Press Release

Tourism Finance Corporation of India Limited

December 05, 2019

Rating Reaffirmed; Outlook Revised

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

** Refer Annexure for details*

Rating Rationale

Acuité 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 revised from **'Stable'** to **'Negative'**.

The revision in the outlook is driven by increase in stressed assets (Gross Non-Performing loans and investments and 50 percent of investments in security receipts) from Rs. 100.23 Crore as on March 31, 2019 to Rs. 168.29 Crore as on September 30, 2019 mainly due to slippage in one large account. Acuité believes that any further slippages in asset quality, could impart a negative bias to the rating. Acuité, based on discussions with management of TFCI, understands that adequate provisions have been made for these stressed exposures.

About TFCI

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. Since September 2018, 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. Currently, Redkite Capital Private Limited, India Opportunities III Pte. Limited, Tamaka Capital (Mauritius) Limited (ultimately owned by SSG Capital Partners) and Mr. Koppara Sajeeve Thomas as promoters, hold 40.1% stake in the company.

Analytical Approach

Acuité 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. (Rs.1777.67 Cr as on September 30, 2019), which comprised of 75 per cent 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. Koppara Sajeeve Thomas, now together hold 40.1% (45.81 percent as on March 31, 2019) of the total shares in the company. Mr. Koppara Sajeeve 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.

Acuité 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, Rs. 739.29 Crore as on September 30, 2019. The company follows a conservative gearing policy, with gearing at 1.80 times as on March 31, 2019 (PY: 1.92 times), 1.76 times as on September 30, 2019. 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 (35%) with maturity of 5-10 year period and borrowings in the form of Non-convertible debentures from capital markets (65%) 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 segment

TFCI's loan book comprises long term loans (including project loans) primarily 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 ~61 percent of its total loan book as on September 30, 2019 (~63 percent as on March 31, 2019). 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. The loans extended by TFCI and repayment pattern is based on factors such as date of commencement of commercial operations, expected cash flows, etc. Usually in case of projects funding there is a moratorium period and repayments of the principal commence after expiry of the moratorium period. Consequently, the likelihood of delinquency also increases considerably at that point in the loan cycle. As on September 30, 2019, ~36 percent of TFCI's loan book (comprising 30 borrower accounts) were under moratorium period.

TFCI's stressed assets as a percentage to its earning assets (loan assets and Investments) increased to 8.10 percent as on September 30, 2019 from 4.98 percent in March 31, 2019 as against 2.56 percent as on March 31, 2018. Based on past experience, it has been observed that except in case of structurally unviable accounts, in most of the delinquent cases, TFCI is able to recover the dues through various measures and on the strength of its collateral coverage (which is 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 ~5.35% of earning assets as on September 30, 2019) exhibited a deterioration in credit quality. This has led to increase in the stressed assets of TFCI. While TFCI has approached NCLT and awaits a resolution, discussions with the management indicate an expectation of 30-40 percent loss on the said assets and has made adequate provisions for the same as on September 30, 2019. Owning to the chunky nature of exposures any further deterioration in TFCI's assets will result in significant increase in level of stressed assets and thereby the operating parameters of the company. Discussions with the management, indicate that they do not expect any further delinquencies among existing borrowers 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 September 30, 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.

Rating Sensitivities
- Significant changes in Promoter holding/ Ownership pattern
- Significant changes in asset quality
- Changes in profitability parameters
- Significant growth in loan book

Material Covenants
None

Outlook: Negative
Acuité expects the credit profile of TFCI to be under pressure on account of elevated level of stressed assets which have increased from 2.56 percent as on March 31, 2018 to 8.10 percent of earning assets as on September 30, 2019. The rating could be downgraded in case of further Increase in level of stressed assets, due to fresh slippages and challenges in recoveries from existing non-performing assets. Conversely, the outlook may be revised to stable in case of significant improvement in asset quality while maintaining loan book growth and profitability parameters.

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
15-July-2019	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)
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 Debentures	Long Term	300.00	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.)	Ratings/Outlook
Secured Redeemable Non-Convertible Debentures	Nov 09, 2015	8.81%	Nov 09, 2025	159.74	ACUITE AA-/Negative (Reaffirmed; Outlook Revised)
Secured Redeemable Non-Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	140.26	ACUITE AA-/Stable (Reaffirmed; Outlook Revised)

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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.