CREDIT POLICY (2018-19)

1. PREAMBLE:

India is one of the fastest growing major economies in the world. After registering GDP growth of over 7 per cent for the third year in succession in 2016-17, the Indian economy registered somewhat slower growth, estimated to be in the range of 6.5 per cent to 6.75 per cent in 2017-18. Even with this lower growth, GDP growth has averaged 7.3 per cent for the period from 2014-15 to 2017-18, which is the highest among the major economies of the world. That this growth has been achieved in a milieu of lower inflation, improved current account balance and notable reduction in the fiscal deficit to GDP ratio makes it all the more creditable.

The central government, despite some criticisms, has introduced several programmes over the past year, including ones to augment the ease of doing business, encourage digitalization, reduce skill insufficiencies, foster entrepreneurship and boost urban development. These deregulation measures, both current as well as foreseeable, have boosted Foreign Direct Investments (FDI), which registered a growth of 8 per cent in 2016-17 over the preceding year. Furthermore, other institutional reforms those are in various stages of execution, such as the Goods and Services Tax (GST), the four Labour codes, and the Arbitration and Conciliation Act, are likely to be significant contributors to the country's economic growth going forward. The acceleration of investment friendly policies, structural reforms and low commodity prices has provided a strong impetus for growth. India has improved its ranking in the World Bank's Doing Business Report by 30 spots over its 2017 ranking and is ranked 100 among 190 countries in 2018 edition of the report. Moody’s also upgraded India’s sovereign rating after 14 years to Baa2 with a stable economic outlook.

1.1 Tourism Sector:

Tourism in India has witnessed steady growth over the past few years, aided by the rising purchasing power of the expanding middle class and the shift from foreign to domestic tourism. The Travel & Tourism industry has been a major contributor to the economic growth of India, and is fundamental in creating employment and generating income for both skilled and unskilled labour. The industry contributed 9.3% of the total employment (both direct and indirect) in 2016. The industry is expected to generate 13.45 million jobs across sub-segments such as Restaurants (10.49 million jobs), Hotels (2.3 million jobs) and Travel Agents/Tour Operators (0.66 million). The Ministry of Tourism proposes to help the industry meet the increasing demand of skilled and trained manpower by providing hospitality education to students as well as certifying and upgrading skills of existing service providers.

India's Travel & Tourism sector was also the fastest growing among the G20 countries, growing by 8.5% in 2016. Govt. has also made serious efforts to boost investments in the tourism sector by allowing 100% FDI through the automatic route. The tourism and hospitality sector is among the top 10 sectors in India to attract the highest Foreign Direct Investment (FDI). During the period April 2000-March 2017, the hotel and tourism sector attracted around US$ 10.14 billion of FDI, according to the data released by Department of Industrial Policy and Promotion (DIPP). As per industry experts, mid-hotel segment in India is expected to receive investments of Rs 6,600 crore (US$ 990 million) excluding land over next five years, with major hotel chains like Marriott, Carlson Rezidor and ITC planning to set up upscale, budget hotels in state capitals and tier-II cities.

While an assortment of influences had repressed the Indian hospitality sector's endeavours to grow from 2009 to 2016, the sector has finally woken up after a longish nap. During 2017, the nationwide occupancy was the highest since 2008, countrywide average room rates (ARRs) clocked a clear and measurable increase over several preceding years and the overall supply-demand scale is now tilted squarely in favour of growth in demand outpacing new supply. The country for the first time witnessed 10 million foreign tourist arrivals in 2017. The rising purchasing power of the Indian middle class has aided the exponential growth of domestic tourism, and helped in narrowing the gap between lean and peak seasons. Further, today's discerning travellers do not shy away from spending on upscale or luxury hotels in such destinations. The hospitality industry is now in its second year of the much-awaited up-cycle and, it is time for industry stakeholders and investors to grab the opportunity and boost performance. The markets are looking strong; the proposed supply is minimal and, demand is more than likely to continue growing.

As per HVS Survey-2017, the expected future additional inventory in 11 major markets (across categories-only branded) is lower at around 57,000 rooms for the next 5 years. Therefore, with increasing demand on back of improvement in economic activities and lower room additions, major markets are expected to sustain/improve the ARRs going forward and grow at an average of 4.5% p.a. Also, the occupancy is expected to inch up to an average of about 66% by the end of FY21 compared with 63.4% in FY16. Accordingly, the hotel industry is expected to see an increase in revenue at the rate of about 11-13% CAGR over the 5 year period FY17-FY21.

GST implications on Hotel industry:

Notably, the much-awaited GST was rolled out on 1st July 2017, under which the Indian hospitality industry stands to benefit from homogeneous and uniform taxes, in addition to easy utilization of Input Tax Credit (ITC). Hotels having centralized registration will have to get registered in each state whether providing hotel services on own account or through agent (franchise).

The GST Council decided that the 28% tax would be imposed on hotel rooms with a tariff of Rs 7,500 and above. Rooms with tariffs between Rs 2,500 and Rs 7,500 shall attract 18% tax rate. Under GST regime, the overall tariffs for premium hotels (four star and above) have seen an increase, which has marginally impacted the demand.

Government Initiatives for Tourism Sector Development:

As per the Travel and Tourism Competitiveness Index released by the World Economic Forum in April 2017, India is ranked 40 among 136 economies across the world, up 12 places since 2015. In the last three years, the government has launched several key projects as well as continued some old projects of the previous government to boost the travel and tourism sector. Among its top initiatives are Swachh Bharat Campaign, electronic visa (E-visa), digital application, and Ude Desh Ka Aam Nagrik Scheme (UDAN) among others. Initiatives such as sanctioning visa on arrival (VoA) and extending electronic travel authorisation (ETA) to more countries, developing a mobile application for tourists and introducing the Incredible India multilingual tourist helpline, have definitely helped in progress and socio-economic growth.

Focus on international destinations has been an integral part of the tourism ministry's agenda and it has released several campaigns in international and domestic markets to promote various tourism destinations and products of India to increase foreign tourist arrivals and domestic visits within the country. The Government of India has launched several branding and marketing initiatives such as 'Incredible India' and 'Athiti Devo Bhava', which have provided a focused drive to growth. Moreover, 'Incredible India 2.0' aims at showcasing the country as a spiritual and wellness destination; with this, the country is poised to emerge as an important wellness destination in South Asia. In addition, the liberalization of the visa regime has facilitated entry of foreigners into India for tourism, business and medical purposes. E-visa for nationals of 163 countries has been a game changer and given a big boost to foreign tourist inflow.

Simultaneously, the ministry is also focused on consolidating domestic tourism within India. In February 2017, the state governments of Chhattisgarh, Gujarat, Karnataka, Rajasthan and Uttarakhand signed 86 MoUs worth Rs 12196.7 crore for developing tourist destinations in their respective states. In addition, with government policies such as 'Make in India' and 'Startup India' there's more demand for travel across smaller cities. Further, the latest scheme of UDAN is aimed at giving further impetus to both domestic and inbound tourism and act as a booster for business and leisure travel.

1.2 Other Sectors:

(a) Infrastructure Sector: Infrastructure sector is a key driver for the Indian economy. The sector is highly responsible for propelling India's overall development and enjoys intense focus from Government for initiating policies that would ensure time-bound creation of world class infrastructure in the country. Infrastructure sector includes power, bridges, dams, roads and urban infrastructure development. In 2016, India jumped 19 places in World Bank's Logistics Performance Index (LPI) 2016, to rank 35th amongst 160 countries. The Government of India is taking every possible initiative to boost the infrastructure sector and is expected to invest highly in the infrastructure sector, mainly highways, renewable energy and urban transport, during 2018.

(b) NBFC Sector: Despite sluggish economic growth, slowdown in demand and sharper bank focus on retail loans, NBFCs have been gaining market share across major asset classes. Present in the competing fields of vehicle financing, housing loans, hire purchase, lease and personal loans, NBFCs, have emerged as key financial intermediaries for small-scale and retail sectors thereby forming an essential part of shadow banking in India. NBFCs are the third largest segment in the Indian financial system after commercial banks and insurance companies and account for 9% of the total financial assets. Moreover, small and medium enterprise loans account for 10.5% share in the overall credit of NBFCs in FY17. In case of banks, MSE loans accounted for a mere 5.2%. However, NBFCs cannot access low-cost deposits like their banking peers. As such, NBFCs depend on issuing NCDs, CP and short/medium term bank borrowings for liquidity. As per CARE ratings report, for systemically important NBFCs, the liability mix comprised borrowings by way of NCDs (49%), bank loans (22%) and commercial paper (10%) and balance by way of other current liabilities.

(c) Real-Estate Sector: With a general upswing in the economy, the Indian real estate sector has also witnessed growth with rise in the demand for residential spaces in particular. India's real estate market is expected to reach US$ 180 billion by 2020 from US$ 126 billion in 2015. The Government of India has been supportive to the real estate sector. The Government has also allowed FDI upto 100 per cent for townships and settlements development projects and real-estate projects within the Special Economic Zone (SEZ). Government of India's Housing for All initiative is expected to bring US$ 1.3 trillion investments in the housing sector by 2025. Under Union Budget 2018-19, Pradhan Mantri Awas Yojana (PMAY) (Gramin) was allocated Rs 33,000 crore (US$ 5.10 billion) while the urban programme of the scheme was allocated Rs 31,500 crore (US$ 4.87 billion). The scheme is expected to push affordable housing and construction in the country and give a boost to the residential real-estate sector. Lately, the sector has seen a major revamp with the implementation of Real Estate Regulation & Development Act (RERA), which has introduced transparency and accountability for developers and increased consumer confidence especially in distressed ongoing projects. In addition, the GST and the Benami Property Act will also have a major impact on how developers run their businesses. The government has also released draft guidelines for investments by Real Estate Investment Trusts (REITs) in non-residential segment, which is likely to push investment in commercial office space sector.

The growth in India's tourism, infrastructure, industrial/manufacturing, real-estate and services sectors is expected to result in opportunities for TFCI to expand its business at a steady rate in near future. Accordingly, in view of the prevailing environmental factors and the market outlook, the loan policy for the year 2018-19 has been drafted to ensure sustained growth with optimum utilization of the resources.

2. **OBJECTIVES**:

The primary objectives of the credit policy are as under:-

i) To continue to remain one of the prime institution in providing finance/loans to the tourism industry and to ensure that the loan assets remain healthy/performing.

ii) To ensure profitable deployment of resources with proper asset-liability matching and recycling of funds.

iii) To ensure balanced exposure in different segments of tourism, infrastructure, manufacturing, real-estate, services projects and NBFCs/HFCs as per prevailing and/or emerging growth trends in the respective industry/sector. However, tourism sector shall continue as thrust area of TFCI and its share in the overall exposure shall remain minimum of 70% at all times.

iv) To make further inroads in infrastructure, industry/manufacturing, real-estate & services sectors funding and develop/strengthen the in-house system for appraisal and funding of these projects.

v) To ensure compliance under the overall policy directive of Govt. of India, Ministry of Finance, Ministry of Tourism, Ministries associated with infrastructure development and various regulatory norms as stipulated by RBI.

3. PRUDENTIAL NORMS:

3.1 TFCI has been categorized as "Systematically important non-deposit taking NBFC (NBFC-ND-SI)" by RBI vide their letter dated March 20, 2009. The Reserve Bank of India exposure norms (NBFC) for single borrower and group borrower are fixed at 25% and 40% respectively of owned funds with respective sub-limits of 15% separately for loan or investment and 25% for loans & investments together. The NBFC might consider enhancement in exposure by further 5% for a single borrower or 10% for a group provided the additional exposure is on account of infrastructure loan and/or investment. In line with aforesaid RBI guidelines, the maximum exposure for 2018-19, based on the net owned funds (NOF) as on 31.3.2018 would be:

(Rs. crore)

	Single Borrower	**Group Borrower**
Loans or Investments taken separately	15% of NOF	25% of NOF
Loans and Investments taken together	25% of NOF	40% of NOF
Loans or Investments taken separately (if additional exposure is on account of infrastructure loan/investment)	20% of NOF	35% of NOF
Loans or Investments taken together (if additional exposure is on account of infrastructure loan/investment)	30% of NOF	50% of NOF

TFCI would continue to work within the exposure ceiling fixed as above in respect of single borrower as well as group, while considering the proposal(s) for financial assistance.

3.2 The RBI has issued detailed guidelines on 'Connected Lending' encompassing credit facilities, loan and advances to the Directors, relatives of the Directors or to the Directors of other FIs, banks and their relatives, officers of the FIs and their relatives as well as non-funded facilities on behalf of the Directors. TFCI shall strictly adhere to the guidelines pertaining to 'Connected Lending' as issued by RBI, from time-to-time, with regard to sanction or remission of facilities. Besides, TFCI shall not lend to the following categories of borrowers:

a) Borrowers or their associates appearing in the defaulters' list/caution list/black list circulated by RBI/ CIBIL/ other banks/institutions/ Government of India from time to time.
b) Borrowers classified as NPAs with banks/institutions.
c) Borrowers/guarantors who have defrauded and/or have not fulfilled their commitment to TFCI, other banks and institutions.
d) Borrowers whose credit rating by external rating agencies is below 'BB'.

4. TYPES OF FINANCIAL ASSISTANCE:

TFCI shall provide all forms of financial assistance for new, expansion, diversification, renovation/modernization projects in tourism sector, infrastructure sector, industrial/manufacturing sector, real-estate sector, services sector and related activities, facilities and services, refinance to NBFCs/HFCs in the following forms:

- Rupee Loans (including short-term, medium-term & long-term loans)
- Rupee Loan for corporate purpose (including against security of listed shares and immovable properties)
- Subscription to equity/debentures
- Guarantee of deferred payments
- Advance against Credit Card Receivables
- Refinancing of Loans
- Takeover Financing
- Bridge Loan
- Short-term Corporate Loan upto 1 year
- Other products viz. bill-discounting, leasing facility, equipment financing, lease rental discounting, letter of credit, securitization of debt etc.

5. AREAS FOR FINANCIAL ASSISTANCE:

TFCI in its two and half decades of existence, despite being a small player, has remained relevant to the context and played its catalytic role in building the tourism infrastructure of the country. Performance of TFCI has followed a cyclical pattern in conjunction with the performance of the macro-economic environment affecting the tourism sector. The performance till 1997–98 followed an upward trend but witnessed slowdown during 2001-2007 as the capital inflows in the tourism sector had been deferred and new capital formation was not taking place. As the industry suffered recessionary trends, TFCI adopted a cautious approach and decided to consolidate its operations by emphasizing on recovery of non-performing loans and focusing more on funding of "brown-field" projects for expansion/renovation etc. TFCI commenced attracting new business and grew its loan book again from 2007-08 onwards and inspite of having to work in difficult environment has been able to operate profitably over the years.

The sector-wise cumulative assistance sanctioned by TFCI upto 31.3.2018 was as follows:

Segments	**No. of Projects**	**Amount Sanctioned** (Rs. in Crore)	**Percentage**
A. TOURISM			
(i)Hotels			
5 Star Hotels	171	3323.38	32.10%
4 Star Hotels	86	1446.58	13.97%
3 Star Hotels	365	2510.74	24.25%
2 star, Heritage & Others	61	293.89	2.84%
Sub-Total	**683**	**7574.59**	**73.17%**
(ii)Amusement/Water Park/ Shopping Complex-cum-entertainment centre/ multiplex	42	350.50	3.39%
(iii)Restaurants/Food Court	26	103.23	1.00%
(iv)Other Tourism Projects*	63	800.54	7.73%
Total Tourism	**814**	**8828.86**	**85.28%**
B. Infrastructure:			
Infrastructure projects	11	334.50	3.23%
C. Others:			
Other Sectors	38	1189.36	11.49%
Grand Total (A+B+C)	**863**	**10352.72**	**100.00%**

(*viz. Tour Operators, Travel Agencies, Airways, Palace-on-Wheels, Golf-Course, Training Institutes, Club etc.)

The aggregate estimated outstanding loans and advances of TFCI as on 31.03.2018 were as follows:

Sector	**No. of Projects**	**Estimated Amount Outstanding (Rs. in Crore)**	**Percentage**
A. Tourism:			
(i) Hotels			
- 5 Star & 5 Star Deluxe	17	545.33	34.95%
- 4 Star	9	214.32	13.74%
- 3 Star	28	338.64	21.70%
- 2/1 Star, Heritage & Others	1	0.28	0.02%
Sub-Total	**55**	**1098.57**	**70.41%**
(ii) Amusement Parks/ FEC/ Multiplex Complex	2	53.79	3.45%
(iii) Other Tourism Projects*	4	110.29	7.07%
Total -A	**61**	**1262.65**	**80.93%**
B. Infrastructure:			
Energy- Wind/ Solar	1	4.01	0.26%
Total -B	**1**	**4.01**	**0.26%**
C. Others:			
Real Estate/Housing	1	7.00	0.45%
Manufacturing & Others	5	214.25	13.73%

NBFCs	3	72.35	4.64%
Total -C	**9**	**293.60**	18.82%
Total-I (A+B+C)	**71**	**1560.26**	**100.00%**

(*viz. Tour Operators, Travel Agencies, Airways, Palace-on-Wheels, Golf-Course, Training Institutes, Club etc.)

TFCI has major exposure in financing of tourism projects particularly hotels in 5-star and 3-star segments. The exposure to amusement parks, restaurants, multiplexes and other tourism-related projects has been low as compared to hotels because of the emphasis laid on creation of tangible assets to accommodate the tourists and this segment being capital-intensive in nature. TFCI had started infrastructure financing from 2010-11 onwards and financing of other sectors from 2011-12 onwards on selective basis and as such, the present exposure in these sectors is low. TFCI shall strive to have a mix of portfolio by lending to other sectors for short/medium term without compromising its focus on tourism.

In 2017-18, TFCI sanctioned loans aggregating Rs.1272.30 crore (PY:Rs.974.80 crore) as against the budgeted sanctions of Rs.1300 crore and disbursed amount aggregating Rs.692.98 crore (PY: Rs.487.37 crore) as against budgeted disbursements of Rs.700 crore. The sector-wise assistance sanctioned and disbursed by TFCI during 2017-18 was as follows:

(Rs. in crore)

Particulars	**2017-2018**			
	Sanctions		**Disbursement**	
	Amount	**%**	**Amount**	**%**
A. Tourism				
-New Projects	370.82	29%	153.42	22%
-Expansion/Enhancement	34.88	3%	0	-
-Refinance	427.75	34%	341.26	49%
-Acquisition	83.00	7%	0	-
-Others (working capital etc.)	38.85	3%	33.85	5%
Sub-Total (A)	**955.30**	**75%**	**503.53**	**76%**
B. Non-Tourism				
-Social & Commercial Infrastructure	85.00	7%	5.60	1%
-Refinance to NBFCs	100.00	8%	73.85	11%
-Industrial/Manufacturing Companies	102.00	8%	85.00	12%
-Real-Estate	30.00	2%	0	-
Sub-Total (B)	**317.00**	**25%**	**164.45**	**24%**
Grand Total (A+B)	**1272.30**	**100%**	**692.98**	**100%**

During 2017-18, TFCI sanctioned loan aggregating Rs.1272.30 crore to 41 borrowers out of which 75% loans were sanctioned to tourism related projects and 25% loans to other sectors (7% to Infrastructure projects, 8% towards refinance to

NBFCs, 8% to Manufacturing Sector and 2% to real-estate sector). Out of the above, loans aggregating Rs.145.90 crore were cancelled as the promoters failed to accept the terms of sanction. During 2017-18, TFCI disbursed Rs.692.98 crore out of which 76% were disbursed for tourism projects and 24% for other sectors. It is pertinent to note that 49% of the disbursed amount comprised of takeover funding as TFCI gives a longer repayment schedule based on the cash flows of the project.

TFCI has been raising resources for meeting its disbursements/repayment obligations and other requirements by way of issue of bonds on private placement basis and also by availing financial assistance from banks in the form of term loan, cash credit facility etc. TFCI has a higher cost of borrowings owing to outstanding bonds which carry higher rate of interest with no call option. Due to a general decline in interest rates over the last few years, TFCI has been facing stiff competition from banks/other NBFCs in terms of lending rates. It has been observed that banks in the absence of adequate credit off-take for industrial advances, have been lending to tourism projects at lower rates as the security risk in such projects is relatively low. In the falling interest-rate scenario TFCI was not only finding it difficult to get new good proposals for sanction but also facing huge pre-payment pressures. Most of our clients have been receiving offers from banks for swapping their existing loans at interest rates at less than 10% per annum. During the year 2017-18, TFCI received pre-payments aggregating to Rs.395.52 crore.

It is felt that as TFCI has domain expertise in appraising hotel projects and new/expansion projects come to TFCI, as banks are not keen to take construction risk. TFCI can leverage its strength in financing new hotels and also takeover financing for operational hotels which are viable but facing temporary cash flow mismatches. It is also felt that as infrastructure projects are generally vast in size and have large debt requirement apart from long gestation period and need specialized technical domain expertise, it is not a very attractive lending opportunity for TFCI on a stand-alone basis. Therefore, TFCI may participates in financing of infrastructure projects in solar & wind energy, warehousing and hospital segments, where capital requirement is relatively less may be considered exclusively. Further, TFCI through consortium might participate in financing of large infrastructure projects backed by an established borrower group. Exposure in other sectors such as manufacturing, industry, real-estate, services etc. by way of short/medium term loans at attractive interest rates may also be taken up on selective basis based on the credit record of the borrower and availability of tangible security.

In the light of the above, the emphasis on deployment of credit during current financial year 2018-19 would be in the following areas (the list is indicative and not exhaustive):

A. Segments of Tourism Industry :

i) Hotel projects involving capital outlay preferably upto Rs.100 crore.

ii) Hotel projects under infrastructure category (3-star or higher category hotels located outside cities with population more than 1 million and hotels in any star category at any place in the country with capital cost, excluding cost of land, of more than Rs.200 crore).

iii) Serviced apartments/approved guest houses/convention centres

iv) Restaurants/chain of restaurants/food courts/pubs etc.

v) Renovation/modernization and expansion of existing established hotels, restaurants and other tourism related projects.

vi) Corporate finance and/or refinancing to entities engaged in tourism-related activities with satisfactory credit record/refinancing to existing NBFCs.

vii) Tourism-related infrastructure projects

viii) Hospitals promoting medical tourism, spas/health centres, multiplex and entertainment centres, sports centres/recreation facilities, etc.

ix) Tour operators, travel agents, transport sector, tourism training institutes, leisure & recreational activities, cruises, sea tourism etc.

x) Small to mid-size tourism projects including hotels important from tourism perspective having capital investment of less than Rs.20 crore.

A.1 High-Priority Areas for Financial Assistance:

TFCI shall extend financial assistance to commercially viable tourism-related projects with special emphasis on the following:

i) Hotel projects falling under infrastructure category with emphasis on budget-category hotels, approved guest houses, midscale hotels where the cost per room is not very high and the ARRs are within the range of affordability of budget and mid-market tourist segments. However, TFCI could join with other lenders in financing upscale hotels also depending upon the commercial viability on merits.

ii) Stand-alone restaurants and also chain of restaurants with emphasis on franchise/operating tie-up with leading domestic/international brands or chains, wherever considered feasible/desirable.

iii) Banquet halls with accommodation facilities especially targeting wedding and social functions market segment.

iv) Modernization-cum-renovation and capacity expansion of established/existing hotels and restaurants including assisted units of TFCI to improve the working/profitability of the concern. The modernization-cum-renovation and expansion scheme shall, inter-alia, include capex on building, MEP services, replacement/reconditioning/ addition to plant & machinery and equipment, furniture/fixture/ furnishings, additional facilities like guest rooms, F&B areas, spa, discotheque, pub, etc.

v) Advance against Credit Card Receivables for established concerns in the tourism sector including tour operators, travel agents etc.

vi) Takeover financing and/or refinancing of viable/potentially viable tourism projects.

vii) Extending line of credit for setting up various similar projects at different destinations subject to individual project-related disbursements.

viii) Corporate financing to entities engaged in tourism-related activities for meeting overall cash flows/capital and long-term working capital requirements.

ix) Corporate financing to any hotel/hotel-related project.

x) Refinance to NBFCs

Thrust would generally be given to such projects where TFCI would be able to procure/attract fee-based advisory services also.

A.2. Low-Priority Areas for Financial Assistance:

i) The assistance to amusement parks/water parks, tourist transport carriers etc. could be considered on a very selective basis with due diligence on the capabilities of the promoters, their experience in the field and the collaterals provided as performance of the assisted units of TFCI in this sector has not been satisfactory and the success, to the large extent, depends upon the promoters' ability to operate the projects in an innovative way.

ii) Development of mixed-use projects (comprising retail/commercial/ entertainment/hotel), sports centers/golf courses in metro and other cities/towns.

B. Segments of Infrastructure Sector:

An infrastructure project, in any of the following categories, may be considered for financing:

Category	Infrastructure Sub-Sectors
Transport	Roads and Bridges; Ports; Inland Waterways; Airport; Railway Track, tunnels, viaducts, bridges; Urban Public Transport (Except rolling stock)
Energy	Electricity Generation; Electricity Transmission/ Distribution; Oil/ Gas Pipelines; Oil/Gas/LNG storage facility
Water and Sanitation	Solid Waste Management, Water Supply pipelines; Water treatment plants; Sewage collection/ treatment/ disposal system; Irrigation (damns/ channels/ embankments etc.); Storm water drainage system; Slurry pipelines
Communication	Telecommunication (Fixed Network) like optic fibre/ cable networks or broadband and internet connectivity; Telecommunication Towers; Telecommunication & Telecom services
Social and Commercial Infrastructure	Educational Institutions including medical college, para medical training institutes; diagnostics centers; hospitals; 3-star or higher category hotels outside cities with population of more than 1 million; Common infrastructure for industrial parks, SEZ, tourism facilities and agricultural markets; Fertilizer, Post harvest storage infrastructure for agriculture and horticultural produce including cold storage; Terminal markets; Soil testing laboratories; Cold

	Chain; Hotel with any star category of capital cost of above Rs.200 crore and convention centre of capital cost of above Rs.300 crore

B.1 High-Priority Areas for Financial Assistance:

TFCI shall extend financial assistance to commercially viable infrastructure projects with special emphasis on the following:

i) TFCI may on stand-alone basis finance infrastructure projects in solar & wind energy, warehousing and hospital segments where capital requirement is relatively less.

ii) TFCI may through consortium participate in financing of large infrastructure projects such as solar & wind energy, hospital-cum-hotel projects (medical tourism), airports etc. backed by an established borrower group and appraised by a leading bank.

B.2 Low-Priority Areas for Financial Assistance:

All other areas of infrastructure would be low priority areas and done on extremely selective basis after carrying out due diligence of the promoters and detailed sector analysis.

C. Other Sectors:

With a view to expand the asset base, TFCI shall extend financial assistance to other sectors such as manufacturing, industry, real-estate (on selective basis), services, etc. in the form of medium-term/short-term loan for tenure upto 6 years at a higher interest yield and backed by adequate securities to corporates with satisfactory credit record. However, in case of term loans for a tenure exceeding 8 years, the Executive Committee would be empowered to consider and approve the same on merits. The loans in these sectors shall be considered for business/capacity expansion, technology upgradation, modernization, investment in wholly-owned subsidiaries for specific projects for companies having adequate cash flows, meeting temporary cash-flow mismatch, meeting pre-operative expenses, long-term working capital requirements and swapping/takeover of debt.

TFCI may also consider financial assistance by way of refinance to NBFCs/HFCs in the form of medium-term/long-term loan for tenure upto 6 years at interest linked to TFCI's MCLR and backed by assignment of secured receivables of specific clients financed by NBFC/HFC.

6. NORMS FOR FINANCIAL ASSISTANCE IN TOURISM PROJECTS:

TFCI shall normally consider financial assistance to projects with capital cost of atleast Rs.20 crore, but for providing financial assistance to heritage hotels, restaurants, food courts, pubs, tour operators, travel agents, transport sector, health spa/centres, recreational facilities and renovation/upgradation/expansion, lower project cost could also be considered depending on the nature of the project, past track & credit record, commercial viability and the prevailing Govt. policies for development of tourism in the area/region. In addition, credit facilities for working capital and against credit card receivables could be considered for smaller amounts based on requirement of the borrower with satisfactory credit record.

The companies/concerns approaching TFCI for financial assistance should normally have the following, but, on merits, the proposal could also be considered with suitable in-built checks and balances:

i) Clear titles to the land on which the project is proposed to be located. In case of leasehold land, the lease should be for a sufficiently long tenure and the lease-deed should provide for mortgage of lease-hold rights.

ii) The land-use clearance permitting the use of land for the proposed commercial activity should be available. No proposal shall be considered pending receipt of land-use clearance.

iii) The building-plan approval for the respective project from the concerned local authority should have been obtained.

iv) In case of hotels/resorts/serviced apartments/guest houses, the borrower concern should agree to obtain project-stage approval in any star/approved category from Ministry of Tourism, Government of India. A copy of the application filed for project stage approval should be submitted to TFCI prior to disbursement.

The sanction of assistance could be considered before compliance of the above approvals provided no difficulty is envisaged in obtaining the same and the assistance could be sanctioned with suitable pre-disbursement conditions.

6.1 Land Cost:

The land cost for projects in metro and non-metro locations would normally be considered as follows:

a) <u>Where Land is acquired by the company at market price</u>

Capital cost of acquisition of land subject to a maximum of 25% of project cost in case of Delhi & NCR Region, Mumbai, Kolkata, Chennai and emerging metro locations like Bangalore, Ahmedabad, Hyderabad, Pune and 20% in other state capital cities and towns/cities adjoining/ contiguous to the metro cities as above and 15% in case of other locations.

b) <u>Where land is owned by promoters, company or associate concerns of promoters for more than 10 years</u>

Notional value for land might be considered to the extent of 20% for Delhi (including surrounding areas like Gurgaon, Noida etc.), Mumbai, Kolkata, Chennai and emerging metro locations like Bangalore, Ahmedabad, Hyderabad, Pune and

15% in other state capital cities and towns/ cities adjoining/ contiguous to the metro cities as above and 10% in case of other locations.

c) Where land is owned by the promoters or the company for more than 3 years but less than 10 years prior to approaching TFCI for assistance

Actual cost of acquisition plus simple interest calculated at Bank Rate upto the ceiling as given in (b) above.

6.2 Core Promoters' Contribution:

The minimum core promoters' contribution should be 30% of the project cost. Relaxation is allowed upto 25% in respect of large projects involving capital cost of more than Rs.100 crore, exclusive of the land cost.

The promoters' contribution can be in the form of equity or preference share capital issued at par/premium and interest-free subordinated unsecured loans out of which atleast 60% of the promoters' contribution should be by way of equity/preference share capital.

6.3 Debt-Equity Ratio:

TFCI generally extends term loan assistance based on debt-equity ratio not exceeding 1.5:1 and in case of existing or assisted companies/entities on debt-equity ratio of 2:1. Higher debt-equity ratio upto 2:1 might be considered for new companies/entities, depending on debt-servicing capacity of the project. However, in case of hotels at seasonal locations or with high cost per room, multiplexes/entertainment centres, amusement parks and other tourism-related projects, the debt-equity ratio should be lower depending on the debt-servicing capacity of the project.

6.4 Moratorium:

Moratorium on principal shall be available from 6 months to 24 months from the date of commencement of commercial operations of the project (DCCO) depending upon the time required for stabilizing operations/cash profits at a particular location. There shall be no moratorium on interest payment.

Moratorium for principal repayments can also be granted to non-project related loans depending upon the cash-flow assessment of the borrower company.

6.5 Repayment Schedule:

The tourism projects are capital intensive and have long implementation and gestation period, the cash-flows in the initial years of operations are low and asset has a long life of 25-30 years. In the light of the above, longer repayment period upto 12 years after allowing moratorium as defined in para-6.4 ante after commencement of commercial operations can be considered. However, the Executive Committee shall have the power to extend the repayment for longer period in deserving cases and based on useful asset life. In case of multiplexes/entertainment centers/restaurants, the cash-flows in the initial years are satisfactory and as such, the general norm for repayment of the loans to this sector could be 8 years including moratorium of 6-18 months after commencement of commercial operations of the project.

Step-up instalments or telescopic repayment may also be considered so that total obligations of the company in respect of interest and principal instalments are evenly spread over the repayment period in consonance with the cash-flows of the project/unit. In case of projects at seasonal locations and assistance provided to amusement/water parks, large instalments may be considered for peak season and smaller instalments and/or no instalment may be stipulated for off-season.

6.6 Consortium Lending:

The terms and conditions including security, margin, promoters' contribution, debt-equity ratio, DSCR, etc. as stipulated by other banks shall also be applicable to TFCI loan. Similarly, the loan pricing shall also be in accordance with the consensus reached in consortium but not lower than TFCI's MCLR. In case lower rate is stipulated by other co-lenders, TFCI can stipulate differential rate to be charged by way of management fee. In the event of higher rate being charged by any other bank(s), the same shall also be applicable to TFCI's loan.

6.7 Security:

(i) Exclusive/Pari-passu charge on project assets alongwith mortgage of land and building and hypothecation of movables. TFCI shall also have second charge on current assets with first charge extended in favour of working capital lenders.

(ii) Personal/Corporate Guarantee of promoter and/or group companies.

(iii) In case of leasehold land/building, apart from mortgage of leasehold rights the possibility of mortgaging freehold right by the owner may also be explored. Also the personal guarantee of the owner may be obtained to the extent of his/her interest in land/building.

(iv) Assignment of concession agreement/other specific approvals/project documents, if applicable.

(v) Other securities such as additional collateral, pledge of promoters' shareholding in demat form, DSRA, DPN etc. as may be necessary may be stipulated.

Apart from above, any additional security as stipulated by other consortium lenders shall also be obtained.

6.8 Other Financial Parameters:

(i) Debt Service Coverage Ratio (DSCR): Based upon the profitability projections, the average DSCR should be atleast 1.5 times for the tenure of the term loan. In addition, DSCR in each year should be more than 1.

(ii) Fixed Asset Coverage Ratio (FACR): The security by way of charge on project assets including mortgage of land & building and hypothecation of plant & machinery, equipment and other assets should give a minimum FACR of 1.5 times. For the purpose of calculations, the value of land shall be considered at Market Value/DSV or Book value whichever is less.

In case where collateral security is provided, latest valuation report from a government approved valuer shall be obtained and distress sale value (DSV) of security shall be considered for calculating FACR. In case DSV is not specified in the valuation report, 80% of the market value may be considered as DSV.

Valuation of the property being accepted as security, may be done by TFCI appointed independent government approved valuer/firm. Further, valuation done by a government approved valuer empanelled with Public Sector Banks may be accepted provided the report is not older than 1 year and is accepted by the sanctioning authority.

7. NORMS FOR FINANCIAL ASSISTANCE IN INFRASTRUCTURE PROJECTS:

For providing financial assistance to infrastructure sector the companies approaching TFCI for financial assistance should normally have the following, but, on merits, the proposal could also be considered with suitable in-built checks and balances:

7.1 Purpose:

To provide finance to all types of projects in state & private sector either directly or indirectly and whether wholly or in part working for the purposes of infrastructure development work or providing infrastructure facility or engaged in infrastructure activities, which shall include work of facility or providing of services in relation to or in connection with setting up, development, construction, operation, maintenance, modernization, expansion and improvement of any infrastructure project or facility as detailed at para 5 B ante including solar and wind energy, medical-tourism, warehouses, education, industrial parks, SEZs, airports etc .

7.2 Core Promoters' Contribution:

The minimum core promoters' contribution is 25% of the project cost. Relaxation is allowed upto 20% in respect of large projects involving capital cost, exclusive of the cost of land for the project, of more than Rs.500 crore.

7.3 Debt-Equity Ratio:

TFCI may extend term loan assistance based on debt-equity ratio upto 3:1 depending upon the minimum debt-service coverage ratio for the project being normally 1.5 times (but acceptable upto 1.3 times) and the financing norms being followed by other lenders. Funding can be considered as follows:

a) Central/state sector entities – upto 80% of the project cost.

b) Private sector entities – upto 75% of the project cost.

However, the extent of funding may vary from project to project and sector to sector which may be considered on a higher/lower side depending on the debt-servicing capacity of the project and also in line with other consortium lenders.

Interest shall be charged as notified by TFCI from time to time but not lower than TFCI's MCLR at any time.

7.4 Moratorium:

Moratorium on principal shall be available from 6 months to 24 months from the date of commencement of commercial operations of the project (DCCO) depending upon the time required for stabilizing operations/cash profits. There shall be no moratorium on interest payment.

Moratorium for principal repayments can be granted to non-project related loans also depending upon the cash-flow assessment of the borrower company.

7.5 Repayment Schedule:

Considering that infrastructure projects have long implementation and gestation period, the cash-flows in the initial years of operations are low and asset has a long life of around 25-30 years, the general norm for repayment may be 12-15 years after allowing moratorium as defined in para 7.4 ante after commencement of commercial operations. In case of projects on BOT basis, the door-to-door tenor of the loan shall not exceed 75% of the total concession period initially granted under the project scheme.

Step-up instalments or telescopic repayment may also be considered so that total obligations of the company in respect of interest and principal instalments are evenly spread over the repayment period and in consonance with the cash-flows of the units. In case of projects with seasonal cash-flows (like agro) large instalments may be considered for peak season and smaller instalments and/or no instalment may be stipulated for off-season.

7.6 Consortium Lending:

Proposals for infrastructure funding of large projects shall be considered primarily in association with other banks/financial institutions who have acquired specialized knowledge in their respective domain subject to maximum TFCI exposure of Rs.50 crore. TFCI may enter into Memorandum of Understandings (MoU) with other specialized institutions like PFC, REC, etc. for extending financial assistance in participation with other co-lenders for projects appraised by such institutions. TFCI would take minority stake in respective projects and follow the consortium approach with regard to appraisal procedures, viability norms, security documentation and recovery mechanism. Accordingly, in such cases terms for financial assistance in respect of interest, commitment charges, guarantee commission would be similar to the prevailing/ applicable terms of other banks/financial institutions. However, the applicable interest rate for the assistance shall not be less than TFCI's MCLR. In case lower rate is stipulated by other co-lenders, TFCI can stipulate differential rate to be charged by way of management fee. In the event of higher rate being charged by any other bank(s), the same shall also be applicable to TFCI's loan.

7.7 Security:

(vi) State/central government or bank guarantee and/or charge on assets for state and central sector entities, while charge on project assets and/or assignment of concession agreement/project documents for others.

(vii) Where project assets cannot be mortgaged/hypothecated, charge on the cash flows through escrow/TRA mechanism and annuity system may be taken. Escrow/TRA and pledge of shares can even be explored in cases where security is otherwise available

(viii) Corporate and/or personal guarantee of the promoters for private sector, if the outcome of appraisal establishes a requirement for the same.

(ix) Other securities, as may be necessary or stipulated by other consortium lenders including pledge of equity shares of the borrower, if available.

8. NORMS FOR FINANCIAL ASSISTANCE TO NON-BANKING FINANCE COMPANIES/HOUSING FINANCE COMPANIES:

For providing financial assistance to Non-Banking Finance Companies/Housing Finance Companies, the NBFC should be registered with RBI as Asset Finance Company (AFC) or Loan Company (LC) or Infrastructure Finance Company (IFC) or registered with National Housing Board as a Housing Finance Company (HFC).

The Eligibility parameters and norms for sanction of limits to NBFC/HFC are as under:

Particulars	**Eligibility Criteria (as per the last audited balance-sheet)**
a) Capital adequacy:	• Minimum of 15%
b) Recovery Efficiency & NPA Norms:	• Recovery not less than 95% • Gross NPA - < 5%
c) Track record	• In business for atleast 5 years. • Profit making for the last three years with satisfactory track record.
d) Net Owned Funds and Asset Size:	• NoF : Minimum Rs.50 crore • Asset Size: Minimum Rs.150 crore
e) Equity Holding	• The promoter/investment company should continue to hold minimum 50% equity in the borrower company till the currency of term loan.
f) Adjusted tangible networth	• Should be positive
g) Current Ratio	• Not less than 1
h) DER	• Not more than 5:1 (standalone) • Not more than 6:1 (consolidated)
i) Rate of Interest	• Applicable MCLR + mark-up
j) Tenor	• Door-to-Door tenure upto 6 years
k) Moratorium and Repayment period	• Moratorium from 6 months to 12 months. • Generally repayment period could be upto 6 years after allowing moratorium as above. However, the sanctioning authority shall have the power to extend the repayment period upto 8 years if required.
l) Average Gross DSCR	Not less than 1.5 (minimum DSCR not less than 1 in any year) $DSCR = \frac{PAT+Depreciation+Interest}{Interest+Loan\ Repayment\ (Net\ of\ refinancing)}$
m) Security	i) Assignment of secured receivables of specific clients financed by NBFC/HFC and classified as standard Non-SMA assets (as per applicable regulations of RBI/NHB/Others). ii) Personal and/or corporate guarantee(s) of the promoters of NBFC/HFC. iii) Demand Promissory Note iv) The loan amount shall be restricted to 80% (1.25 times cover) of the NBFC/HFC's principal amount assigned to TFCI (excl. interest, if any, included in EMI) where personal/corporate guarantee is provided. However, where personal/corporate guarantee is not available, TFCI may restrict the loan amount to 66% (1.51 times cover) of the NBFC/HFC's loan/receivables assigned to TFCI (excl. interest, if any, included in EMI) which will provide an enhanced margin. v) NBFC/HFC shall maintain the stipulated margin on TL limit. In case the book debt/asset assigned to TFCI is classified as Non-Performing Asset (NPA), the NBFC/HFC shall replace the same with Standard Assets for equal amount. A certificate

	from management/auditor shall be obtained on quarterly basis. vi) In addition, the receivables offered as security should have underlying security by way of immovable/fixed assets giving an underlying cover of atleast 1.33 times.
n) External Rating	• Atleast BBB- The external rating should not have been downgraded in the last 3 years.
o) Processing/Upfront Charges	• 0.50% of the sanctioned limit plus applicable service tax.
p) Prepayment/Other Charges	• Pre-payment premium: 1% of loan prepaid. • Legal Charges: Rs.1 lakh plus applicable service tax.
q) Exposure Cap: • Single Borrower • Group Exposure • Maximum Exposure (Cumulatively)	 • Upto Rs.30 crore • Upto Rs.70 crore • Not exceeding 10% of the asset size as on 31st March 2018.

9. NORMS FOR FINANCIAL ASSISTANCE IN OTHER SECTORS:

9.1 Manufacturing/Industrial/Service Sector:

- The borrower company should be profit-making with satisfactory credit record for the past 3 years.
- Minimum External Credit Rating of 'BB'.
- Maximum permissible debt-equity ratio would be 2:1 and average DSCR for the tenure of loan should minimum be 1.5:1.
- The security cover by means of charge on net fixed assets/project assets of the borrower company should be atleast 1.5 times or by way of charge on collateral immovable assets based on distress sale value and/or pledge of listed shares based on current market price or average market price of past six months trading whichever is lower should be atleast 2 times of the loan.
- The interest rate could be both variable and fixed, with or without linking to MCLR/base rate of TFCI. However, the same should be based on TFCI's borrowing portfolio, market conditions and track record of the borrower/ company ensuring a higher interest yield than in funding of tourism & infrastructure projects.

9.2 Real-Estate Sector:

- The borrower company should be profit-making with satisfactory credit record for the past 3 years.

- The loans to residential real-estate companies would be given against specific project registered under RERA with specific end-use of funds to be certified by way of statutory auditors certificate. However, TFCI may consider corporate loans to existing/assisted clients with satisfactory past records.
- Minimum External Credit Rating of 'BBB'.
- Maximum permissible debt-equity ratio would be 2:1 and average DSCR for the tenure of loan should minimum be 1.5:1.
- Maximum exposure to a single borrower not exceeding Rs.35 crore and maximum exposure to a group not exceeding Rs.60 crore.
- The security cover by means of charge on net fixed assets/project assets of the borrower company should be atleast 1.5 times or by way of charge on collateral immovable assets based on distress sale value and/or pledge of listed shares based on current market price or average market price of past six months trading whichever is lower should be atleast 2 times of the loan.

Maximum exposure of TFCI to Real Estate Sector on an aggregate basis would not exceed 5% of the total assets size as on 31.03.2018.

10. NORMS FOR TAKEOVER FINANCING:

TFCI may consider financing well-established concerns for refinancing of existing loans and/or takeover/refinancing of loans of viable/potentially-viable projects on the basis of the following:

i) Such loans should be 'standard asset' in the books of the existing lender(s) and should be substantially taken-over or refinanced.

ii) The average DSCR for the proposed project/concern should be at least 1.5 while assessing the project viability.

iii) All other norms for financial assistance such as debt-equity ratio, promoters' contribution, repayment schedule taking into account project life cycle and cash-flows, applicable interest rate etc. may be observed.

iv) Fixed Asset Coverage based on DSV of security/asset should atleast be 1.5 times.

11. NORMS FOR SHORT-TERM CORPORATE LOAN (STL) UPTO 1 YEAR:

With a view to profitably deploy its surplus funds and also to reduce cost of funds by availing limits from banks at lower rates TFCI may extend short-term corporate loans upto a period of one (1) year. However, maximum exposure of TFCI by way of STL should not exceed Rs.100 crore on an aggregate basis and maximum amount of STL per borrower should not exceed Rs.20 crore.

The companies/concerns approaching TFCI for STL should meet the following criteria:

11.1 Purpose:

STL shall cater to meeting future cash flow requirements of the companies for any business purpose except for buying land/investment in share market or any speculative activity or financing operational inefficiency.

11.2 Eligibility criteria:

(a) New Borrowers

Criteria	Stipulated
External Rating	Minimum Short term External rating :A1 OR Minimum Long Term External Rating : A However, external rating should not be more than six months old
Minimum TNW on standalone basis as per the latest audited financial statement	Rs.50 crore
Maximum TOL/TNW (including proposed STL)	3.50 times
Profitability	PAT in the immediately 2 preceding financial years
Minimum DSCR	Minimum DSCR of 1 time in each of the last two financial years.

(b) Existing Borrower:

- The minimum short-term external rating of the company should be A1 or the minimum long-term external/internal rating should be A.
- The principal repayment of the borrower should have started and must be regular. If the principal repayment has not started then the compliance criterion for the new borrower should be taken.
- Satisfactory conduct of the account with TFCI for the last one year. Delay in payment, if any, to be analyzed with proper justification.
- It is equally important that the new applicant or any group company should not have any overdues in TFCI at the time of application or at the date of disbursement.
- Compliance to terms and conditions of existing facilities needs to be incorporated in the note put up to Executive Committee.
- This facility would not be applicable for projects under implementation.

11.3 Security:

Type of Security	**Cover**
(i) Mortgage of immovable assets	- Minimum 1.25 times - Personal/Corporate Guarantee of the promoter
(ii) Partly by way of immovable assets and partly by way of pledge of shares	- minimum 1.50 times out of which atleast 0.75 times should be by way of immovable assets and residual by way of pledge of listed shares. - Personal/Corporate Guarantee of

	the promoter.

- In case of pledge, shares shall be valued at average of last six months (average of monthly high/low) or current price whichever is lower. Shares should be traded frequently having sufficient volume to enable sale of entire shares in 3 trading days.

- In addition, other securities like DSRA, escrow of specific receivables and Post-dated cheques (PDCs), DPN etc. for securing repayment of principal and interest would be explored.

11.4 Pricing:

(i) The facility shall be available to borrowers at minimum of 10.50% p.a. with monthly rests. However, lower rate of interest @10.25% may be offered to borrowers with short term rating of A1+ and long term external rating higher than A;
(ii) The interest rate for the facility shall remain fixed.

11.5 Repayment:
The maximum duration of the loan shall be 12 months. Repayment of loan should normally be in two or three installments after six months of availment of facility.

11.6 Other Terms and Conditions:

The other terms and conditions applicable to the Short-term loan product will be as under:

(i) External rating of the borrower should not be more than six months old. External (either long-term or short-term)/Internal Rating (for existing borrowers) should not have been downgraded by 2 notches during last 6 months period.

(ii) In the event of deterioration in external credit rating during tenor of facility, additional interest of 1.00% p.a. w.e.f. date of revision in the rating shall be levied. However, the borrower company shall have an option to prepay the loan without prepayment premium within 30 days from the date of communication of revision in interest rate.

(iii) In case of consortium lending, the conduct of account with existing working capital lenders as captured in the minutes of Consortium meetings may be accepted in lieu of CIRs. In other cases, account statement of WC and TL lenders for the last 3 months and 1 year respectively shall be obtained and analysed with regard to the satisfactory conduct of the account.

(iv) Source of repayment of all the loans due during the currency of loan, including the short term loan, should be furnished to the satisfaction of TFCI.

(v) Funds infused by promoters/promoter group in the form of loans and advances/products treated as quasi-equity, may be treated as part of networth subject to the undertaking from the promoters/promoter companies that these will not be withdrawn during the currency of TFCI's loan. However, the unsecured loans/products to be treated as part of networth should be subject to a cap of 100% of networth of the borrower company based on paid up capital and free reserves.

(vi) Legal due diligence and valuation of the Security shall be done fresh by TFCI before disbursement

(vii) In case another short term loan is considered to the same borrower on repayment of existing STL, there shall be a minimum gap of one month between repayment and new disbursement.

(viii) Pre-payment penalty @ 1% p.a. shall be applicable. Prepayment of the loan should be with a prior notice of 7 days in general and within 30 days from the date of communication of reset of interest rate to the borrower company. However, no pre-payment penalty shall be charged where the prepayment is made out of internal accruals or at the time of reset of interest rate.

(ix) One-time upfront fee of Rs.0.25% of the STL amount shall be charged.

12. COMPREHENSIVE RISK MANAGEMENT SYSTEM & ASSET-LIABILITY MISMATCH:

TFCI recognises that risk is inherent part of business of any financial intermediary and accordingly feels that identification, measurement, monitoring and management of risk are critical to build a sound asset-base. Policy guidelines on comprehensive risk management system have been developed and adopted by TFCI which will be followed in case of all the new business proposals. Financing institution, in general, suffer from three types of risks viz.

a) Credit risk
b) Market risk
c) Operational risk

a) Credit-risk management would encompass the following processes:
- Establishing appropriate credit-risk environment
- Operating under sound credit-granting process
- Fixing prudential limits of exposure
- Measuring risk through internal risk-rating
- Risk-based pricing of loans/ facilities
- Establishing systems for portfolio risk management
- Controlling risk through loan review mechanism

TFCI has implemented a dynamic risk-rating module which evaluates each proposal for various risks, such as industry business risk, project risk, management risk, external risk as also security available, income value to TFCI, profitability/ financial projections, etc. However, each new case is scrutinized for various parameters as laid down under the module depending upon the weights assigned to each parameter. The module assigns the score on a 1-100 scale. Proposals securing more than 55 points are accepted for consideration whereas proposals securing less than 35 points are rejected outrightly. The proposals securing between 35-54 points are considered subject to stipulating appropriate risk-mitigation measures. It is proposed that all credit proposals would be examined in terms of the risk-rating module developed and implemented in TFCI. Further, the interest rate applicable on the loan would also be linked to the grade which the individual proposal will secure as per the above risk- rating module.

b) Market-risk management : The liquidity/interest-rate risk is appraised by the internal committee of executives known as ALCO, which meets regularly on monthly intervals to deliberate on various matters pertaining to asset-liability mismatch, liquidity problems, funding strategies wherein restructured cases and its impact on the liquidity of TFCI is also analyses and necessary corrective action to mitigate the risk is taken.

c) Operational risk includes both internal and external risks as people risk, process risk, technology risk, physical risk which are mitigated by strengthening internal controls that include preventive controls as well as damage-limitation control. A Risk Management Committee has been set-up for managing overall risk of the organization, including operational risk, credit risk. Based on the prevailing size of TFCI, functional distribution and reporting relationships, appraising officer/ relationship manager would be assigned additional responsibility of loan review as well as internal rating system.

13. PRICING OF LOANS:

TFCI adopted the Base Rate MCLR which was calculated on the basis of Marginal Cost of Borrowing vide Board Resolution dated 16th May, 2016. The calculation of MCLR is being done by including (i) Marginal cost of Borrowing; (ii) Negative carry of funds; (iii) Operating Cost; (iv) Project Margin; and (v) Tenor Premium. The Profit Margin was taken as post tax net income (net interest income minus overhead cost) expressed as % of average deployable funds subject to maximum of 2%. The MCLR is reviewed on an annual basis. We propose to continue with the same methodology and the revised rate for FY 2018-19 shall be put up to the Board in the next meeting upon finalization of annual accounts.

The loan-pricing is currently done based on risk-rating based loan-pricing matrix as approved by the Board from time-to-time. If the borrower has obtained long-term rating from an external rating agency the same shall be accepted in place of internal rating as the external rating agencies follow a comprehensive risk-assessment and surveillance methodology.

The board of directors at their meeting held in May 2017, approved TFCI MCLR base rate as under:

11.10% p.a. for loans upto 3 years
11.20% p.a. for loans having maturity of 3-5 years
11.30% p.a. for loans having maturity above 5 years

The loan-pricing is currently done based on risk-rating based loan-pricing matrix:-

Internal Rating	Rate of Interest	External Rating	Rate of Interest
BB	Base Rate+1.25%	BB (+)/BB	Base Rate+ 1.00%
BBB	Base Rate+0.75%	BBB (+/-)	Base Rate+ 0.50%
A	Base Rate+0.50%	A (+/-)	Base Rate+ 0.30%
AA	Base Rate+0.20%	AA (+/-)	Base Rate+ 0.15%
AAA	Base Rate	AAA (+/-)	Base Rate

- To secure the construction and implementation risk, additional premium of 25 basis points would be charged over and above the MCLR rate during the project implementation period. The same shall be withdrawn six months after Commercial Operations Date (COD).
- In case of loan to real-estate sector, an additional premium of 100 basis point shall be charged.
- In case of consortium lending rate charged by other lenders subject to minimum of TFCI base rate. The differential in consortium rate and TFCI rate to be charged by way of management fee.

However, the Executive Committee/Board of Directors will have the powers to stipulate rate lower than the rate applicable as per the policy, subject to minimum of MCLR, after taking into consideration other market factors as may be deemed appropriate in this regard. Further, short-term lending upto one year can be at negotiated rate less than MCLR based on the opportunity-cost concept.

The interest rates on loans shall be reset every year based on re-rating to be done within two months of receipt of audited annual accounts of the borrower company. The revised rate shall be communicated to the borrower with a right to prepay without premium, within two months of such communication, in case the revised rate is not acceptable. Further, while considering request for reduction in rate of interest/restructuring, the revised rating of the borrower needs to be carried out.

One-time appraisal-cum-upfront fee @ 0.50% (appraisal:@ 0.25% and upfront:@ 0.25%) of the loan sanctioned shall be charged. Further, one-time appraisal-cum-upfront fee for short-term/corporate loan with maturity upto 2 year shall be charged @ 0.25% by TFCI. However, a lower appraisal-cum-upfront fee may be charged for long-term/short-term/corporate loan depending upon prevailing market conditions, return on investment, value of relationship and/or fee charged by other participating lenders with approval of the competent authority.

With a view to discourage non-serious applicants, it is proposed to charge part appraisal fee in advance before commencement of appraisal as per the following slabs:

Loan upto Rs.10 crore	-	Rs.1 lakh
Loan above Rs.10 crore & upto Rs.20 crore	-	Rs.2 lakh
Loan above Rs.20 crore	-	Rs.3 lakh

The appraisal fee received in advance would be non-refundable and shall be adjusted against the applicable appraisal-cum-upfront fee of the loan sanctioned. In case due to any reason, the proposal is not found viable for sanction, the fees may be considered for refund with approval of the Managing Director.

In case due to any valid reason beyond the control of the management/promoters/TFCI the disbursement of sanctioned loan could not be effected, the refund of upfront fee may be considered with approval of the Managing Director after deducting actual expenses incurred. TFCI can also consider grant of Bridge Loan against its own sanction pending financial closure of the project or creation of substantive security and charging additional interest @1% p.a. over and above the stipulated rate.

14. SANCTION OF FINANCIAL ASSISTANCE-DELEGATION OF POWERS:

In the meeting of the Board of Directors held on 13th August, 2011, the Executive Committee has been delegated to consider/sanction all the cases within RBI exposure limits. Further, in the meeting of the Board of Directors held on 13th November 2014, the Managing Committee comprising of Managing Director, Executive Director & Chief General Manager(s) has been delegated to consider sanction upto Rs.10 crore to a single borrower without deviation from credit policy, with reporting in the ensuing meeting of the Executive Committee.

Further, the Managing Director shall have the power to amend the terms and conditions of sanction in cases where other participating lenders have stipulated different terms and also in cases involving minor amendments, other than security, interest rate adversely affecting the cashflows of the project, with report to sanctioning authority.

15. VALIDITY OF FINANCIAL ASSISTANCE:

All the sanctions for financial assistance shall be valid for a maximum period of six months. If the assisted concern does not avail of such sanction within the stipulated time, the sanction might be revalidated after carrying out a quick appraisal to ascertain the viability within the powers of Managing Director. However, in case the sanction has already been cancelled and reported, the same can only be revalidated by the sanctioning authority.

16. COMPLIANCE OF KYC GUIDELINES:

The KYC guidelines for all borrowers shall be complied with as per RBI master direction DBR.AML.BC.No.81/14.01.001/2015-16No.DNBR(PD)CCNo.051/03.10.119/ 2015-16 updated upto February 23, 2018 applicable for Banks/NBFCs. The objective of KYC is to prevent NBFCs from being used, intentionally or unintentionally, by criminals for money laundering. KYC procedures help NBFCs to know/understand their customers and their financial dealings better which in turn helps to manage risk prudently. The Key parameters of our KYC policy would be:

a) Customer Acceptance policy
b) Customer Identification Procedure
c) Monitoring of Transactions
d) Risk Management

a) Customer Acceptance policy:

TFCI shall categorize each new customer into low, medium and high risk categories and have differential due diligence and monitoring standards based on the risk assessment. The various parameters to be used for Customer Risk Categorization (CRC) are as follows:

- Customer constitution: Individual, proprietorship, partnership, company (private ltd. /public ltd.)
- Business Segment: Retail, Corporate etc.
- Country of residence/Nationality: India or overseas
- Economic Profile: High Net Worth Individuals (HNI), Public/Private Ltd. company etc.
- Name in Regulatory negative/defaulter/fraudulent list
- Anti-Money Laundering (AML) Alerts
- Nature of business/Occupation
- Sources of Funds
- Credit rating etc.

TFCI may adopt all or some of the above parameters, based on the availability, for categorizing the customers into any of the following risk categories:

(i) Low Risk Category: Customers whose identities and source of wealth can be easily identified and conform to the known profile may be categorized as low risk In such cases, only the basic requirements of verifying the identity and location of the customer may be met.

(ii) Medium Risk Category: Customers that are likely to pose average risk may be categorized as medium risk depending on customer's background, nature & location of activity, client profile and sources of funds etc. In such cases, detailed requirements of verifying the identity and location of the customer and his sources of funds may be met.

(iii) High Risk Category: Customers those are likely to pose a higher than average risk may be categorized as high risk thereby requiring higher due diligence especially those for whom the sources of funds are not clear.

Risk Categorization of customers based on various parameters

Basis	High Risk	Medium Risk	Low Risk
Type of Borrower	• Trusts or Charities • Company wholly owned by NRIs • Customers having adverse publicity • Firms with operative transactions authorized by sleeping partner	• Private Ltd. company • Public Ltd Company (Closely held) • Partnership firms • Limited Liability Partnerships • Firms with sleeping partners	• Public Ltd Company (widely held) • PPPs/JVs • Government compies/ PSUs
Project Size	• More than Rs. 200 crore	• Between Rs.50 crore to Rs.200 crore	• Less than Rs.50 crore
Type of Banking Arrangement	• Multiple banking	• Consortium Banking	• Single Lender
Location of Borrower	• Hotels/Restaurants/ Project in Tier III cities	• Hotels/Restaurants/ Project in Tier II cities	• Hotels/Restaurants / Project in Metros, State Capitals along with towns/cities contiguous to them
Nature of Project	• Adventure, Entertainment and Rural tourism projects	• Infrastructure and other sector projects at all locations	• Hotels/Restaurants
Source of funds (if from outside India)	• Foreign Remittances from national of Gulf, Pakistan, Afghanistan, Libya and Syria	• Foreign Remittance from national of Eastern Block Countries, Burma, Indonesia, Malaysia, Singapore and Thailand	• Foreign Remittance nationals of United States and European Countries. • Foreign Remittances from NRIs & persons of Indian origin.
Shareholding pattern/Composition of partners, directors etc. Promoters donot have political background	• Entirely Foreign nationality	• A mix of Indian and Foreign nationals	• Exclusively Indian nationals
Type of Security	• Shares • Corporate/ Personal Guarantees	• Movable Assets • Letter of Comfort	• Immovable Asset – land and building
Internal/ External Credit Rating	• Less than 'BB-'	• 'BB' to 'BBB' (+/-)	• 'A' (+/-) and above
Credit Record with other banks	• Regular delay in payments	• Occasional delay in payments	• Timely servicing of dues

b) Customer Identification Procedure:

Features to be verified and documents that may be obtained from customers

Type of Borrower	Documents
1. Companies • Name of the company • Principal place of business • Mailing address of the company • Telephone / Fax Number • Details of Promoters/ Guarantors/ Directors etc.	(i) Certificate of incorporation and Memorandum & Articles of Association. (ii) Resolution of the Board of Directors to borrow and identification of authorized signatories. (iii) Power of Attorney granted to its managers, officers or employees to transact business on its behalf. (iv) Copy of PAN card. (v) Income Tax returns for the last three years. (vi) Proof of Name, residence, Date of Birth by way of Aadhar card, PAN card, Voter card etc. in case of Promoters and Guarantors. (vii)Directors Identification number (DIN) along with names and addresses duly certified by the authorized representative. (viii) Photocopies of the valid passport of all the directors/guarantors/promoters shall be obtained and kept on record.
2. Partnership firms/LLP • Legal name • Address • Names of all partners and their addresses • Telephone numbers of the firm and partners	(i) Partnership deed. (ii) Registration certificate. (iii) Power of Attorney granted to a partner or an employee of the firm to transact business on its behalf. (iv) Any officially valid document identifying the partners and the persons holding the Power of Attorney and their addresses viz. pan card etc. (v) Income Tax returns for the last three years. (vi) Photocopies of the valid passport of all the directors/guarantors/promoters shall be obtained and kept on record.
3. Trusts & Foundations • Names of trustees, settlers, beneficiaries and signatories • Names and addresses of the founder, the managers/ directors and the beneficiaries • Telephone / fax numbers	(i) Certificate of registration, if registered. (ii) Power of Attorney granted to transact business on its behalf. (iii) Any officially valid document to identify the trustees, settlers, beneficiaries and those holding Power of Attorney, founders/ managers/directors and their addresses. (iv) Resolution of the managing body of the foundation/association. (v) Income Tax returns for the last three years.

(As on date TFCI does not finance individuals/proprietary concerns. It is also proposed that due to various legal/ownership issues we may not lend to partnership firms and may consider only Limited Liability Partnership (LLP) for financing)

c) Monitoring of Transactions:

A list of individuals/entities suspected of having terrorist links as approved by RBI shall be maintained and updated on a continuous basis. Before transacting business with a new customer, it should be ensured that the name of the promoter/borrower company does not match with any person/entity in the aforesaid list with known criminal background.

A risk-based approach on KYC and AML would be followed wherein accounts in the high risk category would be reviewed at a shorter interval with more enhanced monitoring than customers in the low-risk category. TFCI shall carry out a review of risk categorization of customers at a periodicity of once in a year. During such review, the risk assigned to an existing customer may undergo change depending on the change in risk parameters of the customer.

KYC compliance shall be carried out at the time of detailed project appraisal/execution of loan documents and subsequently if there is any change or as required under the policy.

d) Risk Management:

The inadequacy or absence of KYC standards can subject TFCI to serious customer and counter party risks especially reputational, operational, legal and concentration risks which have been discussed in detail under the Comprehensive Risk Management System in this policy.

17. PREMATURE REPAYMENT OF LOANS – PREPAYMENT PREMIUM:

Term lending institutions have traditionally been lending on long term basis with a view to enable the entrepreneurs to set up the projects. There are inherent risks associated with long term financing, particularly, interest rate risk for the lending institutions. This risk has increased further with institutional borrowings mainly at fixed rates, while lending linked with base rate/MCLR. Institutions make back to back arrangements for its lending to constituents. Accordingly, to protect the margins, prepayment premium is being charged. Further, during the project implementation stage, the construction and implementation risks are borne by the term lending institutions whereas on commencement of successful operations, the other institutions/ banks tend to lend by offering lower rate of interest. Accordingly, to save that situation, institutions have been charging prepayment premium. As per the extant policy of TFCI, premium on premature repayment of loan is charged @ 2% of the amount prepaid for term loan/corporate loans and @ 1% of the amount pre-paid for loans given to NBFCs/HFCs and short-term corporate loans upto 1 year which shall continue for 2018-19.

However, the Executive Committee/Board of Directors will have the powers to stipulate prepayment premium lower than 2% applicable as per the policy after taking into consideration various factors as may be deemed appropriate in this regard.

The premature repayment of loan may be accepted without premium in the following scenario:

i) The envisaged project could not be completed/ has been abandoned because of circumstances beyond the control of assisted concern like non-receipt or withdrawal of statutory approvals, environmental clearances, natural calamities, etc. subject to the borrower satisfying TFCI that sufficient steps were taken to get these clearances without any success and about the genuine abandonment of the project for the said reasons.

ii) The pre-payment of loan is made out of internal accruals and/or by inducting additional equity in the project.

iii) The repayment period for the outstanding loan(s) of the assistance concern is only upto six months and premature repayment is made out of equity/ quasi-equity/ internal accruals.

iv) Premature repayment of funded interest amount which was approved by TFCI earlier due to adverse cash-flow position.

v) Prepayment is made at the time of reset of interest rate.

18. LOAN-REVIEW MECHANISM:

Loan-review mechanism (LRM) is an effective tool for constantly evaluating the quality of loan portfolio and to bring about qualitative improvements in credit administration. TFCI would, therefore, have proper loan-review mechanism for all accounts. The main objectives of loan review would be:

- Prompt identification of loans which develop credit weaknesses by picking up warning signals and suggestions for timely corrective action
- Improvement in the quality of credit portfolio through additional security
- Independent review of credit-risk assessment (CRA)
- Rating all projects continuously at least once in a year.
- Physical inspection of all projects to be done at least once in a year.
- Independent/ external valuation of prime security/ land for stress cases.
- To provide information for determination of adequacy of loan loss provision.
- Feedback on regulatory compliance
- Assessment of adequacy of and adherence to credit policies and procedures.

Loan-review would be conducted by the Reviewing officer (distinct from the Relationship Manager). Annual networth statements of guarantors would be obtained and security cover would be reviewed.

19. MONITORING & FOLLOW-UP:

i) There should be continuous monitoring and interaction with the borrower in order to assess the incipient default so that preventive action is taken well in time.

ii) There should be regular follow-up by way of telephones/letters/visits etc. for recovery immediately on the occurrence of first default. Performance of the project should be analyzed and corrective measures should be taken as rescheduling/restructuring depending upon projected cash-flows so as to avoid persistence of the default(s).

iii) If the assisted concern persists in default and is not responding to the letters for the same, appropriate notices may be issued to the borrower for further action including legal notice.

iv) If there is no significant recovery in response to the notices, the loan should be recalled within three months from the date of default and application for recovery may be filed with NCLT/Debts Recovery Tribunal at the earliest.

v) Necessary action under the 'Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002' may be considered depending upon the merits of the case as take-over/sale of the assets, transfer of the asset to Reconstruction or Securitisation company etc.

20. MANAGEMENT OF NPAs:

TFCI shall follow all the guidelines and prudential norms on income recognition, asset classification, provisioning etc. as announced by RBI and amended by it from time to time and all the accounts would be categorised standard or NPA strictly as per norms of RBI.

The Loan Recovery and Monitoring Policy, as approved by the Board of Directors, lays down the detailed guidelines with a view to reduce the NPA level by accelerating recoveries and to curb fresh slippages by constant monitoring of standard assets and persistent follow-up of NPAs:

i) Notwithstanding the aforesaid action / steps, a settlement may be negotiated which will ensure recovery of dues to the maximum extent possible at minimum expenses and within shortest possible time which would improve the NPA portfolio of TFCI. While tackling NPAs, a proper distinction will have to be made between wilful defaulters and defaulters due to circumstances beyond their control. While in case of the former, a tough stand would be taken; in the latter's case, a view based on merits would be taken ensuring long-term viability of the project.

ii) Where security is available, for assessing the realizable value, proper weightage would be given to the location, condition of the property, marketability and whether property is operated by the promoters or a chain having management tie-up with the borrower, etc.

iii) Due weightage would be given to present activities of the borrower/ guarantor(s), their present means, etc.

iv) While arriving at a negotiated settlement, the advantage available to TFCI from prompt recycling of funds would be weighed in comparison to the likely recovery by following legal or other protracted course of action.

v) High rate of interest, penal rate of interest charged in the account after the account turned NPA would be reviewed considering the long-term viability of the concern.

Besides, it is proposed to continue with the increased focus on proper appraisal, monitoring and follow-up on an ongoing basis. Emphasis will be on growth of quality credit to bring about further improvement in the share of standard assets in the credit portfolio. Greater emphasis will be laid on identifying the problems faced by the borrower during the long span of credit and to initiate pro-active remedial measures wherever warranted to avoid slippages. Efforts shall be made for recovery through compromise/ negotiated settlements as per the norms laid down in the Recovery Policy besides initiating legal action for recovery of the dues.

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