CREDIT POLICY (2017-18)

1. PREAMBLE:

In a volatile global economic environment, India has emerged as one of the better performing economies of the world, owing to relatively strong individual savings behaviour, strong investor sentiment, domestic absorption and falling oil prices. Against the backdrop of robust macro-economic stability, the year 2016 was marked by two major domestic policy developments viz. the passage of the Constitutional amendment paving the way for implementing the transformational Goods and Services Tax (GST) and demonetization of large currency notes. The GST will create a common Indian market, improve tax compliance & governance and boost investment & growth which will probably take time to be fully realized whereas demonetization has had intermittent short-term costs but holds the potential for long-term benefits. These actions would allow Indian economy growth rate to return to trend in 2017-18, following a temporary decline in 2016-17 as Indian economy recorded growth rate of 7.1% in 2016-17 as against 7.2% in 2015-16.

The Indian travel and tourism industry has been instrumental to the nation's economic growth with its backward and forward linkages with other sectors of the economy like infrastructure, including transport & construction, culture, handicarfts, etc. 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. Tourism is also a potentially large employment generator besides being a significant source of foreign exchange for the country. The industry is expected to generate 13.45 million jobs across sub-segments such as Restaurants (10.49 million jobs), Hotels (2.3 million jobs) and Travel Agents/Tour Operators (0.66 million). The Ministry of Tourism proposes to help the industry meet the increasing demand of skilled and trained manpower by providing hospitality education to students as well as certifying and upgrading skills of existing service providers.

The tourism sector recorded moderate growth during the calendar year 2016. India has moved up 13 positions to 52nd rank from 65th in Tourism & Travel competitive index. The foreign tourist arrivals (FTAs) in India were 8.90 million during 2016 as compared to 8.03 million during 2015, recording a growth of about 11%. As per Ministry of Tourism (MoT) foreign tourist arrivals on e-visas more than doubled to 10,79,696 in 2016 from 4,45,300 in 2015 partly because the e-visa facility was extended to 161 countries from 113 previously. The Foreign Exchange Earnings (FEEs) from tourism during 2016 were Rs.1,55,650 crore as compared to Rs.1,35,193 crore during 2015, registering an increase of 15%. The domestic tourists in India were estimated at around 1653 million during 2016 as compared to 1432 million during 2015, recording a growth of about 15%. India's rising middle class and increasing disposable incomes has continued to support the growth of domestic and outbound tourism.

The availability of good quality and/or affordable hotel rooms plays an important role in boosting the growth of tourism in the country. As the tier-II & tier-III cities are fast growing in terms of business, there is an emerging need for budget hotels to cater to the need of middle-class tourists seeking affordable rooms at reasonable prices. Both international and domestic chains are trying to capture the market with their brands to fulfill the accommodation/hotel needs in these cities. In addition, the Indian hospitality market today is a fertile field for strategic acquisitions. This trend will immensely help players keen on establishing a footprint in the Indian hospitality sector without taking the risks associated with construction of new hotels in the country and also revive the potentially viable sick units. Most hotel transactions today are occurring at replacement or a slight discount to replacement cost, keeping both the seller and the buyer content with the target price.

Presently, India has about 1,40,000 hotel rooms in classified/approved categories and another 40,000 hotel rooms are expected to be added to the inventory in the next 3-5 years. Performance metrics like ADR (Average Daily Rate) and Occupancy have resumed strong growth for most hotel markets in India. Countrywide hotel markets are performing with ADRs ranging between Rs 4200–7900 and Occupancy ranging between 54-75%. Hotel markets are clocking nearly 12% higher room revenue over 2015. Cities like Pune and Hyderabad are witnessing double-digit growth in performance ranging between 12-18%, after being almost written off by many hotel industry pundits. Simultaneously, leisure and tier-II and III hotel markets are outperforming the more mature and established commercial hotel markets of the country. Given the new hotel supply in the country slowing to 3-4% (y-o-y) over the next 3-5 years – from a high of 8-10% over the past five years – and the return of growth of India's macro-economic indicators, hotel markets will see strong performance growth in the short-to-medium term. In the long term with the economy growing at an average rate of around 8% annually, it is expected that the demand for hotel rooms would improve further.

Government Initiatives for Tourism Sector Development:

The Indian government has realized the potential of tourism sector in overall economic development and has taken several steps to make India a global tourism hub. In the Union Budget 2017-18, the Government of India announced several initiatives to give a boost to the tourism and hospitality sector such as setting up of five special tourism zones, special pilgrimage or tourism trains and worldwide relaunch of Incredible India campaign among others. Under Union Budget 2017, US$14.87 million was allocated for promotion & publicity of various programmes & schemes of the Tourism ministry. Some of the major initiatives taken by the Government of India to give a boost to the tourism and hospitality sector of India are as follows:

- The Ministry of Tourism has approved projects worth Rs.450 crore (US$ 67.10 million) under the Swadesh Darshan scheme, for the improvement and creation of tourism infrastructure in Madhya Pradesh, Uttarakhand, Tamil Nadu, Uttar Pradesh and Sikkim.
- Rs.100 crore has been allocated for PRASAD scheme (Pilgrimage rejuvenation and spiritual augmentation drive) covering 13 cities in India.
- The Heritage City Development and Augmentation Yojana (HRIDAY) action plans for eight missions cities including Varanasi, Mathura, Ajmer, Dwaraka, Badami, Vellankini, Warangal and Amaravati have been approved by HRIDAY National Empowered Committee for a total cost of Rs.431 crore (US$64.27 million).
- The Central Government has taken a number of steps for smooth transitioning to cashless mode of payment to ensure that no hardship is faced by the tourists and the tourism industry remains unaffected from government's demonetization move.
- A Tripartite Memorandum of Understanding (MoU) was signed among the Ministry of Tourism, National Projects Construction Corporation (NPCC), National Buildings Construction Corporation (NBCC) and Government of Jammu and Kashmir for the implementation of tourism projects in Jammu and Kashmir.
- The Central Government proposes signing MoUs between India and other countries for cooperation in the field of tourism with a view to promote bilateral tourism.

In addition, Infrastructure sector continues to remain key driver for development of a country’s economy. There is huge demand-supply gap in various infrastructure segments viz. power generation, telecommunication, transportation, construction, urban infrastructure, etc. and Government is promoting investment by both public and private sectors to bridge the gap. The Union Budget 2017-18 has earmarked capital expenditure of Rs.241,387 crore on development of highways, roads, railways which is expected to result in growth of construction and manufacturing companies, employment and other cascading effects. The industrial/manufacturing and services sectors have a significant contribution in the Indian economy. On account of sustained demand and increase in per capital income, these sectors are expected to show satisfactory growth in mid-term.

Though the economy is now showing signs of revival, the subdued macro-economic environment and tepid demand scenario over the last 2-3 years had affected the tourism sector in general and hotel industry in particular. This caused slowdown, deferment and even cancellation of already announced tourism/hotel projects as also lack of fresh investment in new projects; thus adversely affecting TFCI's sanctions and disbursements. There was also a growing concern regarding pre-payment of loans due to cheaper credit available from banks/other lending institutions. In view of these factors and in order to deploy the surplus funds and increase the balance sheet size, the Board in November 2016 approved operational framework for lending to NBFC/HFC for onward lending in addition to already approved sectors viz. tourism sector (new, expansion, diversification, renovation/modernization projects), infrastructure sector, industrial/manufacturing sector, services sector and related activities, facilities and services etc.

While approving the credit policy for the year 2016-17, the board desired that no advance shall be made to Real-Estate Industry. However, with a general upswing in the economy, the Indian real estate sector has also witnessed high growth with rise in the demand for residential spaces in particular. Though demonetization shook up the older ways of working, but did not affect self-governing developers with the right products targeted at the working masses. The sector is set for a complete revamp with the implementation of Real Estate Regulation & Development Act (RERA), which is expected to enforce unprecedented transparency and accountability requirements for developers into the system, and do a lot to increase consumer confidence especially in distressed ongoing projects. In addition, the GST and the Benami Property Act will also have a major impact on how developers run their businesses. Residential demand, including affordable housing, is expected to pick up towards the end of 2017 - but the recovery will be sustainable and based on much sounder market fundamentals. The commercial office space sector will get a strong shot in the arm with Real Estate Investment Trusts (REITs) which will have an important and long-term impact on developers and present them with the choice of either 'corporatising' or risking take-over by their bigger and better-organised counterparts. In view of the above developments, it is proposed that TFCI might consider extending financial assistance to real-estate sector on extremely selective basis at a higher interest yield and backed by adequate securities to companies with satisfactory credit record.

The growth in India's tourism, infrastructure, industrial/manufacturing, real-estate and services sectors is expected to result in opportunities for TFCI to expand its business at a steady rate in near future. Accordingly, in view of the prevailing environmental factors and the market outlook, the loan policy for the year 2017-18 including lending to real-estate sector has been drafted to ensure sustained growth and optimum utilization of the resources.

2. OBJECTIVES:

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

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

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

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

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

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

3. PRUDENTIAL NORMS:

3.1 TFCI has been categorized as "Systematically important non-deposit taking NBFC (NBFC-ND-SI)" by RBI vide their letter dated March 20, 2009. The Reserve Bank of India exposure norms (NBFC) for single borrower and group borrower are fixed at 25% and 40% respectively of owned funds with respective sub-limits of 15% separately for loan or investment and 25% for loans & investments together. The NBFC might consider enhancement in exposure by further 5% for a single borrower or 10% for a group provided the additional exposure is on account of infrastructure loan and/or investment. In line with aforesaid RBI guidelines, the maximum exposure for 2017-18, based on the owned funds as on 31.3.2017 (Rs.554.25 crore), would be:

(Rs. crore)

	Single Borrower	**Group Borrower**
Loans or Investments taken separately	83.13 (15%)	138.56 (25%)
Loans and Investments taken together	138.56 (25%)	221.69 (40%)
Loans or Investments taken separately (if additional exposure is on account of infrastructure loan/investment)	110.84 (20%)	193.98 (35%)
Loans or Investments taken together (if additional exposure is on account of infrastructure loan/investment)	166.27 (30%)	277.12 (50%)

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

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

a) Borrowers or their associates appearing in the defaulters' list/caution list/black list circulated by RBI/CIBIL/other banks/ institutions/ Government of India from time to time.

b) Borrowers classified as NPAs with banks/institutions.

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

d) Borrowers whose credit rating by external rating agencies is below 'BB'.

4. TYPES OF FINANCIAL ASSISTANCE:

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

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

5. AREAS FOR FINANCIAL ASSISTANCE:

The sector-wise cumulative assistance sanctioned by TFCI upto 31.3.2017 was as follows:

Segments	No. of Projects	Amount Sanctioned (Rs. in Crore)	Percentage
A. TOURISM			
(i)Hotels			
5 Star Hotels	164	2942.38	32.40%
4 Star Hotels	77	1152.28	12.69%
3 Star Hotels	354	2344.99	25.83%
2 star, Heritage & Others	58	204.64	2.25%
Sub-Total	**653**	**6644.29**	**73.17%**
(ii)Amusement/Water Park/ Shopping Complex-cum-entertainment centre/ multiplex	42	350.50	3.86%
(iii)Restaurants/Food Court	26	103.23	1.14%
(iv)Other Tourism Projects*	62	775.54	8.54%
Total Tourism	**783**	**7873.56**	**86.71%**
B. Infrastructure:			
Infrastructure projects	9	249.50	2.75%
C. Others:			
Other Sectors	30	957.36	10.54%
Grand Total	**822**	**9080.42**	**100.00%**

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

The outstanding loan/debenture and investment assets of TFCI as on 31.3.2017 were as follows:

Sector	No. of Projects	Amount Outstanding (Rs. in Crore)	Percentage
I. Loan & Debentures			
A. Tourism:			
(i) Hotels			
• 5 Star & 5 Star Deluxe	17	458.13	31.88%
• 4 Star	10	206.39	14.36%
• 3 Star	23	264.25	18.39%

• 2/1 Star, Heritage & Others	3	12.62	0.88%
Sub-Total	**53**	**941.39**	**65.51%**
(ii) Amusement Parks/ FEC/ Multiplex Complex	3	65.27	4.55%
(iii) Other Tourism Projects*	5	129.77	9.03%
Total -A	**61**	**1136.43**	**79.09%**
B. Infrastructure:			
• Energy- Wind/ Solar	2	54.06	3.76%
Total -B	**2**	**54.06**	**3.76%**
C. Others:			
Real Estate/Housing	3	34.18	2.38%
Manufacturing & Others	7	212.29	14.77%
Total -C	**10**	**246.47**	**17.15%**
Total-I (A+B+C)	**73**	**1436.96**	**100.00%**
II. Investments Equity (quoted/unquoted) Tourism Others Sub-total ACRE- Kamat PSU Bonds & Debentures **Total-II**	 5 3 **8** 1 8 	 17.32 4.04 **21.36** 29.52 203.45 **254.34**	
Total Assets (I+II)	**90**	**1691.30**	

(*viz. Travel Agency, Golf Course, Club, Lounge, etc.)

TFCI has major exposure in financing of tourism projects particularly hotels in 5-star and 3-star segments. The exposure to amusement parks, restaurants, multiplexes and other tourism-related projects has been low as compared to hotels because of the emphasis of the Government of India on creation of room inventory to accommodate the tourists and this segment being capital-intensive in nature. Since TFCI had started infrastructure financing from 2010-11 onwards and financing of other sectors from 2011-12 onwards on selective basis, the present exposure in these sectors is low. The infrastructure projects are generally vast in size and have large debt requirement as also long gestation period and need specialized technical personnel for analysis. Thus infrastructure, excluding for small capacity solar & wind energy projects, is not a very attractive lending opportunity for TFCI on a stand-alone basis. Therefore, TFCI on stand-alone basis would participate in financing of infrastructure projects in solar & wind energy, warehousing and hospital segments where capital requirement is relatively less. Further, TFCI through consortium might participate in financing of large infrastructure projects backed by an established borrower group. Exposure in other sectors such as manufacturing, industry, real-estate, services etc. by way of short/medium term loans at attractive interest rates would also be taken up on selective basis based on the credit record of the borrower.

TFCI has been facing following constraints:

High cost of borrowings: In the past long-term funds by way of bonds has been raised at an average cost of 9.6% p.a. These bonds do not carry call/put option and TFCI has no option to buy-back the bonds. In the prevailing falling interest-rate scenario TFCI is not only finding it difficult to get new good proposals for sanction but also facing huge pre-payment pressures.

During 2014-15, 2015-16 and 2016-17 TFCI received pre-payments of Rs.153.21 crore, Rs.160.37 crore and Rs.183.56 crore respectively which has not only affected the business growth but also created problems of deployment of huge surplus funds? About Rs.200 crore has remained in treasury for short-term deployment.

It is felt that new-age private banks and certain NBFCs have low-cost funds, have been extending loan against property to operational hotels at a low rate leading to pre-payment of TFCI loan. TFCI has domain expertise in appraising hotel projects and new/expansion projects come to TFCI as private banks donot take construction risk of hotels. TFCI can leverage its strength in financing new hotels.

In the light of the above, it is felt that emphasis on deployment of credit during current financial year 2017-18 would be in the following areas (the list is indicative and not exhaustive):

A. Segments of Tourism Industry :

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

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

iii) Serviced apartments/approved guest houses/convention centres

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

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

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

vii) Tourism-related infrastructure projects

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

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

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

A.1 High-Priority Areas for Financial Assistance:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

B. Segments of Infrastructure Sector:

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

Category	Infrastructure Sub-Sectors
Transport	Roads and Bridges; Ports; Inland Waterways; Airport; Railway Track, tunnels, viaducts, bridges; Urban Public Transport (Except rolling stock)
Energy	Electricity Generation; Electricity Transmission/ Distribution; Oil/ Gas Pipelines; Oil/Gas/LNG storage facility
Water and Sanitation	Solid Waste Management, Water Supply pipelines; Water treatment plants; Sewage collection/ treatment/ disposal system; Irrigation (damns/ channels/ embankments etc.); Storm water drainage system; Slurry pipelines
Communication	Telecommunication (Fixed Network) like optic fibre/ cable networks or broadband and internet connectivity; Telecommunication Towers; Telecommunication & Telecom services
Social and Commercial Infrastructure	Educational Institutions including medical college, para medical training institutes; diagnostics centres; hospitals; 3 star or higher category hotels outside cities with population of more than 1 million; Common infrastructure for industrial parks, SEZ, tourism facilities and agricultural markets; Fertilizer, Post harvest storage infrastructure for agriculture and horticultural produce including cold storage; Terminal markets; Soil testing laboratories; Cold Chain; Hotel with any star category of capital cost of above Rs.200 crore and convention centre of capital cost of above Rs.300 crore

C. Other Sectors:

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

With a view to expand its asset base, TFCI may also consider financial assistance by way of refinance to NBFCs/HFCs in the form of medium-term/long-term loan for tenure upto 8 years at interest linked to TFCI’s MCLR and backed by assignment of secured receivables of specific clients financed by NBFC/HFC.

However, the sanctioning authority shall have the power to extend the repayment period upto 10 years if required.

6. NORMS FOR FINANCIAL ASSISTANCE IN TOURISM PROJECTS:

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

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

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

ii) The land-use clearance permitting the use of land for the proposed commercial activity should be available.

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

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

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

6.1 Land Cost:

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

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

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

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

Notional value for land might be considered to the extent of 20% for Delhi (including surrounding areas like Gurgaon, Noida etc.), Mumbai, Kolkata, Chennai and emerging metro locations like Bangalore, Ahmedabad, Hyderabad, Pune and 15% in other state capital cities and towns/ cities adjoining/ contiguous to the metro cities as above and 10% in case of other locations.

c) <u>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</u>

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

6.2 Core Promoters' Contribution:

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

6.3 Debt-Equity Ratio:

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

6.4 Moratorium:

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

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

6.5 Repayment Schedule:

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

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

6.6 Consortium Lending:

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

6.7 Other Financial Parameters:

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

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

7. NORMS FOR FINANCIAL ASSISTANCE IN INFRASTRUCTURE PROJECTS:

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

7.1 Purpose:

To provide finance to all types of projects in state & private sector either directly or indirectly and whether wholly or in part working for the purposes of infrastructure development work or providing infrastructure facility or engaged in infrastructure activities, which shall include work of facility or providing of services in relation to or in connection with setting up, development, construction, operation, maintenance, modernisation, expansion and improvement of any infrastructure project or facility including roads, highways, railways, airways, waterways, ports, transport systems, bridges, systems for generation or storage or transmission or distribution of power, medical-tourism and education.

7.2 Core Promoters' Contribution:

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

7.3 Debt-Equity Ratio:

TFCI may extend term loan assistance based on debt-equity ratio upto 4:1 depending upon the debt-service coverage ratio for the project and the financing norms being followed by other lenders. Funding can be considered as follows:

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

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

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

7.4 Interest Rates & Other Charges:

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

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

(iii) Penal interest payable on default payments.

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

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

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

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

7.5 Moratorium:

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

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

7.6 Repayment Schedule:

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

In case of projects on BOT basis, the door-to-door tenor of the loan shall not exceed 75% of the total concession period initially granted under the project scheme.

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

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

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

7.8 Consortium Lending:

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. TFCI may enter into Memorandum of Understandings with other specialized institutions like PFC, REC, etc. for extending financial assistance in participation with other co-lenders for projects appraised by such institutions. TFCI would take minority stake in respective projects and follow the consortium approach with regard to appraisal procedures, viability norms, security documentation and recovery mechanism. Accordingly, in such cases terms for financial assistance in respect of interest, commitment charges, guarantee commission, underwriting commission would be similar to the prevailing/ applicable terms of other banks/ financial institutions. However, the applicable interest rate for the assistance shall not be less than TFCI's base rate.

7.9 Security:

(i) State/central government or bank guarantee or charge on assets for state and central sector entities, while charge on project assets 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) Corporate and/or personal guarantee of the promoters 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.

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

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

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

Particulars	Eligibility Criteria
a) Capital adequacy:	• Minimum of 15%
b) Recovery Efficiency & NPA Norms:	• Recovery not less than 95% • Gross NPA - < 5%
c) Track record	• In business for atleast 5 years. • Profit making for the last three years with satisfactory track record.
d) Net Owned Funds and Asset Size:	• NoF : Minimum Rs.50 crore • Asset Size: Minimum Rs.150 crore
e) Equity Holding	• The promoter/investment company should continue to hold minimum 50% equity in the borrower company till the currency of term loan.
f) Adjusted tangible networth	• Should be positive
g) Current Ratio	• Not less than 1
h) DER	• Not more than 5:1 (standalone) • Not more than 6:1 (consolidated)
i) Rate of Interest	• MCLR+mark-up
j) Tenor	• Door-to-Door tenure upto 8 years
k) Moratorium and Repayment period	• Moratorium from 6 months to 12 months. • Generally repayment period could be upto 8 years after allowing moratorium as above. However, the sanctioning authority shall have the power to extend the repayment period upto 10 years if required.
l) Average Gross DSCR	• Not less than 1.5 (minimum DSCR not less than 1 in any year) $\text{DSCR} = \frac{\text{PAT+Depreciation+Interest}}{\text{Interest+Loan Repayment (Net of refinancing)}}$
m) Security	• Assignment of secured receivables of specific clients financed by NBFC/HFC and classified as standard (as per applicable regulations of RBI/NHB/Others). • Hypothecation of other current assets of NBFC/HFC. • Irrevocable and unconditional, joint and several, personal/corporate guarantee(s) of the promoters of NBFC/HFC. • The loan amount shall be restricted to 80% of the NBFC/HFC's principal amount assigned to TFCI (excl. interest, if any, included in EMI) where personal/corporate guarantee is provided. However, where personal/corporate guarantee is not available, TFCI may restrict the loan amount to 66% of the NBFC/HFC's loan/receivables assigned to TFCI (excl. interest, if any, included in EMI) which will provide an enhanced margin. • NBFC/HFC shall maintain the stipulated margin on TL limit. In case the book debt/asset assigned to TFCI is classified as Non-Performing Asset (NPA), the NBFC/HFC shall replace the same with Standard Assets for equal amount. A certificate from management/auditor shall be obtained on quarterly basis. • Irrevocable POA shall be provided in favour of TFCI to collect the receivables directly from the borrower in case of default. • NBFC/HFC shall obtain specific NOC from TFCI before availing funds from other lenders.

n) External Rating	• Atleast BBB (in case rating obtained from any one of top 3 rated agencies i.e. CRISIL, ICRA,& CARE) • Atleast BBB+(in case rating obtained from other agencies)
o) Processing/Upfront Charges	• 0.50% of the sanctioned limit plus applicable service tax.
p) Prepayment/Other Charges	• Pre-payment premium: 1% of loan prepaid. • Legal Charges: Rs.1 lakh plus applicable service tax.
q) Exposure Cap: • Single Borrower Exposure • Group Exposure • Maximum Exposure (Cumulatively)	 • Upto Rs.30 crore (5.41% of TFCI's owned funds as on 31.03.2017) • Upto Rs.70 crore (12.62% of TFCI's owned funds as on 31.03.2017) • Not exceeding 10% of the asset size as on 31st March 2017.

9. NORMS FOR FINANCIAL ASSISTANCE IN OTHER SECTOR PROJECTS:

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

Maximum exposure to Real Estate Sector would not exceed 5% of the total assets. The loans to real-estate companies would be given against specific project registered under RERA and the borrowers should have minimum credit rating of 'BBB'.

10. NORMS FOR TAKEOVER FINANCING:

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

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

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

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

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

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

a) Credit risk

b) Market risk

c) Operational risk

a) Credit-risk management would encompass the following processes:

- Establishing appropriate credit-risk environment
- Operating under sound credit-granting process
- Fixing prudential limits of exposure
- Measuring risk through internal risk-rating
- Risk-based pricing of loans/ facilities
- Establishing systems for portfolio risk management
- Controlling risk through loan review mechanism

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

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

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

12. PRICING OF LOANS:

TFCI has been lending at interest rate based on the Base Rate (BR) which is approved from time-to-time by the Board. The loan-pricing is currently done based on risk-rating based loan-pricing matrix as approved/revised by the Board. If the borrower has a rating from an external rating agency the same shall be accepted in place of internal rating as the external agencies follow a comprehensive risk-assessment and surveillance methodology. The board of directors at their meeting held in May 2016, approved TFCI base rate as under:

11.60% p.a. for loans upto 3 years
11.70% p.a. for loans having maturity of 3-5 years
11.80% p.a. for loans having maturity above 5 years

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

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

- In case of loan to real-estate sector, an additional premium of 100 basis point shall be charged.
- In case of consortium lending rate charged by other lenders subject to minimum of TFCI base rate.

Till 31st March 2016, banks used the base rate as the benchmark rate to lend. However, in line with the directions of RBI, banks shifted to the marginal cost-based lending rate (MCLR) w.e.f 1st April 2016. MCLR is built on four components—marginal cost of funds, negative carry on account of surplus funds, operating costs and tenor premium.

TFCI adopted the Base Rate MCLR which was calculated on the basis of Marginal Cost of Borrowing vide Board Resolution dated 16th May, 2016. The calculation of Base rate was done by including (i) Marginal cost of Borrowing, (ii) Negative carry of funds, (iii) Operating Cost, (iv) Project Margin and (v) Tenor Premium. The Profit Margin was taken as post tax net interest income, net of overhead cost expressed as % of average deployable funds subject to maximum of 2%. This methodology takes into account the expectation of return on total deployable funds rather than return on net worth which may not be truly reflective of the profit expectation. RBI vide its circular DBR.No.Dir.BC.67/13.03.00/2015-16 dated December 17, 2015 has suggested computation of MCLR based on return on net worth which we also propose to follow and rename the TFCI's Base rate of TFCI's MCLR. The MCLR would be based on the marginal cost of lending for 1 year (average long-term borrowing rate during the immediate preceding year) and its calculations would be separately put-up for approval to the Board. The MCLR rate would be uniformly applied to all the new borrowers with immediate effect with reset clause after one year. However, to secure the construction and implementation risk, additional premium of 50 basis points shall be charged over and above the MCLR related rate during the project implementation period i.e. upto the date of commencement of commercial operations and six months thereafter. Further in case of loan to real-estate sector, an additional premium of 100 basis point p.a. shall be charged.

The MCLR would be reviewed on annual basis. The interest rates on loans shall be reset every year based on re-rating to be done within two months of receipt of balance-sheet 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. The existing clients would be informed of the shift from Base Rate lending to MCLR lending and given an option to shift to new rate from the date their account has been reviewed during the current fiscal.

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

Once the project implementation is over and COD achieved as envisaged and operations held for six months the additional premium charged for construction risk shall be withdrawn, the rating shall be reviewed and the rate of interest reset. Subsequently, rating of the borrower shall be reviewed based on operational/financial data on an annual basis vis-à-vis projections at the time of appraisal. Further, while considering request for reduction in rate of interest/restructuring, the revised rating of the borrower needs to be carried out.

As per the existing credit policy, one-time appraisal-cum-upfront fee for term loan @ 1% (appraisal: @0.25% & upfront: @0.75%) of the loan sanctioned is being charged by TFCI out of which atleast 25% will be received before issuance of Letter of Intent. We regularly receive representation for reduction in the same as the banks either charge the fee on lump-sum basis or at lower rate. In view of the prevailing market situation, we propose to reduce the same to 0.50% (appraisal: @ 0.25% and upfront:@ 0.25%). Further, one-time appraisal-cum-upfront fee for short-term/corporate loan with maturity upto 2 year shall be charged by TFCI @ 0.25%.

However, a lower appraisal-cum-upfront fee may be charged for long-term/short-term/corporate loan depending upon prevailing market conditions, return on investment, value of relationship and/or fee charged by other participating lenders. With a view to discourage non-serious applicants, it is proposed to charge part appraisal fee in advance before commencement of appraisal as per the following slabs:

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

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

In case due to any reason the disbursement of sanctioned loan could not be effected, the refund of appraisal-cum-upfront fee may be considered to the extent of 75% with approval of the Managing Director after deducting actual expenses incurred. TFCI can also consider grant of Bridge Loan against its own sanction pending financial closure of the project or creation of substantive security and charging additional interest @1% p.a. over and above the stipulated rate.

13. SANCTION OF FINANCIAL ASSISTANCE-DELEGATION OF POWERS:

In the meeting of the Board of Directors held on 13th August, 2011, the Executive Committee has been delegated to consider/sanction all the cases within RBI exposure limits. Further, the Managing Director shall have the power to amend the terms and conditions of sanction in cases where other participating lenders have stipulated different terms and also in cases involving minor amendments without compromising on the security.

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

14. VALIDITY OF FINANCIAL ASSISTANCE:

All the sanctions for financial assistance shall be valid for a maximum period of six months. If the assisted concern does not avail of such sanction within the stipulated time, the sanction might be revalidated after carrying out a quick appraisal to ascertain the viability within the powers of Managing Director.

15. 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) CC No.051/ 03.10.119/2015-16 updated upto 8th December 2016 applicable for Banks/NBFCs. The objective of KYC is to prevent NBFCs from being used, intentionally or unintentionally, by criminals for money laundering. KYC procedures help NBFCs to know/understand their customers and their financial dealings better which in turn helps to manage risk prudently. The Key parameters of our KYC policy would be:

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

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

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

- Customer constitution: Individual, proprietorship, partnership, company (private ltd. /public ltd.)
- Business Segment: Retail, Corporate etc.
- Country of residence/Nationality: India or overseas

- Economic Profile: High Net Worth Individuals (HNI), Public/Private Ltd. company etc.
- Name in Regulatory negative/defaulter/fraudulent list
- Anti-Money Laundering (AML) Alerts
- Nature of business/Occupation
- Sources of Funds
- Credit rating etc.

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

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

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

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

Risk Categorization of customers based on various parameters

Basis	High Risk	Medium Risk	Low Risk
Type of Customer	• Trusts or Charities • Company wholly owned by NRIs • Customers having adverse publicity • Firms with operative transactions authorized by sleeping partner	• Private Ltd. company • Public Ltd Company (Closely held) • Partnership firms • Limited Liability Partnerships • Firms with sleeping partners	• Public Ltd Company (widely held) • PPPs/JVs • Government compies/ PSUs
Project Size	• More than Rs. 200 crore	• Between Rs.50 crore to Rs.200 crore	• Less than Rs.50 crore
Type of Banking Arrangement	• Multiple banking	• Consortium Banking	• Single Lender
Location of Customer	• Hotels/Restaurants in Tier III cities	• Hotels/Restaurants in Tier II cities	• Hotels/Restaurants in Metros, State Capitals along with towns/cities contiguous to them
Nature of Project	• Adventure, Entertainment and Rural tourism projects	• Infrastructure and other sector projects at all locations	-

Source of funds (if from outside India)	• Foreign Remittances from national of Gulf, Pakistan, Afghanistan, Libya and Syria	• Foreign Remittance from national of Eastern Block Countries, Burma, Indonesia, Malaysia, Singapore and Thailand	• Foreign Remittance nationals of United States and European Countries. • Foreign Remittances from NRIs & persons of Indian origin.
Shareholding pattern/Composition of partners, directors etc. Promoters donot have political background	• Entirely Foreign nationality	• A mix of Indian and Foreign nationals	• Exclusively Indian nationals
Type of Security	• Shares • Corporate/ Personal Guarantees	• Movable Assets • Letter of Comfort	• Immovable Asset – land and building
Internal/ External Credit Rating	• Less than 'BB-'	• 'BB' to 'BBB' (+/-)	• 'A' (+/-) and above
Credit Record with other banks	• Regular delay in payments	• Occasional delay in payments	• Timely servicing of dues

b) Customer Identification Procedure:

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

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

and the beneficiaries • Telephone / fax numbers	settlers, beneficiaries and those holding Power of Attorney, founders/ managers/directors and their addresses. (iv) Resolution of the managing body of the foundation/association. (v) Income Tax returns for the last three years.

(As on date TFCI does not finance individuals/proprietary concerns)

c) Monitoring of Transactions:

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

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

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

d) Risk Management:

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

16. PREMATURE REPAYMENT OF LOANS – PREPAYMENT PREMIUM:

Term lending institutions have traditionally been lending on long term basis with a view to enable the entrepreneurs to set up the projects. There are inherent risks associated with long term financing, particularly, interest rate risk for the lending institutions. This risk has increased further with institutional borrowings mainly at fixed rates, while lending linked with base rate/MCLR. Institutions make back to back arrangements for its lending to constituents. Accordingly, to protect the margins, prepayment premium is normally charged. Further, during the project implementation stage, the construction and implementation risks are borne by the term lending institutions whereas on commencement of successful operations, the other institutions/ banks tend to lend by offering lower rate of interest. Accordingly, to save that situation, institutions have been charging prepayment premium. As per the extant policy of TFCI, premium on premature repayment of loan is charged @ 2% of the amount prepaid which shall be continued for 2017-18.

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.

17. LOAN-REVIEW MECHANISM:

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

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

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

18. MONITORING & FOLLOW-UP:

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

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

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

iv) If there is no significant recovery in response to the notices, the loan should be recalled within six 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.

19. 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.

* * * * *