

Tamil Nadu Generation and Distribution Corporation Limited

February 07, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Bonds Programme	150.0	Provisional [ICRA]BBB+(SO) (Stable); Assigned
Non-Convertible Bonds Programme	4,347.5	[ICRA]A-(SO) (Stable); Outstanding
Total	4,497.5	

Rating action

ICRA has assigned a long-term rating of [ICRA]BBB+(SO) (pronounced ICRA triple B plus structured obligation) to the Rs. 150 crore¹ long-term bond programme of Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO)². The outlook on the long-term rating is 'Stable'. ICRA takes comfort from the defined escrow and payment mechanism, creation of sinking fund for principal repayment and Government of Tamil Nadu (GoTN) undertaking to meet any shortfall in the promised coupon payment or for creation of the sinking fund (on an annual basis for meeting the principal repayment on the scheduled maturity date) from the dues payable by the GoTN to TANGEDCO. The rating assigned is provisional subject to fulfillment of all conditions under the structure as mentioned to ICRA including execution of the transaction documents, and the executed documentation being in line with the terms shared with ICRA.

ICRA also has a long-term rating of [ICRA]A-(SO) (Stable) outstanding on various bond programmes of TANGEDCO aggregating to Rs. 4,347.5 crore based on the strength of Guarantee provided by the GoTN.

Rationale

The rating takes into account the ownership of the GoTN in TANGEDCO, its strategic importance to the state power sector and the regulated nature of the business supported by cost-plus based tariff principles. The discom (distribution company, i.e. TANGEDCO) has benefitted from the continuing support of the GoTN in the form of equity and interest-free loans as well as advance release of subsidies. The rating factors TANGEDCO's obligation to fund the escrow account every year to an extent of Rs. 50 crore, which should be sufficient to meet all payment obligations on the rated NCDs. Further, as per the tri-partite agreement between TANGEDCO, the GoTN undertakes to meet any shortfall in the promised coupon payment or for creation of the sinking fund (on an annual basis for meeting the principal repayment on the scheduled maturity date) from the dues payable by the GoTN to TANGEDCO. The payment mechanism is designed to ensure timely payment to NCD investors, even if the GoTN support is required.

The rating further factors in the improvement in the operational performance of TANGEDCO as seen from reduction in AT&C losses³ and increase in cost coverage ratio⁴ over the last 3-4 years. The presence of a multi-year tariff (MYT) for the period from FY2017 to FY2019 is also a credit positive. While arriving at the rating, ICRA has taken note of the benefits

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

³ Aggregate Technical & Commercial losses

⁴ ratio of average revenue realisation (including subsidy) to the average cost of supply

arising from the participation of TANGEDCO in the Ujwal Discom Assurance Yojana (UDAY) which would lead to considerable interest savings from FY2018 onwards as well as support the overall cash flow position of the discom.

The rating is, however, constrained by the continued cash losses of the discom (albeit the same are exhibiting a declining trend), and its weak capital structure and debt coverage metrics. While TANGEDCO has been able to improve its cost coverage ratio, it still continues to face a mismatch between its cost of power procurement and average power realisation primarily due to very low tariff to farmers, under-recovery in domestic and few subsidised segments and overheads arising from overstaffing. The discom continues to rely heavily on state subsidy to meet its cash flow mismatches. The rating also takes into account the slippages in regulatory timelines by TANGEDCO with regards to filing of tariff petitions, closure of annual accounts and continuing audit qualifications. The rating also factors in the execution risks associated with the RM&U (renovation, modernisation and uprating) of the two hydro projects, for which funds are being raised through the NCD issuance, and the hydrological risks, post-commissioning.

Outlook: Stable

ICRA believes TANGEDCO will continue to benefit from the support of the GoTN and its strategic importance to the state economy. The outlook may be revised to 'Positive' if the discom witnesses further improvement in its cost coverage ratio and is able to strengthen its financial risk profile through reduction in cash losses and improvement in the coverage metrics. The outlook may be revised to 'Negative' if the tariff revisions are inadequate, going forward, which would weaken the financial profile or the discom undertakes higher-than-expected capex resulting in further increase in its borrowing levels.

Key rating drivers

Credit strengths

Continuing support from GoTN and strategic importance to the state power sector – TANGEDCO came into existence post the debundling of the erstwhile TNEB in 2010. It is responsible for generation and distribution of power in Tamil Nadu and holds a strategic importance to the state power sector. It is held entirely by the GoTN which has supported the discom through regular infusion of funds in the form of equity or interest-free unsecured loans.

Tri-partite agreement between TANGEDCO, GoTN and TNIFMC – As per the terms of the agreement, TANGEDCO is obligated to deposit Rs 50 crore in the escrow account every year. The escrow account would be operated by TNIFMC. In case the amount is not funded by TANGEDCO, TNIFMC shall issue a notice to the GoTN to fund the shortfall amount (to the extent of shortfall in meeting the promised coupon amount) and for creation of the sinking fund. The payment mechanism is designed to ensure timely payment to the NCD investors even if the GoTN support is required.

Improvement in TANGEDCO's operational performance – TANGEDCO's operational performance has strengthened over the last 3-4 years. Its AT&C loss level decreased to 15.2% in FY2017 from 24.4% in FY2015 with improvement in both the billing and collection efficiency. TANGEDCO's cost coverage ratio also improved to 0.90x in FY2017 from 0.75x in FY2015 owing to both, increase in the power tariff and the commencement of operations of new generation projects which brought down the overall power purchase expenses.

Benefits arising from participation in UDAY - The GoTN signed a tri-partite MoU with TANGEDCO and the Government of India (GoI) on January 9, 2017 to join UDAY. In line with the scheme, the GoTN took over debt of Rs. 22,815 crore (i.e. 75% of the debt as on September 30, 2015 to be taken over under UDAY) which has been converted into interest-free loans. The same will be transferred to TANGEDCO as grants over five years. TANGEDCO has estimated annual interest savings of Rs. 2,882 crore from the take-over of the said debt that would reduce its cash losses. In addition, its principal

repayment would also reduce which would support its cash flows. Under UDAY, TANGEDCO will endeavor to reduce its AT&C losses further and improve its cost coverage ratio which would further strengthen its financial profile.

Credit challenges

High financial risk profile on a standalone basis – Financial profile of TANGEDCO remains weak characterised by sizeable cash losses and significant reliance on external borrowings resulting in a highly leveraged capital structure and weak debt protection metrics. The discom reported cash losses of Rs. 4,271 crore in FY2017, albeit the same has reduced significantly in recent years. The borrowing levels have marginally declined in FY2017, though continue to remain high at about Rs. 98,000 crore as on March 31, 2017, which includes loans of ~Rs. 59,600 crore from banks and financial institutions. ICRA, however, expects the discom to be closer to cash break-even in the near term following the sizeable reduction in interest costs after take-over of part debt by the GoTN which would subsequently be converted into grants, other cost reduction initiatives including on power procurement and anticipated tariff revision.

Dependence on tariff subsidy from GoTN continues to remain high – The discom has remained heavily reliant on subsidy receipts from the GoTN to meet its cash flow mismatches. The subsidy payments have been made in advance traditionally which continued in FY2017 where GoTN advanced Rs. 8,485 crore as subsidy for domestic and agricultural customers. The substantial increase in the subsidy component year on year, in the absence of frequent tariff hikes, remains a key concern.

Slippages in regulatory timelines – TANGEDCO has been irregular in filing of its tariff petitions in the past. In December 2014, TNERC had issued a suo motu order following such delays after which TANGEDCO filed a multi-year tariff (MYT) petition and true up orders based on audited 2016 financials in February 2017. Subsequently, TNERC issued the final order in August 2017 wherein it approved the aggregate revenue requirement (ARR) for the period FY2017 to FY2019. Also, while the automatic pass-through of fuel cost through FPCA⁵ mechanism is in place since April 2012, it has not been implemented. TNERC has directed TANGEDCO to file monthly/quarterly FPCA petitions to recover the actual costs. The auditors have also made various qualifications in the annual report of TANGEDCO which it is in the process of implementing. Due to weak liquidity, TANGEDCO was irregular in its debt repayments to financial institutions in FY2017, though the discom has submitted to ICRA that the payments have been timely in the current financial year post takeover of part debt by the GoTN under UDAY.

Project exposed to execution risks and hydrological risks associated with the hydro-power plants – The funds raised from the Rs. 150 crore NCD issue would be deployed in the RM&U of two hydro projects that are operating beyond their useful life and have been derated in the past. The project would be exposed to the execution risks during the renovation and modernisation work (estimated as 25 months for Kodayar hydro project and 42 months for Moyar hydro project). Post-commissioning, the operations of the hydro plants would be exposed to hydrological risks and the variability in the PLF levels. Further, the ability of the plants to achieve the estimated increase in generation (about 100 million units incremental generation from both the plants combined) remains to be seen.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Power Distribution Utilities](#)

⁵ fuel and power purchase cost adjustment

About the company:

Under the reorganization and transfer scheme of TNEB under the Tamil Nadu Electricity (Reorganization and Reforms) Transfer Scheme 2010 issued by Government of Tamil Nadu (GoTN) with effect from November 1, 2010, TNEB has been reorganized into TNEB Limited (the holding company), Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO) and Tamil Nadu Transmission Corporation Limited (TANTRANSCO). TANGEDCO is the largest utility in the country in terms of number of consumers and one of the top few state utilities in terms of energy sales. As on March 31, 2017, TANGEDCO had installed capacity of about 7,500 MW, which largely consisted of thermal power plants (~60%) and hydel capacity (~30%) apart from gas-based capacity and few windmills. TANGEDCO also sources a significant portion of its requirement from central power sector utilities like National Thermal Power Corporation Limited, Neyveli Lignite Corporation Limited and Nuclear Power Corporation of India Limited besides independent power producers in the state. Other sources, from where power is purchased, include captive generating units, co-generation units and wind mills.

Key financial indicators (audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	41,516	43,964
PAT (Rs. crore)	-7,231	-6,142
OPBDIT/ OI (%)	7.8%	8.8%
Total Debt/ TNW (times)	-2.9	-2.6
Total Debt/ OPBDIT (times)	33.3	25.3
Interest coverage (times)	0.4	0.5

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating		Chronology of Rating History for the past 3 years					
		Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Month-year & Rating	Month- year & Rating in FY2017			Month-year & Rating in FY2016	
					Mar 2017	Dec 2016	Oct 2016		Mar 2016
1	Bonds(proposed)	150.0	-	Provisional [ICRA]BBB+ (SO) (Stable)	-	-	-	-	
2	Bonds	3,335.8	3,176.53	[ICRA]A-(SO) (Stable)	[ICRA]A-(SO) (Stable)	[ICRA]A-(SO) (Stable) – 3285.3	[ICRA]A-(SO) (Stable) – 3185.3	[ICRA]A-(SO) – 2633.5	
						Provisional [ICRA] A- (SO) (Stable) – 50.5	Provisional [ICRA] A- (SO) (Stable) – 150.5	Provisional [ICRA]A-(SO) (Stable) – 702.3	
3	Bonds	80.7	64.56	[ICRA] A- (SO) (Stable)	[ICRA] A- (SO) (Stable)	[ICRA] A- (SO) (Stable)	[ICRA] A- (SO) (Stable)	[ICRA] A- (SO) (Stable)	
4	Bonds	530.9	530.9	[ICRA] A- (SO) (Stable)	[ICRA] A- (SO) (Stable)	[ICRA] A- (SO) (Stable)	[ICRA] A- (SO) (Stable)	[ICRA] A- (SO) (Stable)	
5	Bonds	400.0	400.0	[ICRA] A- (SO) (Stable)	[ICRA] A- (SO) (Stable)	[ICRA] A- (SO) (Stable)	[ICRA] A- (SO) (Stable)	[ICRA] A- (SO) (Stable)	

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Bonds (proposed)	-	-	-	150.00	Provisional [ICRA]BBB+ (SO) (Stable)
INE340M09010	Bonds	Jan 2011	8.65%	20% - Feb 2017, 20% - Feb 2018, 20% - Feb 2019, 20% - Feb 2020, 20% - Feb 2021	80.70	[ICRA]A- (SO) (Stable)
INE084G09206	Bonds	Apr 2009	8.81%	30% - May 2017, 30% - May 2018, 40% - May 2019	530.90	[ICRA]A- (SO) (Stable)
INE340M08111	Bonds	Jan 2014	10.50%	30% - Feb 2022, 30% - Feb 2023, 40% - Feb 2024	633.50*	[ICRA]A- (SO) (Stable)
INE340M08129	Bonds	July 2014	9.72%	30% - July 2022, 30% - July 2023, 40% - July 2024	1000.00*	[ICRA]A- (SO) (Stable)
INE340M08137	Bonds	Dec 2014	9.20%	30% - Dec 2022, 30% - Dec 2023, 40% - Dec 2024	1000.00*	[ICRA]A- (SO) (Stable)
INE340M08145	Bonds	May 2015	9.00%	30% - Jun 2023, 30% - Jun 2024, 40% - Jun 2025	501.80*	[ICRA]A- (SO) (Stable)
INE340M08152	Bonds	Jan 2016	10.00%	30% - Feb 2024, 30% - Feb 2025, 40% - Feb 2026	50.00*	[ICRA]A- (SO) (Stable)
INE340M08160	Bonds	Dec 2016	9.70%	30% - Dec 2024, 30% - Dec 2025, 40% - Dec 2026	40.00*	[ICRA]A- (SO) (Stable)
INE340M08178	Bonds	Mar 2017	9.25%	30% - Mar 2025, 30% - Mar 2026, 40% - Mar 2027	73.10*	[ICRA]A-(SO) (Stable)

*Part of the Rs 3335.80 crore Bond Programme rated by ICRA
Source: Tamil Nadu Generation and Distribution Corporation Limited

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