Tourism Finance Corporation of India Limited

March 05, 2021

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bonds	**681.50*** **(Rupees six Hundred eighty-one crore and fifty lakhs only)**	CARE A+; Negative (Single A Plus; Outlook: Negative)	Reaffirmed

Details of instruments/facilities in Annexure-1
**Bonds of Rs 50.0 crore have been rated, utilized and redeemed on maturity.*

Detailed Rationale & Key Rating Drivers

The ratings reaffirmation for the long-term instruments of Tourism Finance Corporation of India Ltd (TFCI) continues to factor in its strong promoter profile, experienced management, healthy capitalization levels with Tier 1 capital adequacy ratio (CAR) at 36.80% as on Dec-20, adequate liquidity and profitability metrics with annualized return on total assets (RoTA, annualized) at 4.42% for the quarter ended Dec-20.

However, these rating strengths are partially offset by weak, albeit improving, asset quality with reported gross non-performing assets (GNPA) at 0.87% as on Dec-20, high borrower concentration risk on account of TFCI being into wholesale lending with top 20 borrowers forming around 60.3% of loan book as on Mar-20, moderate loan book growth over years with three year compounded annual growth rate (CAGR) till December, 2020 at a low of 9% and moderate size of loan book vs. other large entities in wholesale lending segment and stiff competition from banks & other NBFCs / financial institutions. Also, since TFCI primarily provides financial assistance for projects in tourism sector and other allied activities, high sector concentration exists with 77% of book end Dec 20 (73% as on Mar-20) towards hotel industry/tourism sector, which was one of the most adversely impacted sectors by the COVID-19 pandemic.

Going forward, the ability of the company to meaningfully scale up and diversify its operations beyond tourism sector while maintaining adequate capitalization profile and liquidity profile, sustaining profitability profile and improving asset quality would be the key rating sensitivities.

Rating Sensitivities

Positive factors - Factors that could lead to positive rating action/upgrade:

- Scale up of operations in sustainable and profitable manner
- Comfortable asset quality metrics with GNPA (including pro-forma) on a sustainable basis below 3% and reduced impairment costs
- Maintaining adequate capitalization profile with gearing below 2.5 times on a steady basis
- Greater sector wise and borrower wise diversification with reduction in exposure towards hospitality sector

Negative factors - Factors that could lead to negative rating action/downgrade:

- Weakness in profitability and/or capitalization profile of TFCI with gearing rising above 2.5 times
- Deterioration in asset quality with GNPA (including pro-forma) above 4% and lower provision coverage

Outlook: Negative

The outlook for the long-term instruments of TFCI has been reaffirmed at '**Negative**' on account of the elevated risk aversion in general and particularly with respect to tourism sector that will pose challenges in the collections

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

on advances for TFCI going forward. While the loan growth and asset quality of the company has improved since Mar-20, challenges to the same still remain until normalization in the hotel and tourism industry is achieved. The outlook may be revised to 'Stable' if the company is able to attain meaningful growth, successfully diversify its operations across other sectors, reduce borrower wise concentration and maintain its asset quality ratios amidst the volatile economic scenario.

Detailed description of the key rating drivers
Key Rating Strengths

Experienced management
TFCI was established to cater to the needs of the tourism industry and to ensure priority funding of tourism-related projects. The company has an experienced management team headed by Mr. Anirban Chakraborty, who has vast experience in the field of credit monitoring, risk and analytics. He is supported by an experienced second line of management which includes executive directors, Mr. Ajit Dash Choudhary who was previously associated with Axis bank's mid corporate vertical as country head and Mr. Vasan Paulraj who was heading the private equity division at Axis Capital. The board of the company consists of 10 members including one Nominee member from Government of India (GoI), one representative member from Life Insurance Corporation of India (LIC), two promoter directors, one whole time director, managing director and four independent members.

As on December 31, 2020, the erstwhile promoter Redkite Capital had completely exited its shareholding in TFCI. ARES SSG (erstwhile SSG Capital) is TFCI's largest shareholder holding 13% stake in the company via its two investment arms i.e. India Opportunities Fund III (9.99%) and Tamaka Capital (3%). Post the acquisition of SSG Capital by ARES Management corporation (via its subsidiary ARES Holdings LP) in July 2020, the promoter profile of TFCI strengthened considerably since ARES management is a leading US-based hedge fund with USD 149 billion of assets under management across 10 countries. ARES mainly deals in three core areas namely credit, private equity and real estate. The second largest shareholder of TFCI is Mr. Koppara Sajeeve Thomas who held 9.52% stake followed by Varanium India Opportunity Fund (4.55%) and Life Insurance Corporation of India (3.67%).

Healthy capitalization and resource profile
The capitalization profile of TFCI continues to remain comfortable with Tier 1 CAR and overall CAR of 36.80% and 37.59% respectively as on December 31, 2020 compared to 37.15% and 37.56% respectively as on March 31, 2020, well above the regulatory minimum requirement at 10% and 15% respectively. The capitalization profile of the company is supported by tangible net worth of Rs.766.4 crore as on Dec-20 increased from Rs.746.5 crore as on Mar-20 on account of positive internal accruals. The overall gearing remains comfortable and range-bound at 1.82 times as on Dec-20 increasing marginally from 1.75 times as on Dec-19 on account of marginal increase in borrowings (up 6% Y-o-Y). End FY 20, the gearing stood at 1.9 times. Given the strong capitalization ratios and moderate gearing, TFCI has sufficient unutilized and underleveraged capital to grow its asset book.

The resource profile of TFCI is comfortable with borrowings through secured and unsecured non-convertible debentures and bank borrowings. Total borrowings of the company stood Rs.1,393 crore as on December 31, 2020 (up 6% Y-o-Y) with long-term bonds forming around 57% while bank borrowings forming the remaining 43% of total borrowings with the weighted average cost of borrowings at around 9.4%.

Adequate profitability
For fiscal year ended March 31, 2020, the company reported net profit of Rs 81 crore on total income (net of interest expenses) of Rs 119.5 crore as against PAT of Rs 86.25 crore on total income (net of interest expenses) of Rs 107.25 crore. The profitability profile of the company remains adequate with stable net interest margin (NIM) of 5.5%. Although owing to higher credit costs during the year, the company's return on total assets (RoTA)

reduced to 3.75% end FY 2020 as against 4.22% an year ago.

End nine months December 31, 2020, TFCI reported net profit of Rs 62.57 crore (down 9% Y-o-Y) on a total income of Rs 198.98 crore (down 6% Y-o-Y) as against PAT and total income of Rs 68.85 crore and Rs 211.23 crore respectively in 9MFY20. The decline in profitability was on the account of 43% Y-o-Y rise in employee benefit expenses to Rs 12.51 crore in 9MFY21, fueled by increased recruitment activity and change in accounting policies for the same. Also, the lower profitability is underpinned by rising interest expenses (up 11% Y-o-Y) owing to rise in total borrowings from Rs 1,312 crore as on Dec-19 to Rs 1,393 crore. Although the profitability was cushioned by improving margins as net interest income increased marginally from Rs 88.3 crore in Dec-19 to Rs 92.8 crore in Dec-20 on the back of higher interest yield on top-up loans disbursed in 9MFY21, thus maintaining marginally the same net interest margin (annualized) at 5.53% (5.55% in 9MFY20). Also, the lower provisioning costs, which declined to Rs 4.68 crore (after netting off write-offs from reserve balance) as against Rs 22 crore in 9MFY21 played a key factor in cushioning the profitability for the company. As a result, TFCI reported annualized return on total assets (RoTA) and return on net-worth (RoNW) of 4.4% and 12.7% respectively in Dec-20 as against 5.2% and 14.8% respectively in Dec-19.

Key Rating Weaknesses

Stagnant loan book growth over years and high sector wise concentration

The growth in loan book of TFCI remained moderate throughout the years with book registering a CAGR of around 8.5% in last four years. During FY20, the loan book grew 6% Y-o-Y to Rs.1,794 crore as on March 31, 2020 as against a 9% Y-o-Y growth recorded last year. End December 31, 2020, net loan book of the company stood at Rs 1,951.9 crore, registering a growth of 9% Y-o-Y. The loan growth remains relatively low as compared to other NBFCs in wholesale lending and with long track of operations. Also since TFCI was incorporated to cater to the financing needs of hotel and tourism industry and to ensure priority funding of tourism-related projects, its exposure towards the said industry remains at a high of 77% as on Dec-20, rising from 73% a year earlier, thus posing challenges to the asset quality profile of the company. Also, owing to COVID-19 pandemic and given the uncertainty surrounding normalization of operations in the hotel and tourism industry, gradual reduction in sector-wise exposure for TFCI remains a key rating sensitivity.

***Weak asset quality and further deterioration expected* in asset quality metrics due to macro-economic vulnerabilities**

End quarter December 31, 2020, the reported asset quality metrics of the company improved with lower gross NPA and net NPA percentage of 0.87% and 0.63% respectively as compared to 3.34% and 1.47% for the corresponding period previous year. The improvement in asset quality metrics is on account of write-off of a single loan account by TFCI during 9MFY21, thus reducing the exposure. The company's proforma gross NPA (after considering Supreme court's interim direction for standstill on fresh NPAs) stood at 3.49% end Dec 2020. With CARE adjusted provision coverage ratio (PCR) at a low of 27.8% end Dec-20 (56% as on Dec-19) and presence of large-ticket pro-forma NPAs in the company's loan book, the improvement in asset quality remains a key monitorable.

Since 77% of TFCI's loan book is exposed towards the hotel and tourism industry, which is still facing the adverse impact caused by COVID-19 pandemic and with the recent surge in COVID-19 cases leading to travel related restrictions in key parts of the country such as in Maharashtra and Kerala, the rebound towards normalcy for corporations in the hotel and tourism industry may get extended further. Accordingly, TFCI's loan book remains more susceptible to any impending asset quality pressures.

High concentration risk: There is high credit concentration in the gross loan book of TFCI with top 20 outstanding exposures accounting for around 60.3% of gross loan book and 145% of its tangible net-worth as on March 31, 2020. Also owing to its nature of operations, sector wise concentration remains high.

Liquidity: Adequate

The liquidity profile of the company remains adequate with cash and bank balances as on worth Rs 10.2 crore (up 23% Y-o-Y) along with investments worth Rs 193.43 crore (down 26% Y-o-Y). Also, as on Dec-20, TFCI had undrawn committed cash credit facilities worth Rs 240 crore. As per the ALM statement dated December 31, 2020, TFCI had positive cumulative mismatches across all time buckets.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook and Credit watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
CARE Methodology for Non-Banking Financial Companies
Financial Sector –Financial Ratios

About the Company

TFCI was promoted by IFCI Ltd along with other financial institutions and banks in January 1989. IFCI divested its shareholding in TFCI through the years as it finally exited the company in FY20. Now, a group of promoters (including India Opportunities III Pte Limited ultimately owned by SSG Capital Partners (along with SSG's FDI arm) owning 13.0% and Mr. Koppara Sajeeve Thomas owning 9.5%) own 27.25% stake in the company as on December 31, 2020.

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

Brief Financials^(Rs. crore)	FY18 (A)	FY19 ^ (A)	FY20^ (A)
Total Income	223.9	236.3	265.7
PAT	77.5	86.3	81.02
Interest coverage (%)	2.12	2.09	2.01
Total Assets	2,007.0	2,083.5	2236.7
Net NPA (%)	0.08	2.81	1.60
ROTA (%)	4.18	4.22	3.75

A: Audited, ^ as per IND AS

Status of non-cooperation with previous CRA: NA

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds	INE305A09141#	29-Nov-10	8.90%	29-Nov-20	50.00#	CARE A+; Negative
Bonds	INE305A09158	01-Sep-11	10.15%	01-Sep-21	100.00	CARE A+; Negative
Bonds	INE305A09166	16-Nov-11	10.20%	16-Nov-21	100.00	CARE A+; Negative
Bonds	INE305A09174	19-Mar-12	9.65%	19-Apr-22	56.50	CARE A+; Negative
Bonds	INE305A09182	30-Jun-12	9.95%	01-Jul-22	75.00	CARE A+; Negative
Bonds	INE305A09190	21-Aug-12	9.95%	21-Aug-22	75.00	CARE A+; Negative
Bonds	INE305A09224	25-Feb-13	9.50%	25-Feb-23	50.00	CARE A+; Negative
Bonds	INE305A09216	25-Feb-13	9.60%	25-Feb-28	100.00	CARE A+; Negative
Bonds	INE305A09208	25-Feb-13	9.65%	25-Feb-33	75.00	CARE A+; Negative

#Rated, utilized and redeemed on maturity

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Bonds-Subordinated	LT	-	-	-	1)Withdrawn (21-Jan-20) 2)CARE A+; Stable (05-Jul-19)	1)CARE A+; Stable (06-Jul-18)	1)CARE A; Stable (09-Oct-17)
2.	Bonds-Unsecured Reedemable	LT	50.00	CARE A+; Negative	1)CARE A+; Negative (28-Aug-20) 2)CARE A+; Negative (06-May-20)	1)CARE A+; Stable (05-Jul-19)	1)CARE A+; Stable (06-Jul-18)	1)CARE A+; Stable (09-Oct-17)
3.	Bonds-Unsecured Reedemable	LT	200.00	CARE A+; Negative	1)CARE A+; Negative (28-Aug-20)	1)CARE A+; Stable (05-Jul-19)	1)CARE A+; Stable (06-Jul-18)	1)CARE A+; Stable (09-Oct-17)

					2)CARE A+; Negative (06-May-20)			
4.	Bonds-Unsecured Reedemable	LT	56.50	CARE A+; Negative	1)CARE A+; Negative (28-Aug-20) 2)CARE A+; Negative (06-May-20)	1)CARE A+; Stable (05-Jul-19)	1)CARE A+; Stable (06-Jul-18)	1)CARE A+; Stable (09-Oct-17)
5.	Bonds	LT	200.00	CARE A+; Negative	1)CARE A+; Negative (28-Aug-20) 2)CARE A+; Negative (06-May-20)	1)CARE A+; Stable (05-Jul-19)	1)CARE A+; Stable (06-Jul-18)	1)CARE A+; Stable (09-Oct-17)
6.	Bonds	LT	175.00	CARE A+; Negative	1)CARE A+; Negative (28-Aug-20) 2)CARE A+; Negative (06-May-20)	1)CARE A+; Stable (05-Jul-19)	1)CARE A+; Stable (06-Jul-18)	1)CARE A+; Stable (09-Oct-17)
7.	Commercial Paper	ST	-	-	-	1)Withdrawn (21-Jan-20) 2)CARE A1+ (05-Jul-19)	1)CARE A1+ (06-Jul-18)	1)CARE A1+ (09-Oct-17)

Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Long-term Bonds	Simple
2.	Bonds-Unsecured Redeemable	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications*

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