Tourism Finance Corporation of India Limited

May 06, 2020

Ratings

Instrument	Amount (Rs. crore)	Rating1	Rating Action
Long-term Bonds	**681.50 (Rupees Six Hundred Eighty One crore and Fifty lakh only)**	CARE A+; Negative (Single A Plus; Outlook: Negative)	Reaffirmed and Outlook revised from Stable to Negative

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings reaffirmation for the long term instruments of Tourism Finance Corporation of India Ltd (TFCI) continues to factor in its experienced management, healthy capitalization levels with Tier 1 CAR at 36.22% as on Dec-19, adequate profitability with annualized return on total assets (RoTA) at 4.4% as on Dec-19 and comfortable liquidity profile.

However, these rating strengths are partially offset by weakness in asset quality with Gross NPA at 3.3% as on Dec-19, borrower concentration risk on account of TFCI being into wholesale lending with top 20 borrowers forming around 60% of loan book as on Dec-19, moderate loan book growth over years with 3 year CAGR till March 31, 2019 at a low of 9.5% and moderate size of loan book vs. other large entities in wholesale lending segment and stiff competition from banks & other NBFCs / financial institutions. Also, since TFCI primarily provides financial assistance for projects in tourism sector and other allied activities, high sector concentration exists with 75% of book towards hotel industry/tourism sector,

Going forward, the ability of the company to meaningfully scale up its operations while maintaining capitalization profile and liquidity profile, sustaining profitability profile and improving asset quality would be the key rating sensitivity.

Rating Sensitivities

Positive Factors

- Scale up of operations in sustainable and profitable manner
- Comfortable asset quality metrics with GNPA on a sustainable basis below 3%
- Maintaining adequate capitalization profile with gearing below 2.5 times on a steady basis

Negative Factors

- Weakness in profitability and/or capitalization profile of TFCI with gearing rising above 2.5 times
- Deterioration in asset quality

Outlook: Negative

The outlook for the long term instruments of TFCI has been revised from Stable to '**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. Owing to the on-going Covid 19 pandemic, the most visible and immediate impact is expected to be seen in the hotel and tourism sector in all its geographical segments - inbound, outbound and domestic and almost all verticals - leisure, adventure, heritage, MICE, cruise and corporate. With most players in hotel industry expected to take some time to realign themselves in terms of cost rationalization and process improvement measures, the operational efficiency parameters of hotels are expected to be adversely affected for next few quarters. Since TFCI largely caters to tourism sector with about 75% of its book exposed to hotel/tourism industry, its loan growth is expected to remain subdued in coming few quarters. CARE also takes notes of the fact that there is moderation in the loan book growth of the company with a 3 year CAGR at 9.5% as on March-19.

In view of the Reserve Bank of India (RBI)'s move to allow banks, NBFCs and HFCs to offer three month moratorium to borrowers, the company has provided moratorium to about 75% of its borrowers, most of which are tourism sector exposure. However the company has not availed moratorium for the payments due in March 2020 and has no plans to avail moratorium for April and May 2020. On the liquidity front, currently the company had cash and cash equivalents of Rs.189 crore as on March 31, 2020 and sanctioned but undrawn bank lines amounting to Rs.500 crore as on March 31, 2020 against which it has scheduled debt repayments of Rs 125 crore for next six months ending September 30, 2020. While the company's liquidity profile remains strong, the challenges with respect to lower than expected scheduled inflows coupled with scheduled liability related outflows, if prevailed over longer term due to prolonged challenging conditions, could lead to moderation in liquidity profile of the company.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

The outlook may be revised to 'Stable' if the company is able to attain meaningful growth and maintain 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 supported by an experienced second line of management which includes executive directors, Mr Ajit Dash Choudhary who was previously associated with Axis bank's mid corporate vertical as country head and Mr Vasan Paulraj who was heading the private equity division at Axis Capital. The board of the company consists of 10 members including one Nominee member from Government of India (GoI), one representative member from Life Insurance Corporation of India (LIC), two promoter directors, one whole time director, managing director and four independent members.

End Dec 2019, Redkite Capital Private Limited, Delhi based NBFC owned 16.05% stake, India Opportunities III Pte. Limited ultimately owned by SSG Capital Partners (along with SSG's FDI arm Tamaka Capital) owned 13.0% and Mr. Koppara Sajeeve Thomas held 5%. Other large shareholders in TFCI include LIC of India (3.70%) and Oriental Insurance (1.07%). The shareholding of Redkite Capital has reduced to around 9% as on March-20 (from 16% as on Dec-19) and also Redkite has applied for its declassification as promoter of TFCI.

Healthy capitalization and resource profile
The capitalization profile of TFCI continues to remain comfortable with Tier 1 CAR and overall CAR of 38.60% and 39.01% respectively as on March 31, 2019 and 36.22% and 36.62% respectively as on Dec 31, 2019, well above the regulatory minimum requirement at 10% and 15% respectively. The capitalization profile of the company is supported by tangible net worth of Rs.751 crore as on Dec-19 increased from Rs.730 crore as on March-19 on account of accrual of profits. The overall gearing is comfortable at 1.75 times as on Dec-19 reduced marginally from 1.81 times as on March-19 on account of marginal decrease in borrowings during 9M FY20 to Rs.1,312 crore and increase in tangible net worth. Overall with company's loan book growing at a slow pace, the borrowings have remained largely unchanged at around Rs. 1300 crore and hence the gearing has hovered around 1.6 times over the last couple of years. Given the strong capitalization ratios and low gearing, TFCI has sufficient unutilized and underleveraged capital to grow its asset book.

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.1,312 crore as on Dec 31, 2019 with long-term bonds forming around 71% while bank borrowings forming the remaining 29% of total borrowings with the weighted average cost of borrowings at around 9.3%.

Adequate profitability
The profitability profile of the company remains adequate with TFCI reporting net interest margin (NIM) and return on total assets (RoTA) at 5.24% and 4.22% respectively in FY19 as against 5.43% and 4.18% in FY18. During FY19, the company reported profit after tax (PAT) of Rs.86.25 crore vs. PAT of Rs.77.48 crore in FY18 supported by increase in interest income from Rs.197.05 crore in FY18 to Rs.211.60 crore in FY19 on the back of 9% annual increase in gross loan book to Rs.1,694 crore as on March-19.
For the nine month ending December 31, 2019, the company reported profit after tax (PAT) of Rs.68.8 crore on total income (net of interest expense) of Rs.123.1 crore as against PAT of Rs.60.7 crore on total income (net of interest expense) of Rs.89.7 crore for the corresponding period last year. The company reported net interest margin (NIM) and return on total assets (RoTA) (annualized) at 5.6% and 4.4% respectively as on December 31, 2019.

Key Rating Weaknesses

Moderate loan book growth over years and high sector wise concentration
The growth in loan book of TFCI remained moderate throughout the years with book registering a CAGR of around 9.5% in last three years. During FY19, the loan book grew 9% Y-o-Y from Rs.1,550 crore as on March 31, 2018 to Rs.1,694 crore as on March 31, 2019 and further grew to Rs.1,839 crore as on Dec 31, 2019. The loan book growth remains relatively low as compared to other NBFCs in wholesale lending and with long track of operations. Also since TFCI was established to cater to the needs of the tourism industry and to ensure priority funding of tourism-related projects, sector-wise concentration remains high with 75% of its book exposed to hotel/tourism industry. Owing to the on-going Covid 19 pandemic, the hotel

and tourism sector in all its geographical segments and almost all verticals is likely to be adversely affected thereby further moderating loan growth of TFCI in current fiscal.

Weak asset quality and further deterioration expected **in asset quality metrics due to macro-economic vulnerabilities**
During FY19, the asset quality of TFCI deteriorated with absolute Gross NPA at Rs.87.14 crore as on March-19 that increased from Rs.33.3 crore as on March-18. The GNPA ratio and Net NPA ratio increased to 5.14% and 2.81% respectively as on March-19 as against 2.15% and 0.08% as on March-18. The CARE adjusted provision coverage ratio (PCR) is maintained at 54.23% as on March-19. However, owing to combination of recoveries and write offs, the absolute Gross NPA reduced to Rs.61.47 crore end December 31, 2019. The Gross NPA ratio and Net NPA ratio stood at 3.34% and 1.47% as on Dec-19. While the CARE adjusted provision coverage ratio (PCR) stood at 55.95% as on same date.

With travel restrictions in India for over 80 countries and most of the flights of major airlines being suspended along with lockdown in states of India till May 03, 2020, the Indian domestic as well as foreign travel and tourism industry is expected to witness a sharp negative impact in 2020. The adverse impact of covid 19 is also expected to be visible in hotel industry that could see deterioration in its operational parameters (Occupancy rates – ORs & Average room rates – ARRs) over the next couple of quarters, which may lead to lower cash flows for the hotel entities and thus exert pressure on their profitability and liquidity. Since, TFCI's loan book comprises 75% lending to hotel industry/tourism sector, it could face issues in collections of scheduled inflows on advances in the medium term which in turn may exacerbate asset quality concerns for the company.

High concentration risk: There is high credit concentration in the gross loan book of TFCI with top 20 outstanding exposures accounting for around 59.5% of gross loan book and 146% of its tangible net-worth as on Dec 31, 2019.

Liquidity: Adequate
As per the latest liquidity information shared by TFCI, the company had cash and cash equivalents amounting to Rs.189 crore, (Including unencumbered fixed deposits of Rs.185 crore, current account balance of Rs.4 crore and investment in liquid mutual funds of Rs.0.6 crore) as on March 31, 2020 which are sufficient to take care of short term debt obligations of the company of upto six months amounting to Rs.125 crore. Also, as on March 31, 2020, the company had sanctioned but undrawn bank lines to the tune of Rs.500 crore which provides additional comfort to the liquidity profile. While TFCI provides loans for longer tenures (with annual portfolio run down rate in the range of 10-15%), its ability to raise funding for longer tenures, lower gearing and available liquidity supports its liquidity profile.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology - Non Banking Finance Companies (NBFCs)
Financial Ratios – Financial Sector
Rating Methodology: Consolidation and Factoring Linkages in 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 and reduced it to 0.23% as on December 31, 2019. Now, a group of shareholders (including Redkite Capital Private Limited, a NBFC owing 16.1%, India Opportunities III Pte Limited ultimately owned by SSG Capital Partners (along with SSG's FDI arm) owning 13.0% and Mr. Koppara Sajeeve Thomas owning 5%) own 34.1% stake in the company as on Dec 31, 2019. As mentioned by the management the shareholding of Redkite Capital has been reduced to around 9% as on March-20 and subsequently shareholding of India Opportunities Fund (along with SSG's FDI arm Tamaka Capital) has increased to around 20% as on March-20.

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 infrastructure 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)	FY18 (A)	FY19 (A)
Total Income	223.9	236.3
PAT	77.5	86.3
Interest coverage (%)	2.12	2.09
Total Assets	2,007.0	2,083.5
Net NPA (%)	0.08	2.81
ROTA (%)	4.18	4.22

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	50.00	CARE A+; Negative
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

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Bonds-Subordinated	LT	-	-	-	1)Withdrawn (21-Jan-20) 2)CARE A+; Stable (05-Jul-19)	1)CARE A+; Stable (06-Jul-18)	1)CARE A; Stable (09-Oct-17)
2.	Bonds-Unsecured Reedemable	LT	50.00	CARE A+; Negative	-	1)CARE A+; Stable (05-Jul-19)	1)CARE A+; Stable (06-Jul-18)	1)CARE A+; Stable (09-Oct-17)
3.	Bonds-Unsecured Reedemable	LT	200.00	CARE A+; Negative	-	1)CARE A+; Stable (05-Jul-19)	1)CARE A+; Stable (06-Jul-18)	1)CARE A+; Stable (09-Oct-17)
4.	Bonds-Unsecured Reedemable	LT	56.50	CARE A+; Negative	-	1)CARE A+; Stable (05-Jul-19)	1)CARE A+; Stable (06-Jul-18)	1)CARE A+; Stable (09-Oct-17)
5.	Bonds	LT	200.00	CARE A+; Negative	-	1)CARE A+; Stable (05-Jul-19)	1)CARE A+; Stable (06-Jul-18)	1)CARE A+; Stable (09-Oct-17)
6.	Bonds	LT	175.00	CARE A+; Negative	-	1)CARE A+; Stable (05-Jul-19)	1)CARE A+; Stable (06-Jul-18)	1)CARE A+; Stable (09-Oct-17)
7.	Commercial Paper	ST	-	-	-	1)Withdrawn (21-Jan-20)	1)CARE A1+ (06-Jul-18)	1)CARE A1+ (09-Oct-17)

						2)CARE A1+ (05-Jul-19)		

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.*

Contact us

Media Contact

Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact

Group Head Name - Gaurav Dixit
Group Head Contact no.- +91-11-4533 3235/+91 9717070079
Group Head Email ID- gaurav.dixit@careratings.com

Business Development Contact

Name:. Swati Agrawal
Contact no. : +91-11-4533 3200 / +91-98117 45677
Email ID : swati.agrawal@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**