April 05, 2022

Tamil Nadu Power Finance and Infrastructure Development Corporation Limited: Ratings reaffirmed/withdrawn; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term bond programme	964.20	0.00	[ICRA]A-(CE) (Stable); withdrawn
Fixed deposit programme	36,724.58	36,724.58	MA- (Stable); reaffirmed
	0.00	7,500.00	MA- (Stable); assigned
Total	**37,688.78**	**44,224.58**	
Rating without Explicit Credit Enhancement			**[ICRA]BBB-**

**Instrument details are provided in Annexure-1*

***Note:** The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. The rating is specific to the rated instrument/facility, its terms and structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement*

Rationale

The rating for the fixed deposit (FD) programme of Tamil Nadu Power Finance and Infrastructure Development Corporation Limited (TNPFC) factors in its ownership and the expected financial support from the Government of Tamil Nadu (GoTN). The rating is, however, constrained by the significant borrower concentration risk, moderate profitability and concentrated deposit profile. ICRA notes that the capital profile has improved post the equity infusions by the GoTN in the recent past. However, further equity support would be required to maintain an adequate capital profile going forward.

Currently, Tamil Nadu Generation and Distribution Corporation Limited {TANGEDCO; rated [ICRA]A-(CE) (Stable)} is the only borrower in TNPFC's lending portfolio. ICRA notes that TANGEDCO's financial profile remains weak as it continues to incur substantial losses owing to inadequate tariff rates, low capacity addition/utilisation over the years, moderately weak operational efficiency and the high cost of power purchase. Nevertheless, given its strategic importance to the state's power sector, TANGEDCO has continued to receive support from the GoTN over the years.

Going forward, TNPFC plans to diversify to other segments such as personal loans for state government employees, loans to infrastructure companies and bill discounting facilities for public sector entities. Given its lack of experience in these segments, TNPFC's ability to scale up these segments in a profitable manner would be a monitorable.

ICRA has withdrawn the [ICRA]A-(CE) (Stable) rating on the Rs. 964.20-crore bond programme as the same has been fully redeemed and there is no amount outstanding against the rated instrument.

Key rating drivers and their description

Credit strengths

GoTN ownership and support – TNPFC, wholly-owned by the GoTN, is a key financing entity for the state's power generation and distribution company – TANGEDCO. TNPFC accounted for about 27% of TANGEDCO's borrowings outstanding as of March 2021. Given the strategic importance, ICRA expects TNPFC to receive timely capital and liquidity support from the GoTN and GoTN-controlled entities, as and when required. In FY2019, FY2020 and FY2021, TNPFC received equity infusions of Rs. 1,200 crore, Rs. 1,640 crore and Rs. 437 crore, respectively, from the GoTN to comply with various regulatory and prudential requirements, which are applicable for Government-owned non-banking financial companies (NBFCs). The company received a further infusion of Rs. 400 crore in March 2022, which would support its capital profile. ICRA also notes that TNPFC has access to deposits from the GoTN and GoTN-controlled entities, which upholds its liability and liquidity profile. TNPFC's board largely comprises Indian Administrative Services (IAS) officers from various departments of the GoTN.

Credit challenges

Significant borrower concentration risk – TNPFC extends loans only to TANGEDCO at present, thereby exposing itself to significant borrower concentration risk. As of March 2021, funding from TNPFC accounted for 27% of the total borrowings of TANGEDCO. ICRA notes that the concentration towards TANGEDCO is expected to remain going forward even as the company is expected to diversify to other segments such as personal loans for state government employees, loans to infrastructure companies and bill discounting facilities for public sector entities. As such, any deterioration in TANGEDCO's credit profile, resulting in delays in repayments to TNPFC would be a key rating sensitivity. However, ICRA takes comfort from the strategic importance of TANGEDCO to the state's power sector. TANGEDCO has continued to receive support from the GoTN over the years.

Moderate capitalisation profile; regular equity infusions would remain crucial going forward – TNPFC's capitalisation profile is characterised with a gearing of 7.1 times (provisional) as of December 2021 and 7.2 times as of March 2021, improving from 7.8 times as of March 2020 and 14.0 times as of March 2019 (30.3 times as of March 2018). Its capital adequacy ratio (CAR) improved to 14.1% (provisional) as of December 2021 (13.3% as of March 2021) from 12.0% as of March 2020 and 7.2% as of March 2019 due to capital infusion and improvement in internal generation. The capital infusion of Rs. 400 crore in March 2022 should further improve the overall capital profile and help the company meet the regulatory CAR requirement going forward, assuming its exposure growth is kept under control. The capital profile is, however, expected to remain moderate in the medium term and TNPFC would require further capital infusion to maintain an adequate capital profile in case the portfolio grows at a higher pace as it envisages venturing into other asset segments.

Moderate profitability notwithstanding recent improvement; sustainability remains to be seen – TNPFC's profitability remained low due to limited pricing flexibility with TANGEDCO till FY2019. The net profitability, however, improved to 1.7% (provisional) in 9M FY2022, 1.0% in FY2021 and 1.4% in FY2020 vis-à-vis 0.3% in FY2019 (prior three-year average stood at 0.5% during FY2016-FY2018) as the cost of deposits reduced and its leverage improved substantially, post the equity infusions. The credit cost is low as there are no overdues. Notwithstanding the improvement in the recent past, the sustainability of the same remains to be seen as TNPFC's earnings would be dependent on its pricing flexibility with TANGEDCO.

Concentrated deposit profile; initiatives taken to diversify overall funding sources – TNPFC's borrowing profile is concentrated with FDs constituting 100% of the total borrowings as of February 2022 as the GoTN-guaranteed bonds have been fully redeemed. Within FDs, public deposits constituted about 21% as of December 2021 with the rest largely from the GoTN and GoTN-controlled entities. ICRA notes that TNPFC's depositor profile is concentrated towards government entities, including educational institutions, municipal corporations and infrastructure development institutions managed by the GoTN. The top 20 depositors accounted for about 40% of the total deposits as of February 2022. ICRA also notes that public deposits constituted about 1.4 times (provisional) the net owned funds (NOF) as of December 2021, within the regulatory threshold of 1.5 times. Going forward, it would be critical for the company to diversify its funding profile.

Liquidity position: Adequate

TNPFC had cash and bank balances of Rs. 547.7 crore and liquid investments of Rs. 4,853.5 crore as of March 25, 2022 and debt repayments of Rs. 7,465.0 crore during April – September 2022. The liquidity profile is also supported by the deposits placed by the GoTN-owned/controlled entities, which are expected to be stable. The top 10 depositors as of February 2022, accounting for 32% of the total deposits, are largely GoTN-owned/controlled entities. ICRA expects timely support from the GoTN to maintain an adequate liquidity profile going forward.

Rating sensitivities

Positive factors – ICRA could upgrade the rating or revise the outlook to Positive if there an improvement in the risk profile of the GoTN or TANGEDCO. A sustained improvement in the earnings, funding and capital profile would also positively impact the rating.

Negative factors – Pressure on TNPFC's rating could arise in case the support from the GoTN is lower than expected or TANGEDCO's credit profile deteriorates, resulting in delays in repayments. Non-compliance with key Reserve Bank of India (RBI) stipulated requirements for Government-owned NBFCs on a sustained basis or weakening of the liquidity profile would also negatively impact the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies Approach for Rating Debt Instruments Backed by Third-party Explicit Support Implicit Support from Parent or Group Policy on Withdrawal of Credit Ratings
Parent/Group Support	The assigned rating for the FD programme factors in TNPFC's strategic importance to the GoTN and the expectation of timely financial support from the GoTN, if required
Consolidation/Standalone	Not Applicable

About the company

TNPFC is wholly owned by the GoTN. Incorporated in 1991 as a deposit-accepting NBFC, TNPFC mobilises funds through public and institutional deposits for funding power and infrastructure projects in Tamil Nadu (TN). It currently provides loans only to TANGEDCO. TNPFC's funding profile mainly comprises deposits from public and state government institutions (99% of the borrowings as of December 2021) and GoTN-guaranteed debentures (1%).

TNPFC's portfolio registered a 5-year compound annual growth rate (CAGR) of 16% during FY2017-FY2021. It reported a net profit of Rs. 396 crore in FY2021 on a total asset base of Rs. 43,491 crore compared to a net profit of Rs. 505 crore on a total asset base of Rs. 39,488 crore in FY2020. For 9M FY2022 (provisional), the company reported a profit after tax of Rs. 564 crore on a total asset base of Rs. 47,475 crore.

Key financial indicators (audited)

TNPFC	FY2020	FY2021	9M FY2022*
Total income (Rs. crore)	3,423	3,883	3,189
Profit after tax (Rs. crore)	505	396	564
Net worth (Rs. crore)	4,433	5,265	5,829
Total managed portfolio (Rs. crore)	37,055	39,985	42,280
Total managed assets (Rs. crore)	39,488	43,491	47,475
Return on managed assets (%)	1.4%	1.0%	1.7%
Return on net worth (%)	15.1%	8.2%	13.6%
Gearing (times)	7.8	7.2	7.1
Gross stage 3 (%)	0.0%	0.0%	0.0%
Net stage 3 (%)	0.0%	0.0%	0.0%
Solvency (Net stage 3/Net worth)	0.0%	0.0%	0.0%
CRAR (%)	12.0%	13.3%	14.1%

Source: *Company, ICRA Research; *Provisional*

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 in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Apr 05, 2022	Apr 06, 2021	Nov 30, 2020	Aug 26, 2019
1	Long-term bond programme	Long term	964.20	0.00	[ICRA]A-(CE) (Stable); withdrawn	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)
2	Fixed deposit programme	Medium term	36,724.58	36,724.58	MA- (Stable)	MA- (Stable)	MA- (Stable)	MA- (Stable)
			7,500.00	7,500.00	MA- (Stable)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term bond programme	NA
Fixed Deposit Programme	Very Simple

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: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE859N08019	Bond	Sep 01, 2012	9.67%	Sep 01, 2022	253.90	[ICRA]A-(CE) (Stable); withdrawn
INE859N08027	Bond	Jan 09, 2013	9.56%	Jan 09, 2023	508.70	[ICRA]A-(CE) (Stable); withdrawn
INE859N08035	Bond	Apr 09, 2013	9.35%	Apr 09, 2023	201.60	[ICRA]A-(CE) (Stable); withdrawn
NA	Fixed Deposit	-	-	-	36,724.58	MA- (Stable)
NA	Fixed Deposit	-	-	-	7,500.00	MA- (Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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