CREDIT POLICY (2019-20)

1. PREAMBLE:

Even more than a decade after the global financial crisis and six years after taper tantrum, the global economy is still not on a stable growth path. Following an upward swing in 2017, there has been growing evidence that global growth and trade is weakening. Unsettling trade tensions and developments around Brexit are imparting further downside risks to global growth outlook while signs of weakening world industrial production and trade volume and other business confidence indicators have been witnessed worldwide during early 2019. Taking cognisance of these factors, projections of world growth for 2019 have been revised down by the IMF, World Bank and the OECD in their latest assessments. Likewise, global trade is projected to expand at a moderate pace in next two years in line with the subdued investment outlook for many major economies.

India, despite subdued global economy, emerged as one of the fastest growing major economy in the world. India, driven by consumption and investment demand, registered GDP growth of over 7 per cent for four years in succession upto 2017-18. However during 2018-19, the Indian economy registered somewhat slower growth, estimated to be approx. 6.9 per cent as some drivers of growth, notably investment and exports, slowed down. However, 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 which makes it all the more creditable. Even with lower growth, GDP growth for the last five years has averaged 7.1 per cent, which is the highest among the major economies of the world. 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. Furthermore, other institutional reforms such as the Goods and Services Tax (GST), the four Labour codes and the Arbitration and Conciliation Act, are 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 77 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. India, backed by its strong democracy and partnerships, is expected to be among the top four economic powers of the world by 2023.

1.1 Tourism Sector:

The Indian tourism and hospitality industry has emerged as one of the key drivers of growth among the service sector in India. Tourism in India has significant potential considering the rich cultural and historical heritage, variety in ecology, terrains and places of natural beauty spread across the country which facilitates India to offer a diverse portfolio of niche tourism products – MICE, cruises, adventure, medical, wellness, sports, eco-tourism, film, rural and religious tourism. As per World Economic Forum (WEF), India was ranked 12th in the Asia pacific region and 40th overall in the list of the world's attractive destinations. The world Trade and Tourism Council ranked India 18th in business travel and also predicted to climb up to be amongst top 5 ranks. During 2018, foreign tourist arrivals (FTAs) in India stood at 10.56 million, achieving a growth rate of 5.20 per cent year-on-year.

As per World Travel and Tourism Council (WTTC) India's travel and tourism sector ranks 7th in the world in terms of its total contribution to the country's GDP. Tourism is also a potentially large employment generator besides being a significant source of foreign exchange for the country. The industry generated Rs.16.91 lakh crore (US$240 billion) i.e. 9.2% of India's GDP in 2018 and provided 42.67 million jobs which accounted for 8% of total employment. During 2018, Foreign Exchange Earnings (FEEs) from tourism increased 4.7% year-on-year to US$ 28.59 billion. Domestic travel spending also witnessed impetus, attributing 87.2% to the direct Travel & Tourism GDP. The sector is predicted to grow at an annual rate of 6.9% to Rs.32.05 lakh crore (US$460 billion) by 2028 (9.9% of GDP). The tourism and hospitality sector is also among the top 10 sectors in India to attract the highest Foreign Direct Investment (FDI). During the period April 2000-December 2018, the hotel and tourism sector attracted around US$ 12 billion of FDI, according to the data released by Department for Promotion of Industry and Internal Trade (DIPP).

The hotel industry in India thrives largely due to the growth in tourism & travel and with rising foreign and domestic tourists, hotel sector is bound to grow. The booming tourism industry has had a cascading effect on the hospitality sector with an increase in the occupancy ratios and average room rates. While an assortment of influences had repressed the Indian hospitality sector's from 2009 to 2016, the sector has taken an upward swing and the nationwide occupancy levels and average room rates (ARRs) have 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. As per HVS Industry Review, the year 2018 has been inflection point in hotel industry as after a long hiatus the ARR grew by approx. 6.25% and ADRs grew at a faster rate than long-term inflation rate of 4.5%, suggesting that markets are now on a steady path to recovery. In addition, 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. It is anticipated that the hotel industry is expected to fall short of meeting the long term demands of an economy growing at about 7% p.a. 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, the expected future additional inventory in 11 major markets (branded) is at around 57,000 rooms only over the next 5 years. 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. As per industry experts, mid-hotel segment in India is expected to receive investments (excluding land) of Rs.6,600 crore (US$ 990 million) over next five years, with major hotel chains like Marriott, Radisson Hotel group and ITC planning to set up upscale, budget hotels in state capitals and tier-II cities. As per Cygnus estimates about 40 international brands are said to enter the country in the next 5 years.

Concludingly, the demand-supply gap in India is very real and there is need for more hotels. The shortage is especially true within the budget hotels and the mid-market hotels segment as travelers look for safe and affordable accommodation. Various domestic and international brands have made significant inroads into this space and more are expected to follow as the potential for this segment of hotels becomes more obvious.

<u>Government Initiatives for Tourism Sector Development:</u>

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 five years, the government has launched several key projects 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), Swadesh Darshan, PRASAD, revamping existing schemes such as Hunar se Rozgar tak, 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. The Government of India is working to achieve 1% share in world's international tourist arrivals by 2020 (20 million foreign tourists) and 2% share by 2025. In Union budget 2018-19, the government allotted Rs.1160 crore (US$160.78 million) for development of tourist circuits under Swadesh Darshan. Under Swadesh Darshan scheme, 15 thematic circuits in the country have been selected for development of tourism infrastructure. A five-year tax holiday has been offered for 2, 3 and 4 star category hotels located around UNESCO World Heritage sites (except Delhi & Mumbai).

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 will develop 10 prominent sites in India into iconic tourist destinations, as per Union Budget 2018-19. 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. Government also proposed to establish five special tourism zones and increase the focus towards rural infrastructure development and introduction of bio-toilets. Under the budget government has allotted US$ 142.8 million for Integrated development of tourist circuits under Swadesh Darshan scheme. Further, US$ 14.8 million was allocated for promotion & publicity of various programmes & schemes of the Tourism ministry.

1.2 <u>Other Sectors:</u>

(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. As per World Bank's Logistics Performance Index (LPI) 2018, India rank 44^{th} amongst 160 countries. In the Union Budget 2018-19, the Government of India has given a massive push to the infrastructure sector by allocating Rs.5.97 lakh crore (US$ 92.22

billion) for the sector. Increased impetus to develop infrastructure in the country is attracting both domestic and international players. Private sector is emerging as a key player across various infrastructure segments, ranging from roads and communications to power, airports and other urban infrastructure.

(b) NBFC Sector: Loans from the shadow banking sector expanded rapidly in the period up to the IL&FS defaults, a time in which the regulated banks were in the depths of a bad-loan crisis, weighed down by some $200 billion of soured credit. NBFCs accounted for nearly a third of all new credit over the previous three years, with some of the loans going to riskier sectors like infrastructure and property development. However, aggressive growth targets by NBFCs together with stiff competition on interest rates resulted in massive change in borrowing mix whereby short term borrowings took center stage over long-term borrowings. The shadow banking crisis started off when the NBFC behemoth Infrastructure Leasing and Financial Services (IL&FS) defaulted on payments on its Rs.90,000 crore debt to various banks. Since then, the sector has been reeling under stress and facing issues of credit squeeze, over-leveraging and asset-liability mismatches. Though measures initiated by the Government stopped the crisis from developing into a contagion and spilling over to other sectors. On the whole, the outlook for the sector is still looking weak as liquidity remains a major concern.

(c) Real-Estate Sector: 2018 was a veritable roller-coaster ride for the Indian real estate sector. The initial agony of policy overhauls like RERA and GST faded, leaving in its wake a more transparent and efficient real-estate market environment. While affordable housing took centre-stage in residential, co-working emerged as the new poster boy of commercial real-estate and logistics and warehousing also saw significant growth. In terms of market traction, commercial real estate retained its status as the most buoyant sector in 2018 across major cities with high demand for Grade A office space and decline in vacancy levels in prime locales. Despite signs of recovery across segments, the liquidity crunch– further exacerbated by the NBFC crisis– put all industry stakeholders on tenterhooks. Consolidation via mergers and acquisitions was rife in all sectors, completely redefining the concept of 'financial health' among players and drawing clear lines on who will survive the heat. Over the last two to three years, the liquidity crunch has been a major pain-point for Indian real estate owing to tepid sales, banks' refusal to disburse loans due to rising NPAs and the widening debt-equity ratio. The recent NBFC crisis in September 2018 has only exacerbated the pain for the real estate sector and its major stakeholders – the developers. According to a recent ICRA report, the outlook for

India's residential real-estate sector remains negative owing to weak consumer sentiments despite the recent announcement of various sops for the buyers. The factors responsible for negative outlook are demand-supply mismatches in many markets and product segments, leveraged balance sheets and continuing funding challenges for developers, challenging macro-economic environment, and low affordability levels for buyers. According to ICRA, going forward, market consolidation trends will continue, enabling larger developers to gain at the expense of the smaller ones. Given the current market conditions, developers are realigning strategies to meet market requirements and their focus has shifted on right-sizing and right-pricing which is likely to support pick-up in sales velocity.

2. OBJECTIVES:

TFCI has traditionally been providing long-term finance mainly to tourism sector and post 2011 decided to expand its footprints in infrastructure financing, real-estate, manufacturing/services sector and refinancing of NBFCs and other fee-based consultancy services. The growth in India's tourism, infrastructure, industrial/manufacturing, services sectors has provided opportunities for TFCI to expand its business at a steady pace but to ensure a healthy loan book TFCI has been lending to other sectors on a very selective basis. Presently, TFCI is a highly capitalized NBFC i.e. underleveraged having diversified moderate loan book which is backed by high collateral security. However, the recent turmoil in the NBFC sector has made it necessary to look for newer avenues to diversify the lending portfolio and expand the asset base to add newer products and reduce concentration in single sector/large clients. As such, TFCI apart from expanding its existing lending activities also proposes to diversify and increase its share of business from other sectors like Acquisition Finance, Structured Finance, MSME and Equipment financing which would increase capital efficiency with higher returns.

The credit policy for the year 2019-20 has been drafted, in line with the above, to ensure sustained growth with optimum utilization of the resources and provides guidelines for profitable growth of the credit portfolio by identifying specific business opportunities and managing the risks involved therein. The primary objectives of the credit policy would be 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) Exploit the synergies in the eco-system and to make further inroads in social infrastructure including schools, hospitals etc., industry/ manufacturing, real-estate (on selective basis) and services sectors funding and develop/strengthen the in-house system for appraisal and funding of such projects.

iii) To explore opportunities in project financing by way of structured financing, acquisition, MSME financing and equipment financing.

iv) To ensure balanced exposure in different segments of tourism, infrastructure, manufacturing, real-estate, services projects and MSME giving blend of high quality investment grade and high-yield lending 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%.

v) To make concentrated efforts to build a mix portfolio with balanced sectoral growth and well-spread geographical presence.

vi) To gradually reduce concentration risk in top 20 accounts to 50% in next 3 years and further reduced to 35% in next 5 years.

vii) Diverse borrowing book of term loans, cash credit limit, non-convertible debentures, external commercial borrowings.

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

ix) To explore opportunities for fee-based activities like Tourism Advisory Services to private sector, institutions and central/state Govt.

x) 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:

The credit business will be carried out in accordance with the provisions of RBI from time to time. The details on compliance to prudential norms as applicable to a particular facility shall be mentioned in the appraisal note. However, in case of any discrepancy or divergence RBI guidelines issued from time to time will prevail over Credit Policy.

3.1 Exposure Limits:

3.1.1 TFCI has been categorized as "Systemically 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 2019-20, based on owned funds as on 31.3.2019 would be:

(Rs. in crore)

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

TFCI shall work within the exposure ceilings stipulated as above in respect of single borrower as well as group, while considering the proposal(s) for financial assistance.

3.1.2 In case of exposures where the prudential exposure limits have been exceeded during the year, TFCI shall make appropriate disclosure in the notes to accounts in the annual financial statements. The sanctioned limit or entire outstanding, whichever is high, shall be reckoned for exposure limit. However, a suitable time-frame may be fixed to bring the exposure within the ceiling.

3.1.4 The Industry wise exposure limits will be as approved by the Risk Management Committee of Directors in the Credit Risk Management Policy from time-to-time.

3.2 Connected Lending:

3.2.1 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.

3.3 Fair practice code:

As directed by the Reserve Bank of India, TFCI's Fair Practice Code as approved by the Board of Directors has been uploaded on the website.

3.4 Regulatory Restriction on certain types of loans and advances:

In terms of RBI guidelines, there are restrictions for granting loans and advances against security of own equity shares which shall be adhered to. 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 other banks/institutions.

c) Borrowers/guarantors who have defrauded and/or have not fulfilled their commitment to TFCI, other banks and institutions.

d) Borrowers having a credit rating by an external rating agency is BB or lower

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, MSME, 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 Loans
- Short-term Corporate Loan upto 1 year
- Acquisition Financing
- Structured Finance
- MSME Financing
- 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 three decades of existence, despite being a small player, has remained relevant to the context and played catalytic role in building the tourism infrastructure of the country. TFCI, since inception, has assisted more than 896 projects which has led to catalysing investments to the tune of Rs.31079 crore thereby contributing to the creation of required tourism infrastructure and having a direct bearing on the development of the industry. TFCI has been instrumental in creation and addition of 51,374 hotel rooms in the country and contributed to generating direct employment to about 95,534 persons in tourism and other industry. The sector-wise cumulative assistance sanctioned by TFCI upto 31.3.2019 was as follows:

Segments	No. of Projects	Amount Sanctioned (Rs. in Crore)	Percentage
A.TOURISM			
(i)Hotels			
- 5 Star Hotels	180	3756.38	32.90%
- 4 Star Hotels	89	1507.58	13.21%
- 3 Star Hotels	376	2733.64	23.94%
- 2 Star, Heritage & Others	61	293.89	2.57%
Sub-Total	**706**	**8291.49**	**72.62%**
(ii) Amusement/Water Park/Shopping Complex-cum-entertainment centre/ multiplex	43	378.25	3.31%
(iii)Restaurants/Food Court	26	103.23	0.90%
(iv)Other Tourism Projects*	64	875.54	7.67%
Total Tourism	**839**	**9648.51**	**84.50%**
B.Infrastructure			
Infrastructure Projects	13	409.50	3.59%
C.Others:			
Other Sectors	44	1359.36	11.91%
Grand Total	**896**	**11417.37**	**100.00%**

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

The aggregate outstanding loans and advances of TFCI as on 31.03.2019 were as follows:

Sectors	No. of Projects	Total Outstanding (Rs.in crore)	%
A. Tourism			
(i) Hotels			
- 5-Star & 5 Star Deluxe	16	500.58	29.55%
- 4-Star	9	199.86	11.80%
- 3-Star	20	235.61	13.91%
- 2-Star, Heritage &Other	1	3.30	0.19%
Sub-Total	**46**	**939.35**	**55.45%**
(ii) Amusement/Multiplex	2	52.48	3.10%
(iii) Others *	5	208.87	12.33%
Total - A	**53**	**1200.70**	**70.88%**
B. Infrastructure			
-Tourism	7	76.83	4.54%
- Social (Hospital/Education)	2	20.00	1.18%
Total - B	**9**	**96.83**	**5.72%**
C. Others			
- Real Estate/Housing	-	-	-
- Manufacturing	6	308.75	18.23%
- Others/NBFC	4	87.54	5.17%
Total - C	**10**	**396.29**	**23.40%**
GRAND TOTAL (A+B+C)	**72**	**1693.82**	**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 viz. 5-star, 4-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 and financing of other sectors from 2010-11 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 2018-19, TFCI sanctioned loans aggregating Rs.1064.65 crore (PY:Rs. 1272.30 crore) and disbursed amount aggregating Rs.490.41 crore (PY: Rs.692.98 crore). Owing to the challenging and subdued business environment in 2018-19 including turmoil in NBFC sector and slowdown in real-estate and manufacturing sectors, the board advised the management to adopt a cautious approach in sanctioning and disbursing loans to avoid slippages/stressed assets.

The sector-wise assistance sanctioned and disbursed by TFCI during 2018-19 was as follows:

(Rs. in crore)

Particulars	**2018-2019**			
	Sanctions		**Disbursement**	
	Amount	**%**	**Amount**	**%**
A. Tourism				
-New Projects	346.00	32%	142.12	29%
-Expansion/Enhancement	28.00	3%	5.00	1%
-Refinance	309.65	29%	62.99	13%
-Acquisition	61.00	6%	-	-
-Others (working capital etc.)	75.00	7%	83.00	17%
Sub-Total (A)	**819.65**	**77%**	**293.11**	**60%**
B. Non-Tourism				
-Social & Commercial Infrastructure	75.00	7%	42.80	9%
-Refinance to NBFCs	25.00	2%	25.00	5%
-Industrial/Manufacturing Companies/lease rental discounting	145.00	14%	129.50	26%
-Real-Estate	-	-	-	-
Sub-Total (B)	**245.00**	**23%**	**197.30**	**40%**
Grand Total (A+B)	**1064.65**	**100%**	**490.41**	**100%**

During 2018-19, TFCI sanctioned loan aggregating Rs.1064.65 crore to 33 borrowers out of which 77% loans were sanctioned to tourism related projects and 23% loans to other sectors (14% to Manufacturing Sector, 7% social infrastructure viz. Hospital & Medical Tourism and school projects and 2% towards refinance to

NBFCs). Out of the above, loans aggregating Rs.400 crore were cancelled as the promoters failed to accept the terms of sanction.

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 energy sector, 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. TFCI may also explore newer avenues to diversify the lending portfolio and expand the asset base to add newer products and reduce concentration in single sector/large clients. As such, TFCI proposes to diversify and increase its share of business from sectors like Acquisition Finance, Structured Finance, MSME and Equipment financing.

In the light of the above, the emphasis on deployment of credit during current financial year 2019-20 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) or any other tourism related infrastructure project.

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 including for investment in associate/group companies or for any other purpose.

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 as well as 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 for investment in associate/group companies or for any other purpose .

x) Hospitals with attached hotels for promoting medical tourism

Thrust may be given to projects where TFCI can 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. <u>Segments of Infrastructure Sector:</u>

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; schools; 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 energy sector, warehousing, hospital and hotel 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) 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. <u>Other Sectors:</u>

As in the past, TFCI shall continue to extend financial assistance to corporates operating in sectors such as manufacturing, industry, real-estate (on selective basis), services sector, etc. The lending to these sectors shall be in the form of medium-term/short-term loan for tenure upto 6 years at a higher interest yield and backed by adequate securities and with satisfactory credit record. However, the Executive Committee shall be empowered to consider, on merits, extension of tenure upto 8 years. 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.

In addition, with a view to expand the asset base, TFCI shall explore business like Acquistion Finance, Structured Finance, MSME financing and Equipment financing. The lending to these sectors shall be in the form of long-term/medium-term/short-term loan for tenure upto 8-10 years at a higher interest yield and backed by adequate securities and with satisfactory credit record.

TFCI, in the past had been providing 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. However, the NBFC sector has been reeling under stress and facing issues of credit squeeze, over-leveraging and asset-liability mismatches. As such, TFCI for the time being may avoid any lending to NBFCs/HFCs for refinancing purposes.

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

6.2 Core Promoters' Contribution:

The minimum core promoters' contribution should be 40% of the project cost. Relaxation is allowed upto 35% 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 estimated cashflows and the time required for stabilizing operations/cash profits at a particular location. However, 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, repayment of loan over a period of 12 years after allowing moratorium as per para 6.4 above 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 7-8 years including moratorium period 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:

Normally, the asset being acquired or developed shall be taken as primary security. Wherever deemed necessary, additional security would be obtained to cover security shortfall or to enhance security cover. The following shall normally be stipulated as 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 alongwith personal/corporate guarantee of the owner may also be explored.

(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, Debt Service Reserve Account (DSRA), Demand Promissory Notes (DPN), Post-Dated Cheques (PDCs) etc. as may be necessary may be stipulated.

The stipulated securities shall be created upfront in all cases, unless permitted otherwise in the sanction. In case security is not created within the prescribed time-frame, penal interest shall be charged or higher interest rate may be applied as stipulated in the sanction. If security creation cannot be completed as stipulated, due to reasons beyond the control of lender/borrower, the time-frame may be reasonably extended by the Managing Director & CEO.

6.8 Other Financial Parameters:

Various financial parameters are to be examined and analysed to arrive at a credit decision. The following key financial parameters may inter-alia be considered as a benchmark while sanctioning credit proposals:

(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 1.10 times.

(ii) Debt to EBITDA Ratio: The debt to EBITDA Ratio may be capped at 4.5 times subject to compliance of DSCR as stipulated above.

(iii) 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 based on book value or 2 times based on market value. In case, part of the security is by way of pledge of shares the minimum FACR should be 2.5 times.

However, the above parameters are indicative ratios which shall act as guiding principles under normal circumstances. In some cases the parameters may not be met owing to varying reasons such as sector analysis, industry standards, performance of similar projects, prevailing business scenarios and norms, economic outlook, etc. The appraisal should have a detailed analysis and clearly enumerate the reasons for deviation. The sanctioning authority based upon the overall analysis and examination of various parameters and explanations given in the note may consider sanctioning the loan even though one or more thresholds are not met.

6.9 Other Conditions:

Conditions like Call/put option at the end of 3/4 years from the date of first disbursement and sweep-in facility or accelerated repayment of loan on availability of surplus funds from operations shall be stipulated wherever possible.

6.10 Valuation:

The following guidelines shall be adhered to for carrying-out valuation of fixed assets obtained as security:

a) The valuation should be done by professionally qualified independent government approved valuer whose name is not in the IBA's negative list. Further, the valuer should not have a direct or indirect interest in the credit proposal/borrower company.

b) Valuation of the property being accepted as security, may be obtained from a government approved valuer 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.

c) 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.

d) TFCI shall obtain atleast two independent valuation reports for immovable properties (i.e., land & building) having an estimated value at Rs.100 crore or above. In such cases, the lower of the two valuations should be considered for calculation of FACR.

e) Immovable properties obtained as security shall be valued at least once in two years to ensure adequate security cover. Further the monitoring authority may, on a case-to-case basis, decided to get the property valued at more frequent intervals in case of volatility in property prices or whenever a need is felt.

f) The valuation should be done on the basis of current market price only and not on the replacement value of the security to determine the actual security available.

g) Valuation Report should invariably incorporate the distress sale value of the asset as well as the ready-reckoner rate of land.

h) If actual valuation exercise is not completed at the time of sanction, the probable distress sale value has to be ascertained from available market sources like renowned property consultants in the area/specialized websites/market reports etc. However, the actual valuation exercise should be undertaken prior to the disbursement of the facilities. In case of a negative variance of 15% or more in the valuation report (either market value or distressed sale value), vis-à-vis the values estimated at the time of sanction additional collateral may be obtained to ensure FACR as stipulated at the time of sanction.

i) For fixed assets other than immovable property (e.g.: Plant & Machinery etc.), the written down value of fixed assets as reported in the latest audited financial statement of the company/firm can be used for arriving at the security cover or an independent valuation of these fixed assets, if warranted, may be carried out.

j) In case of current assets, the valuation will be based on the stock and receivables statements submitted by the borrower to working capital lenders.

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 40% of the project cost. Relaxation is allowed upto 35% in respect of large projects involving capital cost of more than Rs.300 crore, exclusive of land cost.

7.3 Debt-Equity Ratio:

TFCI may extend term loan assistance based on debt-equity ratio upto 2:1 depending upon the minimum debt-service coverage ratio for the project being normally 1.5 times. In addition, DSCR in each year should be more than 1.25 times 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 (DOCCO) depending upon estimated cashflows and 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:

The following shall normally be stipulated as security:

(i) 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.

(ii) 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

(iii) Personal/Corporate guarantee of promoters and/or group companies for private sector, if the outcome of appraisal establishes a requirement for the same.

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

The stipulated securities shall be created upfront unless permitted otherwise in the sanction. In case security is not created within the prescribed time-frame, penal interest shall be charged or higher interest rate may be applied as stipulated in the sanction. If security creation cannot be completed as stipulated, due to reasons beyond the control of lender/borrower, the time-frame may be reasonably extended by the competent authority.

7.8 Other Financial Parameters:

Various financial parameters are to be examined and analysed to arrive at a credit decision. The following key financial parameters may inter-alia be considered as a benchmark while sanctioning credit proposals:

(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 1.10 times.

(ii) Debt to EBITDA Ratio: The debt to EBITDA Ratio may be capped at 4 times subject to satisfactory other norms.

(iii) 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 based on book value or 2 times based on market value. In case, part of the security is by way of pledge of shares the minimum FACR should be 2.5 times

However, the above parameters are indicative ratios which shall act as guiding principles under normal circumstances. In some cases the parameters may not be met owing to varying reasons such as sector analysis, industry standards, performance of similar projects, prevailing business scenarios and norms, economic outlook, etc. The appraisal should have a detailed analysis and clearly enumerate the reasons for deviation. The sanctioning authority based upon the overall analysis and examination of various parameters and explanations given in the note may considered sanctioning the loan even though one or more thresholds are not met.

7.9 Other Conditions:

Conditions like Call/put option at the end of 3/4 years from the date of first disbursement and sweep-in facility or accelerated repayment of loan on availability of surplus funds from operations shall be stipulated wherever possible.

7.10 Valuation

The guidelines given at para 6.10 ante shall also be applicable for infrastructure projects .

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

TFCI, for the time being, shall not consider sanctions to NBFCs/HFCs. As and when the Board desires that lending to NBFC sector may be done, detailed norms shall be put up for approval.

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 'BBB-'.
- Maximum permissible debt-equity ratio would be 2:1 and average DSCR for the tenure of loan should atleast be 1.50 times. In addition, DSCR in each year should be more than 1.10 times.
- The security cover by way of charge on net fixed assets/project assets of the borrower company should be atleast 1.75 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 2.5 times of the loan.
- The interest rate could be both variable and fixed, linked to MCLR 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.
- Debt/EBIDTA should be capped at 4 times, subject to satisfactory other norms.

9.2 Real-Estate Sector:

- The borrower company should be profit-making with satisfactory credit record for the past 3 years.
- The loans to real-estate companies would be given against specific project registered under RERA with identified 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. In addition, DSCR in each year should be more than 1.10 times.

- Debt/EBIDTA should be capped at 4 times, subject to satisfactory other norms.

- The security cover by means of charge on net fixed assets/project assets of the borrower company should be atleast 2 times (based on DSV) 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 2.5 times of the loan.

- The interest rate could be both variable and fixed, linked to MCLR 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.

- Maximum exposure to a single borrower not exceeding Rs.35 crore and maximum exposure to a group not exceeding Rs.60 crore.

Maximum exposure of TFCI to Real Estate Sector on an aggregate basis would not exceed 5% of the total assets size as on 31.03.2019.

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 not be reported as non-cooperative with any other bank at the time of take over.

ii) The account should be substantially taken-over or refinanced.

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

iv) 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.

v) Fixed Asset Coverage based on DSV of security/asset should atleast be 2 times.

vi) Debt/EBIDTA should be capped at 4.5 times for tourism projects and 4 times for other sectors, subject to satisfactory other norms.

While appraising the cases it should be confirmed that the credit facility(ies) enjoyed by the company/firm is regular with the lenders through verification of RBI Defaulters List, CRILIC reports, CIBIL Status, CIRs and formal and informal enquiries with banks etc. The disbursement should be made by way of a Pay Order/RTGS favouring the other bank along with a covering letter clearly specifying the facilities to be repaid/taken over by TFCI. The law department should retrieve the documents from other bank and complete the creation of security immediately post takeover of facilities.

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 per borrower should not exceed Rs.20 crore and on an aggregate basis should not exceed Rs.100 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

Particulars	Criteria
External Rating	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 1.10 times in each of the last two financial years.

(b) Existing Borrower:

- The 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 existing facility 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.

- 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.

- The account should not have been in SMA 1 or SMA 2 category in immediately preceding 6 months.

- 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 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 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 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 11.50% p.a. with monthly rests. However, lower rate of interest @11.25% p.a. 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 0.50% 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 depending upon the weights assigned to each parameter. 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.

13. PRICING OF LOANS:

13.1 Existing MCLR:

TFCI adopted the MCLR which is 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 Funds; (ii) Negative carry on surplus funds; (iii) Operating Cost; and (iv) Profit margin. The MCLR is reset on monthly rest basis and tenor premium is added to arrive at applicable MCLR for short-term, medium-term and long-term lending. The MCLR is reviewed by ALCO/Risk Management Committee of Executives as and when felt necessary to align the same on account of changes in borrowing cost and/or lending rates in the market. The Risk Management Committee then recommends the changes to the Board of Directors for approval.

TFCI's prevailing MCLR of 11.70% p.a. was approved by the Board of Directors at its meeting held on 29th May, 2019. As such the existing MCLR alongwith tenor premium is as under:

Tenor of Loan	**MCLR**	**Tenor Premium**	**Applicable MCLR**
Short-term (Upto 3 years)	11.70%	10 basis point	11.80%
Mid-term (Above 3 years- upto 5years)	11.70%	20 basis point	11.90%
Long-term (above 5 years)	11.70%	30 basis point	12.00%

13.2 Loan Pricing Matrix:

The loan-pricing is currently done on risk-rating based loan-pricing matrix as approved by the Board of Directors from time-to-time. The credit risk premium charged to the customer representing the default risk arising from loan sanctioned shall be arrived at based on an appropriate credit risk rating/scoring model and after taking into consideration customer relationship, expected losses, collaterals, etc. 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 spread applicable across different rating grades will be as decided by Risk Department from time to time.

The spread charged to an existing borrower shall not be increased except on account of deterioration in the credit risk profile of the customer.

The existing risk-rating based loan-pricing matrix is as under:-

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

- To secure the construction and implementation risk, additional premium of 25 basis points would be charged during the project implementation period over and above the rate as per the above matrix. The additional premium shall be withdrawn after six months of commencement of Commercial Operations Date (DOCCO).

- 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 MCLR. The differential in consortium rate and TFCI rate to be charged by way of management fee.

- 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.

- The sanctioning department may, wherever possible, negotiate a higher rate with the borrower and stipulate a higher risk premium than that given in the above matrix to ensure a higher NIM/ROE.

In addition, the Executive Committee/Board of Directors will have the power to stipulate a 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.

13.3 Fees and Other Charges:

- One-time appraisal-cum-upfront fee @ 1% (appraisal:@ 0.25% and upfront:@ 0.75%) of the sanctioned loan plus applicable taxes shall be charged.

- One-time appraisal-cum-upfront fee for short-term/corporate loan with maturity upto 1 year shall be charged @ 0.50% of the sanctioned loan plus applicable taxes.

- Legal Charges @ Rs.1 lakh for loan amounts upto Rs.20 crore and @ Rs.2 lakh for loan amounts exceeding Rs.20 crore plus applicable taxes may be charged.

However, depending upon prevailing market conditions, return on investment, value of relationship and/or fee charged by other participating lenders lower appraisal-cum-upfront fee may be charged 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 amount upto Rs.10 crore	- Rs.2 lakh
Loan amount above Rs.10 crore & upto Rs.20 crore	- Rs.3 lakh
Loan amount above Rs.20 crore	- Rs.5 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 MD & CEO. However, if for any reason, the borrower fails to avail the facility the upfront fee shall not be refunded.

In case due to any valid reason beyond the control of the company/promoters/TFCI the disbursement of sanctioned loan could not be effected, the refund of upfront fee may be considered with approval of the MD & CEO after deducting actual expenses incurred.

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 MD & CEO, 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.

As TFCI now proposes to expand its asset base and lend to other sectors including equipment financing, MSME and Acquisition financing, it is proposed to enhance the delegated powers to the Managing Committee to consider sanction upto Rs.15 crore to a single borrower without deviation from credit policy, with reporting in the ensuing meeting of the Executive Committee. Further, the Managing Committee shall stand reconstituted and comprise of MD & CEO, Whole Time Director, Executive Director (Credit) & President.

Further, the MD & CEO 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 change in security and reduction in interest rate, with report to Executive Committee.

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 MD & CEO. 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.81/14.01.001/2015-16 No. DNBR(PD)CCNo.051/03.10.119/ 2015-16 updated upto July 12, 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 and Reporting of Transactions
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) <u>Low Risk Category</u>: 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, society 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	• Multiple banking	• Consortium Banking	• Single Lender
Location of Borrower	• Hotels/Restaurants/ Project in far away or stand alone locations	• Hotels/Restaurants/ Project in Tier II/III 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 *	--	• 'BBB' (+/-)	• 'A' (+/-) and above
Credit Record with other banks	• Regular delay in payments	• Occasional delay in payments	• Timely servicing of dues

*Companies having external/internal credit rating below BBB- shall not be considered.

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	(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.
• Details of Promoters/ Guarantors/ Directors etc.	(vi) Proof of Name, residence, Date of Birth by way of Aadhar card, PAN card, Voter card, Driving License 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. However, if the passport is not available, an affidavit on oath may be obtained.
2. Limited Liability Partnership • Legal name • Address • Names of all partners and their addresses • Telephone numbers of the firm and partners	(i) LLP agreement. (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. Aadhar card, Voter Card, Pan card, driving license etc. (v) Income Tax returns for the last three years. (vi) Photocopies of the valid passport of all the partners/guarantors shall be obtained and kept on record. However, if the passport is not available, an affidavit on oath may be obtained.
3. Trusts, Society & Foundations • Names of trustees, members, settlers, beneficiaries and signatories • Names and addresses of the founder, the managers/ directors and the beneficiaries	(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, members, settlers, beneficiaries and those holding Power of Attorney, founders/ managers/directors and

• Telephone / fax numbers	their addresses. (iv) Resolution of the managing body of the foundation/association. (v) Income Tax returns for the last three years. (vi) Photocopies of the valid passport of all the members shall be obtained and kept on record. However, if the passport is not available, an affidavit on oath may be obtained.

(TFCI shall not finance individuals/proprietary concerns/ordinary partnership firm)

c) Monitoring and Reporting 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. Also if during course of appraisal any suspected transaction /remittances are noted the same may be reported to RBI within the prescribed period and in the prescribed manner.

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 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 which shall continue for 2019-20. 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.

vi) Prepayment is on account of exercising Call/put option at the end of 3/4 years from the date of first disbursement as per the terms of sanction or on account of sweep-in facility/accelerated repayment of loan out of available surplus funds from operations.

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 standard projects to be done at least once in two 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.

vi) TFCI can approach for resolution under IBC 2016 wherever the borrower company/promoters are causing delay in recovery through other routes or the security position is not comfortable.

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.

21. CONCLUSION:

The provisions of the policy are to be meticulously adhered to by all operating functionaries. However, in case of exigencies, modification to the Credit Policy may be approved by the Executive Committee of Directors, subject to such modification not resulting in any regulatory transgression. Modification approved by Executive Committee shall be put up for ratification to the Board of Directors in the subsequent meetings. The policy will remain in force until it is superseded. The policy shall be subject to review by the Board of Directors at least once during a financial year.

* * * * *