Press Release

Tourism Finance Corporation of India Limited (TFCI)

March 26, 2021

Ratings

Sl. No.	Instrument/Facility	Amount (INR Crore)	Rating Assigned**	Rating Action
1.	Proposed Non – Convertible Debentures*	250.00	Provisional IVR AA/Stable Outlook (Provisional IVR Double A with Stable Outlook)	**Assigned**
	Total	**250.00**		

**The proposed NCDs of INR250.00 crore shall be issued on private placement basis.*

***The rating derives strength from the Structured Payment Mechanism which includes maintenance of Debt Service Reserve Account with amount equivalent to 15% of the outstanding principal payments. DSRA as stipulated shall be maintained either in the form of Fixed Deposit with a scheduled bank or any other permitted investments in 'AAA' rated bonds or Government securities.*

Details of Facilities are in Annexure 1

Detailed Rationale

The rating for the INR250.00 crore Proposed NCD for TFCI is provisional and the final rating is subject to:

- Appointment of a SEBI registered Debenture Trustee and signing of trust deed.
- Receipt of the final term sheet and confirmation from trustee regarding compliance with all the terms and conditions of term sheet.

The rating assigned to the Proposed Non-Convertible Debentures (NCD) of Tourism Finance Corporation of India Limited (TFCI) factors in the Structured Payment Mechanism put in place by TFCI to ensure timely availability of funds for servicing of debt obligations. The rating on the NCDs is secured by the presence of the Structured Payment Mechanism under which 15% of the principal amount will be served as DSRA and this would be provided either in the form of fixed deposits with a scheduled bank or any other permitted investments in 'AAA' rated bonds or Government securities.

Further, rating derives strength from the company's experienced management and renowned group of shareholders, improvement in profitability, prudent loan book management and healthy capitalisation levels and proposed structured payment mechanism with inclusion of debt service reserve account. However, sector concentration risk with major exposure to the tourism industry and a subdued operating environment leading to possibility of high NPAs are the rating constraints.

Key Rating Sensitivities

Upward factors:

- Ability of the company to successfully diversify their operations into other sectors with growth in the loan portfolio.

Downward factors:

- Weakening of credit profile with sustained decline in asset quality.

Key Rating Drivers with detailed description

Key Rating Strengths

Experienced management and renowned shareholders

The company has a strong management group spearheaded by Mr Anirban Chakraborty the CEO and Managing Director having more than 2 decades of experience in banking and financial services sector. He is supported by Mr Ajit Dash Choudhury, Executive Director having 20 years of experience in building and managing businesses across various sectors and Mr Anoop Bali, the President and CFO having experience in Corporate Finance Project Monitoring and Recovery and Risk Management with a cumulative experience of over 29 years. The vast experience of the management has been the driving force behind the success of the company which has helped them sail through the up and downturns of the economy to become one of the premier NBFCs engaged in the development of urban infrastructure. Life Insurance Corporation of India, The Oriental Insurance Company Limited and India Oppurtunities III Pte Ltd are amongst the renowned shareholders of the company.

Improvement in profitability, prudent loan book management and healthy capitalization levels

The company has seen their profitability rise by 14% from INR229.95 crore in FY19 to INR262.75 crore in FY20 with their net interest income rising by 11% from INR107.25 crore in FY19 to INR119.51 crore in FY20. During the year the company has taken a prudent approach in sanctioning and disbursing loans after considering the challenging and subdued environment to avoid slippages and stressed assets. The capitalization levels of the company are more than adequate with the Overall Capital Adequacy Ratio (CAR) at 37.56% and Tier I capital at 37.15% at the end of FY20, the Overall CAR has remained more or less on similar levels at 37.59% at the end of 9MFY21 which is well above the minimum regulatory requirement of 15%.

Proposed Structured Payment Mechanism with inclusion of Debt Service Reserve Account

Under the structured payment mechanism for the proposed NCD, an amount equivalent to 15% of the outstanding principal amount shall be maintained in the DSRA account, the amount deposited in the DSRA account can only be invested in the form of Fixed Deposit with a scheduled bank or as investments in 'AAA' rated bonds, these investments will be lien marked to the Debenture Trustees at all times. The coupon payments will be deposited by the company 5 days prior to the coupon payment date, which will be lien marked to the debenture trustee at all times, in case the coupon payments are not made in time the debenture trustee will mandatorily liquidate the DSRA to make coupon payments.

Key Rating Weaknesses

Sector concentration risk with major exposure to the tourism industry

The company lends by way of term loans to entities engaged in the tourism sector which includes provision of funding requirements to hotels, resorts, motels, restaurants, amusement parks, entertainment complexes, thus having a high sector specific concentration risk with their outstanding portfolio as on December 31, 2020 comprising of 67.30% loans to hotels and 9.36% to other tourism projects, 10.94% to social infrastructure and 12.41% to manufacturing and other sectors. The high concentration to the tourism sector is a cause of concern as there is little optimism in the industry with governments imposing travel bans to contain the spread of the virus which has led to muted demand and signs of demand recovery are very scarce. The demand is not expected to fully recover as was in pre-covid levels till 2023. The inherent asset quality risk due to the industry scenario is mitigated to an extent as the company only invests in projects wherein it has exclusive charge on the project assets along with mortgage of land and building and hypothecation of movables with personal and corporate guarantee of promoters, the company also includes positive and negative covenants (such as inclusion of DSRA, Escrow/Routing of Revenues, Additional Collateral Pledge etc.) all of which are credit enhancements protecting the company from downside risk to some extent.

Subdued operating environment leading to possibility of high NPAs

The asset quality of the company has been deteriorating with the GNPA and NNPA levels rising from 3.34% and 1.47% in 9MFY20 to 3.49% and 2.52% respectively in 9MFY21 (the 9MFY21 figures have been calculated without taking into consideration the effect of the Interim Order from the Supreme Court, as per which accounts not declared as NPA till August 31, 2020 shall not be declared as NPA till further notice, which have been considered as Stage 3 assets). With the company's exposure to tourism industry which is facing adversities since the last year due to the pandemic, the ability to the company to make efficient recoveries without leading to further pressure on the asset quality is a key rating sensitivity.

Analytical Approach: Standalone

Applicable Criteria

Rating Methodology for NBFCs

Financial Ratios & Interpretation (Financial Sector)

Liquidity - Adequate

Liquidity is adequate, as the company has cash and bank balances of INR190.61 crore in FY20, their working capital limit utilisation has been moderate at ~33%. The company also has liquidity assets amounting to INR26.99 crore adding to their existing liquidity cushion. The company does not have any mis-matches in any of the time buckets in the ALM profile.

About the company

Tourism Finance Corporation of India Limited (TFCI) as an All-India Financial Institution notified under Companies Act and Non-deposit taking Systemically Important NBFC notified by RBI; incorporated in the year 1989 to provide financial assistance primarily by way of term loans to companies/LLP engaged in tourism sector which, inter-alia, includes funding to hotels, resorts, motels, destination spas, restaurants, amusement parks, water parks, entertainment complexes including multiplexes, travel services, tourism education, adventure sports, etc. Besides, TFCI, over the years, has also diversified in funding companies/LLP engaged in development of urban infrastructure viz. hospitals & educational institutions, renewable energy, and manufacturing. TFCI, in its existence for over 30 years has assisted over 900 projects which have helped in building sustainable infrastructure and job creation in the country. TFCI, in order to meet its financial requirements, raises resources from the market by way of Bonds/debentures and term loans from Banks/Institutions besides its capital and accumulated reserves.

Financials (Standalone)*:

(INR crore)

For the year ended/ As On	**31-03-2018**	**31-03-2019**	**31-03-20**
	(Audited)	**(Audited)**	**(Audited)**
Total Operating Income	223.62	229.95	262.75
Net Interest Income	100.61	107.25	119.51
PAT	77.48	86.25	81.01
Total Debt	1303.58	1323.61	1446.95
Total Net-worth	678.19	736.91	753.52
Total Gross Loan Assets	1550.16	1693.82	1793.54
Ratios			
PAT Margin (%)	34.65	37.51	30.83
Overall Gearing Ratio (x)	1.92	1.80	1.92
GNPA (%)	2.15	5.14	2.50
NNPA (%)	0.08	2.81	1.61
CAR (%)	39.90	39.01	37.56

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: None

Any other information: None

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (INR crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Proposed Non-Convertible Debentures	Long Term	250.00	Provisional IVR AA /Stable Outlook	--	--	--

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
Proposed Non-Convertible Debentures	NA	NA	NA	250.00	Provisional IVR AA / Stable Outlook