

November 25, 2024

Tamilnadu Trade Promotion Organisation: Rating downgraded to [ICRA]A- (Stable), rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund based term loan	0.0	202.0	[ICRA]A- (Stable); downgraded from [ICRA]A (Stable) and assigned to enhanced portion
Long-term Unallocated facilities	149.0	0.0	-
Total	149.0	202.0	

*Instrument details are provided in Annexure-I

Rationale

The revision in the rating for the bank lines of Tamilnadu Trade Promotion Organisation (TNTPO) factors in the increase in the project cost for the phase II brownfield expansion of the Chennai Trade Centre from Rs. 300-320 crore to Rs. 450 crore due to an increase in scope and cost escalation. The incremental cost is being funded with a mix of bank borrowings and retained earnings. While revenues are likely to improve with the ramp-up of operations, ICRA expects the debt protection indicators to moderate over the near-to-medium term, against the initial expectations. Nevertheless, ICRA notes that the project is almost completed with only minimal work pending. Between April and September 2024, the entity had generated revenues of ~Rs. 35 crore (including Rs. 6.9 crore generated from the new brownfield expansion, during trial period) and has pending orders for ~Rs. 26 crore in H2 FY2025 for the new facility, demonstrating healthy revenue visibility.

The rating also considers the established position of TNTPO in Chennai, the company's strategic importance to the Government of India and the Government of Tamil Nadu as an organisation for promoting trade and the commencement of commercial operations in the recently concluded expansion project. The rating also considers the strong operational profile of the company, 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 a diversified clientele, which comprises varied industrial and commercial entities. Given its strategic location and no major competition for indoor exhibition halls in Chennai, it remains a key business exhibition venue in Tamil Nadu. ICRA also notes that TNTPO's 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. The rating, however, remains constrained by high geographical concentration (operations limited to Chennai), which makes scaling up of operations highly dependent on Tamil Nadu's economic activity. 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 long-term rating reflects ICRA's expectation that TNTPO's improvement in revenues and operating metrics are likely to sustain. Further, the outlook underlines ICRA's expectation that the entity's incremental capex, if any, will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing ratings.

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 operating income (OI) is generated mainly through its exhibition halls and the convention centre, with the exhibition halls accounting for ~80% of the total operating income in FY2024 and the convention centre contributing to ~19%.

Preferred venue for promotional events, leading to healthy revenue visibility – TNTPO offers its facilities for organising promotional events and trade fairs and is commonly chosen for conducting events due to its location-specific advantages. TNTPO's promoters are Government entities, namely ITPO and TIDCO, which support various financial and operational aspects. The promoters have helped TNTPO reach the current state by assigning Government grants for facility development and allocating land at prime location in Chennai (~34.6 acres of land had been leased out at a nominal cost of ~Rs. 1.4 crore per annum). Due to the recent expansion, the built area of its facility has almost doubled, and its revenues are likely to increase from the current fiscal. At present, TNTPO has eight exhibition halls, two convention centres, three conference halls, one utility building, and a multi-level parking lot with 1,308 parking spaces. Subsequent to the recent brownfield expansion, doubling its overall capacity, revenues of TNTPO are expected to improve from FY2025. Between April and September 2024, the entity generated revenues of ~Rs. 35 crore (including Rs. 6.9 crore generated from the new brownfield expansion, during the trial period) and has pending orders for ~Rs. 49 crore in H2 FY2025, to be executed for both its existing and new facilities, demonstrating healthy revenue visibility.

Financial profile characterised by strong capital structure – TNTPO has a strong capital structure, characterised by a healthy net worth position, which stood at Rs. 394.7 crore as of March 31, 2024. Owing to an increase in term loan borrowings for the brownfield expansion, its gearing levels have moderated to 0.3 times as of March 31, 2024, and are expected to moderate further by ~0.5 times in FY2025, with an increase in bank borrowings (against nil borrowings in FY2023). Despite this increase in bank borrowings, TNTPO's capital structure is likely to remain strong.

Credit challenges

Moderate, albeit improving scale of operations and high geographical concentration – TNTPO's scale of operations is modest, and it reported an operating income of Rs. 47.4 crore in FY2024. However, with recent capacity expansion, its built up area has almost doubled and is likely to support an increase in its scale. Besides, TNTPO's facilities are in Chennai, and the company's long-term growth depends on the economic growth of Tamil Nadu. Moreover, its revenue remains prone to cyclicity in business and economic environment.

Coverage indicators to moderate over medium term – TNTPO has almost concluded its brownfield expansion project in August 2024, with certain minimal compliance related work pending. Due to increase in scope of project and cost escalations, the brownfield project cost increased to ~Rs. 450 crore, against earlier estimates of Rs. 300 to 320 crore. There had been a time and cost overrun in the project, which led to an increase in external borrowings and reduction in its free cash reserves. Overall, term loan of Rs. 202.0 crore has been sanctioned for the project and term loan worth Rs. 149.0 crore has already been availed till September 30, 2024. The balance term loan is to be drawn down in the current fiscal. While revenues are likely to improve significantly with the ramping up of operations, its coverage indicators are expected to remain moderate over the near-to-medium term due to an increase in interest costs and repayment obligations.

Ongoing litigation regarding tax matters – The income tax exemption enjoyed by TNTPO was withdrawn from FY2009 and income tax demands were raised for FY2005 to FY2018, and its financials are under audit assessment for the subsequent years. TNTPO, over the years, has paid the major portion of the income tax demands under protest, however, the issue is currently sub-judice. In case of an unfavourable outcome to TNTPO, there is bound to be a cash outflow for the entity, which the management expects to be Rs. 20-30 crore. As ITPO (the holding company) 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.

Liquidity position: Adequate

The liquidity position of TNTPO is adequate, supported by healthy cash accruals from its operations. Further, the company had free cash and liquid investments of Rs. 16.9 crore as on March 31, 2024. Against these sources of cash and incremental term loan to be availed for Rs. 81.4 crore in FY2025 towards making payments to capex creditors/ balance capital expenditure, the entity has debt repayment obligation of Rs. 4.1 crore in FY2025 and Rs. 19.9 crore in FY2026. Cash generated from operations from both the new and the existing facility is expected to be sufficient towards meeting the term loan repayment obligation.

Rating sensitivities

Positive factors – ICRA could upgrade TNTPO's rating if it can significantly scale up its operations and generate healthy free cash flows.

Negative factors – The rating can be downgraded if the entity's capacity utilisation level declines significantly in the future, affecting operational income and profitability on a sustained basis. Specific credit metrics that could lead to a rating downgrade include the debt service coverage ratio remaining less than 1.3 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 rating is 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. Its registered office is 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 consisting of eight exhibition halls, two convention centres, three conference halls, one utility building, and a multi-level parking lot with 1,308 parking spaces. The entity has a total exhibition area of ~21,858 square metres, making it one of the largest exhibition centres in India. The convention centres consist of four halls with a combined capacity of ~6,000 seats and three conference halls with a total capacity of 900 seats.

Key financial indicators (Audited)

TNTPO	FY2023	FY2024
Operating income	39.1	47.4
PAT	29.1	26.2
OPBDIT/OI	66.2%	57.0%
PAT/OI	74.4%	55.3%
Total outside liabilities/Tangible net worth (times)	0.2	0.6
Total debt/OPBDIT (times)	0.4	4.8
Interest coverage (times)	39.0	44.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Amount rated (Rs. crore)	Current rating (FY2025)		Chronology of rating history for the past 3 years		
			Date & rating in FY2025	November 25, 2024	Date & rating in FY2024	August 28, 2023	Date & rating in FY2023
1 Unallocated	Long term	-	-	-	[ICRA]A (Stable)	[ICRA]A (Stable)	-
2 Term loan	Long term	202.0	[ICRA]A- (Stable)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term– Fund based – Term loan	Simple

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 analysing 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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan I	Oct 2023	8.0%	Dec 2034	149.0	[ICRA]A- (Stable)
NA	Term Loan II	NA	NA	NA	53.0	[ICRA]A- (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not applicable

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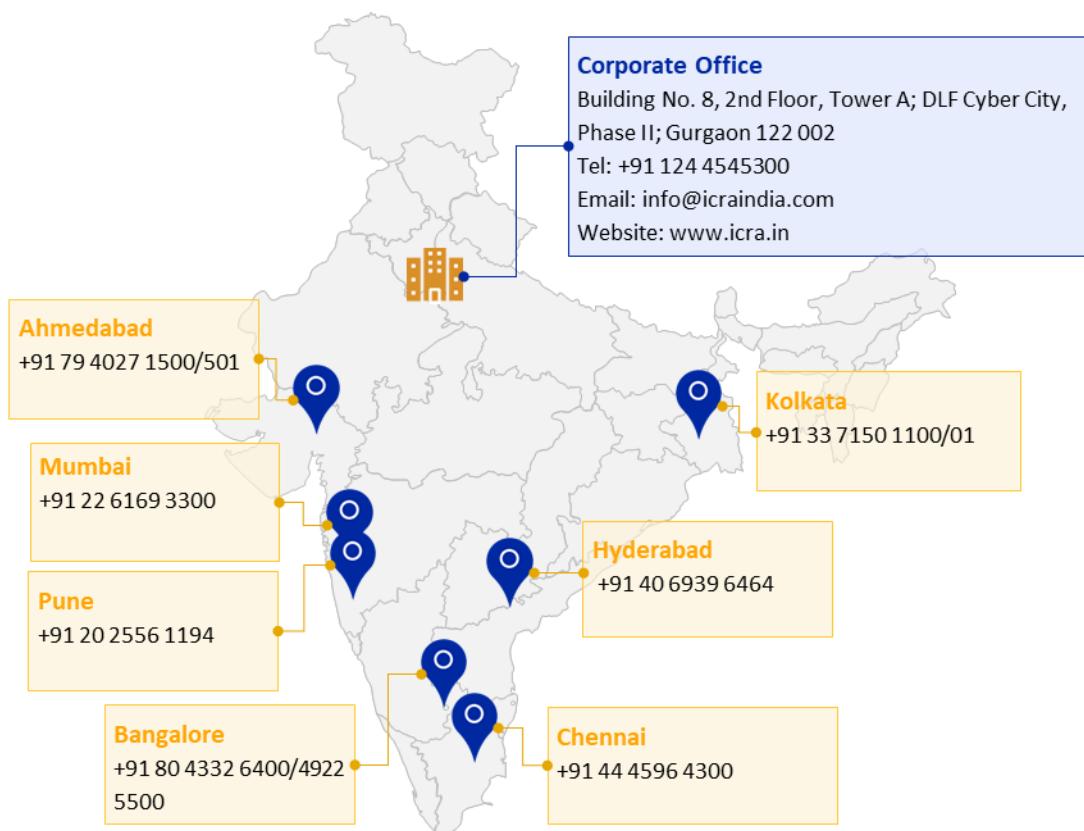
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