Tourism Finance Corporation of India Limited

August 24, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Bonds	175.00	CARE A; Stable	Reaffirmed
Bonds	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the rating assigned to the bonds of Tourism Finance Corporation of India Limited (TFCI) reflects its adequate and improving profitability metrics with return on total assets (RoTA) at 4.1% in FY23, driven by healthy net interest margins (NIMs) and low credit costs. The rating also factors in the company's strong capitalisation levels with gearing at 0.94x and a capital adequacy ratio (CAR) of 59.67% as on June 30, 2023, along with an adequate liquidity position.

The rating is, however, constrained by the moderate loan book growth with a three-year compounded annual growth rate (CAGR) up to March 31, 2023, at -2% and a moderate size of the loan book of TFCI vs other large entities in the wholesale lending segment, coupled with stiff competition with banks and other non-banking financial companies (NBFCs).

The company also continues to remain exposed to borrower concentration risk, with top 20 outstanding exposures accounting for around 70% of the gross loan book and 121% of its tangible net worth (TNW) as on March 31, 2023. Also, since TFCI primarily provides financial assistance for projects in the tourism sector and other allied activities, high sector concentration exists with 83% of the book towards the hotel industry and tourism sector as on March 31, 2023.

Rating sensitivities: Factors likely to lead to rating actions

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

- Scale up of operations in a sustainable and profitable manner.
- Maintaining an adequate capitalisation profile with gearing below 2.5x on a steady basis.
- Greater sector-wise and borrower-wise diversification with a reduction in the exposure towards the hospitality sector.

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

- Weakness in the capitalisation profile of TFCI with gearing rising above 2.5x.
- Decline in profitability with RoTA below 3% on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

The 'stable' outlook factors in CARE Ratings Limited's (CARE Ratings') expectation that TFCI will continue to maintain a comfortable gearing and liquidity position, while reporting healthy profitability metrics.

Detailed description of the key rating drivers

Key strengths

Healthy capitalisation and resource profile

TFCI has been maintaining adequate capitalisation levels over the past few years and reported a total CAR and Tier-I CAR of 62.65% and 62.30%, respectively, as on March 31, 2023, compared with 54.59% and 53.80%, respectively, as on March 31, 2022, well above the regulatory minimum requirement of 10% and 15%, respectively. The capitalisation profile is supported by muted growth and healthy internal accruals. Furthermore, the company has been receiving regular equity infusions, with the last infusion in FY22 of ₹65 crore from the promoters. The gearing also remained comfortable at 0.94x as on June 30, 2023.

[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

TFCI has a 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 institutions (Fis), and NCDs. The total borrowings of the company stood at ₹970 crore as on June 30, 2023 (down 10% y-o-y), with banks and institution borrowings forming around 61%, while long-term bonds forming the remaining 39% of the total borrowings with the weighted average cost of borrowings at around 9.54% (8.84% as on June 30, 2022).

Adequate profitability

Ending fiscal March 31, 2023, TFCI reported a profit-after-tax (PAT) of ₹87.95 crore (up 3% y-o-y) on a total income of ₹229.13 crore as compared with a PAT and total income of ₹85.32 crore and ₹248.41 crore, respectively, in FY22. While both, yields and cost of funds declined in FY23, a higher dip in yields led to a compression in spreads. Consequently, the NIMs declined to 4.99% in FY23 from 5.65% in FY22. However, other income for the company increased substantially from 0.13% in FY22 to 1.49% in FY23 due to a rise in prepayments premiums and advisory fees for consulting projects. Also, with a low opex cost of only 1.10% due to the company's wholesale business model and marginal credit cost of 0.26% during FY23, the company's RoTA improved to 4.12% in FY23 as compared to 3.84% in FY22.

Key weaknesses

Stagnant loan book growth and high sector-wise concentration

The growth in the loan book of TFCI has remained negative over the past few years, with the loan book registering a CAGR of around -1% in the last four years. During FY23, the gross loan book registered a de-growth of 12% y-o-y, reaching ₹1,621 crore as on March 31, 2023, as against a degrowth of 6% y-o-y recorded last year. While disbursements more than doubled from ₹277.88 crore in FY22 to ₹560.60 crore in FY23, the sizeable prepayments of around ₹610 crore led to a contraction in the loan book. As on June 30, 2023, the gross loan book of the company stood at ₹1,584 crore, almost at the same level of ₹1,591 crore as on June 30, 2022.

Also, since TFCI was incorporated to cater to the financing needs of the hotel and tourism industries and to ensure priority funding of tourism-related projects, its exposure towards the said industries remains high at 83% as on March 31, 2023, exposing the company to high sector concentration risk. But TFCI has started diversifying into providing loans to residential real estate and NBFCs. Going forward, the exposure to the tourism sector is expected to come down.

High credit concentration risk

There is high credit concentration in the gross loan book of TFCI, with the top 20 outstanding exposures accounting for around 70% of the gross loan book and 121% of its TNW as on March 31, 2023, as compared with 66% of the gross loan book and 131% of the TNW as on March 31, 2022.

Volatile asset quality

Due to its wholesale lending model, the asset quality metrics remain volatile. The gross non-performing assets (GNPA) and net non-performing assets (NNPA) deteriorated to 3.93% and 2.98%, respectively, as on March 31, 2023, from 0.74% and 0.37%, respectively, as on March 31, 2022. The GNPA and NNPA further rose to 5.35% and 4.21% as on June 30, 2023. The deterioration was driven by the slippage of three accounts. The declining loan book further elevated the headline asset quality metrics. Of the three, the company expects a resolution on two accounts in Q2FY24. CARE Ratings notes that despite the volatile asset quality metrics, the credit costs have remained low due to the high non-performing assets (NPA) resolution rate.

Liquidity: Strong

The liquidity profile of the company remains adequate with cash and bank balances worth ₹61 crore along with investments in mutual funds worth ₹119 crore and certificates of deposit of ₹114 crore as on March 31, 2023, against debt repayments of ₹350 crore due within the next one year. Moreover, there are undrawn bank lines of ₹242.50 crore. Also, as per the ALM statement dated March 31, 2023, TFCI had positive cumulative mismatches across all the time buckets.

Applicable criteria

[Policy on default recognition]
[Financial Ratios - Financial Sector]
[Rating Outlook and Credit Watch]
[Non Banking Financial Companies]
[Policy on Withdrawal of Ratings]

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Financial Institution

TFCI was promoted by (IFCI Ltd) along with other FIs and banks in January 1989. IFCI divested its shareholding in TFCI through the years as it finally exited the company in FY20. At present, as on June 30, 2023, the promoters (Life Insurance Corporation of India [LIC] and The Oriental Insurance) and the promoters' group comprising Koppara Sajeeve Thomas and Pransatree Holding Pte Ltd own 17.96% 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 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 the Memorandum of Articles, TFCI has also started lending to other sectors such as social infrastructure, viz, hospitals, schools, colleges, universities, renewable energy, and the manufacturing and services sectors. The company also coordinates and formulates guidelines and policies related to financing of 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 and associations. TFCI also provides research and consultancy services to the Central and state agencies and the private sector for development of the tourism industry.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	248.41	229.13	59.19
PAT	85.32	87.95	24.37
Interest coverage (times)	1.90	2.21	2.28
Total Assets	2,236.27	2,036.62	2,043.66
Net NPA (%)	0.37	2.98	4.21
ROTA (%)	3.84	4.12	4.78

A: Audited; UA: Unaudited. Note: The above results are the latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Bonds	INE305A09208	25-Feb-2013	9.65	25-Feb-2033	75.00	CARE A; Stable
Bonds	INE305A09216	25-Feb-2013	9.60	25-Feb-2028	100.00	CARE A; Stable
Bonds	INE305A09224	25-Feb-2013	9.50	25-Feb-2023	0.00	Withdrawn
Bonds	INE305A09190	21-Aug-2012	9.95	21-Aug-2022	0.00	Withdrawn

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 2023-2024	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
1	Bonds-Unsecured Reedemable	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)
2	Bonds-Unsecured Reedemable	LT	-	-	-	1)Withdrawn (01-Sep-22)	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)
3	Bonds-Unsecured Reedemable	LT	-	-	-	1)Withdrawn (01-Sep-22)	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)
4	Bonds	LT	-	-	-	1)CARE A; Stable (01-Sep-22)	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)
5	Bonds	LT	175.00	CARE A; Stable	-	1)CARE A; Stable (01-Sep-22)	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)

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Bonds	Simple

Annexure-5: Lender details

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

Note on the 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.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Dinesh Sharma Director **CARE Ratings Limited** Phone: +91-120-4452005 E-mail: dinesh.sharma@careedge.in	Gaurav Dixit Director **CARE Ratings Limited** Phone: +91 -120–4452002 E-mail: gaurav.dixit@careedge.in Neha Kadiyan Associate Director **CARE Ratings Limited** Phone: +91-120-4452022 E-mail: Neha.Kadiyan@careedge.in Anubhav Khatri Lead Analyst **CARE Ratings Limited** E-mail: Anubhav.Khatri@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in