

Press Release

Tourism Finance Corporation of India Limited

April 29, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	200.00	ACUITE AA- Negative Reaffirmed	-
Non Convertible Debentures (NCD)	159.74	ACUITE AA- Negative Reaffirmed	-
Non Convertible Debentures (NCD)	200.00	ACUITE AA- Negative Assigned	-
Non Convertible Debentures (NCD)	250.00	Provisional ACUITE AA Stable Reaffirmed	-
Non Convertible Debentures (NCD)	75.00	PP-MLD ACUITE AA- Negative Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	884.74	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned the long-term rating of 'ACUITE AA-' (read as ACUITE double A minus) on the Rs. 200.00 Cr Proposed Non-convertible debenture of Tourism Finance Corporation of India Limited (TFCI). The outlook is 'Negative'.

Acuite has reaffirmed the long-term rating of 'ACUITE AA-' (read as ACUITE double A minus) on the Rs. 159.74 Cr secured redeemable Non-convertible debenture issued by Tourism Finance Corporation of India Limited (TFCI). The outlook continues to remain 'Negative'.

Acuite has reaffirmed the long-term rating of 'ACUITE AA-' (read as ACUITE double A minus) on the Rs. 200.00 Cr proposed bank facilities of Tourism Finance Corporation of India Limited (TFCI). The outlook continues to remain 'Negative'.

Acuite has reaffirmed the long-term rating of 'ACUITE PP-MLD AA-' (read as ACUITE Principal Protected Market Linked Debentures double A minus) on the Rs. 75.00 Cr proposed principal protected market linked debentures of Tourism Finance Corporation of India Limited (TFCI). The outlook continues to remain 'Negative'.

Acuite has reaffirmed the long-term rating of 'ACUITE Provisional AA' (read as ACUITE Provisional double A) on the Rs. 250.00 Cr 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 continues to factor in TFCI's long track record in financing tourism and related sectors, experienced management, resourceful promoters coupled with comfortable capital raising ability. The rating also takes into account its healthy capitalization of 50.24 percent coupled with low gearing levels of 1.34 times as on December 31, 2021 (CAR 39.87 percent and gearing 1.72 times as on March 31, 2021). While Acuite takes cognizance of TFCI's exposure towards tourism sector which is facing headwinds on account of Covid-19, the company is expecting resolution of few high ticket stressed assets in the near term which might ease asset quality/ profitability pressures. The rating is, however, constrained due to TFCI's high exposure to tourism and related sectors coupled with wholesale nature of portfolio. The rating is further constrained on account of weak asset quality and low provisioning buffers. Owing to Covid-19 impact on tourism sector, TFCI has witnessed rise in level of stressed assets (incl. GNPA and security receipts); stressed assets as a percentage to its earning assets rose to 3.25 percent as on March 31, 2021 from 2.24 percent as on March 31, 2020. It has further rose to 3.48 percent as on December 31, 2021, significant movement in softer bucket delinquencies has been observed in 0-30 dpd bucket during Q3FY22 which might lead to further asset quality pressures. Going forward, continued parent support, ability to scale up/ diversify its 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. 15per cent 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 the Company

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 nationalized 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 March 2022, Life Insurance Corporation of India, the Oriental Insurance Co. Ltd., as promoters & Mr. Koppara Sajeeve Thomas and India Opportunities III Pte. Limited, Pransatree Holdings Pte. Ltd & Tamaka Capital (Mauritius) Limited (managed by Ares SSG), as promoter group, hold 28.43 percent stake in the company.

Analytical Approach:

Acuite 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; moderate business volumes along with gradual efforts to diversify into other sectors:**

TFCI is promoted by India Opportunities III Pte. Limited, Mr. Koppara Sajeeve Thomas, Life Insurance Corporation of India (LIC), Tamaka Capital (Mauritius) Limited and the Oriental Insurance Co. Ltd. The promoters and promoter group shareholding stood at 28.43 percent as on October 31, 2021 post equity infusion of around Rs. 65 Cr. 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 stood at Rs. 1,923.87 Cr. as on December 31, 2021 (~80.12 percent comprising tourism sector) as compared to Rs. 1,976.64 Cr. as on March 31, 2021 (78.65 percent comprising of tourism sector). It had disbursed Rs.457.27 Cr. in FY2021, out of which 31 percent was disbursed under Emergency Credit Line Guarantee Scheme (ECLGS). Further, in Q1FY22, 74 percent of the disbursements were made under ECLGS. 88.46 percent of the total portfolio was classified as on-time portfolio as on December 31, 2021 as against 85.85 percent as on September 30, 2021 and 86.31 percent of the total portfolio outstanding as on March 31, 2021 is classified as on-time portfolio. Loan portfolio as on December 31, 2021 stood at Rs. 1,923.87 Cr. with 88.46 percent of on-time portfolio and significant movements in delinquencies in the softer buckets. 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 has improved to 1.34 times as on December 31, 2021 from 1.72 times as on March 31, 2021 and 1.92 times as on March 31, 2020. Networth of TFCI, mainly comprised accumulated reserves and stood at Rs. 791.63 Cr as on March 31, 2021 and Rs. 753.52 Cr as on March 31, 2020. Networth improved to Rs. 914.11 Cr. as on December 31, 2021. Its Capital adequacy ratio has also improved to 50.24 percent as on December 31, 2021 from 39.87 percent as on March 31, 2021 (March 31, 2020: 37.56 percent), with tier-1 at 49.67 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. 1227.90 Cr as on December 31, 2021. Out of which, 55 percent of the borrowing are maturing between 1-5 years bucket and 14 percent are maturing beyond 5 years bucket. This leads to a positive mismatch in asset liability mismatch statement as on December 31, 2021. The bank borrowings contributed 57.32 percent 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

- **Weak asset quality**

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 ~65.87 percent of its total loan book as on March 31, 2022 (~63.83 percent as on December 31, 2021). Given that wholesale exposures are chunky in nature, slippages in few accounts can lead to significant asset quality deterioration. Owing to Covid-19 impact on tourism sector, TFCI has witnessed deterioration in asset quality. GNPA and NNPA of TFCI has increased to 3.52 percent (P.Y.: 2.50 percent) and 2.84 percent (P.Y.: 1.61 percent) as on March 31, 2021 from 0.87 percent and 0.63 percent as on December 31, 2020, respectively. This steep increase is on the

account of a pro-forma account of Rs.52.22 Cr., which classified as NPA as on March 31, 2021. GNPA and NNPA improved to 0.89 percent and 0.64 percent as on September 30, 2021 on account of selling off of two accounts amounting to ~Rs. 69 Cr to ARC. GNPA and NNPA levels further increased to 3.76 percent and 2.85 percent as on December 31, 2021, respectively, due to fresh slippage of an account of Rs. 55.35 Cr. as on December 31, 2021. TFCI's stressed assets as a percentage to its earning assets (majorly 4 loan assets and security receipts) increased to 3.25 percent as on March 31, 2021 from 2.24 percent as on March 31, 2020. It has further rose to 3.48 percent as on December 31, 2021. While Acuite takes cognizance of TFCI's asset quality stress, the company is expecting resolution of few high ticket stressed assets during FY22 which might ease asset quality/ profitability pressures. Although TFCI was able to maintain on-time portfolio at almost similar levels however, significant movement in softer buckets were noticed in 0-30 dpd which increased to 5.47 percent as on December 31, 2021 from 2.40 percent as on September 30, 2021 and 4.76 percent as on March 31, 2021. TFCI has made total provisions of Rs. 32.13 Cr. under Ind AS for its loan portfolio of Rs. 1,923.87 Cr. as on December 31, 2021. TFCI's restructured assets (MSME restructuring) outstanding as on March 31, 2022 stood at Rs. 87.94 Cr (December 31, 2021:-Rs. 85.38 Cr). Going forward, due to sharp delinquency movements in softer buckets in Q3 FY2022 and considering the quantum of restructured assets, TFCI's profitability metrics might be impacted considering the current low provisioning buffers. Acuite believes that the ability of the management to curtail incremental slippages in asset quality and maintain the growth momentum in its loan book 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. 1,923.87 Cr. as on December 31, 2021, out of which 80.12 percent of the exposure was in the tourism sector. Given the current environment and intermittent lockdowns, 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.

ESG Factors Relevant for Rating

Tourism Finance Corporation of India Limited (TFCIL) belongs to the Non-Banking Financial Companies (NBFC) sector which complements bank lending in India. Some of the material governance issues for the sector are policies and practices with regards to business ethics, board diversity and independence, compensation structure for board and KMPs, role of the audit committee and shareholders' rights. On the social aspect, some of the critical issues for the sector are the contributions to financial inclusion and community development, sustainable financing including environmentally friendly projects and policies around data privacy. The industry, by nature has a low exposure to environmental risks. TFCIL has maintained adequate transparency in its business ethics operations as it can be inferred through its disclosures regarding its policies on related party transactions, vigil mechanism, grievance redressal committee and whistle blowing. Additionally, the company has defined a Code of Conduct to deter wrongdoings and to promote ethical practices. The company's board has seven directors out of which three are independent directors and one female director. The Audit Committee of the board comprises four directors, all of whom including the Chairman are independent. TFCIL has adequate transparency with respect to its shareholders rights, which can be inferred by way of its disclosures in this respect. Since TFCIL is engaged in funding tourism infrastructure projects, it needs to formulate policies to invest in green and sustainable projects and also have a negative screening mechanism in its credit policy. Further, it also needs to assess its lending portfolio from an ESG perspective. As regards the social factors, the projects financed by TFCIL are expected to boost tourism in the country and generate employment in the sector. Its CSR activities during 2020-21 were mainly in the area of Education, Malnutrition, Sanitization and Social Welfare. The Company has a

process for doing an impact assessment of its key CSR interventions through engaging employees.

Rating Sensitivity

- Significant changes in Promoter holding/ Ownership pattern
- Asset quality slippages
- Changes in profitability parameters
- Significant growth/ diversification in loan book

Material Covenants

TFCI is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality among others.

Liquidity Position: Adequate

As per the asset liability management statement as on December 31, 2021, TFCI has positive cumulative mismatch in near to medium term bucket. The company has unutilized bank lines in the form of cash credit with an average utilization of ~59 percent for the past twelve months ending March 31, 2022. TFCI maintained unencumbered cash balance and FD of Rs. 225.20 Cr. as on December 31, 2021. TFCI has also undrawn facilities of Rs. 40 Cr. from the banks. TFCI has average monthly debt obligations of ~Rs. 44.39 Cr and Opex commitments of Rs. 6.20 Cr against average monthly collections of ~Rs. 62.6 Cr as on March 31, 2022. Hence, the liquidity position of the company is adequate. Acuité believes that TFCI has comfortable liquidity profile over near to medium term.

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 per cent 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.

Key Financials - Standalone / Originator

	Unit	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	2177.71	2236.73
Total Income (Net of Interest Expense)	Rs. Cr.	128.39	138.59
PAT	Rs. Cr.	80.75	81.02
Net Worth	Rs. Cr.	791.63	753.52
Return on Average Assets (RoAA)	(%)	3.66	3.75
Return on Average Net Worth (RoNW)	(%)	10.45	10.87
Total Debt/Tangible Net Worth (Gearing)	Times	1.72	1.92
Gross NPAs	(%)	3.52	2.5
Net NPAs	(%)	2.84	1.61

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

Not Applicable

Supplementary disclosures for Provisional Ratings

Risks associated with the provisional nature of the credit rating

In case there are material changes in the terms of the transaction after the initial assignment of the provisional rating and post the completion of the issuance (corresponding to the part that has been issued) Acuite will withdraw the existing provisional rating and concurrently, assign a fresh final rating in the same press release, basis the revised terms of the transaction.

Rating that would have been assigned in absence of the pending steps/ documentation

The rating would be equated to the standalone rating of the entity: ACUITE AA-/ Negative

Timeline for conversion to Final Rating for a debt instrument proposed to be issued

The provisional rating shall be converted into a final rating within 90 days from the date of issuance of the proposed debt instrument. Under no circumstance shall the provisional rating continue upon the expiry of 180 days from the date of issuance of the proposed debt instrument.

Any other information

Not applicable

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>

Note on complexity levels of the rated instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
26 Nov 2021	Proposed Non Convertible Debentures	Long Term	75.00	ACUITE PP-MLD AA- Negative (Assigned)
	Proposed Non Convertible Debentures	Long Term	250.00	ACUITE Provisional AA Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	200.00	ACUITE AA- Negative (Reaffirmed)
	Non Convertible Debentures	Long Term	159.74	ACUITE AA- Negative (Reaffirmed)
05 Aug 2021	Non Convertible Debentures	Long Term	159.74	ACUITE AA- Negative (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	140.26	ACUITE AA- (Withdrawn)
	Proposed Non Convertible Debentures	Long Term	250.00	ACUITE Provisional AA Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	200.00	ACUITE AA- Negative (Assigned)
02 Mar 2021	Proposed Non Convertible Debentures	Long Term	140.26	ACUITE AA- Negative (Reaffirmed)
	Non Convertible Debentures	Long Term	159.74	ACUITE AA- Negative (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	250.00	ACUITE Provisional AA Stable (Assigned)
24 Nov 2020	Proposed Non Convertible Debentures	Long Term	140.26	ACUITE AA- Negative (Reaffirmed)
	Non Convertible Debentures	Long Term	159.74	ACUITE AA- Negative (Reaffirmed)

05 Dec 2019	Non Convertible Debentures	Long Term	159.74	ACUITE AA- Negative (Reaffirmed)
	Non Convertible Debentures	Long Term	140.26	ACUITE AA- Negative (Reaffirmed)
15 Jul 2019	Non Convertible Debentures	Long Term	140.26	ACUITE AA- Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	159.74	ACUITE AA- Stable (Reaffirmed)
31 Jul 2018	Non Convertible Debentures	Long Term	159.74	ACUITE AA- Stable (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	140.26	ACUITE AA- Stable (Reaffirmed)
16 Sep 2017	Non Convertible Debentures	Long Term	159.74	ACUITE AA- Stable (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	140.26	ACUITE AA- Stable (Reaffirmed)
19 Oct 2016	Non Convertible Debentures	Long Term	300.00	ACUITE AA- Negative (Downgraded from ACUITE AA Stable)
11 Aug 2015	Proposed Non Convertible Debentures	Long Term	300.00	ACUITE AA Stable (Reaffirmed)
27 Jul 2015	Proposed Non Convertible Debentures	Long Term	50.00	ACUITE AA Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	INE305A09232	Non-Convertible Debentures (NCD)	09-11-2015	8.81	09-11-2025	159.74	ACUITE AA- Negative Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE AA- Negative Reaffirmed
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	75.00	PP-MLD ACUITE AA- Negative Reaffirmed
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE AA- Negative Assigned
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	250.00	Provisional ACUITE AA Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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