

Press Release

Tourism Finance Corporation of India Limited

February 07, 2023



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	750.00	ACUITE AA- Negative Assigned	-
Bank Loan Ratings	200.00	ACUITE AA- Negative Reaffirmed	-
Non Convertible Debentures (NCD)	359.74	ACUITE AA- Negative Reaffirmed	-
Non Convertible Debentures (NCD)	75.00	PP-MLD ACUITE AA- Negative Reaffirmed	-
Non Convertible Debentures (NCD)	250.00	Provisional ACUITE AA Negative Reaffirmed Stable to Negative	-
Total Outstanding Quantum (Rs. Cr)	1634.74	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE AA-**' (read as **ACUITE double A minus**) on the Rs. 750.00 Cr. bank facilities of Tourism Finance Corporation of India Limited (TFCI). The outlook is '**Negative**'.

Acuite has reaffirmed the long-term rating of '**ACUITE AA-**' (read as **ACUITE double A minus**) on the Rs. 200.00 Cr bank facilities of Tourism Finance Corporation of India Limited (TFCI). The outlook is '**Negative**'.

Acuite has reaffirmed the long-term rating of '**ACUITE AA-**' (read as **ACUITE double A minus**) on the Rs. 359.74 Cr. secured redeemable Non-convertible debentures issued by Tourism Finance Corporation of India Limited (TFCI). The outlook is '**Negative**'.

Acuite has reaffirmed the long-term rating of '**ACUITE PP-MLD AA-**' (read as **ACUITE Principal Protected Market Linked Debentures double A minus**) on the Rs. 75.00 Cr principal protected market linked debentures of Tourism Finance Corporation of India Limited (TFCI). The outlook is '**Negative**'.

Acuite has reaffirmed the long-term rating of '**ACUITE Provisional AA**' (read as **ACUITE Provisional double A**) on the Rs. 250.00 Cr proposed secured redeemable Non-convertible debenture issued by Tourism Finance Corporation of India Limited (TFCI). The outlook is revised from '**Stable**' to '**Negative**'.

The rating on the Rs. 250.00 Cr. proposed NCD for TFCI is provisional and the final rating is subject to:

- Appointment of a SEBI registered Debenture Trustee
- Execution of signing of Trust Deed
- Receipt of the final term sheet and confirmation from trustee regarding the compliance with all the terms and condition of term sheet.

Rationale for the rating

The rating continues to factor in TFCI's long track record in financing tourism and related sectors, experienced management, resourceful promoters coupled with comfortable capital raising ability. The rating also takes into account its healthy capitalization with CAR levels of 60.28 percent coupled with low gearing levels of 0.95 times as on September 30, 2022 (CAR 54.59 percent and gearing 1.36 times as on March 31, 2022). While Acuite takes cognizance of TFCI's exposure towards tourism sector which faced headwinds on account of Covid-19, the company is expecting resolution of few high ticket stressed assets in the near term which might ease asset quality/ profitability pressures. The rating is, however, constrained due to TFCI's high exposure to tourism and related sectors coupled with wholesale nature of portfolio. The rating is further constrained on account of weak asset quality and low provisioning buffers. Owing to Covid-19 impact on tourism sector, TFCI has witnessed rise in level of stressed assets (incl. GNPA and security receipts); stressed assets as a percentage to its earning assets rose to 4.11 percent as on March 31, 2022 from 3.25 percent as on March 31, 2021 (2.24 percent as on March 31, 2020). Although it marginally moderated to 3.84 percent as on September 30, 2022, significant movement in softer bucket delinquencies has been observed in 30-90 dpd bucket during H1 FY2023 which might lead to further asset quality pressures. Going forward, continued promoter support, ability to scale up/ diversify its business, contain slippages while maintaining operating metrics will be key monitorables.

About the company

TFCI is a Delhi-based NBFC-ND-SI, incorporated in 1989, as a Public Financial Institution (PFI) to cater to the financial needs of the tourism industry. The company is listed on Bombay Stock Exchange and National Stock Exchange. Since September 2018, there have been significant changes in the promoters' shareholding, with a stake dilution by IFCI Ltd., Life Insurance Corporation of India and other nationalized banks during FY19. As a result of this, the new incoming shareholders like India Opportunities III Pte Ltd. & Tamaka Capital (Mauritius) Ltd. (managed by Ares SSG, a global Alternate Investment manager with approx. \$197 billion of assets under management) and Mr. Koppara Sajeeve Thomas, as promoter group along with existing promoters, together held 51.58 percent as on March 31, 2019 of the total shares in the company. Since March 2019, Redkite Capital Pvt. Ltd., erstwhile shareholder of TFCI also started diluting its stake and in July 2020, it has been classified as public shareholder under regulatory approvals. As on December 31, 2022, Life Insurance Corporation of India, the Oriental Insurance Co. Ltd., as promoters & Mr. Koppara Sajeeve Thomas and Pransatree Holdings Pte. Limited as promoter group, hold 17.94 percent stake in the company.

Standalone (Unsupported) Rating

ACUITE AA-

Analytical Approach

Acuite has considered the standalone financial and business risk profile of TFCI to arrive at the rating. Further, the rating also takes the support of the presence of internal credit enhancement proposed in the form of Debt Service Reserve Account (DSRA) and the Structured Payment mechanism.

The rating factors in the Structured Payment Mechanism (SPM) put in place by TFCI to ensure timely availability of funds for servicing of debt obligations. The rating on the NCDs is secured by the presence of Structured Payment Mechanism, i.e. 15per cent of the principal amount will be served as DSRA and this would be provided in the form of fixed deposit. TFCI shall ensure that there is adequate funds to meet scheduled interest and principal obligations at T-5 days (T is the due date).

Key Rating Drivers

Strength

Established track record of long term funding; moderate business volumes along with gradual efforts to diversify into other sectors

TFCI is promoted by Life Insurance Corporation of India (LIC), the Oriental Insurance Co. Limited, Mr. Koppara Sajeeve Thomas and Pransatree Holdings Pte. Limited. The promoters and promoter group shareholding stood at 17.94 percent as on December 31, 2022. TFCI had received capital funding in the form of equity of Rs. 65 Cr. in October 2021. Mr. Koppara Sajeeve Thomas, Director, is an experienced banker with over three decades of experience in retail and corporate banking, Capital Markets, Treasury and Risk Management. TFCI's loan book declined to Rs. 1,450.52 Cr. as on September 30, 2022 (~83 percent comprising tourism sector) as compared to Rs. 1,834.35 Cr. as on March 31, 2022 (~82 percent comprising of tourism sector). TFCI disbursed Rs. 277.47 Cr. in FY2022 as compared to Rs. 457.27 Cr. during FY2022. Further, in H1 FY2203, TFCI disbursement levels stood at Rs. 110.75 Cr. Around 81.53 percent of the total portfolio was classified as on-time portfolio as on September 30, 2022 as against 94.93 percent as on March 31, 2022. Significant movements in delinquencies in the softer buckets between 30-90 dpd was observed as on September 30, 2022. Acuité believes that TFCI will continue to leverage its established position, proven underwriting skills in project financing and expertise of management to consolidate their position in the domestic lending sector.

Prudent funding profile underpinned by low gearing and mix of medium term and long term borrowings

TFCI's gearing has improved to 0.95 times as on September 30, 2022 from 1.36 times as on March 31, 2022 and 1.72 times as on March 31, 2021. Networth of TFCI, mainly comprised accumulated reserves and stood at Rs. 936.96 Cr. as on March 31, 2022 from Rs. 791.63 Cr as on March 31, 2021. Networth improved to Rs. 973.59 Cr. as on September 30, 2022. TFCI's Capital adequacy ratio has also improved to 60.28 percent as on September 30, 2022 from 54.59 percent as on March 31, 2022 (March 31, 2020: 39.87 percent), with Tier-1 at 59.97 percent, providing enough headroom to scale up its loan book. Since most of TFCI's assets are long term loans, TFCI's borrowing profile is largely constituted of medium to long term borrowings. The total borrowings stood at ~Rs. 920.24 Cr as on September 30, 2022. Out of which, 55 percent of the borrowing are maturing between 1-5 years bucket and 14 percent are maturing beyond 5 years bucket. This leads to a positive mismatch in asset liability mismatch statement as on September 30, 2022. The bank borrowings contributed 54 percent and the rest is funded through other capital market instruments. Notwithstanding the wholesale lending, TFCI continued to be conservatively geared and has adequate headroom to meet near term business requirements.

Weakness

Weak asset quality

TFCI's loan book comprises long term loans (including project loans) primarily to tourism and tourism related sector. Since these loans are usually for activities such as the construction of hotels, etc. the average ticket size is high with individual exposures going beyond Rs. 75.00 Cr in certain cases. The company's top 20 borrowers accounted for ~73 percent of its total loan book as on September 30, 2022 (~66 percent as on March 31, 2022). Given that wholesale exposures are chunky in nature, slippages in few accounts can lead to significant asset quality deterioration. Owing to Covid-19 impact on tourism sector, TFCI had witnessed deterioration in asset quality. GNPA and NNPA of TFCI had increased to 3.52 percent and 2.85 percent as on March 31, 2021 respectively this increase was on the account of a pro-forma account of Rs. 52.22 Cr., which was classified as NPA as on March 31, 2021. GNPA and NNPA however, improved to 0.74 percent and 0.37 percent as on March 31, 2022 on account of selling off of two accounts ARC. GNPA and NNPA levels further improved and were

reported as Nil as on September 30, 2022.

TFCI's stressed assets as a percentage to its earning assets (majorly 4 loan assets and security receipts) increased to 4.11 percent as on March 31, 2022 from 3.25 percent as on March 31, 2021. It marginally improved to 3.84 percent as on September 30, 2022 on account of certain recoveries in those SR's. While Acuite takes cognizance of TFCI's asset quality stress, the company is expecting resolution of few high ticket stressed assets during FY2023 which might ease asset quality/ profitability pressures. TFCI's on-time portfolio remained low at ~ 81.53 percent and significant movement in softer buckets were noticed in 30-90 dpd which increased to 12.79 percent as on September 30, 2022 from 4.34 percent as on March 31, 2022. TFCI has made total provisions of Rs. 16.95 Cr. under Ind AS for its loan portfolio of Rs. 1,450.52 Cr. as on September 30, 2022. TFCI's restructured assets (MSME restructuring) outstanding as on March 31, 2022 stood at Rs. 87.94 Cr. Going forward, due to sharp delinquency movements in softer buckets in H1 FY2023 and considering the quantum of restructured assets, TFCI's profitability metrics might be impacted considering the current low provisioning buffers. Acuite believes that the ability of the management to curtail incremental slippages in asset quality and maintain the growth momentum in its loan book will remain key monitorable.

Decline in AUM and low disbursal levels

Covid -19 pandemic and the consequent lockdowns had severely impacted the tourism sector. The recovery of occupancy rate is expected to happen in gradual manner. The total loan portfolio of TFCI declined to Rs. 1,450.52 Cr. as on September 30, 2022 from Rs. 1,834.35 Cr. as on March 31, 2022 and further from Rs. 1,976.64 Cr. as on March 31, 2021. The decline in AUM was majorly on account of low disbursal levels at Rs. ~Rs. 111 Cr. for H1 FY2023 and Rs. 277 Cr. for FY2022. These disbursements levels stood in the range of Rs. 450 to Rs. 500 Cr. during FY2021 & FY2020. The exposure of TFCI is mostly associated with established and reputed brands, which partly mitigates the risk. Any further slowdown in economic activities will impact the business, thereby affecting the cash flows of borrowers and impeding their ability to meet their commitment in a timely manner.

ESG Factors Relevant for Rating

Tourism Finance Corporation of India Limited (TFCIL) belongs to the Non-Banking Financial Companies (NBFC) sector which complements bank lending in India. Some of the material governance issues for the sector are policies and practices with regards to business ethics, board diversity and independence, compensation structure for board and KMPs, role of the audit committee and shareholders' rights. On the social aspect, some of the critical issues for the sector are the contributions to financial inclusion and community development, sustainable financing including environmentally friendly projects and policies around data privacy. The industry, by nature has a low exposure to environmental risks. TFCIL has maintained adequate transparency in its business ethics operations as it can be inferred through its disclosures regarding its policies on related party transactions, vigil mechanism, grievance redressal committee and whistle blowing. Additionally, the company has defined a Code of Conduct to deter wrongdoings and to promote ethical practices. The company's board has seven directors out of which three are independent directors and one female director. The Audit Committee of the board comprises four directors, all of whom including the Chairman are independent. TFCIL has adequate transparency with respect to its shareholders rights, which can be inferred by way of its disclosures in this respect. Since TFCIL is engaged in funding tourism infrastructure projects, it needs to formulate policies to invest in green and sustainable projects and also have a negative screening mechanism in its credit policy. Further, it also needs to assess its lending portfolio from an ESG perspective. As regards the social factors, the projects financed by TFCIL are expected to boost tourism in the country and generate employment in the sector. Its CSR activities during 2020-21 were mainly in the area of Education, Malnutrition, Sanitization and Social Welfare. The Company has a process for doing an impact assessment of its key CSR interventions through engaging employees.

Rating Sensitivity

- Movement in AUM and disbursements levels
- Resolution of stressed assets
- Asset quality movement including softer buckets
- Concentration of portfolio in hospitality sector

Material Covenants

TFCI is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality among others.

Liquidity Position

Adequate

As per the asset liability management statement as on September 30, 2022, TFCI has positive cumulative mismatch in near to medium term bucket. The company has unutilized bank lines in the form of cash credit with an average utilization of ~50 percent for the past twelve months ending March 31, 2022. TFCI maintained unencumbered cash balance and FD of ~Rs. 240 Cr. as on December 31, 2022. TFCI has also working capital facilities of Rs. 110 Cr. from the banks. The liquidity position of the company is adequate. Acuité believes that TFCI has comfortable liquidity profile over near to medium term.

Outlook: Negative

Acuité expects the credit profile of TFCI to be under pressure on account of its significant exposure to tourism and tourism related sectors. The rating could be downgraded in case of higher than expected deterioration in asset quality and further reduction in loan portfolio. Conversely, the outlook may be revised to stable if the company is able to contain the asset quality pressures, maintain collection efficiency and profitability parameters at healthy levels.

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Particulars	Unit	FY22 (Actual)	FY21 (Actual)
Total Assets	Rs. Cr.	2236.83	2177.71
Total Income*	Rs. Cr.	128.37	128.39
PAT	Rs. Cr.	85.32	80.75
Net Worth	Rs. Cr.	936.96	791.63
Return on Average Assets (RoAA)	(%)	3.87	3.66
Return on Average Net Worth (RoNW)	(%)	9.87	10.45
Debt/Equity	Times	1.36	1.72
Gross NPA	(%)	0.74	3.52
Net NPA	(%)	0.37	2.84

*Total income equals to Net Interest Income plus other income.

Status of non-cooperation with previous CRA (if applicable):

None

Any other information

Supplementary disclosures for Provisional Ratings

1. Risks associated with the provisional nature of the credit rating

In case there are material changes in the terms of the transaction after the initial assignment of the provisional rating and post the completion of the issuance (corresponding to the part that has been issued) Acuite will withdraw the existing provisional rating and concurrently, assign a fresh final rating in the same press release, basis the revised terms of the transaction.

2. Rating that would have been assigned in absence of the pending steps/ documentation

The rating would be equated to the standalone rating of the entity: ACUITE AA-/ Negative

3. Timeline for conversion to Final Rating for a debt instrument proposed to be issued

The provisional rating shall be converted into a final rating within 90 days from the date of issuance of the proposed debt instrument. Under no circumstance shall the provisional rating continue upon the expiry of 180 days from the date of issuance of the proposed debt instrument.

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
29 Apr 2022	Non Convertible Debentures	Long Term	159.74	ACUITE AA- Negative (Reaffirmed)
	Proposed Bank Facility	Long Term	200.00	ACUITE AA- Negative (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	200.00	ACUITE AA- Negative (Assigned)
	Proposed Non Convertible Debentures	Long Term	250.00	ACUITE Provisional AA Stable (Reaffirmed)
	Principal Protected Market Linked Debentures	Long Term	75.00	ACUITE PP-MLD AA- Negative (Reaffirmed)
26 Nov 2021	Principal Protected Market Linked Debentures	Long Term	75.00	ACUITE PP-MLD AA- Negative (Assigned)
	Proposed Non Convertible Debentures	Long Term	250.00	ACUITE Provisional AA Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	200.00	ACUITE AA- Negative (Reaffirmed)
	Non Convertible Debentures	Long Term	159.74	ACUITE AA- Negative (Reaffirmed)
	Non Convertible Debentures	Long Term	159.74	ACUITE AA- Negative (Reaffirmed)

05 Aug 2021	Proposed Non Convertible Debentures	Long Term	140.26	ACUITE AA- (Withdrawn)
	Proposed Non Convertible Debentures	Long Term	250.00	ACUITE Provisional AA Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	200.00	ACUITE AA- Negative (Assigned)
02 Mar 2021	Proposed Non Convertible Debentures	Long Term	140.26	ACUITE AA- Negative (Reaffirmed)
	Non Convertible Debentures	Long Term	159.74	ACUITE AA- Negative (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	250.00	ACUITE Provisional AA Stable (Assigned)
24 Nov 2020	Proposed Non Convertible Debentures	Long Term	140.26	ACUITE AA- Negative (Reaffirmed)
	Non Convertible Debentures	Long Term	159.74	ACUITE AA- Negative (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	120.00	ACUITE AA- Negative Reaffirmed
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE AA- Negative Assigned
Not Applicable	INE305A09232	Non-Convertible Debentures (NCD)	09 Nov 2015	8.81	09 Nov 2025	Simple / Complex	159.74	ACUITE AA- Negative Reaffirmed
Not Applicable	INE305A07012	Principal protected market linked debentures	01 Dec 2021	Not Applicable	01 Dec 2024	Complex	75.00	PP-MLD ACUITE AA- Negative Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	34.17	ACUITE AA- Negative Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	50.68	ACUITE AA- Negative Assigned
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	Simple / Complex	200.00	ACUITE AA- Negative Reaffirmed
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	Simple / Complex	250.00	Provisional ACUITE AA Negative Reaffirmed Stable to Negative
Bank of Baroda	Not Applicable	Term Loan	30 Jun 2022	9.05	31 Jul 2027	Simple	45.83	ACUITE AA- Negative Reaffirmed
Canara	Not	Term Loan	Not	Not	Not	Simple	67.50	ACUITE AA- Negative

Bank	Applicable		available	available	available			Assigned
Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	77.49	ACUITE AA- Negative Assigned
Punjab and Sind Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	45.83	ACUITE AA- Negative Assigned
Indian Infrastructure Finance Company Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	200.00	ACUITE AA- Negative Assigned
UCO Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	50.00	ACUITE AA- Negative Assigned
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	248.50	ACUITE AA- Negative Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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