Tourism Finance Corporation of India Limited

August 28, 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

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 36.97% as on Jun-20, adequate profitability with annualized return on total assets (RoTA) at 2.96% as on Jun-20, adequate liquidity profile and improved promoter profile.

However, these rating strengths are partially offset by weak, albeit improving, asset quality with Gross NPA at 1.9% as on Jun-20, high borrower concentration risk on account of TFCI being into wholesale lending with top 20 borrowers forming around 60.3% of loan book as on Mar-20, moderate loan book growth over years with 4 year compounded annual growth rate (CAGR) till March 31, 2020 at a low of 8.5% 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 73% of book towards hotel industry/tourism sector.

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 sensitivity.

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
- Maintaining adequate capitalization profile with gearing below 2.5 times on a steady basis
- 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 with gearing rising above 2.5 times
- Deterioration in asset quality with GNPA above 4% and lower provision coverage

Outlook: Negative

The outlook for the long term instruments of TFCI has been reaffirmed at '**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 73% 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 4 year CAGR at 8.5% as on March-20 on the back of lower disbursements as the company undertook disbursements for selective projects due to protracted economic slowdown that compounded due to pandemic and subsequent nationwide lockdown that was imposed in last week of March 2020

In view of the Reserve Bank of India (RBI)'s move to allow banks, NBFCs and HFCs to offer six month moratorium to borrowers (till August 31, 2020), the company had initially given moratorium to around 75% of its borrowers. As on 31st July, 2020, around 47% of TFCI's loan portfolio was under moratorium. However the company has not availed moratorium for any

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

of its repayments. 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 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 June, 2020, Redkite Capital's shareholding in the company has dropped to a negligible 0.17%, resulting in its de-classification as the promoter and is no longer on the board of the company, making way for SSG Capital as the new promoter, as it owns 13% shareholding in the company via its two arms i.e. India Opportunities Fund III (9.99%) and Tamaka Capital (3%). Meanwhile Mr Koppara Sajeeve Thomas, a seasoned banker and foreign investor has increased his shareholding in the company to 9.2% as on June 20 from the earlier 5% in Mar-20.

Also, SSG's India Opportunities Fund III, along with its FDI arm Tamaka Capital (both owned by SSG Capital), have been acquired by Ares Management Corporation's subsidiary Ares Holdings LP. Ares Holdings LP completed the acquisition on 2nd July 2020 and acquired controlling stake in SSG Capital Holdings Limited and its subsidiaries. Ares management is a US-based hedge fund with USD 149 billion AUM across 10 countries and has grown at a 10 year CAGR of 16%. ARES mainly deals in three core areas namely credit, private equity and real estate, of which credit (direct lending, liquid credit, alternative credit) remains the largest area contributing to 74% or USD 110.2 billion of AUM. Post the acquisition, SSG will operate under the name Ares SSG with a focus on alternative investment strategies particularly in Asia pacific region

Healthy capitalization and resource profile
The capitalization profile of TFCI continues to remain comfortable with Tier 1 CAR and overall CAR of 37.1% and 37.5% respectively as on March 31, 2020 compared to 38.6% and 39.0% respectively as on March 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.746 crore as on Mar-20 increased from Rs.730 crore as on March-19 on account of accrual of profits. The overall gearing is comfortable at 1.9 times as on Mar-20 increasing marginally from 1.8 times as on March-19 on account of marginal increase in borrowings and in tangible net worth. Overall with company's loan book growing at a slow pace, the borrowings have increased faster, with bank borrowings increasing by 58% Y-o-Y to Rs 607.6 crore in FY20. Given the strong capitalization ratios and moderate 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.1,447 crore as on March 31, 2020 (up 9.3% Y-o-Y) with long-term bonds forming around 59% while bank borrowings forming the remaining 41% of total borrowings with the weighted average cost of borrowings at around 9.5%.

Adequate profitability
For fiscal year ended March 31, 2020, the company reported net profit of Rs 81 crore on total income (net of interest expenses) of Rs 119.5 crore as against PAT of Rs 86.25 crore on total income (net of interest expenses) of Rs 107.25 crore. The profitability profile of the company remains adequate with stable net interest margin (NIM) of 5.5%. Although owing to higher credit costs during the year, the company's return on total assets (RoTA) reduced to 3.75% end FY 2020 as against 4.22% an year ago.

Ending quarter June 30, 2020, TFCI reported a profit after tax (PAT) of Rs 16.57 crore (down 27.7% Y-o-Y) on net interest income of Rs 29 crore (down 14% Y-o-Y) due to high interest costs, rising operating expenses and high provision costs for the company coupled with almost unchanged income. While the total income increased only marginally to Rs 63.09 crore (+0.7% Y-o-Y), the company reported a 27.4% Y-o-Y fall in its operating profits to Rs 21.47 crore due to rising interest expenses of the company as the company continues to make pre-payment against its borrowings. For the quarter ended June 30, 2020, the NIM and RoTA (annualized) stood at 5.15% and 2.96% respectively in as on June 30, 2020.

Key Rating Weaknesses

Stagnant 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 8.5% in last four years. During FY20, the loan book grew 6% Y-o-Y to Rs.1,794 crore as on March 31, 2020 as against a 9% Y-o-Y growth recorded last year. End June 2020, the net loan book stood at Rs 1,830 crore. The loan 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 73% 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**
As on June 30, 2020, the company's asset quality profile improved as it had a GNPA and NNPA ratio of 1.9% and 1.4% respectively, as compared to 2.5% and 1.6% respectively as on March 31, 2020, which in turn dropped from 5.2% and 2.9% respectively as on March-19. The CARE adjusted provision coverage ratio (PCR) has reduced to 35.51% as on March-20 from the previous level of 54.23%. However, the improvement in the GNPA and NNPA levels has been largely due to the Rs 51 crore worth of provisioning and write-offs made by the company during FY19-20 against the rising NPA accounts.
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, 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 73% 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 60.3% of gross loan book and 145% of its tangible net-worth as on March 31, 2020. Also owing to its nature of operations, sector wise concentration remains high.

Liquidity: Adequate
On the liquidity front, currently the company had cash and cash equivalents of Rs.147 crore as on June 30, 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 233.5 crore for next six months ending December 31, 2020. While the company's liquidity profile remains fairly balanced, 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. 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 through the years as it finally exited the company in FY20. Now, a group of promoters (including 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 9.2%) own 26.2% stake in the company as on June 30, 2020. As per the reports, Redkite Capital, the erstwhile promoter has decreased its shareholding to 0.17%, resulting in its de-classification as the promoter of the company and SSG Capital has been acquired by Ares Management, a US based hedge fund.

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)	FY20^ (A)
Total Income	223.9	236.3	265.7
PAT	77.5	86.3	81.02
Interest coverage (%)	2.12	2.09	2.01
Total Assets	2,007.0	2,083.5	2236.7
Net NPA (%)	0.08	2.81	1.60
ROTA (%)	4.18	4.22	3.75

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	CARE A+; Negative (May 06, 2020)	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	CARE A+; Negative (May 06, 2020)	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	CARE A+; Negative (May 06, 2020)	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	CARE A+; Negative (May 06, 2020)	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	CARE A+; Negative (May 06, 2020)	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) 2)CARE A1+ (05-Jul-19)	1)CARE A1+ (06-Jul-18)	1)CARE A1+ (09-Oct-17)

Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Long-term Bonds	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*

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