CREDIT POLICY

1. PREAMBLE:

India has emerged as the third largest economy globally in terms of purchasing power parity and is projected to become the world's fastest major growing economy by 2016, overtaking China, as per estimates of World Bank and the International Monetary Fund (IMF).

During 2014-15, the Indian economy showed signs of recovery on account various domestic and global factors. The GDP growth which had moderated to an average of 5.8% in the preceding two years increased to 7.4% in 2014-15. There was softening in inflation on account of fall in international crude oil prices and commodity prices. The ushering of reforms by the central government is likely to result in the country becoming a fast-growing large economy in the years ahead. The strong private demand and high savings rate in the country is expected to boost investment cycle over the next 1-2 years.

Tourism is an important sector of the economy and contributes significantly in the country's GDP as well as foreign exchange earnings (FEE). With its backward and forward linkages with other sectors of the economy like infrastructure, including transport & construction, handicrafts, horticulture, etc., tourism has the potential to be an economy driver and also an effective tool for poverty alleviation. The tourism sector recorded satisfactory performance during the calendar year 2014. The foreign tourist arrivals (FTA) in India were 7.70 million during 2014 as compared to 6.97 million during 2013, recording a growth of 10.5%. The FEE from tourism during 2014 were Rs.120083 crore as compared to Rs.107671 crore during 2013, registering a growth of 11.5%. The domestic tourists in India were around 1248 million during 2014 as compared to 1145 million during 2013, recording a growth of about 9%. The availability of good quality and/or affordable hotel rooms plays an important role in boosting the growth of tourism in the country. Presently, India has about 1,63,000 rooms in classified hotels and it needs additional 1,37,000 rooms, out of which 90,000 rooms in the mid-market/budget segment, over next five years to meet the gap. The Government of India is encouraging tourism sector by means of fiscal incentives, supporting mega-tourism projects across the country, expanding visa-online scheme, strengthening tourism-oriented training & education infrastructure and promoting the country as a destination for heritage, wildlife, medical, wellness, rural, adventure and eco-tourism.

Infrastructure plays a key role in development of a country's economy. The infrastructure sector in India is presently traversing through growth phase, which is important for overall development of the country. The investment in infrastructure is, which would require debt of around US$ 500 billion in the next 4-5 years. There is huge demand-supply gap in various infrastructure segments viz. power, telecommunication, transportation, construction, urban infrastructure, etc. and Government is promoting investment by both public and private sectors to bridge the gap.

The industrial/manufacturing, real-estate and services sectors have a significant contribution in the Indian economy. On account of sustained demand and increase in per capital income, these sectors are expected to show satisfactory growth in mid-term.

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 2015-16 has been drafted to ensure sustained growth and 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 make further inroads in infrastructure, industry/manufacturing & services sectors funding and develop/strengthen the in-house system for appraisal and funding of these projects.

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

iv) To ensure balanced exposure in different segments of tourism, infrastructure, manufacturing, real-estate on selective basis & services projects 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 minimum of 75% at all times.

v) To ensure compliance under the overall policy directive of Govt. of India, 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, based on the net owned capital funds as on 31.3.2015 (Rs.472.72 crore), would be:

(Rs. crore)

	Single Borrower	**Group Borrower**
Loans or Investments taken separately	70.90 (15%)	118.18 (25%)
Loans and Investments taken together	118.18 (25%)	189.08 (40%)
Loans or Investments taken separately (if additional exposure is on account of infrastructure loan/investment)	94.54 (20%)	165.45 (35%)
Loans or Investments taken together (if additional exposure is on account of infrastructure loan/investment)	141.81 (30%)	236.36 (50%)

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. The exposure ceiling would be revised annually based on the owned funds of TFCI, as on the year ending, after the finalization of accounts.

3.2 The RBI has issued detailed guidelines to FIs in regard to '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 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, banks and institutions.

d) Borrowers whose credit rating by credit 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 on selective basis, services sector and related activities, facilities and services, 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
- Takeover financing or Refinancing
- Bridge Loan
- Other products viz. bill-discounting, leasing facility, equipment financing, lease rental discounting, letter of credit, securitization of debt etc.

5. AREAS FOR FINANCIAL ASSISTANCE:

The sector-wise cumulative assistance sanctioned by TFCI upto 31.3.2015 was as follows:

Segments	No. of Projects	Amount Sanctioned (Rs. in Crore)	Percentage
A. TOURISM			
(i)Hotels			
5 Star Hotels	148	2453.38	32.87%
4 Star Hotels	63	770.28	10.32%
3 Star Hotels	336	2083.29	27.91%
2 star, Heritage & Others	58	204.64	2.74%
Sub-Total	605	5511.59	73.84%
(ii)Amusement/Water Park/ Shopping Complex-cum-entertainment centre/ multiplex	41	330.50	4.43%
(iii)Restaurants/Food Court	25	99.23	1.33%
(iv)Other Tourism Projects*	58	620.04	8.30%
Total Tourism	**729**	**6561.36**	**87.90%**

B. Infrastructure:			
Infrastructure projects	7	174.70	2.34%
C. Others:			
Other Sectors	22	728.86	9.76%
Grand Total	**758**	**7464.92**	**100.00%**

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

The outstanding loan/debenture and investment assets of TFCI as on 31.3.2015 were as follows:

Sector	**No. of Projects**	**Amount Outstanding** (Rs. in Crore)	**Percentage**
I. Loans & Debentures			
A. Tourism:			
(i) Hotels:			
5 Star & 5 Star Deluxe	19	524.64	37.97%
4 Star	5	139.64	10.10%
3 Star	21	214.59	15.53%
2/1 Star, Heritage & Others	4	26.35	1.91%
Sub-Total	49	905.22	65.51%
(ii) Amusement Parks/ FEC/ Multiplex Complex	3	43.03	3.11%
(iii) Restaurant/Food Court	2	10.51	0.76%
(iv) Other Tourism Projects*	5	85.79	6.21%
Total - A	**59**	**1044.55**	**75.59%**
B. Infrastructure:			
Energy - Wind/Solar	3	56.61	4.10%
Agri-warehousing & Road	2	24.35	1.76%
Total - B	**5**	**80.96**	**5.86%**
C. Others:			
Real-Estate/Housing	4	98.86	7.16%
Manufacturing & Others	4	157.41	11.39%
Total - C	**8**	**256.27**	**18.55%**
Total-I (A+B+C)	**72**	**1381.78**	**100.00%**
II. Investments			
Equity (quoted/unquoted) Tourism Others Sub-total	 6 5 **11**	 18.75 19.22 **37.97**	
Mutual Funds		56.16	
Total -II		**94.13**	
III. Others Loan Assets		**6.61**	
Total Assets (I+II+III)		**1482.52**	

(*viz. Travel Agency, Tour Operator, Club, Lounge, 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 of the Government of India on creation of room inventory to accommodate the tourists and this segment being capital-intensive in nature. Since TFCI had ventured into infrastructure financing during 2010-11 and financing of other sectors during 2011-12, its exposure in these sectors is low. The infrastructure projects are generally vast in size and have large debt requirement as also long gestation period and need specialized technical personnel for analysis. Thus infrastructure, excluding for small capacity solar & wind energy projects, is not a very attractive lending opportunity for TFCI on a stand-alone basis. Therefore, TFCI on stand-alone basis would participate in financing of infrastructure projects in solar & wind energy, warehousing and hospital segments where capital requirement is relatively less. 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 would also be taken up on selective basis based on the credit record of the borrower.

In the light of the above, it is felt that emphasis of deployment of credit during current financial year 2015-16 would be in the following areas (the list is indicative and not exhaustive):

A. Segments of Tourism Industry :

i) Hotel projects involving capital outlay of Rs.20 crore and above.

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

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

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

vi) Tourism-related infrastructure projects

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

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

ix) 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.

iii) Banquet halls with accommodation facilities especially targeted to 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 requirements.

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

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 multiplexes (multi-screen cinema halls), sports centers/golf courses in metro and other cities/towns

iii) In view of tax-implications, it is proposed not to encourage proposals for leasing assistance.

B. Segments of Infrastructure Sector:

Any infrastructure facility that is a project in any of the following:

Sl. No.	Category	Infrastructure Sub-Sectors
1	Transport	Roads and Bridges; Ports; Inland Waterways; Airport; Railway Track, tunnels, viaducts, bridges; Urban Public Transport (Except rolling stock)
2	Energy	Electricity Generation; Electricity Transmission/ Distribution; Oil/ Gas Pipelines; Oil/Gas/LNG storage facility
3	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
4	Communication	Telecommunication (Fixed Network) like optic fibre/ cable networks or broadband and internet connectivity; Telecommunication Towers; Telecommunication & Telecom services
5	Social and Commercial Infrastructure	Educational Institutions including medical college, para medical training institutes; diagnostics centres; 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-related projects with special emphasis on the following:

i) Midsize solar and wind energy generation projects with executed long-term power purchase agreement.

ii) Midsize social and commercial infrastructure projects, particularly those which augment tourism and/or medical tourism development in the country.

iii) TFCI could join with other lenders in financing other infrastructure projects promoted by established concerns also on merits.

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 corporate loan/medium-term/short-term loan for tenure upto 5 years at a higher interest yield and backed by adequate securities to companies with satisfactory credit record. However, in case of term loans for a tenure exceeding 5 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 expansion, technology upgradation, modernization, general corporate purposes, meeting temporary cash-flow mismatch, pre-operative expenses, working capital financing and swapping of debt.

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.

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. The aforesaid approval should be obtained 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) Where Land is acquired by the company at market price

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) Where land is owned by promoters, company or associate concerns of promoters for more than 10 years

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 Prime Lending Rate upto the ceiling as given in (b) above.

6.2 Core Promoters' Contribution:

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

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 could 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. There shall be no moratorium on interest payment.

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

6.5 Repayment Schedule:

Considering that tourism projects have long implementation and gestation period, the cash-flows in the initial years of operations are low. In the light of the above, the general norm for repayment could be 8-10 years after allowing moratorium as defined in para-6.4 ante after commencement of commercial operations. In case of multiplexes/ entertainment centers, the cash-flows in the initial years are satisfactory. As such, the general norm for repayment of the loans to this sector could be 6-7 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 units. 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 base rate. 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 Other Financial Parameters:

(i) Debt Service Coverage Ratio (DSCR): Based upon the profitability projections, the minimum average DSCR should be 1.5 for the entire tenure of the term loan.

(ii) Fixed Asset Coverage Ratio (FACR): The security by way of charge on project assets and including mortgage of land & building and hypothecation of plant & machinery, equipment and other assets should give a minimum FACR of 1.5 times.

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, modernisation, expansion and improvement of any infrastructure project or facility including roads, highways, railways, airways, waterways, ports, transport systems, bridges, systems for generation or storage or transmission or distribution of power, health-tourism and education.

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 4:1 depending upon the debt-service coverage ratio for the project 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.

7.4 Interest Rates & Other Charges:

(i) Interest rates as notified by TFCI from time to time.

(ii) Interest rates prevailing on the date of disbursement(s) shall be applicable.

(iii) Penal interest payable on default payments.

(iv) Commitment fees/upfront fees as may be applicable for respective borrowers from time to time.

(v) Processing fee for private sector entities as applicable from time to time.

(vi) Interest is to be paid monthly on 15th of every month.

(vii) Interest reset condition to apply from the standard due date following the date of first disbursement every year.

7.5 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.

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

7.6 Repayment Schedule:

Considering that infrastructure projects have long implementation and gestation period, the cash-flows in the initial years of operations are low. In the light of the above, the general norm for repayment may be 12-15 years after allowing moratorium as defined in para-7.5 ante, as the case may be, after commencement of commercial operations. Funding of interest during the initial years of operations may also be considered on merits based on cash-flows.

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.

7.7 Flexible Structuring of Long-Term Project Loans to Infrastructure Sector:

The Reserve Bank of India (RBI) vide its circular No.DNBR.PD.CC. No.012/03.10.001/2014-15 dated 19th January 2015 has issued norms applicable to NBFCs for flexible structuring of long-term loans to infrastructure and core industries, which inter-alia includes hotel and convention centre projects with capital cost (excluding cost of land) of Rs.200 crore and Rs.300 crore respectively. As per the norms, RBI has permitted longer tenure amortization of the loan, say 25 years (within the useful life/concession period of the project) with period refinancing of the balance debt, the tenure of which could be fixed at the time of each refinancing, within the overall amortization period. TFCI, while assessing the viability of such projects, is allowed to accept the project as viable where the average DSCR and other financial parameters are acceptable over longer amortization period of say 25 years, but provide funding for only, say, 5 years with refinancing of balance debt being allowed by TFCI or new lenders or even through bonds. The refinancing after each of these 5 years would be of the reduced amounts determined as per the original amortization schedule. TFCI shall adopt/follow the above mentioned RBI norms for flexible structuring of long-term infrastructure project loans.

7.8 Consortium Lending:

Initially proposals for infrastructure funding shall be considered primarily in association with other banks/ financial institutions who have acquired specialised knowledge in their respective domain. TFCI may enter into Memorandum of Understandings 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, underwriting commission would be similar to the prevailing/ applicable terms of other banks/ financial institutions. However, the interest rate for the assistance shall not be less than TFCI's base rate.

7.9 Security:

(i) State/central government or bank guarantee or charge on assets for state and central sector entities, while charge on project assets for others.

(ii) Where project assets cannot be mortgaged/hypothecated, charge on the cash flows through escrow mechanism and annuity system may be taken.

(iii) Tripartite Escrow Agreement among the borrower, TFCI and other lenders in case of state and central sector entities while Trust and Retention Account mechanism for others.

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

(v) Other securities, as may be necessary or stipulated by other consortium lenders.

8. NORMS FOR FINANCIAL ASSISTANCE IN OTHER SECTOR PROJECTS:

The borrower company should be profit-making with satisfactory credit record. In case of rated companies, the minimum rating should be 'BB'. The 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 mortgage of immovable assets and/or by way of pledge of listed shares should be atleast 2 times and/or 2.5 times respectively of the loan. The interest rate could be both variable and fixed, with or

without linking to 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. NORMS FOR TAKEOVER FINANCING:

TFCI may consider financing well-established concerns having 3 years' of satisfactory credit record for refinancing of existing loans and/or takeover/refinancing of loans of tourism-related 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 and the account should not be irregular with existing lender(s).

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

10. 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 scrutinised 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 analysed 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.

11. PRICING OF LOANS:

TFCI has been lending at interest rate based on the Base Rate (BR) which was approved/revised from time-to-time by the Board. The loan-pricing is done based on risk-rating based loan-pricing matrix as approved/revised by the Board. If the borrower has a rating from an external rating agency the same shall be accepted in place of internal rating as the external agencies follow a comprehensive risk-assessment and surveillance methodology. The rating of the borrower shall be reviewed based on current data on annual basis. Further, while considering request for reduction in rate of interest/restructuring, the rating of the existing borrower needs to be carried out.

The loan-pricing will be generally based on risk-rating as per the following matrix:-

Internal Rating	**Rate of Interest**	**External Rating**	**Rate of Interest**
BB	Base Rate+ 1.50%	BB (+)/BB	Base Rate+ 1.50%
BBB	Base Rate+ 1.00%	BBB (+/-)	Base Rate+ 0.75%
A	Base Rate+ 0.75%	A (+/-)	Base Rate+ 0.50%
AA	Base Rate+ 0.50%	AA (+/-)	Base Rate+ 0.25%
AAA	Base Rate+ 0.25%	AAA (+/-)	Base Rate

The Executive Committee/Board of Directors will have the powers to stipulate rate lower than the rate prescribed above, subject to minimum of Base Rate, 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 minimum of Base Rate which will be negotiated with the borrowers based on the opportunity-cost concept.

One-time appraisal-cum-upfront fee for term loan @ 1% (appraisal: @0.25% & upfront: @0.75%) of the loan sanctioned shall be charged by TFCI out of which atleast 25% will be received before issuance of Letter of Intent. Further, one-time appraisal-cum-upfront fee for short-term/corporate loan upto maturity of 3 year shall be charged by TFCI as follows:

- @ 0.25% of the loan sanctioned for tenure upto 1 year
- @ 0.50% of the loan sanctioned for tenure upto 2 year
- @ 0.75% of the loan sanctioned for tenure upto 3 year

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 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 is non-refundable and shall be adjusted against the appraisal-cum-upfront fee of the loan sanctioned. In case due to any reason the disbursement for the sanctioned loan could not be effected, the refund of appraisal-cum-upfront fee may be considered to the extent of 75% with approval of the Managing Director. 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.

12. 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, 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 without compromising on the security.

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.

13. VALIDITY OF FINANCIAL ASSISTANCE:

All the sanctions for financial assistance shall be valid for a maximum period of 1 year. 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.

14. COMPLIANCE OF KYC GUIDELINES:

The KYC guidelines for all borrowers shall be complied with as per RBI master circular No.DNBS (PD) CC No.387/03.10.42/2014-15 dated 1st July 2014 applicable for 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 Accounts
d) Risk Management

a) <u>Customer Acceptance policy:</u>

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 Customer	• 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 companies/ 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	• Consortium Banking – more than 3 lenders	• Multiple banking – 2 to 3 lenders	• Single Lender

Location of Customer	• Hotels/Restaurants in Tier III cities	• Hotels/Restaurants in Tier II cities	• Hotels/Restaurants 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	-
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.	• 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) <u>Customer Identification Procedure:</u>

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, Passport, 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.

2. Partnership firms • Legal name • Address • Names of all partners and their addresses • Telephone numbers of the firm and partners	(i) Registration certificate, if registered. (ii) Partnership deed (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. passport, pan card etc. (v) Income Tax returns for the last three years.
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)

c) Monitoring of Accounts:

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 doesnot 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.

15. 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. Institutions make back to back arrangements for its lending to constituents. Accordingly, to protect the margins, prepayment premium is normally 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 which shall be continued for 2015-16.

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 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.

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

Further, in respect of the assisted concerns who had contracted loan(s) at rate of interest higher than the prevailing rate of interest and seek reduction in the rate of interest on the outstanding loan(s), the interest rate may be reset within the prevailing interest rate band based on current rating of the assisted concern, subject to payment of 50% premium calculated by applying on the outstanding loan the differential interest

rate between the document rate and the reset interest rate for the remaining tenure of the loan discounted at the reset rate.

16. 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).

17. 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 recall / legal notice.

iv) If there is no significant recovery in response to the notices, the loan should be recalled within one year from the date of default and application for recovery

may be filed with Debts Recovery Tribunal at the earliest after the loan is recalled, if payment is not made by the borrower within time allowed in the recall notice.

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.

18. 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 Recovery 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.

ii) 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.

iii) 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.

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

v) 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.

vi) 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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