Press Release

Tourism Finance Corporation of India Limited

March 02, 2021

Rating Reaffirmed & Assigned

Total Facilities Rated*	Rs. 550.00 Cr.
Facilities Rated	Rs.300.00 Cr.
Long Term Rating	ACUITE AA-/ Outlook: Negative (Reaffirmed)
Facilities Rated	Rs.250.00 Cr.
Long Term Rating	ACUITE Provisional AA/ Outlook: Stable (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long-term rating of **'ACUITE AA-' (read as ACUITE double A minus)** on the Rs. 300.00 crore secured redeemable Non-convertible debenture issued by Tourism Finance Corporation of India Limited (TFCI). The outlook continues to remain **'Negative'**.

Acuité has assigned the long-term rating of **'ACUITE Provisional AA' (read as ACUITE Provisional double A)** on the Rs. 250.00 crore proposed secured redeemable Non-convertible debenture issued by Tourism Finance Corporation of India Limited (TFCI). The outlook is **'Stable'**.

The rating of Rs. 250.00 Cr proposed NCD issue of TFCI is provisional and final rating is subjected to
- Appointment of SEBI registered debenture trustee
- Execution of signing of Trust Deed with the proposed Structured Payment Mechanism (SPM) duly incorporated
- Receipt of final term sheet and confirmation from trustee regarding the compliance with all the terms and conditions of term sheet.

The rating factors in TFCI's long track record of financing tourism and related sectors, resourceful promoters, ability to raise funding from banks and FIs as well as experienced management. The rating also considers healthy capitalization of 37.59% coupled with low gearing levels of 1.80 times as on December 31, 2020.

The rating is, however, constrained due to TFCIs large exposure to tourism and related sectors which have been significantly impacted due to Covid-19. Going forward, the ability of company to scale up business, contain slippages while maintaining operating metrics will be key monitorables.

Rating rationale for the proposed NCD of Rs. 250 Cr.:

The rating factors in the Structured Payment Mechanism (SPM) put in place by TFCI to ensure timely availability of funds for servicing of debt obligations. The rating on the NCDs is secured by the presence of Structured Payment Mechanism, i.e. 15% of the principal amount will be served as DSRA and this would be provided in the form of fixed deposit. TFCI shall ensure that there is adequate funds to meet scheduled interest and principal obligations at T-5 days (T is the due date).

About TFCI:

TFCI is a Delhi-based NBFC-ND-SI, 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 during FY19. As a result of this, the new incoming shareholders like India Opportunities III Pte Ltd. & Tamaka Capital (Mauritius) Ltd. (managed by Ares SSG, a global Alternate Investment manager with approx. $197 billion of assets under management) and Mr. Koppara Sajeeve Thomas, as promoter group along with existing promoters, together held 51.58 percent as on March 31, 2019 of the total shares in the company. Since March 2019, Redkite Capital Pvt. Ltd., erstwhile shareholder of TFCI also started diluting its stake and in July 2020, it has been classified as public shareholder under regulatory approvals. As on 31st December 2020, Life Insurance Corporation of India & The Oriental Insurance Co. Ltd., as promoters & Mr. Koppara Sajeeve Thomas and India Opportunities III Pte. Limited & Tamaka Capital (Mauritius) Limited (managed by Ares SSG), as promoter group, hold 27.25% stake in the company.

Analytical Approach

Acuité has considered the standalone financial and business risk profile of TFCI to arrive at the rating. Further, the rating also takes the support of the presence of internal credit enhancement proposed in the form of Debt Service Reserve Account (DSRA) and the Structured Payment mechanism.

Key Rating Drivers

Strengths

Established track record of long term funding; improving business volumes along with gradual efforts to diversify into other sectors:

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 in 1989. IFCI reduced their stakes in the company and there was a significant change in the shareholding pattern of promoters. The new shareholders, included, SSG Capital Partners and Mr. Koppara Sajeeve Thomas. RedKite Capital Private Limited exited in Q2FY2021 and the stake of the promoters has reduced to 27.25% as on December 31, 2020.

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.

TFCI's loan book increased to Rs.1988.51 Cr. as on December 31, 2020 (76% of the total loan book towards tourism sector) from Rs.1793.54 Cr. as on March 31, 2020 (73% of the total loan book towards tourism sector), as against Rs.1693.82 Cr as on Mar 31, 2019 (75% of the total loan book towards tourism sector). Though the exposure to tourism sector increased marginally in 9MFY2021, TFCI is attempting to de-risk its loan portfolio by initiating exposures to other sectors like manufacturing, healthcare and education institutes, among others. Further, GNPA and NNPA of TFCI is also improved to 0.87% and 0.63% as on December 31, 2020 from 2.50% and 1.61% as on March 31, 2020, respectively. 97% of the total portfolio outstanding as on December 31, 2020 is under on time dpd.
Acuité believes that TFCI will continue to leverage its established position, proven underwriting skills in project financing and expertise of management to consolidate their position in the domestic lending sector.

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

TFCI's gearing stood at 1.80 times as on December 31, 2020 as against 1.92 times as on March 31, 2020. Net worth of TFCI, mainly comprised accumulated reserves and stood at Rs. 773.62 Cr as on December 31, 2020 as against Rs. 753.52 Cr as on March 31, 2020. Its Capital adequacy ratio stood at 37.59 percent as on December 31, 2020 (March 31, 2020: 37.56 percent), with tier-1 at 36.80 percent, providing enough headroom to scale up its loan book.
Since most of TFCI's assets are long term loans, TFCI's borrowing profile is largely constituted of medium to long term borrowings. The total borrowings stood at Rs.1392.95 crore as on December 31, 2020. Out of which, 61% of the borrowing are maturing in 1-5 years bucket and 13% are maturing beyond 5 years bucket. This leads to a positive mismatch in asset liability mismatch statement as on December 30, 2020. The bank borrowings contributed 43% and the rest is funded through other capital market instruments.
Notwithstanding the wholesale lending, TFCI continued to be conservatively geared and has adequate headroom to meet near term business requirements.

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 the 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 ~59 percent of its total loan book as on December 31, 2020 (~61 percent as on

June 30, 2020). Given that wholesale exposures are chunky in nature, slippages in few accounts can lead to significant asset quality deterioration. Since TFCI's exposures are in the form of project lending, the repayment pattern is based on factors such as the 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.

TFCI's stressed assets as a percentage to its earning assets (majorly 3 loan assets and Investments; the impact of all the assets have already taken) stood at 2.85 percent as on December 31, 2020 from 5.62 percent in March 31, 2020 as against 6.01 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.

Acuité believes that the ability of the management to curtail incremental slippages in asset quality and maintain the growth momentum in its loan book in the subdued economic scenario will remain key monitorable.

Continued high exposures on tourism sector which are impacted by the pandemic:
Covid -19 pandemic and the consequent lockdowns have severely impacted the tourism sector. The recovery of occupancy rate is expected to happen in gradual manner. The total loan portfolio of TFCI stood at Rs.1988.51 Cr. as on December 31, 2020, out of which 76% of the exposure was in the tourism sector. In the current situation, there could be increased pressure on the asset quality for players like TFCI. The exposure of TFCI is mostly associated with established and reputed brands, which partly mitigates the risk. Any further slowdown in economic activities will impact the business, thereby affecting the cash flows of borrowers and impeding their ability to meet their commitment in a timely manner.

Liquidity Position: Adequate

As per the asset liability management statement as on December 31, 2020, TFCI has positive cumulative mismatch in most of its maturity buckets up to the next 1 year bucket. The company has unutilised bank lines in the form of cash credit with an average utilisation of ~28% for the past nine months ending December 31, 2020. TFCI maintained unencumbered cash of Rs.10.50 crore as on December 31, 2020. TFCI has also undrawn facilities of Rs.240 Cr from the banks. Hence, the liquidity position of the company is adequate. Acuité believes that TFCI has comfortable liquidity profile over near to medium term.

Rating Sensitivities

- Significant changes in Promoter holding/ Ownership pattern
- Asset quality slippages
- 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 its significant exposure to tourism and tourism related sectors. The rating could be downgraded in case of higher than expected deterioration in asset quality and material reduction in profitability. Conversely, the outlook may be revised to stable if the company is able to contain the asset quality pressures, maintain collection efficiency and profitability parameters at healthy levels.
*As mentioned above, the analytical approach taken for rating of proposed non-convertible debentures of Rs.250.00 Cr. is based on internal credit enhancement in the form of DSRA of 15% of the principal amount. Hence, the outlook is 'Stable' for proposed facility of Rs.250.00 Cr., however, the outlook is reaffirmed at 'Negative' for the unsupported rating of TFCI.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	2236.73	2083.45
Total Income (Net of Interest Expense)	Rs. Cr.	138.59	123.19
PAT	Rs. Cr.	81.02	86.25
Net Worth	Rs. Cr.	753.52	736.91
Return on Average Assets (RoAA)	(%)	3.75	4.22
Return on Average Net Worth (RoNW)	(%)	10.87	12.19
Total Debt/Tangible Net Worth (Gearing)	Times	1.92	1.80
Gross NPAs	(%)	2.50	5.14
Net NPAs	(%)	1.61	2.81

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-52.htm
- Non-Banking Financing Entities - https://www.acuite.in/view-rating-criteria-44.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
24-Nov-2020	Secured Redeemable Non-Convertible Debentures	Long Term	159.74	ACUITE AA-/Negative (Reaffirmed)
	Proposed Secured Redeemable Non-Convertible Debentures	Long Term	140.26	ACUITE AA-/ Negative (Reaffirmed)
05-Dec-2019	Secured Redeemable Non-Convertible Debentures	Long Term	159.74	ACUITE AA-/Negative (Reaffirmed; Outlook Revised from Stable)
	Secured Redeemable Non-Convertible Debentures	Long Term	140.26	ACUITE AA-/ Negative (Reaffirmed; Outlook Revised from Stable)
15-Jul-2019	Secured Redeemable Non-Convertible Debentures	Long Term	159.74	ACUITE AA-/Stable (Reaffirmed)
	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	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	50.00	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)
Proposed Secured Redeemable Non-Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	140.26	ACUITE AA-/Negative (Reaffirmed)
Proposed Secured Redeemable Non-Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	250.00	ACUITE Provisional AA/Stable (Assigned)

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About Acuité Ratings & Research:
Acuité Ratings & Research 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.