November 16, 2020

Tamilnadu Transport Development Finance Corporation Ltd: Ratings reaffirmed; [ICRA]BBB+(CE)(Stable) assigned for enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bank Facilities - CC	900.00	4,000.00	[ICRA]BBB+(CE)(Stable); assigned/reaffirmed
Fixed Deposit Programme	1,047.12	1,047.12	MA-(Stable); reaffirmed
Total	**1,947.12**	**5,047.12**	

Rating Without Explicit Credit Enhancement Bank Facilities	[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

For the [ICRA]BBB+(CE)(Stable) rating

The above rating is based on the unconditional, irrevocable and continuing guarantee provided by the Government of Tamil Nadu (GoTN) for the Rs. 4,000.00-crore bank facilities of Tamilnadu Transport Development Finance Corporation Ltd (TDFC). The Stable outlook on the rating reflects ICRA's outlook on the rating for the GoTN.

Adequacy of credit enhancement

The rating of the instrument is credit enhanced, based on the attributes of the guarantee provided by the GoTN in favour of the said instrument. While the guarantee is legally enforceable, irrevocable, unconditional and covers the entire amount and tenure of the rated instrument, it does not have a well-defined invocation and payment mechanism. Taking cognisance of the above, ICRA has assigned a rating of [ICRA]BBB+(CE)(Stable) to the said instrument against the unsupported rating of [ICRA]BBB-. In case the rating of the guarantor or the unsupported rating of TDFC were to undergo a change in future, the same would have a bearing on the rating of the aforesaid instrument as well. The rating of this instrument may also undergo a change in a scenario whereby, in ICRA's assessment, there is a change in the strength of the business linkages between the guarantor and the rated entity or there is a change in the reputation sensitivity of the guarantor to a default by the rated entity or there is a change in the strategic importance of the rated entity for the guarantor.

Salient covenants of the rated facility

- Capital to risk-weighted assets ratio (CRAR) and other Reserve Bank of India (RBI) guidelines applicable to deposit-taking non-banking financial companies (NBFCs) shall be maintained at all times during the tenure of the rated instrument

- The shareholding of the existing promoters should not get diluted below the current levels or lead to a dilution in the controlling stake without the prior permission of the bank
- Promoter's shares should not be pledged to any bank/NBFC/institution outside the banking arrangement without prior consent of the bank
- Declare dividends for any year except out of profits relating to that year after making all due and necessary provisions and provided further that no default is subsisting in any repayment obligations to the bank

For the fixed deposit programme

The rating for the fixed deposit programme derives strength from the ownership and the expected financial support from the GoTN. The rating is, however, constrained by the weak profitability and modest risk profile, given TDFC's borrower segment i.e. state transport undertakings (STUs), and its concentrated deposit profile. TDFC's ability to comply with various regulatory norms applicable for Government-owned NBFCs, on a sustained basis, would be a crucial as the company increased its liabilities to extend additional support to STUs in view of the Covid-19 pandemic. Given the strategic importance, ICRA expects TDFC to receive timely capital and liquidity support from the GoTN, as and when required, and this would remain crucial from a rating perspective.

Key rating drivers and their description

Credit strengths

GoTN guarantee for rated bank facilities – The rating for the Rs. 4,000-crore bank facilities is based on the strength of the unconditional, irrevocable and continuing guarantee from the GoTN. The Stable outlook on this rating reflects ICRA's outlook on the rating of GoTN.

GoTN ownership and support – TDFC is the nodal financing agency for the STUs of Tamil Nadu (TN), which provide road-based transport services. TDFC raised capital of Rs. 1,164.5 crore during FY2019-H1 FY2021 from the GoTN, which increased the GoTN's shareholding. The GoTN's stake stood at 98.5% as of September 30, 2020 (69.7% in March 2019) while the remaining stake is held by STUs. The capital infusion helped the company to comply with the key regulatory and prudential norms, which became applicable for Government-owned NBFCs since March 2019. TDFC also has access to deposits from GoTN-owned/controlled entities, which upholds its liquidity profile. Given TDFC's strategic importance to the GoTN, ICRA expects it to receive timely capital and liquidity support, as and when required.

Credit challenges

Regular capital infusion required to comply with regulatory requirements – TDFC's capitalisation profile was characterised with a gearing of 6.1x (provisional) and a capital adequacy ratio of 15.3% (Tier-1 and total capital adequacy; provisional) as of March 2020. The gearing improved from 31.4x as of March 2019 due to the equity infusion of Rs. 1,014.5[1] crore during FY2019-FY2020 from the GoTN. TDFC also received an equity infusion of Rs. 150 crore in FY2021. ICRA takes notes of the increase in TDFC's exposure to STUs in the current fiscal, largely because of the pandemic-related disruptions. The same was significantly funded by fresh bank borrowings. This could exert pressure on its ability to meet the regulatory total capital adequacy of 13% by March 2021 and 15% in March 2022, as internal generations are quite modest. ICRA expects timely support from the GoTN for reducing TDFC's exposure to STUs or fresh capital infusion into TDFC for meeting its regulatory capital requirements going forward.

[1] *Rs. 712.5 crore was received as share capital assistance in FY2019 and was converted into equity in FY2020*

Modest risk profile of the borrowers and concentration risks – TDFC extends credit to the STUs of TN. Most of the STUs have a weak financial profile as their net worth has eroded due to recurring losses. The STUs are primarily dependent on funds from the GoTN and TDFC to support their operations. The company is also exposed to significant borrower concentration risks with the top three borrowers constituting 48% of the total portfolio as of March 2020.

Weak profitability – As it is a nodal agency, TDFC's profitability is modest and it has limited pricing flexibility for its loans to STUs. The net profitability (profit after tax/average managed assets; PAT/AMA) stood at 0.3% (provisional) in FY2020, largely similar to the prior five-year (FY2015-FY2019) average of 0.2%. While the operating costs remained low at 0.1%, the credit costs increased to 0.7% (provisional) in FY2020 as TDFC had provided for standard asset provisioning during the year (Rs. 31.9 crore in FY2020). Going forward, the company's profitability is expected to remain low with lending spreads likely to remain thin.

Concentrated deposit profile; critical to diversify funding sources – Fixed deposits are the key source of funding for TDFC and accounted for ~80% of its total debt as of March 2020, followed by bank borrowings. The total deposits stood at Rs. 5,993.9 crore as of March 2020 including public deposits (19%). The rest were largely sourced from GoTN-owned/controlled entities and others including educational institutions and temples. The public deposits comprised 0.94 times the net owned fund (NOF) as of March 2020. The top 20 depositors comprised 57% of the total deposits as of March 2020, reflecting the bulk nature of the deposit profile. Going forward, it would be crucial to diversify the funding profile and maintain public deposits at a prudent level.

Ability to comply with applicable regulatory norms – TDFC is expected to comply with prudential norms applicable to Government-owned NBFCs and other regulatory requirements. Considering its exposure and financial profile, TDFC's ability to comply with the same, on a sustained basis, would be crucial from a rating perspective.

Liquidity position

For the [ICRA]BBB+(CE)(Stable) rating: Adequate

The liquidity position of the guarantor is adequate as the GoTN has not availed the ways and means advances and/or the overdraft facilities from the RBI in FY2020 and FY2021 (till August 2020). Moreover, the GoTN had a balance of Rs. 87 billion invested in auction treasury bills at the end of July 2020. Based on the indicators, the liquidity position of the state government can be inferred to be adequate in recent times.

For the MA-(Stable) rating: Adequate

TDFC maintained a cash and bank balance of ~Rs. 1,288 crore as of September 30, 2020 against repayment obligations of ~Rs. 306 crore during October 2020-March 2021. In FY2020, TDFC sourced fresh deposits (including renewals) of Rs. 3,661 crore against a total deposit maturity of Rs. 593 crore. The liquidity profile is also uplifted by the deposits placed by the GoTN-owned/controlled entities, which are expected to be stable. TDFC had provided a moratorium to the STUs during April to August 2020, post the RBI's announcement of the COVID-19 – Regulatory Package. It, however, recovered the same from the financial assistance given by the GoTN to STUs. Going forward, it would be crucial for TDFC to raise capital in a timely manner to adhere to the regulatory norms and diversify its funding profile to maintain adequate liquidity.

Rating sensitivities

For the guaranteed bank facilities

The rating for the Rs. 4,000.00-crore bank lines would remain sensitive to any movement in the rating or outlook of the guarantor (GoTN).

For the fixed deposit programme

Positive triggers – ICRA could upgrade TDFC's rating if the company is able to scale up its operations while maintaining a good asset quality, improving its RoA to 1% and achieving and maintaining Tier-1 capital of 15% on a sustained basis.

Negative triggers – Pressure on TDFC's rating could arise on lower-than-expected support from the GoTN, resulting in non-adherence with regulatory requirements. Non-compliance with key 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 **Impact of Parent or Group Support on an Issuer's Credit Rating**
Parent/Group Support	The rating for the bank facilities is based on the unconditional and irrevocable guarantee extended by the GoTN The rating for the FD programme factors in TDFC's systemic importance and the expectation of timely financial support from the GoTN, as and when required
Consolidation/Standalone	The rating is based on the standalone financial statements of TDFC

About the company

Tamilnadu Transport Development Finance Corporation Ltd (TDFC) is a GoTN-owned NBFC with the GoTN holding a stake of 98.5% as of September 30, 2020. The entity was primarily established with the objective of providing financial assistance to STUs. TDFC extends loans for the working capital and capital expenditure (including the purchase of buses) requirements of STUs. It also receives various subsidies and grants from the GoTN, on behalf of the STUs, and transfers the same to the STUs. The company also accepts deposits from Government institutions, educational universities, temples and the public. It functions through its head office in Chennai, Tamil Nadu and has a deposit mobilisation centre in Coimbatore with a staff of 15 employees as of March 2020.

In FY2020, on a provisional basis, TDFC reported a net profit of Rs. 12.2 crore on a total asset base of Rs. 9,328.9 crore compared to a net profit of Rs. 7.8 crore on a total asset base of Rs. 6,402.4 crore in FY2019.

Key financial indicators (IGAAP)

TDFC	FY2018	FY2019	FY2020 Provisional
Total Income	383.9	471.0	534.4
Profit after Tax	6.7	7.8	12.2
Net Worth	188.0	195.5	1,221.8
Total Managed Portfolio	5,220.8	5,443.5	7,894.9
Total Managed Assets	5,888.8	6,402.4	9,328.9
Return on Managed Assets (%)	0.2%	0.2%	0.3%
Return on Net Worth (%)	3.7%	4.1%	1.7%
Gearing (reported)	29.0	31.4	6.1
Gross NPA (%)	NA	NA	NA
Net NPA (%)	NA	NA	NA
CAR (%)	3.6%	3.6%	15.3%

Amount in Rs. crore

About the GoTN's finances

The GoTN's revenue receipts relative to gross state domestic product (GSDP) stood at a moderate 9.9-10.9% during FY2016 to FY2019. However, its revenue expenditure as a proportion of GSDP was relatively higher at 11.4-12.0% during this period, because of substantial subsidy and welfare spending. This contributed to the worsening of the GoTN's revenue deficit to Rs. 23,459 crore or 1.4% of GSDP in FY2019 from Rs. 11,986 crore or 1.0% of GSDP in FY2016. The GoTN's capital outlay and net lending had been lower than many other states in recent years. Partly reflecting the latter, the GoTN's fiscal deficit was curtailed within the Fourteenth Finance Commission's (14th FC) target of 3.0% of GSDP during FY2016 to FY2019. Reflecting the sustained fiscal deficits, the GoTN's leverage level rose somewhat to 23.9% of GSDP in FY2019 from 22.3% in FY2016.

In its budget estimate (BE) for FY2021, the GoTN's revenue deficit was expected to narrow considerably to Rs. 21,618 crore from Rs. 25,072 crore in FY2020 (revised estimates; RE), benefitting from the inclusion of a revenue deficit grant of Rs. 4,025 crore recommended by the Fifteenth Finance Commission (15th FC). Moreover, based on the criteria and weights decided by the 15th FC, TN's inter se share in Central taxes has been fixed at 4.189% for FY2021, higher than the share of 4.104% that was applicable for the 14th FC's award period, which would positively impact the tax devolution to the GoTN. However, the demand shock related to the spread of Covid-19 would curtail the gross tax revenues of the Government of India (GoI), which would reduce the Central tax devolution to the states in FY2021.

The consumption of several discretionary items is expected to have been adversely impacted in the ongoing fiscal on account of the Covid-19 pandemic. This is expected to lead to the GoTN's revenue receipts, both own and Central transfers, being sharply lower than budgeted in FY2021, in ICRA's view. With a contraction likely in both state own tax revenues (SOTR) and the overall revenue receipts in FY2021 as well as in nominal GSDP, the GoTN's level of leverage relative to SOTR, revenue receipts and GSDP is expected to deteriorate in the ongoing fiscal, which would worsen the fiscal profile of the GoTN.

ICRA would continue to closely monitor the impact of the Covid-19 pandemic on the GoTN's revenues, both own and Central transfers, expenditures and its overall fiscal position. ICRA will assess the impact of the measure(s) that may be announced by the GoI to alleviate the fiscal and liquidity stress being experienced by the state governments in the light of the ongoing crisis, including permission for additional borrowings etc., as well as the timeliness and adequacy of GST compensation grants. ICRA would also analyse the impact of the recommendations of the 15th FC for the award period of FY2022-FY2026 on the GoTN's finances.

Key fiscal indicators of the GoTN

	FY2019	FY2020 RE	FY2021 BE
Revenue			
Revenue Receipts	1,72,602	1,90,722	2,18,122
State's Own Tax Revenue	1,05,534	1,20,810	1,33,530
State's Own Non-Tax Revenue*	13,061	13,057	14,646
Share in Central Taxes	30,639	26,392	32,849
Grants from Centre	23,368	30,464	37,097
Capital Receipts	-	-	-
Expenditure			
Revenue Expenditure*	1,96,062	2,15,794	2,39,740
Capital Outlay	24,311	31,221	36,368
Net Lending	-435	-1,234	1,361
Revenue & Fiscal Balance$			
Revenue Balance	-23,459	-25,072	-21,618
Fiscal Balance	-47,335	-55,058	-59,346
Leverage			
Debt	3,45,751	3,97,452	4,56,661
Guarantees	43,661		

** Adjusted for double entries of interest from departmental commercial undertakings; $ Unadjusted for contra entries related to provision of Rs. 4,560 crore as grants (included under revenue expenditure) to and recovery of loans from the discom during FY2019 to FY2021 BE; Source: State Budget, Finance Accounts and ICRA research*

Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2020		FY2019	FY2018
					Nov-16-2020	Jan-27-2020	Oct-25-2019	Jan-22-2019	Mar-30-2018
1	Bank Facilities	Long Term	4,000.00	4,000.00	[ICRA]BBB+ (CE) (Stable)	[ICRA]BBB+(CE) (Stable)	-	[ICRA]BBB+ (SO) (Stable); withdrawn	[ICRA]BBB+ (SO) (Stable); assigned
2	Fixed Deposit Programme	Medium Term	1,047.12	1,047.12	MA-(Stable)	MA-(Stable)	MA-(Stable)	-	-

Amount in Rs. crore

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	Instrument	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated	Current Rating and Outlook
NA	Bank Facilities - CC	-	-	-	4,000.00	[ICRA]BBB+(CE)(Stable)
NA	Fixed Deposit Programme	-	-	-	1,047.12	MA-(Stable)

Source: TDFC; Amount in Rs. crore

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.

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