

October 29, 2020

## Tamilnadu Urban Finance and Infrastructure Development Corporation Limited: [ICRA]BBB+(Stable) assigned

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Bank facilities	104.71	[ICRA]BBB+(Stable); assigned
<b>Total</b>	<b>104.71</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating takes into account the Government of Tamil Nadu's (GoTN) ownership (96.9% stake as on March 31, 2020) in Tamilnadu Urban Finance and Infrastructure Development Corporation Limited (TUFIDCO) and the company's comfortable capitalisation profile. The capitalisation profile is supported by steady internal accruals and the decline in the portfolio, primarily due to low disbursements in FY2019 and FY2020. ICRA also takes note of the comfortable asset quality with NIL non-performing assets (NPAs) and minimal delinquencies as on September 30, 2020. However, the rating is constrained by the small scale of operations with a loan book of Rs. 292.4 crore (provisional) as on March 31, 2020 (Rs. 372.7 crore as on March 31, 2019). ICRA also takes note of the steady profitability supported by fee income from fund management. The sustainability of the fee income is a monitorable as certain government schemes, which contributed sizeably to this income, are expected to end in the near term. The rating also factors in the limited diversity in TUFIDCO's borrower profile (top 7 borrowers accounted for 98% of the loan book as on March 31, 2020) and funding profile.

### 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 asset quality and capitalisation profile** – TUFIDCO's asset quality is comfortable with minimal delinquencies and NIL NPAs as on September 30, 2020. The collections are supported by various structures and control measures to ensure payments to the company and the overdues are typically cleared within 10-15 days of the due date. The capitalisation profile is also comfortable with a net worth of Rs. 255.0 crore and a gearing of 0.3 times as on March 31, 2020 (Rs. 239.3 crore and 0.8 times, respectively, as on March 31, 2019). The capitalisation profile is supported by steady internal accruals and moderation in TUFIDCO's book size. The gearing is expected to remain at a comfortable level in the near-to-medium term considering TUFIDCO's growth expectation.

## Credit challenges

**Small scale of operations and uncertainty of fee-based income in future** – TUFIDCO's loan book declined to Rs. 292.4 crore as on March 31, 2020 (provisional) from Rs. 372.7 crore as on March 31, 2019 (Rs. 467.4 crore as on March 31, 2018). The loan book declined from March 2018 because of lower funding demand from various state departments and entities. The company expects the loan book to grow to about Rs. 400-500 crore by March 2022.

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 28.2% (provisional) of the total income in FY2020 (23.6% in FY2019). ICRA notes that Atal Mission for Rejuvenation and Urban Transformation (AMRUT), which accounted for 51.1% of the total fee income in FY2020 (52.0% in FY2019), reached the end of its mission period in the last fiscal. Thus, fee income is expected to be lower in FY2021.

TUFIDCO's return on average net worth remained steady at about 10-11% over the last three fiscals. Its net profitability (PAT/AMA)<sup>1</sup> stood at 6.2% in FY2020 (provisional) compared to 4.6% in FY2019. The net profitability was also supported by non-interest income (comprising fee income from fund management activities, dividend income and other income) of 4.5% (non-interest income/average managed assets) in FY2020 (provisional) compared to 3.1% in FY2019 (average stood at 2.1% for FY2016-18). Credit cost (provisions and write-offs/average managed assets) is minimal due to low delinquencies and NIL NPAs. ICRA notes that the company's net profitability is expected to remain contingent on consistent fee income, which would, in turn, depend on the continuity of existing or the addition of new, state and Central government schemes, going forward.

**Limited diversity in borrower and funding profile** – TUFIDCO mainly extends loans to ULBs and government-owned entities. The top 7 exposures accounted for nearly 98% of the loan book as on March 31, 2020. The company plans to lend to other GoTN-owned entities and diversify its exposure profile over the medium-to-long term. TUFIDCO's funding profile is characterised by borrowings from only one lender at present. The ability to diversify its funding profile in a timely manner would be crucial for future business growth.

## Liquidity position: Adequate

TUFIDCO has prepaid its contractual principal repayment for October 2020 to March 2021 in FY2020. Further, it has prepaid its principal obligations till FY2023 during FY2020-H1 FY2021. Interest repayments for October 2020 to March 2021 stand at ~Rs. 2.4 crore. The cash and bank balance, as on September 30, 2020, stood at Rs. 2.8 crore. Moreover, inflows expected from collections stand at Rs. 35.6 crore for the above-mentioned period. Hence, the company's liquidity position is adequate. TUFIDCO had outstanding borrowings of Rs. 58.4 crore, as on September 30, 2020, in the form of term loans from a bank.

## Rating sensitivities

**Positive triggers** – ICRA could upgrade the rating or revise the outlook to Positive if there is a sustained improvement in the scale with diversification in the funding profile while maintaining a good earnings profile. An improvement in the credit profile of the GoTN could also be a positive trigger.

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<sup>1</sup> Profit after tax / average managed assets

**Negative triggers** – ICRA could downgrade the rating or revise the outlook to Negative on lower-than-expected support from the GoTN or a weakening in the credit profile of the GoTN. Any substantial weakening in the capital, earnings or asset quality would also negatively impact the rating.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">ICRA's Credit Rating Methodology for Non-Banking Finance Companies</a>
Parent/Group Support	Not applicable
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 2020. 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 AMRUT, Smart City Mission (SCM), Mega City Programme (MCP), etc., and state government schemes such as Integrated Urban Development Mission (IUDM), Operation and Maintenance Gap Filling Fund (OMGFF), etc.

## Key financial indicators

	FY2019	FY2020*
Total Income (Rs. crore)	58.2	52.9
Profit after Tax (Rs. crore)	24.4	27.3
Net Worth (Rs. crore)	239.3	255.0
Total Managed Portfolio (Rs. crore)	372.7	292.4
Total Managed Assets (Rs. crore)	482.5	394.1
Return on Managed Assets (%)	4.6%	6.2%
Return on Net Worth (%)	10.7%	11.1%
Gearing (times)	0.8	0.3
Gross NPA (%)	0.0%	0.0%
Net NPA (%)	0.0%	0.0%
Capital Adequacy Ratio (%)	49.8%	74.0%

Source: Company & ICRA research; \*Provisional; All ratios as per ICRA calculations

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

### Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					29-Oct-2020			
1	Bank facilities	LT	104.71	104.71	[ICRA]BBB+ (Stable)	-	-	-

Amount in Rs. crore; LT – Long term

### 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](http://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
-	Term loan	2015-16	8.10%	2025-26	104.71	[ICRA]BBB+(Stable)

Source: Company

### Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

## Analyst Contacts

**Karthik Srinivasan**

+91 22 6114 3444

[karthiks@icraindia.com](mailto:karthiks@icraindia.com)

**A M Karthik**

+91 44 4596 4308

[a.karthik@icraindia.com](mailto:a.karthik@icraindia.com)

**Amlan Jyoti Badu**

+91 80 4332 6406

[amlan.badu@icraindia.com](mailto:amlan.badu@icraindia.com)

**Shaik Abdul Saleem**

+91 44 4596 4325

[shaik.saleem@icraindia.com](mailto:shaik.saleem@icraindia.com)

## Relationship Contact

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## 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](mailto:info@icraindia.com)

Website: [www.icra.in](http://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

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