

**Press Release**

**Tourism Finance Corporation of India Limited**

November 24, 2020

**Rating Reaffirmed**



<b>Total Facilities Rated*</b>	Rs. 300.00 Cr.
<b>Long Term Rating</b>	ACUITE AA-/ Outlook: Negative (Reaffirmed)

\* Refer Annexure for details

**Rating Rationale**

Acuite has reaffirmed the long-term rating of '**ACUITE AA-**' (read as **ACUITE double A minus**) on the Rs. 300.00 crore secured redeemable Non-convertible debenture issued by Tourism Finance Corporation of India Limited (TFCI). The outlook continues to remain '**Negative**'.

The rating continues to reflect the experience of the management and prudent funding profile marked by the low gearing levels and healthy capitalization levels. These strengths are partially offset by risks inherent to wholesale lending with significant exposure to tourism and tourism related sectors. Though the stress levels have improved, however, the asset quality remains moderate and vulnerable to the impact of the Covid-19.

TFCI is a Delhi-based NBFC, 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 nationalised banks during FY19. As a result of this, the new incoming shareholders like SSG Capital Partners and Mr. Koppara Sajeeve Thomas 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 Private Limited also started diluting its stake and by September, 2020 they completely exited the company. Currently, Life Insurance Corporation of India, Mr. Koppara Sajeeve Thomas, India Opportunities III Pte. Limited, Tamaka Capital (Mauritius) Limited (ultimately owned by SSG Capital Partners) as promoters, hold 27.25% stake in the company.

**Analytical Approach**

Acuite has considered the standalone financial and business risk profile of TFCI to arrive at the rating.

**Key Rating Drivers**

**Strengths**

**Established track record of long term funding; gradual efforts to diversify into other sectors:**

TFCI was promoted by Industrial Finance Corporation of India (IFCI), Life Insurance Corporation of India (LIC), State Bank of India, Bank of India, United India Insurance Co. Ltd and The Oriental Insurance Co. Ltd as an All India Public Financial Institution in 1989. IFCI reduced their stakes in the company and there was a significant change in the shareholding pattern of promoters. The new shareholders, included, SSG Capital Partners and Mr. Koppara Sajeeve Thomas. Now, with the exit of RedKite Capital Private Limited, the stake of the promoters has reduced to 27.25% as on September 30, 2020.

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. Mr. Anirban Chakraborty, joined the board as Managing Director and CEO in April, 2019. Mr. Chakraborty has about two decades of experience in banking and finance. He was the deputy CEO of Axis Capital.

TFCI had a loan book of Rs.1793.54 Cr as on Mar 31, 2020 (73% of the total loan book towards tourism sector), as against Rs.1693.82 Cr as on Mar 31, 2019 (75% of the total loan book towards tourism sector). TFCI attempts to de-risk its loan portfolio by initiating exposures to other sectors like manufacturing, healthcare and education institutes, among others.

Acuite believes that TFCI will continue to leverage from its established position and its 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 stood at 1.92 times as on March 31, 2020 as against 1.80 times as on March 31, 2018 and 1.77 times as on September 30, 2020. Net worth of TFCI, mainly comprised accumulated reserves and stood at Rs. 753.52 Cr as on March 31, 2020 as against Rs. 736.91 Cr as on March 31, 2019. Its Capital adequacy ratio stood at 37.56 percent as on March 31, 2020 (PY: 39.90 percent), with tier-1 at 37.15 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.1342.62 crore as on Sep 30, 2020. Out of which, 54% of the borrowing are maturing in 1-5 years bucket and 26% are maturing beyond 5 years bucket. This leads to a positive mismatch in asset liability mismatch statement as on Sep 30, 2020. The bank borrowings contribute 49% 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.

**Weaknesses**

**Risk Inherent to wholesale lending segment:**

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 ~61 percent of its total loan book as on June 30, 2020 (~63 percent as on September 30, 2019). The key risk inherent in such wholesale lending activities is that a slippage in the credit quality of one or two large accounts can impact the operating performance of the company for that period. The risks are accentuated since a sizeable portion of TFCI's exposures are in the form of project lending and hence TFCI's portfolio remains exposed to the project risks. The loans extended by TFCI and repayment pattern is based on factors such as the date of commencement of commercial operations, expected cash flows, etc. Usually, in case of projects funding, there is a moratorium period and repayments of the principal commence after expiry of the moratorium period. Consequently, the likelihood of delinquency also increases considerably at that point in the loan cycle.

TFCI's stressed assets as a percentage to its earning assets (loan assets and Investments) stood at 4.31 percent as on June 30, 2020 from 5.28 percent in March 31, 2020 as against 6.01 percent as on March 31, 2018. Based on past experience, it has been observed that except in case of structurally unviable accounts, in most of the delinquent cases, TFCI is able to recover the dues through various measures and on the strength of its collateral coverage (which is mostly in the form of immovable property). The performance and profitability during any period will depend on the extent of fresh slippages vis-à-vis the recoveries from existing delinquent accounts.

Acuite believes that the ability of the management to curtail incremental slippages in asset quality and maintain the growth momentum in its loan book in the subdued economic scenario will remain key monitorable.

**Continued high exposures on tourism sector which are impacted by the pandemic:**

Owing to Covid -19, the government mandated lockdowns has severely impacted the tourism sector. The recovery of occupancy rate is expected to happen in gradual manner. The total exposure of TFCI stands at Rs. 1829.91 Cr. as on Jun 30, 2020, out of which 73% of the exposure is with the tourism sector. In the current situation, there could be increased pressure on the asset quality for players like TFCI. The exposure of TFCI is mostly associated with established and reputed brands, which partly mitigates the risk. Any protracted slowdown in economic activities will continue to impact business, thereby affecting the cash flows of borrowers and impeding their ability to meet their commitment in a timely manner.

**Liquidity Position: Adequate**

As per the asset liability management statement as on September 30, 2020, TFCI has marginally positive cumulative mismatch (less than 1 percent) in most of its maturity buckets up to the next 1 year bucket. The company has unutilised bank lines in the form of cash credit with an average utilisation of ~24% for the past six months ending August 31, 2020. TFCI maintained unencumbered cash of Rs.16.80 crore as on Sep 30, 2020. TFCI has also undrawn facilities of Rs.100 Cr from a bank. Hence, the liquidity position of the company is adequate. Acuite believes that TFCI should be able to manage the liquidity profile over near to medium term.

### Rating Sensitivities

- Significant changes in Promoter holding/ Ownership pattern
- Changes in profitability parameters
- Significant growth in loan book

### Material Covenants

None

### Outlook: Negative

Acuite 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 material reduction in profitability. 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.

### About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	2236.73	2083.45
Total Income (Net of Interest Expense)	Rs. Cr.	138.59	123.19
PAT	Rs. Cr.	81.02	86.25
Net Worth	Rs. Cr.	753.52	736.91
Return on Average Assets (RoAA)	(%)	3.75	4.22
Return on Average Net Worth (RoNW)	(%)	10.87	12.19
Total Debt/Tangible Net Worth (Gearing)	Times	1.92	1.80
Gross NPAs	(%)	2.50	5.14
Net NPAs	(%)	1.61	2.81

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

Not Applicable

### Any other information

Not Applicable

### Applicable Criteria

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

### Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
05-Dec-2019	Secured Redeemable Non-Convertible Debentures	Long Term	159.74	ACUITE AA-/Negative (Reaffirmed; Outlook Revised from Stable)
	Secured Redeemable Non-Convertible Debentures	Long Term	140.26	ACUITE AA-/ Negative (Reaffirmed; Outlook Revised from Stable)
15-Jul-2019	Secured Redeemable Non-Convertible Debentures	Long Term	159.74	ACUITE AA-/Stable (Reaffirmed)

	Secured Redeemable Non-Convertible Debentures	Long Term	140.26	ACUITE AA-/Stable (Reaffirmed)
31-Jul-2018	Secured Redeemable Non-Convertible Debentures	Long Term	159.74	ACUITE AA-/Stable (Reaffirmed)
	Proposed Secured Redeemable Non-Convertible Debentures	Long Term	140.26	ACUITE AA-/Stable (Reaffirmed)
16-Sep-2017	Secured Redeemable Non-Convertible Debentures	Long Term	159.74	ACUITE AA-/Stable (Reaffirmed; Outlook revised from Negative to Stable)
	Proposed Secured Redeemable Non-Convertible Debentures	Long Term	140.26	ACUITE AA-/Stable (Reaffirmed; Outlook revised from Negative to Stable)
19-Oct-2016	Secured Redeemable Non-Convertible Debentures	Long Term	300.00	ACUITE AA-/Negative (Downgraded from ACUITE AA; Outlook Revised from Stable to Negative)
11-Aug-2015	Proposed Secured Redeemable Non-Convertible Debentures	Long Term	300.00	ACUITE AA/Stable (Reaffirmed)
27-Jul-2015	Proposed Secured Redeemable Non-Convertible Debentures	Long Term	50.00	ACUITE AA/Stable (Assigned)

**\*Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Secured Redeemable Non-Convertible Debentures	Nov 09, 2015	8.81%	Nov 09, 2025	159.74	ACUITE AA-/Negative (Reaffirmed)
Proposed Secured Redeemable Non-Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	140.26	ACUITE AA-/Negative (Reaffirmed)

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### About Acuité Ratings & Research:

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