May 30, 2022

Tamilnadu Trade Promotion Organisation: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Unallocated	149.00	149.00	[ICRA]A(Stable); reaffirmed
Total	**149.00**	**149.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation considers Tamilnadu Trade Promotion Organisation's (TNTPO) strong liquidity profile on the back of healthy cash balances, which will enable the entity to comfortably carry on the ongoing expansion project as well as service the proposed term loan. The rating also considers the strong operational profile, characterised by the dominant position of its exhibition venue in Chennai — the Chennai Trade Centre (CTC). The centre hosts various trade exhibitions and conventions for diverse end-clientele, which comprises varied industrial and commercial entities. Given its strategic location and lack of any major competition for indoor exhibition halls in Chennai, it remains a key business exhibition venue in Tamil Nadu. Further, the rating takes comfort from TNTPO's financial profile, characterised by healthy capital structure and liquidity profile. ICRA notes the company's strategic importance to the Government of India and the Government of Tamil Nadu as an organisation for promoting trade. Its promoters include India Trade Promotion Organisation (ITPO, with a 51% shareholding), a Government of India enterprise, and Tamil Nadu Industrial Development Corporation (TIDCO, with a 49% shareholding), a Government of Tamil Nadu enterprise.

TNTPO's rating, however, is constrained by its modest scale of operations (its revenue stood at Rs. 12.1 crore in FY2022). The deterioration in the financial performance of TNTPO was mainly due to pandemic-induced uncertainties and unavailability of CTC to conduct large exhibitions. This has adversely impacted the business performance in FY2021. There has been some improvement in the financial performance in FY2022, but the entity could generate only 30% of FY2020 revenues. Lower scale of operations resulted in a significant drop in profitability. However, going forward, with the pandemic waning and demand conditions remaining favourable, the revenue is expected to be adequate to meet the company's costs. ICRA notes the high geographical concentration (operations limited to Chennai), which makes the company's scaling up of operations highly dependent on Tamil Nadu's economic activity. ICRA notes that the company is undertaking a brownfield expansion, wherein the project cost is likely to be around Rs. 300-320 crore. The construction was halted for some time due to the pandemic, however, it has restarted and is expected to be completed by August 2023. The company's financial profile, especially the liquidity, is exposed to project-related risks and any significant cost escalation, or time overrun may affect its liquidity profile. Nonetheless, given the expected improvement in scale, the company's debt protection metrics are likely to be comfortable, going forward. ICRA notes that there could be fund outflow because of the ongoing income tax dispute. Nonetheless, it may not have any major impact on its liquidity profile.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that TNTPO will continue to leverage its strong operational profile, which will result in healthy profitability and debt protection metrics.

Key rating drivers and their description

Credit strengths

Strong operational profile characterised by established position of exhibition and convention centre in Chennai – TNTPO's facility, under the name of Chennai Trade Centre, is in Nandambakkam, Chennai, spanning over an area of 34.6 acres. It is in proximity to the Chennai airport and the railway station. It is an established player in the exhibition hall market in India and enjoys a dominant market position in Chennai in the closed exhibition space segment. TNTPO's operational income (OI) is generated mainly through its exhibition halls and the convention centre, with the exhibition halls accounting for more than 70% of the total operational income in FY2022 and the convention centre contributing to around 18%.

Diversified and established client base – TNTPO's facilities are rented out for events, usually through event management firms and industry-based associations. Established relationship with these firms and associations further strengthen the operational profile of TNTPO. The revenue contribution by the top-10 customers stood at around 60% of the OI in the last five years, with just 36% in FY2021. It hosts various prominent trade exhibitions such as India International Leather Fair, Medicall, ACMEE, N-Printech and Packtech Expo and Tyre expo on a regular basis, adding stability to its revenue.

Promoter profile comprises public sector entities – TNTPO's promoters are public sector entities — ITPO, a Government of India enterprise with a 51% shareholding as a major stakeholder and TIDCO, a Government of Tamil Nadu Enterprise with a 49% shareholding. Both the parent entities support TNTPO in various financial and operational aspects. The promoters have helped it to reach its current state by assigning government grants for facility development and allocating land in a prime location in Chennai (~34.6 acres of land has been leased at a nominal cost of around Rs. 1.35 crore p.a). Besides, ITPO manages Pragati Maidan, one of India's largest exhibition centres, which allows TNTPO to leverage ITPO's expertise in the industry.

Financial profile characterised by capital structure and liquidity position – TNTPO has a strong capital structure, characterised by minimal external borrowings (at present, external borrowings of TNTPO are to the extent of lease liabilities classified as debt) and a healthy net worth position. The accruals from operations and the liquidity position of the entity are expected to be adequate in meeting the debt repayment obligations of around Rs. 14.9 crore p.a. for the proposed term loan of Rs. 149 crore. ICRA expects the company's debt protection metrics to remain adequate over the repayment period of the proposed term loan. Further, TNTPO has healthy liquidity position with cash and bank balances of ~Rs. 150 crore as on March 31, 2022, of which ~Rs. 110.0 crore is likely to be utilised for funding the expansion.

Credit challenges

Modest scale of operations; industry like to revive to some extent in the near term – TNTPO's scale of operations is modest, and it reported an OI of Rs. 12.1 crore in FY2022, declining from Rs. 40.2 crore in FY2020 because of the adverse market conditions prevalent during the period. However, ICRA expects the industry to revive to some extent in the near term and expects the company to continue to scale up its operations in the long term, post completion of the new facility. Inflow of new customers is expected, which prefer larger venues.

Project risk for proposed brownfield expansion – TNTPO's expansion project is in the initial stage, with construction of the facility beginning in mid-December 2020. The pandemic has delayed the completion of the project and the term loan sanction process is yet to be completed. Any change in the scope of the project or further delay in receiving approval/construction delays/funding tie-up may result in cost escalation and pose risk to the company's liquidity profile. Nonetheless, its current healthy, available cash balances are expected to mitigate this risk to a large extent.

Capacity utilisation of facilities post expansion – TNTPO's expansion plan proposes to almost double the current exhibition area and seating capacity of the convention centre. The extent of scaling up of operations post the completion of the project is yet to be seen. ICRA also expects the capacity utilisation of the entity to improve in the near term considering the expected normalisation of the industry. As the new installed capacity would be able to attract bigger international/ national level exhibitions, healthy revenue growth is expected in the long term.

Possible cash outflow towards income tax – Income tax exemption enjoyed by TNTPO was withdrawn from FY2009 and the income tax demands were raised from FY2005 to FY2014 and its financials are under audit assessment for the subsequent years. TNTPO paid the major portion of the demands under protest, but the issue is currently under legal dispute. In case of an unfavourable outcome to TNTPO, there is bound to be cash outflow, which the management expects to be worth Rs. 20-30 crore. Given the cash balances held by TNTPO and the fact that ITPO had a favourable ruling in 2015 on a similar lawsuit, the risk on the company's financial profile/liquidity position because of the dispute is moderate.

High geographical concentration – As TNTPO's facilities are in Chennai, the company's long-term growth depends on the economic growth of Tamil Nadu. Moreover, its revenue also remains vulnerable to cyclicality in business and economic environment.

Liquidity position: Adequate

The company's liquidity position is adequate on the back of its healthy cash balances and nil bank borrowing as on March 31, 2022. Going forward, despite the ongoing brownfield expansion, its liquidity profile is likely to remain adequate as the proposed projects will be funded by a combination of bank borrowings and internal accruals. However, any major cost overrun in the proposed project (current cost estimate of around Rs. 300-320 crore) may affect its liquidity profile in the medium term.

Rating sensitivities

Positive factors – ICRA could upgrade TNTPO's rating if the expansion project progresses at a healthy pace, while keeping its cost under control and maintaining a healthy liquidity position. The entity's ability in scaling up of operations and generating healthy free cash flows will also be a key monitorable for a rating upgrade.

Negative factors – Pressure on TNTPO's rating could arise if its liquidity profile weakens because of a significantly large project cost. The rating may also be downgraded if the entity's capacity utilisation level declines significantly in the future, affecting the operational income and profitability on a sustained basis. Specific credit metrics that could lead to a downgrade include interest coverage ratio decreasing to less than 4.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	**Not Applicable**
Consolidation/Standalone	The ratings are based on the standalone financial profile of the rated entity

About the company

Tamilnadu Trade Promotion Organisation, a joint venture of ITPO (a Government of India enterprise) and TIDCO (a Government of Tamil Nadu enterprise), was incorporated in 2001. It has a registered office in Chennai and functions as a non-profit company under Section 25 of the Companies Act, 1956 (Section 8 Companies Act, 2013). TNTPO was set up for promoting trade and industries in Tamil Nadu by facilitating and organising national and international trade fairs. At present, TNTPO manages the Chennai Trade Centre, which is spread over 34.6 acres of land in Chennai. It consists of three exhibition halls and one convention centre, having a total built-up area of 15,355 square metres and a total exhibition area of 10,560 square metres, making it one of the largest exhibition centres in India. The convention centre consisting of two halls has a combined capacity of 2,000 seats.

At present, TNTPO is undertaking a brownfield expansion with plans for a new exhibition hall and convention centre facilities. The expansion plan is for an additional exhibition hall, two convention halls and a multi-level car parking facility. The management estimates the expansion project cost to be at Rs. 300.0 crore (including GST). The project is proposed to be funded by TIES grant (government grant) of Rs. 20 crore, Rs. 131 crore from internal accruals and a term loan of Rs. 149 crore.

Key financial indicators (Audited)

TNTPO	FY2021	FY2022 (Provisional)
Operating Income (Rs. crore)	7.6	12.1
PAT (Rs. crore)	6.3	3.3
OPBDIT/OI (%)	-16.95%	-23.57%
PAT/OI (%)	83.51%	26.99%
Total Outside Liabilities/Tangible Net Worth (times)	0.12	0.08
Total Debt/OPBDIT (times)	-9.03	-4.32
Interest Coverage (times)	-1.68	-

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2023)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding (March 31, 2022)	Current Rating	FY2022	FY2021	FY2020
					May 30, 2022	**-**	**Feb 25, 2021**	**Nov 12, 2019**
1	Unallocated	Long-Term	149.00	NA	[ICRA]A(Stable)	-	[ICRA]A(Stable)	[ICRA]A(Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Unallocated	NA	NA	NA	149.00	[ICRA]A(Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis - NA

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Kaushik Das
+91 33 7150 1104
kaushikd@icraindia.com

Vipin Jindal
+91 124 4545355
vipin.jindal@icraindia.com

Nilesh Kumar Jain
+91 44 4596 4306
nilesh.jain@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

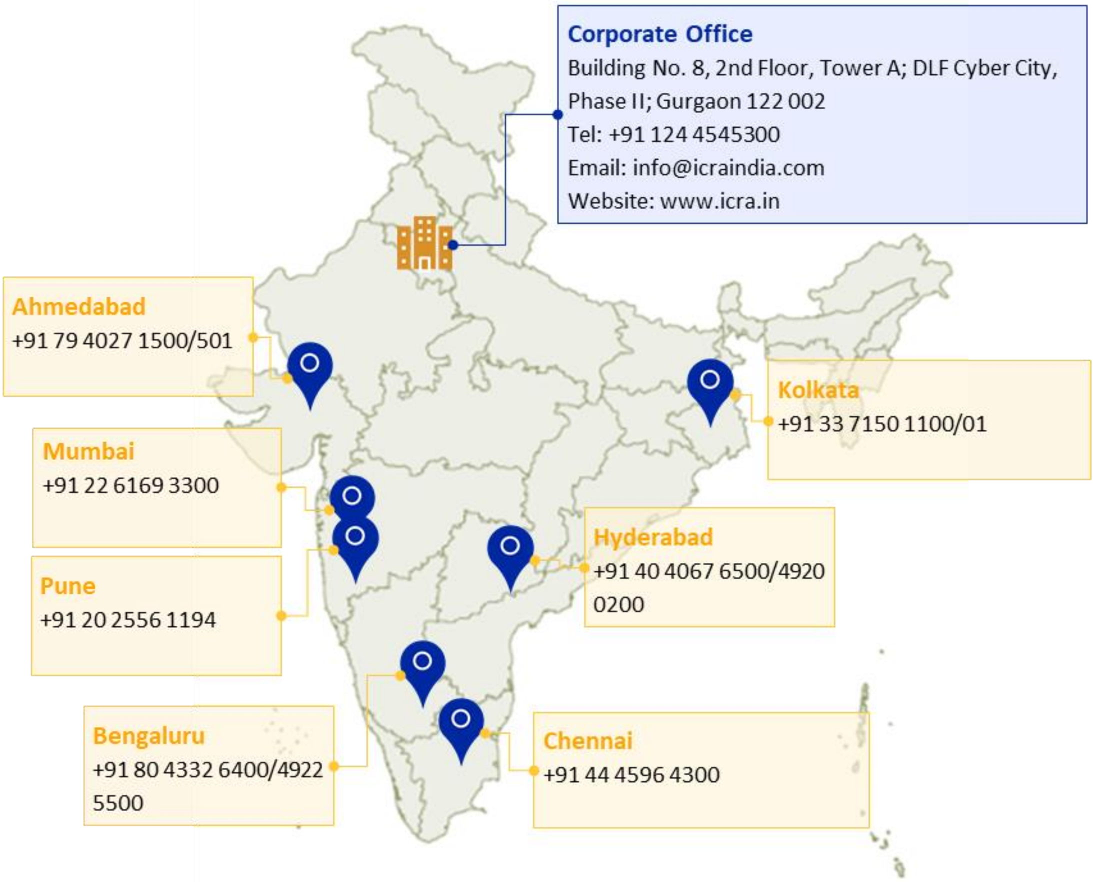
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.