

The Tamilnadu Industrial Investment Corporation Limited

March 23, 2018

Summary of rated instruments

| Instrument | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|----------------|--------------------------------------|-------------------------------------|------------------------------------|
| Fixed Deposits | - | 500.0 | MA (Stable); Assigned |
| Bond Programme | 150.0 | 150.0 | [ICRA]A-(SO) (Stable); Outstanding |
| Total | 150.0 | 650.0 | |

Rating action

ICRA has assigned the medium rating of MA (pronounced ICRA M A)¹ to the Rs. 500.0-crore² fixed deposit programme of The Tamilnadu Industrial Investment Corporation Limited (TIIC). The outlook on the rating is Stable.

ICRA has a rating of [ICRA]A-(SO) (pronounced ICRA A minus Structured Obligation) outstanding on the Rs.150.0-crore bond programme of TIIC. The outlook on the rating is Stable.

Rationale

The assigned ratings factor in the Government of Tamil Nadu's (GoTN) majority shareholding (94.6% shareholding as on September 30, 2017), its managerial and financial support and TIIC's established track record of operations. The rating also considers TIIC's adequate profitability profile, comfortable capitalisation profile and its fairly diversified funding profile. The rating, however, takes cognisance of the geographically concentrated operations and the weak asset quality indicators.

Outlook: Stable

ICRA believes TIIC will continue to benefit from being a GoTN-owned company, its established track record of operations and diverse funding profile. The outlook may be revised to Positive on steady improvement in the asset quality indicators. The outlook may be revised to Negative in the event of significant deterioration in the asset quality indicators or weakening in the capitalisation or profitability profile.

¹ For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications

² 100 lakh = 1 crore = 10 million

Key rating drivers

Credit strengths

GoTN-owned entity with established track record of operations - TIIC was established in 1949 as a non-banking finance company to provide financial assistance to MSME (Micro Small and Medium Enterprises) enterprises in Tamil Nadu. The GoTN ownership (94.6% on September 30, 2017) provides TIIC with access to managerial and financial support from the GoTN. TIIC's board largely comprises Indian Administrative Service (IAS) officers from various departments of the GoTN. TIIC has access to deposits from GoTN-owned or controlled entities. The GoTN has also infused equity (Rs. 37.5 crore during FY2014-FY2017) and extended guarantee to TIIC's bond programme of Rs. 150.0 crore.

Comfortable capitalisation profile on account of modest portfolio growth - The capitalisation profile is comfortable, at present, with a gearing of 3.6 times as on March 31, 2017 (4.1 times as on March 31, 2016) and the CAR³ at 23.1% as on March 31, 2017. TIIC's capitalisation profile is improving (gearing stood at 6.5 times as on March 31, 2012) on account of the modest portfolio growth (0.7% from FY2015-FY2017), while internal generation⁴ remained largely rangebound at 7-8% in FY2016 and FY2017.

Funding from diverse sources; depositor profile, however, is quite concentrated - TIIC's borrowing profile consists of fixed deposits (39%), bank borrowings (34%), SIDBI refinance (16%) and Government-guaranteed bonds (11%). The average cost of funds was at 9.6% in FY2017 (9.5% in FY2016). SIDBI's share in TIIC's total debt outstanding reduced steadily to 15% as on March 31, 2017 from 53% as on March 31, 2012, with a corresponding increase in the share of bank debt, institutional deposits and retail deposits. The majority of TIIC's deposits were from institutional sources. Key institutional depositors include government entities, temples and educational institutions. TIIC's depositor profile is quite concentrated with the top five depositors constituting about 70% of the total deposits as on December 31, 2017. However, GoTN-owned or controlled entities accounted for the bulk of these institutional deposits (88% of the top five deposits), which provides comfort from a liquidity perspective.

Adequate profitability profile - TIIC reported PAT/ATA of 1.7% in FY2017 (1.9% in FY2016). The company's profitability is supported by a low gearing level (3.6 times as on March 31, 2017) and improvement in the NIMs⁵ while the operating expense ratio was rangebound at 2.8-3.0%. TIIC's credit cost, however, increased because of the write-offs on account of the weak asset quality. TIIC's ability to control incremental credit cost would be crucial for its profitability, going forward.

Credit challenges

Geographically concentrated operations - TIIC's operations are concentrated in Tamil Nadu with the top five districts constituting 55% of the total portfolio as on March 31, 2017. Being a state financial corporation (SFC), TIIC's operations are expected to be geographically concentrated in Tamil Nadu. TIIC's AUM⁶ stood at Rs. 1,628.5 crore as on March 31, 2017 (Rs. 1,667.0 crore as on March 31, 2016). The company's loan portfolio mainly comprises term loans, working capital loans and bill financing for MSMEs. TIIC's portfolio growth was modest (about 2-7%) during FY2013 to FY2016. The portfolio contracted by 2% in FY2017, reflecting a decline in the bill financing segment.

³ Capital Adequacy Ratio (CAR) = Capital/Risk weighted assets

⁴ PAT less dividend/average net worth

⁵ NIM-Net Interest Margin/Average Total Assets

⁶ AUM-Assets Under Management

Weak asset quality - TIIC's asset quality is weak with gross NPA at 8.1% as on March 31, 2017 (9.2% as on March 31, 2016) and net NPA at 5.8% as on March 31, 2017 (7.0% as on September 30, 2017). The company continues to write off loans every year (TIIC has written off loans to the extent of Rs. 84.1 crore during FY2014 to FY2017). Although TIIC's exposures are backed by fixed collateral, its exposure to MSME enterprises and first-generation entrepreneurs, who have a modest credit risk profile, make it vulnerable to adverse economic cycles.

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

Links to applicable criteria:

[ICRA's Credit Rating Methodology for Non Banking Finance Companies](#)

About the company:

Established in 1949, TIIC (a GoTN undertaking with a stake of 94.6% as on March 31, 2017) provides financial assistance (both long-term and working capital requirements) to micro, small, medium and large enterprises. The majority of the entity's sanctions and disbursements are towards the micro, small and medium enterprises (MSME) segment. TIIC also encourages lending to first-generation entrepreneurs in the above-mentioned segment. TIIC extends financial support for setting up new units, and for the expansion or modernisation of existing units, including enterprises, in the service sector.

TIIC achieved a net profit of Rs. 31.0 crore on an asset base of Rs. 1,872.3 crore in FY2017 against a net profit of Rs. 35.0 crore on an asset base of Rs. 1,872.0 crore in FY2016.

Key financial indicators (audited)

| | FY2016 | FY2017 |
|-------------------------------------|---------|---------|
| Total income (Rs. crore) | 241.3 | 252.9 |
| Profit after tax (Rs. crore) | 35.0 | 31.0 |
| Net worth (Rs. crore) | 341.5 | 368.6 |
| Total managed portfolio (Rs. crore) | 1,667.0 | 1,628.5 |
| Total managed assets (Rs. crore) | 1,872.0 | 1,872.3 |
| RoMA (%) | 1.9% | 1.7% |
| Return on net worth (times) | 10.6% | 8.7% |
| Gearing | 4.1x | 3.6x |
| Gross NPA (%) | 9.2% | 8.1% |
| Net NPA (%) | 7.0% | 5.8% |

Source: TIIC and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

| Instrument | Current Rating (FY2018) | | | | Chronology of Rating History for the past 3 years | | | |
|------------------|-------------------------|--------------------------|--------------------------------|-------------------------------------|---|----------------------------|-------------------------------|--|
| | Type | Amount Rated (Rs. crore) | Amount Outstanding (Rs. Crore) | Date & Rating | Date & Rating in FY2017 | Date & Rating in FY2016 | Date & Rating in FY2015 | |
| 1 Fixed Deposits | Medium Term | 500.0 | 500.0 | March 2018 MA(Stable) | January 2017 - | March 2016 - | February 2015 - | |
| 2 Bond Programme | Long Term | 150.0 | 150.0 | March 2018 [ICRA]A-(SO) (Stable) | January 2017 [ICRA]A-(SO) (Stable) | March 2016 [ICRA]A-(SO) | February 2015 [ICRA]A-(SO) | |

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 |
|-----------------------------|-----------------|-----------------------------|-------------|---|--------------------------|----------------------------|
| INE638F08021 | Long-term Bonds | Mar-07-14 | 9.85% | 30% on 07-03-2022 30% on 07-03-2023 40% on 07-03-2024 | 150.0 | [ICRA]A(SO)(Stable) |
| Total Bong Programme | | | | | 150.0 | |
| - | Fixed Deposits | NA | NA | NA | 500.0 | MA(Stable) |
| Total Fixed Deposits | | - | - | - | 500.0 | |

Source: TIIC

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