

August 28, 2023

## 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 facilities	149.0	149.0	[ICRA]A(Stable); reaffirmed
<b>Total</b>	<b>149.0</b>	<b>149.0</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating reaffirmation continues to take into consideration Tamilnadu Trade Promotion Organisation's (TNTPO) healthy liquidity profile on the back of strong cash balances, which are expected to comfortably complete the ongoing expansion project as well as service the proposed term loan. The expansion project is expected to be completed by December 2023. 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 no major competition for indoor exhibition halls in Chennai, it remains a key business exhibition venue in Tamil Nadu. 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. 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 December 2023. It has already spent ~Rs. 200 crore on the capex via internal accruals and the balance is expected to be funded via term loan. 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 operating income (OI) is generated mainly through its exhibition halls and the convention centre, with the exhibition halls accounting for more than 75% of the total operating income in FY2023 and the convention centre contributing to around 18%.

**Promoters comprise 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

TNTPO 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 strong capital structure and adequate 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 for the proposed term loan. ICRA expects the company's debt protection metrics to remain comfortable over the repayment period of the proposed term loan. Further, TNTPO has a healthy liquidity position with cash and bank balances of ~Rs. 94 crore as on March 31, 2023.

### Credit challenges

**Modest scale of operations** – TNTPO's scale of operations is modest, and it reported an operating income of Rs. 39.1 crore in FY2023. However, ICRA 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 final stages. The pandemic has delayed the completion of the project and the term loan sanction process is yet to be completed. Any further delay in receiving approval/construction delays 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. This expansion shall 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.

**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 remains vulnerable to cyclicity 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, 2023. Going forward, despite the ongoing brownfield expansion, its liquidity profile is likely to remain adequate as the proposed projects will be funded by bank borrowings and internal accruals. However, any major cost overrun in the proposed project may affect its liquidity profile in the medium term. Any major cash outflow on account of crystallisation of contingent liabilities would be a key monitorable.

### 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 the interest coverage ratio decreasing to less than 4.0 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
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. This project is expected to be completed by the end of December 2023.

## Key financial indicators (Audited)

TNTPO	FY2022	FY2023
Operating income	12.1	39.1
PAT	3.7	28.8
OPBDIT/OI	14.92%	66.16%
PAT/OI	30.36%	73.72%
Total outside liabilities/Tangible net worth (times)	0.1	0.2
Total debt/OPBDIT (times)	6.8	0.4
Interest coverage (times)	2.5	39.0

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	Current rating (FY2024)			Chronology of rating history for the past 3 years			
	Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024 August 28, 2023	Date & rating in FY2023 May 30, 2022	Date & rating in FY2022 -	Date & rating in FY2021 February 25, 2021
<b>1 Unallocated</b>	Long term	149.00	-	<b>[ICRA]A (Stable)</b>	[ICRA]A (Stable)	-	[ICRA]A (Stable)

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term– 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 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	Unallocated	NA	NA	NA	149.00	[ICRA]A(Stable)

Source: Company

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

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