Tourism Finance Corporation of India Limited: Downgraded

Instrument	Amount (Rs. Crore)	Rating/Outlook
Secured Non-Convertible Debentures	300.00	SMERA AA-/Negative (Downgraded from SMERA AA and Outlook Revised from 'Stable' to 'Negative')

SMERA has downgraded the rating on the Rs.300 crore Secured Non-Convertible Debentures issued by Tourism Finance Corporation of India Limited (TFCI) to **SMERA AA – (read as SMERA Double A Minus)** from 'SMERA AA' (read as SMERA Double A). The outlook has been revised from 'Stable' to **'Negative'**.

The downgrade factors in the sharp rise in non-performing assets during FY2016. SMERA expects the asset quality pressure to continue in the medium term on account of the challenging domestic business environment. Besides, the company has also been facing profitability pressures during FY2016. SMERA expects moderation in profitability margin to continue in the medium term due to continued stress in the asset quality. The rating also factors in the high sectoral concentration risk, intense market competition and the company's presence in the wholesale lending segment.

However, the rating continues to be supported by the strong ownership and management pattern of TFCI, established track record of operations, healthy capitalisation levels and comfortable asset-liability maturity profile.

Updates

Notwithstanding the marginal improvement in GNPA from Rs.158.85 crore as on 31 March, 2016 to Rs.138.15 crore as on 15 September, 2016, TFCI's asset quality continues to remain stressed. TFCI's Gross Non-Performing Assets (GNPA) ratio deteriorated from 3.82 per cent as on 31 March, 2015 to 12.51 per cent as on 31 March, 2016. The increase in delinquency levels has been primarily on account of increased stress in the tourism sector. Exposure to project risks and stressed cash flows of the borrowers impeded the ability to service their debts in a timely manner, thereby translating to assets quality pressure for TFCI.

The Profit After Tax (PAT) declined from Rs.60.18 crore in FY2015 to Rs.53.61 crore in FY2016 primarily due to asset quality deterioration and muted credit offtake. The Return on Average Assets declined from 4.13 per cent in FY2015 to 3.44 per cent in FY2016. The disbursements fell to Rs.380.56 crore in FY2015-16 from Rs.508.02 crore in FY2014-15. Disbursements in the current financial year (FY2016-17) continue to remain muted at Rs.163.09 crore upto 15 September, 2016. The Net Interest Margin also moved from 6.72 per cent in FY2015 to 5.83 per cent in FY2016.

The promoter holding in TFCI stood at 54.20 per cent as on 31 March, 2016 of which 37.70 per cent was held by IFCI Limited and the balance by leading public sector banks and insurance companies.

The rating is supported by adequate capitalisation levels of TFCI. The Capital Adequacy Ratio stood at 37.82 per cent as on 31st March, 2016 vis-à-vis 37.65 per cent as on 31st March, 2015.

TFCI's asset liability management is efficient which is reflected in the long tenure of its liabilities as compared to its assets. The company has a positive mismatch (cash inflows exceed outflows) upto the three year buckets.

TFCI is exposed to sectoral concentration risk with maximum exposure to the tourism sector. Besides, it also faces intense market competition constraining the credit risk profile of the company.

TFCI is present in the wholesale lending segment. The top 10 accounts comprise approximately 35 per cent of the company's total loan book as on 31 March, 2016. Hence, deterioration in the health of one or two accounts will adversely affect the overall asset quality of TFCI.

Outlook: Negative

SMERA believes that TFCI's credit risk profile will remain under pressure on account of continued stress in its asset quality, moderation in profitability margins and overall subdued business environment. The outlook may be revised to 'Stable' in case of significant and sustainable improvement in asset quality, coupled with healthy growth in the loan book while maintaining margins. The rating may be downgraded in case of further deterioration in asset quality and continued decline in profitability margins.

Rating Sensitivity Factors

- Changes in key ownership/management pattern
- Movement in asset quality
- Movement in profitability indicators
- Growth in loan book

Criteria Applied to arrive at the rating:

- Non-Banking Finance Companies

About the Company

The New Delhi-based TFCI, incorporated in 1989, is a public limited company formed as a specialised financial institution to cater to the financial needs of the tourism industry.

TFCI reported profit after tax (PAT) of Rs.53.61 crore on interest income of Rs.175.43 crore in FY2016 as compared to profit after tax (PAT) of Rs.60.18 crore on interest income of Rs.172.04 crore in FY2015. The loan portfolio and net worth stood at Rs.1270.00 crore and Rs.514.05 crore, respectively, on 31 March, 2016 against Rs.1274.38 crore and Rs.479.10 crore as on 31 March, 2015. For the quarter ended 30 June, 2016 TFCI reported profit after tax of Rs. 20.17 crore and net interest income of Rs. 27.63 crore.

Rating History:

Date	Instrument	Amount (Rs Crore)	Rating
11 August, 2015	Proposed Non-Convertible Debentures	300.00	SMERA AA /Stable (Reaffirmed)
27 July, 2015	Proposed Non-Convertible Debentures	50.00	SMERA AA /Stable (Assigned)

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ABOUT SMERA

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