CARE Ratings
Professional Risk Opinion

CARE/DRO/RR/2018-19/1443

Mr. B M Gupta
Executive Director
Tourism Finance Corporation of India Limited
4th Floor, Tower 1, NBCC Plaza, Pushp Vihar
Sector 5, Saket, New Delhi – 110017

July 19, 2018

Dear Sir,

Credit rating for outstanding Non-Convertible Debenture issue and Commercial Paper Issue

Please refer to our letters dated July 02, 2018 and July 06, 2018 on the above subject.

2. The rationale for the ratings is attached as an **Annexure - I**. Kindly note that the rationale would be published in the forthcoming issue of our monthly journal, 'CAREVIEW'.

3. We request you to peruse the annexed documents and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by July 20, 2018 we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,

Jyoti

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Encl: As above

Rating Rationale

Tourism Finance Corporation of India Limited

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bonds	681.50 (Rupees Six Hundred Eighty One crore and Fifty lakh only)	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Reaffirmed**
Long-term Subordinated Bonds	100.00 (Rupees One Hundred crore only)	**CARE A+; Stable (Single A Plus: Outlook: Stable)**	**Revised from CARE A; Stable (Single A: Outlook: Stable)**
Commercial Paper	100.00 (Rs. One Hundred crore only)	**CARE A1+ (A One Plus)**	**Reaffirmed**

Rating Rationale

The ratings assigned to the instruments of Tourism Finance Corporation of India Ltd (TFCI) continue to factor in its experienced management, healthy capitalization levels, adequate profitability, and comfortable liquidity profile. The company's asset quality profile has improved with reduction in Gross NPAs and Net NPAs from 5.71% and 3.11% as on March 31, 2017 to 2.15% and 0.08% as on March 31, 2018. However, these rating strengths are partially offset by borrower concentration risk on account of TFCI being into wholesale lending, loan book concentration to tourism sector, moderate loan book growth over years and moderate size of loan book vs. other large entities in wholesale lending segment and stiff competition from banks & other NBFCs / financial institutions.

Revision in rating for subordinated bonds factors in comfortable capitalization profile and adequate profitability of the company.

Going forward, the ability of TFCI to increase the loan book while sustaining profitability, maintaining asset quality and achieving diversity would be the key rating sensitivities.

Also, in September-2017, IFCI sold 24% stake in TFCI and as a result IFCI's shareholding in TFCI reduced to 2.09% as on March 31, 2018 from 29.36% as on March 31, 2017. At the same time, a group of shareholders (including Redkite Capital Private Limited, a NBFC owing 13.27%, India Opportunities III Pte. Limited ultimately owned by SSG Capital Partners owning 4% and Mr. Koppara Sajeeve Thomas owning 2.54%) have acquired around 19.81% stake in the company and has made open offer for additional up to 26% equity shares of the company. The transaction is pending approval from the Reserve Bank of India (RBI), Securities Exchange Board of India (SEBI) and / or any other necessary approval as may be required.

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

CARE will monitor developments in this regard / any significant change in business strategy / business plan of the company post change in shareholding.

Background

TFCI was promoted by IFCI Ltd along with other financial institutions and banks in January 1989. The company was established to cater to the needs of the tourism industry and to ensure priority funding of tourism-related projects. TFCI provides financial assistance to tourism-related projects, such as hotels, resorts, restaurants, amusement parks, etc, primarily in the form of long-term loans and also by investing in such company's debentures, equity, preference shares, etc. Since FY12, consequent to change in Memorandum of Articles, TFCI has also started lending to other sectors such as infrastructure and solar power. From FY18, TFCI has also started funding to non-banking finance companies. The company also coordinates and formulates guidelines and policies related to financing of Tourism sector projects. As a developmental role, TFCI organizes seminars, participates in tourism related activities organized by the Ministry of Tourism and by trade bodies/associations. TFCI also provides research and consultancy services to state and central agencies for development of the tourism industry.

Credit Risk Assessment

Experienced management

The company was established to cater to the needs of the tourism industry and to ensure priority funding of tourism-related projects. The company has an experienced management team and the board of the company consists of 9 members including one Nominee members from GoI, one representative member from LIC and six independent members.

Healthy capitalization and low gearing

The capitalization level of TFCI continues to remain comfortable with a CAR of 42.28% as on March 31, 2018 (39.08% as on March 31, 2017). TFCI's gearing was 2.09 times as on March 31, 2018 (vs. 1.89 times as on March 31, 2017). Given the strong capitalization and low gearing, TFCI has sufficient unutilized and underleveraged capital to grow its asset book.

The debt of TFCI consists mainly of long-term bonds (75.6% of total borrowings) and bank borrowings (24.4% of total borrowings).

Comfortable liquidity profile

TFCI has adequate liquidity as reflected by positive cumulative mismatch in all time buckets as per structural liquidity statement on March 31, 2018. TFCI had cash and liquid investments worth Rs.204 crore as on March 31, 2018. Furthermore, TFCI had un-availed working capital lines of approximately Rs.170 crores as on March 31, 2018 which supports its liquidity profile further. While TFCI provides loans for longer tenures (with annual portfolio run down rate in the range of 10-15%), its ability to raise funding for longer tenures, lower gearing and available liquidity supports its liquidity profile.

Adequate profitability

TFCI reported profit after tax (PAT) of Rs.75.31 crore during FY18 vs. Rs.70.43 crore in FY17, the increase in PAT was supported by improvement in asset quality and consequent reversal of provisioning. ROTA and NIM during FY18, stands at 4.06% and 5.81%, respectively.

Improvement in asset quality

The asset quality of TFCI improved during FY18 with gross NPA ratio at 2.15% as on March 31, 2018, as against 5.71% on March 31, 2017, led by lower slippages coupled with higher recoveries. Net NPA ratio stood at 0.08% as on March 31, 2018 (3.11% as on March 31, 2017). In addition, the company had restructured advances of Rs.36.32 crore and security receipts of Rs.28.04 crore as on March 31, 2018.

***Moderate loan book growth over years and moderate* size of loan book vs. other large entities in wholesale lending segment and stiff competition from banks & other NBFCs / financial institutions**

TFCI registered a moderate growth of 9% y-o-y in gross loan portfolio to Rs.1,550 crore as on March 31, 2018 from Rs.1,421 cr as on March 31, 2017. TFCI's loan book comprised lending to tourism sector (80.8% of loan book), loan to manufacturing companies (13.8%), loan to NBFC (4.6% of loan book) and balance being other corporate lending as on March 31, 2018.

High concentration risk

As on March 31, 2018, TFCI's exposure to tourism-related projects was 80.80% of the gross portfolio thereby making the company vulnerable to adverse trends in the tourism sector. In addition to sector concentration risk, TFCI also faces borrower concentration risk as the top 20 outstanding exposures account for 62.6% of its total exposure and 155% of its tangible net-worth as on March 31, 2018.

Financial Performance: (Rs. Cr)

For the period ended / as at March 31,	*2016 (12m, A)*	*2017 (12m, A)*	*2018 (12m, A)*
Working Results			
Interest Income	169.44	186.54	204.20
Interest & Financial Charges	90.13	90.81	96.44
Net Interest Income	**79.31**	**95.73**	**107.76**
Other Income	16.20	22.00	22.91
Total Income	**185.64**	**208.54**	**227.11**
Operating Expenses	17.84	24.06	21.87
PAT	53.61	70.43	75.31
Financial Position			
Tangible Networth	514	554	625
Total Borrowings	996	1,050	1,306
Loan Portfolio (Net)	1,263	1,381	1,518
Investments	255	248	414
Total Assets	1,590	1,700	2,007
Key Ratios			
Solvency			
Overall gearing ratio(times)	1.94	1.89	2.09
Interest coverage(times)	1.87	2.04	2.14
Capital Adequacy Ratio (CAR) (%)	37.81	39.08	42.28
Tier I CAR (%)	30.91	32.69	36.06
Profitability			
Interest Income/Avg. loans (%)	13.24	13.75	13.75
Interest exp./Average borrowings (%)	9.23	8.87	8.19
Interest Spread (%)	4.01	4.88	5.56
Net Interest Margin (NIM) (%)	5.13	5.82	5.81
ROTA (%)	3.47	4.28	4.06
Asset Quality			
Gross NPA (%)	12.30	5.71	2.15
Net NPA (%)	10.30	3.11	0.08
Net NPA/Networth (%)	25.31	7.76	0.16

A: Audited

Details of Rated Facilities

Instruments	Amount (Rs. Cr)	ROI	Allotment Date	Redemption at par on
Long-term bonds				
Series MB XXXX	50	8.90%	Nov 29, 2010	Nov 29, 2020
Series MB XLI	100	10.15%	Sep 01, 2011	Sep 1, 2021
Series MB XLII	100	10.20%	Nov 16, 2011	Nov 16, 2021
Series MB XLIII	56.5	9.65%	Mar 19, 2012	Apr 19, 2022
Series MB XLIV	75	9.95%	Jun 30, 2012	Jul 1, 2022
Series MB XLV	75	9.95%	Aug 21, 2012	Aug 21, 2022
Series MB XLVI-A	50	9.50%	Feb 25, 2013	Feb 25, 2023
Series MB XLVI-B	100	9.60%	Feb 25, 2013	Feb 25, 2028
Series MB XLVI-C	75	9.65%	Feb 25, 2013	Feb 25, 2033
LT subordinated Tier II Bonds				
Series MB XXXVIII	75	9.50%	March 31, 2009	April 30, 2019
Series MB XXXIX	25	9.50%	April 08, 2009	April 30, 2019
Commercial Paper	100	-	-	-

(This follows our brief rationale for entity published on 06 July, 2018)