

July 27, 2015

Facility	Amount (Rs. Crore)	Rating
Proposed Non-convertible debentures	50.00	SMERA AA/Stable (Assigned)

SMERA has assigned a long-term rating of **SMERA AA (read as SMERA double A)** to the Rs.50.00 crore non-convertible debentures of Tourism Finance Corporation of India Limited (TFCI). The outlook is '**Stable**'. The rating is supported by the company's long track record, established presence and strong management. The rating also factors in the strong capital structure, healthy asset quality, adequate earnings and comfortable asset-liability maturity profile. The rating is however constrained due to the exposure of TFCI to a single sector, highly competitive hotel financing space and risks arising from high concentration in its loan portfolio.

TFCI, incorporated in 1989, is promoted by Industrial Finance Corporation of India Limited (IFCI), nationalised banks and other financial institutions. The shareholding pattern of TFCI as on March 31, 2015 is as follows:

Shareholding pattern as on March 31, 2015	
Name of Shareholder	%
IFCI Ltd.	39.10
State Bank of India	9.19
Life Insurance Corporation of India	6.71
Bank of India	4.70
United India Insurance Co. Ltd.	1.48
The Oriental Insurance Co. Ltd	1.06
<b>Total Promoters Holding</b>	<b>62.24</b>
Mutual Fund	5.96
Other Banks/Financial Institutions	0.08
FII's	1.30
Bodies Corporate	5.98
General Public	23.50
Trust	0.01
NRI	0.93
<b>Total Public Shareholding</b>	<b>37.76</b>
<b>Grand Total</b>	<b>100.00</b>

TFCI strong management consists of two nominee directors from the tourism and finance ministries each and others with vast experience in the field of banking and tourism related activities.

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TFCI has strong capitalisations levels. The Tier I capital stood at 30.23 per cent as on March 31, 2015 as compared to 32.05 per cent in the previous year. The company has CRAR ratio at 37.65 percent as on March 31, 2015 as compared to 39.86 percent in the previous year. The net worth improved to Rs.479.10 crore in FY2014-15 from Rs.436.47 crore in FY2013-14 on account of retention of profit.

Notwithstanding the recent increase in NPA numbers, (GNPA ratio increasing to 3.8 per cent in FY2015 from 1.1 percent in FY2013, and NNPA increasing to around 1.5 per cent from nil over the same period), the company is able to recover most of its dues, as almost all the advances are backed by 100 per cent collateral, and there have been virtually no write-offs under the period of study. The company has forayed into infrastructure lending in FY2012-13, which has also partly led to the increasing NPA levels over the past three years. SMERA takes note of the management's conscious efforts to limit exposure to the infrastructure sector in FY2014-15. This focus on Tourism sector is expected to continue going forward as well.

TFCI has consistently posted decent growth in its portfolio by extending facilities to tourism related projects including renovation, up-gradation and expansion. The operating income of the company has grown at a compounded annual growth rate of 11 percent to Rs.102.83 crore in FY2014-15 from Rs.67.86 crore in FY2010-11. The company has maintained healthy earning profile (net profit in relation to average assets) at 4.13 per cent as on March 31, 2015 as compared to 4.20 percent in the previous year. SMERA expects TFCI to maintain a moderate level of earnings, considering the low overhead expenses (operating expenses in relation to average assets of 1.37 per cent for 2014-15) and access to funds at competitive rates, provided it maintains a strict control on its asset quality.

TFCI's comfortable liquidity profile is evident from the comfortable assets liability management profile arising out of raising of long term funds (maturing after three to five years) at competitive rates by the company.

However, the company is exposed to concentration risk since TFCI deals solely with the tourism sector. The ratings are also constrained due to the intense competition in the tourism finance sector from banks and other NBFC's. TFCI is also exposed to high concentration in its loan portfolio, with top 10 accounts comprising around 35 per cent of the company's total loan book. SMERA however believes, with the expected increase in AUM going forward, this concentration risk is expected to be partially mitigated.

### **Outlook: Stable**

SMERA believes the outlook on TFCI's rated facilities will remain stable over the medium term. The company will continue to benefit from its experienced management and strong asset quality. The

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outlook may be revised to 'Positive' in case the company achieves sustained growth in its asset books while maintaining strong asset quality and healthy returns. The outlook may be revised to 'Negative' in case of expansion of operations resulting in deterioration of asset quality, profitability or capital levels of the company.

### Rating sensitivity factors

- Improving the scale of operations while maintaining the asset quality and regulatory requirements
- Efficient asset liability management
- Geographical diversification of loan portfolio

### About the Company

TFCI, incorporated in 1989, is a public limited company formed as a specialised financial institution to cater to the financial needs of the tourism industry. The company has its corporate office in New Delhi.

TFCI reported profit after tax (PAT) of Rs.60.18 crore on interest income of Rs.172.04 crore and loan portfolio of Rs.1274.38 crore for FY2014-15 as compared to profit after tax (PAT) of Rs.58.50 crore on interest income of Rs.175.03 crore and loan portfolio of Rs.1176.99 crore for FY2013-14. The net worth stood at Rs.479.10 crore as on March 31, 2015, as against Rs.436.47 crore a year earlier.

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