

Press Release

Tourism Finance Corporation of India Limited

November 26, 2021



Rating Assigned and Reaffirmed

Product	Net Quantum (Rs. Cr)	Withdrawn Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	200.00	0.00	ACUITE AA- Negative Reaffirmed	-
Non Convertible Debentures (NCD)	159.74	0.00	ACUITE AA- Negative Reaffirmed	-
Non Convertible Debentures (NCD)	75.00	0.00	PP-MLD ACUITE AA- Negative Assigned	-
Non Convertible Debentures (NCD)	250.00	0.00	Provisional ACUITE AA Stable Reaffirmed	-
Total	684.74	0.00	-	-

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE AA-' (read as ACUITE double A minus)** on the Rs. 159.74 crore secured redeemable Non-convertible debenture issued by Tourism Finance Corporation of India Limited (TFCI). The outlook continues to remain '**Negative**'.

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

Acuité has assigned 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 crore proposed principal protected market linked debentures of Tourism Finance Corporation of India Limited (TFCI). The outlook is '**Negative**'.

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

The rating of Rs. 250.00 Cr proposed NCD issue of TFCI is provisional and final rating is subjected to

- Appointment of SEBI registered debenture trustee
- Execution of signing of Trust Deed with the proposed Structured Payment Mechanism (SPM) duly incorporated
- Receipt of final term sheet and confirmation from trustee regarding the compliance with all the terms and conditions of term sheet.

The rating factors in TFCI's long track record in financing tourism and related sectors, experienced management, resourceful promoters coupled with comfortable capital raising ability. In October 2021, the company raised equity aggregating to Rs.65 crore from existing promoters and new investors. The rating also takes into account its healthy capitalization of

44.37 percent coupled with low gearing levels of 1.63 times as on September 30, 2021 (CAR 39.87 percent and gearing 1.72 times as on March 31, 2021). While Acuite takes cognisance of TFCI's exposure towards tourism sector which is facing 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 5.38 percent as on March 31, 2021 from 4.68 percent as on March 31, 2020. While stressed assets as a percentage to its earning assets has reduced to 4.2 percent as on September 30, 2021, significant movement in softer bucket delinquencies has been observed in 30-90 dpd bucket during Q2FY22 which might lead to further asset quality pressures. Going forward, continued parent support, ability to scale up/ diversify its business, contain slippages while maintaining operating metrics will be key monitorables.

Rating rationale for the proposed NCD of Rs. 250 Cr.:

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).

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 nationalised 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 31st March 2021, Life Insurance Corporation of India & The Oriental Insurance Co. Ltd., as promoters & Mr. Koppara Sajeeve Thomas and India Opportunities III Pte. Limited & Tamaka Capital (Mauritius) Limited (managed by Ares SSG), as promoter group, hold 27.25 percent stake in the company. The promoters and promoters group share rose to 28.43 percent post infusion of around Rs. 65 crore in October 2021 led by Pransatree Holdings Pte. Ltd (related to Mr. Koppara Sajeeve Thomas) and other new investors.

Analytical Approach

Acuité 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.

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 India Opportunities III Pte. Limited, Mr. Koppara Sajeeve Thomas, Life Insurance Corporation of India (LIC), Tamaka Capital (Mauritius) Limited and The Oriental Insurance Co. Ltd. The promoters and promoter group shareholding stood at 28.43 percent as on October 31, 2021 post equity infusion of around Rs. 65 crore.

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's loan book stood at Rs. 1,911 Cr. as on September 30, 2021 (~79.38 percent comprising tourism sector) as compared to Rs. 1,976.64 Cr. as on March 31, 2021 (78.65 percent comprising of tourism sector). TFCI has disbursed Rs.457.27 Cr. in FY2021, out of which 31 percent was disbursed under Emergency Credit Line Guarantee Scheme (ECLGS). Further, in Q1FY22, 74 percent of the disbursements were made under ECLGS. ~88 percent of the total portfolio was classified as on-time portfolio as on June 30, 2021 as against 86 percent of the total portfolio outstanding as on March 31, 2021 is classified as on-time portfolio. Loan portfolio as on September 30, 2021 stood at Rs. 1,911 Cr. with 85.85 percent of on-time portfolio and significant movements in delinquencies in the softer buckets.

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 1.63 times as on September 30, 2021 from 1.72 times as on March 31, 2021 and 1.92 times as on March 31, 2020. Net worth of TFCI, mainly comprised accumulated reserves and stood at Rs. 791.63 Cr as on March 31, 2021 and Rs. 753.52 Cr as on March 31, 2020. Networth improved to Rs. 827.82 Cr. as on September 30, 2021. Its Capital adequacy ratio has also improved to 44.37 percent as on September 30, 2021 from 39.87 percent as on March 31, 2021 (March 31, 2020: 37.56 percent), with tier-1 at 39.33 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. 1,351 crore as on September 30, 2021. Out of which, 67 percent of the borrowing are maturing between 1-5 years bucket and 13 percent are maturing beyond 5 years bucket. This leads to a positive mismatch in asset liability mismatch statement as on September 30, 2021. The bank borrowings contributed 49 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

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 ~63 percent of its total loan book as on September 30, 2021 (~61 percent as on June 30, 2021). 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 has witnessed deterioration in asset quality. GNPA and NNPA of TFCI is increased to 3.52 percent (P.Y.: 2.50

percent) and 2.84 percent (P.Y.: 1.61 percent) as on March 31, 2021 from 0.87 percent and 0.63 percent as on December 31, 2020, respectively. This steep increase is on the account of a pro-forma account of Rs.52.22 Cr., which classified as NPA as on March 31, 2021. GNPA and NNPA levels further increased to 4.37percent and 3.45 percent as on June 30, 2021, respectively, due to fresh slippage of an account of Rs. 17.03 Cr. as on June 30, 2021. GNPA and NNPA improved to 0.89 percent and 0.64 percent as on September 30, 2021 on account of selling off of two accounts amounting to ~Rs. 69 crore to ARC.

TFCI's stressed assets as a percentage to its earning assets (majorly 3 loan assets and security receipts) increased to 5.38 percent as on March 31, 2021 from 2.85 percent as on December 31, 2020 and 5.62 percent in March 31, 2020. This has further increased to 6.19 percent as on June 30, 2021, as on September 30, 2021 it stood at 4.2 percent. While Acuite takes cognisance of TFCI's asset quality stress, the company is expecting resolution of few high ticket stressed assets during FY22 which might ease asset quality/ profitability pressures. Although TFCI was able to maintain on-time portfolio at almost similar levels however, significant movement in softer buckets were noticed in 30-90 dpd which increased to 10.87 percent as on September 30, 2021 from 2.68 percent as on June 30, 2021 and 5.42 percent as on March 31, 2021. TFCI has made total provisions of Rs. 31.12 Cr. under Ind AS for its loan portfolio of Rs. 1,911 Cr. as on September 30, 2021. Going forward, due to sharp delinquency movements in softer buckets in Q2 FY2022 and considering the quantum of restructured assets, TFCI profitability metrics might be impacted considering the current low provisioning buffers.

Acuité 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.

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

Covid -19 pandemic and the consequent lockdowns have severely impacted the tourism sector. The recovery of occupancy rate is expected to happen in gradual manner. The total loan portfolio of TFCI stood at Rs. 1,911 Cr. as on September 30, 2021, out of which 79.38 percent of the exposure was in the tourism sector. Given the current environment and intermittent lockdowns, 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 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, policyholder protection, 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 eight directors out of which four are independent directors and one female director. The Audit Committee of the board comprises three 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

- Significant changes in Promoter holding/ Ownership pattern
- Asset quality slippages
- Changes in profitability parameters
- Significant growth/ diversification in loan book

Material Covenants

As per confirmation received vide mail dated November 17, 2021, 'The company is adhering to all terms and conditions stipulated as covenants by all its lenders/investors'.

Liquidity Position: Adequate

As per the asset liability management statement as on September 30, 2021, TFCI has positive cumulative mismatch 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 ~60 percent for the past six months ending September 30, 2021. TFCI maintained unencumbered cash and bank balances of Rs. 104.89 Cr. as on September 30, 2021. TFCI has also undrawn facilities of Rs. 40 Cr. from the banks. Hence, 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 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.

*As mentioned above, the analytical approach taken for rating of proposed non-convertible debentures of Rs.250.00 Cr. is based on internal credit enhancement in the form of DSRA of 15per cent of the principal amount. Hence, the outlook is 'Stable' for proposed facility of Rs.250.00 Cr., however, the outlook is reaffirmed at 'Negative' for the unsupported rating of TFCI.

Key Financials - Standalone / Originator About the Rated Entity - Key Financials

	Unit	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	2177.71	2236.73
Total Income (Net of Interest Expense)	Rs. Cr.	128.39	138.59
PAT	Rs. Cr.	80.75	81.02
Net Worth	Rs. Cr.	791.63	753.52
Return on Average Assets (RoAA)	(%)	3.66	3.75

Return on Average Net Worth (RoNW)	(%)	10.45	10.87
Total Debt/Tangible Net Worth (Gearing)	Times	1.72	1.92
Gross NPAs	(%)	3.52	2.50
Net NPAs	(%)	2.84	1.61

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

Not Applicable

Any other information

Supplementary disclosures for Provisional Ratings

A. 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.

B. 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

C. 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

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
05 Aug 2021	Non Convertible Debentures	Long Term	159.74	ACUITE AA- Negative (Reaffirmed)
	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)
05 Dec 2019	Non Convertible Debentures	Long Term	159.74	ACUITE AA- Negative (Reaffirmed)
	Non Convertible Debentures	Long Term	140.26	ACUITE AA- Negative (Reaffirmed)
15 Jul 2019	Non Convertible Debentures	Long Term	140.26	ACUITE AA- Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	159.74	ACUITE AA- Stable (Reaffirmed)
31 Jul 2018	Non Convertible Debentures	Long Term	159.74	ACUITE AA- Stable (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	140.26	ACUITE AA- Stable (Reaffirmed)
16 Sep 2017	Non Convertible Debentures	Long Term	159.74	ACUITE AA- Stable (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	140.26	ACUITE AA- Stable (Reaffirmed)
19 Oct 2016	Non Convertible Debentures	Long Term	300.00	ACUITE AA- Negative (Downgraded from ACUITE AA Stable)
11 Aug 2015	Proposed Non Convertible Debentures	Long Term	300.00	ACUITE AA Stable (Reaffirmed)
27 Jul 2015	Proposed Non Convertible Debentures	Long Term	50.00	ACUITE AA Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Size Of Issue	Rating
Not Applicable	INE305A09232	Non-Convertible Debentures (NCD)	09-11-2015	8.81%	09-11-2025	159.74	ACUITE AA- Negative Reaffirmed
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	250.00	Provisional ACUITE AA Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE AA- Negative Reaffirmed
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	75.00	PP-MLD ACUITE AA- Negative Assigned

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About Acuité Ratings & Research

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