

Press Release

Telangana State Trade Promotion Corporation Limited

February 15, 2021



Rating Assigned

Total Facilities Rated*	Rs. 50.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) on the Rs.50 Cr bank facilities of Telangana State Trade Promotion Corporation Limited (TSTPCL or corporation). The outlook is '**Stable**'.

Incorporated in 2014, Telangana State Trade Promotion Corporation Limited (TSTPCL) was promoted by the Government of Telangana (GoT). TSTPCL was established with an objective of promoting trade promotion activities by facilitating and organising national and international trade fairs, conducting and participating in National and international trade exhibitions, seminars, providing export guidance, publishing TS Trade Journals among others. Additionally, TSTPCL provides Trade Promotional Infrastructure like Container Freight Stations, Container Depots, Trade Warehousing Zones, Logistic Hubs, Truck Parking Terminals, Customs clearance, stuffing and de-stuffing of containers, Exhibition, Convention Centers among others. TSTPCL is engaged in manufacture and sale of "Golkonda" brand note books and Plain Copier Paper to Welfare Departments of the Government of Telangana.

Analytical Approach

To arrive at the rating, Acuité has considered the standalone business and financial risk profiles of TSTPCL and notched up the rating by support of parent - Telangana State Government.

Standalone (Unsupported) Rating:

ACUITE BB/ Stable

Key Rating Drivers

Strengths

• Strategic Strong parentage and Government Support

TSTPCL is a Government of Telangana enterprise with 100 percent shareholding. The Corporation was initially incorporated as AP State Export – Import Corporation Limited in 1970; the name got changed to AP State Trading Corporation Limited (APSTCL) in 1972. APSTCL was started with the primary objective to promote exports. During the year 2006-07, the Corporation had undergone organizational reforms and restructuring. In the process of restructuring, the corporations' name was renamed as AP Trade Promotion Corporation Ltd ((APTPCL)). Consequent to the bifurcation of AP state in June, 2014, APTPC was bifurcated into two units – APTPCL (AP Unit) and APTPCL (Telangana Unit). In pursuance of the Government directions, "Telangana State Trade Promotion Corporation Limited" was incorporated on September, 2014. The board of directors consisted of official members including sectoral experts appointed by the GoT. TSTPCL, then engaged in manufacture and sale of "Golkonda" brand note books and Plain Copier Paper to Welfare Departments of the Government of Telangana. Government of Telangana awarded 9.95 acres land in a well-connected area with proximity to the Rajiv Gandhi International Airport Hyderabad. Government of Telangana provides support to TSTPCL in various financial and operational aspects. Though TSTPCL is into diversified activities (Trade promotion, trade promotion infrastructure facilities, sale of note books and plain paper), the revenue generation is almost 100 percent from sale of "Golkonda" brand note books and Plain Copier Paper to Welfare Departments of the Government of Telangana. TSTPCL reported total operational income of Rs. 33.65 Cr in FY2020 (provisional). TSTPCL has been formed in view of the statutory nature of the establishment and the corporation's strategic importance; Acuité believes that strong support from the government would be extended to TSTPCL, when required.

- **Healthy financial risk profile**

TSTPCL's financial risk profile is healthy, marked by healthy networth, debt-free capital structure and healthy debt protection metrics. TSTPCL had a net worth at Rs. 72.36 Cr as on March 31, 2020 (provisional) as against Rs. 68.99 Cr as on March 31, 2019 (provisional). The corporation had no debt as on March 31, 2020. Debt protection metrics were healthy, indicated by interest coverage of 2900 times in FY2020 (provisional) as against 187 times in FY2019 (provisional). Gearing and debt protection metrics will remain healthy over the medium term on account of negligible debt. Further, TSTPCL is a self-reliant corporation and it meets its funding requirements on its own, It is a profit-making corporation over the years and debt free corporation, since inception. TSTPCL is undertaking an expansion with plans for printing and conversion Centre. The management estimates the expansion project capex cost at Rs. 11.51 Cr. The project is proposed to be funded by Rs. 2.31 from internal accruals and term loan of Rs. 9.20 Cr. The expansion project will be implemented between FY2021 and FY2022. Repayment obligations on the new projects' debt are expected to have a one-year moratorium, enabling gradual ramp up of utilizations levels. TSTPCL had given the advances about Rs.50 Cr in FY2020 for various events conducted by Govt of Telangana. TSTPCL's statutory auditors are appointed by the Comptroller and Auditor General of India (C&AG). The financials are audited by C&AG for FY2015-FY2016 conducted in October 2020 and for FY2017-FY2020 audit yet to happen. Acuite believes that stability of the proposed project along with timely receipt of advances from Govt of Telangana would remain the key monitorable over the medium term.

Weaknesses

- **Working Capital Cycle marked by high GCA days**

TSTPCL's working capital cycle is high with Gross Current Assets (GCA) days in the range of 577-1177 days over the last 3 years ending March, 2020 (provisional). The high GCA days are marked by high inventory days ranging from 132-338 days (consists mainly of work-in-progress, finished goods inventory) and high debtor days of 19-154 days over the last 3 years ending March, 2020 (provisional). The GCA days include the other current asset portion in the form of advances given to various Govt departments of Rs.50 Cr resulting in higher GCA days.. The creditor days are 23-394 over the last 3 years ending March, 2020 (Provisional). TSTPCL doesn't have any working capital limits. Acuité believes that the operations of the TSTPCL's will remain highly working capital intensive on account of high inventory and advances.

- **Moderate scale of operations with muted revenue growth in last 3 years**

TSTPCL is reporting stagnant revenue growth and volatile EBIDITA margins over the last 3 years ending FY2020. It has reported total operating income of Rs. 33.65 Cr in FY2020 (provisional); declined by 15 percent as against Rs.39.65 Cr in FY2019 (provisional). For FY2021, revenues are estimated at around Rs.40 Cr. Its operating margins remained volatile; 10.24 percent in FY2020 (provisional), 5.73 percent in FY2019 and 8.77 percent in FY2018 due to volatility of raw material prices. Acuité expects the Corporation's scale and margins to improve in the long run, post completion of the capex plans.

Liquidity position: Adequate

TSTPCL's liquidity position is adequate on back of its moderate accruals, high cash balances and nil external borrowing as on March 31, 2020 (provisional). Accruals are estimated to be around Rs 4-5 Cr over medium term as against Rs.1.50 Cr of debt obligation during FY2022-FY23. TSTPCL doesn't have any working capital limits. Further, liquidity remained adequate supported by healthy unencumbered cash balance of Rs 14.33 Cr as on March 31, 2020. The current ratio is comfortable and stood at 2.16 times as on as on March 31, 2020. Acuité believes that going forward, cash accruals and unutilised unencumbered cash balances should be sufficient to finance capex and working capital requirement over the medium term.

Rating Sensitivities

- Significant improvement in scale of operations, while maintaining profitability margins
- Timely receivable of advances and receivables from GoT
- Delays in completion of the on-going capex, leading to time and cost overruns

Material Covenants

None

Outlook: Stable

Acuité believes that TSTPCL will maintain a 'Stable' outlook over the medium term on the back of its established track record of operations, strong support from GoT. The outlook maybe revised to 'Positive' in case the corporation registers higher-than-expected growth in its revenues and profitability resulting from timely completion of on-going capex, while maintaining its liquidity position. Conversely, the outlook may

be revised to 'Negative' in case the corporation registers lower-than-expected growth in revenues and profitability or in case of deterioration in the corporation's financial risk profile or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Provisional)
Operating Income	Rs. Cr.	33.65	39.65
PAT	Rs. Cr.	3.04	2.48
PAT Margin	(%)	9.03	6.25
Total Debt/Tangible Net Worth	Times	-	-
PBDIT/Interest	Times	2,913.89	187.33

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities in Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Entities in Infrastructure Sector - <https://www.acuite.in/view-rating-criteria-51.htm>
- Criteria For Group And Parent Support - <https://www.acuite.in/view-rating-criteria-47.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Name of the Bank/FI	Date of Issuance	Coupon Rate	Maturity Date	Size of the sue (Rs. Cr.)	Ratings/Outlook
Proposed Over Draft	Not Applicable	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE BBB/ Stable
Proposed Term loan	Not Applicable	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB/ Stable

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About Acuité Ratings & Research:

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