

Press Release

Tourism Finance Corporation of India Limited

July 15, 2019

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE AA-**' (read as **ACUITE double A minus**) to the Rs. 300.00 Cr. secured redeemable Non-convertible debenture issued by Tourism Finance Corporation of India Limited (TFCI). The outlook is '**Stable**'.

TFCI is a New Delhi-based company, incorporated in 1989, as a Public Financial Institution (PFI) to cater to the financial needs of the tourism industry. The company is listed on Bombay Stock Exchange and National Stock Exchange. Recently, there have been significant changes in the promoters' shareholding, with a stake dilution by IFCI Ltd., Life Insurance Corporation of India and other nationalised banks. Presently, Redkite Capital Private Limited, India Opportunities III Pte. Limited (ultimately owned by SSG Capital Partners) and Mr. Koppa Sajeve Thomas have together acquired 45.81% stake in the company.

Analytical Approach

Acuite has considered the standalone financial and business risk profile of TFCI to arrive at the rating.

Key Rating Drivers

Strengths

Established presence with focus on tourism and tourism related 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 Public Financial Institution, pursuant to the recommendations of the National Commission on Tourism set up under the aegis of the erstwhile Planning Commission of India in 1989. The company has over the years developed an expertise in assessing risks relating to tourism and tourism related activities. As on March 31, 2019, TFCI had a loan book of Rs. 1693.82 Cr. (PY: Rs.1550.16 Cr), which comprised of 85% loans towards tourism sector while remaining were in the form of corporate loans and working capital loans to other sectors.

There has been a significant change in the overall shareholding pattern of the promoters, with stake dilution by IFCI Ltd., LIC and other nationalised banks. The new incoming shareholders include SSG Capital Partners and Mr. Koppa Sajeve Thomas, now together hold 45.81% of the total shares in the company. Mr. Sajeve Thomas, Director, is an experienced banker with over three decades of experience in retail and corporate banking, Capital Markets, Treasury and Risk Management. Mr. Anirban Chakraborty, joined the board as Managing Director and CEO in April, 2019. Mr. Chakraborty has about two decades of experience in banking and finance. He was the deputy CEO of Axis Capital. Going forward, the company plans to add new verticals of investment banking and advisory services to their business model, leveraging on their expertise in assessing risks related to lending towards tourism and tourism related sector.

Acuite believes that TFCI will continue to leverage from its established position and its proven underwriting skills in respect of exposure to tourism and tourism related sector. The experience of the new management team is also expected to help them diversify their business in the wholesale lending sector.

Prudent funding profile underpinned by low gearing and mix of medium term and long term borrowings:

Net worth of TFCI, mainly comprised accumulated reserves and stood at Rs. 736.91 Cr. in March 31, 2019 as against Rs. 678.19 Cr as on March 31, 2018. The company follows a conservative gearing policy, with gearing at 1.80 times as on March 31, 2019 (PY: 1.92 times). Its Capital adequacy ratio stood comfortable at 39.01

percent as on March 31, 2019 (PY: 39.90 percent), with tier-1 at 38.60 percent, providing adequate headroom to scale up its loan book.

The company has a healthy mix of medium to long term borrowings, cash credit and term borrowings from banks (30%) with maturity of 5-10 year period and borrowings in the form of Non-convertible debentures from capital markets (70%) with maturity of 10-12 year period. Further, it provides loan with maturity of 8-10 years, leading to a healthy asset liability management.

Acuité believes that low gearing and medium to long term nature of its borrowings provide TFCI with adequate flexibility to manage its asset liability management and acts as a buffer to possible liquidity shocks.

Weaknesses

Risk Inherent to wholesale lending activities

TFCI's loan book comprises long term loans (including project loans) to tourism and tourism related sector. Since these loans are usually for activities such as construction of hotels, etc. The average ticket size is high with individual exposures going beyond Rs. 75.00 Cr in certain cases. The company's top 20 borrowers accounted for ~62 percent of its total loan book as on March 31, 2019 (PY: ~63 percent). The key risk inherent in such wholesale lending activities is that a slippage in the credit quality of one or two large accounts can impact the operating performance of the company for that period. The risks are accentuated since a sizeable portion of TFCI's exposures are in the form of project lending and hence TFCI's portfolio remains exposed to the project risks of its borrowers.

TFCI's Gross Non-Performing Assets (GNPA) increased to 5.14 percent as on March 31, 2019 (comprising of four accounts) as against 2.15 percent as on March 31, 2018 (comprising of three accounts). In absolute terms GNPA increased from Rs. 33.30 Cr as on March 31, 2018 to Rs. 87.14 Cr as on March 31, 2019 due to slippage of one major account. In terms of provision coverage, the company's provisions increased from Rs. 32.08 Cr as on March 31, 2018 to Rs. 39.02 Cr as on March 31, 2019. Based on past experience, TFCI has demonstrated an ability to subsequently recover the dues in respect of delinquent accounts through various measures and on the strength of its significant security coverage (mostly in the form of immovable property). The performance and profitability during any period will depend on the extent of fresh slippages vis-à-vis the recoveries from existing delinquent accounts.

Recently, one of the large borrowers of TFCI (exposure ~6% of earning assets) exhibited a deterioration in credit quality as reflected in defaults on certain capital market instruments. While the said borrower has been regular with TFCI as on date, the said exposure will continue to remain vulnerable. In the event of any further deterioration in this account, the level of stressed assets would increase further from existing levels. Discussions with the management however, indicate that they do not expect any further stress in this account and are also hopeful of recoveries in certain other delinquent accounts.

Acuité believes that the ability of the management to curtail incremental slippages in asset quality and effect timely recoveries in existing delinquent accounts will remain a key monitorable.

Liquidity Position: Strong

As per the asset liability management statement as on March 31, 2019, TFCI has positive mismatch in most of its maturity buckets. The company has unutilised bank lines in the form of cash credit with an average utilisation of ~15% for the past six months ending June 30, 2019. The liquidity position of the company is healthy, in view of the relatively lower tenure of loans (assets) vis-à-vis its borrowings.

Outlook: Stable

Acuité believes that TFCI will maintain a 'Stable' outlook over the medium term supported by its established market position and conservative gearing policy. The outlook may be revised to 'Positive' in case of higher than expected growth in loan portfolio and business diversity while maintaining asset quality and capital structure. The outlook may be revised to 'Negative' in case of any headwinds faced in scaling up of operations or in case of significant deterioration in asset quality and profitability metrics. Also, the outlook may be revised to 'Negative' in case of any unexpected deterioration in the capital structure.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Total Assets	Rs. Cr.	2083.45	2007.04	1703.70
Total Income (Net of Interest Expense)	Rs. Cr.	123.19	118.26	117.73
PAT	Rs. Cr.	86.25	77.48	70.43
Net Worth	Rs. Cr.	736.91	678.19	625.76
Return on Average Assets (RoAA)	(%)	4.22	4.18	4.28
Return on Average Net Worth (RoNW)	(%)	12.19	11.88	12.36
Total Debt/Tangible Net Worth (Gearing)	Times	1.80	1.92	1.67
Gross NPAs	(%)	5.14	2.15	5.72
Net NPAs	(%)	2.81	0.08	3.03

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Non- Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-10.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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. Crore)	Ratings/Outlook
31-Jul-2018	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)
16-Sep-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	Proposed Secured Redeemable Non-Convertible Debentures	Long Term	300.00	ACUITE AA-/Negative (Downgraded from ACUITE AA; Outlook Revised from Stable to Negative)
11-Aug-2015	Proposed Secured Redeemable Non-Convertible Debentures	Long Term	300.00	ACUITE AA/Stable (Reaffirmed)
27-Jul-2015	Proposed Secured Redeemable Non-Convertible	Long Term	300.00	ACUITE AA/Stable (Assigned)

	Debentures			
--	------------	--	--	--

***Annexure – Details of instruments rated**

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

Contacts

Analytical	Rating Desk
Vinayak Nayak Vice President – Rating Operations Tel: 022-49294071 vinayak.nayak@acuite.in Salome Farren Analyst - Rating Operations Tel: 022-49294072 salome.farren@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294021 rating.desk@acuite.in

About Acuite Ratings & Research:

Acuite 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.

Disclaimer: An Acuite rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuite ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuite, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuite is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuite ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuite.