January 10, 2025

Tamilnadu Transport Development Finance Corporation Ltd: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based –Cash credit	1,348.09	1,348.09	[ICRA]BBB+(CE) (Stable); Reaffirmed
Short-term fund based –Working capital demand loan	2,094.00	2,055.00	[ICRA]A2(CE); Reaffirmed
Long-term Fund based –Term Loan	90.00	90.00	[ICRA]BBB- (Stable); Reaffirmed
Long-term/Short-term fund based –Unallocated	467.91	506.91	[ICRA]BBB- (Stable)/[ICRA]A3; Reaffirmed
Fixed deposit programme	4,000.00	4,000.00	[ICRA]BBB- (Stable); Reaffirmed
Total	**8,000.00**	**8,000.00**	

Rating without Explicit Credit Enhancement Bank Facilities	[ICRA]BBB-/[ICRA]A3

**Instrument details are provided in Annexure I*

Rationale

For the [ICRA]BBB+(CE)(Stable) and [ICRA]A2(CE) ratings

The above ratings are based on the unconditional, irrevocable and continuing guarantee provided by the Government of Tamil Nadu (GoTN) for the Rs. 3,403.09 crore (including Rs. 2,055.00 crore short-term facilities) 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 ratings of the instruments are credit enhanced, based on the attributes of the guarantee provided by the GoTN in favour of the said instruments. The guarantees are legally enforceable, irrevocable, unconditional and cover the entire amount and tenure of the rated instruments. However, the guarantees do not have a well-defined invocation and payment mechanism and do not explicitly cover debt servicing by the guarantor in the event of insolvency proceedings against the rated entity. Taking cognisance of the above factors, ICRA has assigned the ratings of [ICRA]BBB+(CE) (Stable) and [ICRA]A2(CE) to the said instruments against the rating without explicit credit enhancement of [ICRA]BBB-. If the rating of the guarantor or the unsupported rating of TDFC changes in future, the same would have a bearing on the ratings of the aforesaid instruments. The ratings of these instruments may also 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 in the reputation sensitivity of the guarantor to a default by the rated entity or in the strategic importance of the rated entity for the guarantor.

Salient features related to the credit enhancement as specified in the guarantee documents

- 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 instruments
- 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 in the company 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 that no default is subsisting in any repayment obligations to the bank

For the [ICRA]BBB- (Stable) and [ICRA]A3 ratings

The ratings for the fixed deposit (FD) programme and non-guaranteed bank facilities derive strength from the ownership and expected financial support from the GoTN. The ratings are, however, constrained by the weak profitability and modest risk profile owing to TDFC's borrower segment, i.e. state transport undertakings (STUs), and its concentrated deposit profile.

ICRA notes that a government order for the amalgamation of TDFC and Tamil Nadu Power Finance and Infrastructure Development Corporation Limited (TNPFC) was issued in November 2023, to have a single infrastructure project financing entity under the GoTN. The amalgamated entity would be within the administrative control of the GoTN's finance department. The amalgamation would be subject to various regulatory clearances. Until the amalgamation is concluded, given its strategic importance, ICRA expects TDFC to receive timely capital and liquidity support from the GoTN as and when required, which remains crucial from the rating perspective.

ICRA also takes note of the draft circular for government-owned NBFCs proposing the withdrawal of existing exemptions to credit concentration norms[1]. At present, TDFC's exposures to STUs (TDFC's total loan portfolio of Rs. 18,205.8 crore as of March 2024 consisted of loans to eight STUs in Tamil Nadu) range between 52% and 96% of its Tier-1 capital. If the circular were to be notified, TDFC would have to reduce the same to less than 25%, which could constrain its ability to sustain incremental disbursements to these STUs. ICRA will continue to monitor any developments in this regard going forward.

ICRA also takes note of the qualified audit opinion and observations in the RBI's inspection report with respect to various operational, governance, and financial aspects. TDFC's ability to redress these issues in a timely manner would remain monitorable.

Key rating drivers and their description

Credit strengths

GoTN guarantee for rated bank facilities – The ratings for the Rs. 3,403.09 crore (including short-term facilities of Rs. 2,055.0 crore) bank facilities are based on the strength of the unconditional, irrevocable and continuing guarantee from the GoTN. The Stable outlook on the ratings reflects ICRA's outlook on the rating of the GoTN.

GoTN ownership and support – TDFC is the nodal financing agency for the STUs of Tamil Nadu (TN), which provide road-based transport services. It raised capital of Rs. 3,053.2 crore during FY2020-24 from GoTN, which increased the GoTN's shareholding. The GoTN's stake stood at 100.0% as of March 2024 (69.7% in March 2019). The capital infusion helped the company comply with the key regulatory and prudential norms, which became applicable to the Government-owned NBFCs in 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.

A government order was issued for the amalgamation of TDFC and TNPFC in November 2023, in an effort to have a single infrastructure project financing entity under GoTN. A new and sizeable entity with the existing assets is proposed to be established under the administrative control of the finance department. At present, the arrangement is in initial stages and further government orders are expected to direct the way forward.

[1] https://www.rbi.org.in/Scripts/bs_viewcontent.aspx?Id=4372

Adequate capitalisation profile – TDFC's capitalisation profile has improved significantly over the years, with a gearing of 4.8x and a capital adequacy ratio of 18.9% (Tier I – 18.4%) as of March 2024 vis-à-vis 31.4x and 3.6%, respectively, as of March 2019. It had a sizeable equity infusion of Rs. 3,053.2 crore during FY2020-24 from the GoTN. Going forward, ICRA expects timely support from the GoTN for fresh capital infusion into TDFC to meet its regulatory capital requirements.

Credit challenges

Modest risk profile of borrowers and concentration risks – TDFC extends credit to the STUs in Tamil Nadu. Most STUs have a weak financial profile as their net worth has eroded due to recurring losses. They are primarily dependent on funds from the GoTN and TDFC to support their operations. STUs receive subsidies in the form of reimbursement for student concession bus passes, free travel for women and additional diesel costs from the GoTN. TDFC is also exposed to significant borrower concentration risk with the top 3 borrowers constituting 47% of the total portfolio as of September 2024 (46% as of March 2024 and March 2023).

Weak profitability – As TDFC is a nodal agency, its profitability is weak with limited flexibility for its loans to STUs. The company has not provided any interest waivers since FY2020. However, the net interest margins are low at 0.04% in FY2024, 0.2% in FY2023 and 0.3% in FY2022 compared to 0.4% in FY2021 (0.5% in FY2020). The operating expenses remained stable at 0.03% in FY2024, 0.03% in FY2023 and 0.02% in FY2022 (0.02% in FY2021) due to single-branch operation and the credit costs stood at 0.04% in FY2024 and 0.1% in FY2023 and FY2022 (0.1% in FY2021), as the standard asset provision is created on the incremental portfolio. Overall, the net profitability stood at 0.1% in FY2024, 0.2% in FY2023 and FY2022 (0.2% in FY2021) and is expected to remain at similar levels going forward.

Concentrated deposit profile; critical to diversify funding sources – FDs are the key funding sources for TDFC and accounted for 63% of its total debt as of March 2024, followed by bank borrowings. Total deposits stood at Rs. 9,667.9 crore as of March 2024, including public deposits (30%) and Rs. 9,503.5 crore as of March 2023, including public deposits (35%). The balance was largely sourced from the GoTN-owned/controlled entities and others, including educational institutions and temples. Public deposits comprised 0.9x the net owned fund (NOF) as of March 2024 (1.0x as of March 2023 and 1.1x as of March 2022). The top 20 depositors comprised 56% of the total deposits as of March 2024 (54% as of March 2023 and 54% as of March 2022), reflecting the bulk nature of the deposit profile. Going forward, it will be crucial to diversify the funding profile and maintain public deposits at a prudent level.

Liquidity position: Adequate

For the [ICRA]BBB+(CE) (Stable) and [ICRA]A2(CE) ratings: Adequate

The GoTN did not avail the WMA and OD facilities from the RBI from FY2016 to FY2024 (till December 2023). Additionally, the GoTN had an investment of Rs. 14 billion in auction treasury bills at end-December 2023. Based on the aforementioned indicators, the liquidity position of the state government can be inferred to be adequate in recent years.

For the [ICRA]BBB- (Stable) and [ICRA]A3 ratings: Adequate

TDFC maintained a cash and bank balance of Rs. 1,406.9 crore as of November 2024 against estimated deposit maturities of Rs. 932.4 crore from December 2024 to February 2025. TDFC also has a line of credit for Rs. 500 crore, which would act as a Contingency fund and support the liquidity profile. The liquidity profile is also strengthened by deposits placed by GoTN-owned/controlled entities, which have healthy renewal rates and are expected to be stable. Going forward, it would be crucial for TDFC to raise capital/debt in a timely manner to adhere to regulatory norms and diversify its funding profile to maintain adequate liquidity.

Rating sensitivities

For the [ICRA]BBB+(CE) (Stable) and [ICRA]A2(CE) ratings

The ratings for the Rs. 3,403.09-crore bank lines will remain sensitive to any movement in the rating or outlook of the guarantor (GoTN).

For the [ICRA]BBB- (Stable) and [ICRA]A3 ratings

Positive factors – Scale-up of operations while maintaining good asset quality and a Tier-I capital of 15% on a sustained basis.

Negative factors – Pressure on TDFC's ratings could arise on lower-than-expected support from the GoTN. 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 ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Non-Banking Finance Companies
Parent/Group support	The ratings for the guaranteed bank facilities are based on the unconditional and irrevocable guarantee extended by the GoTN. The ratings for the FD programme and non-guaranteed bank facilities factor in TDFC's systemic importance and the expectation of timely financial support from the GoTN, as and when required.
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company.

About the company

Tamilnadu Transport Development Finance Corporation Ltd (TDFC) is a GoTN-owned NBFC with the GoTN holding a stake of 100.0% as of March 2024. 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 2024.

In FY2024, TDFC reported a net profit of Rs. 29.8 crore on a total asset base of Rs. 20,885.1 crore compared to a net profit of Rs. 36.2 crore on a total asset base of Rs. 19,106.2 crore in FY2023.

Key financial indicators (Ind AS)

	FY2023	FY2024
Total income	1,173.3	1,230.3
PAT	36.2	29.8
Total managed assets	19,106.2	20,885.1
Return on managed assets	0.2%	0.1%
Managed gearing (times)	4.4	4.8
Gross stage 3 (%)	0.0%	0.0%

*Source: Company, ICRA Research; Amount in Rs. crore; *provisional*

About the guarantor

Tamil Nadu (TN) is one of the more industrialised states in India, with a diversified manufacturing base including automobiles and auto components, heavy engineering, electronics, IT, and software. The state covers 4.0% of India's area and houses 6.0% of its population, making it a relatively densely populated state. The state performs favourably on various socio-economic and demographic indicators, such as per-capita income (Rs. 2,75,583 in FY2023), literacy rate (80.3% in 2011) and urbanisation rate (48.5% in 2011) were favourable compared to the respective national averages (Rs. 1,72,276, 74.0% and 31.2%).

The GoTN's revenue receipt averaged a moderate ~10% of Gross State Domestic Product (GSDP) during FY2019-23. With a higher average revenue expenditure of 12.2% of GSDP during this five-year period, the GoTN's revenue deficit remained above 1.4% of GSDP. This compressed the state government's fiscal space for capital spending to below 2% of GSDP during FY2019-23. Accordingly, the GoTN was able to limit its fiscal deficit to the borrowing limits set by the GoI during FY2019-23. With sustained fiscal deficits and support extended to the power and civil supplies sector, the GoTN's leverage level (excluding GST compensation back-to-back loans) worsened to 30.7% of GSDP in FY2023 from 23.9% in FY2019.

Subsequently, the GoTN's revenue deficit and fiscal deficit are expected to widen to Rs. 44,907 crore and Rs. 94,060 crore, respectively, in the revised estimates (RE) for FY2024 from Rs. 36,215 crore and Rs. 81,886 crore, respectively, in FY2023. At 3.45% of GSDP, (as per the Medium-Term Fiscal Plan statement), the GoTN's fiscal deficit in FY2024 RE is expected to be within the net borrowing limit recommended by the 15th FC (including conditional borrowing related to power sector reforms) for that fiscal.

In the budget estimates (BE) for FY2025, the GoTN had forecast its revenue deficit to rise to Rs. 49,279 crore from the level projected in FY2024 RE. Along with a ~21% increase in capital spending and net lending in FY2025 BE relative to FY2024 RE, the GoTN's fiscal deficit is budgeted to rise to Rs. 1,08,690 crore in the same period. Nevertheless, as per the Medium-Term Fiscal Plan statement, the GoTN's fiscal deficit in FY2025 BE would remain under the net borrowing limit recommended by the 15th FC for this year (including conditional borrowing related to power sector reforms).

ICRA would analyse the GoTN's provisional actuals for FY2025 to assess the performance of their key fiscal indicators relative to FY2025 BE. The financial health of the GoTN's power sector entities and their impact on the state's finances would continue to be a key monitorable.

Key rating drivers and their description

Credit strengths

Healthy socio-economic indicators: The state's performance on various socio-economic and demographic indicators[2], such as per-capita income (Rs. 2,75,583 in FY2023), literacy rate (80.3% in 2011), urbanisation rate (48.5% in 2011) and poverty rate (22.4% in 2012) were favourable compared to the respective national averages (Rs. 1,72,276, 74.0%, 31.2% and 29.5%).

Moderate self-reliance – Around 54% of the GoTN's revenue expenditure was covered through its own revenues during FY2020-22, higher than some of the states, indicating moderately healthy self-reliance.

Credit challenges

Committed expenditure and spending on key subsidies dominate revenue expenditure – Around 60% of the GoTN's revenue spending has been on committed expenditure, and food and power subsides during FY2021-23, which is relatively higher than some of the other states. Such spending has contributed to the large revenue deficits for Tamil Nadu in recent years.

[2] *Source: National Statistical Organization (NSO), Census of India and Rangarajan Committee poverty estimates*

Unfavourable quality of expenditure – The GoTN's quality of expenditure (capital expenditure as a proportion of total expenditure) remained ~13% during FY2021-23, lower than many other Indian states.

Rising leverage (debt+ guarantees) – Reflecting the sustained fiscal deficits and support extended to the power sector, the GoTN's leverage had deteriorated to 30.7% of GSDP in FY2023 from 23.9% of GSDP in FY2019.

Rating sensitivities

Positive factors – Sustained improvement in fiscal balances. Relatively lower ranking on extended leverage levels compared to peer states.

Negative factors – Further deterioration in the GoTN's revenue deficits and/or a rise in leverage levels. The increase in the outstanding debt of the state power sector entities (either supported or unsupported by the GoTN), leading to a significant worsening of the consolidated leverage levels of the state government and its power entities.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current FY2025)						Chronology of rating history for the past 3 years					
					FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs. crore)	Outstanding Amount (Rs. crore)	Jan-10-2025	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Long term-term loan-fund based	Long Term	90.00	90.00	[ICRA]BBB-(Stable)	18-APR-2024	[ICRA]BBB-(Stable)	-	-	-	-	-	-
Long term-cash credit-fund based	Long Term	1,348.09	1,348.09	[ICRA]BBB+(CE)(Stable)	18-APR-2024	[ICRA]BBB+(CE)(Stable)	27-DEC-2023	[ICRA]BBB+(CE)(Stable)	31-MAY-2022	[ICRA]BBB+(CE)(Stable)	24-NOV-2021	[ICRA]BBB+(CE)(Stable)
					-	-	-	-	29-DEC-2022	[ICRA]BBB+(CE)(Stable)	07-JAN-2022	[ICRA]BBB+(CE)(Stable)
					-	-	-	-	-	-	07-JAN-2022	[ICRA]BBB+(CE)(Stable)
Fixed deposit	Long Term	1,500.00	1,500.00	[ICRA]BBB-(Stable)	18-APR-2024	[ICRA]BBB-(Stable)	27-DEC-2023	[ICRA]BBB-(Stable)	31-MAY-2022	[ICRA]BBB-(Stable)	24-NOV-2021	-

	Current FY2025)						Chronology of rating history for the past 3 years					
					FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs. crore)	Outstanding Amount (Rs. crore)	Jan-10-2025	Date	Rating	Date	Rating	Date	Rating	Date	Rating
					-	-	-	-	29-DEC-2022	[ICRA]BB-(Stable)	24-NOV-2021	-
					-	-	-	-	-	-	21-MAR-2022	-
					-	-	-	-	-	-	21-MAR-2022	-
Fixed deposit	Long Term	1,047.12	1,047.12	[ICRA]BB-(Stable)	18-APR-2024	[ICRA]BB-(Stable)	27-DEC-2023	[ICRA]BB-(Stable)	31-MAY-2022	[ICRA]BB-(Stable)	24-NOV-2021	-
					-	-	-	-	29-DEC-2022	[ICRA]BB-(Stable)	24-NOV-2021	-
					-	-	-	-	-	-	21-MAR-2022	-
					-	-	-	-	-	-	21-MAR-2022	-
Fixed deposit	Long Term	1,452.88	1,452.88	[ICRA]BB-(Stable)	18-APR-2024	[ICRA]BB-(Stable)	27-DEC-2023	[ICRA]BB-(Stable)	31-MAY-2022	[ICRA]BB-(Stable)	24-NOV-2021	-
					-	-	-	-	29-DEC-2022	[ICRA]BB-(Stable)	24-NOV-2021	-
					-	-	-	-	-	-	21-MAR-2022	-
					-	-	-	-	-	-	21-MAR-2022	-
Short term-working capital demand loan-fund based	Short Term	2,055.00	2,055.00	[ICRA]A2(CE)	18-APR-2024	[ICRA]A2(CE)	27-DEC-2023	[ICRA]A2(CE)	31-MAY-2022	[ICRA]A2(CE)	24-NOV-2021	[ICRA]A2(CE)
					-	-	-	-	29-DEC-2022	[ICRA]A2(CE)	07-JAN-2022	[ICRA]A2(CE)

	Current FY2025)				Chronology of rating history for the past 3 years							
					FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs. crore)	Outstanding Amount (Rs. crore)	Jan-10-2025	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Long term / short term-unallocated	Long Tem/Short Term	506.91	506.91	[ICRA]BBB-(Stable)/[ICRA]A3	18-APR-2024	[ICRA]BBB-(Stable)/[ICRA]A3	27-DEC-2023	[ICRA]BBB-(Stable)/[ICRA]A3	-	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term fund based – Cash credit	Simple
Short-term fund based – Working capital demand loan	Simple
Long-term Fund based – Term Loan	Simple
Long-term/Short-term fund based – Unallocated	Not applicable
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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash credit - 1**	-	-	-	1,348.09	[ICRA]BBB+(CE) (Stable)
NA	**WCDL-1**	-	-	-	600.00	[ICRA]A2(CE)
NA	**WCDL-2**	-	-	-	1,455.00	[ICRA]A2(CE)
NA	**Term loans**	-	-	-	90.00	[ICRA]BBB-(Stable)
NA	**Long term/Short term – Unallocated**	-	-	-	506.91	[ICRA]BBB-(Stable)/[ICRA]A3
NA	**Fixed deposits**	-	-	-	4,000.00	[ICRA]BBB- (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: 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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