

## Rating Rationale

19 November 2021

### Tamil Nadu Transmission Corporation Limited

**Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of Rs. 588.87 Crs of Tamil Nadu Transmission Corporation Limited.**

#### Particulars

Facilities/ Instrument**	Amount (Rs. Crs)		Tenure	Rating*	
	Previous	Present		Previous (19-Aug-2020)	Present
Fund Based Term Loans	500.00	<b>448.87</b>	<b>Long Term</b>	BWR A (CE)/ Stable	<b>BWR A (CE) / Stable Reaffirmation</b>
Fund Based Working Capital	140.00	<b>140.00</b>		BWR BBB+/ Stable	<b>BWR BBB+ / Stable Reaffirmation</b>
Non Fund Based Letter of Credit (Sub limit of Cash Credit)	(5.00)	<b>(5.00)</b>	<b>Short Term</b>	BWR A3+	<b>BWR A3+ Reaffirmation</b>
<b>Total</b>	640.00	<b>588.87</b>	<b>Rupees Five Hundred and Eighty Eight Crores and Eighty Seven Lakhs Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for the definition of the ratings

\*\* Details of Bank facilities is provided in Annexure-I

The Ratings with the symbol CE are based on Credit Enhancement in the form of unconditional and irrevocable guarantee from GoTN for the timely repayment of debt obligations

Unsupported rating as assessed by BWR without considering the Credit Enhancement is BWR BBB+/Stable.

#### RATING ACTION/OUTLOOK

Brickwork Ratings (BWR) reaffirms the ratings of Tamil Nadu Transmission Corporation Limited (TANTRANSCO or the company) considering the factors such as the company is 100% owned by the Government of Tamil Nadu (GoTN) through Tamil Nadu Electricity Board Ltd (TNEB), experienced management of the board, support being extended from the GoTN in the form of capital infusion, and socio demographic profile of Tamil Nadu State. In addition, of the rated facilities, the term loans outstanding of Rs. 448.87 Crs are backed by the unconditional and irrevocable guarantee from the GoTN for the timely repayment of debt obligations . However, the ratings are constrained by weakening financial profile of the company, delay in the tariff revisions, and widening revenue and fiscal deficit levels of state and COVID-19 impact on state finances.

The company's outlook is kept as 'Stable' considering the continuous support extended from the GoTN in the form of capital infusion as per the Government Order (GO) dated 20 November 2019.

**KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED:** The terms of the sanction of loans from all banks and financial institutions include standard covenants normally stipulated for such facilities by banks/FIs. Of the rated facilities, the outstanding term loan facility of Rs.448.87 Crs from Bank of Baroda has an unconditional and irrevocable guarantee from the GoTN for the timely repayment of debt obligations.

## KEY RATING DRIVERS

### Credit Strengths:-

- **Support from Government of Tamil Nadu (GoTN) :** TANTRANSCO being wholly owned by the Government of Tamil Nadu has been supported by way of regular equity infusion for the capex/specific projects. Furthermore, the rated term loan facilities (O/s of Rs. 448.87 Crs) carry an unconditional and irrevocable guarantee from the GoTN for the timely payment of the principal and interest obligation. During FY20, the company has received an equity contribution of Rs.484.62 Crs from the GoTN. Additionally, as per the Government Order (GO) dated 20 Nov 2019, the company is entitled to receive balance equity infusion of Rs. 850.00 Crs in the next two to three years.
- **Strategic Importance and Experienced Management:** TANTRANSCO is the State Transmission Utility of Tamil Nadu State and is responsible for the development, maintenance and operation of the intra-state transmission network in the state. The board has representation from various departments of the State and is assisted by highly experienced professionals at various levels. Currently Mr. Rajesh Lakhani, IAS is the chairman of TANTRANSCO.
- **Expansion of Transmission Capacity:** The company has been strengthening the existing transmission network in the state every year by establishing new substations and transmission lines and upgrading the existing system to meet the capacity addition in generation and to meet the demand.
- **Healthy Socio-Economic Indicators :** The state demonstrates healthy socio-economic indicators. The state has a favorable urbanisation rate at 48%, which is higher than the national average of 31%. The state's literacy rate of 80% and sex ratio of 996 females per 1000 males is also favourable, as compared with the national average of 74% and 943, respectively.

### Credit Risks:-

- **Weakening financial Profile of TANTRANSCO:** As per the FY20 audited financials, operating income of the company marginally improved to Rs. 3165.79 Crs from Rs. 3086.36 Crs in FY20. The company has shown improvement in the operating profit margin from 47.91% in FY20 when compared with previous year at 42.66%. Due to increase in interest and finance charges, the net losses of the company increased to Rs.1074.48 Crs in FY20 from net loss of Rs. 634.91 Crs in FY19. Tangible net worth of

the company reported at Rs. 1574.73 Crs. Total debt of the company reported at Rs.23,624.68 Crs as of FY20. The company continues to report weak debt service coverage indicators in view of net losses. However, the company relied upon the short term to medium term loans for meeting its debt obligations. BWR expects that the widening of net losses in the company will lead to further strain on the liquidity and deterioration in the financial performance.

- **No Tariff Revision:** There have been no tariff revisions in the corporation in the last four years. The last revision was done in 2017.
- **Widening revenue and fiscal deficit levels of state and COVID-19 impact on state finances:** Tamil Nadu has reported the widening of revenue and fiscal deficit levels. The state has reported a revenue deficit of Rs. 65,994 Crs (3.40% of the GSDP) and fiscal deficit of Rs. 104,498 Crs (5.39% of the GSDP) as per the revised estimates of 2020-21. The impact of COVID-19 will also be felt in FY22 on account of disruptions in the operations of the state's several revenue generating sectors, resulting from the long, nationwide lockdown implemented to curb the spread of the virus in the country.

#### **ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA**

To arrive at its ratings, BWR has relied on the standalone financials of the company. BWR has applied its rating methodology as detailed in the Rating Criteria. (hyperlinks provided at the end of this rationale).

#### **RATING SENSITIVITIES:**

Going forward, timely support from the GoTN by way of infusion of equity/grants and ensuring the timely payment of interest and principal dues, along with the timely implementation of ongoing capital projects without cost and time overruns will remain key rating sensitivities.

- **Upward:** The ratings can move upward in case if there is a substantial reduction in the term debt of the company, an improvement in the debt service indicator to above 1.0X, the company reports the net profits, generating adequate cash accruals to meet its debt obligations, and an upward revision in the credit rating of the guarantor (GoTN)
- **Downward:** The ratings can move downward in case if there is a delays or a reduction in the support from the GoTN to service the debt, substantial increase in the term debt of the company leading to strain on the coverage indicators, a deterioration in the credit profile of the GoTN, and downward revision in the credit rating of the guarantor (GoTN).

#### **LIQUIDITY INDICATORS: Poor**

The company is not generating adequate cash accruals to meet its debt obligations. However, the company is availing short term to medium term loans from the banks/financial institutions for meeting its debt obligations. In addition, the company is being supported by the GoTN by way of capital infusion. During FY20, the company has received Rs.484.62 Crs in the form of equity from GoTN. BWR expects that the widening of net losses in the company would lead to further strain on the liquidity.

**About the Company:**

Tamil Nadu Transmission Corporation Limited is a State Government entity, domiciled in India and incorporated in June 2009 under the provisions of the Companies Act, 1956, and is headquartered in Chennai. TANTRANSCO became a wholly owned company by the GoTN and started functioning from 14 December 2009. The company was incorporated as part of Tamil Nadu Electricity Re-organization and Reforms Transfer Scheme notified by the GoTN and is engaged in the transmission of power in the State of Tamil Nadu.

**KEY FINANCIAL INDICATORS**

Key Parameters	Units	FY20	FY19
Result Type		Audited	Audited
Operating Revenue	Rs. Crs	3165.79	3086.36
EBITDA	Rs.Crs	1516.73	1316.56
Net profit /losses	Rs. Crs	(1074.48)	(634.91)
Tangible Net worth	Rs. Crs	1574.73	2164.60
Total Debt/Tangible Net worth	In Times	15.00	8.80
Current Ratio	In Times	0.49	0.39

**KEY FINANCIAL INDICATORS – CREDIT ENHANCEMENT PROVIDER**

The state’s revenue receipts grew at a CAGR of 8.87% from the last 4 years (2017 to 2021 (RE)). Of the total revenue receipts of the state, own tax revenue constitutes between 37% to 46%. As per the budget estimates 2021-22, the state own tax revenue constitutes at 38.75% of the total revenue receipts of the state. Tamil Nadu has consistently seen a revenue deficit over the years. In view of the COVID-19 pandemic, the state has reported widening of the revenue and fiscal deficit levels. The state has reported a revenue deficit of 65,994 Crs (3.40% of the GSDP) and fiscal deficit of 104,498 Crs (5.39% of the GSDP ) as per the revised estimates of 2020-21. Furthermore, the state has reported outstanding liabilities of Tamil Nadu over the FRBM review committee recommendations at 29.00% and 32.36% in the revised estimates of 2020-21 and budget estimates of 2021-22, respectively.

State Financials	Units	2020	2021	2022
Result Type		Audited	R.E.	B.E.
Revenue Receipts	Rs. Crs	174,526	180,701	202,496
Revenue Expenditure	Rs. Crs	210,435	246,695	261,189
Capital Receipts	Rs. Crs	72,158	114,216	124,307

Capital Expenditure	Rs. Crs	47,520	60,222	67,846
Revenue Surplus/GSDP	%	(1.94)	(3.40)	(2.90)
Fiscal Deficit/GSDP	%	(3.25)	(5.39)	(4.97)
Debt+Guarantees/GSDP	%	25.45	29.00	32.36

R.E. Revised Estimates B.E. Budget Estimates

NON COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY: NIL

**Rating History for the previous three years (Including withdrawal and suspended)**

S.No	Instrument /Facility	Current Rating			Chronology of Rating History for the past 3 years (Rating assigned and press release date) along with outlook/watch, if applicable		
		Type (Long Term/ Short Term)	Amount (Rs. Crs)	Rating	Date(s) & Rating(s) assigned in 2020	Date(s) & Rating(s) assigned in 2019	Date(s) & Rating(s) assigned in 2018
1	Fund Based	Long Term	448.87	BWR A (CE) / Stable Reaffirmation	BWR A (CE) / Stable Reaffirmation (19-Aug-2020)	BWR A (SO) / Stable Assign (17-May-2019)	--
2	Fund Based	Long Term	--	--	--	Rating Withdrawn^ (17-May-2019)	Provisional BWR BBB+ (Stable) Reaffirmed (28-Aug-2018)
2	Fund Based	Long Term	140.00	BWR BBB+ / Stable Reaffirmation	BWR BBB+ / Stable Reaffirmation (19-Aug-2020)	BWR BBB+ / Stable Reaffirmation (17-May-2019)	BWR BBB+ (Stable) Reaffirmed (28-Aug-2018)
3	Non Fund Based	Short Term	(5.00)	BWR A3+ Reaffirmation	BWR A3+ Reaffirmation (19-Aug-2020)	BWR A3+ Reaffirmation (17-May-2019)	BWR A3+ Reaffirmation (28-Aug-2018)
<b>Total</b>			<b>588.87</b>	<b>INR Five Hundred and Eighty Eight Crores and Eighty Seven Lakhs Only</b>			

Note: ^Rating withdrawn for the proposed loan of Rs.260.00 crores



**COMPLEXITY LEVELS OF THE INSTRUMENTS: Simple**

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at [www.brickworkratings.com / download / ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf). Investors queries can be sent to [info@brickworkratings.com](mailto:info@brickworkratings.com).

**Hyperlink/Reference to applicable Criteria**

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)
- [Power Transmission Projects](#)
- [Short Term Debt](#)
- [Ratings based on Government Support](#)
- [Ratings based on Credit Enhancement](#)

For any other criteria obtain [hyperlinks](#) from website

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**Tamil Nadu Transmission Corporation Limited**  
**Annexure-I**  
**Details of Bank Loan Facilities rated by BWR**

S.No	Name of the Bank/Lender	Type of Facilities	Long Term (Rs. Crs)	Short Term (Rs. Crs)	Total (Rs. Crs)
1	State Bank of India	Cash Credit	90.00	--	90.00
2	State Bank of India	Letter of Credit (Sub Limit of CC)	--	(5.00)	(5.00)
3	Canara Bank	Overdraft	50.00	--	50.00
4	Bank of Baroda	Term Loans	448.87	--	448.87
<b>Total</b>			<b>588.87</b>	<b>(5.00)</b>	<b>588.87</b>
<b>Total Rupees Five Hundred and Eighty Eight Crores and Eighty Seven Lakhs Only</b>					

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