Tourism Finance Corporation of India Limited

August 21, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Bonds	175.00	CARE A; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of the rating assigned to the bonds of Tourism Finance Corporation of India Limited (TFCI) reflects its adequate and improving profitability metrics with return on total assets (RoTA) at 4.4% in FY24, driven by healthy net interest margins (NIMs) and low credit costs. The rating also factors in the company's strong capitalisation levels with gearing at 0.9x and a capital adequacy ratio (CAR) of 58.26% as on June 30, 2024, and an adequate liquidity position.

However, the rating is constrained by the loan book de-growth with a three-year compounded annual growth rate (CAGR) up to March 31, 2024, at -7% and a moderate size of the loan book of TFCI versus other large entities in the wholesale lending segment, and stiff competition with banks and other non-banking financial companies (NBFCs).

The company also continues to remain exposed to borrower concentration risk, with top 20 outstanding exposures accounting for around 72% of the gross loan book and 106% of its tangible net worth (TNW) as on March 31, 2024. Also, since TFCI primarily provides financial assistance for projects in the tourism sector and other allied activities, high sector concentration exists with 61% of the book towards the hotel industry. However, TFCI has been diversifying its portfolio by providing loans to NBFCs, real estate and manufacturing entities.

Additionally, CARE Ratings Limited (CARE Ratings) notes that Aditya Halwasiya has acquired a significant stake of 13.06% in the company in February 2024 through block deal wherein the previous promoters, Koppara Sanjeve Thomas and Pranasatree Holding Pte., and public shareholders, Varanium Capital Advisors and Varanium India Opportunity, offloaded their shareholdings. Post that, in April 2024, Aditya Halwasiya infused ₹50 crore in capital through preferential issue, resulting in a 15.15% shareholding as on June 30, 2024. The company has appointed two Independent Directors to its Board: Deepak Amitabh, ex-MD of PTC India Financial Services Limited, and Mahabaleshwara M S, ex-MD of Karnataka Bank.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors – Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Scale up of operations in a sustainable and profitable manner.
- Maintaining an adequate capitalisation profile with gearing below 2.5x on a steady basis.
- Greater sector-wise and borrower-wise diversification with a reduction in the exposure towards the hospitality sector.

Negative factors – Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Weakening capitalisation profile of TFCI with gearing rising above 2.5x.
- Declining profitability with RoTA below 3%.

Analytical approach: Standalone

Outlook: Stable

The 'stable' outlook factors in CARE Ratings' expectation that TFCI will continue to maintain a comfortable gearing and liquidity position, while reporting healthy profitability metrics.

[1]Complete definition of the ratings assigned are available at HYPERLINK "http://www.careedge.in" www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of key rating drivers

Key strengths

Healthy capitalisation and resource profile

TFCI has been maintaining adequate capitalisation levels in the last few years and reported a total CAR of 59.01% as on March 31, 2024 and 58.26% as on June 30, 2024, compared to 54.59% as on March 31, 2023, well above the regulatory minimum requirement of 15%. The capitalisation profile is supported by muted growth and healthy internal accruals. In Q1FY24, the company has received capital infusion of ₹50 crore in the form of preferential issue which is infused by Aditya Kumar Halwasiya, who holds 15.15% shareholding in the company as on June 30, 2024, highest public shareholder, and also holds Non-Executive Director position in the company's board. The gearing also remained comfortable at 0.9x as on March 31, 2024. Going forward, CARE Ratings expects the company to maintain healthy capitalisation.

TFCI has a diversified resource base, with borrowings through secured and unsecured non-convertible debentures (NCDs) and bank borrowings. The company has demonstrated its ability to raise funds from diverse sources, banks, financial institutions (Fis), and NCDs. The company's total borrowings stood at ₹983 crore as on March 31, 2024 (down 2% y-o-y), with banks and institution borrowings forming around 62%, while long-term bonds forming the remaining 38% of the total borrowings with the weighted average cost of borrowings at around 10.09% (8% as on March 31, 2023). However, company's ability to raise resources at competitive rates remains key monitorable.

Adequate profitability

Ending fiscal March 31, 2024, TFCI reported a profit-after-tax (PAT) of ₹91.11 crore (up 4% y-o-y) on a total income of ₹237.54 crore as compared to a PAT and total income of ₹87.95 crore and ₹229.13 crore, respectively, in FY23. While yields remain at similar level of previous year, cost of funds has increased from 8% in FY23 to 10.09% in FY24, resulting into compression in spreads. Consequently, the NIMs declined to 4.59% in FY24 from 5% in FY23. However, other income for the company increased substantially from 1.49% in FY23 to 2.05% in FY24 due to a rise in prepayments premiums, advisory fees for consulting projects and income from mutual fund investment. Also, with a low opex cost of only 1.15% due to the company's wholesale business model and marginal credit cost of -0.02% in FY24, the company's RoTA improved to 4.41% in FY24 as compared to 4.12% in FY23.

With the company planning to enter unsecure retail lending, its ability to sustain similar level of profitability with controlled credit cost remains key monitorable.

Key weaknesses

Stagnant loan book growth and high sector-wise concentration

The growth in TFCI's loan book has remained negative in the last few years, with the loan book registering a CAGR of around -7% in the last three years. In FY24, the gross loan book registered a de-growth of 2% y-o-y, reaching ₹1,589 crore as on March 31, 2024, as against a degrowth of 12% y-o-y recorded last year. While disbursements have increased significantly from ₹561 crore in FY23 to ₹853 crore in FY24, the sizeable prepayments of around ₹494 crore led to a contraction in the loan book. As on June 30, 2024, the company's gross loan book stood at ₹1,553 crore.

Also, TFCI was incorporated to cater to the financing needs of the hotel and tourism industries, ensuring priority funding of tourism-related projects. Its exposure towards the said industries stood at 61% as on March 31, 2024, reducing from 83% as on March 31, 2023. This reduction is due to the company diversifying its portfolio with providing loans to manufacturing industry (20%), residential real estate (7%), and NBFCs (8%).

CARE Ratings observes that the company is diversifying its portfolio and intends to enter unsecured retail lending segment. Going forward, its ability to grow their loan book while maintaining diversity and asset quality remains key monitorable.

High credit concentration risk

There is high credit concentration in the gross loan book of TFCI, with the top 20 outstanding exposures accounting for around 72% of the gross loan book and 106% of its TNW as on March 31, 2024, similar to previous year with 70% of the gross loan book and 121% of the TNW as on March 31, 2023. However, as the company plans to diversify its portfolio, CARE Ratings anticipates high credit concentration to reduce in future.

Volatile asset quality

Due to its wholesale lending model, the asset quality metrics remain volatile. Despite higher slippages of ₹144 crore in FY24, the gross non-performing assets (GNPA) and net non-performing assets (NNPA) improved to 2.75% and 1.54% as on March 31, 2024, as compared to 3.93% and 2.98%, respectively, as on March 31, 2023, majorly considering assignment of two accounts to ARC with principal outstanding of ₹110.62 crore at a consideration of ₹113.70 crore. As on March 2024, the company has two borrower accounts in NPA category with aggregate principal outstanding of ₹43.66 crore. However, the company has initiated legal proceedings against the defaulted borrowers/underlying tangible security for recovery of its dues.

GNPA ratio slightly increased to 2.81% as on June 30, 2024, considering reducing loan book. CARE Ratings notes that despite the volatile asset quality metrics, credit costs have remained low due to high NPA resolution rate.

Liquidity: Strong

The company's liquidity profile remains adequate with cash and bank balances worth ₹23 crore and investments in mutual funds worth ₹110 crore and certificates of deposit of ₹124 crore as on March 31, 2024, against debt repayments of ₹138.79 crore due within the next one year. Moreover, there are undrawn bank lines of ₹117.50 crore. Also, per the asset liability management (ALM) statement dated March 31, 2024, TFCI had positive cumulative mismatches across time buckets.

Applicable criteria

Definition of Default
Rating Outlook and Rating Watch
Financial Ratios - Financial Sector
Non Banking Financial Companies

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial services	Financial services	Finance	Financial institution

TFCI was promoted by (IFCI Ltd) and other FIs and banks in January 1989. IFCI divested its shareholding in TFCI through the years as it finally exited the company in FY20. At present, as on June 30, 2024, the promoters (Life Insurance Corporation of India [LIC] and The Oriental Insurance) and the promoters' group comprising Koppara Sajeeve Thomas company-Pransatree Holding Pte Ltd own 7.85% stake in the company, reduced from 17.96% as on March 31, 2024. Sanjeev Kumar Thomas sold his shareholding to Aditya Kumar Halwasiya and they have requested to reclassify the shareholding of Pransatree Holding Pte Ltd of 4% as public holding. In Q1FY25, Aditya Halwasiya has infused ₹50 crore of capital in form the preferential issue, thus becoming the largest public shareholder with 15.15% stake as on June 30, 2024.

Since FY12, consequent to the change in the Memorandum of Articles, TFCI has also started lending to other sectors such as social infrastructure, hospitals, schools, colleges, universities, renewable energy, residential real estate, NBFCs/HFCs, and the manufacturing and services sectors. The company also coordinates and formulates guidelines and policies related to financing of tourism sector projects. As a developmental role, TFCI organises seminars, participates in tourism-related activities organised by the Ministry of Tourism and by trade bodies and associations. TFCI also provides research and consultancy services to the Central and state agencies and the private sector for development of the tourism industry.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	231.70	242.04	61.84
PAT	87.95	91.11	25.40
Interest coverage (times)	2.21	2.14	2.33
Total assets (tangible)	2,036.62	2,098.81	2,218.14
Net NPA (%)	2.98	1.54	1.54
ROTA (%)	4.12	4.41	4.69

A: Audited; UA: Unaudited; NA: Not available. Note: These are the latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instruments/facilities: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Bonds	INE305A09208	25-Feb-2013	9.65	25-Feb-2033	75.00	CARE A; Stable
Bonds	INE305A09216	25-Feb-2013	9.60	25-Feb-2028	100.00	CARE A; Stable

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Bonds-Unsecured Reedemable	LT	-	-	-	-	-	1)Withdrawn (03-Sep-21)
2	Bonds-Unsecured Reedemable	LT	-	-	-	-	1)Withdrawn (01-Sep-22)	1)CARE A; Negative (03-Sep-21)
3	Bonds-Unsecured Reedemable	LT	-	-	-	-	1)Withdrawn (01-Sep-22)	1)CARE A; Negative (03-Sep-21)
4	Bonds	LT	-	-	-	1)Withdrawn (24-Aug-23)	1)CARE A; Stable (01-Sep-22)	1)CARE A; Negative (03-Sep-21)
5	Bonds	LT	175.00	CARE A; Stable	-	1)CARE A; Stable (24-Aug-23)	1)CARE A; Stable (01-Sep-22)	1)CARE A; Negative (03-Sep-21)

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Bonds	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Saikat Roy Senior Director **CARE Ratings Limited** Phone: +91-22-6754-3404 E-mail: saikar.roy@careedge.in	Gaurav Dixit Director **CARE Ratings Limited** Phone: +91 -120–4452002 E-mail: gaurav.dixit@careedge.in Neha Kadiyan Associate Director **CARE Ratings Limited** Phone: +91-120-4452022 E-mail: Neha.Kadiyan@careedge.in Anubhav Khatri Lead Analyst **CARE Ratings Limited** E-mail: Anubhav.Khatri@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information,
please visit www.careedge.in