Press Release

Tourism Finance Corporation of India Limited (TFCI)

July 31, 2018

Rating Reaffirmed

Total Facilities Rated*	Rs. 300.00 Cr.
Long Term Rating	ACUITE AA-/Outlook: Stable (Rating Reaffirmed)

**Refer Annexure for detail*

Rating Rationale

Acuité has reaffirmed its long term rating of '**ACUITE AA-**' (read as **ACUITE double A minus**) on the Rs. 300.00 Cr. bank facilities of **Tourism Finance Corporation of India Limited (TFCI)**. The outlook is 'Stable'.

About the company

The New Delhi-based TFCI, incorporated in 1989, is a public limited company primarily providing financial assistance to the tourism and hospitality sector. It has also been granted public financial institution (PFI) status under The Companies Act, 1956. It was promoted by all India financial / investment institutions and nationalised banks.

As on 31 March 2017, the total promoter holding was 43.32 percent, which reduced to 8.87 percent as on 31 March 2018. This was mainly on account of the stake sale of around 24 percent by IFCI in September 2017. All the promoter shareholders have also been divesting their stake in the company over the past one year. Hence, IFCI's shareholding in TFCI reduced to 2.09% as on March 31, 2018 from 29.36% as on March 31, 2017. A group of shareholders - Redkite Capital Private Limited, India Opportunities III Pte. Limited (ultimately owned by SSG Capital Partners) and Mr. Koppara Sajeeve Thomas have acquired 13.27%, 4% and 2.54% (aggregating to around 19.81%) stake in the company and have made an open offer for additional up to 26% equity shares in May 2018. As on date, the new shareholders do not have any management control and are yet to be classified as promoters. The change in the shareholding of TFCI notwithstanding, there has been no impact on the operations of the company.

Key rating drivers

Strengths

Established track record in the tourism finance industry

TFCI has been providing financial assistance, advisory and consultancy services to tourism projects in the country. It has provided financial assistance to nearly 863 projects and cumulatively sanctioned over Rs.10,350 Cr till date. TFCI lends by way of 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. In FY17-18, roughly, 75% of the total amount sanctioned was made towards the tourism industry and remaining 25% towards other sectors.

TFCI enjoys a strong market position on account of its ability to provide long term financing to the tourism sector. The management of the company is well qualified and has experience in this industry. TFCI also has on board 9 directors including one nominee director from the Ministry of

Tourism, and 6 independent directors to provide oversight and managerial direction to the company.

The company's AUM has grown at a steady pace over the past few years. The loan book has shown a 10% growth from Rs.1379.49 Cr. as on 31 March 2017 to Rs.1518.08 Cr. as on 31 March 2018. The gradual recovery in the tourism industry will enable TFCI to grow its loan book steadily over the medium term. The exposure to amusement parks, restaurants, multiplexes and other real estate linked projects has been low as the main focus and objective is to boost the tourism industry.

TFCI is likely to work on a fresh management strategy post the takeover by the new group of shareholders which is expected to happen post the completion of the proposed open offer. Acuité believes that the impact of any changes if any, in the new management strategy, business model and financial support policy will remain a key rating sensitivity factor.

Healthy profitability levels

TFCI's profitability remains healthy, despite some moderation during FY 18. Its net interest margin (NIM) stood at 6.57% in FY18 as against 6.75% in FY17. TFCI is able to mobilize funds from various financial institutions and capital markets at competitive rates. TFCI reported a weighted average cost of funds of 8.19 per cent on 31 March, 2018 as against 8.81 per cent on 31 March, 2017. 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. The primary reason for the marginal decline in NIM is an increase in the proportion of investments, which yielded lower return as compared to the advances. This is reflected in the stagnant level of interest income on loans and advances during FY 18. Accordingly, the return on average assets has marginally declined to 4.06% in FY18 from 4.28% in FY17.

The overall operating expenses continued to remain low as a proportion of the earning assets as the company is largely a wholesale lending NBFC. Operating expenses to earning assets ratio improved to 1.15 percent in FY18 from 1.48 percent in FY17. Furthermore, the provisioning costs declined sharply during FY 18, which also supported the overall profitability.

Acuité believes that TFCI is expected to maintain healthy core operating profitability over the medium term backed by competitive borrowing costs. However, its ability to maintain its asset quality and its low provisioning costs will remain key monitorable.

Comfortable capitalization

TFCI reported a capital adequacy ratio (CAR) of 42.28 per cent on 31 March, 2018 vis-à-vis 39.03 per cent on 31 March, 2017. The Tier I CAR improved significantly to 36.06 per cent on 31 March, 2018 from 32.65 per cent on 31 March, 2017. The improvement in the capitalization levels is mainly on account of steady accretions to the networth of the company. TFCI's networth increased to Rs. 625.45 crore on 31 March, 2018 from Rs. 554.25 crore on 31 March, 2017. The total debt stood at Rs. 1306.26 crore on 31 March 2018 as against Rs. 1049.96 crore on 31 March 2017, resulting in a gearing of 2.09 times as on 31 March 2018 as against 1.89 times a year ago.

Acuité believes that the healthy capitalization levels and low gearing levels provide TFCI with adequate headroom to grow its loan book without mobilizing additional capital. However, any aggressive growth in loan book going forward will necessitate additional capital requirement over the medium term and will remain a key monitorable.

Improvement in asset quality

TFCI has reported an improvement in asset quality backed by improving outlook for the tourism and hospitality sector. TFCI has been able to reduce the number of gross non-performing assets (NPAs; 90+ day recognition policy) to 3 accounts aggregating Rs.33.30 crore as on 31 March 2018 from 6 accounts aggregating Rs.81.12 crore as on 31 March 2017. Also, there are no fresh slippages in FY 18. TFCI holds adequate provisioning against the same. With respect to the balance NPA accounts, the company has adequate asset security backed to the loan. Consequently, Gross NPA ratio improved significantly to 2.15 per cent on 31 March 2018 from 5.72 per cent on 31 March, 2017 and Net NPA improved to 0.08 per cent on 31 March, 2018 from 3.11 per cent on 31 March, 2017. The improvement in asset quality is mainly account of improved collection efficiency and speedy resolution of stressed assets. Acuité believes that TFCI shall be able to maintain a healthy portfolio with moderate credit risks given its stringent credit appraisal policies, prudent risk management practices and selective lending.

Weaknesses

High degree of concentration in the loan portfolio

As on 31 March 2018, advances to top 20 borrowers comprised ~62.55% of the outstanding advances, as against ~60% on 31 March 2017. This is mainly on account of the inherent nature of the wholesale lending business. TFCI extends loans with an average ticket size of Rs.40 – 50 Crore. Depending upon various factors, TFCI may decide to lend a higher amount of loan on a case to case basis. While TFCI has been following prudent risk management such as dynamic risk-rating module, 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. TFCI will 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 performance of the tourism sector

TFCI mainly caters to the tourism sector. Around 75 percent of the disbursements were made to the tourism sector during FY18. For the balance 25 percent, the company disbursed loans to industrial sector, housing and infrastructure segment and providing refinancing to NBFCs. The operations of TFCI are majorly linked to the performance of the tourism sector and the government policies and initiatives towards the sector. Hence, TFCI's performance is linked to performance of the hospitality sector such as movement in occupancy levels, average room rentals, level of capital expenditure in the tourism sector among other industry specific variables.

Any slowdown in the tourism sector shall affect TFCI at two levels. First, it will result in a lack of optimum lending opportunities for TFCI – which will affect its ability to grow its AUM. TFCI had faced slower growth in loan book in the past (for ex. in FY 16) on account of the slowdown faced by the sector. Second, it will result in cash flow pressures for players in the tourism sector – which can adversely affect TFCI's asset quality.

Analytical Approach

To arrive at its rating, Acuité has considered standalone business and financial risk profiles of TFCI.

Outlook: Stable

Acuité believes that TFCI will maintain a 'Stable' risk profile over the medium term on account of a comfortable capitalization and an established track record in tourism and hospitality financing. The outlook may be revised to 'Positive' in case of a significant growth in the scale of business along with steady asset quality and profitability. The outlook may be revised to 'Negative' in case of any material deterioration in asset quality and a decline in capitalization.

About the Rated Entity - Key Financials

	Unit	FY18	FY17	FY16
Total Assets	Rs. Cr.	2007.44	1700.30	1590.20
Total Income (Net of Interest Expense)	Rs. Cr.	130.72	117.73	95.43
PAT	Rs. Cr.	75.31	70.43	53.61
Net Worth	Rs. Cr.	625.45	554.25	514.05
Return on Average Assets (RoAA)	(%)	4.06	4.28	3.44
Return on Average Tangible Networth (RoNW)	(%)	12.77	13.19	10.80
Total Debt/Tangible Net Worth (Gearing)	Times	2.09	1.89	1.94
Gross NPAs	(%)	2.15	5.72	13.73
Net NPAs	(%)	0.08	3.11	10.24

*Total Income = Net Interest Income + Other Income

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

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

Applicable Criteria

- Default Recognition - https://www.acuite.in/criteria-default.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-20.htm
- Non - Banking Financing Entities - https://www.acuite.in/view-rating-criteria-10.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
16-Sept-2017	Secured Redeemable Non-Convertible Debentures	Long Term	159.74	ACUITE AA-/ Stable (Reaffirmed; Outlook Revised from Negative to Stable)
	Proposed Secured Redeemable Non-Convertible Debentures	Long Term	140.26	ACUITE AA-/ Stable (Reaffirmed; Outlook Revised from Negative to Stable)
19-Oct-2016	Secured Redeemable Non-Convertible Debentures	Long Term	159.74	ACUITE AA-/ Negative (Downgraded from ACUITE AA and outlook revised from "Stable" to "Negative")
	Proposed Secured Redeemable Non-Convertible Debentures	Long Term	140.26	ACUITE AA-/ Negative (Downgraded from ACUITE AA and outlook revised from "Stable" to "Negative")
11-Aug-2015	Secured Redeemable Non-Convertible Debentures	Long Term	159.74	ACUITE AA/ Stable (Reaffirmed)
	Proposed Secured Redeemable Non-Convertible Debentures	Long Term	140.26	ACUITE AA/ Stable (Reaffirmed)
27-July-2015	Secured Redeemable Non-Convertible Debentures	Long Term	159.74	ACUITE AA/ Stable (Assigned)
	Proposed Secured Redeemable Non-Convertible Debentures	Long Term	140.26	ACUITE AA/ Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Rating/ Outlook
Secured Redeemable Non-Convertible Debentures	Nov 09, 2015	8.81%	Nov 09, 2025	159.74	ACUITE AA-/Stable (Reaffirmed)
Proposed Secured Redeemable Non-Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	140.26	ACUITE AA-/Stable (Reaffirmed)

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About Acuité Ratings & Research:
Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.