

Management meeting takeaways: On a strong footing

We interacted with the senior management of Tourism Finance Corporation of India (TFCI) at a road show. With the government set to revive tourism in India, TFCI with its core competency in funding the sector is on a strong footing. Management guided for faster growth in the next phase of transformation where it will finance budget hotels in tier-I / tier-II cities and buy out from Banks. Healthy margin profile (aided by adequate ALM), limited asset quality risk and superior 4.4% RoA profile are key strengths. While RoEs have been on the lower side, with healthy capital position and growth revival, these are expected to inch upwards. Stock trades at 1.2x FY14ABV

- **Guides for faster growth:** TFCI with its core competency (presence of over 25-years), strong due-diligence process and emphasis at reviving tourism sector in India is well-positioned to leverage on the growth opportunity in the hospitality sector. 85-90% of the loan portfolio is for the hotels mostly in private sector. 90% of the projects are operational. Management has guided for faster growth that will primarily be led by a) financing of budget hotels / resorts in tier-I / tier-II cities and b) buy out loan portfolio from Banks in its next phase of transformation. Average ticket size stood at Rs300mn.
- **Traction visible; limited NPA adds further comfort:** After growth consolidation in 2 years, TFCI under new management shows increased traction. H1'15 sanctions / disbursements were at Rs4.2bn / Rs3bn (vs Rs6.8bn / Rs3.5bn respectively for FY14). It has a sanction pipeline of Rs3bn due for board approval in Dec'14 and expects FY15E overall sanctions of over Rs10bn. Asset quality risks remain limited and is adequately provided for (carries excess provisioning). GNPA at Rs440mn (end-H1'15) comprises two accounts and management expects resolution of one of these accounts by end-FY15.
- **Enjoys superior RoA profile, RoE to inch upwards:** With typical long-tenure loan portfolio, TFCI has ensured adequate ALM management through bond borrowings (90% of total). Strong rating profile (AA+ by Brickworks) has enabled it to borrow at competitive rates and protect margins at healthy levels. With limited costs (both operating and credit costs) RoA has been in excess of 4.8% (avg) over FY11-14. However, with excess capital (tier-I at 32.1% and overall CAR at 39%), leverage has remained on the lower side and is reflected in 13.8% RoE (avg) over the same time-frame. With growth revival, the same is expected to inch upwards.
- **Valuations and view:** We believe valuations at 1.2x FY14ABV, in the context of improved growth visibility, new leadership (more importantly independent decision making process), superior margin profile, healthy RoA's and limited asset quality risk are on the lower side of the band and merits re-rating. Episodes of turn-around stories in the past have seen huge multiple re-rating over a gradual period of time as the investors realise the true potential. The key to same is well managed growth with better visibility. Key risks: Lower than expected growth momentum or higher than expected asset quality risk can deter the re-rating process.

CMP*	Rs64	Key Data	
		Bloomberg Code	TFCI IN
		Curr Shares O/S (mn)	80.7
		Diluted Shares O/S(mn)	80.7
Rating	Not Rated	Mkt Cap (Rsbn/USDmn)	5.1/82.5
Price Performance (%)*		52 Wk H / L (Rs)	68/20.6
		5 Year H / L (Rs)	68/16
TFCI IN	33.2	79.0	190.2
Nifty	3.3	18.9	39.2
		Daily Vol. (3M NSE Avg.)	1131951

*as on 28 November 2014; Source: Bloomberg, Centrum Research

Shareholding pattern (%)*

	Sept-14	Jun-14	Mar-14	Dec-13
Promoter	66.2	66.9	66.9	66.9
FIs	0.5	0.5	0.2	0.2
DIs	0.5	0.3	0.3	0.3
Others	32.7	32.3	32.6	32.6

Source: BSE, *as on 28 November 2014

Key shareholders

Shareholder	% of holding
IFCI Ltd	42.5
State Bank of India	9.2
LIC	7.7
Bank of India	4.7
United India Insurance	1.5
The Oriental Insurance	1.3

*as at Mar'14

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Y/E Mar (Rs mn)	Net income#	PPOP	Adj PAT	YoY (%)	EPS (Rs)	P/E (x)	Adj BV (Rs)	P/Adj BV (x)	RoA (%)	RoE (%)
FY10	544	461	341	17.7	4.2	15.0	38.0	1.7	5.1	11.5
FY11	679	553	444	30.3	5.5	11.5	42.1	1.5	5.7	13.7
FY12	710	571	495	11.5	6.1	10.4	46.7	1.4	4.8	13.8
FY13	939	784	555	12.2	6.9	9.2	52.0	1.2	4.4	13.9
FY14	1,060	887	585	5.3	7.2	8.8	54.1	1.2	4.4	13.7

Source: Company, Centrum Research Estimates # Net income denotes NII + other income

Appendix A

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