Tourism Finance Corporation of India Limited (Revised)

September 03, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long-Term Instruments	631.50	CARE A; Negative (Single A; Outlook: Negative)	Revised from CARE A+; Negative (Single A Plus; Outlook: Negative)
Long Term Instruments	-	-	Withdrawn
Total Long-Term Instruments	**631.50 (Rs. Six Hundred Thirty-One Crore and Fifty Lakhs Only)**		

**Details of instruments/facilities in Annexure-1*

Detailed Rationale & Key Rating Drivers

The revision in rating assigned to the long-term instruments of Tourism Finance Corporation of India Limited (TFCI) factors in moderation in its asset quality profile as reflected in its rising NPA levels and high sectoral concentration towards the hospitality sector which has been one of the most adversely impacted sectors by the COVID-19 pandemic. The rating is further constrained by moderate loan book growth with three year compounded annual growth rate (CAGR) till June-2021 at a low of 9% and moderate size of loan book of TFCI vs. other large entities in wholesale lending segment, coupled with stiff competition from banks & other NBFCs / financial institutions. The company also continues to remain exposed to borrower concentration risk with top 20 outstanding exposures accounting for around 60% of gross loan book and 150% of its tangible net-worth as on March 31, 2021. Additionally, liquidity challenges faced by the hospitality industry in the last fiscal and its consequent impact on TFCI, remains a drag on the company's credit profile.

However, the ratings are supported by the TFCI's strong capitalization levels with capital adequacy ratio (CAR) of 41.95% as on June-21, adequate liquidity and healthy profitability metrics with annualized return on total assets (RoTA, annualized) at 3.81% for the quarter ended Jun-21.
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 on a sustainable basis below 3% and reduced impairment costs
- 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
- Further deterioration in asset quality with GNPA rising above 6% on a sustained basis
- Longer timeframe than envisaged for resolution of NPA accounts

Outlook: Negative

The outlook for the long-term instruments of TFCI continues to be 'Negative' on account of the elevated risk aversion in general and particularly with respect to tourism sector that will pose challenges in the collections on advances for TFCI going forward. 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 improve 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 guided by experienced Board of Directors which includes, Mr. Shyam Maheshwari who is associated with Ares SSG and was previously with Lehman Brothers, Mr. S. Ravi, non-executive Chairman who has earlier served as Chairman of Bombay Stock Exchange (BSE) and Mr. Koppara Sajeeve Thomas, an ex-banker who had headed Shinsei Bank, Japan in the past. The board of the company consists of 8 members including representative from Life Insurance Corporation of India (LIC), two promoter group directors, managing director and four independent members.

As of June 30, 2021, two funds managed by ARES SSG (erstwhile SSG Capital) constitute largest shareholding with a 13% stake in the company via its two investment arms i.e. India Opportunities Fund III (9.99%) and Tamaka Capital (3%). ARES Management Corporation is a leading US-based hedge fund with USD 262 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 (4.33%) 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 improving to 39.33% and 39.87% respectively as on March 31, 2021 compared to 37.13% and 37.54% respectively as on March 31, 2020, well above the regulatory minimum requirement of 10% and 15% respectively. The capitalization profile of the company is supported by tangible net worth of Rs.784.4 crore as on Mar-21, increased from Rs.746.5 crore as on Mar-20 on account of sequential positive internal accruals. The overall gearing remains comfortable and range-bound at 1.73 times as on Mar-21, improving from 1.93 times as on Mar-20 on account of marginal decline in borrowings to Rs 1,360 crore (down 6% Y-o-Y).

End quarter June 30, 2021, owing to rising profitability, capitalization profile of the company strengthened further as overall CAR and gearing of the company improved to 41.95% and 1.70 times respectively.

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.1,370 crore as on June 30, 2021 (down 3% 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 9.1% (9.5% as on Jun-20).

TFCI has received board approval to raise debt to the tune of Rs 750 crore in order to expand its loan book, and additional equity capital upto Rs.200 crore in order to expand its loan book, which shall elevate the overall gearing of the company.

Adequate profitability

Ending fiscal March 31, 2021, TFCI reported PAT of Rs 80.74 crore on a total income of Rs 258.50 crore (down 3% Y-o-Y) as compared to PAT and total income of Rs 81.02 crore and Rs 265.66 crore respectively in FY20. The lower reported total income was on the back of reduced other income in the form of gain on investments and recovery from bad debts, declining to Rs 10.89 crore in FY21 (down 57% Y-o-Y). Also, , operational expenses of the company increased 17% Y-o-Y to Rs 27.44 crore along with interest expenses rising to Rs 130.12 crore (up 8% Y-o-Y) thus leading to a lower pre-provision operating profit (PPOP) of Rs 100.95 crore (down 17% Y-o-Y) in FY21.

Consequently, due to rising interest expenses, net interest margin for the company declined to 5.31% (down 20 bps Y-o-Y) thus leading to margin compression and hence lower net interest income of Rs 117.49 crore (down 2% Y-o-Y) in FY21. However, the impact of declining margin was cushioned by lower provisioning expenses during the year, as it declined to Rs 1.1 crore in FY21, as compared to Rs 24 crore in FY20. As per the management, the lower provisioning levels were on the back of adequate provisioning levels maintained by the company.

Consequently, return on total assets (RoTA) and return on net-worth (RoNW) of TFCI moderated marginally to 3.66% and 10.55% respectively in fiscal year 2020-21, as against 3.75% and 10.98% respectively in FY20.

Key Rating Weaknesses

Stagnant loan book growth over years and high sector wise concentration

The growth in loan book of TFCI has remained moderate over the past few years with loan book registering a CAGR of around 9% in last four years. During FY21, the gross loan book grew 10% Y-o-Y to Rs.1,977 crore as on March 31, 2021 as against a 6% Y-o-Y growth recorded last year. The purported loan book growth in FY21 is majorly due to additional loans provided to existing borrowers of the company under the ECLGS scheme announced by Reserve Bank of India (RBI) in order to provide relief to the economically stressed sectors. End June 30, 2021, gross loan book of the company stood at Rs 1,980 crore, registering a growth of 8% Y-o-Y. 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 79% as on Jun-21, rising from 73% a year earlier, thus posing challenges to the asset quality profile of the company as majority of loan assets under hospitality sector witnessed severe deterioration in credit profile owing to liquidity mismatches exacerbated by the COVID-19 pandemic. 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 fiscal March 31, 2021, TFCI reported moderation in its asset quality metrics as its GNPA and NNPA percentage increased to 3.51% and 2.84% respectively, as against 2.55% and 1.63% respectively as on March 31, 2020, due to recognition of earlier pro-forma accounts as NPA during the fiscal. End June 30, 2021, asset quality profile of TFCI moderated further with GNPA and NNPA of 4.37% and 3.45% respectively, exacerbated by the impact of second wave of COVID-19 pandemic on hospitality sector. On an absolute basis, gross NPA and net NPA of TFCI increased to Rs. 86.5 crore and Rs 68.3 crore respectively as on June 30, 2021 on account of additional slippage in Q1FY22. Also, the declining provision coverage ratio has resulted in rising net NPA for TFCI. With CARE adjusted provision coverage ratio (PCR) at a low of 21% end Jun-21 (29% as on Jun-20) and increasing presence of stressed loan assets (below investment grade) in the company's loan book, the improvement in asset quality remains a key monitorable.

Since 79% 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. However, TFCI's management expects improvement in its asset quality parameters on the back of normalcy in hospitality operations post Sep-21 owing to pent-up demand in the sector coupled with resolution of NPA accounts by Dec-21.

High concentration risk:

There is high credit concentration in the gross loan book of TFCI with top 20 outstanding exposures accounting for around 60% of gross loan book and 150% of its tangible net-worth as on March 31, 2021. 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 worth Rs 70.3 crore along with investments worth Rs 151.4 crore (down 28% Y-o-Y) as on June 30, 2021. Also, as per the ALM statement dated March 31, 2021, TFCI had positive cumulative mismatches across all time buckets. However, owing to additional term loans provided by TFCI to its existing borrowers under ECLGS scheme in FY21, absolute collections for the company have dipped significantly, thus a normalcy in collection efficiency trend remains a key rating sensitivity in order to avoid any medium-term mismatches.

Analytical approach: Standalone

Applicable Criteria

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

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, promoters and promoters group including India Opportunities III Pte Limited and Tamaka Capital Mauritius Limited, funds managed by ARES SSG owning 13.0% and Mr. Koppara Sajeeve Thomas owning 9.5%, own 27.25% stake in the company as on June 30, 2021.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 social infrastructure viz. hospitals, schools, renewal energy, manufacturing & services sector 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)	FY20^ (A)	FY21^ (A)
Total Income	265.7	258.5
PAT	81.02	80.75
Interest coverage (%)	2.01	1.94
Total Assets	2,236.7	2,177.7
Net NPA (%)	1.60	2.86
ROTA (%)	3.75	3.66

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	0.00*	Withdrawn
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

*Withdrawn on maturity
Redeemed on maturity, pending withdrawal

Annexure-2: Rating History of last three years

	Name of the	Current Ratings	Rating history

Sr. No.	Instrument/Bank Facilities	Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Bonds-Subordinated	LT	-	-	-	-	1)Withdrawn (21-Jan-20) 2)CARE A+; Stable (05-Jul-19)	1)CARE A+; Stable (06-Jul-18)
2.	Bonds-Unsecured Reedemable	LT	-	-	-	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)	1)CARE A+; Stable (06-Jul-18)
3.	Bonds-Unsecured Reedemable	LT	200.00	CARE A; Negative	-	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)	1)CARE A+; Stable (06-Jul-18)
4.	Bonds-Unsecured Reedemable	LT	56.50	CARE A; Negative	-	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)	1)CARE A+; Stable (06-Jul-18)
5.	Bonds	LT	200.00	CARE A; Negative	-	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)	1)CARE A+; Stable (06-Jul-18)
6.	Bonds	LT	175.00	CARE A; Negative	-	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)	1)CARE A+; Stable (06-Jul-18)
7.	Commercial Paper	ST	-	-	-	-	1)Withdrawn (21-Jan-20) 2)CARE A1+ (05-Jul-19)	1)CARE A1+ (06-Jul-18)

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*

Annexure 4: Bank Lender Details

Click here to view Bank Lender Details

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