INVESTMENT RESEARCH

DARK HORSE - TOURISM FINANCE CORPORATION OF INDIA LTD.

RUDRA Your Investment Partner

Dated : 08th Feb. 2018

ACCUMULATE	
Price ₹	156
Multibagger	
Upside	-
Div Yield	1.3%
Tenure	2-3 Years
Sensex	34,413.16
Nifty	10,576.85
Group/Index	B / S&P BSE SmallCap

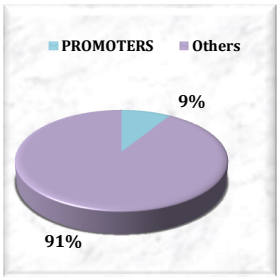
Stock Details	
M.cap (₹ in cr)	1259
Equity (₹ In cr)	80.72
52 wk H/L ₹	182/56.30
Face Value ₹	10.00
NSE code	TFCILTD
BSE code	526650

Key Valuation Ratios	
RONW	13%
P/E	15.45
P/BV	2.0
EV/EBIDTA	11.32

IN ₹

Key Financial Data	
EV (₹in cr)	2298.18
BV (₹in cr)	76.67
NW(₹in cr)	618.85
Adjst.EPS(TTM)	10.10

Share Holding Pattern



Investment Rationale

TFCI - the only government-promoted financial institution for funding tourism projects.

Aim to reduce GNPAs to 3.5% in FY18; to maintain NIMs at 3%

About 75% of the overall lending is done to the tourism industry, the company aims to bring down their gross non-performing assets (GNPAs) to ***3.5 %*** *in FY18 from 6.5 % in FY17 and the* ***net NPAs*** *to* ***0 %*** *by FY18 end. The company also hopes to maintain the net interest margins(NIM) at 3%. Moreover, TFCI have restructured two accounts last years of which one account will be upgraded and as a result these two accounts will lead to decrease in gross NPAs by* ***50%****.*

Company has a target of disbursements at ₹ 700 crore for FY18 and that of sanctions at ₹ 1300 crore, which is almost 30% higher than last fiscal. The company has already achieved 40-45 percent of its target for disbursement and sanctions on the back of hotel industry which is doing well.

Company's Aim Going forward

✦ To help tourism industry grows as one of the main industries through innovative means of financial & advisory assistance and to attain and maintain the leadership role in financing tourism-related projects.

✦ Catalyze and channelize investments into various segments of the tourism industry and across various locations in a need based manner.

✦ Take steps to promote the tourism industry within the overall framework of the Govt. of India policy.

Company continues to explore possibilities for new businesses and has been on the look out for customers who might have financial requirements for setting up new projects, renovation, modernisation and or expansion. However, to ensure increase in its balance sheet size it decided to concentrate on take-over financing of potentially viable projects so as to ensure quick disbursement. Besides, TFCI has been actively pursuing consultancy assignments for Private Sector and State Governments and their agencies. Moreover, Company constantly monitors its resource base and taps the appropriate opportunity to minimize the weighted average cost of funds. TFCI has tied up with various banks for financial assistance to meet future requirement of resources. Further, it proposes to raise funds through issue of commercial paper and bonds depending upon the interest rate scenario in the market & is confident of meeting the funds requirements by raising resources at competitive rates.

The indirect tax reform with introduction of Goods and Service Tax (GST) w.e.f 1.7.2017 is considered to be a major milestone in the growth of Indian Economy which will have lasting long term impact on tax buoyancy, ease of doing business and economic growth. These initiatives will provide impetus to the growth of infrastructure, manufacturing and services sectors and are expected to be a key driver for sustained economic growth in the country.

Source: Google

Corporate Governance Transparency Ratio's				
Year End	**201703**	**201603**	**201503**	**201403**
Tax Rate %	27.41	29.16	26.48	30.42
Receivable days	-	-	-	-
Div. Payout %	30.18	27.1	24.15	16.56

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RESULTS CORNER

The Next leg of Growth- sale of 24% stake by IFCI, TFCI becomes more of a professional company

Last year about 1.9 crore equity shares (representing nearly 24% of paid-up equity) at an average price of ₹150 per share through block deals which were worth ₹293 crore, IFCI sold 24% stake in the company.

"It has been the company's strategy to divest non-core assets and it is being done time to time at an opportune moment" said the management of TFCI.

9M FY18 -Highlights

- *TFCI Interest & Investment Income grew 10% at ₹ 158.45 crores during 9 months FY18 as compared to ₹144.55 crores in the previous year 9 months period.*
- *EBITDA stood at ₹ 159.14 crores.*
- *NII grew 14% Y-O-Y for 9months FY18 to 87 crores as against 76.52 crores in the previous year 9 months period.*
- *PAT grew 21.40% at ₹ 64.61 crores.*
- *EPS at ₹ 8 as against ₹ 6.59 for 9 months FY18.*

RESULTS HIGHLIGHTS

Particulars (₹ in cr)	9M FY18	9M FY17	Y-O-Y(%)
Interest & Inv. Income	158.45	144.55	*10%*
NII	87	76.52	*14%*
PAT	*64.61*	*53.22*	*21.40%*
EPS	8.00	6.59	*21%*

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INDUSTRY ANALYSIS

The Indian tourism and hospitality industry *has emerged as one of the key drivers of growth amongst the services sector in India. Tourism in India has significant potential considering the rich cultural and historical heritage, variety in ecology, terrains and places of natural beauty spread across the country. Tourism is a major engine of economic growth and an important source of foreign exchange earnings also has capacity to generate large scale employment opportunities of diverse kind from the most specialised to the unskilled and hence can play a significant role in achieving growth with equity.* ***The industry is expected to generate 13.45 million employment opportunities across its sub-segments.***

India has moved up ***13 positions to 52nd rank from 65th*** *in Tourism & Travel competitive index as per World Economic Forum Report. India's rising middle class and increasing disposable incomes has continued to support the growth of domestic and outbound tourism. Domestic Tourist Visits (DTVs) to the States/Union Territories (UTs) grew by 15.5 per cent y-o-y to 1.65 billion during 2016 with the top 10 States/UTs contributing about 84.2 per cent to the total number of DTVs as per Ministry of Tourism.*

The Foreign Exchange Earnings(FEEs) from tourism in rupee terms during 2016 were ₹ 155650 crore with a growth of 15.1% over the previous year. ***India is expected to move up five spots to be ranked among the top five business travel market globally by 2030 as business travel spending in the country is expected to treble until 2030 from US$ 30 billion in 2015*** *as per report by KPMG. The tourism and hospitality sector is among the top 10 sectors in India to attract the highest Foreign Direct Investment (FDI).* ***International hotel chains are likely to increase their expansion and investment plans in India and are expected to account for 50 per cent share in the Indian hospitality industry by 2022 from the current 44 per cent according to report of domestic rating agency ICRA.***

GOVERNMENT INITIATIVES

The Indian government has realised the country's potential in the tourism industry and has taken several steps to make India a global tourism hub. Government of India announced some initiatives to give a boost to the tourism and hospitality sector such as setting up of five special tourism zones, special pilgrimage or tourism trains and worldwide launch of Incredible India campaign among others. Some of them are stated below:

- *The proposed launch of Incredible India 2.0 campaign as marketing initiative by the Government of India will provide a focussed impetus to the growth of inbound tourism in the country.*
- *E-visa facility has been extended to nationals of 161 countries.*
- *The Indian government has also released a fresh category of visa - the medical visa or M visa to encourage medical tourism in the country.*
- *In the hotel and tourism sector 100 per cent FDI is allowed through the automatic route.*
- *Launch of Swadesh Darshan Scheme with vision to develop theme based tourist circuits*

OPPORTUNITIES

India's travel and tourism industry has huge growth potential. The tourism industry is also looking forward to the expansion of E-visa scheme which is ***expected to double the tourist inflow to India.*** *India is projected to be the fastest growing nation in the wellness tourism sector in the next five years clocking over 20 per cent gains annually through 2017 according to a study conducted. India is a large market for travel and tourism. It offers a diverse portfolio of niche tourism products - cruises, adventure, medical wellness, sports, MICE, eco-tourism, film, rural and religious tourism. India has been recognised as a destination for spiritual tourism for domestic and international tourists. Total contribution by travel and tourism sector to India's GDP is expected to increase to US$ 275.2 billion in 2025.* ***Travel and tourism is the third largest foreign exchange earner for India.***

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Company Overview

All India Financial / Investment Institutions and Nationalised Banks promoted a Public Limited Company in 1989 under the name of "Tourism Finance Corporation of India Ltd (TFCI)" to function as a specialised All India Development Financial Institution to cater to the financial needs of tourism industry.
The primary business of TFCI is to provide medium to long term financial assistance to enterprises, for setting up and / or development of tourism related activities, facilities and services, which inter-alia include hotels, restaurants, holiday resorts, amusement parks and complexes for entertainment, education and sports, safari parks, rope- ways cultural centres, convention halls, all forms of transport industry, ropeways, travel and tour operating agencies, tourism emporia, sports facilities etc. TFCI normally considers financial assistance to projects with capital cost of at least ₹ 20 crore. In addition, credit facilities for working capital and against credit card receivables could be considered for smaller amounts based on requirement of the borrower with satisfactory credit record.

Valuation Conclusion

The last five years have seen the Tourism sector deliver a subdued performance due to both the economic downturn and the largest release of new supply. The tide now is turning. India is today the fastest growing major economy in the world. India's travel and tourism industry has huge growth potential. The tourism industry is also looking forward to the expansion of E-visa scheme which is expected to double the tourist inflow to India.

Moreover, the Central Government has taken several initiatives like Make in India, Start-up India, Digital India, Smart Cities, Industrial Corridors, Ease of Doing Business etc. alongwith tax and process reforms. Fresh category of visa to encourage medical tourism in the country is likely to be a major driver to growth of Indian Economy.

As the economy is expected to grow at around 8% annually and the government's committed support to the tourism sector, the demand for hotels and other tourism infrastructure projects is expected to improve considerably in mid-term. This is expected to result in opportunities for TFCI to expand its business considerably.

With the new demand absorbing the excess supply in major markets the outlook for investment in tourism sector looks positive.Therefore, we recommend to Accumulate the stock for long term for a target of ₹220.

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