

Tamil Nadu Power Finance and Infrastructure Development Corporation Limited

Instrument	Amount	Rating Action
Long-term Bond Programmes	Rs.1,964.20 crore	[ICRA]A-(SO); reaffirmed

ICRA has reaffirmed the [ICRA]A-(SO) rating outstanding on the Rs.1,964.20 crore¹ bonds programme of Tamil Nadu Power Finance and Infrastructure Development Corporation Limited (TNPFDCL).[†] The letters SO in parenthesis suffixed to the rating symbol stand for Structured Obligation. An SO rating is specific to the rated issue, its terms, and its structure. An SO rating does not represent ICRA's opinion on the general credit quality of the issuer concerned.

The rating derives strength from the unconditional and irrevocable guarantee extended by the State Government of Tamil Nadu (GoTN) towards repayment of principal and interest due thereon over the tenure of the bonds, and an ICRA stipulated structured payment mechanism, which includes an escrow account to be monitored by a Trustee. As a result, the rating assigned to the bond programme primarily reflects the credit strength of GoTN and the integrity and expected adherence to the structured payment mechanism stipulated by ICRA.

Government of Tamil Nadu's Finances

While Tamil Nadu's performance on various socio economic indicators and financial leveraging (including debt and guarantees) remain favourable compared to most other states, its fiscal balances have deteriorated since FY2014. The pace of growth of the state's own tax revenues (SOTR) was dampened by a fall in retail prices of petrol and diesel, with the GoTN refraining from increasing the rate of sales tax/VAT levied on such fuels in FY2015 and FY2016. Further, following the recommendations of the Fourteenth Finance Commission, the share of Tamil Nadu in the *inter se* devolution of Union taxes reduced to 4.023% for its award period (FY2016 to FY2020) from 4.969% over the Thirteenth Finance Commission's award period (FY2011 to FY2015). A relatively higher pace of growth in revenue expenditure compared to revenue receipts in the recent years has widened the GoTN's revenue deficit from Rs. 1,791 crore in FY2014 to Rs. 9,481 crore in FY2016 (as per the revised estimates, RE). While the GoTN estimates its fiscal deficit to worsen to Rs. 32,360 crore in FY2016 RE from Rs. 27,214 crore in FY2015, it remained below 3%² of gross state domestic product (GSDP), in line with the target set by FFC.

After the Legislative elections in 2016 in Tamil Nadu, the GoTN announced the introduction and extension of various welfare schemes, such as additional units of free power for certain categories of consumers (estimated cost of Rs. 1,607 crore in FY2017 BE), and waiver of crop loans (estimated cost of Rs. 5,781 crore to be released in a number of tranches; Rs. 1,681 included in FY2017 BE). Moreover, the government has implemented a policy of partial prohibition in the state, which would curtail its excise revenues. Reflecting such changes, the GoTN expects its revenue and fiscal deficits to widen substantially to Rs. 15,854 crore and Rs. 40,534 crore respectively, as per the budget estimates (BE) for FY2017. Moreover, the Medium Term Fiscal Policy Statement, published with the FY2017 Budget indicates further deterioration in GoTN's fiscal balances in FY2018, followed by a modest improvement in FY2019. ICRA would closely monitor the enduring impact of the recent announcements as well as the impending pay revision on the fiscal health, leverage levels and overall credit profile of the state government in the near-to-medium term.

Company Profile

Incorporated in 1991 as a deposit accepting NBFC, TNPFDCL mobilizes funds through public and institutional deposits for funding power and infrastructure projects in Tamil Nadu. The institution currently provides assistance in the form of hire purchase and term loans facilities to Tamil Nadu Generation and Distribution Corporation Limited. TNPFDCL is wholly owned by the GoTN.

¹ 100 lakh = 10 million = 1 crore

[†] For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications

² As per the Medium Term Fiscal Policy Statement published by the GoTN with the Budget for FY2017

During FY2015, TNPFDCL reported a net profit of Rs.105.8 crore on a total asset base of Rs. 15,601.4 crore compared with a Rs.107.6 crore net profit on a total asset base of Rs. 13,743.2 crore in FY2014. The company had a networth of Rs.740.8 crore as on March 31, 2015.

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