Tourism Finance Corporation of India Limited (Revised)

September 01, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Bonds	125.00 (Reduced from 200.00)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Bonds	175.00	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Unsecured Redeemable Bonds	-	-	Withdrawn
Unsecured Redeemable Bonds	-	-	Withdrawn
Total long-term instruments	**300.00 (₹ Three hundred crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of the rating assigned to the bonds of Tourism Finance Corporation of India Limited (TFCI) derives strength from its adequate and improving profitability metrics with return on total assets (RoTA) at 3.84% in FY22 (refers to the period April 1 to March 31) driven by healthy net interest margins (NIMs) and low credit costs, as well as improved asset quality profile with gross non-performing assets (GNPA) and net NPA (NNPA) turning to NIL as on June 30, 2022. The rating also factors in the company's strong capitalisation levels with capital adequacy ratio (CAR) of 57.73% as on June 30, 2022 along with adequate liquidity position.

However, the rating is constrained by moderate loan book growth with three-year compounded annual growth rate (CAGR) till March 31, 2022 at a low of 3% and moderate size of loan book of TFCI vs other large entities in wholesale lending segment, coupled with stiff competition with banks and other non-banking financial companies (NBFCs). The company also continues to remain exposed to the borrower concentration risk with top 20 outstanding exposures accounting for around 66% of gross loan book and 131% of its tangible net worth (TNW) as on March 31, 2022. Also, since TFCI primarily provides financial assistance for projects in the tourism sector and other allied activities, high sector concentration exists with 82% of the book towards the hotel industry/tourism sector as on March 31, 2022.

Rating sensitivities

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

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

- Significant scale-up of operations in sustainable and profitable manner.
- Comfortable asset quality with consolidated GNPA on a sustainable basis at around 2%.
- Maintaining adequate capitalisation profile with an overall gearing below 2x on a steady basis.

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

- Deterioration in asset quality leading to moderation in the profitability profile.
- Weakness in the capitalisation profile with gearing rising above 4x.
- Deterioration in liquidity and financial flexibility to raise capital.

Outlook: Stable

Stable outlook refers CARE Ratings Limited's (CARE Ratings') expectation that TFCI will be able to grow and diversify its loan book while maintaining healthy asset quality 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 the key rating drivers

Key rating strengths

Healthy capitalisation and resource profile: TFCI has been maintaining adequate capitalisation levels over the last few years and reported total CAR and Tier-I CAR of 53.80% and 54.59%, respectively, as on March 31, 2022, compared with 39.33% and 39.87%, respectively, as on March 31, 2021, well above the regulatory minimum requirement of 10% and 15%, respectively. End quarter June 30, 2022, owing to rising profitability and contraction in loan book (by 7%), capitalisation the profile of the company strengthened further, as overall CAR improved to 57.73%. The capitalisation profile of the company is supported by TNW of ₹928.66 crore as on March 31, 2022, increased from ₹784.44 crore as on March 31, 2021 on account of capital infusion of ₹65.18 crore during FY22.

Owing to equity infusion and lower debt requirement caused by the portfolio degrowth in FY22, the overall gearing has reduced from 1.73x as on March 31, 2021 to 1.37x as on March 31, 2022, which further reduced to 1.13x as on June 30, 2022.

TFCI has 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, viz., banks, financial institution, and NCDs. The total borrowings of the company stood at ₹1,075 crore as on June 30, 2022 (down 24% Y-o-Y) with long-term bonds forming around 53%, while bank/institution borrowings forming the remaining 47% of the total borrowings with the weighted average cost of borrowings at around 8.84% (9.31% as on June 30, 2021).

Improved asset quality: The company's asset quality improved during FY22 with GNPA of 0.74% as on March 31, 2022 as compared with 3.52% as on March 31, 2021 owing to high recoveries from NPA amounting to ₹127.84 crore. End-fiscal FY22, the company was having only one account in the NPA category amounting to ₹13.54 crore, which was recovered through the resolution process with a recovery of ₹9.79 crore and ₹3.75 crore was written off in Q1FY23. Correspondingly, the asset quality further improved with NIL NPA as on June 2022.
The company maintains an asset cover of over 2x across its loan book portfolio, which is likely to limit losses on default. Going forward, managing the asset quality while increasing the scale of operations would be a key rating monitorable.

Adequate profitability: Ending fiscal March 31, 2022, TFCI reported profit after tax (PAT) of ₹85.32 crore (up 6% Y-o-Y) on a total income of ₹248.41 crore as compared with the PAT and total income of ₹80.74 crore and ₹258.50 crore, respectively, in FY21. While the company's yield on advances decreased in the declining interest rate environment, a comparatively higher decline in the cost of funds improved the NIMs to 5.65% in FY22 from 5.16% in FY21.
Also, with low opex cost due to the company's wholesale business and NIL credit cost during FY22, the company's RoTA improved to 3.84% in FY22 as compared with 3.61% in FY21.

Key rating weaknesses

Stagnant loan book growth over years and high sector-wise concentration: The growth in the loan book of TFCI has remained moderate over the past few years with loan book registering a CAGR of around 6% in the last four years. During FY22, the gross loan book registered de-growth of 7.20% Y-o-Y reaching to ₹1,834 crore as on March 31, 2022 as against a 10% Y-o-Y growth recorded last year. During FY22, major disbursements were towards the existing borrowers of the company under the Emergency Credit Line Guarantee Scheme (ECLGS) announced by the Reserve Bank of India (RBI) in order to provide relief to the economically stressed sectors. End-June 30, 2022, gross loan book of the company stood at ₹1,591 crore, registering a growth of 13% Y-o-Y.
Also, since TFCI was incorporated to cater to the financing needs of the hotel and tourism industry and to ensure priority funding of tourism-related projects, its exposure towards the said industry remains high at 82% as on June 30, 2022, exposing the company to high sector concentration risk.

High credit concentration risk: There is high credit concentration in the gross loan book of TFCI with top 20 outstanding exposures accounting for around 66% of the gross loan book and 131% of its TNW as on March 31, 2022, as compared with 60% of the gross loan book and 150% of TNW as on March 31, 2021.

Liquidity: Adequate

The liquidity profile of the company remains adequate with cash and bank balances worth ₹209 crore along with liquid investments worth ₹177 crore as on March 31, 2022. Also, as per the asset liability management (ALM) statement dated March 31, 2022, TFCI had positive cumulative mismatches across all time buckets.

Analytical approach: Standalone

Applicable criteria

[Policy on default recognition](#)
[Financial ratios – Financial sector](#)
[Criteria on assigning 'Outlook' or 'Credit watch' to credit ratings](#)
[Policy on withdrawal of ratings](#)
[Rating methodology - non banking finance companies](#)

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. Presently, as on June 30, 2022, the promoters (LIC & The Oriental Insurance) and the promoters' group, comprising India Opportunities III Pte Limited and Tamaka Capital Mauritius Limited, funds managed by ARES SSG owning 11.60%, and Koppara Sajeeve Thomas and Pransatree Holding Pte Ltd. owning 12.60%, own 28.43% stake in the company. 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 the tourism-related projects, such as hotels, resorts, restaurants, amusement parks, etc, primarily in the form of long-term loans as well as by investing in the debentures, equity, preference shares, etc., of such companies.

Since FY12, consequent to the change in Memorandum of Articles, TFCI has also started lending to other sectors, such as social infrastructure, viz., hospitals, schools, college, university, renewable energy, manufacturing & services sector. The company also coordinates and formulates guidelines and policies related to financing of the 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/associations. TFCI also provides research and consultancy services to the state & central agencies and private sector for development of the tourism industry.

Brief Financials (₹ crore)	March 31, 2020 (A)	March 31, 2021 (A)	March 31, 2022 (A)	Q1 FY 2023 (UA)
Total operating income	265.66	258.51	248.41	62.81
PAT	81.02	80.75	85.32	24.98
Interest coverage (times)	1.81	1.77	1.90	2.21
Total assets	2,267.49	2,209.56	2,236.27	2,077.05
Net NPA (%)	1.63	2.86	0.37	Nil
ROTA (%)	3.68	3.61	3.84	4.63

A: Audited; NA: Not available

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the instrument	ISIN	Date of issuance	Coupon rate	Maturity date	Size of the issue (₹ crore)	Rating assigned along with rating outlook
Bonds	INE305A09158	September 01, 2011	10.15%	September 01, 2021	0.00	Withdrawn
Bonds	INE305A09166	November 16, 2011	10.20%	November 16, 2021	0.00	Withdrawn
Bonds	INE305A09174	April 19, 2012	9.65%	April 19, 2022	0.00	Withdrawn
Bonds	INE305A09182	July 01, 2012	9.95%	July 01, 2022	0.00	Withdrawn
Bonds	INE305A09190	August 21, 2012	9.95%	August 21, 2022	75.00*	CARE A; Stable
Bonds	INE305A09224	February 25, 2013	9.50%	February 25, 2023	50.00	CARE A; Stable
Bonds	INE305A09216	February 25, 2013	9.60%	February 25, 2028	100.00	CARE A; Stable
Bonds	INE305A09208	February 25, 2013	9.65%	February 25, 2033	75.00	CARE A; Stable

***** Redeemed on maturity, pending withdrawal

Annexure-2: Rating history for the 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Bonds-Subordinated	LT	-	-	-	-	-	1)Withdrawn **(21-Jan-20)** 2)CARE A+; Stable (05-Jul-19)
2	Bonds-Unsecured Redeemable	LT	-	-	-	1)Withdrawn (03-Sep-21)	1)CARE A+; Negative (05-Mar-21) 2)CARE A+; Negative (28-Aug-20) 3)CARE A+; Negative (06-May-20)	1)CARE A+; Stable (05-Jul-19)
3	Bonds-Unsecured Redeemable	LT	-	-	-	1)CARE A; Negative (03-Sep-21)	1)CARE A+; Negative (05-Mar-21) 2)CARE A+; Negative (28-Aug-20) 3)CARE A+; Negative (06-May-20)	1)CARE A+; Stable (05-Jul-19)
4	Bonds-Unsecured Redeemable	LT	-	-	-	1)CARE A; Negative (03-Sep-21)	1)CARE A+; Negative (05-Mar-21) 2)CARE A+; Negative	1)CARE A+; Stable (05-Jul-19)

							(28-Aug-20) 3)CARE A+; Negative (06-May-20)	
5	Bonds	LT	125.00	CARE A; Stable	-	1)CARE A; Negative (03-Sep-21)	1)CARE A+; Negative (05-Mar-21) 2)CARE A+; Negative (28-Aug-20) 3)CARE A+; Negative (06-May-20)	1)CARE A+; Stable (05-Jul-19)
6	Bonds	LT	175.00	CARE A; Stable	-	1)CARE A; Negative (03-Sep-21)	1)CARE A+; Negative (05-Mar-21) 2)CARE A+; Negative (28-Aug-20) 3)CARE A+; Negative (06-May-20)	1)CARE A+; Stable (05-Jul-19)
7	Commercial Paper	ST	-	-	-	-	-	1)Withdrawn (21-Jan-20) 2)CARE A1+ (05-Jul-19)

*Long term/Short term.

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

Annexure-4: Complexity level of various instruments rated for this company

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

Annexure-5: Bank lender details for this company

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

Note on complexity levels of the 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 any clarifications.

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About us:
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