Tourism Finance Corporation Ltd

Industry	CMP	Recommendation	Add on Dips to band	Sequential Targets	Time Horizon
BFSI-NBFC	Rs. 173	Buy at CMP and add on dips	Rs. 153-157	Rs. 195.5 & Rs. 227	3-4 quarters

HDFC Scrip Code	TOUFINEQNR
BSE Code	526650
NSE Code	TFCILTD
Bloomberg	TFCI IN
CMP as on 11 Jan 18	173.3
Eq. Capital (Rs crs)	80.7
Face Value (Rs)	10.0
Equity Sh. Outs (Cr)	8.1
Market Cap (Rs crs)	1398.4
Book Value (Rs)	73.8
Avg. 52 Week Vol	16,46,000
52 Week High	177.0
52 Week Low	55.4

Shareholding Pattern-% (Sep-2017)	
Promoters	34.14
Institutions	4.11
Non Institutions	61.74
Total	100.00

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Company description

Tourism Finance Corporation of India Ltd (TFCI) was set-up in 1989 with the objective to expedite the growth of tourism infrastructure in the country by providing dedicated line of credit on long term basis to tourism related projects. It 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. TFCI has successfully played the role of investment catalyst for the tourism sector and has cumulatively sanctioned assistance aggregating over Rs. 9,000 cr to 822 projects as at the end of FY17.

Investment Rationale

- Erstwhile Government owned FI promoters divest their stake and new large shareholders come in
- Organisational transformation could result in re-rating
- Lending activity to pick up
- Upgradations to result in asset quality improvement

Concerns

- Incoming shareholders may not be able to immediately influence the policies of TFCI and drive faster growth
- Sluggish inbound or domestic travel and Declining room rentals delaying projects
- Risk of increasing NPAs and loss in unlisted investments
- Diversification into non-tourism book
- Supply of shares could dampen the upside in the short term

Financial Summary

Rs in Cr	Q2FY18	Q2FY17	YoY (%)	Q1FY18	QoQ (%)	FY17	FY18E	FY19E	FY20E
NII	24.7	24.6	*0.5*	28.1	*-12.0*	103.6	120.0	150.2	197.0
PPP	25.3	23.3	*8.6*	29.6	*-14.4*	93.7	111.4	140.2	185.3
PAT	19.2	16.4	*17.1*	22.0	*-13.0*	70.4	71.7	93.1	126.2
EPS (Rs)	2.4	2.0	*17.1*	2.7	*-13.0*	8.7	8.9	11.5	15.6
P/E (x)						19.9	19.5	15.0	11.1
P/ABV (x)						2.7	2.4	2.2	1.9
RoAA (%)						4.3	4.2	4.7	4.8

(Source: Company, HDFC sec)

View and Recommendation

Despite having a strong capital adequacy ratio, TFCI was unable to grow its lending book due to its conservative nature, slowdown in capex in the tourism related companies, and being promoted by Government owned entities. The recent change in ownership pattern is likely to bring about a change in the board of directors and the management. The financial background of the new promoters coupled with new avenues for lending should result in faster growth in loan and diversification in the asset base. With sharp improvement in return ratios we believe re-rating of the stock is likely.

We feel investors could buy the stock at the CMP and add on declines to Rs. 153-157 band (1.7x FY20E ABV and ~10.0xFY20E EPS) for sequential targets of Rs. 195.5 (2.15x FY20E ABV and 12.5xFY20E EPS) and Rs. 227 (2.5x FY20E ABV and 14.5xFY20E EPS) in 3-4 quarters. At CMP of Rs. 173 the stock is trading at 1.9x FY20E ABV and 11.1xFY20E EPS.

Company Overview

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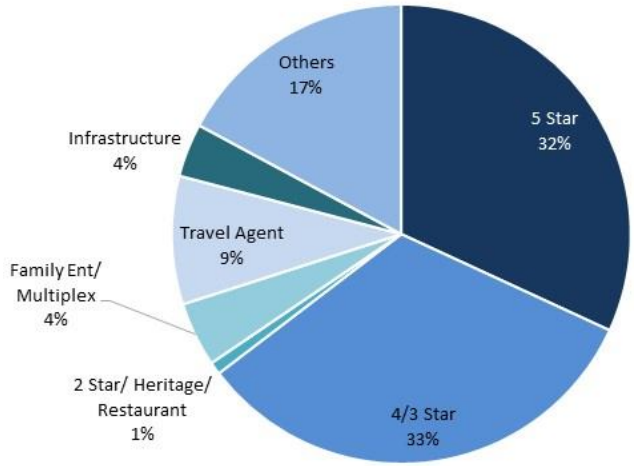
TFCI, as a specialised financing institution, has contributed significantly in terms of creation of tourism infrastructure throughout the country and thereby generating direct employment opportunities. The assistance sanctioned so far has been instrumental for creation/ addition of 48450 hotel rooms in the country. With the financial assistance provided by TFCI, the tourism related projects have provided direct employment to about 90035 persons in tourism industry. The assistance provided by TFCI has also led to catalysing investments to the tune of Rs.27602 crore in more than 822 projects thereby contributing to the creation of required tourism infrastructure, which has direct bearing on the development of the industry.

TFCI has been operating profitably since its inception and as on FY17, its free reserves aggregating ~Rs. 474 cr after payment of dividend regularly. TFCI raises long term resources from the market by way of Issue of Bonds besides utilising internal accruals. Company has 2 offices in Delhi – NBCC Plaza and SCOPE Minar. It also has 1 non-functional hotel property at Mussorie.

TFCI provides all forms of financial assistance for new, expansion, diversification, renovation/modernization projects in tourism sector services sector and related activities, facilities and services. Over the last couple of years it has also diversified into providing other corporate and infrastructure loans (excluding real estate).

TFCI is a specialised institution catering largely to the hospitality sector. Around 80% of the advances are to hospitality sector. Within hospitality segment, major focus is towards 3star/ Budget category hotels. Rest ~20% exposure is to the infrastructure and corporate loan segment. The company has also started focusing on consulting assignment which will also help it in generating leads apart from getting fee based income.

Category wise distribution of portfolio (FY17)



(Source: Company, HDFC sec)

Investment Rationale

Erstwhile Government owned FI promoters divest their stake and new large shareholders come in

IFCI, which held 39.1% stake in TFCI at the end of FY16, has been gradually reducing its stake every quarter. In Sep-2017 IFCI sold 24% of its stake through a series of bulk deals to India Opportunities III Pte Ltd (4%) along with Redkite Capital Management (13.3%) and Sanjeev Thomas (2.5%) which now cumulatively hold 19.8% stake. Other promoters like Bank of India and United India Insurance also divested their stake during Q2FY18. Besides the above mentioned persons acting-in-concert Centrum Capital picked up 7.1% stake which has been pledged to Shapporji Pallonji Finance Pvt Ltd. Post the stake sale, IFCI now holds 2.5% while United India Insurance and Bank of India have negligible holding. SBI, which held 9.2% at the end of Q2FY16, had earlier divested its entire stake by Q2FY17. Cumulatively the new shareholders have put in Rs. 239.8 cr for the stake bought by them.

Sanjeev Thomas has 30 years of banking experience with stints in Shinsei Bank and Citigroup. Redkite Capital is a New Delhi based wholesale lending NBFC. It was incorporated in 2010 and main promoters are Ashok Gupta (MD), Naresh Tikamchand Jain and Om Prakash Khandelwal. Its activities include hire- purchase financing, financing NBFCs financing hire-purchase of consumer durable goods like vehicles / TV etc

Change in Board of Directors

Following this deal, the Government of India has withdrawn its nominee director Mr A K Dogra from TFCI's Board on Dec 08, 2017. However there still are 2 nominees of Ministry of Tourism and one from LIC (6.71% stake) apart from Chairman who is an IAS. It is just a matter of time in which the Government nominee directors are withdrawn/changed. The 6 independent directors on the board are also likely to be reviewed. The new shareholders will either have to buyout the LIC's stake or get their go ahead to the new structure. Ministry of Tourism also need to withdraw or stay out with minimum prescriptions about the way the company will be operated.

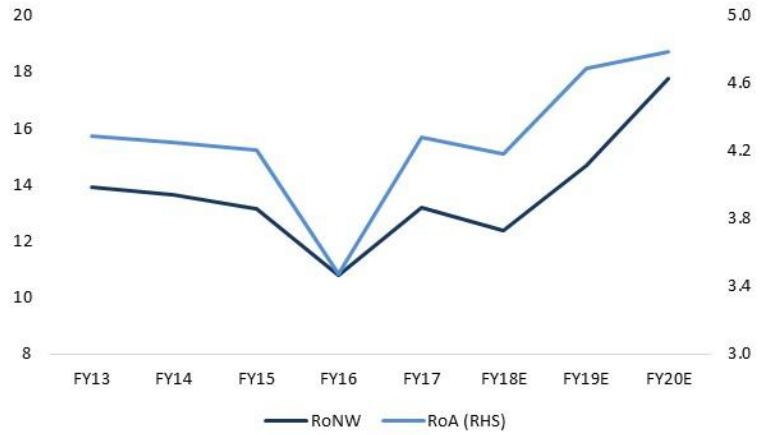
On Jan 09, 2018, the Board of Directors of TFCI appointed Mr Bapi Munshi as an additional director in independent capacity from Feb 01, 2018 for 5 years. Mr. Bapi Munshi served as President of Axis Bank Limited since November 2008 and served as its Chief Risk Officer and as the President of Treasury at Axis Bank Limited. He served as Non-Executive Director of Axis Finance Limited from October 20, 2012 to April 12, 2016. He has been an Additional Director at Axis Mutual Fund Trustee Limited since September 27, 2013. Mr. Munshi has a Postgraduate Degree in Science from IIT, Kharagpur and is a certified Junior Associate of Indian Institute of Banking.

Inducting an independent director from BFSI space could be a sign of change in momentum for the company going forward.

Organisational transformation could result in re-rating

With identifiable and seasoned investors coming in as its promoters, we think TFCI can change its growth gears and may be on the way to rerating as the company undergoes organizational transformation, records higher growth in AUM (given the more than comfortable capital adequacy - 39% as of March 2017 vs regulatory requirement of 15%), possible rise in NIMs

Sharp uptick in return ratios likely (%)



(Source: Company, HDFC sec)

due to shift towards higher yielding assets. This could also result in improvement in RoA and RoE. Although the new promoters are yet to get nominated as directors, they may be able to influence the direction and pace of growth of the company.

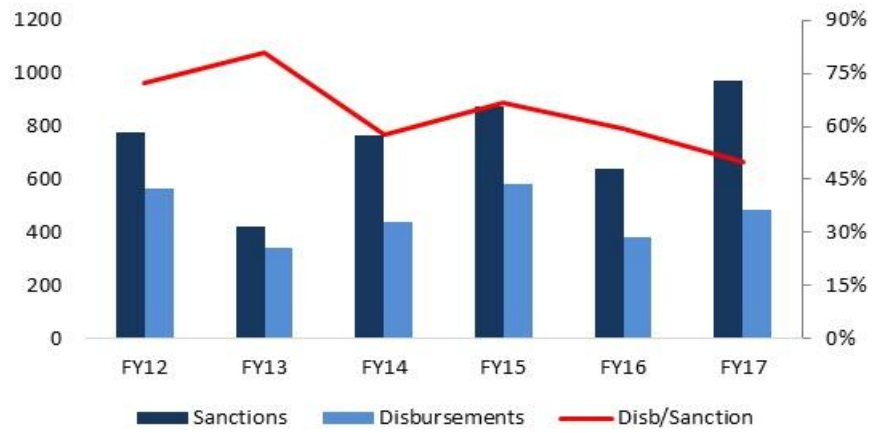
Lending activity to pick up

During FY15, FY16 and FY17 TFCI received pre-payments of Rs.153 crore, Rs.160 crore and Rs.183 crore respectively which has not only affected the business growth but also created problems of deployment of huge surplus funds. About Rs.200 crore has remained in treasury for short-term deployment. Given the conservative nature of management and sluggish demand for funds in the tourism sector, the loan growth remained dull for TFCI over the past few years.

The new promoters with finance background have got a company with clean balance sheet, network, people, capital adequacy etc. Now they just need to figure out the new avenues of growth. Despite having a strong capital adequacy ratio, TFCI has struggled to grow its lending book. Outstanding advances have grown at a sluggish rate of 6.3% CAGR over FY12-FY17. With a change in board of directors and new avenues of lending, we believe TFCI can grow its book between 25-30% CAGR over FY17-FY20E. This may bring in additional possibilities of NPAs but will lead to better earnings and book values.

Advances growth trend (Rs Cr)

Sanctions and Disbursement trend (Rs Cr)



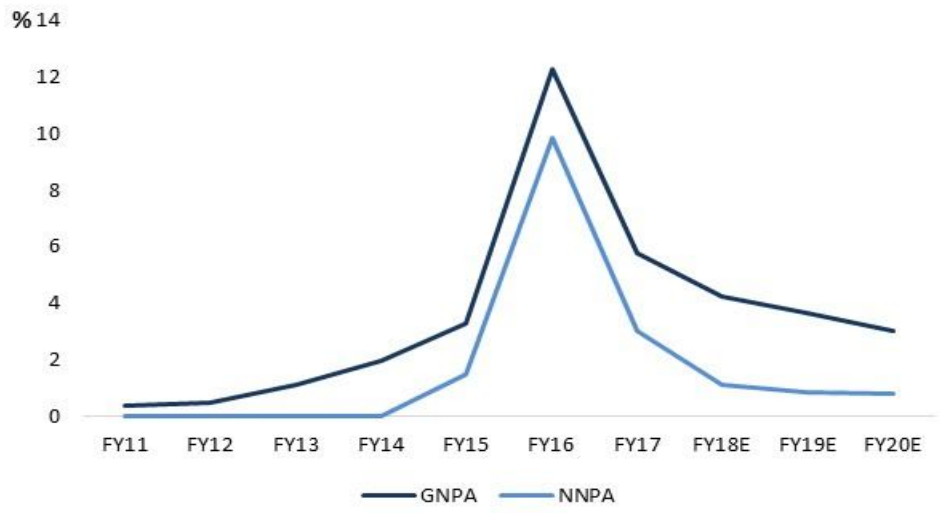
(Source: Company, HDFC sec)

Upgradations to result in asset quality improvement

The subdued macroeconomic environment in the past couple of years also affected the tourism sector and thus adversely affecting TFCI's sanctions and disbursements and recovery from assisted concerns. GNPA/NNPA of TFCI spiked up to 12.3%/9.8% respectively in FY16. In FY17, TFCI made robust recovery of Rs. 42.3 Cr (Principal: Rs. 14.7 Cr and Interest/other

charges: Rs. 27.7 Cr) from non-performing accounts. As a result the GNPA/NNPA declined to 5.8%/3.1%. Further two accounts which were restructured in FY17 involving a sum of Rs.47.5 Cr are likely be upgraded in H2FY18 after lapse of one year of satisfactory performance which will further reduce the NPA levels. All the NPA accounts are fully secured and the management is confident of recovering the entire amount alongwith penal interest.

GNPA and NNPA trend (%)



(Source: Company, HDFC sec)

Q2FY18 Result Review

NII of the company increased marginally by 0.5% yoy to Rs 24.7 cr as interest income went up 2.4% to Rs 48.5 cr while interest expenses Climbed 4.5% yoy to Rs 23.8 cr. Non-interest income increased by 43.8% yoy to Rs 10.5 cr. PAT increased 17.1% yoy to Rs 19.2 cr as the company provided lower tax compared to Q2FY17.

Particulars	Q2FY18	Q2FY17	YoY (%)	Q1FY18	QoQ (%)	H1FY18	H1FY17	YoY (%)
Interest Income	48.5	47.4	*2.4*	51.1	*-5.0*	99.6	97.5	*2.2*
Interest Expenses	23.8	22.8	*4.5*	23.0	*3.5*	46.8	45.3	*3.4*
Net Interest Income	24.7	24.6	*0.5*	28.1	*-12.0*	52.8	52.2	*1.1*
Non-interest income	5.4	3.1	*73.4*	5.1	*6.8*	10.5	7.3	*44.4*
Total Income	30.1	27.7	*8.7*	33.2	*-9.1*	63.3	59.5	*6.4*
Operating Expenses	4.8	4.4	*9.2*	3.6	*33.9*	8.4	9.4	*-11.1*
Provisions	0.0	20.0	*NA*	0.0	*NA*	0.0	20.0	*NA*
Exceptional Gain	0.0	23.4	*NA*	0.0	*NA*	0.0	23.4	*NA*

PBT	25.3	26.7	*-5.1*	29.6	*-14.4*	54.9	53.4	*2.8*
Tax	6.2	10.3	*-40.3*	7.6	*-18.4*	13.7	16.9	*-18.7*
Reported PAT	19.2	16.4	*17.1*	22.0	*-13.0*	41.2	36.5	*12.7*
EPS	2.4	2.0	*17.1*	2.7	*-13.0*	5.1	4.5	*12.7*

(Source: Company, HDFC Sec)

Concerns

Incoming shareholders may not be able to immediately influence the policies of TFCI and drive faster growth

Despite holding a stake of ~27%, the incoming shareholders may not be able to influence the policies of the company pending their induction into the Board of directors/alteration to MoA / AoA. Unless the Govt nominees withdraw or take a back seat, the plans of the incoming shareholders may take time to fructify. Till such time, the growth momentum of TFCI may not pick pace.

Sluggish inbound or domestic travel

Growth of TFCI is so far dependent on increasing tourist arrivals and domestic tourism. Slowdown in tourism activities could result in lower growth for the company.

Declining room rentals delaying projects

Persistent decline in room rentals due to oversupply in major metro markets have led to the new projects have either been shelved or deferred for the time being

Risk of increasing NPAs and loss in unlisted investments

NPAs have spiked up in FY16. Although TFCI has managed to recover dues from some of the distressed accounts in FY17, failure to bring down these levels would result in higher provisioning requirements impacting profitability. TFCI also subscribes to equity in some of the projects which could result in markdowns/ losses.

Diversification into non-tourism book

The new shareholders might look towards non-tourism related lending to grow the asset book which might lead to higher expenses/NPAs due to nature of lending in these areas.

Return ratios low due to low leverage

Return ratios of TFCI have been on the lower side as leverage is low. Although the management is looking to improve leverage by increasing borrowing it might take some time for the return ratios to improve.

Supply of shares could dampen the upside in the short term

The financial institutions like IFCI and LIC still hold a decent stake in the company and may look to exit the company in the next few months. This could create a supply overhang for the stock unless a buyer emerges for this stake.

View and Recommendation

Despite having a strong capital adequacy ratio, TFCI was unable to grow its lending book due to its conservative nature, slowdown in capex in the tourism related companies, and being promoted by Government owned entities. The recent change in ownership pattern is likely to bring about a change in the board of directors and the management. The financial background of the new promoters coupled with new avenues for lending should result in faster growth in loan and diversification in the asset base. With sharp improvement in return ratios we believe re-rating of the stock is likely.

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Financial Statements

Income Statement

Particulars	FY16	FY17	FY18E	FY19E	FY20E
Interest Income	175.1	194.4	208.3	254.6	346.0
Interest Expenses	90.1	90.8	88.3	104.4	149.0
Net Interest Income	**85.0**	**103.6**	**120.0**	**150.2**	**197.0**
Non interest income	10.5	14.2	18.5	21.8	27.6
Operating Income	**95.5**	**117.7**	**138.5**	**172.0**	**224.6**
Operating Expenses	17.8	24.1	27.1	31.8	39.3
PPP	77.7	93.7	111.4	140.2	185.3
Prov & Cont	2.0	20.0	10.3	9.1	7.5
Profit Before Tax	75.7	73.7	101.0	131.1	177.8
Tax	22.1	26.6	29.3	38.0	51.6
PAT	**53.6**	**47.1**	**71.7**	**93.1**	**126.2**

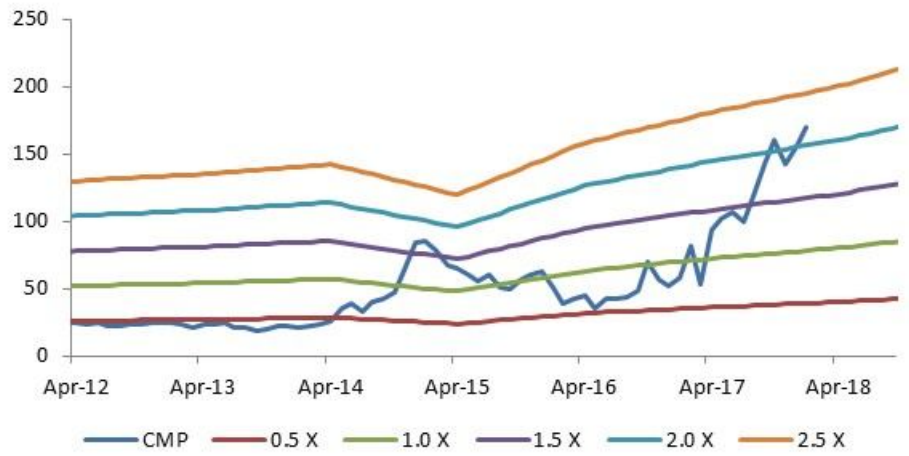
Balance Sheet

Particulars	FY16	FY17	FY18E	FY19E	FY20E
Share Capital	80.7	80.7	80.7	80.7	80.7
Reserves & Surplus	433.3	473.5	521.0	585.1	677.4
Shareholder funds	**514.1**	**554.2**	**601.8**	**665.8**	**758.1**
Borrowings	996.5	1050.0	1028.0	1457.2	2133.3
Other Liab & Prov.	79.7	96.1	94.9	118.8	155.4
SOURCES OF FUNDS	**1590.2**	**1700.3**	**1724.6**	**2241.8**	**3046.8**
Fixed Assets	29.1	20.4	20.3	20.3	20.2
Investment	254.5	247.6	133.4	104.0	66.4
Cash & Bank Balance	5.3	11.0	10.8	14.6	20.5
Advances	1292.6	1407.0	1547.7	2089.4	2925.1
Other Assets	8.7	14.3	12.4	13.6	14.6
TOTAL ASSETS	**1590.2**	**1700.3**	**1724.6**	**2241.8**	**3046.8**

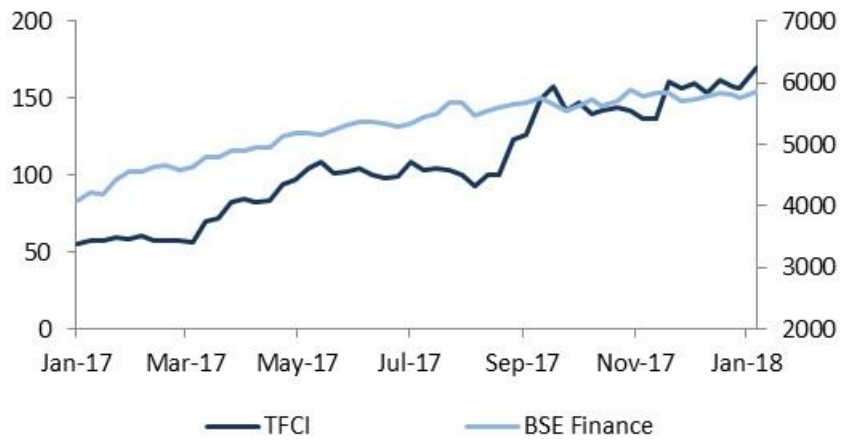
Ratio Analysis

Particulars	FY16	FY17	FY18E	FY19E	FY20E
Return Ratios					
Calc. Yield on adv	13.7%	14.4%	14.1%	14.0%	13.8%
Calc. Cost of borr	9.2%	8.9%	8.5%	8.4%	8.3%
Calc. NIMs	5.7%	6.5%	7.2%	7.8%	7.6%
RoAE	10.8%	13.2%	12.4%	14.7%	17.7%
RoAA	3.5%	4.3%	4.2%	4.7%	4.8%
Asset Quality Ratios					
GNPA	12.3%	5.8%	4.3%	3.6%	3.0%
NNPA	9.8%	3.1%	1.1%	0.9%	0.8%
Growth Ratios					
Advances	2.2%	8.8%	10.0%	35.0%	40.0%
Borrowings	4.2%	5.4%	-2.1%	41.8%	46.4%
NII	-1.8%	21.8%	15.9%	25.2%	31.1%
PPP	-9.5%	20.6%	18.9%	25.9%	32.2%
PAT	-10.9%	31.4%	1.8%	29.8%	35.6%
Valuation Ratios					
EPS	6.6	8.7	8.9	11.5	15.6
P/E	26.1	19.9	19.5	15.0	11.1
Adj. BVPS	47.9	63.3	72.4	80.2	90.9
P/ABV	2.7	2.5	2.3	2.1	1.8
Dividend per share	1.8	2.0	2.5	3.0	3.5
Dividend Yield (%)	1.0	1.2	1.4	1.7	2.0
Other Ratios					
Cost-Income	18.7	20.4	19.6	18.5	17.5
Leverage	2.5	2.5	2.6	3.1	3.9

One year Forward P/ABV



One year Price chart



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