September 28, 2020

The Tamilnadu Industrial Investment Corporation Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Bond Programme	150.00	150.00	[ICRA]A-(CE)(Stable); reaffirmed
Fixed Deposits	500.00	500.00	MA(Stable); reaffirmed
Long-term Bank Facilities	1,100.00	1,100.00	[ICRA]BBB+(Stable); reaffirmed
Total	**1,750.00**	**1,750.00**	
Rating Without Explicit Credit Enhancement			**[ICRA]BBB+**

**Instrument details are provided in Annexure-1*

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. Earlier, the rating symbol for this instrument/facility used to be accompanied by the (SO) suffix. The change in the suffix is not to be construed as a change in the rating. The rating is specific to the rated instrument/facility, its terms and 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

For the [ICRA]A-(CE)(Stable) rating on the Rs. 150.0-crore bond programme

The above rating is based on the strength of the unconditional and irrevocable guarantee extended by the Government of Tamil Nadu (GoTN) for the Rs. 150.0-crore bond programme of The Tamilnadu Industrial Investment Corporation Limited (TIIC). The Stable outlook on this rating reflects ICRA's outlook on the rating for the 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 into the rating of the said instrument. The guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument and has a well-defined invocation and payment mechanism. Given these attributes, the guarantee provided by the GoTN is adequately strong to result in an enhancement in the rating of the said instrument to **[ICRA]A-(CE)** against the unsupported rating of **[ICRA]BBB+** without explicit credit enhancement. In case the rating of the guarantor changes in future, the same would reflect in the rating of the aforesaid instrument.

Salient covenants/features of the rated facility

- In case of default in payment of interest and/or principal redemption on the due dates, additional interest of atleast 2% p.a. over the coupon rate shall be payable.
- The instrument is backed by an unconditional and irrevocable guarantee extended by the GoTN towards the repayment of all amounts due
- A trustee monitored payment mechanism in place to ensure the timely payment of the interest and principal obligations on the rated facility

For the fixed deposits and bank lines

The ratings on the fixed deposit and bank facilities consider TIIC's status as a GoTN-owned entity (72.1% stake as of March 2020), its established track record of operations and its comfortable capitalisation profile aided by equity infusions of Rs. ~138 crore during FY2015-FY2020 (including Rs. 45 crore received from TIDCO[1] in FY2020). The ratings, however, take cognisance of the moderate scale and geographically concentrated operations, subdued asset quality characterised by gross NPA of 8.0% (provisional) as of March 2020 and the pressure on the profitability indicators (PAT/AMA[2] declined to 1.8% (provisional) in FY2020 from 2.4% in FY2019).

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 micro, small and medium enterprises (MSMEs) in Tamil Nadu. The company benefits from financial and managerial support from the GoTN. TIIC had raised equity of Rs. 100 crore during FY2019-FY2020 from GoTN-owned entities, which reduced the shareholding of the GoTN to 72.1% as of March 2020 from 94.6% in March 2018. The GoTN has also provided a guarantee for TIIC's bond (Rs. 150 crore raised in March 2014) programme. TIIC's board largely comprises Indian Administrative Service (IAS) officers and other representatives from various departments of the Government. 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, going forward.

Comfortable capitalisation profile – The capitalisation profile remains comfortable with a gearing of 1.0x (provisional) as of March 2020. The gearing improved from 1.5x as of March 2019 largely due to the equity infusion of Rs. 45 crore from TIDCO in FY2020 and the decline in TIIC's portfolio. ICRA does not expect any significant external capital requirement over the near term as the growth is likely to remain muted.

Credit challenges

Moderate scale and geographically concentrated operations – TIIC's portfolio stood at Rs. 1,089.7 crore (provisional) as of March 2020 compared to Rs. 1,121.8 crore as of March 2019. The decline in the portfolio was because of limited disbursements in working capital loans and bill financing amid weak demand. Term loans comprised 76% of the portfolio as of March 2019 followed by working capital term loans (10%). As an SFC, TIIC's operations are expected to be regionally concentrated in Tamil Nadu. The top five districts comprised 41% of the total portfolio as of March 2019.

Subdued asset quality – TIIC's asset quality is subdued with gross and net NPAs of 8.0% and 6.0% (provisional), respectively, as of March 2020 (6.2% and 4.1%, respectively, as of March 2019). The 90+ dpd (including one-year write-offs) stood high at 10.8% as of March 2020, reflecting the continued stress in its exposures. ICRA also notes the increase in the share of higher ticket loans (~74% of the portfolio had a ticket size of more than Rs. 1 crore as of March 2020 vis-à-vis 57% as of March 2019), which could lead to higher delinquencies given the moderate credit profile of the customers. However, these are given to existing borrowers and the exposures are backed by a fixed collateral, which mitigates the credit risk to an extent.

[1] *Tamilnadu Industrial Development Corporation Limited*

[2] *Profit after tax/ Average managed assets*

Decline in profitability indicators – The net profitability (PAT/AMA) declined to 1.8% (provisional) in FY2020 from 2.4% in FY2019 as the net interest margins declined to 5.7% (provisional) in FY2020 from 7.1% in FY2019 partly due to the reduction in the lending rate by 75 bps since April 2019 and the subdued overall credit offtake. The operating efficiencies moderated as the cost-to-income ratio increased to 67% (provisional) for FY2020 from 55% in FY2019 and 48% in FY2018. Going forward, the ability to control the credit costs and improve the operating efficiencies would be crucial.

Liquidity position: Adequate

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

The liquidity position of the guarantor is adequate as the GoTN has not availed the ways and means advances and/or the overdraft facilities from the Reserve Bank of India (RBI) in FY2020 and FY2021 (till July 2020). Moreover, the GoTN had a balance of Rs. 87 billion invested in auction treasury bills at the end of July 2020. Based on the indicators, the liquidity position of the state government can be inferred to be adequate in recent times.

For the MA(Stable) and BBB+(Stable) ratings: Adequate

TIIC had cash and cash equivalents of ~Rs. 100 crore as on September 18, 2020 against debt repayment (excluding deposits) obligations of ~Rs. 56 crore during October 2020 to March 2021. In FY2020, the company sourced fresh deposits (including renewals) of Rs. 70 crore against a total deposit maturity of Rs. 116 crore. TIIC had provided moratorium to its customers, post the RBI's announcement of the COVID-19 – Regulatory Package in March 2020; ~6% of the portfolio remained under moratorium as of August 2020. Although the lockdown had impacted collections, the collection efficiency improved to ~83% as of July 2020 from 10-15% during April-May 2020. Going forward, the expected improvement in collections and the unutilised cash credit facility of Rs. 65 crore provide comfort from a liquidity perspective.

TIIC's funding profile comprises fixed deposits (46%) followed by term loans from banks (28%) and government guaranteed bonds (the balance) as of March 2020. The deposits were largely sourced from Government owned/controlled entities, educational institutions and temples in Tamil Nadu.

Rating sensitivities

For the guaranteed bond programme

The rating would remain sensitive to any movement in the rating or outlook of the guarantor (GoTN).

For the fixed deposits and bank lines

Positive triggers – The ratings could be upgraded if the company is able to scale up its operations while improving its asset quality and earnings profile and maintaining a comfortable capital structure.

Negative triggers – Pressure on the ratings could arise on lower-than-expected support from the GoTN and the tightening of the liquidity profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies Approach for Rating Debt Instruments Backed by Third-party Explicit Support Impact of Parent or Group Support on an Issuer's Credit Rating
Group Support/Govt Support	The rating for the bond programme is based on the unconditional and irrevocable guarantee extended by the GoTN. The ratings for the bank loans and the fixed deposit programme factor in TIIC's systemic importance and the expectation of timely financial support from the GoTN, if required.
Consolidation/Standalone	NA

About the company

Established in 1949, TIIC (a GoTN undertaking; GoTN's stake as on March 31, 2020 - 72%) 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 to entities in the MSME segment through TIIC.

In FY2020, on a provisional basis, the company achieved a net profit of Rs. 25.0 crore on a total asset base of Rs. 1,349.9 crore against a net profit of Rs. 36.5 crore on a total asset base of Rs. 1,418.1 crore in FY2019.

Key financial indicators (IGAAP)

	FY2019 (Audited)	FY2020 (Provisional)
Total Income (Rs. crore)	194.1	148.8
Profit after Tax (Rs. crore)	36.5	25.0
Net Worth (Rs. crore)	476.9	559.4
Total Managed Portfolio (Rs. crore)	1,121.8	1,089.7
Total Managed Assets (Rs. crore)	1,418.1	1,349.9
Return on Managed Assets %	2.4%	1.8%
Return on Net Worth %	8.4%	4.8%
Gearing	1.5	1.0
Gross NPA (%)	6.2%	8.0%
Net NPA (%)	4.1%	6.0%

Source: TIIC and ICRA research

Government of Tamil Nadu's Finances

The GoTN's revenue receipts, relative to the gross state domestic product (GSDP), stood at a moderate 9.9-10.9% during FY2016 to FY2019. However, its revenue expenditure, as a proportion of the GSDP, was relatively higher at 11.4-12.0% during this period, led by substantial subsidy and welfare spending. This contributed to the worsening of the GoTN's revenue deficit to Rs. 23,459 crore or 1.4% of GSDP in FY2019 from Rs. 11,986 crore or 1.0% of GSDP in FY2016. The GoTN's capital outlay and net lending has been lower than many other states in recent years. Partly reflecting the latter, the GoTN's fiscal deficit was curtailed within the Fourteenth Finance Commission's (14th FC) target of 3.0% of GSDP during FY2016 to FY2019. Reflecting the sustained fiscal deficits, the GoTN's leverage level rose somewhat to 23.9% of GSDP in FY2019 from 22.3% of GSDP in FY2016.

In its budget estimate (BE) for FY2021, the GoTN's revenue deficit was expected to narrow considerably to Rs. 21,618 crore from Rs. 25,072 crore in FY2020 (revised estimates; RE), benefitting from the inclusion of a revenue deficit grant of Rs. 4,025 crore recommended by the Fifteenth Finance Commission (15th FC). Moreover, based on the criteria and weights decided by the 15th FC, Tamil Nadu's inter se share in Central taxes has been fixed at 4.189% for FY2021, higher than the rate (4.104%) that was applicable for the 14th FC's award period. This would positively impact the tax devolution to the GoTN. However, the demand shock related to the spread of Covid-19 would curtail the gross tax revenues of the Government of India (GoI), which would reduce the Central tax devolution to the states in FY2021.

The consumption of several discretionary items is expected to have been adversely impacted in the ongoing fiscal on account of the Covid-19 pandemic. This is expected to lead to the GoTN's revenue receipts, both own and Central transfers, being sharply lower than budgeted in FY2021, in ICRA's view. With a contraction expected in the state own tax revenues (SOTR) as well as the overall revenue receipts in FY2021, and in the nominal GSDP, the GoTN's level of leverage relative to the SOTR, revenue receipts and GSDP is expected to deteriorate in the ongoing fiscal year, which would worsen its fiscal profile.

ICRA would continue to closely monitor the impact of the pandemic on the GoTN's revenues, both own and Central transfers, expenditure and its overall fiscal position. ICRA will assess the impact of the measure(s) that the GoI may announce to alleviate the fiscal and liquidity stress being experienced by the state governments in the light of the ongoing crisis, including permission for additional borrowings, etc, as well as the timeliness and adequacy of GST compensation grants. ICRA would also analyse the impact of the recommendations of the 15th FC for the award period of FY2022-FY2026 on the GoTN's finances.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Type	Current Rating (FY2021)		Rating history for the Past 3 Years				
			Amount Rated	FY2021	FY2020	FY2018			FY2017
				28-Sept-20	14-Jun-19	28-Mar-18	23-Mar-18	26-Feb-18	24-Jan-17
1	Long-term bank facilities	Long Term	1,100.00	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-	-
2	Fixed deposits	Medium Term	500	MA(Stable)	MA(Stable)	MA (Stable)	MA (Stable)	-	-
3	Bond programme	Long Term	150	[ICRA]A- (CE) (Stable)	[ICRA]A- (CE) (Stable)	[ICRA]A-(CE) (Stable)	[ICRA]A- (CE) (Stable)	[ICRA]A- (CE) (Stable)	[ICRA]A- (CE) (Stable)

Source: TIIC; Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the 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
-	Cash Credit	01-Nov-19	NA	NA	65.0*	[ICRA]BBB+(Stable)
-	Term Loan-1	03-Feb-16	NA	01-Jan-23	66.0*	[ICRA]BBB+(Stable)
-	Term Loan-2	20-Aug-16	NA	01-Sep-21	88.0*	[ICRA]BBB+(Stable)
-	Term Loan-3	01-Mar-17	NA	01-Mar-20	9.0*	[ICRA]BBB+(Stable)
-	Proposed Limits	NA	NA	NA	872	[ICRA]BBB+(Stable)
Total Bank Lines					**1,100.0**	
INE638F08021	Bonds	07-Mar-14	9.85%	30% on 07-03-2022 30% on 07-03-2023 40% on 07-03-2024	150.0	[ICRA]A-(CE)(Stable)
Total Bond Programme					**150.0**	
-	Fixed Deposits	NA	NA	NA	500.0	MA(Stable)
Total Fixed Deposits					**500.0**	

**Outstanding balance as on March 31, 2020; Source: TIIC*

Analyst Contacts

Karthik Srinivasan
+91 22 6114 3408
karthiks@icraindia.com

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

Subhashree Ravi
+91 44 4297 4324
subhashree.ravi@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

About ICRA Limited:

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For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999