as the generating and distribution entity of the state till the commencement of business of the new entities. The bifurcation of the liabilities and assets of erstwhile TANGEDCO is under process.

This development shall be a credit neutral event for TANGEDCO as the rating assigned to its bond facility is based on the guarantee from the GoTN with a well-defined invocation and payment mechanism. Nonetheless, ICRA would continue to monitor the progress on this development and the key credit monitorable going forward will be the distribution of the rated GoTN guaranteed bonds amongst the proposed entities.

ICRA has reaffirmed and withdrawn the rating assigned to the Rs. 633.50 crore non-convertible bond programme as the same has been paid in full. ICRA has also reaffirmed and withdrawn the rating assigned to the unplaced non-convertible bond programme of Rs. 37.40 crore at the request of the company.

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 the 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/interest-free unsecured loans/loss funding support. The rated bond programme is supported by an unconditional and irrevocable guarantee provided by GoTN towards debt servicing.

Improving operating efficiency - The AT&C losses have reduced over the years and stood at 11.98% in FY2024 (~10.40% in FY2023) compared to 14.26% in FY2021. The improving operating efficiency would reduce the amount of power required to meet the demand. However, the sustainability of the improvement needs to be observed.

Credit challenges

Issuance of tariff orders with considerable lag - The tariff order for the control period from FY2023 to FY2027 for TANGEDCO was issued in September 2022. This order came with a significant lag after the earlier tariff order had been issued in August 2017. As a result, the tariff rates have been inadequate to cover for the rising power purchase costs. This, compounded with rising overheads, increase in employee costs and financial expenses, has resulted in continued losses for the company. Going forward, the annual hikes in the tariff rates in line with the cost of supply remain crucial to improve its profitability.

Weak financial risk profile - The financial profile of TANGEDCO, on a standalone basis, remains weak as it continues to incur losses owing to the inadequate tariff rates, subdued utilisation of its generation assets and the high cost of power purchase. Sizeable cash losses and significant reliance on external borrowings have resulted in a highly leveraged capital structure {debt to OPBDITA of 11.2x in FY2024 (provisional numbers)} and weak debt protection metrics. The borrowing levels have also increased significantly over the years and stood high at Rs. 1,69,502 crore as on March 31, 2024 (PY: Rs. 1,64,562 crore). Notwithstanding this, owing to the approved tariff hike as per the latest tariff order issued in September 2022, the net loss of the entity reduced substantially in FY2024 (provisional numbers) to Rs. 2,158.5 crore from Rs. 9,192.3 crore in FY2023 (before accounting for prior period changes). Going forward, the losses would be subject to subsequent tariff hikes commensurate with the movement of the power purchase costs.

Key rating drivers and their description (Guarantor)

Credit strengths

Healthy socio-economic indicators - The state's performance on various socio-economic and demographic indicators, such as per-capita income (Rs. 2,75,583 in FY2023), literacy rate (80.3% in 2011), urbanisation rate (48.5% in 2011) and poverty rate (22.4% in 2012), was favourable compared to the respective national averages (Rs. 1,72,276, 74.0%, 31.2% and 29.5%).

Moderate self-reliance - Around 54% of the Government of Tamil Nadu's (GoTN) revenue expenditure was covered through its own revenues during FY2020-FY2022, higher than some of the states, indicating moderately healthy self-reliance.

Credit challenges

Committed expenditure and key subsidies dominate revenue expenditure - Around 60% of the GoTN's revenue spending has been on committed expenditure, and food and power subsides during FY2021-23, which is relatively high than some other states. Such spending has contributed to the large revenue deficits of the GoTN in recent years.

Unfavorable quality of expenditure - The GoTN's quality of expenditure (capital expenditure as a proportion of total expenditure) remained around 13% during FY2021-FY2023, lower than many other Indian states.

Rising leverage levels (debt +guarantees) - Reflecting the sustained fiscal deficits and support extended to the power sector, the GoTN's leverage levels have deteriorated to 30.7% of GSDP in FY2023 from 23.9% of GSDP FY2019.

Liquidity position

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

The GoTN did not avail the WMA and OD facilities from the RBI during FY2016 to FY2024 (till Dec 2023). Additionally, the GoTN had an investment of Rs. 14 billion in auction treasury bills at end-December 2023. Based on the aforementioned indicators, the liquidity position of the state government can be inferred to be adequate in recent years.

For the [ICRA]BB rating: Stretched

The liquidity position of TANGDECO is stretched due to continued losses along with the high repayment obligations and capex plans. However, the GoTN's continued support backs the liquidity profile to some extent. The GoTN has also provided unconditional and irrevocable guarantee to the rated instrument over its entire tenure.

Rating sensitivities

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

The rating assigned to the Rs. 1,243.08-crore non-convertible bond programme of TANGEDCO would remain sensitive to any movement in the rating or outlook of the guarantor, i.e. GoTN.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Power- Distribution Power - Thermal Policy On Withdrawal of Credit Rating
Parent/Group support	The rated facilities of TANGEDCO are backed by an unconditional and irrevocable guarantee from the GoTN
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

Under the reorganisation and transfer scheme of TNEB under the Tamil Nadu Electricity (Reorganisation 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 engaged in the business of generation and distribution of power in the entire state of Tamil Nadu as a regulated monopoly. As on March 31, 2023, TANGEDCO had an installed capacity of about 7,172 MW, which largely consisted of thermal power plants (~60%) and hydel capacity (~32%), 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 (NTPC), Neyveli Lignite Corporation Limited (NLCIL) and Nuclear Power Corporation of India Limited (NPCIL), besides independent power producers in the state. Other sources from where power is purchased include captive generating units, co-generation units and windmills.

About the guarantor - GoTN

The GoTN's revenue receipt averaged a moderate ~10% of the Gross State Domestic Product (GSDP) during FY2019-23. With a higher average revenue expenditure of 12.2% of GSDP during this five-year period, the GoTN's revenue deficit remained above 1.4% of GSDP. This compressed the state government's fiscal space for capital spending to below 2% of GSDP during FY2019-FY2023. Accordingly, the GoTN was able to limit its fiscal deficit to the borrowing limits set by the GoI during FY2019-FY2023.

With sustained fiscal deficits and support extended to the power and civil supplies sector, the GoTN's leverage level (excluding GST compensation back-to-back loans) worsened to 30.7% of GSDP in FY2023 from 23.9% in FY2019.

Subsequently, the GoTN's revenue deficit and fiscal deficit are expected to widen to Rs. 44,907 crore and Rs. 94,060 crore, respectively, in the revised estimates (RE) for FY2024 from Rs. 36,215 crore and Rs. 81,886 crore, respectively, in FY2023. At 3.45% of GSDP, (as per the Medium-Term Fiscal Plan statement), the GoTN's fiscal deficit in FY2024 RE is expected to be within the net borrowing limit recommended by the 15th FC (including conditional borrowing related to power sector reforms) for that fiscal.

In the budget estimates (BE) for FY2025, the GoTN had forecast its revenue deficit to rise to Rs. 49,279 crore from the level projected in FY2024 RE. Along with a ~21% increase in capital spending and net lending in FY2025 BE relative to FY2024 RE, the GoTN's fiscal deficit is budgeted to rise to Rs. 1,08,690 crore in the same period. Nevertheless, as per the Medium-Term Fiscal Plan statement, the GoTN's fiscal deficit in FY2025 BE would remain under the net borrowing limit recommended by the 15th FC for this year (including conditional borrowing related to power sector reforms).

ICRA would analyse the GoTN's provisional actuals for FY2024 and FY2025 to assess the performance of their key fiscal indicators relative to FY2024 RE and FY2025 BE, respectively. The financial health of the GoTN's power sector entities and its impact on the state's finances would continue to be a key monitorable.

Key financial indicators (audited)

TANGEDCO Standalone	FY2022	FY2023
Operating income	70,447.4	82,399.9
PAT	-11954.6	-9192.3
OPBDIT/OI	3.4%	9.7%
PAT/OI	-17.0%	-11.2%
Total outside liabilities/Tangible net worth (times)	-3.1	-2.1
Total debt/OPBDIT (times)	65.4	20.6
Interest coverage (times)	0.2	0.6

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Key fiscal indicators of GoTN

	FY2023	FY2024 RE	FY2025 BE
Revenue receipts*	2,42,029	2,70,737	2,96,796
Revenue expenditure*	2,78,244	3,15,644	3,46,075
Revenue balance	-36,215	-44,907	-49,279
Capital outlay & net lending	45,713	49,156	59,415
Fiscal balance	-81,886	-94,060	-1,08,690

**Adjusted for double entries of interest on loans of departmental commercial undertakings (DCUs)*
Source: State Budget; ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2025)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2024 (Rs. crore)	Date & rating in FY2025		Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Jun 28, 2024	Apr 26, 2024	Jun 28, 2023	Jun 29, 2022	Jun 30, 2021
1	**Bonds**	Long-Term	1,243.08	1,243.08	**[ICRA]A- (CE) (Stable)**	**[ICRA]A- (CE) (Stable)**	**[ICRA]A- (CE) (Stable)**	**[ICRA]A- (CE) (Stable)**	**[ICRA]A- (CE) (Stable)**
2	**Bonds**	Long-Term	633.50	-	**[ICRA]A- (CE) (Stable); reaffirmed and withdrawn**	**[ICRA]A- (CE) (Stable)**	**[ICRA]A- (CE) (Stable)**	**[ICRA]A- (CE) (Stable)**	**[ICRA]A- (CE) (Stable)**
3	**Bonds**	Long-Term	37.40	-	**[ICRA]A- (CE) (Stable); reaffirmed and withdrawn**	**[ICRA]A- (CE) (Stable)**	**[ICRA]A- (CE) (Stable)**	**[ICRA]A- (CE) (Stable)**	**[ICRA]A- (CE) (Stable)**
4	**Bonds**	Long-Term	-	-	-	-	-	-	**[ICRA]A- (CE) (Stable); withdrawn**

Complexity level of the rated instrument

Instrument	Complexity Indicator
Bonds	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 / Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE340M08111	**Bonds**	Feb 10,2014	10.50%	Feb 10, 2024	633.50	[ICRA]A- (CE) (Stable); reaffirmed and withdrawn
INE340M08129	**Bonds**	Jul 16, 2014	9.72%	Jul 16, 2024	356.00	[ICRA]A- (CE) (Stable)
INE340M08137	**Bonds**	Dec 18, 2014	9.20%	Dec 18, 2024	387.72	[ICRA]A- (CE) (Stable)
INE340M08145	**Bonds**	Jun 11, 2015	9.00%	Jun 11, 2025	351.26	[ICRA]A- (CE) (Stable)
INE340M08152	**Bonds**	Feb 08, 2016	10.00%	Feb 08, 2026	35.00	[ICRA]A- (CE) (Stable)
INE340M08160	**Bonds**	Dec 24, 2016	9.70%	Dec 12, 2026	40.00	[ICRA]A- (CE) (Stable)
INE340M08178	**Bonds**	Mar 27, 2017	9.25%	Mar 27, 2027	73.10	[ICRA]A- (CE) (Stable)
Not placed	**Bonds**	-	-	-	37.40	[ICRA]A- (CE) (Stable); reaffirmed and withdrawn

Source: Company

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

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ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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