August 26, 2019

Tamil Nadu Power Finance and Infrastructure Development Corporation Limited: Rating reaffirmed; MA-(Stable) assigned to FD programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Bond Programme	1,964.20	1,964.20	[ICRA]A-(SO)(Stable); Reaffirmed
Fixed Deposit Programme	-	27,324.58^	MA-(Stable); Assigned
Total	**1,964.20**	**29,288.78**	

** Instrument details are provided in Annexure-1*
^ Outstanding of deposits as on March 31, 2019, as per provisional balance sheet

Rationale

The rating action on Tamil Nadu Power Finance and Infrastructure Development Corporation Limited's (TNPFC) bond programme factors in the unconditional and irrevocable guarantee extended by the Government of Tamil Nadu (GoTN) towards the repayment of the principal and interest due thereon over the tenure of the rated bonds. The rating action also considers the structural features, which include an escrow account to be monitored by a trustee. Thus, the rating for the bond programme primarily reflects the credit strength of the GoTN and the integrity and expected adherence to the structural features of the rated instrument.

The rating on the fixed deposit (FD) programme factors in TNPFC's ownership and expected financial support from the GoTN. TNPFC received a capital infusion of Rs. 2,840 crore during FY2019-5M FY2020 from the GoTN for meeting key regulatory capital and other prudential requirements for Government-owned NBFCs. The rating is, however, constrained by the significant borrower concentration risk, modest profitability and concentrated deposit profile. ICRA notes that the capital profile remains weak, notwithstanding the recent capital infusion by the GoTN, and estimates that TNPFC would require capital in the range of Rs. 1,000-1,350 crore during FY2021-2022, assuming a modest portfolio growth (compounded annual growth rate (CAGR) of 2-5%) during this period, and a buffer of 1% over and above the regulatory capital requirement[1].

Outlook: Stable

The Stable outlook on the long-term bond programme reflects ICRA's expectation of satisfactory adherence to the structured payment mechanism by TNPFC. The outlook also reflects ICRA's expectation that the GoTN, the guarantor of the bond programme, will continue to maintain a healthy revenue profile aided by its own tax effort and will keep its fiscal deficit within the Finance Commission's (FC) recommended norms.

The Stable outlook on the FD rating reflects TNPFC's status as a GoTN-owned company and its established track record of operations. The outlook may be revised to Positive if there is a substantial improvement in the earnings and

[1] *Capital adequacy ratio (CAR) to be 13% by March 2021 and 15% by March 2022*

capitalisation profile while the company diversifies its exposure profile or if there is an improvement in the GoTN's credit profile, based on ICRA's analysis. The outlook may be revised to Negative in case of a sustained shortfall in meeting incremental regulatory/prudential requirements, lower-than-expected support from the GoTN or a moderation in the GoTN's credit profile, based on ICRA's analysis.

Key rating drivers

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 – Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO; [ICRA]A-(SO) (Stable)). TNPFC accounted for about 37% of TANGEDCO's borrowings outstanding as of March 2019. 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. During FY2019 and H1 FY2020, TNPFC received equity of Rs. 1,200 crore and Rs. 1,640 crore, respectively, from the GoTN, to comply with various regulatory and prudential requirements, which became applicable for Government-owned NBFCs in a phased manner starting March 2019 till March 2022. 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. ICRA notes that the company is exploring options to diversify its exposure by targeting other Government-owned infrastructure entities. However, the concentration of TANGEDCO is expected to remain significantly high in the near to medium term.

Weak capitalisation profile – TNPFC's capitalisation profile was characterised with a high gearing of 14.2 times (provisional) as of March 2019 (30.3 times as of March 2018). Its capital adequacy ratio stood at 7.2% as of March 2019, below the regulatory CAR requirement (10%), notwithstanding the equity infusion of Rs. 1,200 crore by the GoTN in FY2019. The recent capital infusion of Rs. 1,640 crore (August 2019) is expected to improve its overall capital profile and aid the company in meeting the CAR requirement (12%; Tier-I of 8%) by March 2020, assuming no sizeable increase in its asset base in FY2020. The capital profile is, however, expected to remain under pressure in the near to medium term. Moreover, ICRA estimates that TNPFC would need further capital infusion in the range of Rs. 1,000 crore - 1,350 crore during FY2021-2022, assuming a modest portfolio growth (CAGR of 2-5%) during this period and a buffer of 1% over and above the regulatory CAR requirement (CAR to be 15% by March 2022).

Modest profitability – TNPFC's profitability remains modest due to limited pricing flexibility with TANGEDCO. The company's net profitability (PAT/ AMA)[2] stood at 0.3% in FY2019 (provisional) compared to 0.4% in FY2018 (prior three-year average stood at 0.6% during FY2015-2017). ICRA notes the company's net interest margins (NIM/AMA) improved to 1.0% in FY2019 (provisional) from 0.5% in FY2018 (average stood at 0.9% during FY2015-2017) as it reduced its cost of deposits. However, the net profitability remained modest due to high provisions (0.4% in FY2019 vis-à-vis nil in FY2018),

[2] *Profit after tax/Average managed assets*

in line with the regulatory requirement for standard assets. ICRA notes that the company's margins are expected to remain rangebound with profitability expected to remain subdued, going forward.

Concentrated deposit profile; critical to diversify funding sources – TNPFC's borrowing profile is concentrated with FDs constituting 86% of the total borrowings as of March 2019 (90% as of March 2018) and the bond programme guaranteed by the GoTN accounting for the rest. Within FDs, public deposits constituted about 21% as of March 2019 and the rest were largely from the GoTN and GoTN-controlled entities. ICRA notes that TNPFC's depositor profile is concentrated towards Government entities, including Government educational institutions, municipal corporations and infrastructure development institutions managed by the GoTN. The top 20 depositors accounted for about 45% of the total deposits as of March 2019. ICRA also notes that the public deposits constituted about 2.5 times the net owned funds (NOF) as of March 2019, higher than the regulatory threshold (1.5 times of NOF), though the company is expected to adhere to the deposit norm, post the recent capital infusion. Going forward, it would be critical for the company to maintain the pubic deposits at a prudent level and diversify its funding profile.

Liquidity position

TNPFC's asset liability maturity (ALM) profile shows no negative mismatches in the less than one-year bucket, as of March 2019. The company had cash and liquid investments of Rs. 1,093 crore as on March 31, 2019 compared to Rs. 1,401 crore as on March 31, 2018 (Rs. 1,080 crore as on March 31, 2017). This includes investments in approved liquid securities (Rs. 295 crore as of March 2019), in line with the regulatory requirement to maintain 5% of the public deposits in approved securities. The company also has a liquidity backup facility (Rs. 50-crore cash credit), which remained unutilised in FY2019. With a gradual increase in its investment requirement[3] as per the statutory provisions, it would be critical for the company to raise capital from the GoTN in a timely manner and keep sufficient liquidity backup facilities by diversifying its borrowing profile.

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 bond programme is based on the unconditional and irrevocable guarantee extended by the GoTN. The assigned rating for the FD programme factors in TNPFC's systemic importance and the expectation of timely financial support from the GoTN, if required.
Consolidation/Standalone	NA

About the company

TNPFC is wholly owned by the Government of Tamil Nadu. 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. It currently provides assistance in the form of loans to TANGEDCO, which accounted for the entire portfolio as of March

[3] *From 5% of outstanding public deposits in March 2019 to 10% in March 2020 and further to 15% by March 2022*

2019. TNPFC's funding profile mainly comprises deposits from public and state government institutions (94% of the borrowings as of March 2019) and GoTN guaranteed debentures (6% of the borrowings as of March 2019).

TNPFC's portfolio registered a 5-year CAGR of 18% during FY2015-FY2019. The company reported a net profit of Rs. 96.7 crore in FY2018 on a total asset base of Rs. 30,149 crore compared to a net profit of Rs. 129.7 crore on a total asset base of Rs. 23,082 crore in FY2017. Profit after tax was Rs. 96.9 crore in FY2019 (provisional) on a total asset base of Rs. 34,958 crore.

Government of Tamil Nadu's finances

Tamil Nadu, one of the more industrialised states in India, performs favourably on various socio-economic indicators compared to several other states.

The composition of the GoTN's revenue receipts[4] is favourable, with a substantial three-fourth on account of own revenue receipts, and a moderate one-fourth on account of central transfers. Also, the GoTN's own-tax effort (defined as States Own Tax Revenues/Gross State Domestic Product or GSDP) remained healthy at 7.0% during FY2014 to FY2018. The state's revenue expenditure[5] profile is characterised by substantial subsidy and welfare spending along with moderate committed expenditure. The GoTN's capital spending has traditionally been dominated by sectors such as transport, power and water supply, sanitation, housing and urban development.

Although the state has recorded consistent revenue deficits since FY2014, its fiscal deficit has remained below the respective Finance Commission (FC) targets in these years. The Medium-Term Fiscal Plan published along with the FY2020 budget projected the fiscal deficit to remain below the cap of 3.0% of GSDP in FY2020 BE. Reflecting the sustained fiscal deficits and support extended to the power sector, the GoTN's leverage (debt[6]+guarantees) increased to 24.3% of GSDP in FY2018 from 21.0% of GSDP in FY2014.

Going forward, ICRA shall take note of the buoyancy of the Goods and Services Tax collections, and any additional welfare spending on various fiscal indicators and the overall credit profile of the state government.

[4] *Adjusted for double entries of interest from Departmental Commercial Undertakings, (DCUs) as well as the debt waiver on account of Central loans written off as per the recommendations of the Sixth Finance Commission*

[5] *Adjusted for double entries of interest from DCUs*

[6] *Includes internal debt; loans from the Centre; provident fund etc.*

Key financial indicators - TNPFC

	FY2018 (audited)	FY2019 (provisional)
Total Income	2,404	2,972
Profit after Tax	97	97
Net worth	952	2,249
Total Managed Portfolio^	28,569	33,200
Total Managed Assets^	30,149	34,958
Return on Average Managed Assets (%)	0.4%	0.3%
Return on Average Net Worth (%)	10.5%	6.1%
Gross NPA (%)	NA	0.0%
Net NPA (%)	NA	0.0%
Net NPA/Net Worth	NA	0.0%
Gearing (times)	30.3	14.2
CRAR (%)	NA	7.16%

Source: TNPFC and ICRA research; Amounts in Rs. crore

Status of non-cooperation with previous CRA – Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2020)			Chronology of Rating History for the Past 3 Years			
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2020 Aug 2019	Date & Rating in FY2019 Dec 2018	Date & Rating in FY2018 Nov 2017	Date & Rating in FY2017 Oct 2016
1	Bond Programme	Long Term	1964.20	1964.20	[ICRA]A-(SO) (Stable)	[ICRA]A-(SO) (Stable)	[ICRA]A-(SO) (Stable)	[ICRA]A-(SO) (Stable)
2	Fixed Deposit Programme	Medium Term	27,324.58	27,324.58*	MA- (Stable)	-	-	-

** Outstanding deposits as on March 31, 2019*

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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE859N08019	Bond	1-Sep-12	9.67%	1-Sep-22	253.90	[ICRA]A-(SO) (stable)
INE859N08027	Bond	9-Jan-13	9.56%	9-Jan-23	508.70	[ICRA]A-(SO) (stable)
INE859N08035	Bond	9-Apr-13	9.35%	9-Apr-23	201.60	[ICRA]A-(SO) (stable)
INE859N08043	Bond	29-May-13	9.19%	29-May-23	1,000.00	[ICRA]A-(SO) (stable)
-	Fixed Deposit	-	-	-	27,324.58	MA-(Stable)

Source: TNPFC

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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About ICRA Limited:

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