

Press Release

Tourism Finance Corporation of India Limited (TFCI)

16 September, 2017

Rating Reaffirmed



Total Facilities Rated*	Rs. 300.00 Cr
Long Term Rating	SMERA AA-/Stable (Reaffirmed; Outlook Revised from Negative to Stable)

*Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the rating of '**SMERA AA-**' (**read as SMERA double A minus**) assigned to the Rs.300.00 crore Secured Redeemable Non-Convertible Debenture Issue by Tourism Finance Corporation of India Limited (TFCI). The outlook has been revised from '**Negative**' to '**Stable**'.

The New Delhi-based TFCI, incorporated in 1989, is a public limited company formed as a Public Financial Institution (PFI) to cater to the financial needs of the tourism industry. TFCI is primarily engaged in providing financial assistance to the tourism and hospitality sector.

TFCI was promoted by Industrial Finance Corporation of India (IFCI), Life Insurance Corporation of India (LIC), State Bank of India, Bank of India, United India Insurance Co. Ltd and The Oriental Insurance Co. Ltd as an All India Financial Institution pursuant to the recommendations of the National Commission on Tourism set up under the aegis of the erstwhile Planning Commission of India. The total promoter shareholding as on 31 March, 2017 stood at 43.32 per cent as against 54.20 per cent on 31 March, 2016.

The revision in outlook is on account of significant improvement in the asset quality in FY2016-17 while maintaining its loan book growth. The GNPA levels improved from 12.51 per cent on 31 Mar 2016 to 5.71 per cent on 31 March 2017 primarily driven by robust recoveries. SMERA expects the healthy asset quality to be sustained over the near to medium term. TFCI has also improved its profitability margins in FY2016-17 on the improvement in asset quality. The rating continues to draw support from TFCI's status as a PFI, its strong pedigree and operational support & oversight from the Government of India (GoI). The Board of Directors of TFCI includes Nominee Directors representing the Ministry of Finance and Ministry of Tourism.

List of Key Rating Drivers and their detailed description

Strengths:

Strong Parentage and Established track record in the Tourism Financing Industry: TFCI has been engaged in providing financial assistance to players in the tourism sector since 1989. It was promoted by IFCI and several Public Sector Banks and Insurance companies. The company has been providing other advisory and consultancy services for upcoming tourism projects in the country. TFCI has till date provided financial assistance to nearly 800 projects and has cumulatively sanctioned over Rs.8,000 crore.

TFCI provides financial assistance by way of sanctioning rupee term loans, corporate loans and by subscribing to capital market debt instruments, preference shares and equity shares issued by hotel

projects, amusement parks, multiplexes, restaurants among others. In FY2014-15, TFCI decided to expand its footprint to the infrastructure financing, real estate and manufacturing industry. As on 31 March, 2017, tourism financing accounts for over 75 per cent of TFCI's loan portfolio.

As on 31 March, 2017, the promoters of TFCI held 43.32 per cent of the equity shares vis-à-vis 54.20 per cent as on 31 March, 2016. In March, 2017, IFCI, the single largest shareholder has decided to monetize its entire investment in TFCI. While this is expected to bring down the government's indirect holding in TFCI, SMERA notes that notwithstanding the proposed decline in government shareholding below 51 per cent, TFCI is expected to continue to benefit from its operational and managerial support from GOI.

TFCI's board of directors includes Shri Sanjeev Kaushik, IAS as the Non-Executive Chairman, Shri S.K. Arora as the Managing Director, one nominee director each from the Ministry of Finance and Ministry of Tourism, two executive directors and six independent directors.

SMERA expects TFCI's credit profile to continue to be supported by the managerial and operational support received from Government of India and its experienced management. TFCI's ability to leverage the government support and expand its loan portfolio shall be key rating sensitivity factor.

Significant Improvement in Asset Quality and healthy profitability: TFCI has been able to reduce the number of non-performing assets (NPAs) to 6 accounts aggregating Rs.81.12 crore as on 31 March, 2017 as against 8 accounts aggregating Rs.159.03 crore as on 31 March, 2016. Consequently, the Gross NPA ratio improved significantly to 5.71 per cent on 31 March, 2017 from 12.51 per cent on 31 March, 2016 and Net NPA improved to 3.11 per cent on 31 March, 2017 from 10.24 per cent on 31 March, 2016. The improvement in asset quality is mainly account of improved collection efficiency and speedy resolution of stressed assets.

TFCI is able to mobilize funds from various financial institutions and capital markets at low rates. In FY2016-17, TFCI reported a weighted average cost of funds of 8.87 per cent on 31 March, 2017 as against 9.24 per cent on 31 March, 2016. On the other hand, TFCI is able to deploy its funds at interest rates ranging from 14 per cent to 15 per cent – resulting in a healthy spread of over 5 per cent.

The healthy interest spread coupled with its low leverage has enabled TFCI to report a comfortable Net Interest Margin of 6.75 per cent in FY2016-17 vis-à-vis 5.91 per cent in FY2015-16. The decline in Gross NPAs and successful restructuring of several stressed assets has enabled TFCI to improve its yield over the last two quarters of the previous financial year. The improvement in the asset quality has also reduced the overall provisioning requirements of TFCI. Consequently, the return on average assets improved to 4.28 per cent in FY2016-17 from 3.44 per cent in FY2015-16.

SMERA expects TFCI to sustain its improvement in its asset quality and maintain profitability indicators over the near to medium term.

Comfortable Capitalization Levels: TFCI reported a Capital Adequacy Ratio (CAR) of 39.08 per cent on 31 March, 2017 vis-à-vis 37.82 per cent on 31 March, 2016. The Tier I ratio improved significantly to 32.69 per cent on 31 March, 2017 from 30.91 per cent on 31 March, 2016. The improvement in the capitalization levels is mainly on account of steady accretions to the net worth of the company while the overall debt levels have remained stagnant over the last two years. TFCI's net worth increased to Rs.554.25 crore on 31 March, 2017 from Rs.514.05 crore on 31 March, 2016 while the Total debt stood at Rs.1049.96 crore on 31 March, 2017 as against Rs.996.50 crore on 31 March, 2016.

SMERA believes that the healthy capitalization levels provide TFCI with adequate headroom to expand its loan book without additional capital requirements.

Weaknesses:

Risks Inherent in the Wholesale Nature of the business: TFCI provides financial assistance with an average ticked size of ~Rs.20 crore to various players in the tourism industry. TFCI's loan portfolio is highly concentrated among its top borrowers with the top 20 borrowers accounting for 59.73 per cent of the total advances on 31 March, 2017 as against 61.33 per cent as on 31 March, 2016. While TFCI has been following prudent risk management such as maintaining low Loan to Value (LTV) ratios, stringent credit appraisal processes, collateral security stipulations etc., events such as delinquency in few large assets can have a bearing on the operating and financial performance of TFCI.

SMERA expects TFCI to continue to remain exposed to the risks emanating from the wholesale nature of its business. TFCI's ability to diversify its exposure across borrowers while maintaining its asset quality shall be a key credit monitorable.

Susceptibility of Operating Metrics to the Performance of the Tourism Sector: TFCI primarily caters to players in the tourism sector. Though the company also has exposure to other sectors such as real estate, housing and infrastructure, tourism comprised approximately 77 per cent of the asset portfolio as on 31 March, 2017. Considering its presence in the tourism sector, TFCI's performance is linked to performance of the hospitality sector such as movement in occupancy levels, Average Room Rent, level of capital expenditure in the tourism sector among other industry specific variables.

TFCI faced challenges in growing its loan book during FY2016 due to an overall slowdown in the tourism sector. TFCI's loan book increased to Rs.1421.04 crore on 31 March, 2017 from Rs.1291.91 crore on 31 March, 2016. The growth in the loan book was mainly propelled by the gradual recovery of the tourism sector in the second half of FY2016-17. SMERA believes that events such as events affecting the hospitality sector such as decline in occupancy levels or downward pressures on room rentals can significantly impact the demand for credit and performance of players in the tourism sector. This could in turn translate into slower than expected growth in loan book and asset quality pressures for players like TFCI.

Analytical approach: SMERA has considered the standalone business and financial risk profile of TFCI to arrive at the rating.

Applicable Criteria

- Non-Banking Finance Entities: <https://www.smera.in/criteria-nbfc.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that TFCI will maintain a 'Stable' outlook on the back of its strong parentage, established track-record of operations and continued support from the central government on account of its status as a PFI. The outlook may be revised to 'Positive' in case of higher than expected growth in loan portfolio coupled with significant improvement in asset quality while maintaining its profitability metrics. The outlook may be revised to 'Negative' in case of continued asset quality pressures and/or in case TFCI faces challenges in scaling up its operations over the near to medium term.

About the Rated Entity – Key Financials

For FY2016-17, TFCI reported a Profit After Tax (PAT) of Rs.70.43 crore on a total income of Rs.208.59 crore as against a PAT of 53.61 crore in FY2015-16 on a total income of Rs.185.65 crore. The networth of the company increased to Rs. 554.25 crore on 31 March, 2017 from Rs. 514.05 crore on 31 March, 2016.

As per unaudited quarterly results for Q1 2018, TFCI reported PAT of Rs.22.02 crore on a total income of Rs.56.17 crore.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: The single largest shareholder of TFCI, i.e. IFCI has decided to monetize its entire holding in TFCI. SMERA will be closely monitoring all developments pertaining to the proposed stake sale by IFCI.

Mr. S. Ravi, a director on the board of TFCI, is also a director with SMERA Ratings Limited. Mr. S. Ravi has not participated in the Rating process or in the Rating committee meeting.

Note on complexity levels of the rated instrument:

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History for the last three years:

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
19 Oct, 2016	Secured Redeemable Non-Convertible Debentures	Long Term	159.74	SMERA AA-/Negative (Downgraded; Outlook Revised from Stable to Negative)
	Proposed Secured Redeemable Non-Convertible Debentures	Long Term	140.26	SMERA AA-/Negative (Downgraded; Outlook Revised from Stable to Negative)
11 Aug, 2015	Secured Redeemable Non-Convertible Debentures	Long Term	159.74	SMERA AA/Stable (Reaffirmed)
	Proposed Secured Redeemable Non-Convertible Debentures	Long Term	140.26	SMERA AA/Stable (Reaffirmed)
27 Jul, 2015	Secured Redeemable Non-Convertible Debentures	Long Term	159.74	SMERA AA/Stable (Assigned)
	Proposed Secured Redeemable Non-Convertible Debentures	Long Term	140.26	SMERA AA/Stable (Assigned)

***Annexure – Details of instruments rated:**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Secured Redeemable Non-Convertible Debentures	Nov 09, 2015	8.81%	Nov 09, 2025	159.74	SMERA AA-/Stable (Reaffirmed; Outlook Revised from Negative to Stable)
Proposed Secured Redeemable Non-Convertible Debentures	N.A	N.A	N.A	140.26	SMERA AA-/Stable (Reaffirmed; Outlook Revised from Negative to Stable)

Contacts:

Analytical	Rating Desk
Vinayak Nayak, Head – Ratings Operations, Tel: 022-67141190 Email: vinayak.nayak@smera.in	Varsha Bist Manager Tel: 022-67141160 Email: varsha.bist@smera.in
Vinita Ida Rodrigues, Sr. Manager – Rating Operations Tel: 022-67141115 Email: vinita.rodrigues@smera.in	

ABOUT SMERA

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