

November 25, 2022

Tamilnadu Urban Finance and Infrastructure Development Corporation Limited: Rating reaffirmed; Outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bank facilities – Term loan	500.00	371.42	[ICRA]BBB+ (Negative); rating reaffirmed, and Outlook revised to Negative from Stable
Bank facilities – Proposed	500.00	62.00	
Total	1,000.00	433.42	

*Instrument details are provided in Annexure I

Rationale

The revision in the rating outlook to Negative from Stable factors in the deterioration in Tamilnadu Urban Finance and Infrastructure Development Corporation Limited's (TUFIDCO) asset quality performance due to the inadequate/delayed release of State Finance Commission (SFC) devolution grants as well as the significant slippages in its loans to town panchayats. As a result, TUFIDCO's delinquencies were elevated with the 90+ days past due (dpd) increasing to 17.6% as of March 2022 from Nil as of March 2021. Nonetheless, some improvement was witnessed in the delinquencies due to better collections in H1 FY2023, resulting in a moderation in the 90+dpd to 8.0% as of September 2022. Going forward, maintaining the collections in a timely manner, either directly from the borrower's cash flows or through the SFC devolution grants, would be a key monitorable from a credit perspective.

The rating also considers the Government of Tamil Nadu's (GoTN) ownership (96.9% stake as on March 31, 2022) in TUFIDCO and the company's comfortable capitalisation profile. The capitalisation profile is supported by the healthy net worth and limited external borrowings.

The rating is constrained by the small scale of operations with a loan book of Rs. 518.3 crore (provisional) as on September 30, 2022 (Rs. 419.0 crore as on March 31, 2022). ICRA also takes note of the healthy profitability in the past supported by fee income from fund management. However, the sustainability of fee income is a monitorable, going forward. The rating also factors in the limited diversity in TUFIDCO's funding profile. Its ability to improve the same as it scales up its operations would be a key monitorable.

Key rating drivers and their description

Credit strengths

GoTN ownership and support – The GoTN has a 96.9% stake in TUFIDCO {3.1% is held by Housing and Urban Development Corporation (HUDCO) and urban local bodies (ULBs)}, which is a key entity that provides financial assistance for the implementation of various infrastructure projects of local bodies and other government agencies. It is also the nodal agency for the implementation of government programmes/schemes in Tamil Nadu. Given its strategic importance, ICRA expects TUFIDCO to receive timely support from the GoTN. TUFIDCO's board largely comprises Indian Administrative Services (IAS) officers from various departments of the GoTN.

Comfortable capitalisation profile – TUFIDCO's capitalisation profile remains comfortable with a net worth of Rs. 277.4 crore and a gearing of 0.78 times as on March 31, 2022 (Rs. 279.1 crore and 0.04 times, respectively, as on March 31, 2021). The

capitalisation profile is supported by the healthy net worth and limited external borrowings. The gearing is expected to remain comfortable in the near-to-medium term considering TUFIDCO's moderate portfolio growth.

Credit challenges

Deterioration in asset quality due to delayed/inadequate collections through SFC devolution grants – TUFIDCO's asset quality deteriorated with the 90+ dpd increasing to 17.6% as of March 2022 from Nil as of March 2021 because of delays in the release of SFC devolution grants/inadequate allotment of grants and slippages in the town panchayat accounts. While some improvement was witnessed in the delinquency levels backed by better collections in H1 FY2023, the 90+ dpd remained elevated at 8.0% as of September 2022. TUFIDCO's collections are typically supported by various structures and control measures to ensure payments to the company and recovery of all overdues.

Going forward, the overdues from the town panchayat accounts (which form a sizeable part of the delinquent loans) are expected to be recovered through the grants allotted by the Commissioner of Town Panchayats. The other large delinquent account is Salem Corporation, which accounted for 40.7% of the 90+ dpd as of March 2022 (44.6% as of September 2022); the delinquency arose due to the less-than-adequate allotment of the SFC grant to TUFIDCO with the same expected to continue in the near term.

Small scale of operations and uncertainty regarding fee-based income – TUFIDCO's loan book improved to Rs. 518.3 crore (provisional) as on September 30, 2022 and Rs. 419.0 crore as on March 31, 2022 (Rs. 239.3 crore as on March 31, 2021) largely due to the Special Roads Programme (SRP) disbursements of Rs. 495 crore in FY2022 and Rs. 197.3 crore in H1 FY2023 (against the target of Rs. 1,000 crore to ULBs for the SRP due to the change in the government).

TUFIDCO is the nodal agency for the implementation of various state/Central government schemes and earns fee income for managing their funds. Fee income accounted for 20.3% (provisional) of the total income in FY2022 (43.5% in FY2021 and 28.2% in FY2020). ICRA notes that Metropolitan Infrastructure Development Fund (MIDF), Kalaignar Nagarpura Mempattu Thittam (KNMT) and Singara Chennai 2.0 accounted for 76.3% of the total fee income in FY2022. The continuation of fee income is contingent on the launch of new schemes and the continuity of existing schemes.

TUFIDCO's net profitability (PAT/AMA)¹ was 2.3% in FY2022 (provisional) compared to 6.4% in FY2021 due to the increase in credit costs and the decline in non-interest income. Non-interest income (comprising fee income from fund management activities, dividend income and other income) declined to 2.8% (non-interest income/AMA) in FY2022 (provisional) from 4.9% in FY2021 (4.7% in FY2019 and average of 2.14% for FY2016-19), as prior period income was booked in FY2021. Credit costs (provisions and write-offs/AMA) increased significantly to 2.8% in FY2022 due to the deterioration in the asset quality. ICRA notes that the company's net profitability is expected to remain range-bound in the near-to-medium term due to its low-margin lending operations and the uncertainty regarding fee income.

Limited diversity in borrower and funding profile – TUFIDCO mainly extends loans to ULBs and government-owned entities. The top 7 exposures accounted for nearly 47% of the loan book as on March 31, 2022, improving from 99% as on March 31, 2021 and 74% as on June 30, 2021. The share of corporations, municipalities and town panchayats in the overall assets under management (AUM) stood at 42%, 40% and 7%, respectively, as on March 31, 2022. TUFIDCO's funding profile is characterised by borrowings from only two lenders at present. The ability to diversify its funding profile in a timely manner would be crucial for future business growth.

Liquidity position: Adequate

TUFIDCO's liquidity is adequate with a cash and bank balance of Rs. 29.1 crore as on August 31, 2022 vis-à-vis repayment obligations of Rs. 9.2 crore during September-November 2022. The collection efficiency improved to 105% in H1 FY2023 from

¹ Profit after tax / average managed assets

89% in FY2022, which has reduced the overdues. The rated term loans are from two banks for 10 years, guaranteed by the GoTN. Hence, the collections would be sufficient to service the obligations as most are made from the SFC devolution grants, providing visibility on collections.

Rating sensitivities

Positive factors – Given the Negative outlook, a rating upgrade is unlikely in the near term. However, ICRA could revise the outlook to Stable in case of a sustained improvement in the asset quality, backed by timely collections either directly from the borrower’s cash flows or through the SFC devolution grants.

Negative factors – ICRA could downgrade the rating on a further deterioration in TUFIDCO’s asset quality performance, lower-than-expected support from the GoTN or a weakening in the credit profile of the GoTN. A substantial weakening in the capital and earnings could 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 rating factors in TUFIDCO’s strategic importance to the GoTN and the expectation of timely financial support from the GoTN, if required.
Consolidation/Standalone	The rating is based on the standalone financial statements of the company.

About the company

TUFIDCO is a GoTN undertaking incorporated in 1990 and functioning under the Department of Municipal Administration and Water Supply. It is registered as a deposit accepting non-banking financial company (NBFC) with the Reserve Bank of India (RBI). TUFIDCO has not accepted deposits since FY2014 and no deposits were outstanding as of March 2022. Its main objective is to provide finance to ULBs and government corporations to create infrastructure in Tamil Nadu. Besides, TUFIDCO is appointed as the nodal agency in Tamil Nadu for managing Central Government schemes such as Atal Mission for Rejuvenation and Urban Transformation (AMRUT), Smart Cities Mission (SCM), Metropolitan Infrastructure Development Fund (MIDF), etc., and state government schemes such as Integrated Urban Development Mission (IUDM), Singara Chennai 2.0, Kalaingar Nagarpura Mempattu Thittam (KNMT), etc.

Key financial indicators

Standalone	FY2020	FY2021	FY2022*
Total income	48.4	39.3	43.6
Profit after tax	23.6	23.8	10.2
Net worth	261.1	279.1	277.4
Loan book	292.5	239.3	419.0
Total managed assets	400.2	346.4	548.4
Return on managed assets	5.3%	6.4%	2.3%
Return on net worth	9.4%	8.8%	3.7%
Managed gearing (times)	0.3	0.0	0.8
Gross stage 3	0.0%	0.0%	17.6%
Net stage 3	0.0%	0.0%	15.0%
Solvency (Net stage 3/Net worth)	0.0%	0.0%	22.6%

CRAR	76.9%	94.6%	56.6%
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Source: Company, ICRA Research; *Provisional; 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

Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
				Nov 25, 2022	Aug 20, 2021	Oct 29, 2020	-
1 Bank facilities – Term loan	Long term	371.42	371.42	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
Bank facilities – Proposed		62.00	0.00	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Bank facilities – Term loan	Simple
Bank facilities – Proposed	Not Applicable

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	Term loan-1	NA*	NA*	NA*	230.00	[ICRA]BBB+ (Negative)
NA	Term loan-2	Mar 26, 2021	8.85% (Repo rate + 2.95%)	Mar 25, 2031	141.42	[ICRA]BBB+ (Negative)
NA	Proposed limit	-	-	-	62.00	[ICRA]BBB+ (Negative)

Source: Company ; *Not Available

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

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