

Tamilnadu Civil Supplies Corporation

November 02, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	20.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	20.00 (₹ Twenty Crore Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating assigned to the bank facilities of Tamilnadu Civil Supplies Corporation (TNCSC) factors in the strength derived from the Government of Tamil Nadu's (GoTN) ownership, demonstrated funding support from the GoTN in the form of budgeted subsidies and extension of guarantee for the said facility being rated. TNCSC is strategically important to the GoTN and acts as the extended arm of GoTN being the sole agency for the wholesale distribution of essential commodities under the Public Distribution System in the state of Tamil Nadu. TNCSC enjoys a wide procurement and distribution network in Tamil Nadu.

The rating is, however, constrained by relatively high leverage levels and moderate financial performance of TNCSC as it operates on no profit no loss model.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in risk profile of GoTN marked by
 - State attaining revenue surplus
 - Significant reduction in (debt + guarantee) to GSDP
 - Significant growth in GSDP
 - Higher capital asset creation

Negative factors – Factors that could lead to negative rating action/downgrade:

- Change in ownership or role of TNCSC in meeting the policy function for GoTN
- Significant amount of losses incurred by TNCSC not compensated by subsidies
- Delay in receipt of subsidies

Detailed description of the key rating drivers

Key rating strengths

Ownership by GoTN with experienced board members who are representatives from GoTN

GoTN holds 99.99% stake in TNCSC. TNCSC's board constitutes of 12 members with Chairman, Managing Director and other directors (including district collectors). All the board members including Chairman and Managing Director are appointed by GoTN. The chairman is the Hon'ble Minister for Food & Civil Supplies. Directors includes heads of various key departments of the state government such as Food & Consumer Protection Department, Agriculture & Farmers Welfare Department, Civil Supplies & Consumer Protection department, Tamil Nadu Warehousing Corporation and various district collectors etc. The senior management includes one Financial Advisor & Chief Accounts Officer and General Managers. All the board members and Senior Management have significant experience.

Strategic importance of TNCSC as sole nominee for the wholesale distribution of essential commodities under the PDS in the state of Tamil Nadu with well-established network

TNCSC is the sole nominee of the GoTN for the wholesale distribution of all essential commodities to retail outlets (35,169 fair price shops of which 1,455 is operated by TNCSC) under the Public Distribution System (PDS). The corporation primarily distributes rice, wheat, sugar and kerosene. Under special public distribution scheme, TNCSC also distributes pulses like Tur Dal, Bengal Gram, Green Gram, Canadian Yellow Lentil and edible oil at subsidized rates.

Rice procurement by TNCSC is a decentralised process wherein the paddy procured from farmers are sent to mills (owned/third party) for crushing and converted rice is then distributed. Wheat is obtained by allotment from Food Corporation of India (FCI). Sugar is obtained from cooperative societies; deficit is procured via tenders. Oil & pulses are obtained by floating tenders, and kerosene is procured from dealers of OMCs (procurement of kerosene is by 80% of advance payment and the balance after receipt). Kerosene is stored at 284 warehouses before supplying to the fair price shops.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

TNCSC also undertakes supply of food commodities to the Noon Meal Centres under the Noon Meal Programme (NMP) for providing nutritious meal to school going children. Besides children, old age pensioner, and pregnant women are also being covered under Nutritious Meal Scheme.

Apart from this, TNCSC also acts as a vehicle for delivering welfare schemes introduced by the Govt. of TN owing to its vast reach and expertise in distribution. The state utilizes TNCSC for implementation/distribution of schemes such as relief kits (e.g., for COVID-19 relief kits, cyclone Nivar relief kits), gift hampers in view of festivals such as Pongal, cash support, supplying consumer durable to Economically Weaker Section across various schemes announced from time to time and for delivering essentials to various canteens of State department.

TNCSC acts a procuring/processing unit as well

TNCSC procures paddy directly from farmers through Direct Purchasing Centres (DPC). The Corporation is also the sole agency to procure on behalf of Food Corporation of India and the paddy procured is hulled at its own rice mills or by private hullers. TNCSC owns 21 Rice Mills with a hulling capacity of 4,77,000 MT. The custom milled rice is adjusted against Central Pool Allotment for PDS. The difference between the cost of paddy as fixed by Government of India and the central issue price is reimbursed to TNCSC as Custom Milled Rice (CMR) subsidy by GoI. For FY21, TNCSC received CMR subsidy of Rs.4,222 Cr (for FY20: subsidy was Rs.2,620 Cr, FY19: subsidy was Rs.1,776 Cr). Infrastructure supporting activities of the corporation includes 284 operational godowns, 1455 PDS outlets, 21 Modern Rice Mill, and 452 Hulling Agents.

Demonstrated funding support from GOTN in the form of subsidies

Issue of essential commodities under the PDS is at significantly lower price than the price fixed by GoI. For instance, rice is being issued at free of cost (w.e.f. June 01, 2011). The differential cost is fully reimbursed to the corporation by the State government as a subsidy. The corporation closes the account on "No Profit-No Loss" basis. The cost difference (between the issue price at PDS and procurement price from FCI and /or market) and all expenses towards running TNCSC are received as subsidy from the Government of Tamil Nadu. The subsidy is received in advance each quarter and at the close of the year, any excess or shortfall is adjusted against the 'Advance Subsidy' account. The budget allocation for FY22 was Rs.7,500 Cr of which Rs.3,750 Cr has been received.

Status on Tamil Nadu State Govt. finance

Tamil Nadu's economy is estimated to grow at a pace of 7.85% in FY22 compared with subdued growth rate of 2.02% in FY21 in constant price terms. The sharp rise in the economic activity is post unlocking of the economy post adverse impact caused by the COVID-19 pandemic and consequent lockdown of the state's economy. Even though the state has not been in adherence with all the fiscal consolidation norms stipulated by the Finance Commission (FC) viz., in terms of maintaining a zero-revenue deficit and interest burden at less than 15% of its revenues, it has maintained gross fiscal deficit (GFD) and the debt ratios within the limits set by the 15th FC.

The state has seen growth in revenue receipts in FY22 (RE) despite the disruptions caused by the pandemic. It is also fairly self-reliant with more than 70% of its revenue receipts being accounted for by its own sources. The government is seen to be focusing on capital asset creation, specifically in areas of urban development, road transportation, water supply and sanitation, irrigation, and rural development.

In addition, the state has been maintaining a consolidated sinking fund (CSF) and guarantee redemption fund (GRF) and has also been found to be prudent in its liquidity management, as the state has not been availing the ways and means advances (WMA) facility from the Reserve Bank of India (RBI).

Key rating weaknesses

Relatively low net worth with increasing debt levels and moderate financial performance as it operates on no profit or no loss business model

The tangible net worth of the corporation stood relatively low at Rs.77.41 Cr as on 31st March, 2021 (Prov) in line with the net worth as on March 31, 2019. The net worth level continued to remain at the same level on account of no infusion of capital and nil accretion to reserves as it operates on no profit or no loss business model. The overall gearing moderated to 142.23x as on March 31, 2021 from 84.15x as on March 31, 2020 on account of increased working capital borrowings as the corporation acted as vehicle to deliver various welfare/relief schemes on the backdrop of COVID-19. Though the total debt levels increased to Rs.11,010 Cr as on March 31, 2021 (against Rs.6,514 Cr as on March 31, 2020), with subsequent repayments, the same has come down to Rs. 7,500 Cr as on September 30, 2022

Liquidity: Adequate

The Corporation receives subsidy from GoTN before each quarter end. For FY22-23, budget allocation of Rs.7,500 Cr, of which Rs.3750 crore has so far been received. The company does not have major term debt other than Rs.1.2 crore debt from Government of Tamil Nadu. The major debt are working capital borrowings/ short term loans in nature, which is generally used for procurement of paddy. It is to be noted that procurement generally exceeds the level estimated in the budget for the Financial Year, which is funded out of these bank borrowings. Being a GoTN owned Corporation, TNCSC has also demonstrated its ability to raise funds from banks to meet cash flow mismatches in the past.

Analytical approach: Standalone and Factoring Linkages with GoTN

TNCSC plays an important role in policy function of the GOTN, administering the PDS system and acts as a nodal agency for the various welfare schemes of the GOTN. The subsidies are budgeted by GOTN and there is a demonstrated track record in respect of receipt of subsidies from the GOTN. In view of the strong linkage with Government of TN, the linkages are being factored in.

Applicable criteria

[Policy on default recognition](#)

[Factoring Linkages Government Support](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Wholesale Trading](#)

[State Governments](#)

About the company

Tamil Nadu Civil Supplies Corporation was incorporated in 1972 under the Companies Act, 1956. Later, in 1975 it was converted as a State-owned public sector undertaking to carry out procurement, purchase, store, process and distribute essential commodities under the public distribution system (PDS) on behalf of Cooperation, Food and Consumer Protection Department of Government of Tamil Nadu (GOTN). It also procures and distributes other commodities required under various welfare schemes implemented by the State government. The Managing Director and the Board of Directors of the corporation are appointed by the State government. The corporation has 33 regional offices headed by Senior Regional Managers/ Regional Managers in the cadre of District Revenue Officers/ Deputy Collectors.

Brief Financials (₹ crore)	31-03-2021 (Prov.)	31-03-2022 (Prov.)	Q2FY2023 (Prov.)
Total operating income	20,033.69	NA	--
PBILDT	518.36	NA	--
PAT	-12.34	NA	--
Overall gearing (times)	142.23	NA	--
Interest coverage (times)	0.97	NA	--

A: Audited; Prov.: Provisional

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	20.00	CARE BBB+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT*	-	-	-	1)Withdrawn (06-Aug-21) 2)CARE A-(CE) (CWD) (21-Apr-21)	1)CARE A-(CE); Stable (30-Sep-20)	1)CARE A-(CE); Stable (31-Jul-19)
2	Un Supported Rating-Un Supported Rating (Long Term)	LT	-	-	-	1)Withdrawn (06-Aug-21) 2)CARE BBB+ (21-Apr-21)	1)CARE BBB+ (30-Sep-20)	-
3	Fund-based - LT-Cash Credit	LT	20.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (06-Aug-21)	-	-

*Long term

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA**Annexure-4: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple

Annexure-5: Bank lender details for this companyTo view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us**Media contact**

Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact

Name: Parvathavardhini Natarajan
Phone: +91 - 44 - 2849 0811/ 2849 0876
E-mail: P.Natarajan@careedge.in

Relationship contact

Name: Pradeep Kumar V
Phone: +91-98407 54521
E-mail: pradeep.kumar@careedge.in

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